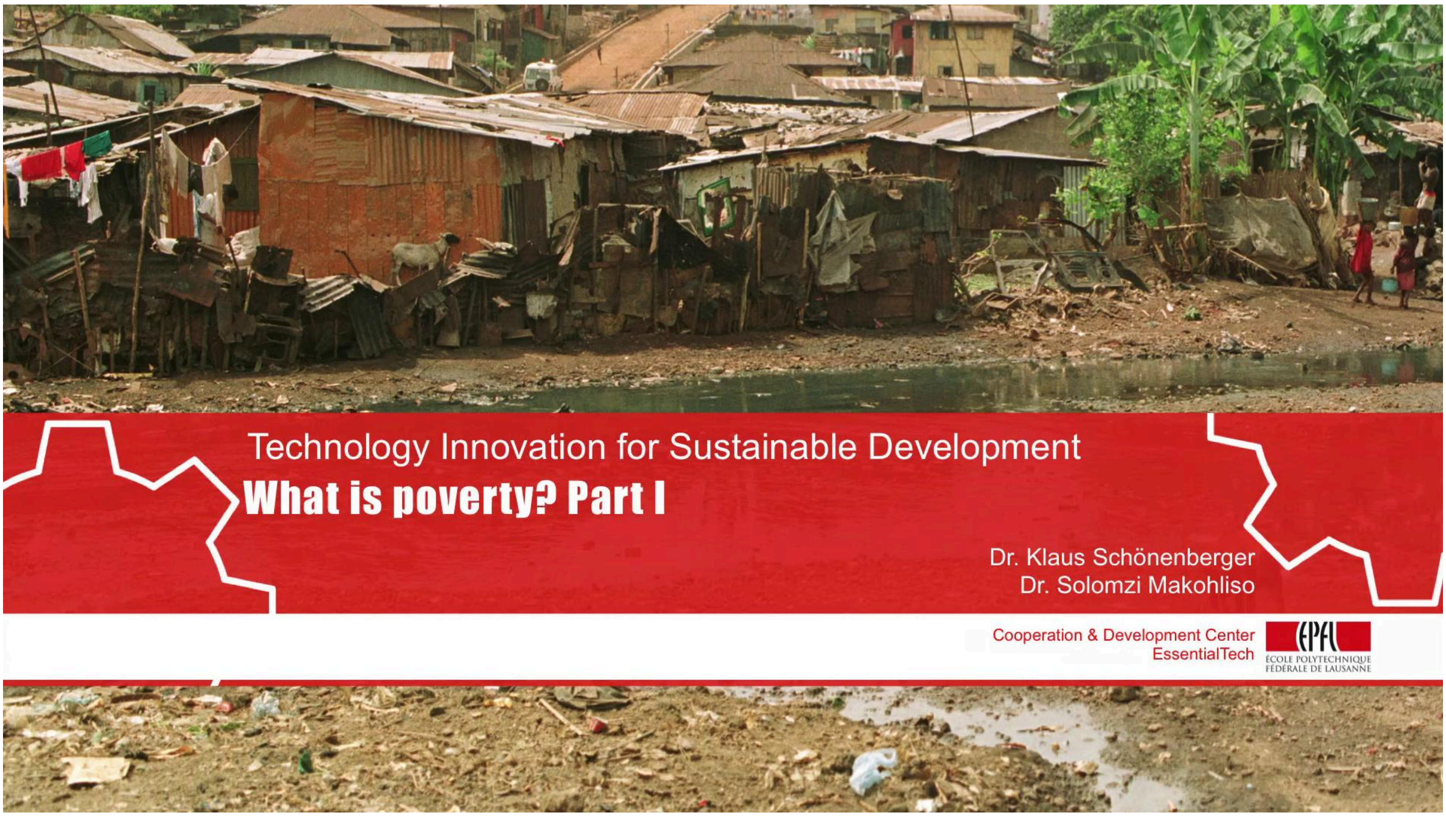

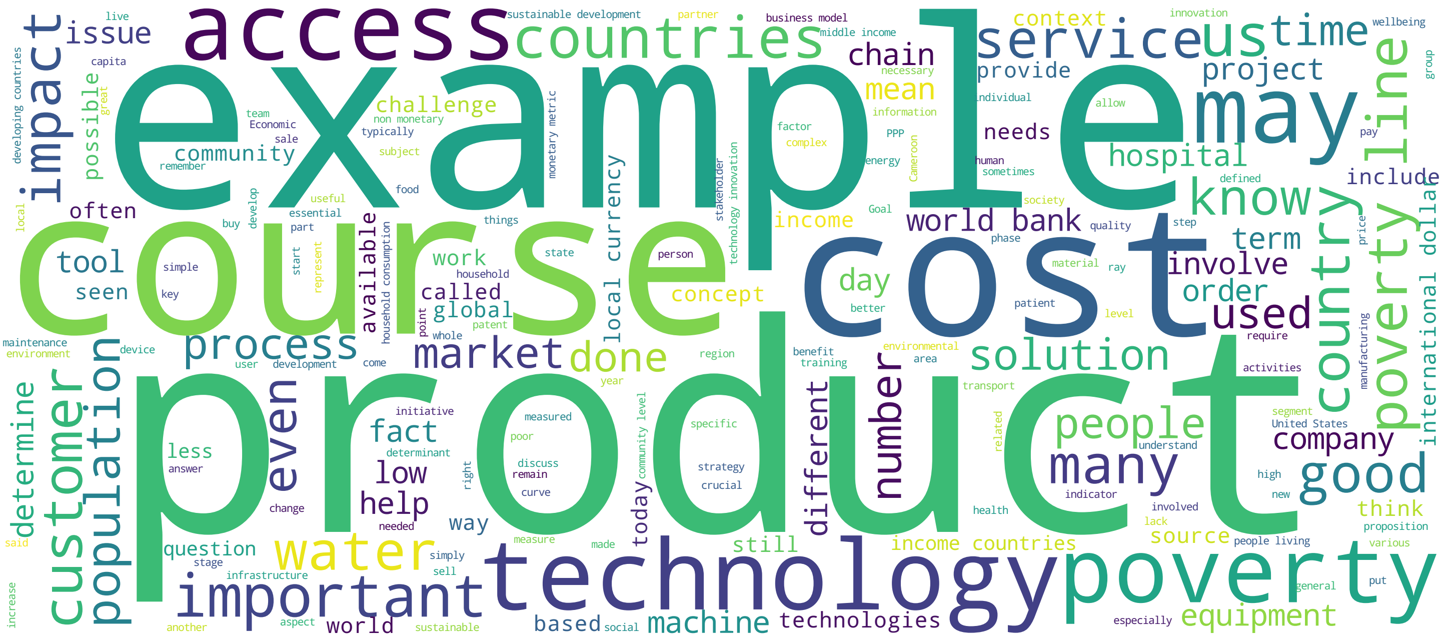

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Video

EPFL

Hello. Welcome to this chapter entitled what is poverty? Of course, this is a bit of a provocative question, and we have to humbly admit that there is no chance we could give a "good" answer in the sense of inclusiveness and generality. There is an incredible wealth of literature on this subject, so it is a great challenge to give any kind of answer in one or two short videos. Nevertheless, we will try to give you some basic knowledge on poverty and how it is measured. First let's emphasize one of the very few facts on which there is a general agreement: Poverty is a very complex and multi-dimensional problem. It goes well beyond just material or monetary aspects. Let us look at a few so called determinants of poverty, meaning conditions that cause poverty, or at least are related to poverty. Let's look at these determinants from three angles: 1) at the macro or regional level, 2) at the community level and 3) at the level of the households. At the Macro level, determinants of poverty are of course very country specific. Commonly cited determinants are Geographic isolation, which refers for example to island states or countries which are landlocked with no access to sea trading routes.

