Measuring poverty in Latin America

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Brief overview of LAC region

• Most countries have an official poverty measure based on the cost-of-basic-needs approach
  • With exceptions: No official poverty line in Brazil -> Poverty data based on US$ PPP lines

• Latin America (20 countries)
  • Most countries use an income-based poverty measure
  • Regular implementation of household surveys
    • 15 countries have annual or biennial surveys
    • Gradual adoption of continuous surveys (measure income along the year)
  • Poverty line based on Income and Expenditure Surveys (different from the income survey)
    • Implemented every 10 years (approx.)

• Caribbean (13 countries & 14 territories)
  • Most use a consumption-based poverty measure
  • Less availability of household surveys, limited access
Poverty measurement at ECLAC

• ECLAC regularly monitors extreme poverty and total poverty for 18 Latin American countries since the early 1980s.

• Poverty lines:
  • Calculated for each country, based on their nationally representative household expenditure survey.

• Household Income:
  • ECLAC Household survey databank (BADEHOG)
  • Surveys used for official poverty measurement, 1990-2021 (updated annually)
  • “Ex-post” harmonization of key variables

• Poverty figures published annually in Social Panorama of Latin America and CEPALSTAT.
Why ECLAC measures poverty

• National poverty figures are not directly comparable
  • Results are highly sensitive to differences in methodological decisions, even if based on a common approach (cost-of-basic-needs).
  • This limits the possibility of comparing poverty levels and trends across countries.

• ECLAC poverty measures aim at regional comparability
  • “Comparability” comes from the application of a common methodology, with the greatest possible homogeneity in all countries.
  • They tell us how would absolute poverty rates look if all countries applied the same methodology.
  • Differences between ECLAC and national measures can be decomposed into several elements.

• The methodology follows the standard steps:
  • Poverty line
    • Selection of reference population
    • Construction of basic food basket
    • Calculation of non-food component
  • Household income
    • Construction of household income aggregate
Key features:
Choice of reference population

• Commonly used approaches
  • Option 1: Exogenous indicator of sufficiency ("apparent caloric intake")
  • Option 2: Convergence between the reference population and the poverty rate

• Both are affected by the ability of surveys to properly measure "caloric intake"
  • When food expenditure is converted into kilocalories ...
  • ... several IES seem to underestimate food expenditure
  • ... several LCS seem to overestimate food expenditure

• Proposed solution: Minimize dependency on food expenditure
  a. Select reference population based on multiple deprivations (based on option 1)
     • Consider “sufficiency” in other wellbeing dimensions (housing, basic services, education), in addition to food
     • First 20-percentile group (sorted by income) where 10% or less households have 2 o more deprivations
  b. Adjust upwards if reference population is below poverty line (based on option 2)
Key features:

“Positive” vs “normative” approach to item selection

• Poverty lines in the region differ in the degree of “normativity” applied to the selection of products and quantities, especially in the food basket.
• Number of items in food baskets range from around 30 to more than 100.

• Basic food basket
  • Items selected according to % of households + at least 2 items per food category
  • Around 60 products
  • Limited adjustments to avoid underestimation of cost due to low nutritional quality ->
    general rule for macronutrients
  • Out-of-household expenditure
    • Cost and nutrient contribution based on multiplier to in-household expenditure

• Non-food items
  • Items selected according to frequency (at least 10% of households)
  • Cost summarized in Orshansky coefficient
Key features:
Income from imputed rent

• Imputed rent is part of household income
  • Its incorporation seeks to make the well-being of owner and non-owner households comparable.

• However, it poses a challenge in poverty measurement:
  • When monetizing income in kind, the method assumes that it can be used for any type of expense.
  • Therefore, its inclusion may lead to underestimating poverty when most of the household income comes from this source.

• ECLAC applies an upper limit to the imputed rent of each household
  • The imputed rent cannot exceed the value of the other income received by the household.
  • Thus, a household with zero or very low income, and which has a high imputed rent, will not be classified as non-poor solely because of its imputed rent.

• Possibility in next methodological review:
  • Do not include imputed rent in income, and use separate poverty lines for homeowners and renters.
Latin America (15 countries): Extreme poverty and poverty rates, ECLAC estimations and national official figures, ca.2020
Challenges and areas for development

• Data disaggregation
  • Small-area estimation methods are very useful for attaining higher levels of disaggregation of poverty rates than can be achieved by surveys alone.
  • Greater availability of administrative data and the recent population census round offer great possibilities.
  • But poverty lines should be better adapted to geographical context
    • Existing poverty lines are usually set at urban/rural levels
    • For areas with large differences in cost of living, this assumption can lead to biased results

• Equivalence scales
  • Most countries use per capita thresholds
  • Measures should consider at least some degree of economies of scale in consumption
    • Should lead to better representation of poverty incidence for people living alone and age-profile of poverty
Challenges and areas for development

• More complete measurement of income
  • More comprehensive questionnaires
  • Use of administrative data to complement surveys (record linkage)
  • For inequality: develop complementary measure combining survey data with other sources (tax records, national accounts)

• What to do with income in-kind?
  • Adjusted disposable income is the preferred measure for distributive analysis and effects of government intervention (Canberra Group, 2011)
  • But it is not clear if it is to be preferred for measurement of absolute monetary poverty
    • Method assumes in-kind income is freely disposable
    • Can lead to underestimate poverty in households where this source of income is large.
Thank you for your attention!

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