



What do we know about the poor?

Reducing poverty is the fundamental objective of economic development. It is estimated that in 1985 more than one billion people in the developing world lived in absolute poverty. Clearly, economic development has a long way to go. Knowledge about the poor is essential if governments are to adopt sound development strategies and more effective policies for attacking poverty. How many poor are there? Where do they live? What are their precise economic circumstances? Answering these questions is the first step toward understanding the impact of economic policies on the poor. This chapter draws on a number of detailed household surveys done over the past ten years or so, including some conducted by the World Bank, to estimate the number of poor people and to establish what is known about them.

Three poor families

We begin by focusing on the people this Report is intended to help—by telling the stories of three poor families living in three different countries. These families have much in common. For them, the difference between a tolerable quality of life and mere survival depends on their capacity to work and on their opportunities to work. Lack of education, landlessness, and acute vulnerability to illness and seasonal hard times affect all of them to varying degrees. Problems such as these are at the core of poverty.

A poor subsistence farmer's household in Ghana

In Ghana's Savannah region a typical family of seven lives in three one-room huts made from

mud bricks, with earthen floors. They have little furniture and no toilet, electricity, or running water. Water is obtained from a stream a fifteen-minute walk away. The family has few possessions, apart from three acres of unirrigated land and one cow, and virtually no savings.

The family raises sorghum, vegetables, and groundnuts on its land. The work is seasonal and physically demanding. At peak periods of tilling, sowing, and harvesting, all family members are involved, including the husband's parents, who are sixty and seventy years old. The soil is very low in quality, but the family lacks access to fertilizer and other modern inputs. Moreover, the region is susceptible to drought; the rains fail two years out of every five. In addition to her farm work, the wife has to fetch water, collect firewood, and feed the family. The market town where the husband sells their meager cash crops and buys essentials is five miles away and is reached by dirt tracks and an unsealed road that is washed away every time the rains come.

None of the older family members ever attended school, but the eight-year-old son is now in the first grade. The family hopes that he will be able to stay in school, although there is pressure to keep him at home to help with the farm in the busy periods. He and his two younger sisters have never had any vaccinations and have never seen a doctor.

A poor urban household in Peru

In a shantytown on the outskirts of Lima a shack made of scraps of wood, iron, and cardboard houses a family of six. Inside there is a bed, a table,

a radio, and two benches. The kitchen consists of a small kerosene stove and some tins in one corner. There is no toilet or electricity. The shantytown is provided with some public services, but these tend to be intermittent. Garbage is collected twice a week. Water is delivered to those who have a cement tank, but this family has been unable to save enough for the cement. In the meantime, the mother and eldest daughter fill buckets at the public standpipe 500 yards away.

Husband and wife are Indians from the same mountain village in the Sierra. Neither completed primary school. They came to Lima with two children almost four years ago, hoping to find work and schools. Although they have jobs, the economic recession of the past few years has hit them hard. Better-off neighbors who arrived in Lima three to six years before they did say that it was easier to get ahead then. Still, husband and wife are hopeful that they will soon be able to rebuild their house with bricks and cement and, in time, install electricity, running water, and a toilet like their neighbors. They now have four children, after losing one infant, and the two oldest attend the local community school, recently built with funds and assistance from a nongovernmental organization (NGO). All the children were given polio and diphtheria-pertussis-tetanus (DPT) inoculations when a mobile clinic came to the shantytown. Community solidarity is strong, and a community center is active in the shantytown.

The father works in construction as a casual laborer. The work is uncertain, and there are periods when he must take any odd job he can find. When he is hired on a construction site, however, it is frequently for a month or so. His wife worries that he will be injured on the job like some of his fellow workers, who can no longer work and yet receive no compensation. She earns some income doing laundry at a wealthy person's house twice a week. To get there she must take a long bus ride, but the job does enable her to look after her one- and three-year-old children. She is also in charge of all domestic chores at home. When she is away from the house for long periods, the two oldest children take morning and afternoon turns at school so as not to leave the house unattended. There have been many burglaries in the neighborhood recently, and although the family has few possessions, radios and kerosene stoves are much in demand. The family lives on rice, bread, and vegetable oil (all subsidized by the government), supplemented with vegetables and, occasionally, some fish.

A poor landless laborer's household in Bangladesh

In a rural community in a drought-prone region of Bangladesh a landless laborer and his family attempt to get through another lean season.

Their house consists of a packed mud floor and a straw roof held up by bamboo poles from which dry palm leaves are tied to serve as walls. Inside there is straw to sleep on and burlap bags for warmth. The laborer and his wife, three children, and niece do not own the land on which the shack is built. They are lucky, however, to have a kindly neighbor who has indefinitely lent them the plot and a little extra on which they are able to grow turmeric and ginger and have planted a jackfruit tree.

The father is an agricultural day laborer and tends to be underemployed most of the year. During slow agricultural periods in the past he could sometimes find nonagricultural wage labor—for example, in construction in a nearby town—but he lost the strength to do much strenuous work after a bout of paratyphoid. He therefore engages in petty services around the village for very low pay.

The wife typically spends her day cooking, caring for the children, husking rice, and fetching water from the well. She is helped in these tasks by her thirteen-year-old niece, whose parents died in a cholera epidemic some years ago. The woman and her niece are always on the lookout for ways to earn a little extra. Such work as husking rice, weeding fields, and chopping wood is sometimes available from better-off neighbors. The nine-year-old son attends school a few mornings a week in a town an hour's walk away. The rest of the day he and his seven-year-old sister gather fuel and edible roots and weeds. The sister also looks after the baby when her mother or cousin cannot.

The household spends about 85 percent of its meager income on food—predominantly rice. Family members are used to having only two meals a day. They hope to struggle through to the rice harvest without having to cut down and sell their jackfruit tree or the bamboo poles supporting their roof.

Measuring poverty

These are the people behind the statistics. Lifting them out of poverty will depend to a large extent on a better understanding of how many poor there are, where they live, and, above all, why they are poor. None of these questions turns out to be straightforward. To begin with, it is necessary to

be more precise about what “poverty” really means.

Poverty is not the same as inequality. The distinction needs to be stressed. Whereas poverty is concerned with the absolute standard of living of a part of society—the poor—inequality refers to relative living standards across the whole society. At maximum inequality one person has everything and, clearly, poverty is high. But minimum inequality (where all are equal) is possible with zero poverty (where no one is poor) as well as with maximum poverty (where all are poor).

This Report defines poverty as the inability to attain a minimal standard of living. To make this definition useful, three questions must be answered. How do we measure the standard of living? What do we mean by a minimal standard of living? And, having thus identified the poor, how do we express the overall severity of poverty in a single measure or index?