Notes

Summary

0m 28s

Having no access to natural resources can be a factor of poverty, but the opposite can be true as well. Think of the so called 'resources curse', which burdens certain countries where there is a lot of oil, but where citizens are desperately poor. An inhospitable climate can put an extra burden on countries: for example in the Sahel region where droughts are frequent. Bad governance is an obvious contributor to poverty, for example when corruption or administrative overloads are impacting on the ease of creating companies or doing business. Conditions of Economic, Political and Market instability, will, for example, act as a deterrent to foreign investment, which is important for development. Regional insecurity and wars, of course, have a direct impact on countries' ability to prosper. Freedom of intellectual expression is crucial for a sound society in which problems get openly discussed and solved. An ineffective and unfair judiciary system will create inequality and promote instability and corruption. Finally, Gender, racial, ethnic or social discriminations will tend to impoverish some sections of the population and the country altogether, by denying the potentially fruitful contribution that all humans can and should bring to society as a whole. They are sources of civil conflicts and wars.

Notes

Summary

1m 49s

Now let's look at the determinants of poverty at the community level. At that level, lack of access to adequate infrastructure is a definite contributor to poverty: Think for example how a community could possibly prosper without access to paved roads, stable electricity, access to schools, access to markets where to sell goods, or access to clinics where to get healthcare. Unequal access to employment will also burden some of the poor communities, who will remain in a vicious cycle where they are stigmatized, and are thus not getting access to decent jobs. In the same vein, social mobility is of course also very important: being able to climb up the ladders of society, without hitting glass ceilings is essential. At community level, equitable distribution of land is a vitally important factor as it allows local production and reduces vulnerability in the community. Finally, what happens to the poorest in the community? Do they have access to social networks and institutions to help them? The community as a whole will fare better if its poorer communities are taken care of.

Notes

Summary

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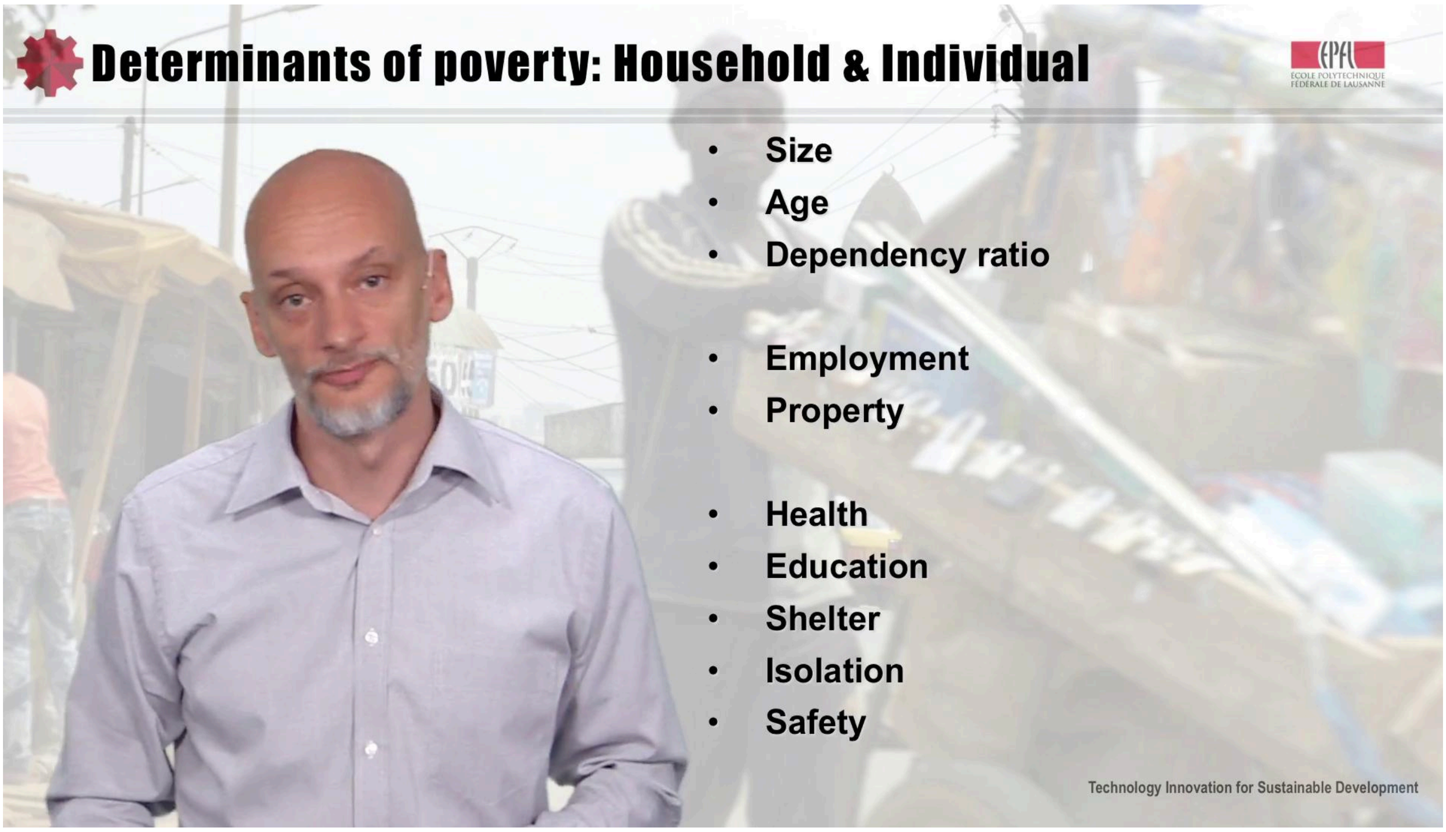

At the household level, there are numerous determinants of poverty as well, which we can group into 3 main categories: Demographic, Economic and Social. In the demographic category we find determinants such as: Large household sizes with members having a younger average age. Obviously, such households generally also have a higher dependency ratio, which means that a higher number of family members depend on a few breadwinners earning an income. The second category is related to Economics: It is very obvious that the scarcity of sources of income is a problem, for example, in the case of widespread unemployment, but also when the household has no possibility to produce its own food. Lack of property such as a house, land, agricultural equipment, or livestock, is another obvious determinant, which also includes access to financial assets and credit. In the last category we find Social aspects: Ill health is associated with poverty and there are many manifestations of this link. Since in many poor countries there are no health insurances, individuals are very vulnerable to falling into poverty, as a direct consequence of a health problem.

