# MEASURING INCOME AND MULTI-DIMENSIONAL POVERTY: THE IMPLICATIONS FOR POLICY

**Sudarno Sumarto**

Policy Advisor – National Team for the Acceleration of Poverty Reduction
Senior Research Fellow – SMERU Research Institute

Asia Public Policy Forum: Poverty, Inequality and Social Protection
Jakarta, 29 May 2013

# There is a notable variation among countries in the gap between income poverty and multidimensional poverty
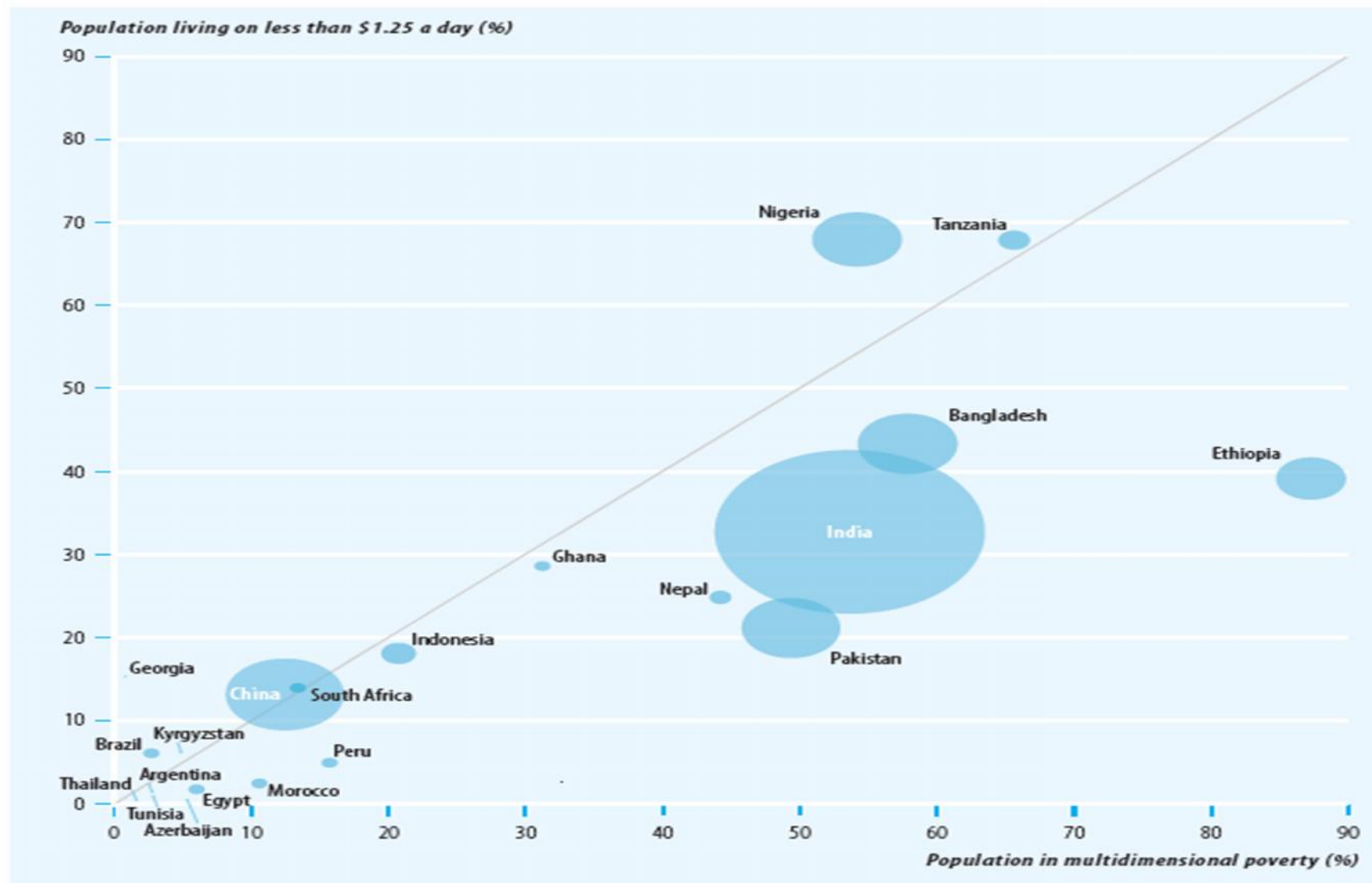


Source: HDI 2012

# Outline of Today's Talk

- Poverty Measurement Issues

- Poverty from a One-Dimensional (Monetary) Perspective

- Poverty from a Multi-Dimensional Perspective

- Indonesia's Efforts to Combat Poverty

- Concluding Remarks

# Poverty Measurement Issues

# Defining and Measuring Poverty (1/2)

- Poverty is widely accepted to be an inherently multi-dimensional

- But, it has proven difficult to develop measures that:
  - adequately capture this multidimensionality
  - account for the "ecological" and multilevel context of well-being
  - facilitate comparisons over time

- While defining and measuring poverty is difficult due to its complexity, it is **essential for designing and implementing poverty-reduction programs**

- Reliable definitions and measurements of poverty:
  - help the formulation and testing of hypotheses regarding the causes of poverty
  - enable governments and the international community to set measurable targets for measuring impact of their interventions