Measuring the standard of living

Household incomes and expenditures per capita are adequate yardsticks for the standard of living as long as they include own production, which is very important for most of the world’s poor (Box 2.1). Neither measure, however, captures such dimensions of welfare as health, life expectancy, lit-

eracy, and access to public goods or common-property resources. Being able to get clean drinking water, for example, matters to one’s standard of living, but it is not reflected in consumption or income as usually measured. Households with access to free public services are better off than those without, even though their incomes and expenditures may be the same. Because of these drawbacks, this Report supplements a consumption-based poverty measure with others, such as nutrition, life expectancy, under 5 mortality, and school enrollment rates.

The poverty line

All the measures described above are judged in relation to some norm. For example, we deem life expectancies in some countries to be low in relation to those attained by other countries at a given date. The choice of the norm is particularly important in the case of the consumption-based measures of poverty.

A consumption-based poverty line can be thought of as comprising two elements: the expenditure necessary to buy a minimum standard of nutrition and other basic necessities and a further amount that varies from country to country, reflecting the cost of participating in the everyday life of society. The first part is relatively straightfor-

Box 2.1 How should we measure living standards?

Current consumption (including consumption from own production) reflects households’ ability to buffer their standard of living through saving and borrowing, despite income fluctuations. To that extent, consumption is a better measure of well-being than income. A study of Sri Lanka, however, found that both consumption and income indicators identified the same people, by and large, as poor. Furthermore, current consumption may not be a good measure of a household’s typical standard of living (although it is probably better than current income). In another study, which looked at a set of Indian households over nine years, 54 percent of households, on average, were deemed poor on the basis of current-year consumption. Slightly fewer, 50 percent, were deemed poor on the basis of their nine-year mean consumption.

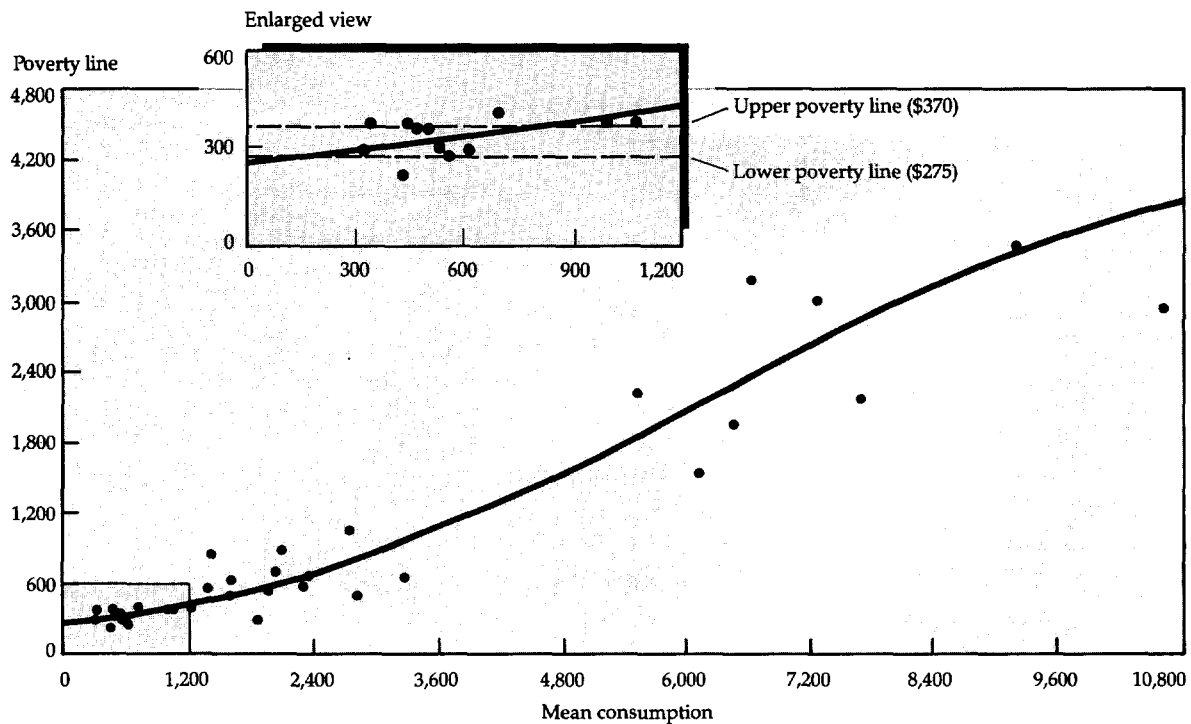
Another problem is that different households may face different prices. In developing countries prices often vary between urban and rural areas. A study of Sri Lanka that allowed for this difference found that price

variability made little difference to estimates of poverty. In bigger countries, however, rural-urban differences are a more significant problem. In Indonesia, for example, regional price differentials are large and affect regional comparisons of poverty.

Household size and composition are also relevant. Researchers estimate “equivalent adult scales” based on the consumption needs of individuals according to age, sex, and activity. Allowing for household composition in the Sri Lanka estimates, however, yielded a poverty estimate similar to that based on the per capita measures; the overlap in classifying people as poor was 90 percent.

Such corrections typically assume that the distribution of consumption within the household is equal. What if this is not the case? A recent study of data for the Philippines concluded that allowing for inequality in distribution might change the figures for the overall incidence of poverty but not the pattern across socioeconomic groups.

Figure 2.1 Poverty and average standards of living, developed and developing countries
(1985 PPP dollars per capita a year)



Note: PPP, purchasing power parity.

ward. The cost of minimum adequate caloric intakes and other necessities can be calculated by looking at the prices of the foods that make up the diets of the poor. The second part is far more subjective; in some countries indoor plumbing is a luxury, but in others it is a "necessity."

The perception of poverty has evolved historically and varies tremendously from culture to culture. Criteria for distinguishing poor from non-poor tend to reflect specific national priorities and normative concepts of welfare and rights. In general, as countries become wealthier, their perception of the acceptable minimum level of consumption—the poverty line—changes. Figure 2.1 plots country-specific poverty lines against per capita consumption (both in 1985 purchasing power parity—PPP—dollars) for thirty-four developing and industrial countries. The poverty threshold rises slowly at low levels of average consumption but more sharply at higher levels.

When discussing poverty within countries, this Report uses country-specific poverty lines. In this

chapter and in Chapter 9, however, a universal poverty line is needed to permit cross-country comparison and aggregation. This global poverty line is inevitably somewhat arbitrary. Rather than settle for a single number, this chapter employs two: \$275 and \$370 per person a year. (The amounts are in constant 1985 PPP prices.) This range was chosen to span the poverty lines estimated in recent studies for a number of countries with low average incomes—Bangladesh, the Arab Republic of Egypt, India, Indonesia, Kenya, Morocco, and Tanzania (see the inset in Figure 2.1). The lower limit of the range coincides with a poverty line commonly used for India.