Notes

Summary

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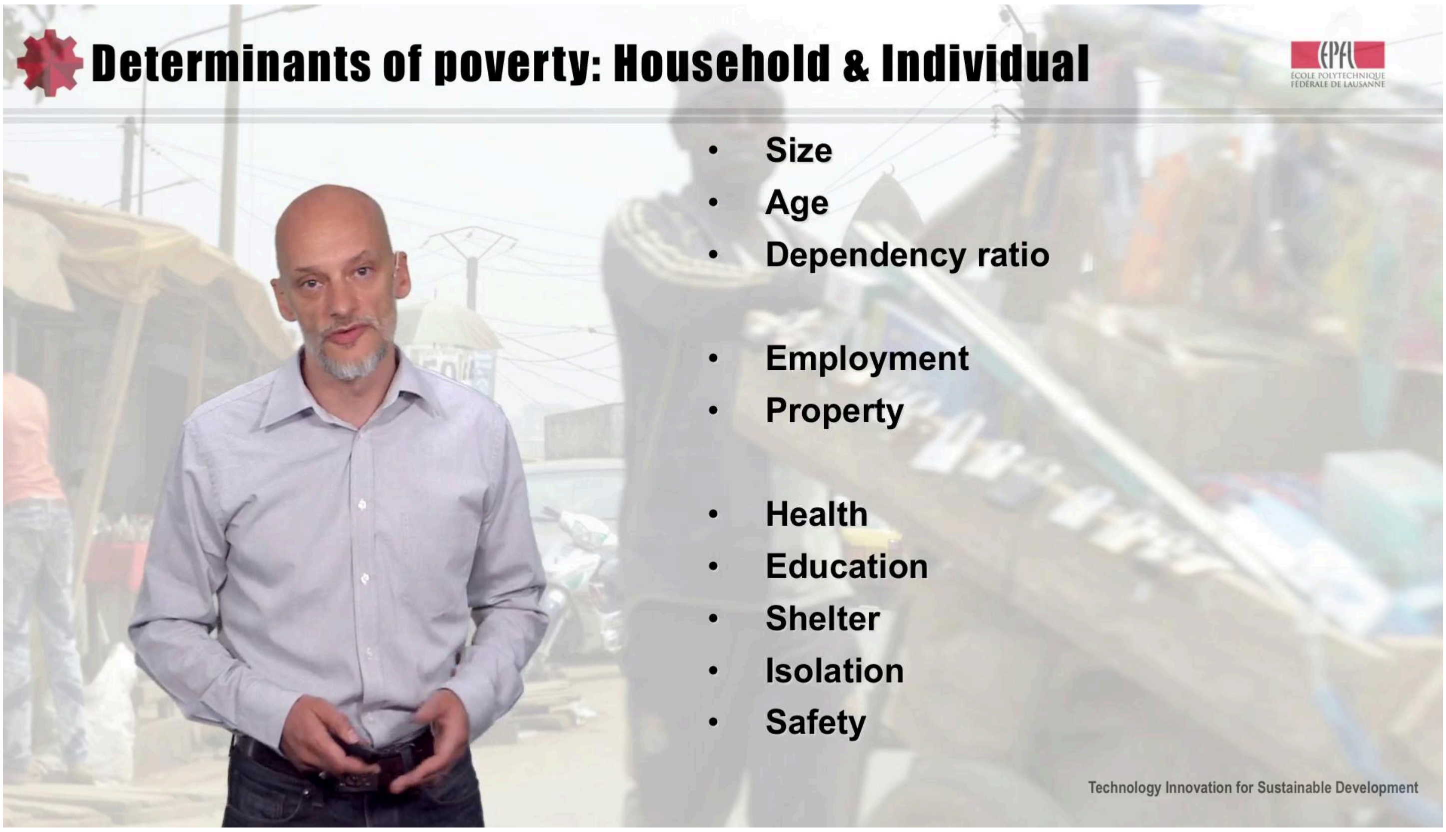

Having access to education is absolutely crucial to be able to take advantage of income-earning opportunities, but is not sufficient. There can be access to education, but the service is not used for a variety of reasons. Having shelter is a basic human need. So its absence is an obvious determinant of poverty. But shelter alone is not enough: key services such as safe water and sanitation, stable electricity or other safe energy sources for cooking, lighting or operating communication technology are needed too. For a household living in isolation, without access to roads and public transportation, is a determinant of poverty. It will prevent individuals from accessing markets where to sell their goods, or to find jobs. Last but not least, lack of personal safety is a terrible burden for many people who are thus prevented from living productive and joyful lives. As said before, this list is by no means complete, but it gives you a sense of the multiple dimensions of poverty. Later in this course, we will discuss an initiative that strives to define a framework for a sustainable development in many of these areas: The United Nations Sustainable Development Goals.

Notes

Summary

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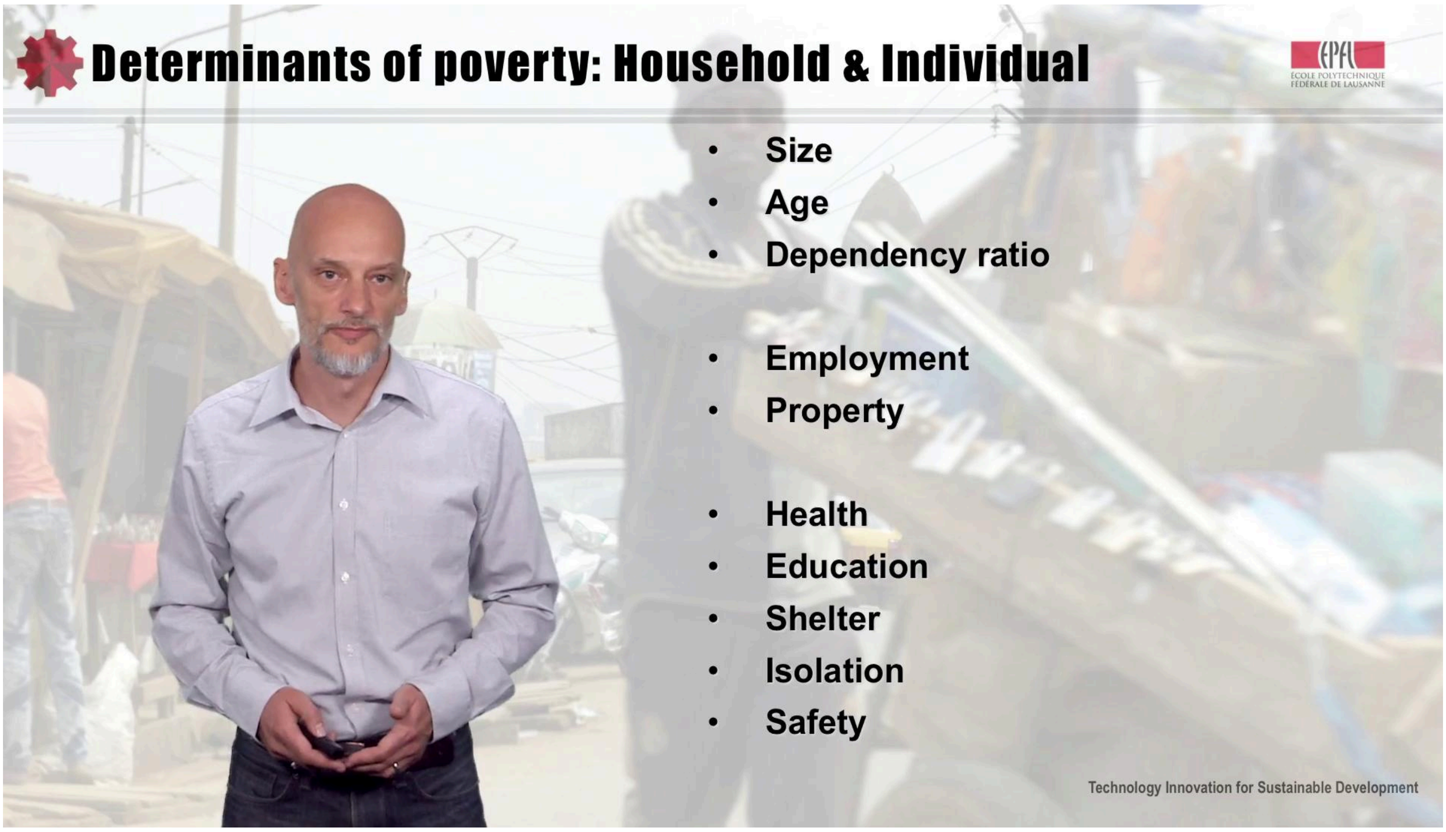

Remember also that correlation does not necessarily mean causation and that the real causes are often hidden: Things are almost always much more complex than they appear. Now let us try to find a workable general definition of poverty.

