SECRETARIAT OF THE PACIFIC COMMUNITY

REGIONAL POVERTY ANALYSIS TECHNICAL WORKSHOP
(Noumea, New Caledonia, 22 September 2007)

"Translating theory into practise in the Pacific context"

ESTIMATING THE INCIDENCE OF POVERTY FROM THE BNPL

THE ISSUE

1. Poverty as measured by national poverty lines is a "relative" measure of hardship. It assesses the basic costs of a minimum standard of living in a particular region or nation and enables the measurement of the number of households, and/or proportion of the population, that are deemed to not be able to meet these needs within that specific country or region. This assumes that there can be differences in the level of the minimum standard of living both between and within countries and regions.

2. Every country experiences some incidence of poverty and hardship, there are always some households that are significantly worse off than others, but the levels of incidence measured by national poverty lines are not directly comparable across countries. Thus two countries may have similar levels of relative poverty measured by national poverty lines but very different levels of absolute poverty[1].

3. The measurement of absolute poverty, enabling cross-country comparisons of the extent of poverty, is usually made through estimating the US$1 per day PPP value used in Goal 1 of the Millennium Development Goals (MDGs). Presently this measure of poverty cannot be estimated since PPP indices are not yet available.

MAIN APPROACHES

4. The Incidence of Poverty is estimated from the proportion of households and/or the population that have per capita adult equivalent income/expenditure either below the food and/or basic needs poverty lines.

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[1] The US currently has a poverty rate of about 13% using a similar basic-needs method to that used in PICs, and in UK the poverty rate is estimates at 22%, based on those households that have an income of less than 60% of the median household income.

5. From the HIES data households are ranked according to their per capita adult equivalent income/expenditure (see paper 3.1) and the proportion of households and population falling below the poverty lines are estimated (paper 3.3). This is termed the Head Count Index (HCI) or Ratio. This is the most common form of poverty indicator. It is the first indicator in MDG1 that measures the change in the level of poverty over time.

6. Like almost all indicators the HCI has both advantages and disadvantages:

    a. Advantages
        i. relatively easy to construct
        ii. easy to understand
    b. Disadvantages
        i. treats all poor as having the same degree of poverty
        ii. does not take account of depth (or severity) of poverty; the index does not change unless those below the poverty line actually move above it, households could become significantly less poor but still remain below the poverty line.

7. Therefore in terms of its Policy Usefulness basing specific poverty alleviation policies on the HCI might not in fact produce optimal results; for example:

    - a cash transfer to the very poorest households/individuals will reduce aggregate poverty, but might not lead to a reduction in the HCI unless the transfer actually moves the household above the poverty line;
    - policies targeting benefits at those just below the poverty line will lead to the greatest reduction in the poverty measured by the HCI; these are the "cheapest" households/individuals to move out of poverty;
    - policies based on the HCI might therefore be sub-optimal in terms of actual poverty alleviation at the household level if the primary policy objective is simply to reduce the HCI;
    - sensitivity analysis will be required to test optimality against different depths of poverty.

8. However since in PICs poverty reduction policies have been very broadly based, and have not generally been specifically targeted at reducing the HCI *per se*, it remains a valuable indicator of the extent of relative poverty in each country.

RECOMMENDED APPROACH

9. It is recommended that the head Count Index remain as the core poverty indicator but that in terms of the measurement of overall changes in poverty in PICs that it be supplemented by measures of the depth and severity of poverty and changes in the level of inequality (see paper 3.5).