

DETERMINANTS OF POVERTY

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Understanding the Nature of Locus of Poverty

For strategy formulation, it is important to understand who the poor are, where they live, and what is their source of livelihoods. Poverty is multi-dimensional and extends from low levels of income and consumption to poor health and lack of education to other 'non-material' dimensions of well being, including gender disparities, insecurity, powerlessness and social exclusion. A good understanding of the nature of poverty enables a comprehensive exploration of poverty determinants.

Poverty reduction is the most urgent task facing humanity. The estimates for the world show that about one-third or more than 1.3 billion people in developing world still struggle to survive on less than one dollar a day. The World Bank (2002) reported that 31 percent of the population was living below one dollar a day during 1997 in Pakistan. ActionAid - an NGO, reported the same estimates. Moreover, 67 percent of women and 43 percent of men are illiterate, and only 42 percent of rural population has access to adequate sanitation in Pakistan.

What Causes Poverty?

The determinants of poverty could be macro, sector-specific, community, household and individual characteristics. The paper highlights some of the characteristics of the poor by region, community, household and individual characteristics followed by quantitative and qualitative description of the major determinants of poverty. These characteristics can be used to determine the factors causing poverty, or at least the factors correlated to poverty. Note that correlation means association but does not necessarily mean causality.

Regional Level Characteristics

At the regional level, there are numerous characteristics that might be associated with poverty. The relationship of these characteristics with poverty is country specific. In general, however, poverty is high in areas characterized by geographical isolation, a low resource base, low rainfall and other inhospitable climatic conditions. For example, the economic development in Bangladesh is severely retarded due to its susceptibility to annual floods. The geographically isolated remote areas of Nepal or other countries are generally poor. Within the regions, certain other characteristics might be responsible for poverty such as in Pakistan, the province of Balochistan faces severe shortage of water. Also, drought conditions affect not only Balochistan but the areas of Thar in Sindh and Cholistan in Punjab provinces.

Other important regional and national characteristics that affect poverty include good governance, a sound environmental policy, economic, political and market stability, mass participation, global and regional security, intellectual expression and a fair, functional, and effective judiciary. Regional-level market reforms can boost growth and

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help poor people, but it is important to note that they can also be a source of dislocation. The effects of market reforms are complex, deeply linked to institutions, and to political and social structures. The experience of transition, especially in countries of the former Soviet Union, vividly illustrates that market reforms in the absence of effective domestic institutions can fail to deliver growth and poverty reduction. There is also a case for bringing vulnerability and its management to center stage. Participatory poverty work underlines the importance of vulnerability to economic, health and personal shocks. So did the financial crises of the 1990s, not least in East Asia, the shining example of success in development and poverty reduction and the sequence of devastating natural disasters.

Inequality is also on the agenda. New work shows the importance of gender, ethnic and racial inequality as a dimension and cause of poverty. Social, economic and ethnic divisions in regions are often sources of weak or failed development. In the extreme, vicious cycles of social division and failed development erupt into internal conflict (within or across regions), as in Bosnia, Sierra Leone, Iraq and Palestine with devastating consequences for people.

Community Level Characteristics

As with regional characteristics, there are a variety of community-level characteristics that may be associated with poverty for households in a community. At the community level, infrastructure is a major determinant of poverty. Indicators of infrastructure development that have often been used in econometric exercises include proximity to paved roads, whether or not the community has electricity, proximity to large markets, availability of schools and medical clinics in the area, and distance to local administrative centers. Other indicators of community-level characteristics include human resource development, equal access to employment, social mobility and representation, and land distribution.

Recent research has also stressed the importance of social networks and institutions, and social capital in the community. In addition to removing social barriers, effective efforts to reduce poverty require complementary initiatives to build up and extend the social institutions of the poor. Social institutions refer to the kinship systems, local organizations and networks of the poor, and can be thought of as different dimensions of social capital. Research on the roles of different types of social networks in poor communities confirms their importance. An analysis of poor villages in North India, for example, shows that social groups play an important role in protecting the basic needs of poor people and mediating risk.

