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REGIONAL POVERTY ANALYSIS TECHNICAL WORKSHOP
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"Translating theory into practise in the Pacific context"

VALUATION OF SUBSISTENCE PRODUCTION AND OWN CONSUMPTION

THE ISSUE

1. The low monetary values, or large variability in values, given to the same good or food commodity produced and consumed (or given as gifts) in the household. Many respondents simply are not able to give such items – particularly food items – a price. This affects the proportion of households below the poverty line as their income and expenditure is lower than the reality because of the low pricing of these home produced items.

MAIN APPROACHES

2. *"Self-produced items, and especially food, are a major component of consumption in rural areas of many developing countries. The monetary values placed on these self produced items in surveys are often the values that respondents themselves suggest. There are grounds for questioning the reliability of these respondent-reported values. Many households who produce a food do not buy that same food, so they may not be well informed about prices when they assign a value to their own food production. Moreover, the items available for sale in markets may be of a different quality than their own production so even if they are aware of prices in the market they may not be able to accurately impute a value for their own production.*

3. *There are two concerns about relying on respondent-reported values for self production. First, they introduce an additional, and extraneous, source of inequality into measured consumption. If the poverty line is below the mode of the welfare indicator, this increase in measured inequality will raise the measured poverty rate. For example, it may seem unreasonable that two households, who produce the same quantity of a food in the same location, can value that production differently. A household might fall below the poverty line just by being too pessimistic when valuing their own food production because they think prices are lower than they truly are. Second, the values applied to self-produced food items could differ, systematically, from market prices. Such discrepancies could drive a wedge between the market prices used to form a Cost of Basic Needs food poverty line and the values used to form estimates of consumption. If respondents tend to report values for their self produced foods that are lower than market prices, estimates of the incidence of poverty could be inflated, especially in rural areas where subsistence food production is important."* Pp 175-176 Handbook on Poverty Statistics: Concepts, Methods and Policy Use. UNSD 2005.

4. The UNSD recommends two methods for valuing the goods and food produced and consumed (or given as gifts) in the household with the first to use local market average prices. If there is no ‘local’ market (as in rural areas) then the second method is to derive average unit values from the same ‘cluster’ or area to determine the prices.

5. .To date most HIES in PICs have used the “self-respondent” reported values for own consumption of local food production. Analysis of the expenditure diaries from recent HIES (in Solomon Islands and FSM for example) suggest that there are indeed wide variations in the valuations between (and sometimes within) households.

6. It is important for estimating the poverty lines, and the consequent poverty incidence, that there should be as much consistency as possible in the data within each region and within the country as a whole, where separate poverty lines are to be estimated. It is of course important for other purposes, eg national accounts, that there is also a high degree of consistency.

7. At present therefore, the estimates of own production are variable in both the quantity and price sides of the value calculation. It would be desirable to reduce the variability by at least fixing the value side since this is likely to show the greatest degree of variability.

RECOMMENDED APPROACH

8. Where there is access to a local market for the sale of goods (such as in peri-urban areas) respondents should use average market prices as the upper value for items (and price guides given to them). Items valued higher than market rate should be discounted to the market value. Conversely items which have been valued at less than half (or appropriate threshold defined by local agricultural experts) should be inflated to the market price. Where there is no local market respondents should be asked to value food and non-food ‘home produced’ items at their estimate of “farm-gate” prices; prior to data entry and processing a common set of “farm-gate” prices should be compiled based on the average values of respondents for each particular commodity in each region, these should then be used as common prices for that region.