Notes

Summary

7m 09s

One Definition of Poverty

“Poverty is pronounced deprivation in wellbeing”

“wellbeing can be measured by an individual’s possession of income, health, nutrition, education, assets, housing, and certain rights in a society such as freedom of speech.

Also poverty is a lack of opportunities, powerlessness, and vulnerability.

Poverty is truly a multi-dimensional phenomenon…”

(World Bank 2000)

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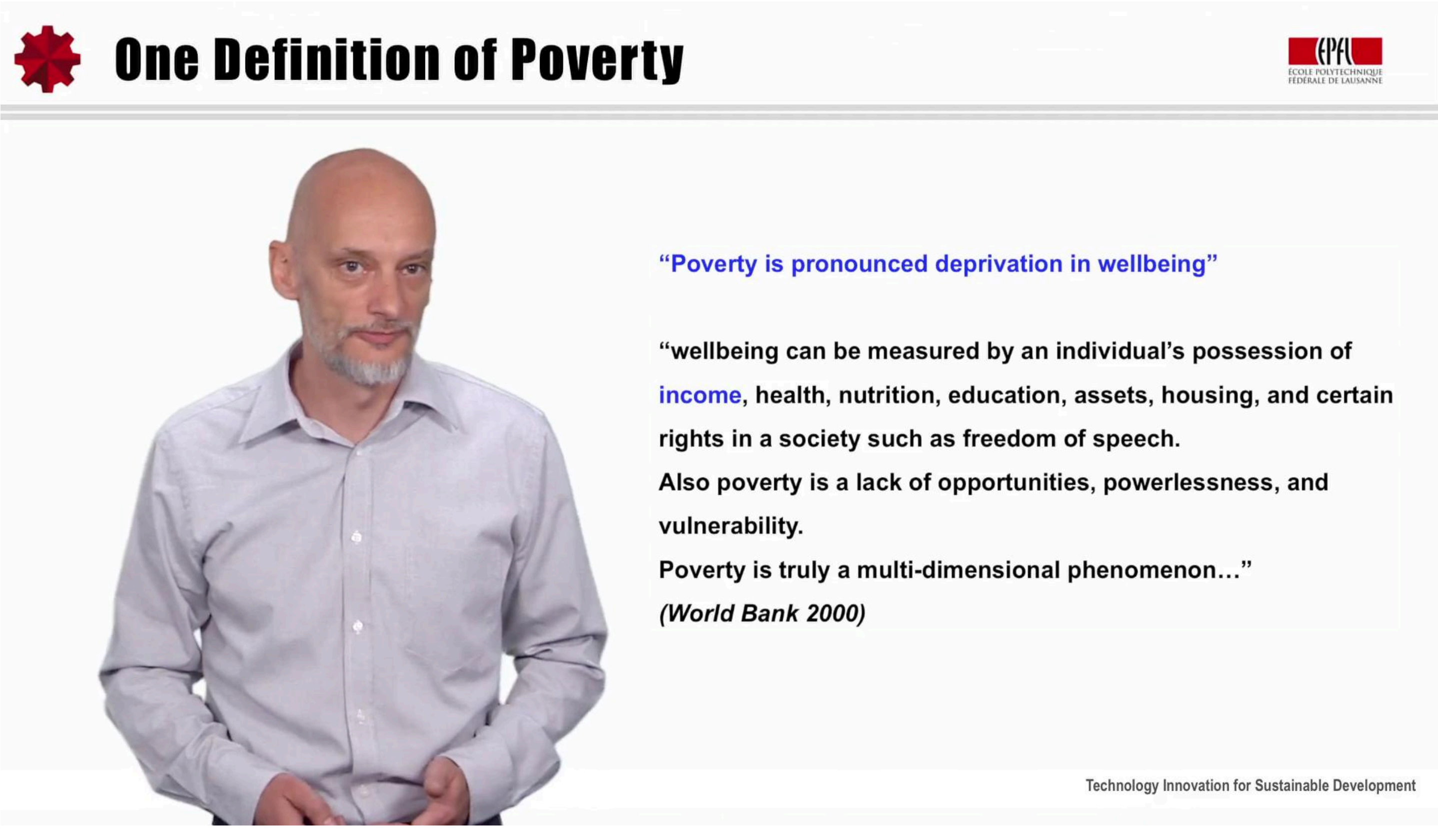
For this, let us refer to an organization whose very mission it is to reduce poverty: The World Bank. This institution defines poverty as, quote, “pronounced deprivation in wellbeing” unquote. This does not sound very useful does it? Luckily for us, the world bank has given some precise insights in their documentation, which goes on to define wellbeing as: A state which, “can be measured by an individual’s possession of income, health, nutrition, education, assets, housing, and certain rights in a society, such as freedom of speech. Poverty is also a lack of opportunities, powerlessness, and vulnerability.

Notes

Summary

7m 27s



And the world bank concludes that: Poverty is truly a multi-dimensional phenomenon." Now having said that poverty is multidimensional, are there ways to assess poverty quantitatively? How many people are poor, how poor are they? Where are they located? This, of course, is useful in order to understand where to focus our attention if we want to reduce poverty.

Notes

Summary

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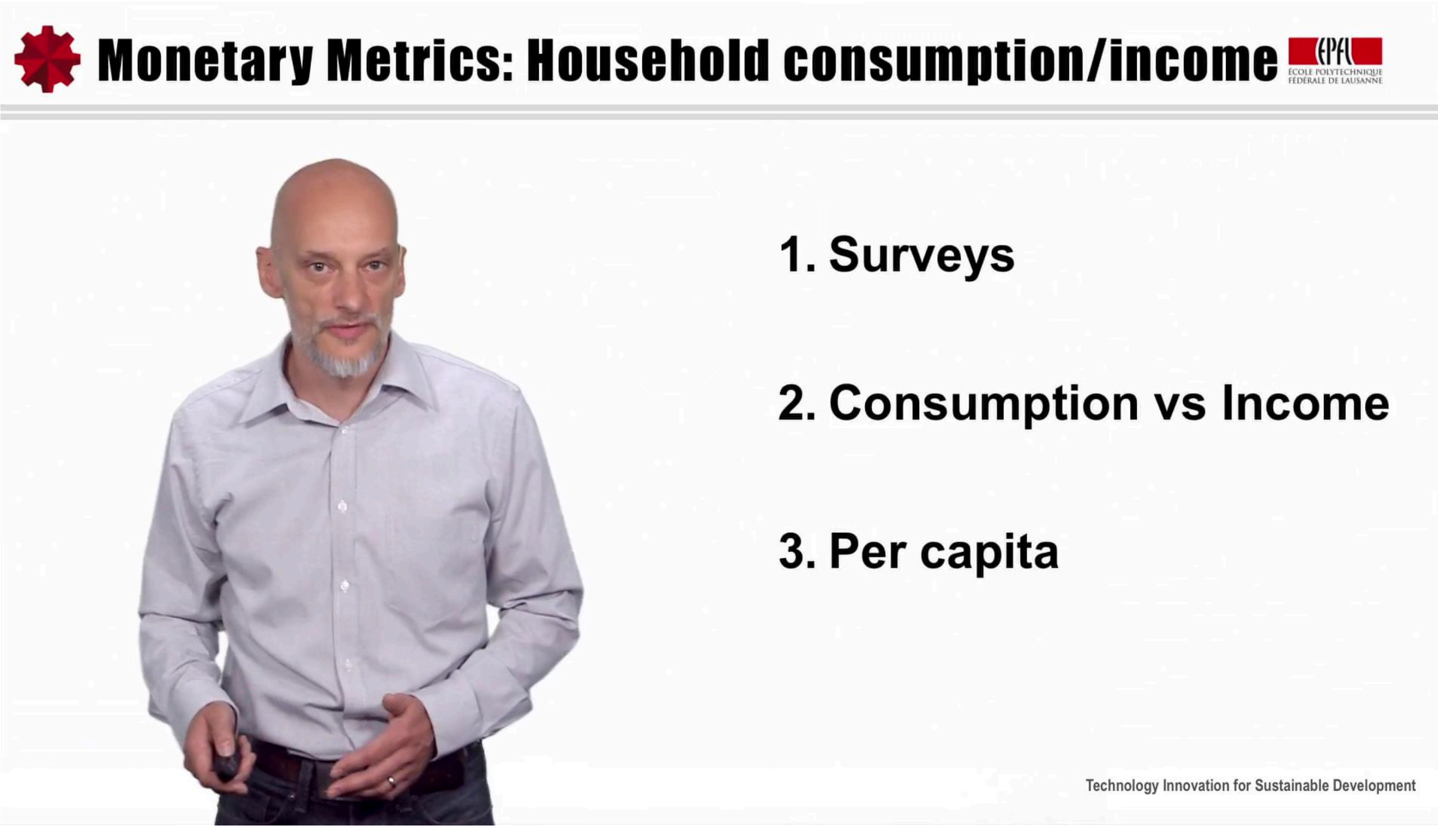

