



**ECONOMIC AND SOCIAL
COUNCIL**

Distr.
LIMITED
E/ESCWA/STAT/2002/WG.2/4
2 September 2002
ORIGINAL: ENGLISH

Economic and Social Commission for Western Asia

Expert Group Meeting on Poverty Statistics
Beirut, 10-12 September 2002

**METHODOLOGICAL AND OPERATIONAL
CHALLENGES OF POVERTY MEASUREMENT**

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Methodological and Operational Challenges of Poverty Measurement

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ABSTRACT

This paper highlights methodological and operational challenges associated to poverty measurements. It contains the most important approaches of poverty measurements and the statistical demands derived from design, implementation, monitoring and evaluation of policy for poverty alleviation. The work prepared and the one that is underway by the RIO Group for poverty statistics is described. This Group, created by the Statistical Commission of the United Nations, gathers experts that work on official or academic estimates of poverty that have widespread distribution and influence in public opinion..

A. Institutional aspects

1. Purpose

The main objectives of the expert group are to harness the experience and concerns of different groups and organizations in the world that are working on the measurement, interpretation and use of poverty statistics, especially when such work is being done by or in close contact with statistical offices. The identification of the indicators, methodologies and statistical sources being used should allow the preparation of a document or reports containing the state of the art in matters of poverty measurements, common procedures and best practices. At the same time, the most important difficulties could be identified and experts working with similar problems and topics could cooperate and thereby improve the quality and relevance of measurements.

2. Participants

a. Countries: Argentina, Australia, Belarus, Botswana, Brazil, Canada, Chile, France, India, Indonesia, Mexico, Netherlands, Nigeria, Peru, Portugal, South Africa, Spain, Switzerland, Turkey, Uruguay, United Kingdom, United States of America.

b. Agencies and other institutions Centro Latinoamericano de Demografía, Economic Commission for Africa, Economic Commission for Latin America and the Caribbean, Economic and Social Commission for Asia and the Pacific, Statistical Office of the European Communities, Human Science Research Council, Inter-American Development Bank, International Labour Organization, United Nations Latin American and Caribbean Institute for Economic and Social Planning, London School of Economics and Political Science, Organisation for Economic Cooperation and Development Paris 21, Pan American Health Organization/World Health Organization, Townsend Centre for International Poverty Research, the World Bank, United Nations Development Programme, United Nations Children's Fund, United Nations Population Fund, United Nations Statistics Division.

3. Year organized and Meetings

It was organized within the framework of the statistical Commission in 1996. It has held 4 meetings: First meeting: Santiago, 7-9 May 1997. Second meeting: Rio de Janeiro, 13-15 May 1998. Third meeting: Lisbon, 22-24 November 1999. Fourth meeting: Rio de Janeiro, 15-17 October 2001.

B. Topics and Products of the Work Program

1. Topics considered

- a.* Measurements oriented towards synthetic indicators or policy for poverty alleviation; analytical classifications of synthetic indicators of poverty statistics: absolute poverty (poverty lines and unmet basic needs approach), relative poverty, objective and subjective poverty; poverty dynamics; relations between poverty and other conceptual categories used in social policy, such as social exclusion, vulnerability and social rights.
- b.* Microlevel approach (household and individuals) to poverty measurements associated with policy for poverty alleviation.

In all those topics, methodological and procedural issues more widely used within different measurements of poverty have been examined and compared. The Group has identified:

- i) The most important methodological and statistical challenges in which participants are working.
- ii) Statistical sources, concepts and classifications used for poverty measurements
- iii) Work under way to improve the timeliness and quality of sources and estimates
- iv) International experience to move towards common practices in the measurement of poverty
- v) Institutional agreements towards the comparability of measurements in different regions
- vi) Use of poverty statistics in the design and evaluation of poverty alleviation policies at the international level.

2. Products

Papers and final reports of the first three meetings have been published by ECLAC, bibliographies of which can be accessed from the ECLAC publications web site at: <http://www.eclac.org/publicaciones/> (Spanish) under the documents codes LC/R.1814, LC/R.1960 and LC/R.1998. The agenda and documents in English of the meetings can be found on the web site of the Group at: www.ibge.gov.br/poverty.

C. Most Relevant Measurements of Poverty

The political status of poverty alleviation, at present one of the main objectives of governments, has increased permanently during the eighties and the nineties. Depending on the regions analyzed, the moment when the objective acquired great importance was normally associated to economic crisis. In the case of Latin America, the crisis that started in 1981 and lasted in most countries for the complete decade was crucial. Probably, the Asian crisis of the nineties played a similar role at least in South East Asia. One extraordinary feature is that the topic has also gained momentum in developed countries. The fact that the European Union is giving at the end of the nineties such growing importance to poverty and social exclusion, demonstrates its rather universal importance. Poverty alleviation is at the same time a central objective of the United Nations Millenium Declaration, a confirmation of its universal scope.