# Defining and Measuring Poverty (2/2)

**Poverty Measurement Approaches**

## Monetary Approach

- Income per capita
- Expenditure/consumption per capita

## Non-monetary Approach

- Capability approach? (Sen; HDI)
- Social exclusion? (unemployment, lack of social insurance, lack of housing, lack of social and political participation)
- Participatory approaches? (Chambers)
- Health indicators
- Education Indicators

# Poverty from a One-Dimensional (Monetary) Perspective
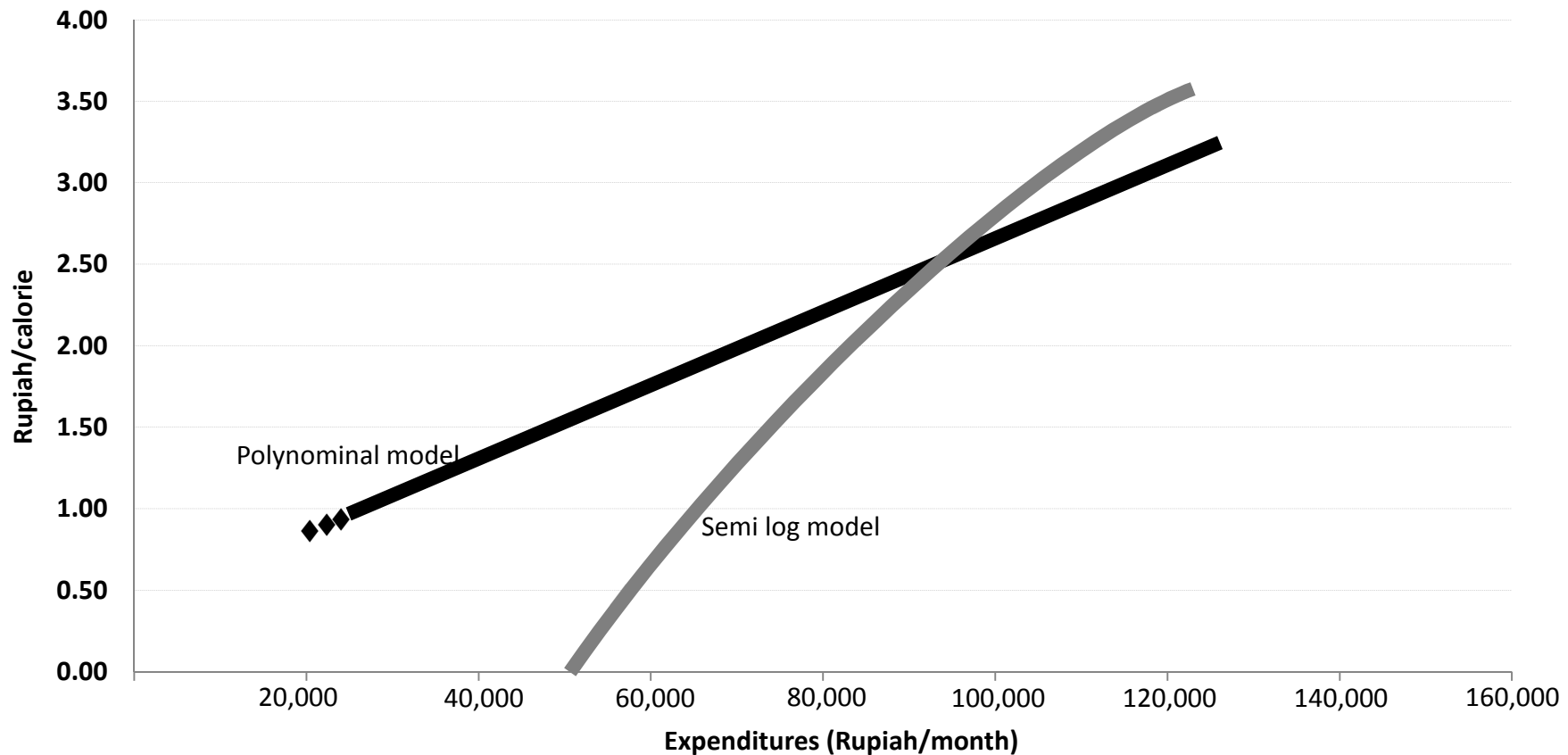
# Measuring One-dimensional Poverty: Monetary Poverty

**Based on the idea of a poverty line separating the poor and the non-poor**

- **Absolute Poverty – linked to basic welfare**

  – Income or consumption

  – Issues: bundle of goods & services in consumption basket, per capita or adult equivalent unit, economies of scale

- **Relative Poverty**

  – Interprets poverty in relation to living standard of a given society

  – Stresses economic inequality as the primary indicator of poverty

    - Cut-off point arbitrary

    - Not useful for monitoring evolution over time

# Measuring One-dimensional Poverty: Monetary Poverty – the Case of Indonesia

- **Distribution of household income/expenditure**
  - Data from household survey (Consumption module of Socio-economic survey/Susenas is used to measure poverty in Indonesia)