Although there is no single figure or index or number which can accurately describe the state of wellbeing of a given population or country, there are indicators which can be helpful. There are, broadly speaking, 3 classes of such indicators: These that are monetary, that is they are expressed in terms of income or consumption as we will see, as well as those that are non-monetary, for example life expectancy at birth, as we will see, or Infant mortality rate and those which are composite, meaning that they combine both monetary and non-monetary metrics. Let us start with some monetary indicators, which are widely used as a catch-all figures to assess state of wellbeing or poverty. The world bank's definition of poverty starts with "Poverty is pronounced deprivation in wellbeing, where wellbeing can be measured by an individual's possession of income etc." Can we measure a household's income? If we can do that, we may then be able to define a threshold under which a household is considered poor: that is the so called poverty line. We will come back to this. It is possible to measure household incomes using surveys based on interviews conducted with a sample of households in the countries.

Notes

Summary

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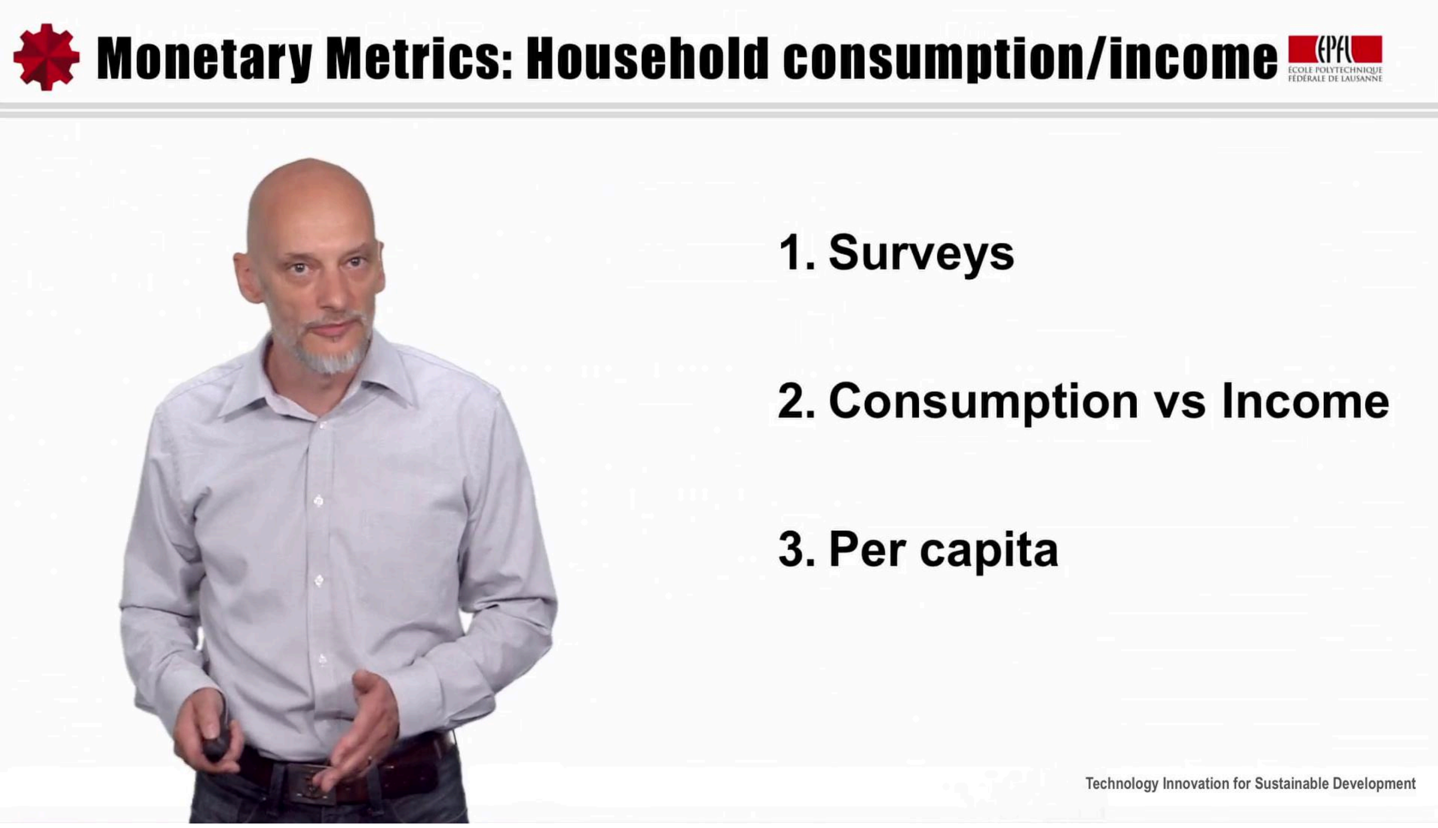
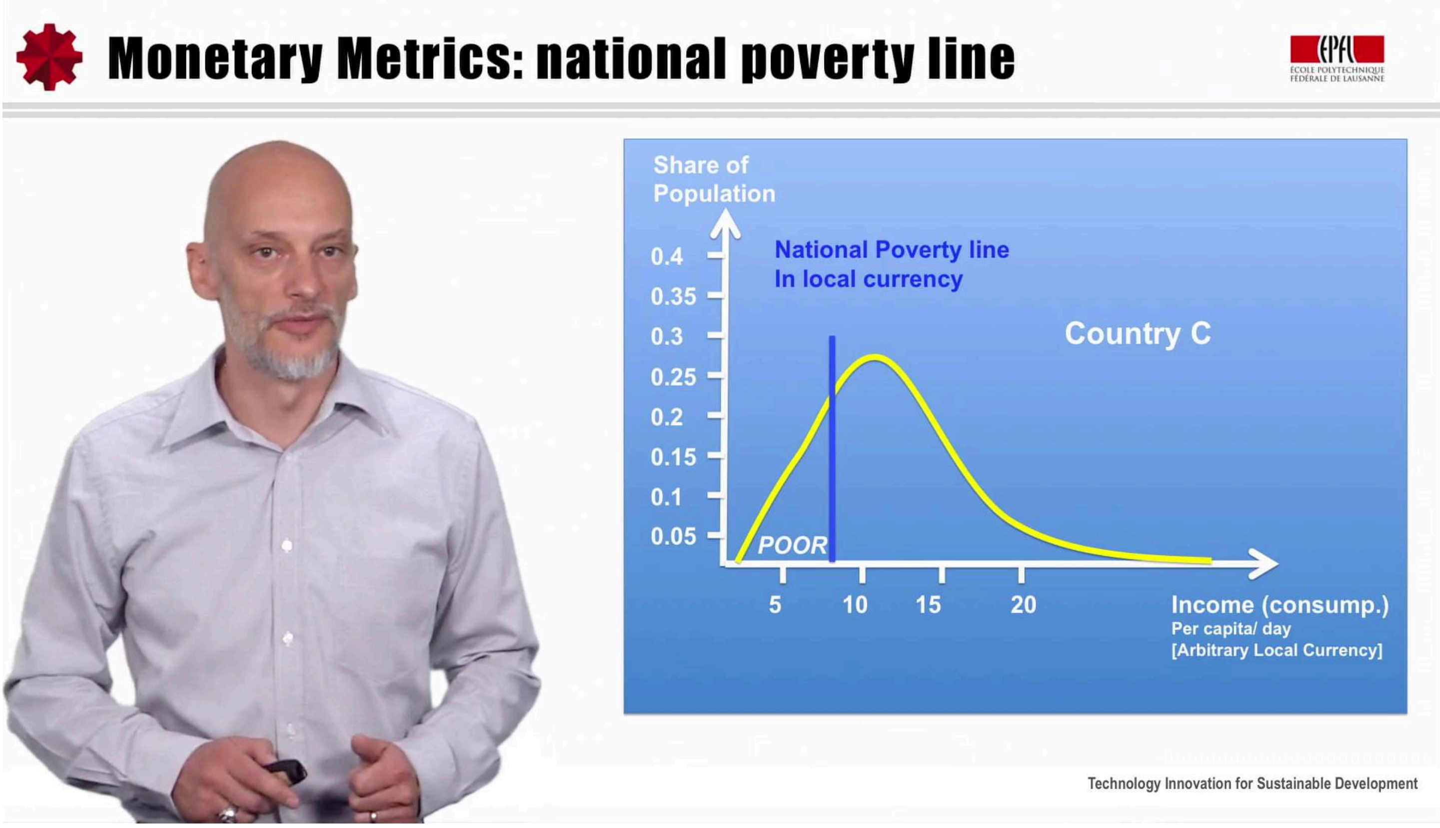