For analytical purposes, it is possible to distinguish two stages in this evolution. In the first stage, the political system needs to arrive to a conclusion about the magnitude of the problem. Starting from indirect indicators such as unemployment, low incomes and shortages in basic needs, and social unrest, there is a conscious that important strata of the population are under conditions of poverty, defined as an aggregated concept. Furthermore, after economic crisis, there are normally signs that the problem has increased. Therefore, the demand for an indicator that helps to establish characteristics of poverty and the magnitude of the problem. Normally, the indicator used is of the count ration type able to give a percentage of households and population under poverty

In the second stage, the political system establishes compromises to alleviate poverty. It is necessary to identify policies that are going to be used. This stage is conceptually and operatively much more complex than the first one. There is a need to prepare an interpretation of the origin of poverty. Normally, it is difficult to arrive to consensus on those origins. Not less difficult is to agree on which are the best policies to alleviate poverty. The statistical system has therefore been under an increasing demand to produce information able to estimate indicators about the magnitude of poverty and to help designing, implementing monitoring, and evaluating policies to alleviate poverty.

In many occasions, the statistical offices have themselves worked in the analytical field and played a role in the definition of indicators useful for both purposes. The Rio Group since its first meeting in 1997 has prepared operative classifications of synthetic indicators to measure global poverty to put together best practices in the definition and estimation of them. There is broad agreement in using classifications such as absolute and relative poverty, objective and subjective poverty, and approaching absolute poverty through poverty lines or basic needs.

In general, a person is considered poor if he or she does not have access to (or lacks the capability of accessing) a normatively established package of goods, services and rights. The establishment of the standard(s) allowing the identification of poor persons has followed alternative approaches reflecting both conceptual differences and data availability. The differences stem from different views regarding some of the dimensions which need to be considered.

As mentioned a fundamental dimension relates to the absolute or relative character of poverty. No attempt will be made here to summarize the vast literature on the conceptual aspects of this subject and on the controversies about the comparative advantages of each of the two approaches. It should be mentioned, however, that regardless of theoretical considerations, national characteristics play an important part in deciding on the more appropriate approach. The level of development appears to be a key factor, since increasing the satisfaction of basic needs is a pressing goal in the LDCs. Therefore, it seems convenient to measure the size and characteristics of poverty by establishing standards in terms of definite quantities of goods and services allowing the satisfaction of a set of basic needs. In many of the more advanced nations, absolute poverty may be a minor problem, but reducing gaps among population groups is increasingly becoming a high priority goal. This is one of the reasons why standards are in some cases established considering the population's average level of need satisfaction.

Differences in poverty measures also arise because in some cases actual consumption of or access to goods and services are considered, while in others the capability --in terms of resources-- of a person or household to obtain them is the variable considered for identifying poor persons.

The units considered in poverty measurements are usually "poor persons" or "poor households". The international experience shows, however, that households are, almost exclusively, the units classified according to the poor/non-poor dichotomy. Nonetheless although a poor household is conceptually used to define poor, implicitly it allows to calculate poor persons. In countries using tax records, income units are usually considered

Here we will introduce some important characteristics of absolute and relative poverty measurement methods. In the case of absolute poverty we will distinguish between poverty lines and unmet basic needs.

1. Absolute poverty indicators

a. *The income or consumption insufficiency method, Poverty lines*

This is perhaps the more widely used method and the one adopted in the first attempts to attain quantitative assessments of poverty.¹ According to this approach, a household --the unit generally considered, as mentioned before-- is classified as poor if its income or aggregate expenditure is less than the value of a given "poverty line". The poverty line is a normative concept: it represents the aggregate value of all the goods and services considered necessary to satisfy the

¹ For a brief description of the studies carried out in the thirties and fifties in England, see Atkinson, A. *Poverty and social security*. London Harvester Wheatsheaf, 1989, Chapters 3 and 4.

unit's basic needs. Therefore, this approach requires, in the first place, determining the poverty line and, secondly, obtaining data on households income or expenditures distribution. Afterwards, one or more dimensions of poverty can be synthesized using alternative indices.

For determining the poverty line a first step requires establishing and measuring standards.

i. Establishing Standards

The definition of a poverty line is the first required task when adopting this procedure. As indicated above, it is the amount of money that a household has to receive or spend in order to buy all the goods and services necessary to attain a minimum level of living or to satisfy the basic needs. In computing this normative value several decisions and procedures are required: i) to define the set of basic needs; ii) to determine the thresholds of satisfaction; iii) to select the kinds and quantities of goods and services required to satisfy each identified need; iv) to price the resulting package of goods and services.

In most of the known experiences the establishment of the poverty line has not followed closely these successive steps. The value of the normative set of goods has been directly estimated only in the case of one or --most rarely-- a few basic needs, while for all the other needs an aggregate value corresponding to the normative budget has been calculated indirectly. This means that no specific efforts are made to define thresholds for many basic needs. Such procedures are adopted chiefly because of practical considerations but they also reflect, on one hand, the difficulties in reaching widespread consensus on what should be reputed as basic needs and their level of satisfaction, and, on the other, the relevance of an aggregated income value where substitution possibilities might allow the satisfaction of basic needs.

ii. Measurement of Standards

Once defined the direct estimation of thresholds is in many cases in practice almost restricted to the value of an assortment of foods satisfying various nutritional requirements: energy, proteins and other micronutrients. In most cases energy is the dimension chiefly involved in the basic estimation, and some of the other requirements are taken into account afterwards when defining the food basket. This means that international² or national standards are employed to establish the minimum calorie requirement. These standards vary according to --among other things-- the individual height, weight, age, sex, health status, eventual pregnancy, and the activities he or she usually performs.