- **Poverty Line**
  a. Food Poverty Line (FPL) ⇨ 2,100 k/c/capita/day
  b. Non-food Poverty Line (NfPL) ⇨ basic needs or the Engle curve
  c. Poverty Line (total) = FPL + NfPL
  d. Consumption less than Poverty Line (PL) ⇨ Poor

- **Reference group of population for consumption pattern**
  - 20% above the PL

# Measuring One-dimensional Poverty: Monetary Poverty – the Importance of Reference Group
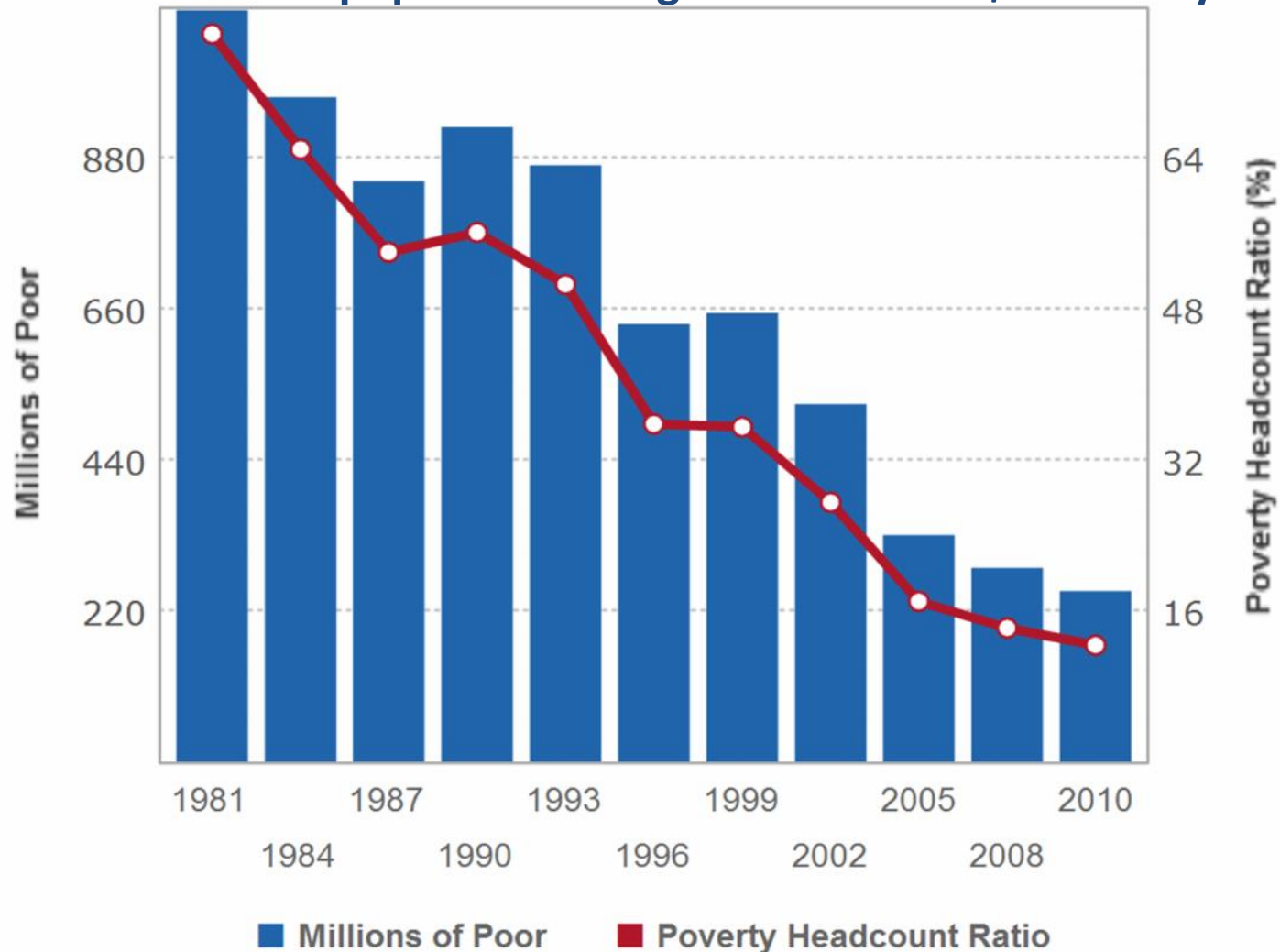
# Monetary Poverty: A Changing Global Landscape
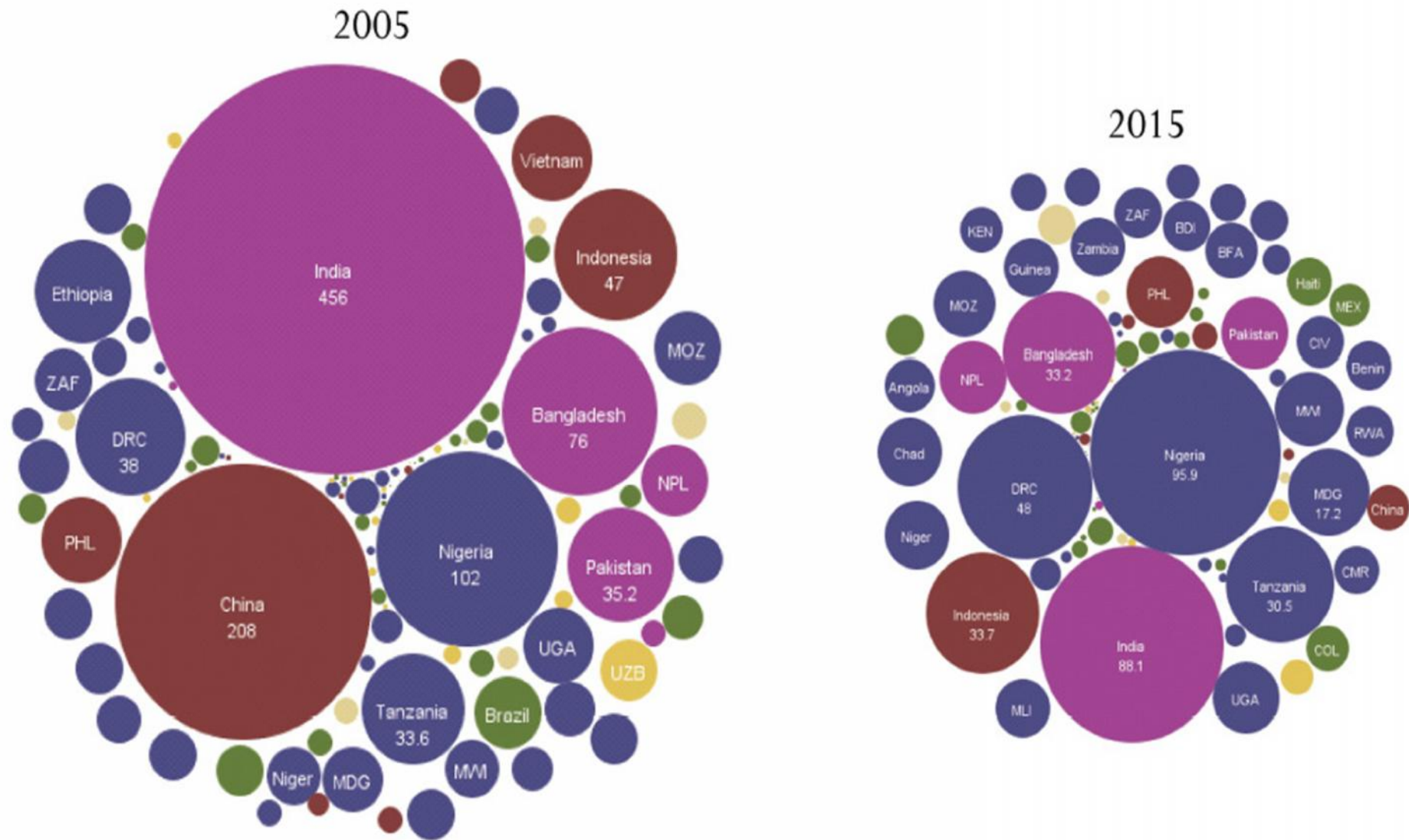


