

UNIT 6

POVERTY AND INEQUALITY

Introduction to Poverty and Inequality

Key Concepts

- **Poverty:** A condition characterized by a lack of basic necessities and resources.
- **Gini Coefficient:** A measure of income inequality within a population.
- **Absolute Poverty:** A state where individuals are unable to meet basic needs such as food, clothing, and shelter.
- **Relative Poverty:** A condition where individuals are poor compared to others in their society.
- **Inequality:** The uneven distribution of resources and opportunities among people.
- **Capability Approach:** A framework focusing on individuals' abilities to achieve well-being.

Understanding Poverty

What is Poverty?

Poverty is a multidimensional issue that includes:

1. **Basic Needs:** Lack of food, clothing, and shelter.
2. **Psychological Impact:** Feelings of powerlessness and shame.
3. **Access to Infrastructure:** Poor access to education, healthcare, and clean water.
4. **Health Issues:** Poor health and high medical costs.
5. **Asset Management:** Difficulty in managing physical, human, social, and environmental assets.

Types of Poverty

- **Absolute Poverty:** When individuals cannot meet basic subsistence needs. It's measured by specific income thresholds, such as living on less than \$1.25 or \$2 per day.

- **Relative Poverty:** Defined by comparing an individual's economic status to others within the same society. It focuses on income disparities rather than basic needs.

Measuring Poverty

Why Measure Poverty?

1. **Policy Making:** To ensure that poverty remains a priority.
2. **Targeted Interventions:** To direct resources and aid effectively.
3. **Monitoring and Evaluation:** To assess the impact of poverty alleviation programs.
4. **Institutional Effectiveness:** To evaluate the success of organizations aimed at reducing poverty.

Methods of Measurement

1. **Poverty Headcount Index:** The proportion of the population living below the poverty line.
2. **Total Poverty Gap (TPG):** The total amount of income needed to bring all those below the poverty line up to it.
3. **Foster-Greer-Thorbecke Index:** Measures the extent of absolute poverty and inequality among the poor.
4. **Multidimensional Poverty Index (MPI):** Includes dimensions such as health, education, and standard of living.

Sen's Approach to Poverty and Wellbeing

Amartya Sen's capability approach emphasizes:

- **Capabilities:** The real freedoms people have to achieve well-being.
- **Functionings:** What individuals can do and be, such as being healthy, educated, and having the freedom to participate in community life.
- **Conversion Factors:** Personal, social, and environmental conditions that affect an individual's ability to convert resources into capabilities.

Concept of Inequality and Its Measurements

What is Inequality?

Inequality refers to uneven distribution of resources, opportunities, and privileges. Economic inequality specifically deals with the distribution of income among households.

Measuring Inequality

1. **Income Distribution:** Arranging incomes from lowest to highest and analyzing their shares.
2. **Lorenz Curve:** A graphical representation of income distribution that shows cumulative income received by different segments of the population.
3. **Gini Coefficient:** A numerical measure of inequality derived from the Lorenz curve. It ranges from 0 (perfect equality) to 1 (perfect inequality).

Examples of Inequality Measurement

- **Quintiles and Deciles:** Divide the population into groups and measure the income share of each group.
- **Lorenz Curve:** Shows the proportion of total income received by cumulative percentages of the population.

Indigenous Knowledge and Practices in Ethiopia

Indigenous knowledge and practices play a crucial role in poverty reduction and inequality in Ethiopia. They often include traditional methods of farming, community-based support systems, and local practices that enhance social cohesion and economic stability.

By understanding and measuring both poverty and inequality, we can develop more effective strategies to address these issues and improve overall well-being.

Overview of Global and Regional Poverty

Global Perspective on Poverty

Poverty is a major global issue with varying degrees of severity across different regions. Over the past fifty years, there have been notable improvements in reducing extreme poverty. For instance, China has made remarkable progress, lifting millions out of poverty. Consequently, the global percentage of people living in extreme poverty has decreased from 36% in 1990 to 10% in 2015. However, extreme poverty remains a significant issue, particularly in developing regions like sub-Saharan Africa.