Once the energy requirements are established, the food basket satisfying them is computed considering both actual consumption patterns and relative prices. Basically, the approach can be seen as an exercise in minimizing the cost of a budget having as a restriction the actual expenditure patterns. Various specific procedures have been considered to take into account these two factors, some of them emphasizing cost while the rest focus on expenditure pattern.

After standards have been defined and measured an important set of steps are necessary to arrive to a synthetic measurement of poverty. Here we will mention only some of the most important challenges. The first is the need to compare the poverty line with the household income or consumption. The second is the consideration of public social expenditure. The third is the use of equivalences in consumption and scale economies.

² Such as the experts' recommendations forwarded at a consulting meeting convened by FAO, WHO and UNU.

iii. Measurement of Household Income and Consumption

In order to identify poor households, the poverty line is compared to either total current income or total expenditure. Both conceptual and empirical reasons are used to favor one or the other of these alternative. As for theoretical questions, it is sometimes argued that the relevant variable is the household's capacity to purchase goods and services, which is best reflected by income. For example, a given unit may be spending above the poverty line but only as a consequence of borrowing; this household should be considered poor as it is not clear whether it will be able to maintain the acquisitive power. Conceptual considerations are also advanced to argue in favor of the use of expenditure as it would be a better proxy for "permanent income" which is the adequate variable for medium and long term poverty analysis as it reduces the impact of temporary fluctuations in current income.

On the empirical side, it is usually emphasized that in household surveys --the most generalized source used for this purpose³-- expenditure estimates are of higher quality than income estimates: different non-sampling errors usually affect the latter, basically un- and underreporting. Many studies have shown that this problem is present in most countries although with varying intensity.

Moreover, expenditure data seems to be adequately measured only through a disaggregated inquiry into the various goods and services bought and received by household members, i.e. through a traditional expenditure survey. However, in most countries such surveys are carried out only sporadically --once every ten or at best five years--. Consequently, in many countries income data --collected in multipurpose household surveys-- appear to be as the only alternative for a follow up of the poverty situation. In addition, increasingly more disaggregated methods have been put into practice to evaluate the reliability of income measurement in these surveys, especially in urban areas, thus helping to reduce errors.

iv. Public Social Expenditure

Up to now it was implicitly assumed that consumption is totally financed by households, without considering that portion which is partly or wholly subsidized by the state. Again, this situation does not introduce any particular difficulty in the estimation of the poverty line when thresholds are directly computed. In such cases, minimum requirements in terms of goods and services are determined irrespectively of sources of financing. Household incomes to be compared to the poverty line have to be increased in order to take into account these in-kind transferences received from the government.

However, when non-food components are indirectly estimated, the existence of publicly provided or financed products is sometimes a source of complications, not always recognized in the process of poverty line estimation. These difficulties appear only when subsidies are not generalized to the entire reference population under consideration. For example, if all the school age children in all households of the reference stratum attend state-run schools⁴, the poverty line computed using the total expenditure / food expenditures ratio is an adequate⁵ value to be compared to actual household incomes. Changes need not to be introduced in the poverty line estimation procedure above discussed nor should incomes be imputed for the totally subsidized school fees. However, for

3 As mentioned, income and social security records are used as main source only in a few DCs.

4 Or receive a voucher for the same tuition value to be used either in public or private establishments.

5 "Adequate" in terms of the assumptions of the indirect approach, i.e. incurring the problems indicated in previous subheadings.

other types of analysis, such as those which resort to the Engel coefficient as an indicator of welfare, such amounts should be added on both sides.

The situation becomes more complicated when public social expenditures are unequally distributed between households of the reference population, i.e. some of them do not have access to subsidies and/or the benefit level varies.

These brief comments are intended to illustrate some of the difficulties and restrictions facing the indirect measurement of poverty line components when public social expenditures are targeted⁶ (at least, within the reference population). Programs of a more universal character (such as primary education in most countries) do not pose important difficulties. How to take into account such a factor depends mostly not only on data availability but also on institutional arrangements. It is necessary to stress that they should be carefully considered in cases where public expenditure of a non-universal character are important and/or where changes have been introduced in the level and characteristics of public expenditures. For example, the increasing efforts made by many LDCs in targeting their social policies may lead to biased assessments of poverty evolution if no consideration is made of the impact of public expenditure.

v. **Equivalence in Consumption and Scale Economies**

It was already mentioned that thresholds should be household specific because they depend on household size, age-sex composition and specific circumstances of those living in the unit. Hence, minimum requirements and, consequently, poverty lines, should be computed (or equivalencies calculated) for as many household types as need to be defined in order to capture differences stemming from the relevant dimensions.

