



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

*Workshop – Review and Validation of Results*

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*Expenditure Share weights–  
Compilation methodology*



# Basic Steps involved

- ◆ Establish a “reference population”
  - This requires a series of iterative steps
  - All households under poverty
  - All households around the poverty line
- ◆ Expenditure weights
  - Need to establish a correspondence between HES and ICP basic headings
  - For the reference population
  - Democratic versus plutocratic weights



# *HES and the Expenditure Weights*

☞ We need weights to combine basic heading PPPs

- Depends upon the particular formula used.

☞ Use ICP basic headings from consumption

- Allows the use of ICP-price data to be combined with HES expenditure weights

☞ Establish a mapping between ICP basic headings and HES expenditure data

- HES classification and ICP classification do not match
- The extent of mismatch varies across countries
- There is need to split some categories and in some cases aggregate HES categories to match ICP categories
- This work was undertaken at the Global Office



## *HES and the “Reference Population”*

- ◆ Start with a set of PPPs – like ICP PPPs computed using national weights.
- ◆ Use the PPPs to convert \$1/day international poverty lines
- ◆ Once the poverty lines are obtained for each country, then use the poverty lines to identify the “reference population” – used three methods
  1. Identify all the households below the poverty line.
  2. Identify all the households within an interval “h” ( $\pm 0.5h$ ) or “2h” ( $\pm h$ ) from the poverty line

**Provide an illustration of the steps here.**



# *HES and the Expenditure Weights*

## ☞ Determination of expenditure weights

- Weights available for each poor household in each country
- Weights for all the households below the poverty line
- Weights for all the households at the poverty line
- Choice depends upon the purpose:
  - ◆ If PPPs are for converting an international poverty line, then households on the poverty line may be considered.
  - ◆ If PPPs are for converting expenditures of poor in different countries, then we need weights for all households below poverty line are important.



## *HES and the “Reference Population”*

- ✦ Using the “reference population” of households, compute expenditure share weights for different basic headings.
- ✦ Once the weights are known, we can use these weights to combine Basic Heading PPPs and compute PPPs for converting poverty line.
- ✦ Use these PPPs to convert once again the “international poverty lines” and follow the same steps.
- ✦ Continue until this process converges to a single set of PPPs – Poverty PPPs.



## *HES and the Expenditure Weights*

- ☞ Compute average weights for all the households
  - Weights for the “poor households”
  - Democratic weights: average of the expenditure weights of all the “poor households”
  - Plutocratic weights: expenditure weights of the average household – this can be dominated by richer households
- ☞ Will require special tabulations of weights for poverty-PPP computation



# *Democratic and Plutocratic weights*

	Household 1		Household 2	
Item 1	50	0.33	20	0.67
Item 2	100	0.67	10	0.33

	Democratic weights	Plutocratic weights
Item 1	0.5	0.38
Item 2	0.5	0.62