Unfortunately however in many cases, estimating income is not very convenient because households tend to under-report their income. Also, some aspects of household-income are difficult to quantify such as an increase in farm livestock. In general, thus economists prefer to use household consumption as a criterion except in certain countries. Generally, either consumption or income can be used and this doesn't really matter much if we look at things in a general way. Consumption surveys cover all monetary expenditures for goods and services, plus the monetary value of all in-kind consumption, such as food produced on the family farm. Countries routinely conduct such surveys, which are then aggregated by the world bank. Generally economists transform the Household consumption into a consumption per person or per capita. That means the total household consumption, is divided by the number of individuals living in that household. This gives a figure of how many units of local currency are expensed per person and per day for living.

Notes

Summary

9m 55s



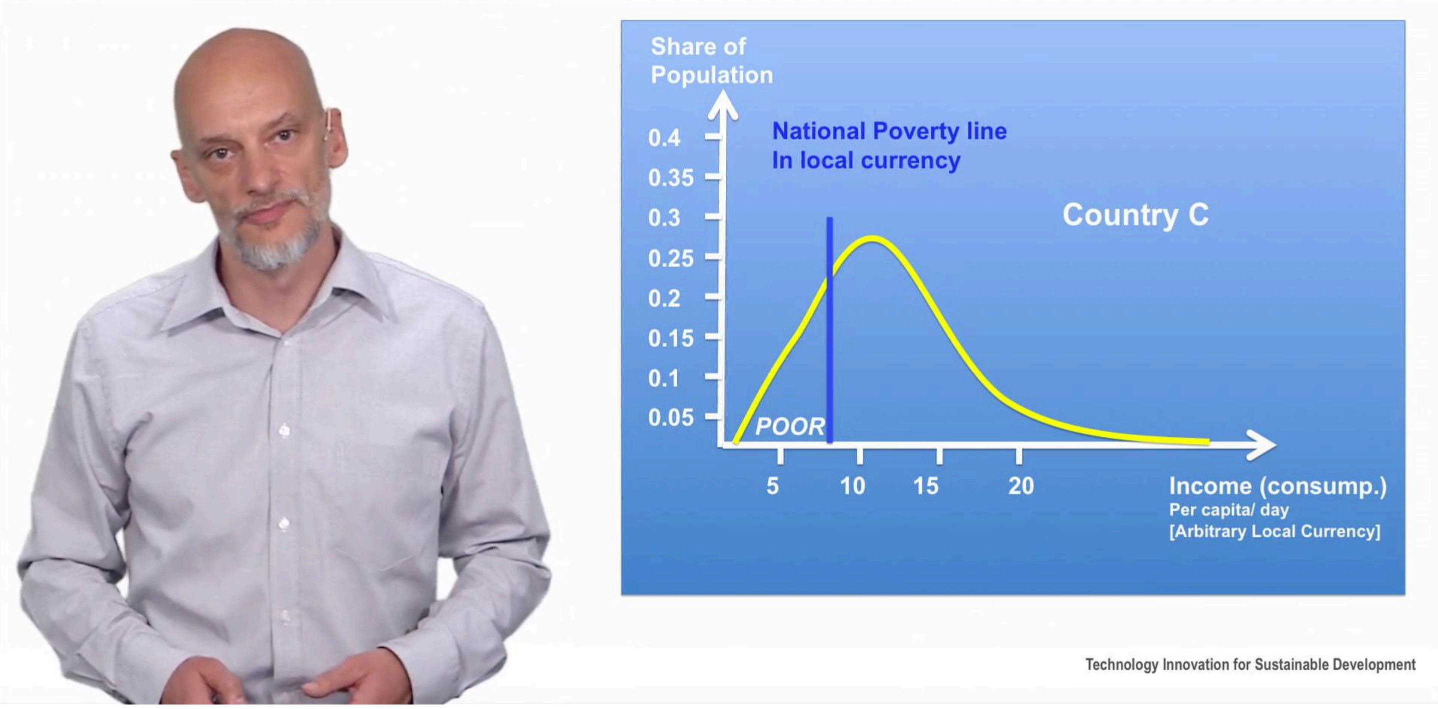
Let's imagine a hypothetical country which we will call country C. We conduct a survey of household consumption, and we get a distribution of income. We divide this income by the number of people in the household and we get the income distribution per capita, in the local country's currency. We now draft income as a function of the share of the population that lives on a specific income base. This is a probability density function. Here for example, we have 10% of the population who lives on say 5 items of local currency per day. Are they poor or not? To answer this question, the local country authorities will determine a minimum level of income under which an individual is to be considered poor by local standards. This is the National poverty line and remember, it is in local currency. This poverty line is very different from one country to another. If we want to know what is the total share of people in the country living below the poverty line, we have to sum up or integrate all the contributions below the curve, up to that point. Now let us assume we would like to compare the situation of wealth of that particular country with other countries: we now have the problem of the difference in currencies or exchange rates, but that is not the only problem.