Concentrating in the first two above mentioned aspects (i.e., size and age-sex composition -- those more oftenly considered--) it is clear, on the one hand, that households of different compositions should have different thresholds, since the set of goods and services satisfying basic need varies with age and sex. On the other hand, the influence of household size is obvious and in principle should not lead to theoretical and practical problems, since --for a given composition-- proportionality in the value of the poverty line would be enough. However, household size does introduce (at least potentially) a major practical problem: proportionality is only a rough approximation, given the existence of consumption scale economies in several budget components. It must be stressed that these two phenomena --equivalence among households of different composition and scale economies-- are linked. For example, scale economies in education (if they exist) would depend on the total number of students and not on the overall household size. Therefore both phenomena should be treated separately for the sake of clearness.

There is not wide experience with scale economies when estimating poverty lines, and the influence of household size is considered exclusively through the use of equivalence defined on the basis of the total number of household members. There are several exercises, developed with other purposes, which estimate total budget scale economies; however, they lead to widely varying results. Therefore, more research is needed before establishing practical approaches to quantify the impact of this dimension.

⁶ It must be stressed that this applies strictly to subsidies which do not reach all members of the reference population; this could be the result of programs being targeted or simply to an inadequate implementation of policies intended to be universal in scope.

b. The Unmet Basic Needs (UBN) method

While the income or consumption method identifies poor households as those without the **capacity** of acquiring all goods and services needed to satisfy basic needs⁷, the unmet basic need (UBN) approach inquires whether the household is **actually** satisfying those needs by asking about the products **actually** consumed. A unit is then regarded as poor if the thresholds for all or some of the different basic needs are not reached.

The UBN method has been widely adopted to estimate poverty incidences and profiles using mainly data from population censuses about access to necessary goods and services. In fact, probably the main reason for the widespread acceptance of this approach during the eighties has been the possibility of obtaining geographically disaggregated indicators, i.e., the possibility of obtaining "poverty maps". As a consequence, a synthetic index to characterize social conditions in small areas was relatively easy to calculate at a moment where targeted social policies became increasingly demanded. As it will be seen in the next subheading, this more detailed geographical disaggregation is obtained at the cost of considering only a restricted set of needs. While the income or consumption approach implicitly covers every needs, the UBN method as it is usually applied considers only a few of them.

Even if the discussion between the absolute and the relative approach is not usually explicit in this methodology, the indices estimated, for example, in Latin America have been considered as reflecting situations of *absolute* poverty because of the dimensions and thresholds actually used. However, relative considerations should be --and have been-- incorporated when defining these limits. This is clearly seen in the European studies where an explicitly relative stance was adopted and the most frequent practices --in terms of access to products and social habits-- were used as thresholds. In Latin America because of the dimensions selected, poverty identified through the UBN tended to be considered of a more structural character than that identified by means of the income / expenditure approach.

Within the many challenges implicit in the estimate of this type of indicator we have selected two that are specially relevant: selection of indicators and threshold definitions, and the aggregation problem.

i. Selection of social indicators and threshold definitions

In the empirical experience conceptual arguments were not a primary consideration in the selection of the basic needs nor in choosing the set of goods and services used to assess the level of satisfaction. Both decisions were almost exclusively determined by the subject coverage of the population censuses and the specific variables there included. As a consequence, housing has been normally the main dimension taken into account: three or four out of the five or six variables used to reflect access to goods and services were related to this dimension. Only when defining thresholds for each of these variables the association with income (usually analyzed by resort to a household survey) was sometimes considered.

In general, indicators of access refer to three basic aspects: quality of building materials, availability of basic services (water supply and sewage disposal) and overcrowding.

In many cases it can be seen that the value adopted as threshold implies extremely low minima, i.e., the limits are scarcely demanding. The reason for such a decision has to do probably

⁷ This also applies when expenditures instead of incomes are used, since total expenditure is compared to the poverty line

with the aggregation criterion chosen (see next subheading). In some few cases no difference was established in the thresholds used for rural and urban areas, and those adequate to the former (and hence less demanding) were used in evaluation of urban households.

In the study on Chile which probably inspired the use of the UBN method throughout Latinamerica⁸, the adequacy of household equipment (e.g. some electrical appliances) was also considered. Other countries' censuses did not inquire on the existence of these assets. Another dimension usually included was education, which is estimated through school attendance by household children of primary school age.

An "economic capacity" dimension was also considered in many cases; it tries to reflect the households' income generating potential. This dimension is, however, somewhat extraneous to the UBN approach since it attempts to measure **capacity** and not **actuality**. This capacity is measured by combining the dependency ratio (household size / number of its income-earning members) and the household head's educational status. In most countries, the marginal contribution of this factor to the overall incidence indicator has proved to be small.

