



East Asia's Experience with Poverty Monitoring

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This presentation covers:

- Background
- Methodology
- Data needs
- Scale of effort
- Uses of poverty estimates & projections



Background

- The Asian financial crisis of 1997-98 sharpened the need for regular poverty monitoring in the region
- In 2000, the then quarterly (now 6-monthly) EA Briefs had sections on macro, corporate, financial and social updates for individual countries
- Poverty estimates were included in the Social Updates



Background

- EA Brief for September 2000 featured the first multi-country table with poverty estimates and projections
- It focused mainly on poverty during the crisis and recovery
- Since then poverty estimates and projections have been a regular feature of EA Briefs
- At RVP request, and with active support of the Chief Economist, a poverty projection tool was developed to do this more systematically



Background

- PovStat was developed during 2001 and has been refined over the years
- Now included in the PSIA toolkit (Bourguignon and Pareira da Silva)



Methodology

- Very similar to that used for GEP poverty estimates produced by DECRG (Ravallion and Chen)
- For a survey year:
 - Poverty estimates are directly computed from household survey data at int'l poverty lines
 - \$1 and \$2 per day poverty lines using WB 1993 PPPs (with some exceptions; see below)
 - CPI data used to deflate nominal income or consumption to 1993 prices
 - No adjustment for intra-country spatial prices differentials because such adjustments not possible for *all* countries



Methodology

- For a non-survey year (which could also be a future year):
 - Poverty projections are made using PovStat
 - In some cases, projections apply the real growth in per capita consumption derived from NA to the entire income/consumption distribution
 - The projections assume there is no change in *relative* inequalities



Methodology

- For a non-survey year (contd.):
 - In other cases with better data, **additional features** are built in – and this is where we start departing from the GEP methodology
 - Sectoral composition of growth (agriculture, industry and services) and changes in sectoral composition of employment - The projections assume there is no change in *relative* inequalities *within* sectors, but relaxes overall distribution neutrality



Methodology

- For a non-survey year (contd.):
 - Changes in income/consumption TOT – real GDP growth based on GDP deflator may under/over-estimate real growth in living standards based on CPI
 - Changes in relative price of food – the share of food in CPI typically < share of food in poverty consumption basket
 - => CPI can underestimate inflation for the poor
 - A huge issue for Indonesia – use of CPI could lead to a serious underestimation of the impact of the crisis (and subsequent recovery) associated with a hefty increase in the relative price of rice (and its subsequent decline)



Methodology

- For a non-survey year (contd.):
 - In this and other instances, **without the additional features** our poverty trends were out of line with national poverty estimates which paid attention to such considerations
 - To ensure consistency with country messages, we have had to incorporate these additional features into our poverty projections
 - Attention to these additional considerations also justified on substantive grounds



Data needs

- Data needs for PovStat-based poverty projections are moderate
- You need:
 - Unit record income/consumption distribution data – though one can make do with grouped data too
 - For international poverty line estimates, PPP estimates
 - GDP and population growth projections
 - CPI



Data needs

- That's all you need if the additional features are not incorporated
- But if they are, then you may also need:
 - Output and employment growth by sector
 - GDP deflator
 - Food component of the CPI
 - Changes in the ratio of private consumption to GDP



Data needs: A comment on PPPs

- For Vietnam, Lao PDR and Cambodia, the use of WB 1993 PPPs generated counter-intuitive poverty estimates
 - E.g., Using the WB PPP, the \$1/day headcount for Vietnam for 1998 comes to 4%, which is about the same as that for Thailand (for that year), about a-third of the Philippines and Indonesia, about one-fourth of China
- For these countries, the PPPs were adjusted using a calorie price ratio between Vietnam and Indonesia



Data needs: A comment on PPPs

- The calorie price ratios themselves derived from national food poverty lines and the caloric requirements they represent
 - With the adjusted PPP, the Vietnam headcount index for 1998 is estimated at 16%, more in line with what is expected relative to other countries in the region



Scale of effort

- We have now been doing regional poverty monitoring every 6 months (since September 2000)
 - Covering 10 countries (accounting for over 95% of EAP's population)
 - Covering a historical period going back to 1990 and projecting 1-2 years ahead
 - In all 10 countries, *at least one* of **the additional features** described above have been utilized
- Significant initial set-up costs in assembling survey + ancillary data
- Costs of updating are more modest, but not trivial



Scale of effort

- What is needed for the update?
 - Any new household survey data
 - Macro growth projections, and any employment projections
 - Updates on ancillary data on GDP deflators, CPI/CPI(Food), NA aggregates
- For any of these updates, careful attention has to be paid to comparability with earlier data
- Checking that and ensuring consistency with the previous series takes up the most time
- Involvement of poverty staff working on each country helps ensure quality of estimates and enriches interpretation of developments



Uses of poverty estimates & projections

- The estimates are used in the 6-monthly East Asia Briefs
 - Publicly launched in the region
 - Posted on the EAP external website
- This helps keep poverty on the front burner
- Useful for senior management speeches
- Useful for CAS exercises – especially for projecting poverty implications of alternative growth scenarios (Indonesia, Lao PDR)



Uses of poverty estimates & projections

- Useful for the monitoring of the first MDG related to poverty reduction
- Useful for country poverty assessments (Philippines, Timor Leste, PNG)
- Utilization outside the region
 - In CAS's/PA's for other countries
 - Used as a PSIA Toolkit (Bourguignon and Pareira da Silva) – disseminated through PREM Learning Week