Chapter 2

ANALYTICAL FRAMEWORK

Poverty is an unacceptable human condition that must be eliminated through public policy and action. With this statement, ADB in 1999 formally declared poverty reduction as its overarching goal. This CPA for the Philippines is based on the conceptual framework behind ADB's Poverty Reduction Strategy (PRS), further elaborated and made operational in the 2001 *Handbook on Poverty and Social Analysis*. This chapter first briefly summarizes the 50-year evolution of poverty thinking. It then outlines the features of the enhanced ADB PRS,[7] and finally explores some trade-offs made in the measurement of poverty and explains conceptual distinctions in poverty assessments.

Fifty Years of Poverty Reduction

The concept of poverty has expanded considerably over the second half of the 20th century and into the new millennium. From an early focus on income alone, today's broader definitions include income poverty as just one of a range of aspects of deprivation. Poverty is recognized to be a dynamic, complex phenomenon involving concepts such as vulnerability and powerlessness.

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[7] In July 2004 the ADB Board of Directors approved a review of the ADB Poverty Reduction Strategy, which proposed a number of changes to the original version (1999).

In the 1950s and 1960s, "development" was synonymous with increased national production. This was the era of modernization, and poverty was simply the result of low gross domestic product (GDP) per capita. It was assumed that the economic rewards of modernization would eventually trickle down to everyone. During this period very little attention was paid to income distribution or poverty per se.

In the 1970s a concern arose that the expected trickle-down was not actually taking place. This decade was thus marked by efforts to promote growth with equity and targeted interventions focused on the poor. Integrated rural development and gender specific programs emerged for the first time. The basic needs approach, introduced by the International Labour Organisation (ILO), recognized that there are nonmonetary dimensions that influence whether people are poor. The five main basic needs were defined as food, health, water and sanitation, education, and shelter. The late 1970s also saw the development of the Physical Quality of Life Index, based on the basic literacy rate, infant mortality, and life expectancy at age 1. This and other indices evolved out of dissatisfaction with GNP or GDP per capita as a useful indicator of welfare, and represented a widening of the definition of poverty.

By the 1980s, Amartya Sen was promoting the capabilities approach, where poverty is a deprivation of the basic capabilities of individuals, and income is only one determinant of an individual's capability and functioning. The capability approach shifted the focus from *means* (such as having income to buy food) to *ends* (being well-nourished), recognizing that there are a number of factors at work that determine the ability to turn income into well-being. Sen's work became the foundation of the United Nations Development Programme (UNDP) concept of human development. Human development was defined as the process of expanding people's choices, and human poverty was the deprivation of the most essential capabilities of life: to lead a long and healthy life, to be knowledgeable, to have adequate economic provisioning, and to participate fully in one's community. Participation, human well-being, and freedom became central features of the notion of development.

In the 1990s, poverty reduction moved to the top of the development agenda. The definition expanded even further as more participatory research emphasized its multidimensional nature. Vulnerability became a central dimension, based on the idea that the poor have fewer assets than the nonpoor to cushion themselves against shocks (such as financial crises, conflicts, and natural disasters). Building on this concept, the UK Department for International Development (DFID) pioneered the Sustainable Livelihoods (SL) framework, based on five types of capital that help reduce vulnerability to keep people out of poverty: human, financial, natural, social, and physical capital.

In the new millennium, attentions have turned back to the question of economic growth, but with a very different and more poverty-conscious perspective than that in the 1950s. As Timmer (2004) has put it: *pro-poor growth* is "the new mantra of the development community."[8] There are current debates on how exactly to define pro-poor growth. Some define it strictly: growth is pro-poor when the poor benefit *disproportionately* from it (in other words, when the poor gain more than the nonpoor). Others are more general: growth is pro-poor simply when it reduces poverty.[9] In both formulations, the key is how well the poor connect to the growth process, and why. Overall growth that does not see a rise in the incomes of the poor is not pro-poor growth. In 2004 major research efforts were underway in a number of donor organizations (including the World Bank, the German Agency for Technical Cooperation or GTZ, and the United States Agency for International Development or USAID) to study how to make the concept operational (see USAID, 2004). ADB thus was on the leading edge when it made pro-poor growth a pillar of its 1999 Poverty Reduction Strategy.

The Poverty Reduction Strategy of the ADB

Poverty is a multidimensional phenomenon, and poverty reduction requires a broader focus than income poverty alone. Box 1 presents ADB's core statement to define poverty, highlighting that poverty is the deprivation of essential *assets*. Exploring the question of assets in great detail, the SL approach groups essential assets into five asset categories, or types of capital:

- **Human capital**: education, good health, skills, and ability to work.
- **Natural capital**: natural resource stocks such as land, forested areas, clean air, etc.
- **Physical capital**: basic infrastructure and services such as shelter, transport, water and sanitation, energy, and communications
- **Financial capital**: earned income, savings, remittances, access to credit, and so on.
- **Social capital**: social resources such as networks of family, friends, and social and community organizations.