In the above mentioned European studies, the list of indicators was established by the analyst since in these cases specific household surveys were carried out. In some cases, even the indicators to be used in the definition of poverty were selected on the basis of the population's opinion.⁹

ii. The aggregation problem

From a conceptual point of view, the main problem with the UBN approach is connected with the aggregation question. Since different indicators of access to satisfactors are used, it is necessary to establish criteria to classify households that comply with some of the thresholds but not with the others. This situation is not unusual: furthermore, it has proved to be the most frequent one.¹⁰ Hence, the idea of how to weight the different indicators rapidly arises.

The method most frequently used is the so-called *co-realization*: a household is classified as poor if it does not reach the threshold of at least one indicator. Hence, registering an adequate access to all but one of the goods and services is sufficient to class a unit as poor. In fact, for example, between 20 and 30% of all households (and between 30 and 50% of all households identified as poor following this method) in seven Latin American countries registered such a situation.¹¹ This criterion seems especially appropriate if thresholds are very low and reflect extreme deprivation. The study on Chile referred to in the previous subheading followed basically the co-realization criterion, but imposed the combination of more than one indicator in certain cases in order to classify a household as poor.

The idea behind this approach rests on two basic assumption: all needs are equally important and all of them are *basic*, i.e., critical in reflecting poverty. The latter implies that the impossibility of satisfying any one necessity --irrespectively of what happens to the others-- will suffice to classify a household as poor. It must be taken into account, however, that the procedure employed in the region does not lead to co-realization of needs but of indicators; in particular three or more

⁸ ODEPLAN-IEUC. Mapa de extrema pobreza, Santiago de Chile, 1975; and Mapa de extrema pobreza en Chile: 1982, Santiago de Chile, 1986.

⁹ Brownlee, H. Measuring living standards, Australian Living Standard Study Paper N° 1, AIFS: Melbourne, 1990.

¹⁰ Data for five large Argentine cities (coming from a survey) show that the proportion of households simultaneously failing to reach the thresholds of the five indicators considered was no significantly different from zero.

¹¹ PNUD. Desarrollo sin pobreza, Bogotá, 1990: Cuadro 3.9.

individual indicators are being used for housing. Again, the idea of co-realization, even of indicators, turns out to be less strong given the hardly demanding thresholds.

Alternatively to this view, methods could be designed assigning different importance to each considered need and/or requiring that more than one need must be satisfied. For example, in an study of the UK which uses a list of over 20 indicators, poverty was defined as a situation where three or more indicators exhibit inadequate levels (i.e., do not reach the threshold).¹²

2. Relative measures of poverty

A different approach to measure this phenomenon, used in many countries and by international agencies as well, is entirely founded on a relative perspective. Contrary to the methods mentioned in the previous paragraph, poor households are directly identified by comparing each household situation to the mean, the median, or to other moment of the distribution.

The most usual relative procedures resort --as in the absolute poverty income- or expenditure-based approach-- to the comparison of household incomes to a poverty line. In this case, however, the normative budget is not derived from an analysis of the requirements to satisfy basic needs but is defined as a given percentage of the mean or the median of household income.

Changes in poverty indicators based on this approach depend only on variations in income distribution but not on the mean¹³; it must be remembered that these parameters are determinants of poverty changes under the absolute criterion. Another relative procedure defines as poor those units which make up the bottom portion of the income distribution --e.g. the poorest 40% percent of households according to their per capita income--. This procedure is useful only as a way to identify poor households; the head-count ratio has no interest (it is always equal to the fraction chosen to define poverty) and no normative value is considered to define intensity.

These relative methods are particularly relevant to developed countries, where --as already indicated-- the most pressing forms of absolute poverty do not represent main social problems. Even when some of those countries are experiencing high unemployment rates, the extended safety net resulting from the interplaying of various social policies ensures the access to a minimum basket of products for the great majority of the population. A central objective in these societies is, hence, the reduction of existing gaps in incomes and assets among population groups, gaps that from a different conceptual perspective are originating a process of social exclusion.

In such context, the knowledge of the characteristics of the lower incomes groups --even if they are actually meeting absolute thresholds-- have much importance in gaining insight into the associated poverty factors, and hence in designing economic and social policies. The evolution of head-count ratios and intensity indices (when a poverty line defined as a percentage of mean or median income) seems quite useful in monitoring gap changes.

D. Policies for Poverty Alleviation and Statistical Demands

In the Rio Group an effort has been made to classify the policies or political instruments being proposed to alleviate poverty. Two typologies will be used. The first one, a macro approach, covers very broad instruments such as growth, income distribution and public expenditures. The second one, a micro approach, covers more specific instruments associated to more concrete

¹² In the already quoted study, Townsend generates a household score which aggregates the satisfaction / insatisfaction situation of the individual indicators for each household. He then correlates it to income in order to reach an overall threshold.

¹³ Ravallion, M., Poverty comparisons, Living Standards Measurement Study Working Paper N° 88, Washington: The World Bank, 1992.

measures that governmental institutions can adopt. These last ones can be grouped in areas of policies such as economic transformation, human capital, social capital, short-term transfers and specific sectors social policies. The aim is not to arrive to any rigid classification, but to order in a practical way policy proposals in this area available at present.