Source: World Bank

# East-Asia: Important Progress in Reducing Monetary Poverty

**Share of the population living with less than $1.25 a day**



Source: World Bank

# Measuring One-dimensional Poverty: Income/Expenditure Poverty – Limitations

- Does not capture access to public goods and non-market commodities

- Does not capture social exclusion

- Assume equal distribution of resources at household level

- Having enough income does not guarantee acquiring the attributes required for minimum well-being
  - Income above the poverty line but decide to spent it on drugs — low health, shorter life

# Poverty from a Multi-Dimensional Perspective

# Income Poverty gives an Incomplete Picture

| Mismatch between income poverty and deprivations in education and nutrition | Country | Education | | Nutrition/health | |
|---|---|---|---|---|---|
| | | Children | Adults | Children | Adults |
| Deprived in functioning but not income/expenditure | India | 43% | 60% | **53%** | 63% |
| | Peru | 32% | 37% | 21% | 55% |
| Income/expenditure poor persons who are not deprived in functioning | India | 65% | 38% | **53%** | 91% |
| | Peru | 93% | 73% | 66% | 94% |

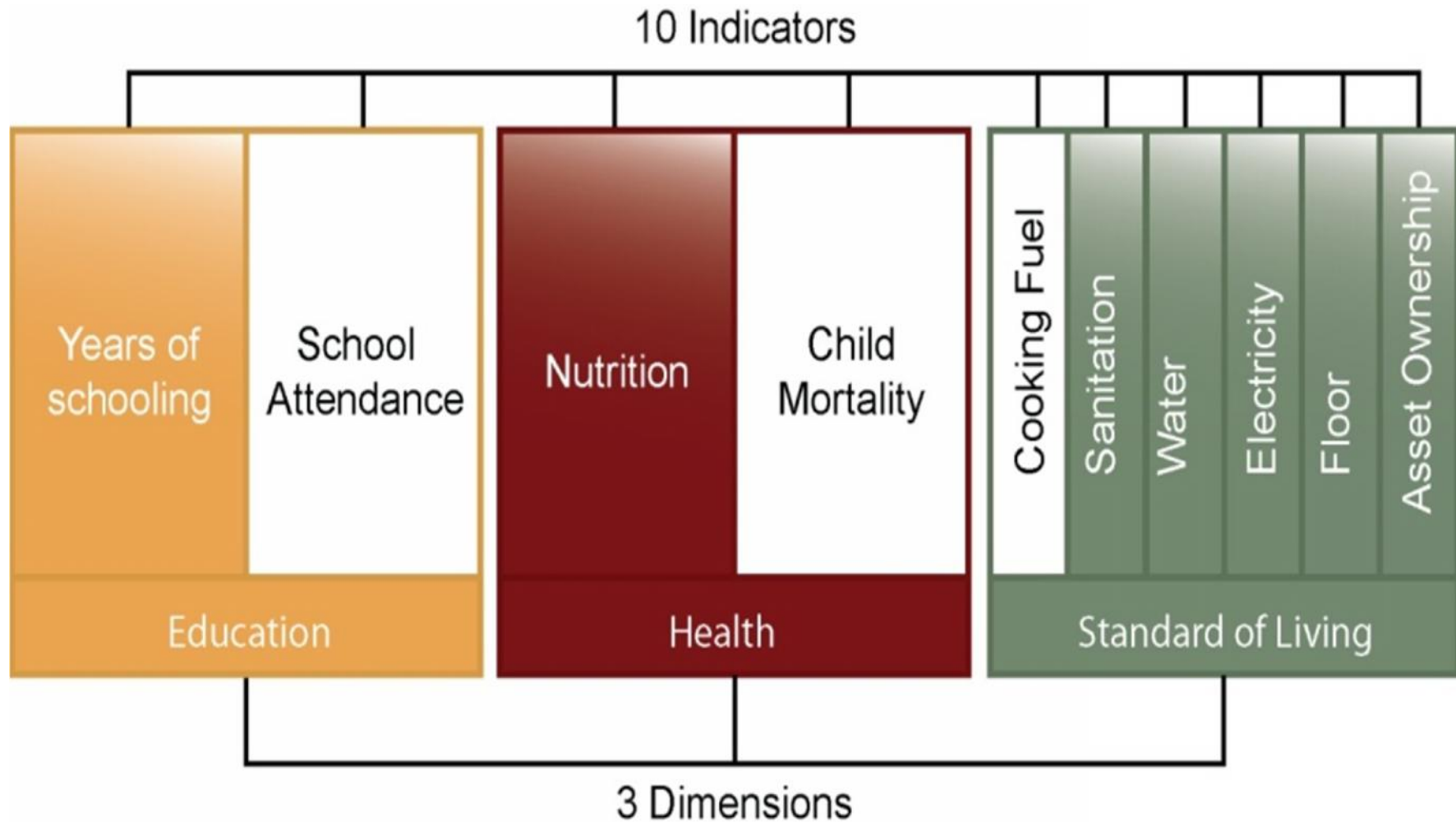Source: Franco *et al.* (2002) cited in Ruggieri-Laderchi, Saith and Stewart.
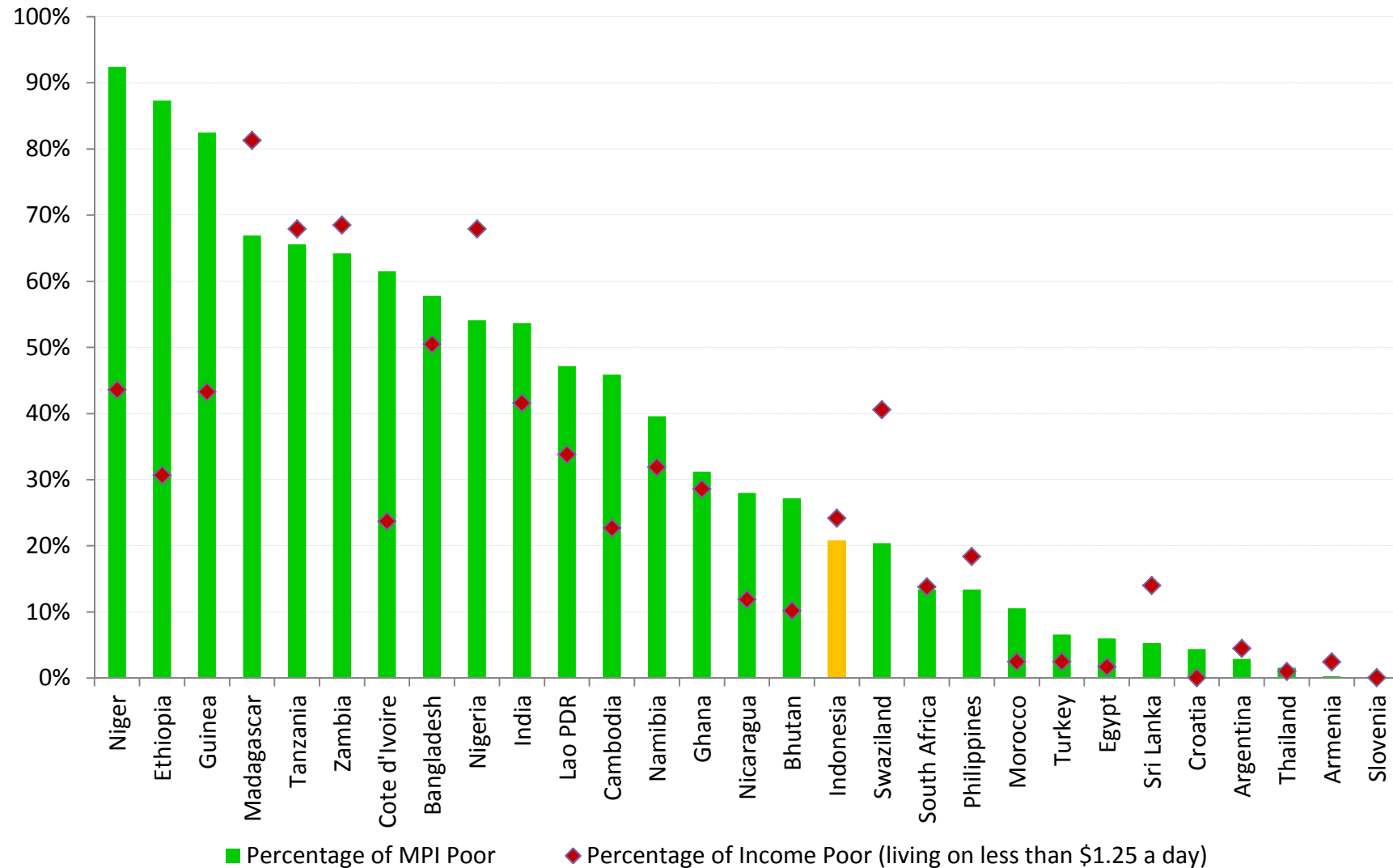
# Amartya Sen's Capability Approach