How much poverty is there?

Once the poor have been distinguished from the nonpoor, the simplest way to measure poverty is to express the number of poor as a proportion of the population. This *headcount index* is a useful measure, although it is often criticized because it

Box 2.2 Does how we measure poverty really matter?

The poverty gap and the headcount index are insensitive to the extent of inequality among the poor. If income is transferred from a poor person to someone who is poorer, neither measure changes. Distributionally sensitive measures are designed to capture such effects.

Suppose we want to know how an increase in the price of basic food staples affects poverty. A recent study examined this question for Java, Indonesia, using data for 1981. Households close to the poverty line were found to be, on average, net producers of rice, the main food staple. Thus, the headcount index of poverty will fall when the price of rice increases—assuming that this price change is passed on to producers. But the study found that the poorest of the poor—many of them landless agricultural laborers or farmers with little land but with some other source of income—are net consumers of rice. They are worse off, at least in the short run, when the price of rice increases. The study showed that measures that take the severity of poverty into account tend to show an increase in poverty when

the price of rice goes up—exactly the opposite of the message conveyed by the headcount index.

Consider next the design of a scheme for transferring income to the poor. If success is judged solely by the headcount index, it is plain that the money should go first to the least poor because a given transfer will push more of them over the poverty line. Small transfers to the poorest of the poor will have absolutely no effect on the headcount measure of poverty. A similar issue arises in designing public employment schemes. For a given budget, a scheme can aim for wide coverage at low wages, leaving many participants still in poverty (albeit better off), or it can ration participation at a wage rate sufficient to allow more people to rise above the threshold.

So, although simple poverty measures often give a good indication of what has happened to poverty over time, for many other purposes—including evaluations of the effects of policy on poverty—it is necessary to look carefully at the distribution of income below the poverty line.

ignores the extent to which the poor fall below the poverty line. The income shortfall, or *poverty gap*, avoids this drawback. It measures the transfer that would bring the income of every poor person exactly up to the poverty line, thereby eliminating poverty. This Report relies on both the headcount index and the poverty gap. Box 2.2 discusses some other measures.

The use of the upper poverty line—\$370—gives an estimate of 1,115 million people in the developing countries in poverty in 1985. That is roughly one-third of the total population of the developing world. Of these, 630 million—18 percent of the total population of the developing world—were extremely poor: their annual consumption was less than \$275, the lower poverty line. Despite these massive numbers, the aggregate poverty gap—the transfer needed to lift everybody above the poverty line—was only 3 percent of developing countries' total consumption. The transfer needed to lift everybody out of extreme poverty was, of course, even smaller—just 1 percent of developing countries' consumption. Mortality for children under 5 averaged 121 per thousand for all developing countries, aggregate life expectancy was 62 years, and the overall net primary school enrollment rate was 83 percent. These figures hide considerable variation within and among countries. Table 2.1 sets out a detailed regional breakdown of these estimates.

Although care has been taken to make the table as precise as possible, the margins of error are inevitably wide, and the figures, it must be stressed, are only estimates. The quality of the underlying data varies. Reputable household income and expenditure surveys have been used where available. These surveys encompass 2.5 billion people, or almost 75 percent of the total. For other countries, including most of Sub-Saharan Africa, extrapolations have been made on the basis of indicators that are strongly correlated with the measures of poverty derived from the household surveys. The notes to Table 2.1 give calculations of the potential imprecision of the estimates as a result of inadequacies in the data.

Nearly half of the developing world's poor, and nearly half of those in extreme poverty, live in South Asia. Sub-Saharan Africa has about one-third as many poor, although in relation to the region's overall population, its poverty is roughly as high. Table 2.1 also shows that both South Asia and Sub-Saharan Africa have low scores on several other social indicators; in Sub-Saharan Africa, in particular, life expectancy and primary school enrollment rates are alarmingly low, and under 5 mortality rates are alarmingly high. The Middle Eastern and North African countries have the next highest poverty, according to all the indicators. They are followed by Latin America and the Caribbean and by East Asia. China's overall perfor-

mance is impressive, although the size of its population means that a relatively low headcount index still translates into large numbers of poor.

The characteristics of the poor

If governments are to reduce poverty or to judge how their economic policies affect poverty, they need to know a lot about the poor. For example, information on how the poor derive and spend their incomes can help policymakers assess how changes in relative prices will affect real income. Policies targeted directly to the poor can hardly succeed unless governments know who the poor are and how they respond to policies and to their environment. Unfortunately, gathering this sort of information is not always easy. The poor are heterogeneous, and data about their characteristics are patchy. The following discussion looks at where the poor live, the size and composition of their households, what they do for a living, what they own and purchase, what risks they face, and how they fit into the society around them.

Rural and urban poverty

In many countries poverty has a significant regional dimension. In general, it is more common in areas with low average incomes, but the link is sometimes surprisingly weak. Figure 2.2 plots the headcount index of poverty (in the upper panel)

and the infant mortality rate (in the lower panel) against average monthly consumption per capita for urban and rural areas in India. At any given level of consumption, the headcount index and (especially) the infant mortality rate can vary widely. This underlines the need to look beyond average incomes to the distribution of income and the provision of social services.

Poverty as measured by low income tends to be at its worst in rural areas, even allowing for the often substantial differences in cost of living between town and countryside. The problems of malnutrition, lack of education, low life expectancy, and substandard housing are also, as a rule, more severe in rural areas. This is still true in Latin America, despite high urbanization rates. The importance of rural poverty is not always understood, partly because the urban poor are more visible and more vocal than their rural counterparts. In 1980 El Salvador's infant mortality rate was 81 per thousand live births in rural areas and 48 in the towns; the incidence of malnutrition was five times higher in Peru's Sierra than in Lima. Table 2.2 confirms that in many countries rural poverty is a critical factor in the overall incidence and depth of poverty.

The extent of poverty can vary greatly among rural areas within the same country. The acute deprivation in Brazil's Northeast Region, which has more than 50 percent of the country's poor but only 27 percent of its total population, is well

Table 2.1 How much poverty is there in the developing countries? The situation in 1985

Region	Extremely poor			Poor (including extremely poor)			Social indicators		
	Number (millions)	Headcount index	Poverty gap	Number (millions)	Headcount index	Poverty gap	Under 5 mortality (per thousand)	Life expectancy (years)	Net primary enrollment rate (percent)
		(percent)			(percent)				
Sub-Saharan Africa	120	30	4	180	47	11	196	50	56
East Asia	120	9	0.4	280	20	1	96	67	96
China	80	8	1	210	20	3	58	69	93
South Asia	300	29	3	520	51	10	172	56	74
India	250	33	4	420	55	12	199	57	81
Eastern Europe	3	4	0.2	6	8	0.5	23	71	90
Middle East and North Africa	40	21	1	60	31	2	148	61	75
Latin America and the Caribbean	50	12	1	70	19	1	75	66	92
All developing countries	633	18	1	1,116	33	3	121	62	83

Note: The poverty line in 1985 PPP dollars is \$275 per capita a year for the extremely poor and \$370 per capita a year for the poor.