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8 Timmer, C. Peter. 2004. *The Road to Pro-Poor Growth: The Indonesian Experience in Regional Perspective*, Center for Global Development Working Paper No. 38, April 2004. Washington DC: CGD.

9 See Krakowski (Ed.). 2004. *Attacking Poverty: What Makes Growth Pro-Poor?* Hamburg Institute of International Economics. Baden-Baden: Nomos-Verlagsgesellschaft.

In focusing on assets, the ADB PRS thus recognizes poverty to include both income and non-income dimensions. The poverty reduction framework is based on three pillars of pro-poor economic growth, social development, and good governance. These pillars acknowledge the confluence of economic, social, and institutional factors in causing—and therefore solving—the poverty problem.

Box 1

The ADB Definition of Poverty

Poverty is a deprivation of essential assets and opportunities to which every human is entitled. Everyone should have access to basic education and primary health services. Poor households have the right to sustain themselves by their labor and be reasonably rewarded, as well as have some protection from external shocks. Beyond income and basic services, individuals and societies are also poor—and tend to remain so—if they are not empowered to participate in making the decisions that shape their lives.

ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank.* Manila.

Pro-Poor Growth. Economic growth is required for poverty reduction, but growth alone is not enough, since not all growth benefits the poor equally. How well the poor connect to the growth process determines its degree of "pro-poorness." Growth can effectively reduce poverty when it generates employment and income opportunities for those at the bottom end of the income distribution. Policies to promote labor-intensive growth are thus particularly powerful pro-poor measures.

Social Development. Since economic growth alone is not enough, ADB's PRS emphasizes interventions in five core areas of social development: (i) human capital formation (ii) population policy, (iii) social capital development, (iv) gender and development, and (v) social protection.

Good Governance. Pro-poor growth and social development hinge on the quality of governance. Good governance facilitates sound macroeconomic management, private sector investment, the transparent use of public funds, and effective delivery of public services. Good governance requires adherence to the rule of law and reduction of widespread corruption.

In addition to the three pillars (which remain unchanged from the original PRS), the enhanced ADB PRS identifies five thematic priorities for poverty reduction, including gender equality, private sector development, environmental sustainability, regional cooperation, and capacity development.[10] The majority of the poor in the Asian region are women, which underscores the need for a gendered approach. The contribution of the private sector to poverty reduction is understood to come through enterprise development, expansion of infrastructure and other public services, and improved corporate governance and responsibility. Environmental sustainability is intertwined with development strategies that promote economic growth and enhanced quality of life. Regional cooperation can play a critical role in promoting economic growth, providing public goods, and addressing security concerns. The rationale for adding capacity development as a new thematic priority stemmed from the finding that achieving inclusive growth depends on enhanced capacity of countries to formulate and implement the policies, reforms, and investments needed for poverty reduction.

Poverty Measurement Considerations

This chapter so far has explored how the definition of poverty has expanded a great deal over past decades. Where the focus was previously on income poverty alone, over the course of the 20th century it has expanded to include other dimensions. Qualitative analysis enhances quantitative analysis: social indicators, subjective measures, and analysis of vulnerability, powerlessness and other dimensions all enrich the study of well-being and deprivation. But there are trade-offs: broad concepts of poverty are much more difficult to measure.

The progressive widening of the definition of poverty has been represented graphically with a triangle, where income is the sole dimension at the top, gradually expanding to include other dimensions of well-being as one moves down toward the broad base of the triangle (see Box 2). First suggested by Baulch (1996) with slightly different content,[11] the pyramid of poverty illustrates the trade-off between a more adequate concept of poverty, and a simpler indicator to measure.[12] The wider the definition of poverty, the more

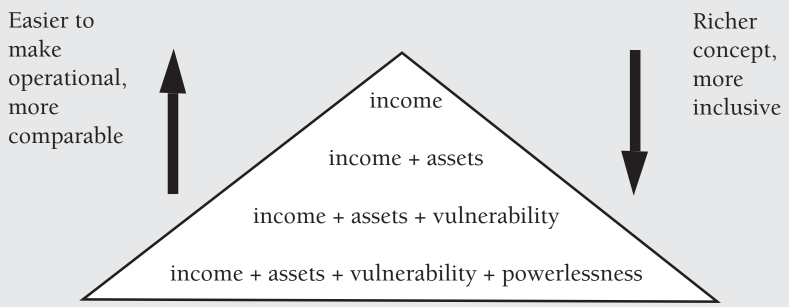
[10] These five thematic priorities in the enhanced PRS grew out of the original crosscutting priorities. The PRS review emphasized a number of other measures to enhance the PRS and its implementation, including improving the quality and results of CSPs; intensifying dialogue with DMCs on attaining MDGs; establishing a results-oriented monitoring and evaluation system; and strengthening ADB's capacity to deliver the PRS.