It is important to ponder that how does social capital affect development. The narrowest view holds social capital to be the social skills of an individuals' propensity for cooperative behavior, conflict resolution, tolerance and the like. A more expansive meso view associates social capital with families and local community associations and the underlying norms (trust, reciprocity) that facilitate coordination and cooperation for mutual benefit. A macro view of social capital focuses on the social and political environment that shapes social structures and enables norms to develop. This environment includes formalized institutional relationships and structures such as government, the political regime, the rule of law, the court system, and civil and political liberties. Institutions have an important effect on the rate and pattern of economic development. An integrating view of social capital recognizes that micro,

meso and macro institutions coexist and have the potential to complement one another. Macro institutions can provide an enabling environment in which micro institutions develop and flourish. In turn, local associations help sustain regional and national institutions by giving them a measure of stability and legitimacy, and by holding them accountable for their actions. Social capital is clearly a complicated characteristic and often researchers find it difficult to identify appropriate variables that measure social capital quantitatively.

Household and Individual Level Characteristics

Some of the important characteristics in this category would include the age structure of household members, education, gender of the household head, and the extent of participation in the labor force. In recent times, other components that fall under this category have included domestic violence prevention, and gender-based, anti-discrimination policies. The following discussion organizes these characteristics into groups and discusses them in greater detail. These groups are demographic, economic and social characteristics.

Demographic Characteristics

Demographic characteristics of the household can be broadly classified into three categories:

Household Size and Structure

This indicator is an important one as it shows a possible correlation between the level of poverty and household composition. Household composition, in terms of size of the household and characteristics of its members (such as age), is often quite different for poor and non-poor households.

Dependency Ratio

The dependency ratio is calculated as ratio of the number of family members not in the labor force (whether young or old) to those in labor force in the household. This ratio allows one to measure the burden weighing on members of the labor force within the household. One might expect that a high dependency ratio will be correlated positively with the level of household poverty.

Age & Gender of the Household Head

It is widely believed that the gender of the household head significantly influences household poverty, and more specifically, the households headed by women are poorer than those headed by men. Women play an important role in the labor force, both in the financial management of the household and in the labor market but appear to face greater degree of discrimination. They are severely affected by both monetary and non-monetary poverty; for example, they have low level of literacy; they are paid lower wages; and have less access to land or equal employment.

Economic Characteristics

Economic characteristics include employment, income, consumption spending and household property:

Household Employment

There are several indicators for determining household employment. Within this array of indicators, economists focus on the rate of participation in the labor force, the real rate of unemployment, the rate of underemployment and job changes.

Household Income

Income represents a very important area to consider when characterizing the poor. Of interest is the level of income as well as its distribution among the household members and among the various socio-economic groups. However, in practice, income indicators present us with certain problems. Income is difficult to define as it includes several components, of which only some are monetary (for example, farm households consume most of their production on-site). Secondly, individuals tend to make false declarations about their income level, which is generally under-estimated. It is possible, in part, to correct these declarations but only at the cost of carrying out a large-scale data-gathering operation on economic activities, the costs of production factors and inputs and the prices of products. Given these limitations and the fact that savings are low, there is often a tendency to use the household's total spending as an approximation to its disposable income.

Structure of Household Consumption Expenditure

The structure of household consumption expenditure can be used to characterize households by describing the make-up of food and non-food spending. What is of interest is to measure the relative weight of the goods and services consumed by the household according to its poverty level. This measurement gives some indication as to the probable impact of price variation on household purchasing power. We can expect basic products, especially food, to represent a more significant part of total spending by the poor.

Household Property

The property of a household includes its tangible goods (land, cultivated areas, livestock, agricultural equipment, machinery, buildings, household appliances and other durable goods) and its financial assets (liquid assets, savings and other financial assets). These indicators are of interest as they represent the household's inventory of wealth and, therefore, affect its income flow. Furthermore, certain households, especially in rural areas, can be poor in terms of income but wealthy when their property is taken into consideration. Despite its importance, property is difficult to evaluate in practice in any reliable way. First, one encounters the same problem of under-declaration. Second, it is very difficult to measure certain elements of property such as livestock. Finally, the depreciation of assets may be difficult to determine for at least two reasons: 1) the life span of any given asset is variable; 2) the acquisition of these assets occurs at different moments in each household. Therefore, property is more difficult to use than certain other elements in the characterization of poverty.