The Group is also working to derive from those policy proposals statistical demands and to evaluate the degree in which the statistical systems of different types of countries are able to cope with it. This effort is part of a global initiative of international statistical community, in the framework of the Statistical Commission of the United Nations, in the social statistics area. It has already finished work in income distribution (through the Canberra Group) to help coping with demands originated in public policies. Similarly the Rio Group also pursues coping with demands originated in poverty alleviation policies.

1. The Macro Approach

a. Economic Growth

Economic growth has been traditionally presented as one of the most important requirements for development. It has also been traditional, especially for economists to try to establish econometric relations between the level of income or its rate of growth with many disaggregated indicators that represent secondary objectives or characteristics of the economy or the society.

In the eighties and the nineties, it is well known that macroeconomic equilibrium became a central target of economic policy. Therefore, it is not surprising that many of those defending the central role of these equilibriums tried to demonstrate that they helped sustainable economic growth and that these conditions were the most important tools to reduce poverty. Just to exemplify, in the year 2000, an article by Dollar and Kraay called "Growth is good for the poor" became very popular in some political and academic circles because it claimed having demonstrated that economic growth was a or the central instrument to reduce poverty¹⁴. It has become also a very disseminated technique to try to establish relations between the rate of reduction of poverty (using a synthetic indicator) and the rate of growth of per capita income. This last relation is normally used to estimate the necessary rate of growth to reduce poverty according to a given objective. In occasions, arguments for growth as fundamental for poverty alleviation are followed by proposals of reforms that would accelerate the rate of growth and benefit specially the income of the poor.

Closely related to the effect of economic growth on the poor is the topic of how crisis, so typical of developing countries, affect them. Economic cycles highly influenced by the external sector, that in the eighties and nineties are related not only to trade but to finance, have alternate expansion and recessions. The characteristics of vulnerability and lack of security that are proper of poor groups raise the question of how policies could avoid at least partially the negative effects for poor.

b. Income distribution

There is also an old debate related to the possible competitiveness between growth and income distribution. The most popular arguments towards optimums or second bests are that

¹⁴ A recent article by M. la Fuente and P. Sainz "Participación de los pobres en los Frutos del crecimiento", Revista de la Cepal N° 75, December 2001 comes to different conclusions for Latinamerica.

growth should, at the end, benefit everybody in similar terms and not especially the rich, or that redistribution used effectively should not slow down growth at the same time¹⁵.

When independence between growth and income distribution is implicitly or explicitly accepted, econometric relations between poverty alleviation and these two variables have been estimated, sharing the origin of the descent of poverty between the two variables. In the formal aspects, it is rather obvious that if the same rate of growth could be obtained with a better income distribution, the results on poverty alleviation will be better.

At an aggregated level, some analysts have tried to identify factors that could have simultaneously positive effects on growth and income distribution. For example, an important effort in the educational field could have positive effects on both variables. Therefore, indirectly education could be seen as a very efficient instrument for poverty alleviation in the long term.

Some proposals are based on studies that try to explain the origin of income distribution in a more classical feature. The distribution of physical and human capital plays an important role in the distribution of primary income. Therefore, policies associated to a better distribution within households of both types of capital could help the poor. Special mention should be given to the distribution of land in the rural sector. There is an old debate on the effect that more equality in this sense could have on growth. Some believe it could reduce rates of growth, while others believe that reducing poverty is good for growth.

An important approach presented at the eighties by Sen¹⁶ articulated the concept of well being in terms of functioning and capabilities. Capability is the ability to achieve and therefore, connected with the freedom people has in their choice of life or functionings. Naturally, the access to physical, human and social capital will favor capability, improve income distribution and reduce poverty.

c. Public expenditure

A third instrument mentioned in proposals to alleviate poverty: is public expenditure. The level of public expenditure has also been contested in its independence from economic growth, in similar grounds of that of income distribution. It is also obvious that fast economic growth allows increasing public expenditures without changing its percentage of gross national product.

The level and distribution of public expenditure has always been considered as one important instrument of income distribution. In the eighties and the nineties, a variation to this type of analysis was introduced. It consisted in a proposal to concentrate public economic action in social policy leaving aside productive activities in other fields. Additionally, focalization should permit to concentrate social policies in the poor. Therefore, without changing significantly public income and expenditure, it was possible to have a more important effect on poverty alleviation.

This approach gave rise to many documents that explore which public expenditures were more efficient to reduce poverty. For example, education of woman was considered extremely important and productive in terms of poverty reduction because of its many indirect positive effects. Expenditure on education has also occupied the attention of an important percentage of papers that study its relation with income distribution and poverty.

15 See Albert Berry, Policy Response to Poverty and Inequalities in the Developing World.: Where Should the Priorities Lie? ECLAC, Santiago, Chile, August 2001.