Notes

Summary

11m 12s

Monetary Metrics: national poverty line



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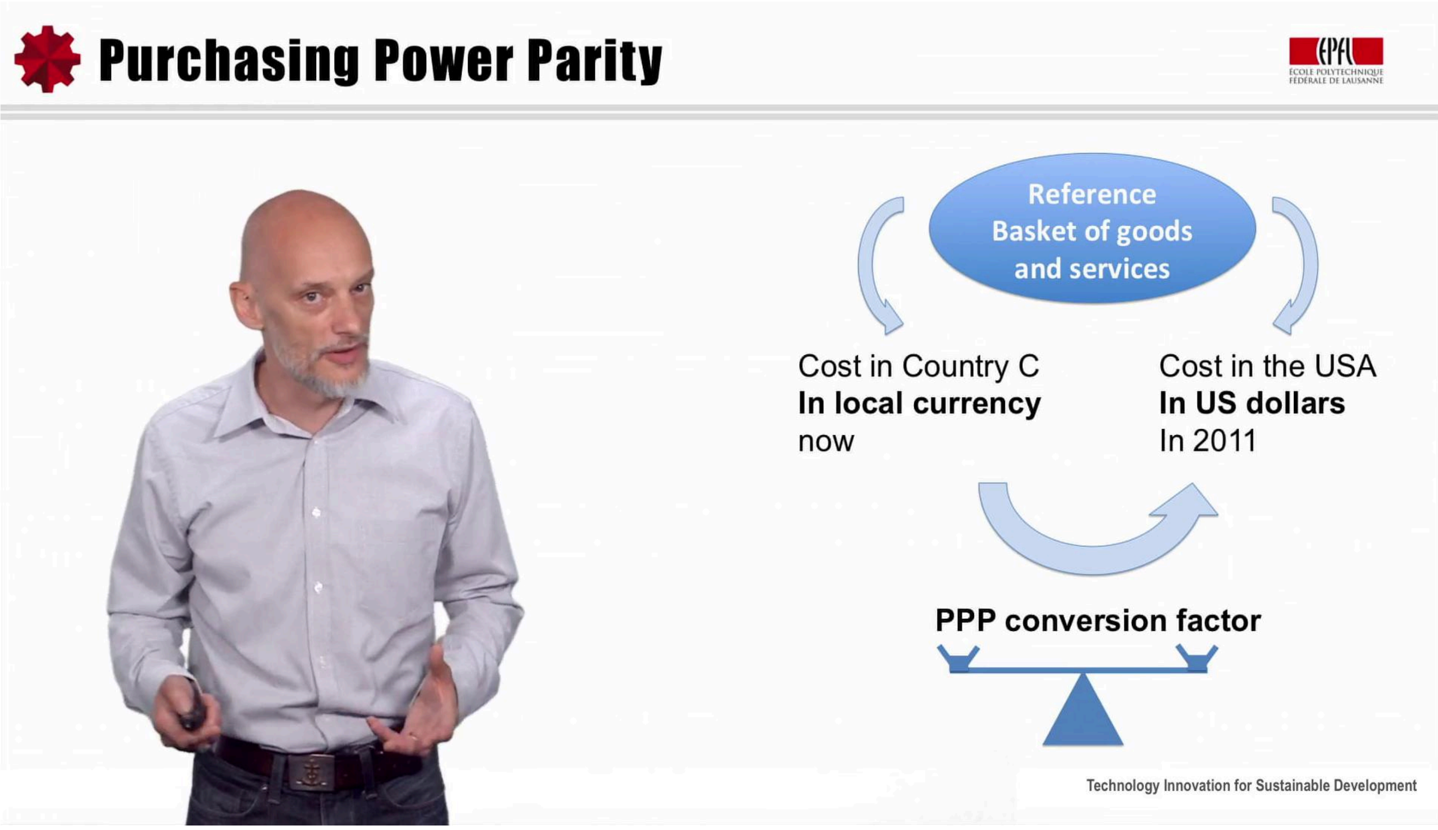
In fact we all know that prices vary enormously across countries even when converted to a reference currency such as the US Dollar: The purchasing power is different. Think for example of the cost of buying a lunch in a restaurant or paying an apartment rent. There are big differences between countries.

Notes

Summary

12m 35s



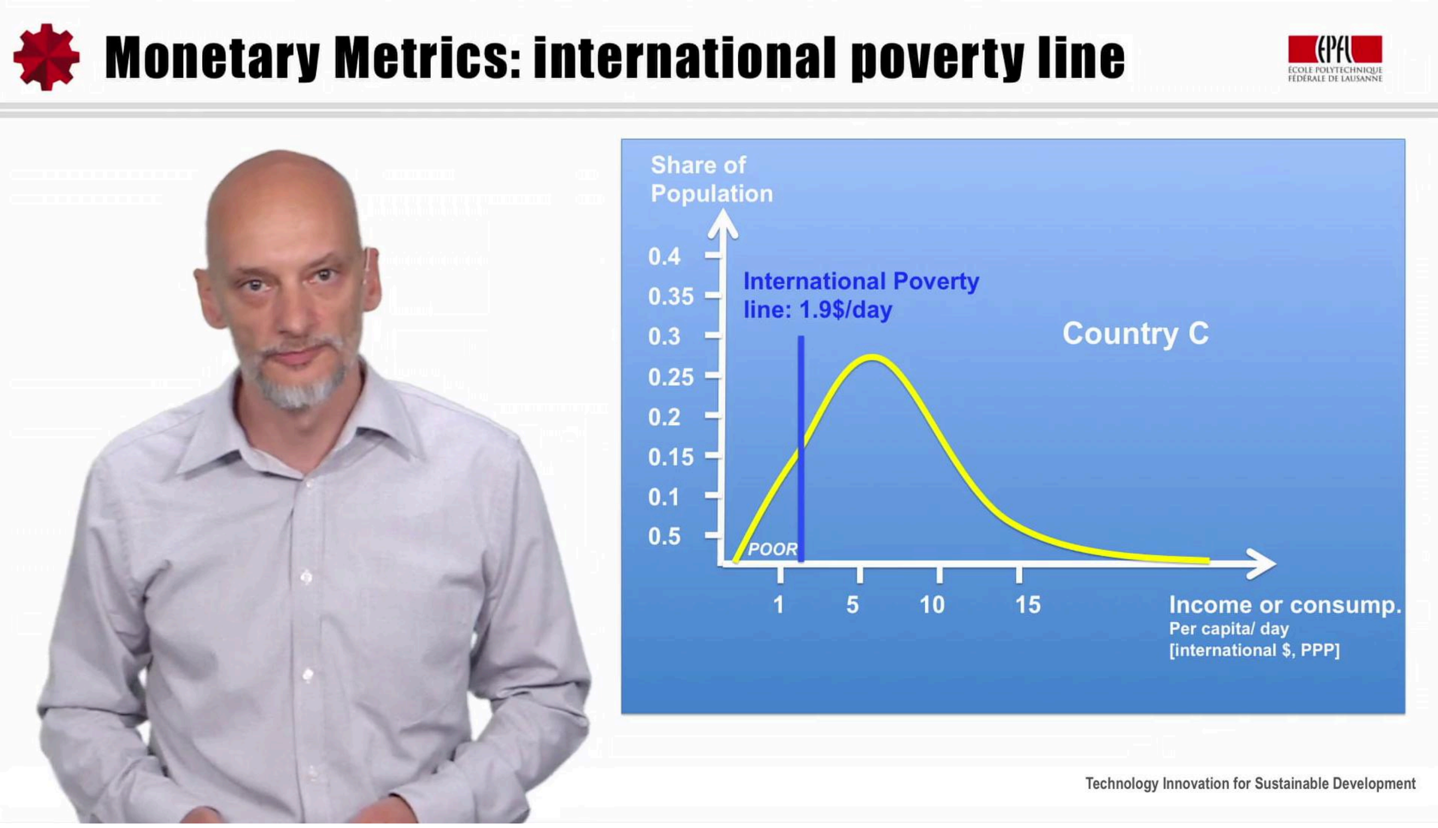
To solve this issue, it is necessary to convert all local currencies into a reference currency which is called the international dollar, and to factor-out the difference in buying power. This can be done by referring to a standardized basket of goods and services. We then determine how much this basket used to cost in the United States in a specific reference year, for example in 2011. After that we can determine the cost of the same basket of goods and services, in our country C's local currency. The ratio of the cost in the United States to the cost in the country's local currency is called the Purchasing Power Parity or PPP Conversion factor. It represents how many items in local currency would be needed, to have the same buying power as the Dollar had in the United States at a certain point in time. One PPP dollar should thus buy the same basket of goods in Kenya, India or the US. We can now express consumption in any country in terms of international dollars at PPP. Doing this with other countries will allow us to compare them.