Social Characteristics

Besides demographic and economic indicators, there are social indicators to characterize poverty and household living standards. The social indicators generally selected are health, education and shelter.

Health within the Household

Four types of indicators are normally used to characterize health in analyzing a household's living standards. These indicators include nutritional status (for example, anthropometrics indicators such as weight for age, height for age, and weight for height), disease status (for example, infant and juvenile mortality and morbidity rates as related to certain diseases such as malaria, respiratory infections, diarrhea and sometimes poliomyelitis), the availability of health care services (primary health-care

centers, maternity facilities, hospitals and pharmacies, basic health care workers, nurses, midwives, doctors and traditional healers, and medical service such as vaccinations, access to medicines and medical information) and the use of these services by poor and non-poor households. IMR has decreased in Pakistan considerably but still remain in the indices of poor countries.

Water and sanitation are especially important influences on health and nutritional status. The poor are extremely disadvantaged in access to safe sources of water supply and sanitation. A large population does not have access to clean drinking water. Similar differences are apparent in access to sanitation. Another indicator of housing standards is access to electricity. Here again, the access of the poor lags far behind. Access to electricity from a generator or line connection rises sharply with income. Other indicators of household wealth include ownership of transportation. Access to cars, jeeps or motorbikes is very rare among the poor and rises sharply with income. Overall, the shift from bicycles to motorized transport is a strong indicator of wealth of families with access to a wider variety of services and amenities.

Education

Three types of indicators are normally used to characterize education in an analysis of household living standards. These include the household members' level of education (literacy rate with poor households having lower literacy), the availability of educational services (primary and secondary schools) and the use of these services by the members of poor and non-poor households (children's registration in school, drop out rate of children by age and gender and reasons for dropping out, percentage of children who are older than the normal age for their level of education and average spending on education per child registered).

Literacy and schooling are important indicators of the quality of life in their own right, as well as being key determinants of poor people's ability to take advantage of income-earning opportunities.

Shelter

Shelter refers to the overall framework of personal life of the household. It is evaluated by poor and non-poor household groups according to three components (some of which overlap with the indicators mentioned above): housing, services, and the environment. The housing indicators include the type of building (size and type of materials), the means through which one has access to housing (renting or ownership), and household equipment. The service indicators focus on the availability and the use of drinking water, communication services, electricity and other energy sources. Finally, the environmental indicators concern the level of sanitation (touched on before), the degree of isolation (availability of roads and paths which are usable at all times, length of time and availability of transportation to get to work) and the degree of personal safety.

It is generally established that poor households live in more precarious and less sanitary environments, which contribute to the poorer health and lower productivity of household members.

Determinants of Poverty Reduction

The conditions for growth and the degree of inequality are two key factors, which appear to determine the extent of poverty reduction, given the rate of per capita economic growth.

Poverty reduction depends on the economic conditions that generate pro-poor growth. There are many conceptions of what economic conditions are required to generate 'pro-poor' growth. This econometric study supplemented by country case studies, tested some possible conditions against past experience and found that four of them were associated with a greater reduction in poverty. First, there is more reduction in the proportion of poor people if the national stock of capital grows faster than the labor force. It is necessary to generate enough extra capital to gainfully employ the extra (often poor) hands and raise their productivity. Second, poverty reduced more in those countries where capital was used more efficiently (i.e. where a given amount of investment produced a larger amount of additional goods and services). Although this only gives us a rough guide, it does indicate that efficiency (in the use of capital at least) is not the enemy of poverty reduction but an aid to it. Third, in South Asia and sub-Saharan Africa (though not elsewhere) the performance of the agricultural sector appears critical because poverty is lower where agricultural productivity per worker was high, relative to the modern sector. Fourth, historically the countries with more 'open' economies have lower poverty ratios. Taking into account the levels of national income per capita, a higher proportion of countries, which had less restriction on international trade, had less poverty. The criteria for 'openness' included the number of controls on exports and imports and the extent to which governments controlled the prices of exports. However, this last finding must be interpreted with some caution since some other recent studies have not confirmed a favourable relationship (See ODI Poverty Briefing 6: December 1999).