The headcount index is defined as the percentage of the population below the poverty line. The 95 percent confidence intervals around the point estimates for the headcount indices are Sub-Saharan Africa, 19, 76; East Asia, 21, 22; South Asia, 50, 53; Eastern Europe, 7, 10; Middle East and North Africa, 13, 51; Latin America and the Caribbean, 14, 30; and all developing countries, 28, 39.

The poverty gap is defined as the aggregate income shortfall of the poor as a percentage of aggregate consumption. Under 5 mortality rates are for 1980-85, except for China and South Asia, where the period is 1975-80.

Source: Hill and Pebley 1988, Ravallion and others (background paper), and United Nations and World Bank data 1989.

known. Regional disparities are equally stark in many other countries. Thailand's Northeast Region, Côte d'Ivoire's Savannah, Indonesia's Nusa

Tenggara, the Andean highlands of Bolivia, Ecuador, Guatemala, and Peru, rural Gansu Province in China, parts of the central Asian region of the U.S.S.R., and Appalachia in the United States are all areas of concentrated poverty.

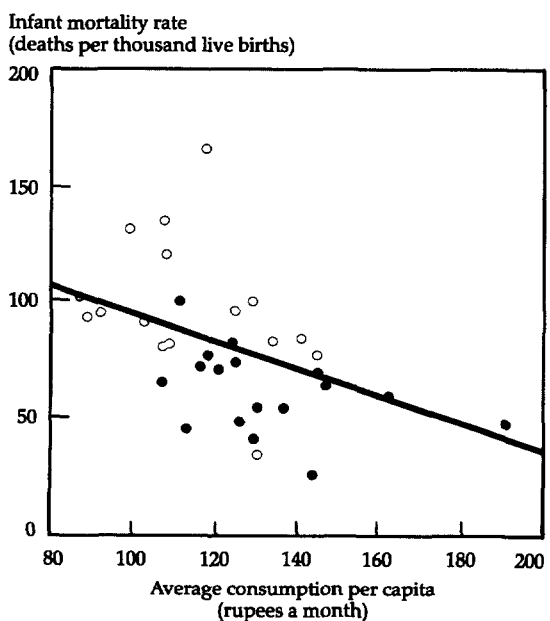
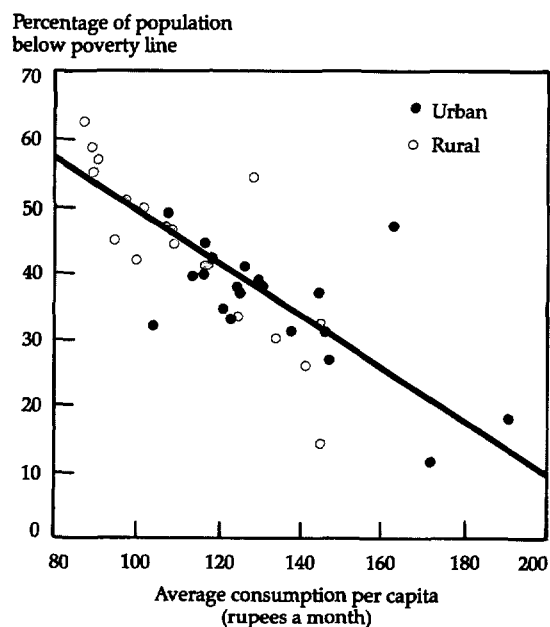
Many of the poor are located in regions where arable land is scarce, agricultural productivity is low, and drought, floods, and environmental degradation are common. In Latin America, for example, the worst poverty occurs predominantly in arid zones or in steep hill-slope areas that are ecologically vulnerable. Such areas are often isolated in every sense. Opportunities for nonfarm employment are few, and the demand for labor tends to be highly seasonal. Others among the poor live in regions that have a more promising endowment of natural resources but lack access to social services (education and health) and infrastructure (irrigation, information and technical assistance, transport, and market centers).

Although urban incomes are generally higher and urban services and facilities more accessible, poor town-dwellers may suffer more than rural households from certain aspects of poverty. The urban poor, typically housed in slums or squatter settlements, often have to contend with appalling overcrowding, bad sanitation, and contaminated water. The sites are often illegal and dangerous. Forcible eviction, floods and landslides, and chemical pollution are constant threats. Some of these people are migrants from the countryside who are seeking better-paid work. For many, particularly in Latin America, migration is permanent. For others, as in East Africa and parts of Southeast Asia, it may be temporary, reflecting (for example) seasonality in agriculture. The effect that migration to the towns has on poverty depends crucially on whether urban employment opportunities are better or worse than in rural areas. The evidence suggests that urban areas do offer more opportunities for higher-paid work, and this implies that, on balance, urbanization helps to reduce poverty.

What are the demographic characteristics of the poor?

Households with the lowest income per person tend to be large, with many children or other economically dependent members. In Pakistan in 1984 the poorest 10 percent of households had an average of 7.7 members, of whom 3.3 were children under age 9. The corresponding national averages were 6.1 and 2.0. Lack of a fit male adult can be crucial, especially if women have small children to care for or are culturally discouraged from taking paid employment.

Figure 2.2 Poverty and infant mortality rates, India, 1983, by urban and rural areas of states



Source: Datt and Ravallion 1990 (upper panel); India 1987 (lower panel).

Table 2.2 Rural and urban poverty in the 1980s

Region and country	Rural population as percentage of total	Rural poor as percentage of total	Infant mortality (per thousand live births)		Access to safe water (percentage of population)	
			Rural	Urban	Rural	Urban
<i>Sub-Saharan Africa</i>						
Côte d'Ivoire	57	86	121	70	10	30
Ghana	65	80	87	67	39	93
Kenya	80	96	59	57	21	61
<i>Asia</i>						
India	77	79	105	57	50	76
Indonesia	73	91	74	57	36	43
Malaysia	62	80	76	96
Philippines	60	67	55	42	54	49
Thailand	70	80	43	28	66	56
<i>Latin America</i>						
Guatemala	59	66	85	65	26	89
Mexico	31	37	79	29	51	79
Panama	50	59	28	22	63	100
Peru	44	52	101	54	17	73
Venezuela	15	20	80	80

Does family size determine living standards, or is it the other way around? The decision to have many children can be a sensible response to poverty. Mortality is high for children in destitute families, but it is essential to ensure that some children survive to support the household in the parents' old age, if not sooner. Even before they can earn income, children can free adults from various domestic tasks. Still, many poor parents report that they want no more children and that their last-born child had been unwanted. These couples often lack access to modern family planning services.

