

**HARMONIZATION OF CONCEPTS AND DEFINITIONS USED IN CARICOM  
REGION IN THE AREA OF SOCIAL AND GENDER STATISTICS AND  
INDICATORS**

**POVERTY CONCEPTS**

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**A CORE SET OF INDICATORS**

***POVERTY***

According to the agenda of this meeting we are to look at particular measures of poverty namely

- 1.) Proportion of population below \$1 per day (PPP-values)
- 2.) Poverty gap ratio (incidence x depth of poverty)
- 3.) Share of poorest quintile in national consumption
- 4.) Prevalence of underweight children (under five years of age)
- 5.) Proportion of population below minimum level of dietary energy consumption (indigent)

A look at the indicators which we are prepared to utilize to measure poverty, indicates that poverty can be measured in many ways depending on who is studying poverty. That is whether one is an economist, sociologist, or nutritionist, poverty can be measured in different ways.

The interest in poverty stems generally from the fact that policy makers as well as international lending agencies are interested in lowering the high rate of poverty presently existing in Caribbean.

**DEFINITIONS OF POVERTY**

A population is generally classified into two groups, the poor and the non-poor. One should also differentiate between social poverty and individual poverty. I would say that poverty is that level when reached will impact on the public purse. The level of poverty must be monitored so as to measure the risk factor to which the country is exposed. Such knowledge will inform policy formulation in a bid to reduce and ultimately eradicate poverty.

**Per Capita Income concept**

Per capita income can be used as a measure of household welfare. A certain level is used to differentiate the poor from the non-poor. There are three deficiencies with this approach. First the level of income may vary considerably during the course of a year under study, also the year under review may not be representative of income over an extended number of years. Also the self-employed and informal sector may pose a problem and households may not report their true income for fear of being taxed.

### **The Basic Needs concept**

This approach measures welfare based on certain basic needs such as food, clothing, housing, education and simple medical treatment. Acceptable levels of each element are generally predetermined by specialists. This approach is weak because it allows a high degree of subjectivity to be used when determining adequate levels of provision in each area.

### **The Food Ratio concept**

The Engel coefficient proposes that the ratio of food to non-food expenditure could serve as a useful welfare indicator. Studies have shown that households with higher levels of income usually spend a smaller fraction of their total income on food and that the reverse applies to households with smaller incomes. It was also noted that the ratio of food to non-food expenditure increased with family size. This approach, however, has had to be qualified given findings that the poorest households in developing countries do not necessarily spend a higher fraction of their budget on food items.

### **Per Capita Food Consumption**

This approach hinges directly on a household's propensity to consume food items. Welfare is measured strictly in terms of per capita food consumption. Non-food consumption expenditure is totally ignored. The advantage of this approach is that it requires only limited data. A serious weakness of this approach is the fact that non-food items, such as clothing and shelter are completely ignored.

### **The Calories concept**

This definition of poverty focuses on calorie intake instead of spending on food items and therefore is based on nutritional studies. This method like the Per Capita Food consumption concept also ignores non-food requirements of households. Once there is an agreement on the acceptable calorie intake, the measure allows for comparisons across time and space.

### **The Medical Data concept**

Medical indicators and data on nutrition can also be used as an indicator of welfare. This approach is especially important when the focus of the study is on young children. This approach can however be misleading because although health status is strongly correlated to household welfare, it is not identical with it. Under-nutrition of children in the household, leading to low weight and height for age, and low birth weight may be an

indicator of inequality in the household rather than of the incapacity of the household to provide adequate needs of all its members.

### **Per Adult Equivalence Consumption**

This approach to defining poverty uses total consumption expenditure, adjusted for household equivalent scales as a measure of household welfare. Equivalent scales control for differences in household composition based on age and gender. This definition of poverty is particularly attractive, because it systematically includes the nutritional requirements appropriate to the respective members of the household; that is it allows the poverty criterion to be household specific.

### **Social Debt concept**

This methodology is a contribution by the International Labour Organisation. It measures the resources that need to be transferred to the lower income groups in the society from the upper.

### **Human Development Index**

This is a composite index that embraces not only GNP per capita but also the level of educational attainment and life expectancy of a population. A series has been generated with the basic index and data are now regularly published on the performance of countries over time. The OECS has developed a series based on its experience.

### **Living Standards Measurement Survey**

The World bank itself has conducted numerous studies across the third world which have resulted in a standard methodology - the Living Standards Measurement Survey (LSMS) it is often complemented by work in the area of employment through the methodology of Labor Market Information Systems (LMIS).

### **The Poverty Line**

The poverty line is a monetary measure of the minimum consumption, in dollar terms, of goods and services that a household should obtain in order to ensure that its basic needs are adequately met. The poverty line, therefore, represents a minimum budget that a household should spend, over a defined period if it is to meet its basic food and non-food requirements.

### **The Poverty Gap**

The poverty gap is the average of the differences between the income of each individual poor and the poverty line.

## **Indigence**

This concept is couched on the premise that every individual must satisfy certain basic nutritional requirements for survival. A basket of goods is selected in such a way as to maximize one's nutrient intake at the lowest possible cost. The market cost of the selected basket is then derived and the monetary value of purchasing the selected basket of basic food calculated. Households unable to meet the cost of obtaining the basket of food items are categorized as critically poor, or indigent. The market cost of the basic food basket (the critical poverty line) represents a lower limit of poverty and is the critical poverty line.

## **Purchasing Power Parity(PPP)**

The idea of PPP originated from the recognition that exchange rate varied substantially from ratios of prices across countries and therefore were unreliable indicators of purchasing power across countries.

The PPP is the number of units in EC\$ for example required to purchase the same representative of the same basket of goods and services that a US dollar would buy in the United States. Purchasing power could be expressed in different national currencies or in Special Drawing Rights (SDRs)

There was a study conducted by the Caribbean Community Secretariat and the World Bank, July 1997.

## **Relative and Absolute Poverty Measures**

Relative poverty defines the poor in relation to some criterion group in the population. An example the criterion could be set at the 40<sup>th</sup> percentile of the distribution; the criterion recognizes the attainment of some specific group of individuals or households.

An absolute measure of poverty, is derived from the non-attainment of a criterion level of food and non-food expenditure. The food component is usually set by way of nutritional requirements below which bodily health can be threatened, while the non-food component is based on some minimum standard deemed socially acceptable. The non-food component is less scientific than nutritional standards and results in variability among researchers of absolute measures of poverty.

The World Bank uses both elements in constructing poverty lines. Food requirements are derived based on nutritional requirements set by the indigence line, while non-food expenditures are set on the basis of a relative measure, namely, the average non-food expenditure of the poorest 40% of the population.

### **Private Poverty/Public Poverty**

Private poverty refers to deprivation that is due to low levels of income or limited access to economic resources on the part of the individual or household.

Public poverty refers to the inability of the state to adequately meet the costs that are usually borne by a government in respect of education, health, welfare and civic matters.

The usefulness of this distinction is based on the fact that there are some conditions of deprivation that, even though outside the control of the household, nonetheless can have negative effects on its well-being. Similarly the level of provision of government services can ensure that households that have low levels of private income for consumption, nonetheless, are provided with certain basic collective goods and services, e.g. portable water, garbage disposal, etc.

### **Relevance of Poverty measures**

There are a number of measures which can be utilized in poverty assessment having regard to the availability and regularity of data.

Bibliography:-Technical paper for Poverty Assessment : Kairi Consultants