The importance of income equality for poverty reduction is that with a given rate of economic growth, poverty falls faster in those countries where inequality of income is lower. The so-called 'Gini-coefficient' measures statistically the degree of inequality in the distribution of household income. The higher the coefficient, the more extreme is the observed inequality. Analysis of developing countries in the 15 years between 1985 and 1990 showed that they fell into two groups. In the low income-inequality countries (average Gini-coefficient = 0.34), 10 percent economic growth was associated with a fall in the proportion of people below the poverty line by 9 percentage points. In the high income-inequality countries (average Gini-coefficient = 0.55), 10 percent growth was associated with only the three percentage point reduction. Pakistan falls in high inequality group. The growth rate during 90s was below four percent on an average.

Importance of Agricultural Productivity

Improved agricultural yields are associated with poverty reduction in South Asia and sub-Saharan Africa. This reinforces the case for a rural-based development strategy. The promotion of agriculture can stimulate linkages between farm and non-farm activities, which are important for poverty reduction. Policies to improve incentives for both farm and non-farm enterprises in rural areas have been recognized for some time (e.g. deregulation of pricing and marketing in agriculture, better marketing opportunities,

information and extension services for smallholders' crops and small producers of non-farm products). Credit networks and similar measures to encourage livelihood creation in non-farm rural businesses are needed but so far few strategies for ensuring access to credit for remote rural areas and the poor seem to have worked out. Flexible credit repayment periods and provision of crop insurance would assist the poor together with development of 'Green Revolution' type higher yields.

More Attention to the Distributive Impact of Policies

Reducing the degree of inequality would speed up the process of poverty reduction dramatically. Some actions for the re-orientation of government actions on asset and income distribution are urgently required.

First, policies to reduce high degrees of income inequality need to focus on the access to and distribution of assets, which determine income flows for the poor - especially land. Where inequality is high, agricultural growth does not seem to reduce poverty so well. The potential for re-distributive land reform is clearly greater in countries with a higher degree of inequality in landholdings and where there is political support for land redistribution. In Pakistan, we need political support for land reform program.

Second, greater equality of income is served by improving the productivity of the poor, especially through improving basic education and health and the skills of poorer groups (e.g. landless laborers and marginal farmers), so they can better take up rural non-farm options or urban-oriented livelihood opportunities. Action by the state to redistribute state subsidies from tertiary to primary and sometimes secondary levels of education and health services and to improve the coverage and quality of these services, has been recognized as necessary for sometime. Yet, there was a limited shift of expenditure in that direction in the 1990s and we hardly know how far the poor actually benefited from these services.

Third, policy makers need to know much more about how the poor can participate in the economy and establish the distributive consequences of changes in taxes and charges, privatization under different regulatory frameworks, trade liberalization, and the removal of government subsidies and price controls. To achieve more pro-poor outcomes, greater state capacity is required to regulate market activity and privatized firms in what are often non-competitive market conditions. We know for sure that reduction of bureaucratic interference with small-scale activities in the informal sector would benefit the income of the poor.

Mainstream Gender Equality

Gender inequality is a constraint on growth and poverty reduction. An increase in the number of girls in school and female literacy is likely to reduce poverty. It also means that over the longer term, fertility rate will fall also (i.e. the number of children borne to a woman in her lifetime). Also, child survival will improve. These factors themselves contribute to higher productivity and per capita growth. Low level of technology available to women, time constraints and discrimination in their access to credit and other markets, restrict the supply response to any new incentives for small-scale producers.

The Government of Pakistan has taken steps by increasing the number of seats in Parliament for women. Government policies can help create an environment where traditional conceptions of appropriate or 'normal' roles for men and women are

challenged. Demonstration effects are important, and thus, affirmative action programs that ensure that women are represented in key professional positions – the judiciary, ministers in government and positions in local government, for example – can help to stimulate change. Governments can take action to support women, and in some cases, with legal representation, to ensure that statutory rights are adhered to. Only with such changes in culture will households decide to send children to school rather than have them work and allocate time and money to use health care facilities for women and children rather than alternative uses.

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