"**Human lives are battered and diminished in all kinds of different ways, and the first task... is to acknowledge that deprivations of very different kinds have to be accommodated within a general overarching framework.**"

# OPHI Multidimensional Poverty Index: Weight & Indicator

# Multi-Dimensional & Monetary Poverty Headcounts – Selected Countries



Legend: Percentage of MPI Poor (green bars); Percentage of Income Poor (living on less than $1.25 a day) (red diamonds)

# Indonesia: Deprivations in each Indicator
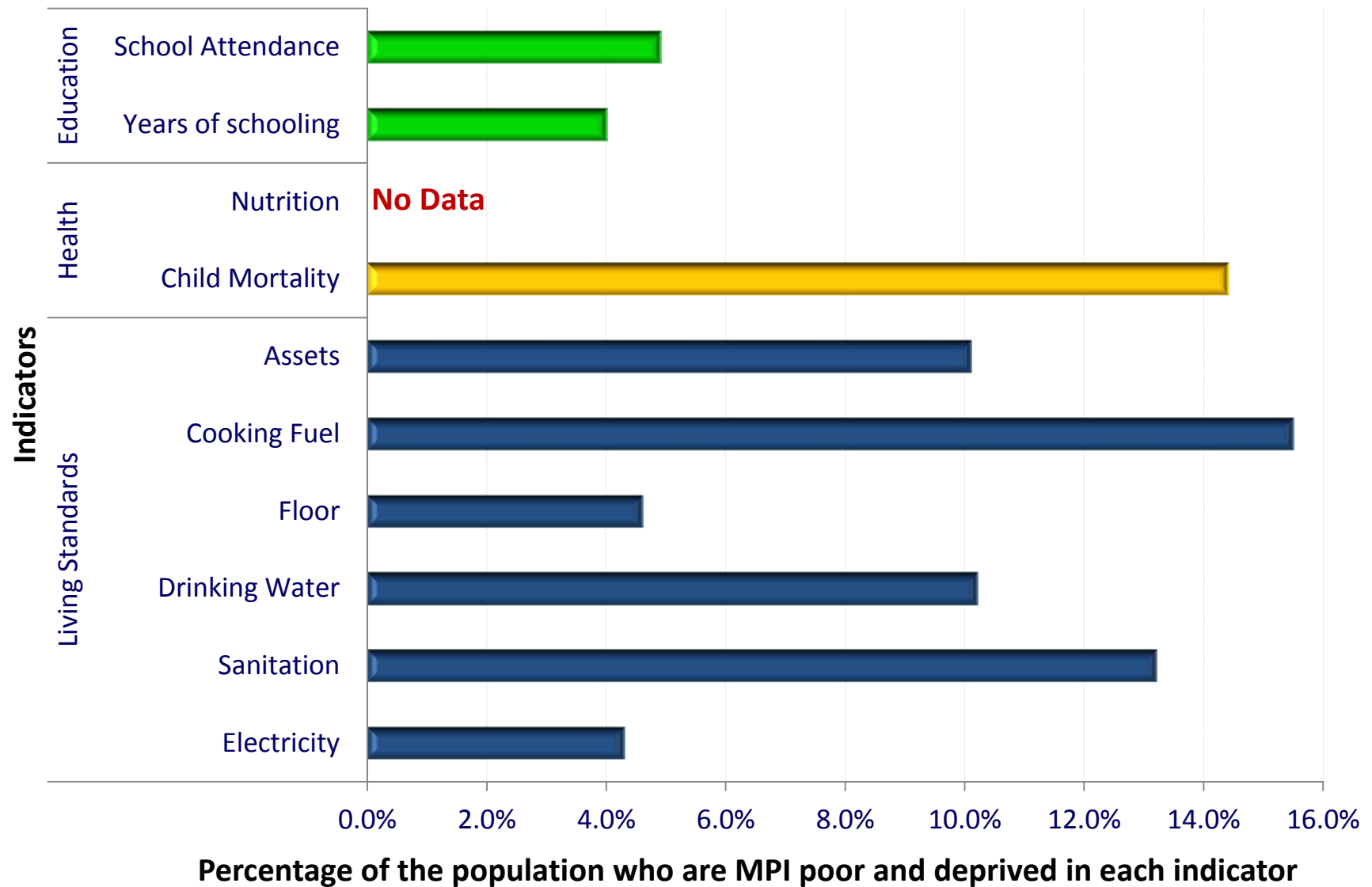


**Percentage of the population who are MPI poor and deprived in each indicator**

# Indonesia: Contribution of Indicator to the MPI
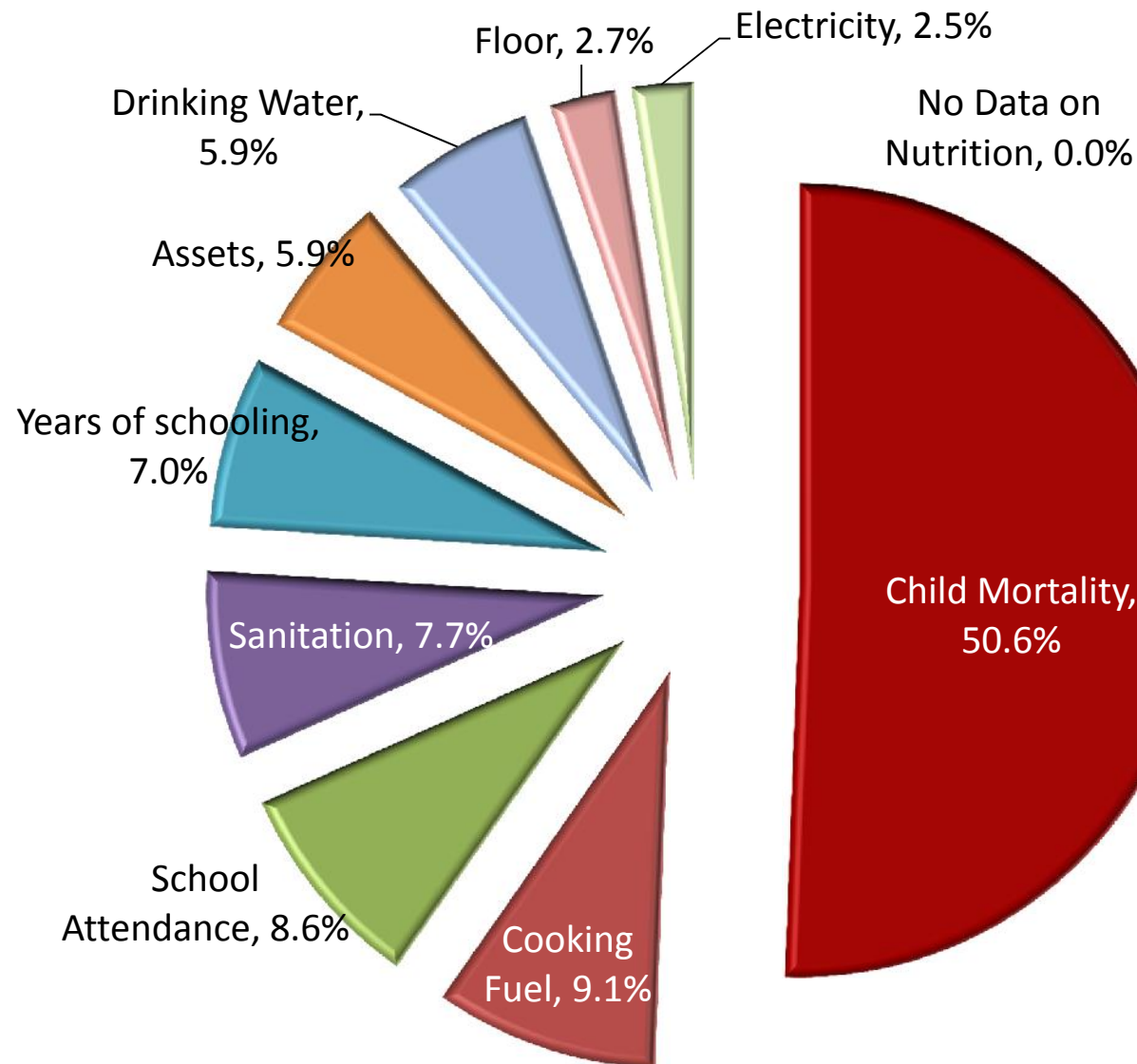


- Floor, 2.7%
- Electricity, 2.5%
- Drinking Water, 5.9%
- No Data on Nutrition, 0.0%
- Assets, 5.9%
- Years of schooling, 7.0%
- Sanitation, 7.7%
- Child Mortality, 50.6%
- School Attendance, 8.6%
- Cooking Fuel, 9.1%

# Indonesia's Efforts to Combat Poverty

# Indonesia's Effort in Tacking Poverty:
# The Evolution of Policy



## New Order:
- Most efforts were not directly targeted towards the poor

## Asian Financial Crisis (AFC):
- The socioeconomic impact of AFC crisis was severe.
- The government established social safety net (SSN) programs in the areas of Food security, Education, Health, Employment Creation, and Community Empowerment.

