

REPORT OF THE RIO GROUP EIGHTH MEETING.

Rio de Janeiro, August 24 and 25, 2006

I THE PREPARATION OF THE COMPENDIUM OF GOOD PRACTICES

The Rio Group on Poverty Statistics has produced a Compendium of Good Practices that was distributed during this meeting of the Rio Group. Its preparation took time because of the large effort carried out at the first stages to capture work in the area covering many different aspects of the measurement of poverty and other related issues.

The first evaluation of the group concluded that, despite the methodological and operational heterogeneity, most countries around the world were actively involved in the measurement of poverty. This phenomenon was gaining momentum during those years, as the Copenhagen Summit on Social Development and later the Millennium Declaration systematically brought attention to the need not only for poverty figures but, even more challengingly, for comparable ones. It was found out that most practices fitted well within a small number of categories. But it was also true that less statistically developed countries had to use “shortcuts” in terms of procedures and calculations due to lack of statistical infrastructure and experience.

In the last three meetings activities were undertaken to systematize the experiences and to summarize them into a small group of approaches. An effort was also made to update the experiences as much as possible.

Despite those efforts, the work in the area is intense and therefore there has been further progress in the area of poverty measurement that is not fully portrayed in the Compendium. Due to these circumstances in this meeting the Group prepared an agenda listing the most important areas where significant work is underway. During the meeting those working at present in them described their work and its perspectives. In what follows, the topics are listed and features of work described.

II. Important areas of work underway

- 1. Some countries or organizations with an extended practice in poverty measurement –including the systematic publication of results– are updating their methods, and revising their conceptual and methodological background. They have discovered that changing the definitions and levels of indicators faces an important political cost, especially when it leads to significant fluctuations in the number of poor people. Opening the process to more actors and convincing the public opinion about the pertinence of the modifications have been harder than envisaged. When this kind of process is undertaken, establishing publicly announced schedules seems to ease the interaction with the public.**
- 2. Countries that do not have an official measurement of poverty deal with pressures for developing one. An important factor to consider is that, in many cases, there are already organizations or research centers that produce poverty figures, which have been assumed by many actors as official figures. Therefore, some of these countries are studying the advantages and possibilities of adopting official measurements.**
- 3. International and national fora have been using the category of poverty in a broad and multidimensional way. This has led to a revitalized interest in synthesizing information from many dimensions into one indicator. Although there are many aggregation techniques to deal with this, and new ones are being proposed, there are conceptual and technical limitations to be solved. This subject has received attention from academic research, but empirical practices have not adopted this line of work yet.**
- 4. The relation between welfare and the measurement of poverty is permanently being examined, and there is an increasing need to complement income-based measures with other aspects related to welfare. The deprivation approach offers interesting possibilities in this area, as it allows the consideration of deficits in dimensions not necessarily associated to income –at least to monetary private**

- income—, and makes easier to take into account people's perception of necessities as a counterpart to experts' opinions.
5. The concept of income, and more precisely of the purchasing power of income, continues having an important role in the perception of welfare. The concepts of minimum wage monetary cost of a basket of good and services or income needed to arrive at the end of the month are closely connected with the perception of well being. It is also true that people value the access to non-cash items such as good public education or health systems. Therefore, the limits and contents of the concept of income are a central topic for the measurement of poverty.
 6. Child poverty has gained status, due to its ethical force. Its influence has been a source of enrichment for the methodologies of poverty measurement. While these measures continue being home or family centered, the analysis of child poverty contributes to the quantification of poverty at the whole population individual level.