In the rural areas of many developing countries the aged often rely on the extended family—a structure that tends to be stable over time. In urban areas multigenerational households are more likely to break up, and the elderly are becoming more vulnerable. Moreover, traditions such as kinship in Africa and the duty of sons in India and Bangladesh to care for widowed mothers may be in decline. In India widows without an adult son are already a particularly underprivileged group.

Poverty and hunger among children is of particular concern. The very young are highly susceptible to disease, and malnutrition and poverty-related illnesses can cause permanent harm. Child poverty is strongly self-perpetuating. Child labor is common; many households depend on it, and much of the work has the social purpose of engaging the child in family activities. But work is often at the expense of schooling. For many poor people the opportunity costs of sending children to school outweigh the future benefits—especially for girls, whose economic value is often reckoned to be

lower in various parts of the world. Some of the work that children do is highly exploitative; cases of debt bondage and of long hours worked in unhealthy conditions for low wages are widely documented.

Are women poorer than men? The data on incomes are too weak to give a clear answer. But the available figures on health, nutrition, education, and labor force participation show that women are often severely disadvantaged. For example, data for 1980 indicate that the literacy rate for women was only 61 percent of that for men in Africa; the figures were 52 percent in South Asia, 57 percent in the Middle East, 82 percent in Southeast Asia, and 94 percent in Latin America. Women face all manner of cultural, social, legal, and economic obstacles that men—even poor men—do not. They typically work longer hours and, when they are paid at all, for lower wages. A study in Nepal found that, on average, poor women worked eleven hours a day, men seven-and-a-half. In many developed countries the poorest include large numbers of single-mother households. Poor female-headed households are also increasingly common in southern Africa and Latin America. In Brazil female-headed households account for 10 percent of all households but for 15 percent of the poor.

Assets

The poor usually lack assets as well as income. In local economies in which wealth and status come from the land, disadvantaged households are typi-

cally land poor or landless. Poverty is highly correlated with landlessness in South Asia, southern Africa, and much of Latin America. (See the data in Table 2.3 for Bangladesh.) When the poor do own land, it is often unproductive and frequently lies outside irrigated areas. The poor are usually unable to improve such plots, since they lack income and access to credit.

Many of the poor have access to land without having ownership rights. Tenancy is common—although the poorest are often locked out of these arrangements because they lack the other resources needed for farming. Tenancy does not provide collateral or a secure hedge against risk, and access to the land from one year to the next is often uncertain.

In other cases the poor have access to land that is owned by the community or is common property. Such arrangements are increasingly jeopardized by population pressure, privatization, overexploitation of resources, and deterioration of the environment. Studies of Rajasthani villages in India over twenty years found that the income earned from common-property resources has declined for all these reasons. In the Sahel region of Africa common ownership of the (generally unproductive) land is considered a principal cause of overgrazing and deforestation. Environmental degradation of common-property resources can badly hurt the assetless poor. Improving their access to income-earning opportunities while protecting the environment is an important policy issue.

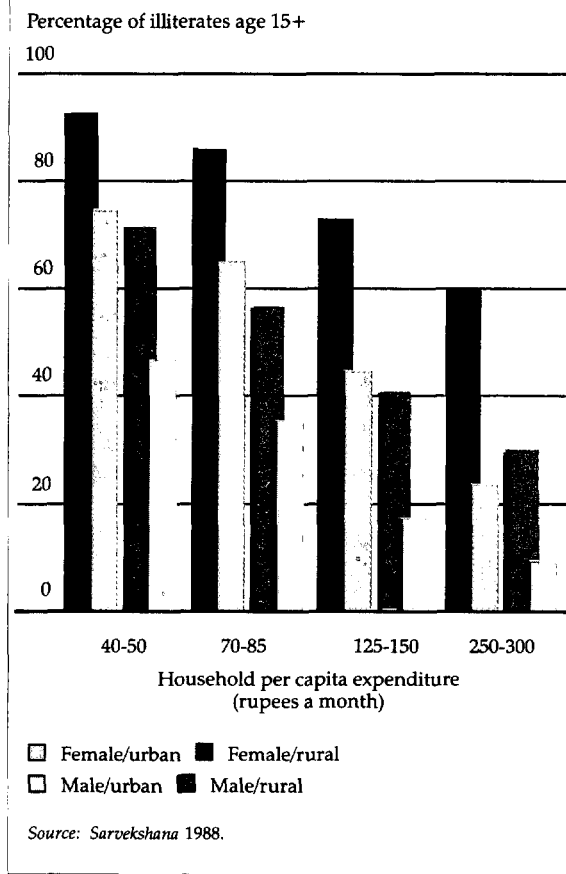
The poor are also lacking in human capital. Everywhere, they have a lower level of educational achievement than the population at large. (Figure 2.3 illustrates this with data from India.) Poor women often have too many children, spaced too

Table 2.3 Poverty and landholding in Bangladesh, 1978–79

Landholding class (acres of land owned)	Percentage of total households in class	Mean income (taka a month)	Mean landholdings (acres)	Headcount index (percentage of population)
Landless	7.1	508	0	93
0–0.5	36.1	560	0.1	93
0.5–1.0	10.5	711	0.7	84
1.0–1.5	8.9	783	1.2	78
1.5–2.5	12.1	912	2.0	68
2.5–5.0	13.8	1,163	3.5	45
5.0–7.5	5.7	1,516	6.0	23
7.5+	5.8	2,155	14.0	10
Total	100.0	865	2.1	70

Source: Ravallion 1989b.

Figure 2.3 Poverty and illiteracy in India, 1981



close together, to the detriment of their health. The poor frequently suffer from hunger and malnutrition and from related illnesses. This undermines their capacity for labor—often their main or only asset.

The ownership of assets directly affects income opportunities (Box 2.3). Without assets such as land, the poor must hire out their labor. Without adequate human capital, they are limited to unskilled work. The elderly and the incapacitated may not even be able to offer their labor and may be forced to rely on charity. The importance of assets, broadly defined, suggests that policies should seek to increase the assets owned by the poor—especially skills, health, and other aspects of human capital and, in agricultural economies, land.