16 Sen, A., 1987. The Standard of Living. Cambridge: Cambridge University Press.

Public expenditure on small and micro enterprises has also been proposed as an extremely efficient policy towards poverty alleviation. The lack of data in this area makes it more difficult to find quantitative relations that support the qualitative analysis.

d. New development challenges

The last approach we will mention in this first typology is related to the introduction of new development modalities. The papers associated to this approach are related in most cases to the introduction of macroeconomic and institutional reforms during the eighties and the nineties. The general argument was that the reforms would introduce a type of economic growth that would be more beneficial for the poor than the previous. A popular argument was that economic openness would favor the production of agricultural goods vis-à-vis industrial goods, and that this would favor the agricultural and rural sector where important percentages of the poor lived.

The reforms covered most areas of economic activities and, therefore, this approach includes studies of the effect of new trade, fiscal, labor market, financial, policies on growth and poverty. In aggregate terms, the global instrument is the introduction of the new development modality but in operative terms that modality must be represented by its aggregated components in different areas of the economy. As an example, there are papers on the effect of trade reform on household welfare.¹⁷

Within the proposals for reforms, in the nineties the need for institutional organization that include the participation of poor have gained momentum. Some are related to the most classical political representation, while others are more operative in terms of participation in policies associated to public expenditure. Decentralization of decisions and of the implementation of policies could favor the participation of the poor. World Bank has used the term empowerment meaning making institutions work better for poor people¹⁸.

In relation to statistical demands due to the aggregate characteristic of the analysis, normally, a synthetic indicator represents poverty evolution, on occasions disaggregated by geography or political divisions. Until recently it was difficult to obtain time series of this type of indicators and up to now they continue being limited. Nonetheless at least they make it possible to discover if poverty, so measured, increased, decreased or was unchanged.

In studies or proposals where poverty is associated to basic needs, indicators of variables that are related to poverty are used as proxies. For instance, in the UN Millenium Declaration after the goal to halve the indicator of poverty associated to income, other goals such as reducing people that suffer hunger, and ensuring children to complete primary school are included. Therefore, policies oriented to these last goals can be related to the four mentioned macro approaches.

On the side of the global instruments most of the statistical demand derived from these studies concentrates on synthetic indicators of income distribution, economic growth, public expenditure and its principal components, or macroeconomic variables that represent the effect of reforms. For example the evolution of exports and imports represent the effect of external trade openness.

¹⁷ See, for example, Trade Reform and Household Welfare: The Case of Mexico by Elena Ianchovichina, Alessandro Nicita, and Isidro Soloaga. Working paper 2667, World Bank, August 30, 2001. The paper states that "data suggest that trade liberalization benefits people in the poorest design more than those in the richer ones".

¹⁸ See World Bank World Development Report 2000/2001 Attacking Poverty, September, 2000, Washington D.C.

The important difficulties associated to these demands are the difficulties to find time series of some of these variables, especially those that measure poverty and income distribution. There are also well known difficulties to construct series of public expenditure and its components that are comparable within countries. In this context, it is common to find cross-countries studies with the well-known analytical and operative difficulties.

Nonetheless the situation has improved significantly during the nineties. National, regional and international organizations are now publishing on permanent basis estimates of poverty, income distribution, and aggregated components of public expenditure. There is also an increasing effort to make figures within countries and in time more comparable.

2. The Micro Approach

The second typology of policies that we will introduce in this document is based on a microanalysis. The units of analysis are households or individuals under poverty. The consequence is a more detailed analysis, at that level, of the origin of their access to goods and services. It is related to their possibilities of obtaining income, or free or not market related goods and services.

Each household has as a starting point assets of different types, such as physical and financial capital, persons in working age, levels of education, dwellings, access to free public goods, social relations, and infrastructure of the place where they live.

Therefore at this level of analysis, the classification of policies for operative aims, should follow great fields of action of the countries institutional structures. Here we will use as criteria those that pursue increasing the access to goods and services of the poor through four improvements: in the economic and institutional structures, the human capital, the social capital, and in other public policies.

a. Economic and Institutional Structures

Part of the debate at present is related to the effects that the growth derived from the reforms of the eighties and nineties had on the poor, compared to expectations or previous growth in the framework of other economic structures. The economic transformation has important effects on the labor market. It is in the labor market where private employment and primary incomes are determined. Therefore the policies associated to economic transformation play an important role on the evolution of poverty, both in nature and magnitude. On an extreme a political strategy could be to leave the market forces operate freely under the belief they will generate a strong economic growth that will spontaneously create jobs and income that will significantly alleviate poverty. In practice governments are constantly influencing economic transformation under social and political considerations. Agricultural policies are an old example of intervention against market spontaneous forces. Today all around the world governments realize that a high percentage of employment is generated in small and micro enterprises and there is a multitude of policies oriented towards their defense¹⁹.

Therefore, it is necessary to include within the policies to alleviate poverty those associated, in general terms, to economic transformation and, in particular, to the labor market. Macro level labor legislation can be considered through the establishment of aggregated relations to global employment or poverty. Nonetheless, global effects could hide quite contradictory

19 Michel Glaude. Conclusions in the Report of the Seminar on International Comparisons of Poverty, Slovakia, Bratislava, June 2000

effects on different social groups, that could be captured if geography, size of enterprises, and gender are examined. It can be argued, on the negative side that it would be a mistake to implement policies of economic transformation believing they are neutral or little influential to poverty.

