



**ICP Asia-Pacific 2005
Poverty-Specific PPPs**

Workshop – Review and Validation of Results

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Poverty PPP Project - Overview



Background

- ◆ Global and regional poverty estimates are useful instruments in monitoring the progress of the countries against MDGs.
- ◆ Practices and methods used in poverty measurement differ significantly across countries.
- ◆ World Bank publishes estimates of poverty incidence on a regular basis.
- ◆ \$1/day and \$2/day international poverty lines are used



Number of poor under \$1/day

(b) Number of people

Region	1981	1984	1987	1990	1993	1996	1999	2002	2004
EAP	796.40	564.30	428.76	476.22	420.22	279.09	276.54	226.77	169.13
China	633.66	425.27	310.43	374.33	334.21	211.44	222.78	176.61	128.36
ECA	3.00	2.27	1.61	2.16	16.94	20.87	17.90	6.01	4.42
LAC	39.35	50.90	50.00	44.60	38.83	42.96	49.03	48.13	47.02
MNA	8.81	7.26	6.41	5.26	4.53	4.38	5.67	4.88	4.40
SAS	455.18	445.05	471.14	479.10	436.74	452.91	463.40	469.55	446.20
India	363.72	359.41	368.60	376.44	376.14	378.91	376.25	377.84	370.67
SSA	167.53	199.78	222.80	240.34	252.26	286.21	296.07	296.11	298.30
Total	1470.28	1269.56	1180.73	1247.68	1170.17	1087.81	1108.61	1051.46	969.48
Total excl.China	836.62	844.29	870.30	873.35	835.96	876.37	885.83	874.85	841.12

Source: Chen and Ravallion (2007), PovcalNet, World Bank



Background

- ◆ This approach has been in use since 1990.
- ◆ The \$1/day poverty line was found to be representative of the poverty-lines typical of low-income countries.
- ◆ The \$1/day was anchored on the actual poverty lines used – therefore it is considered as an international poverty line built from national poverty lines.
- ◆ The \$1/day is considered as a line to determine “extreme poverty”.



Methodology used by the World Bank

- ◆ Convert \$1/day poverty line using ICP PPPs for Consumption.
- ◆ The 1993 benchmark data and results are the main source for PPPs.
- ◆ For non-benchmark countries, PPPs are based on World Bank extrapolations.
- ◆ For India, extrapolations are based on the results from 1985. For China, use is made of Bank's internal estimates.
- ◆ For non-benchmark years, extrapolations are used. In some instances PWT PPPs are also used.



2005 ICP Asia-Pacific and Poverty PPPs

- ◆ It has been generally recognised that the PPPs used by the World Bank, drawn directly from the ICP, are deficient.
- ◆ ICP PPPs make use of price data for goods and services that may not be representative for the poor.
- ◆ PPPs derived for the ICP project are based on expenditure weights from the national accounts – weights are for the country as a whole but not specific to the poor.
- ◆ Given the limitations of the ICP-PPPs for poverty work, it was decided that poverty-specific PPPs will be compiled for the 2005 Round.



Compilation of Poverty-PPPs – Basic Approach

- ◆ **The approach used here is endorsed by the Poverty Advisory Group established by the World Bank.**
- ◆ **The PAG recommendation is to improve the methodology on an incremental basis. For this round the following steps are recommended.**
- ◆ **Step 1: Compute Basic Heading PPPs for Consumption items using ICP data collected during 2005.**
- ◆ **Step 2: Aggregate these BH Parities using expenditure share weights of the “poor”.**



Basic Approach - continued

- ◆ **The “Poor” population for purposes of this project is determined as a part of the PPP computations.**
- ◆ **Expenditure share weights are compiled from the most recent household expenditure surveys.**
- ◆ **Compile poverty PPPs using one of the “ring countries” as the reference or numeraire country.**
- ◆ **Use the ICP Ring comparisons to connect “regional-specific” Poverty-PPPs with the US dollar.**



Sensitivity Analysis

- ◆ **The main objective of the project is to compile Poverty-PPPs using methodology recommended by the PAG. This is the *baseline outcome*.**
- ◆ **The project is also designed to provide useful input into future innovations to the methodology.**
- ◆ **The aim here is to study sensitivity of the Poverty-PPP estimates to different sources of price data and to different aggregation methodologies.**



Sensitivity Analysis - alternatives

- ◆ **Price data from poverty price surveys – product lists and outlets are selected so as to represent the consumption habits of the poor.**
- ◆ **Use of “*representativeness*” information for the items in the ICP – countries have indicated whether items are relevant for poor.**
- ◆ **Expenditure share weights – The PAG recommendation is to use expenditure weights for the poor.**
 - ◆ **Poor are defined as all households under a given poverty line**
 - ◆ **Instead only households around the poverty line may be used**



Poverty PPPs: Data Sources

- ◆ **Source of price data: ICP-Asia: 2005. Consumption basic heading (BH) PPPs for the region (16 countries)**
- ◆ **Alternative source: Prices from Poverty Price Surveys**
- ◆ Expenditure shares are compiled from the household expenditure survey data:
 - ◆ World Bank has assisted in mapping HES product lists to ICP Basic Headings – work has been completed for all the countries
 - ◆ Latest household expenditure survey data are being used
 - ◆ Compile expenditure share weights for the poor or for households around the poverty line



Workshop objectives

- ◆ **Main objective is to Review and Validate Poverty-PPP estimates derived using the PAG Methodology**
- ◆ **Review poverty-PPPs derived using different data sources and methods.**
- ◆ **In the process of reviewing the results – also review the expenditure share weights for the poor**
- ◆ **General conclusions**