In 2010, over 1.2 billion people lived on less than \$1.25 per day, and about 2.4 billion lived on less than \$2 a day. The UN reported that more than 700 million people, or 10% of the global population, were living in extreme poverty. Sub-Saharan Africa, in particular, has seen minimal improvement in poverty reduction from 1950 to 2000. This persistent challenge has driven global initiatives

like the Sustainable Development Goals (SDGs), specifically Goal 1, which aims to eradicate poverty in all its forms by 2030.

Poverty Reduction Strategies

The World Bank promotes the Poverty Reduction Strategy Paper (PRSP) process to help countries systematically address and improve the conditions of poor people. Many developing countries, including Ethiopia, have adopted this approach to enhance their poverty reduction efforts. Despite global progress, inequality has been rising due to factors such as globalization, technological advancements, and varying national policies.

Women and Poverty

Disparities Faced by Women

Women are disproportionately affected by poverty worldwide. In many developing regions, women and children experience severe deprivation. Factors contributing to this include:

- **Female-headed Households:** Households led by women often face greater economic hardship due to lower earning capacities and limited access to resources.
- **Income Inequality:** Women generally earn less than men, contributing to higher poverty rates among women.
- **Limited Access:** Women often have less access to education, formal employment, and social security.

In urban areas, women are frequently employed in informal and low-productivity jobs, while rural women face challenges due to limited access to resources and restrictive social customs. The low economic status of women impacts their control over household resources, which can lead to unequal distribution of necessities like nutrition and healthcare.

Addressing Women's Poverty

Improving women's economic status requires:

- **Inclusive Development Programs:** Incorporating women into educational, training, and employment opportunities.
- **Access to Resources:** Ensuring women have equal access to education, healthcare, and government services.
- **Formalizing Informal Employment:** Legalizing informal sector work to improve job stability and security.

Poverty and Inequalities in Ethiopia

Current Situation

Ethiopia, with a population of approximately 118 million, remains one of the poorest countries despite significant economic growth. Between 2008/09 and 2018/19, Ethiopia's economy grew at an average rate of 9.8% annually, and the proportion of people living below the national poverty line decreased from 38% to 24%. However, the per capita income remains low at \$883, and substantial poverty persists, particularly in rural areas.

As of 2019, Ethiopia's Human Development Index (HDI) was 0.485, ranking 173 out of 189 countries, reflecting low human development. Around 44% of Ethiopians earn less than \$1 per day, and 89% earn less than \$2 per day. The majority of the poor are smallholder farmers living in rural areas vulnerable to climate-related challenges.

Government Efforts

Ethiopia employs the World Bank's PRSP process, with regular surveys to monitor poverty and inequality. These efforts aim to assess poverty levels and devise strategies for improvement.

Role of Indigenous Knowledge in Reducing Poverty

Importance of Indigenous Knowledge

Indigenous knowledge, or traditional wisdom, involves locally developed practices and solutions that help communities address their daily challenges. This knowledge is crucial for poverty reduction and includes practices like:

- **Idir:** Informal burial societies that also provide financial and social support during emergencies.
- **Iqub:** Rotating credit associations that help members access funds for various needs, such as starting a business or handling emergencies.

Community-Based Practices

- **Debo:** A work group where community members assist each other with labor on a rotational basis.
- **Cottage Industries:** Small-scale, home-based manufacturing units that provide employment and contribute to local economies.

Summary

Poverty and inequality are significant global challenges with varying impacts across regions. Efforts to reduce poverty must address both economic and social factors, including gender disparities and regional inequalities. Indigenous knowledge and community-based practices play a crucial role in alleviating poverty and improving societal well-being. Addressing these issues comprehensively is essential for achieving sustainable development and improving the quality of life for the most disadvantaged populations.