Sources of income

Besides having lower incomes and fewer assets than the nonpoor, the poor often have distinctive sources of livelihood. Most of the destitute mix

Box 2.3 Village-level perspectives on asset poverty

Much has been learned about asset poverty from village studies. In Palanpur, a well-studied village in India's Uttar Pradesh State, the most disadvantaged groups were invariably landless casual laborers for whom work was not available on a regular basis and households without an able-bodied male. In 1983-84 all households with both these characteristics were found to be poor. They had very few opportunities for raising their incomes. Self-employment was either restricted to certain castes or required skills and physical capital that poor households lacked. As entry to regular wage employment was also limited, poor men had no choice but to take occasional agricultural work. Local tradition denied even this option to most women.

In Kenya, where population pressure on the land has been rising, landholding was found to be an important determinant of welfare. Another study, however, suggests that among smallholders education is more im-

portant; it enables family members to bring in urban wages that can then be invested in farm innovation and higher productivity.

A study of rural Tanzanian households in 1980 found that the poorest in the twenty sampled villages did not possess significantly less land or labor resources than others. Differences in living standards were largely attributable to differences in human capital and in ownership of nonlabor resources such as livestock. The poorer households were less likely to participate in market transactions than the nonpoor, since they lacked the resources to grow cash crops and could not take the chance of a bad harvest that would leave them dependent on the market for their food needs. The poor also had much lower rates of return on work away from the family farm. Weak skills restricted them to marginal pursuits such as handicrafts, while the better-off captured more lucrative wage employment.

many different earning activities. It is common for the poor to work as cultivators, hunters and gatherers, small artisans, petty traders, and wage laborers at various times of the year. The poor are rarely self-sufficient. They need cash to buy small household items such as soap, clothes, salt, and cooking oil, and they have to pay taxes and medical and school costs. So they need to sell at least some of their produce or obtain some paid work.

Agriculture is still the main source of income for the world's poor. We have seen that the greatest numbers of the poor, including the very poorest, are found overwhelmingly in rural areas. Their livelihoods are linked to farming, whether or not they earn their incomes directly from it. The demand for nonfarm goods and services often depends on the health of the farm economy. To help the rural poor, policies should strive to raise agricultural productivity—through investment in infrastructure and through appropriate pricing, for example.

Within agriculture, there are two groups of poor: the self-employed and wage laborers. The distinction is often imprecise. Many casual farm laborers also own tiny plots of land. These plots are not sufficient to ensure family survival, but if they are productive, they can provide extra income and some collateral against risk. Most of the poor in Botswana, Côte d'Ivoire, Ghana, Kenya, Nigeria, and Tanzania are small-scale agriculturalists or pastoralists. In 1981-82 the poorest tenth of Kenya's population earned two-thirds of its income from farming. In Côte d'Ivoire in 1985 most poor

households were headed by self-employed cultivators. (This group also had the lowest literacy rate and the largest poverty gap.) In these African countries agricultural wage earners are still relatively unimportant among the poor. The situation is somewhat different in southern Africa; there many households hire out their labor, although not necessarily in farming.

Agricultural self-employment is also important in Southeast Asia. In Thailand a study of 1981 data found that 75 percent of poor rural households were self-employed in agriculture; for nonpoor rural households the figure was 64 percent. Seventeen percent of all households, poor and nonpoor, depended primarily on agricultural wage labor. Recent data for Indonesia indicate that in 1987 households that were self-employed in farming (as tabulated by the principal activity of the head of household) accounted for 58 percent of the poor and 41 percent of the total population. Farm wage laborers, in contrast, accounted for only 14 percent of the poor and 9 percent of the population.

The picture is more varied in South Asia. In India households self-employed in agriculture accounted for 35 percent of poor rural households in 1977-78 and for 46 percent of all rural households. Households engaged in agricultural labor accounted for a further 44 percent of poor rural households but for only 30 percent of all rural households. Figures for Pakistan suggest that among the poor there are fewer farm laborers than own-account cultivators; the opposite is true for Bangladesh.

In Latin America most of the poor are small-scale farmers, but few derive adequate subsistence from their plots. In the plantation economies of Central America, especially in Costa Rica, wage labor in agriculture is important. Peru's poor are mainly small farmers and herders. In a survey conducted in 1985–86, 78 percent of the heads of poor households said they were self-employed and 71 percent said they worked in farming; the corresponding figures for all Peruvians were 60 and 40 percent. In the Sierra, Peru's poorest region, the numbers are even higher. In Mexico, too, poverty is concentrated among cultivator families.

Rural nonfarm employment mainly consists of cottage industries, services, and commerce. In Asia, Sub-Saharan Africa, and Latin America rural nonfarm work tends to be highly seasonal or part-time. In Asia wages in these jobs are generally lower than wages in agriculture. The poor are concentrated in traditional industries with low skill and capital requirements and very low labor productivity. Their products are normally intended for home consumption or for the local market. Demand is an important constraint on nonfarm economic activities, which depend heavily on the primary farm sector. In areas in which agricultural incomes have grown, nonfarm employment has flourished and wages have risen. Nonfarm employment is particularly important in providing work in slack seasons for landless laborers and women from poor households.

In some of the poorest villages in Thailand, for example, woven bamboo baskets and other forest by-products provide extra income for rice farmers. Forest protection laws make this a risky and unprofitable business—another illustration of how the loss of common-property resources harms the poor in the short term. Studies have found that virtually all poor farmers in western Guatemala and the northernmost region of the Peruvian Sierra supplement their farming income with artisanal production and petty trade. In the poorest households much of this additional work is done by women.

Informal sector jobs of one sort or another—generally the jobs that pay least—are the main source of livelihood for the urban poor. In Brazil in 1985 an estimated 75 percent of heads of poor families worked in the informal sector, compared with 35 percent of the population as a whole. Disadvantaged urban groups are largely self-employed. They sell services and engage in trade or work on a casual basis in construction, manufacturing, and transport. Some are full-time beggars, garbage sift-

ers, prostitutes, or pickpockets. Incomes are low and insecure. In Bombay poverty was found to be more common among casual workers than among regular employees, and there was little mobility between the two forms of employment. About half the urban poor in Pakistan are self-employed, mostly in trade and manufacturing. They are generally less skilled than people who work for wages.

Transfers can be an important source of income for some of the poor. In most developing countries transfers are made by relatives and friends or through village support systems rather than by the government. Transfers accounted for 9 percent of the incomes of poor Kenyan smallholders in 1974–75. In rural Java transfers are targeted toward the sick and elderly; in urban areas the unemployed receive assistance. For the most disadvantaged households, transfers can be crucial.

How does income variability affect the poor?

Because incomes fluctuate, a static picture of poverty can be deceptive. Evidence indicates that some people move in and out of poverty, whereas others never cross the poverty threshold (Box 2.4).

