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Challenges of “Official” Poverty Statistics in the present context of follow up of the UN Millennium Development Goals.

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Poverty reduction is one of the key objectives of the Millennium Development Goals. Paradoxically, a consensus on a consistent approach to identify the poor within and across countries and over time does not currently exist. There have been recent advances in coordination among international institutions in their effort to reduce poverty in the world through, for example, the adoption of the Millennium Development Goals that also shows a broader consensus among these institutions on widening the scope for poverty measurements. The Millennium Summit was the first time when there was an agreement on a global target of halving the proportion of people living in extreme poverty by 2015, which is the first target of the MDGs. This paper gives a broad overview of the conceptual approaches to poverty measurements and highlights some key methodological challenges in their practical/empirical implementation for meeting the data demand for monitoring the first MDG' poverty target.

1. Overview of the World Bank global poverty measure

Three so called Road-map indicators have been designated to monitor progress on this target: (1) Proportion of people below \$1 per day; (2) Poverty gap ratio and (3) Share of poorest quintile in national consumption.

There should be recognition on the first major attempt to measure global income poverty by the World Bank over the last 2 decades. The Bank's methodology used for the \$1 per

day estimates encompasses three elements; first, it define someone as poor if he or she lives in a household with a per capita expenditure (whether in cash or in kind) that is insufficient when judged by what poverty typically means in the world's poorest countries. It judges poverty by standards common in South Asia and much of Sub-Saharan Africa, no matter where one actually lives. The equivalent international poverty line in 1993 was \$1.08 a day in 1993 prices. This is the median of the ten lowest poverty lines with the same set of countries used by researchers in 1985. Second, purchasing power parities (PPPs) for household consumption expenditures are applied to country data to obtain measurements in local currencies at purchasing power parities in 1993. Third, this 1993 poverty line is then converted to the prices prevailing at each survey date using the country's official consumer price index (World Bank, How Did the World's Poorest Fare in the 1990's? S. Chen and Martin Ravallion).

2. National policy requirements of poverty statistics

The problem of monitoring global poverty is one of the most crucial development issues facing international policy. The challenges are methodological as well as statistical and both are intricately linked. While the World Bank has been the designated to compile/provide the indicators for the three targets of the MDG's Goal1, it is expected that the "indicators for monitoring implementation of the MDG will have to be implemented on the basis of established data sources of the national statistical services, which are the ultimate providers of any information basis (See The Millennium Declaration; Agreed responsibilities at the national, regional and international levels). Further, it should be noted that the PPP-based international poverty lines is required only to allow comparisons across countries. It is therefore recommended to use national poverty lines in all other poverty related studies.

The development of sound poverty measures to guide national (and therefore international policy) is a complex exercise, in part due to the multi-dimensional nature and different manifestations of poverty. Clarifications of how poverty is defined is extremely important as different definitions of poverty imply the use of different criteria for measurement leading potentially to the identification of different individuals and groups as poor, and the use of different policy solutions to reduce poverty.

Likewise, one fundamental requirement to develop adequate poverty measures is a prior understanding of the objective of the measures, and more specifically, the way(s) the measures would help to inform policy and to address the problem of poverty. Poverty measurements might serve a number of purposes among which:

- To differentiate the poor individuals or groups from the non-poor;
- To monitor poverty by comparing poverty rates across different subgroups of the population or across countries;
- To monitor poverty over time;
- To develop poverty profiles that describe the characteristics of those in poverty;
- To define thresholds for public transfers.

There are a number of general questions about how to define and measure poverty and most of them are well known. I would not attempt to be exhaustive, rather, I would briefly present two prominent approaches to poverty measurement – each with some operational advantages and deficiencies. This should not undermine the other conceptual approaches to defining poverty (e.g. Social Exclusion and Participatory approach that are not discussed here)

3. The monetary approach to poverty measurement

This is the most commonly used approach to identification and measurement of poverty. It defines poverty with a shortfall in monetary income (consumption) from some poverty line.

Conceptual issues, operational limitations and sources on non consistency:

- Valuation of different components of income/consumption in particular subsistence production, public goods?)

- Does the shortfall in monetary expenditures (income) encompasses all elements on poverty
- validity and justification of the choice of the poverty line.

There have been major methodological advances in the operationalization and standardization of the monetary approach. However, there remain outstanding methodological and empirical challenges that undermine the claim of objectivity of this approach.

- Choice if the indicator of welfare: Does consumption or income better approximation of welfare and which of the two is more reliable?