Notes

Summary

12m 56s

Monetary Metrics: international poverty line

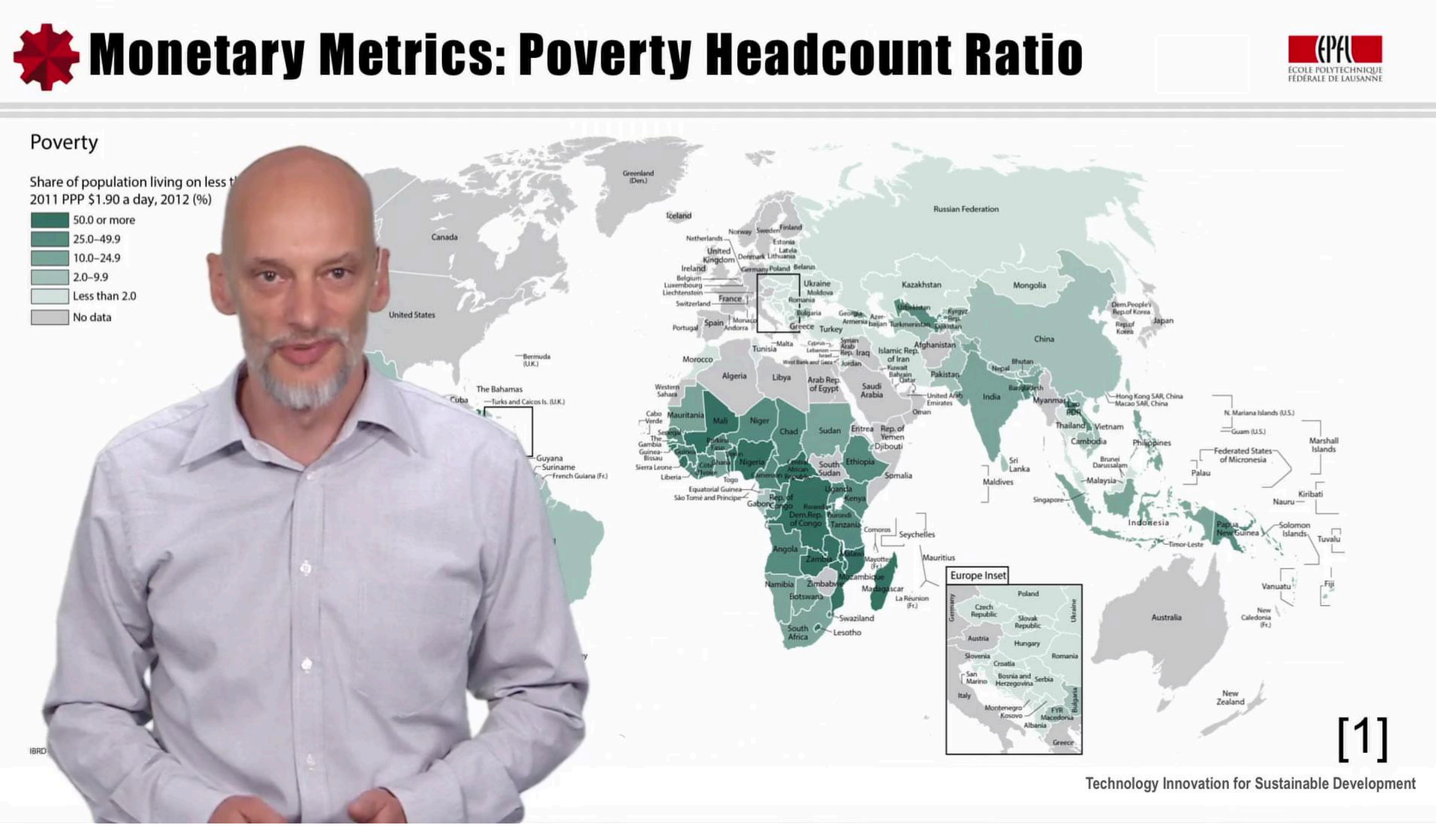


Now we can re-calculate the income or consumption distribution per capita per day in international dollars at PPP. We now have a curve that still represents precisely the country C that we are considering, but can be compared to other countries, where of course the same calculations were done. Having done this, we would now need to know what happens to the poverty line. In fact, what we are interested in, is to know how this particular country compares in terms of poverty with other countries. For this, the world bank has defined an international poverty line that tells us what it means to be in extreme poverty in terms of international dollars at PPP. This line is calculated by taking the average value of the national poverty lines of some of the poorest countries. It is currently at 1.9 international dollar per capita, per day at PPP. This is a very crude threshold which being based on the poverty lines of the poorest countries, is an absolute minimum. We can now calculate the number of people living on less than $1.9/capita/day in country C. This gives us the so called poverty headcount ratio. It is simply the area under the curve in our graph, on the left of the poverty line. This allows us to determine where on the planet most of today's extreme poor people live, let us have a look.

Notes

Summary

14m 10s



This map shows you the countries with their respective poverty headcount ratio. Globally this represents about 900 million people living in the most extreme form of poverty, struggling to meet their most basic needs. Of course there is no such a thing as a clean limit between poor and non-poor. If we were to consider a limit of $3/capita/day, which is still very low, the amount of people concerned goes up to a staggering 2 billion worldwide. In general, around 50% of all Africans live below the poverty line. In many African countries it is even more than that. This is a terrible situation in this marvelous continent, and this is why our MOOC is focused mainly on the context of sub-Saharan Africa. For those of you who have read about the subject of poverty, there is a concept that is sometimes used called the Bottom of the Pyramid. The bottom of the pyramid is generally defined as those people living on less than 2 dollars a day which is pretty much equal to our international poverty line. In our next video, we will continue the discussion on monetary metrics such as Gross Domestic Product. We will then talk about non-monetary metrics and finally we will discuss Composite metrics, which combine both monetary and non-monetary indices. Good bye.

Notes

Summary

15m 41s