Households deliberately diversify their sources of income to reduce the risk that adverse circumstances will cause a sharp drop in income. But living standards still fluctuate considerably—with the weather, with the time of year, because of the death of the family breadwinner, and so on. If households are unable to cushion a fall (through, for example, borrowing or insurance), an unfavorable turn of events, especially an unexpected one, can be catastrophic. The poorest households are the most vulnerable and the least able to protect themselves from contingencies. One study tells how a young household in Guinea fell into destitution and eventually disintegrated after the father contracted river blindness. As he became progressively incapacitated, the mother's work load multiplied and her health deteriorated, along with the children's. Soon the family was unable to feed itself. In time, various members of the household succumbed to illness or left the village. After fifteen years what remained of the household was entirely dependent on village charity.

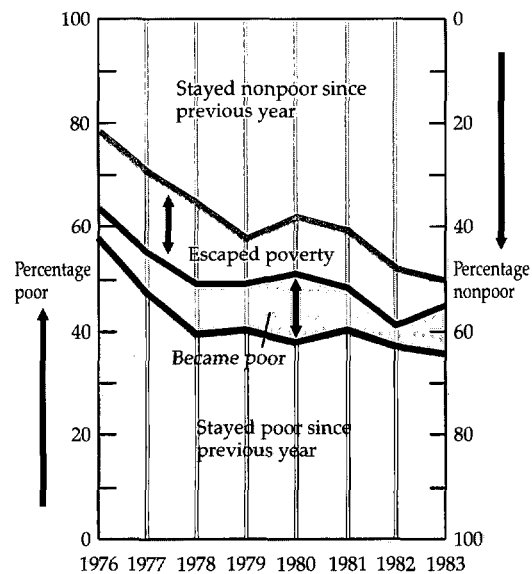
Often, unanticipated events affect the poor not merely in certain localities but nationwide. For instance, a sudden decline in the terms of trade, followed perhaps by policy changes intended to cope with that decline, may change relative prices in ways that hurt the poor. Others may gain from the same events. Real currency devaluations, for ex-

Box 2.4 Moving in and out of poverty in rural India

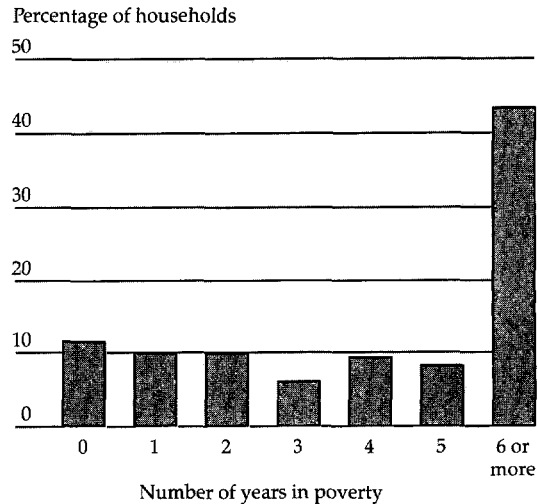
How much of the poverty that we observe at any one date is persistent and how much is transient, reflecting variability in individual incomes over time? Data collected by the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), based in Hyderabad, India, track the incomes and consumption of 211 agricultural households in central India between 1975 and 1983. Drought conditions are common in this region.

In Box figure 2.4a the percentage of households deemed to be poor fluctuates over time around a generally downward trend, from 64 percent at the beginning of the period to a low of 41 percent in 1982; the average proportion of poor was 50 percent. For each year the poor are divided into those who were poor in the previous period and those who were not, and the same is done for the nonpoor. On average, 84 percent of the poor at each date had been poor in the previous period, and 16 percent were newcomers to poverty. Of the

Box figure 2.4a Dynamics of rural poverty, sample villages, India



Box figure 2.4b Number of years in poverty, sample villages, India



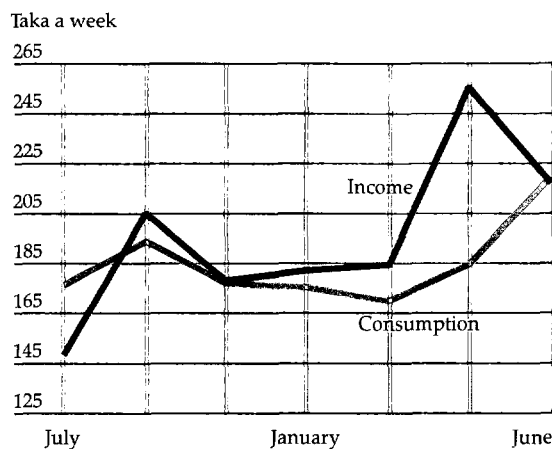
nonpoor, 75 percent had been nonpoor in the previous period, and 25 percent had moved out of poverty. The income fluctuations are large: more than half the households that moved into poverty did so with incomes of less than 80 percent of the poverty line, and more than half of those who moved above the poverty line moved at least 20 percent above it.

Box figure 2.4b shows the number of years (not necessarily consecutive) that were spent in poverty. Only about 12 percent of households were never poor during the nine years. At the other extreme, 44 percent were poor for six or more years, and 19 percent were poor in every year. Thus, most households in these villages do experience poverty at one time or another. Whereas 50 percent are poor in a typical year, nearly 90 percent of the households are poor for at least one of the nine years. The transient component is large. Yet it is also clear that there is a substantial core of persistent, chronic poverty in these villages—poverty experienced by the same households year after year.

ample, usually benefit farmers who are net suppliers of internationally traded produce while hurting the urban poor, who are typically net consumers of tradable goods. In some parts of the world—such as Afghanistan, Central America, Indochina, Iran,

Iraq, Lebanon, southern Africa, and Sri Lanka—many of the poor are uprooted people fleeing from wars, persecution, famine, and natural disasters. Previously, they may not have been poor. In Angola and Mozambique about 8.5 million people

Figure 2.4 Seasonality in rural Bangladesh: poor households in six villages, July 1984 to June 1985



Source: Hossain 1987.

have become war refugees. Poverty in these countries reflects a massive destruction of rural infrastructure and productive assets.

Incomes in rural households vary substantially according to the season. For example, wage work is readily available only at certain times of the crop year, and it often depends on the weather. In many African countries the dry season puts an extra burden on women, who may have to walk miles to find water. In some busy seasons heavy agricultural work coincides with depleted food stocks and higher prices. Undernutrition and illnesses are more common at certain times of the year. The rains typically increase water contamination and the incidence of waterborne diseases. Acute weight loss during the "hungry season" has been documented among farmers in The Gambia; adult weight fluctuated as much as 4.5 kilograms within one year. In northeast Ghana losses of 6 percent of body weight were recorded. Among women farmers in Lesotho the figure was 7 percent, and for pastoralists in Niger it was 5 percent. For vulnerable groups such as children, the aged, and others whose biological defenses are already weakened, seasonal weight change can be extremely damaging.