Both income and consumption include only private resources and omit social income and benefits (goods and services provided publicly), leading to an implicit bias in policy choices in favor of the generation of private income as against to public goods provision, and likewise, towards the identification of the poor for targeting purpose towards those lacking private income.

- Choice of the poverty line: Several approach have been suggested of which two methods most widely used (1) the Nutritional poverty line and (2) the cost of basic needs line or a combination of both. There are important basic principle/assumption that should underlie poverty line but that have been proven difficult to be met in practice and in a consistent manner within and across countries

Determination of poverty line should take account of deferring metabolic rates, activities, age, gender, in the defining the minimum nutritional requirement. Equivalence scales, defined as the ration of cost of achieving some particular standard of living, given the demographic composition, to the cost of a reference household achieving the same standard of living, is often used to account for age (and sex) differences in household composition.

The way resources are distributed within household affects the nutrition levels of individuals – yet poverty line are often drawn at a household level.

Poverty line should be adjusted for differences in costs of living across areas and regions within a country and in particular between urban and rural regions.

Consistency versus specificity of poverty line remains one of the most contentious issues in the specification of poverty lines. By virtue of consistency, the poverty line should be fixed (in real value) across all region and areas. Conversely, specificity requires that the construction of the poverty lines be anchored on a basket of basic needs of the poor and be reflect the consumption pattern in each area and region. This clearly violates consistency

Consistency over time requires that poverty line be adjusted over time using true cost of living index. The observed change in poverty line would then be a true change in poverty line, which in other words, would mean that the standard of leaving by the poverty line would not change over time.

It has been shown that the poverty rate varies between 13% and 66% of the population in 17 Latin America countries, according to the equivalence scales use, the assumptions about existence of economies of scales in household consumption, and methods for the treatment of missing income and misreporting.

4. The Capability (and/or Basic Needs) approach

In this approach, the focus is on failure of some basic capability of functioning (Sen, 1985). The emphasis is on the outcome measures of well being (achievements), as opposed to the monetary approach by which monetary indicators represent indirect measures of the outcomes. Non-monetary components of poverty measures are also essential to analyze the dynamics of income poverty, whether it is likely to be persistent or not, and thus for the associated policy implications.

The capability approach to poverty evaluation poses three main operational issues, namely definition of basic capabilities, measurement of these capabilities and aggregation.

Methods of defining basic capabilities invariably amount to the establishment of a list of sensitive Basic Needs using various fundamental criterion. Most of these techniques have led to similar interpretation of minimal essential capabilities as being constituted by health, nutrition and education. In practice, these basic capabilities are measured through functioning (life expectancy, morbidity, nutrition levels)

The fundamental question in aggregation is whether capability poverty should be presented separately for each capability. It has been argued that aggregation conceals important information, for an analytical and policy perspective. However, the need to reduce the large amount of information is also desirable, e.g. for comparisons. The union approach (by an individual is considered poor if he/she is deprived in any dimension) and the overlapping approach (individuals are poor only if deprived from all dimensions) have also been suggested – but less implemented empirically

5. Sources of data used for poverty evaluations.

Poverty monitoring requires comparisons of poverty profile across time and/or across countries. Such comparisons would be possible and valid only if the data used to construct the poverty profiles are collected in the same way over time and across countries. Thus, any changes in data collection methodology and processing of the data used to define poverty must be considered carefully.

There is a wide consensus that household survey is the only tool that can provide information on income/consumption distribution for the purpose of measuring poverty (Deaton, 2003). More over surveys (income and expenditures surveys, labor force surveys, demographic and health surveys) provide a wide array of information that could be used to better understand the nature of poverty (Glewwe, 2003).

There have been claims that National Accounts should be used to estimate poverty (UNTAD – The Least Developed Countries Report 2002 and others). However, the recent debate on global poverty has raised serious doubts about the use of the national accounts concept of final household consumption (expenditures) for poverty measures. It had been shown, based on the conceptual definition and methods of estimation of final household consumption in national accounts, that the national accounts estimate of household final consumption, as used in the current procedures to estimate poverty, is not appropriate for poverty measures (See Kamanou, Havinga and Vu, 2003).

It is desirable that the international statistical community agree on a common set of best-practice protocols for household income expenditure surveys, as a parallel to the SNA for the National Accounts. International agencies and other organizations should give high priority to develop global standards for harmonised household surveys as a tool that could generate reliable estimates for poverty consistent across countries and across time. Only then would global poverty measurement and monitoring be put on a sound basis.

Reference

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