III. Challenges in the areas of work

1. Countries that have been measuring poverty for long periods are well aware that the social and economic transformations, plus the development of statistical methodologies, make it necessary to revisit the approaches and methods from time to time. Nonetheless, the consequences of upward or downward changes of the count ratio should be foreseen. On occasions the political system may interpret them as a problem, while on other they may denote a new style and content of government.
2. Some countries, such as USA and the UK, have experience in holding consultations for the conceptual and methodological revision of poverty measurement. This is a process that has different consequences that should be explored. The whole procedure should be easier when the consultation is restricted only to the method without questioning the approach used. Nevertheless, in political consultations it is very probable that

both concept and approach will be subject to scrutiny, and that the consequences regarding the magnitude of people in poverty will matter more. Also, the spectrum of the people consulted has an important influence on the process. People who are better aware of the available statistical instruments and of the costs and possibilities of implementing them will make the task more operational.

- 3. Some countries are still reluctant to produce an official measurement of poverty. Nonetheless the international community has established compromises that create obligations in that direction. They are more obvious for developing countries as is the case of the Millennium Development Goals. But the European Union incorporated an official measurement some years ago, and has continued adding indicators to complement its relative poverty index.**
- 4. There is a rather broad consensus that a measurement of poverty must consider household income, due to the possibilities of welfare that a certain level of purchasing power can generate. When a more precise definition of income needs to be decided, there are numerous choices available. Furthermore the current economic, social and institutional transformations in the world economy pose new problems that require additional work to be handled adequately. There has been a rather systematic work on the international statistical community that has introduced changes and clarifications. The 1993 revision of the SNA, the work of updating it that is underway and the report of the Canberra Group on household income are good examples of it.**

Some of these challenges refer to valuing non-cash income and defining and measuring disposable income when tax and transfers are considered. Another is the decision whether to include or not the non-monetary benefits (from employer-provided health insurance to company cars) paid by firms, which typically go to earners of all income levels. The definition of disposable income and its relation to welfare is challenged when certain work-related expenditures are considered, for example childcare. The measurement of other components implies additional challenges, as is the case of the expenditure in durable consumer goods, the

income derived from owning the dwelling where the family lives, non-market and non-cash incomes., or “locational premium” for subsidized units in high-cost areas. The underreporting derived from the surveys is a well known difficulty, already discussed to some extent by the Canberra Group. It is especially important in items such as self-employment income, interests and dividends and in the reporting of public and private transfers.

5. The Copenhagen Conference on Social Development, the Millennium Declaration and many national proposals have recognized the multi-dimensional character of poverty. Poverty is increasingly being used as a type of umbrella concept, where many different dimensions of the notion of social welfare are included. In particular the categories of social deprivation or exclusion broaden the definition of poverty. Furthermore, non-economists criticize the income based measurements of poverty. Proposals for change that add diverse types of income or that aim at synthesizing indicators of different nature in one are becoming increasingly frequent.

In the conceptual and operational areas, the work of Professor Townsend and his close collaborators has been very influential. At least two reasons can be identified. In the first place, capturing people’s perceptions of welfare through the research on what they consider to be necessities provides an innovative approach for setting minimum thresholds. Second, their research opens the door to including items that belong to a broader dimensional spectrum than those usually examined in an expenditure survey, such as security and participation in decision taking. This also brings back into the picture the access to some services that can only be provided on a broad base, such as communication in rural areas, health, and education of good quality.

IV. Conclusions on future work

1. The Group agreed that an important stage of work has finished. It fulfills the mandate given to the Group by the Statistical Commission of the United Nations.

- 2. The fact that so much work related to the topic is underway constitutes a great and efficient opportunity for maintaining international cooperation.**
- 3. It is a great asset that the members of the Group are practically all of them working intensively in the introduction of innovations in the practices.**
- 4. It is a fact that a network of institutions has been created. The members view is that it should be kept in operation.**
- 5. There is also consensus on the need to reformulate the present institutional arrangements to adapt them to the new circumstances.**
- 6. The Brazilian IBGE was given the mandate to carry out consultations on possible new arrangements for maintaining the work as a network, with a simplest structure and not maintaining an institution as secretariat of the Group. Mr. Pedro Sáinz will cooperate with IBGE in preparing a proposal for the Group. It should be finished in the last quarter of 2006.**
- 7. The members introduced a set of possible actions and forms of cooperation with the network that the proposal to be prepared will include.**