Most of the rural poor, however, can cope reasonably well with normal seasonality. Saving and dissaving help to smooth consumption over the

ups and downs. Figure 2.4 shows consumption and income over the course of a year for 178 poor households in Bangladesh. Consumption is clearly smoother than income, which varies markedly with the crop cycle. For these households, earnings from labor are less than consumption in most periods, and the remaining sources of income—transfers, asset sales, and borrowing—small as they are, can be crucial to survival. Widespread indebtedness to local moneylenders and shopkeepers has been reported for various countries. Friends and family are often a preferable source of small amounts of credit, but they are likely to have little to spare. (One study of the Philippines described extensive short-term borrowing and lending among poor families as a form of shared poverty.) Borrowing may often be the only way to maintain a minimum level of consumption.

Credit is rarely available for accumulating productive assets. Savings and borrowings often have to be held in unproductive forms such as cash or grain to hedge against future calamities. The poor have few opportunities to obtain insurance, and they are not able to use credit and savings to bolster their capacity for bearing risk or to become entrepreneurs. Those on the edge of survival can not afford to gamble.

Another way of coping with risk is to diversify income sources. A study of rural Java found that the poorest landless households coordinate their members' activities much more carefully than do asset-owning households. The main purpose of this coordination is to establish a steady stream of income. The household may adjust its overall supply of labor, either through hours worked or through changes in labor force participation. Members of the household may migrate in search of work. Farmers are known to intercrop and to choose crops that are quick to mature or are more resilient, even though they may have lower yields and be less valuable.

How do the poor spend their incomes?

Over a typical year the poor spend nearly all their incomes on consumption of one sort or another, and at least half of this consumption is likely to be in the form of food. Data for both Côte d'Ivoire and Peru in 1985 indicate that about 70 percent of the expenditure of poor households goes for food; the corresponding figure for all households is about 50 percent. A high proportion of the food budget—60 percent in the case of the Indonesian

poor, for instance—is devoted to the local food staple.

The relative prices of food staples can be crucial to the welfare of the poor. The number of rural poor who rely on the market for their consumption depends on the distribution of access to productive land. It is typically the “not so poor” who are net suppliers of farm produce and so benefit from higher prices. The poorest of the poor consume more of the food staple than they produce, and they rely on agricultural wages, which may be slow to respond to changing prices.

Poverty is often the fundamental cause of malnutrition. Yet nutrition need not be very responsive to changes in income. The poor may spend a rise in income on “better” food (rather than on more nutritious food) or on other things altogether. In Indonesia one study found that when income rose by 10 percent, calorie intake for the average household increased only 1.5 percent. For the poorest tenth of households the increase was 4 percent.

Within the household the distribution of consumption often favors males and income-earning adults. This finding has been documented in various countries, including Bangladesh, Ghana, Guatemala, India, and Papua New Guinea. Poor households are more likely to invest in education for boys than for girls. A series of studies in Brazil, India, Kenya, Malawi, and other countries indicates that a larger proportion of women’s than of men’s income tends to be spent on household nutrition and basic welfare. Of the studies conducted in India, one covering twenty villages in the south found that 80 to 100 percent of women’s wage income was devoted to family maintenance, whereas men committed between 40 and 90 percent of their earnings. This suggests that raising women’s incomes directly is a good way to reach children as well as to strengthen women’s status and bargaining power within the household.

What is the position of the poor in the society around them?

In general, the poor have less access to publicly provided goods and infrastructure than do other groups. On the whole, governments fail to reach the rural poor. Even in urban areas poor neighborhoods are less well supplied with services than well-to-do ones. Data for Latin America show that the pattern of social expenditures is regressive in most countries. In Brazil, according to some esti-

mates, it is only slightly more equal than the distribution of income, which is known to be among the most unequal in the world. The primary school enrollment rate for the wealthiest 20 percent in Côte d’Ivoire is twice that of the poorest 20 percent. In both India and Nepal enrollment rates for the top 10 percent of families are 50 to 100 percent higher than for the poor. Morbidity and mortality figures tell a similar story. Access is not the only issue; use of services by the poor can also be low. But the fact remains that fewer social services are available to the poor.

There are exceptions. In Eastern Europe and in a few low-income and lower-middle-income countries—including Chile, China, Costa Rica, Cuba, Mauritius, and Sri Lanka as well as India’s Kerala State—governments have tried hard to provide basic services widely and have largely succeeded. For example, in Sri Lanka 93 percent of the population has access to health services. Chile’s social services are carefully targeted toward the neediest. Through its commune organization China was able to meet certain basic needs such as health care, education, and family planning services for most of its people.

The poor are often set apart by cultural and educational barriers. Illiterate people may be intimidated by officials or may simply lack information about programs. Sometimes the design of the services unintentionally adds to the problem. Agricultural extension programs, for example, are usually geared toward men even where—as is often the case—many, if not most, cultivators are women. The requirement that birth certificates be produced for admission to school in urban areas of India prevents poor migrant women from enrolling children and taking needed work. The poor play little part in politics and are often, in effect, disenfranchised.

In many countries poverty is correlated with race and ethnic background. Indigenous peoples in Bolivia, Ecuador, Guatemala, Mexico, and Peru are disproportionately represented among the poor. Scheduled castes and tribal peoples are among those most at risk of poverty in India and Bangladesh. In Australia the aborigines are prominent among the poor. In the United States 45 percent of all black children were poor in 1984, compared with 17 percent of white children. In South Africa the mortality rate for white infants averaged 12 per thousand live births between 1981 and 1985; for black Africans it was estimated to fall between 94 and 124. The risk of contracting tuberculosis—a disease closely associated with poverty—was

twenty-two times greater for blacks than for whites in South Africa, excluding the homelands, and fifty-five times greater in Transkei.

From diagnosis to treatment

This chapter's survey of what we know about the poor points to two overwhelmingly important determinants of poverty: access to income-earning opportunities and the capacity to respond. When households have secure opportunities to use their labor to good purpose and household members are

skilled, educated, and healthy, minimal standards of living are ensured and poverty is eliminated. When such opportunities are lacking and access to social services is limited, living standards are unacceptably low. The living standards of many in the developing world are also highly vulnerable to a variety of misfortunes, ranging from illness to drought. Inability to cope with shocks can render relatively well-off households poor and lead to starvation and death for those already impoverished. These facts set the agenda for the rest of this Report.