The institutional transformations may also play a role on poverty. Political reforms could increase or limit the bargaining power of the poor. They can influence their participation on decisions. Legal reforms of the labor market influence employment and income; and therefore affect poverty. Decentralization of public income and expenditure is frequently mentioned as a tool for reinforcing the participation of the poor in the solution of their problems. Reforms of tariffs and the financial system are also of great significance not only for the economic transformation but also for the poor by multiple mechanisms.

The magnitude and distribution of assets within a society influence greatly poverty and income distribution. Public policy for poverty alleviation is normally oriented towards increasing those assets. Although physical and financial capital are extremely important for income, the developments of the eighties and nineties have shown little engagement of governments on the distribution of that type of assets. Nonetheless, there are still areas where public policy plays a role. Probably the two most important are dwellings and access to land.

b. *Human capital*

On the contrary of what happens with physical and financial capital, the need to improve human capital has gained great technical and political recognition in the eighties and the nineties. Fundamental elements of human capital are education, health and in particular nutrition. Policies in this area produce results in the long term. Both the diagnosis and the monitoring of results are extremely demanding in terms of statistics. Nonetheless, discovering the groups that will be the object of policies is an easier task.

The micro approach plays an important role in education policies. There is an accepted objective to focalize these policies in places where poverty is high. This means that it is necessary to have information that allows a distribution of resources that is directly related at least to geographical distribution of poverty.

Health and nutrition insufficiencies constitute a fundamental component of poverty in the countries of low income and in many disadvantaged regions of countries with a medium income. It is not surprising that in the UN Millenium Declaration most of the specific quantitative goals of welfare refer to these topics. It is generally accepted that policies that improve this capital for the deprived are efficient to alleviate poverty. Due to fiscal restrictions the debate is normally organized around what components of investment in human capital are more efficient.

c. *Social capital*

More recently the concept of social capital has been introduced on poverty policies debate. Although papers relating to poverty that use the concept do not always put enough attention in its definition there is a general agreement that poor groups, as many others in the society, maintain certain relations that promote confidence, reciprocity, and cooperation. These relations could contribute to three types of benefits: reduce the costs of transactions, production of public goods, and facilitate building healthy social actors, civil associations, and base groups for the execution of policies²⁰.

²⁰ John Durston. Qué es el Capital Social Comunitario, Serie Políticas Sociales, Cepal, Julio, 2000

During periods of crisis, so usual in developing countries, vulnerable groups associate in different solidarity actions to defend themselves from adverse conditions. The role of public policy in this area is being discussed more systematically at present but specific policy proposals are scarce.

d. *Short Term Social Expenditure*

The fourth group of policies covers the rest of social expenditure. Most of it is related to transfers that alleviate poverty in the short term. Pensions and related benefits constitute a high percentage of income for many households. During crisis and when inflation is significant, pensions lose purchasing power and origin poor households. In many countries many elder have no pension, especially in the rural area. Some countries have been extremely successful in reducing income poverty increasing and establishing pensions for these groups. Access of poor elder to health services may significantly increase welfare of many households.

In many countries special funds or programs specifically created to fight poverty are today in operation. In some countries public policy has created programs to facilitate the access to employment of groups that encounter difficulties due to lack of education or skills. There is a broad spectrum of other monetary transfers directed to households that face special conditions. For example, those with many children or where nobody is employed. Although, normally these transfers represent very low percentages of household incomes, they can play a role for particular cases.

The micro approach statistical demands originate in institutions of the public sector working on policies, research institutes, and in the same statistical office. One crucial aspect of this statistical demand refers to the aim of establishing a direct or indirect relation between the instrument and poverty. It is less demanding if the relation is established with an objective or a goal in an area related to poverty but not directly with a poverty indicator. For example; we may be satisfied with an increase in employment in a group that has difficulties with the access to the labor market, absolutely convinced that it will have a positive impact in poverty. In that case the job will be easier than if we try to follow the income of the households where the individuals of the group belong, trying to determine their qualification in terms of poverty.

E. *Present Work Plan of the RIO GROUP*

The Rio Group is at present evaluating the possibility of preparing a compendium of best practices in the area of poverty statistics. Institutionally this compendium would be sponsored by the Brazilian Institute of Geography and Statistics (IBGE), ECLAC and possibly PARIS 21. The compendium would be prepared by participant countries and institutions through an updating of work prepared for the four meetings of the Group. Consultations are underway at present. To discuss those updated contributions and to incorporate the input of new participants a meeting would be called in the period October 2002-march 2003 in IBGE Headquarters in Rio de Janeiro..

A Preliminary Agenda oriented towards ordering contributions is available and is being used as a basis for consultations. Great importance has been given to the conceptual and operative definition of Standards being used in the different approaches to poverty measurement. Aspects such as units of measurement, statistical sources, geographical disaggregation, and resources needed to satisfy standards are being considered.. Topics of relevance such as Social Exclusion, Social deprivation, Empowerment and other social and political dimensions associated to Poverty, Poverty Dynamics. International Strategies, and International Comparisons have also been included.