[11] Baulch, Bob. 1996. Neglected Trade-Offs in Poverty Measurement, in *IDS Bulletin: Poverty, Policy and Aid*, 27 (1).

[12] Even with the "simple" measure of income poverty there are major debates on questions of methodology.

Box 2

The Poverty Pyramid



meaningful and richer the information, but the more difficult it is to make operational. As stated in the ADB PRS, in practice the most widely used standard for measuring poverty will continue to be the adequate consumption of food and other essentials. ADB's priority is therefore on absolute poverty. This is also the main focus of Government of the Philippines.

The literature on definition and measurement of poverty is vast and the theoretical debates – across various disciplines – are many. It is not the purpose of this CPA to delve into great detail. However, there are three distinctions worth clarifying at the outset, distinctions that appear with specific reference to the Philippines in this CPA. These distinctions have implications for poverty measurement and development of policy interventions to reduce it. When we talk about poverty, are we looking at absolute or relative, objective or subjective, or chronic or transient poverty?

Absolute or Relative? Absolute poverty means not being able to satisfy the minimum requirements for physical human survival. Absolute poverty thresholds are developed using the cost of a basket of goods that satisfies essential food and nonfood needs: food, clothing, and shelter. The MDG for economic well-being is to reduce by half the number of people living in absolute poverty, measured using a poverty line of one US dollar per person per day (PPP). Relative poverty is defined in relation to average income levels or societal norms. The relative poverty concept goes beyond physical survival and is related to the concept of social exclusion. Relative deprivation is a lack of access to a level of goods and services that are required for meaningful participation in society. A relative poverty line might be set as a proportion of the national average income, for example.

Objective or Subjective? The subjective approach to understanding poverty holds that poverty must be defined by those experiencing it themselves, and that meanings defined from above are disempowering and do not capture the true nature of deprivation. The subjective approach grew out of participatory rural appraisal methodologies and participatory poverty assessments, both of which sought to improve policymaking by incorporating local understanding and perceptions of poverty. Seminal work in this area is contained in the three-volume *Voices of the Poor* study.[13] The Philippines has a long tradition of subjective poverty measurement conducted by Social Weather Stations (SWS). Objective poverty measures are defined in a more "scientific" manner and focus on quantifiable dimensions (such as food baskets that satisfy nutritional requirements). Absolute poverty lines fall under the objective tradition. In practice, however, all poverty measurement is going to require some more or less arbitrary choices, no matter how objective the tradition.

Chronic or Transient? Appropriate poverty reduction policies must consider whether poverty is chronic or transient. Is poverty a trap door or a revolving door? The significant feature of chronic poverty is its extended duration. The chronic poor always live in poverty and have very few assets or opportunities to escape it. Transient poverty is temporary or cyclical. The transient poor can move out of poverty once the exogenous shock has passed. Transient poverty might be related to seasonality, or to losing a job. Social protection programs become key to minimizing and mitigating transient poverty. The concepts of chronic and transient poverty recognize that poverty is dynamic, and that people may move in and out of it over time.

A final note on poverty measurement concerns the use of income vs. expenditure data as the measure of resources against which to assess poverty—whether poverty is absolute or relative, chronic or transient, or objective or subjective. Expenditure, or consumption, is theoretically preferable to income for a number of reasons. Expenditure tends to fluctuate less than income does. Incomes are often varied, particularly for workers in the informal sector, and fluctuate not only from year to year but also from month to month. Seasonality of incomes is a particular issue for workers in the agriculture and tourism sectors. As a result of income fluctuation, people tend to save in abundant times and draw on savings (or borrow) in lean times. Thus, income often does

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13 *Voices of the Poor* consists of three volumes by Deepa Narayan et al.: *Can Anyone Hear Us?* (2000) is based on the World Bank's participatory poverty assessments and presents the voices of 40,000 poor people from 50 countries. *Crying Out for Change* (2000) is a 23-country comparative study. *From Many Lands* (2003) presents regional patterns and 14 country case studies.

not match the level of welfare indicated by expenditure. However, it is also generally acknowledged that it is very difficult to obtain reliable data on personal consumption (expenditure) habits. Income data is somewhat easier to collect (though not without its own problems). The official Philippine poverty statistics are based on income.