## Post AFC:
- Reduction of fuel subsidies and the introduction of cash hand out (BLT), expansion of targeted assistance during the AFC, community development program, and the introduction of conditional cash transfers

# Four Groups with Different Needs



**Growth Incidence Curve, 2008-2012**

Legend: ■ 2008-2012 growth — Growth in mean

Y-axis: Annual growth rate % (0.0 to 10.0)

+Rp 250.000/kap/bl 12%
+Rp 370.000/kap/bl 40%
+Rp750.000/kap/bl
80%

4.87

Percentiles: 1, 15, 29, 43, 57, 71, 85, 99

| Poor | Vulnerable | Middle | High |
|------|-----------|--------|------|
| 29 mil | 70 mil | 100 mil | 50 mil |

Poverty Reduction & Social Protection — Social Protection, Investment climate & Market Access — Investment Climate

**Community-Driven Development**
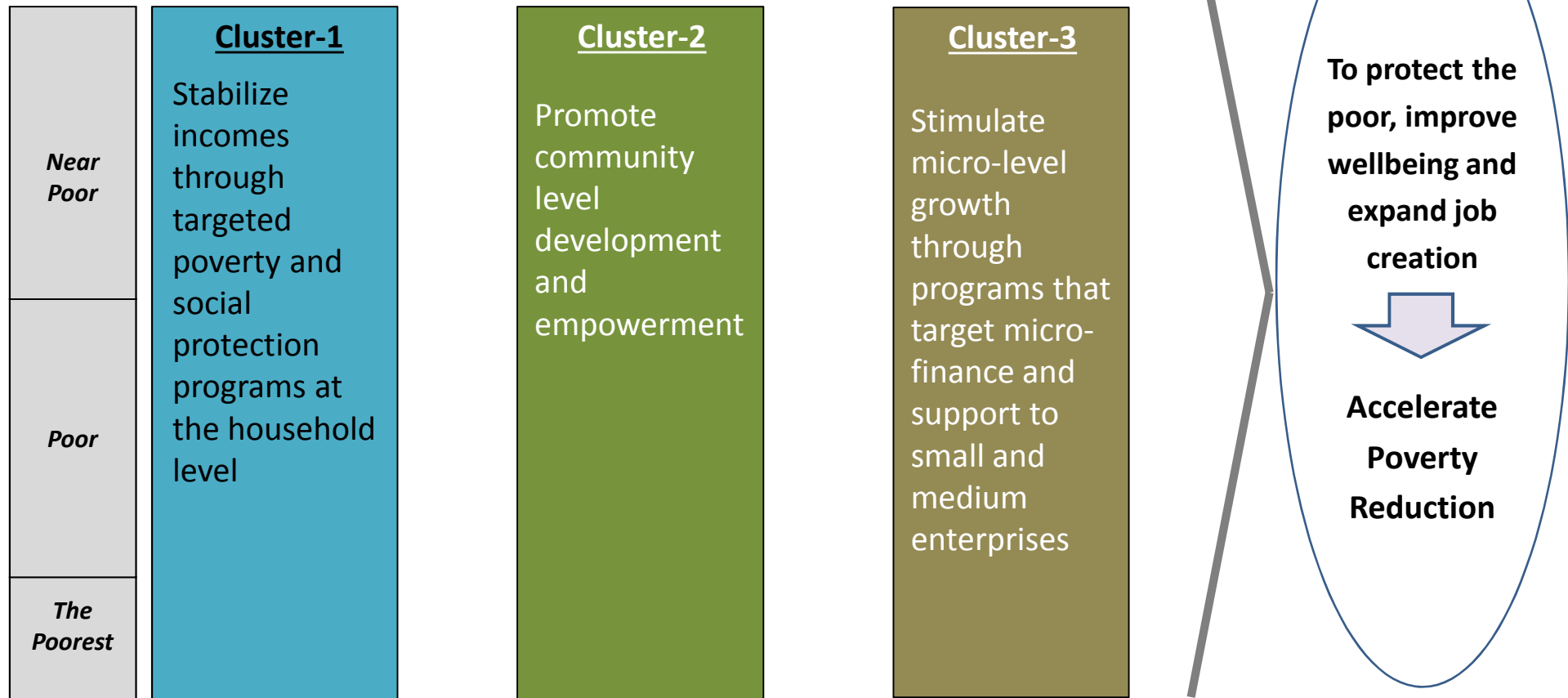
Source: BPS and TNP2K

# Current Efforts by Indonesia to Address Poverty and Vulnerability

The National Team for the Acceleration of Poverty Reduction (TNP2K) has been established to coordinate these efforts

| Near Poor | **Cluster-1** | **Cluster-2** | **Cluster-3** |
|---|---|---|---|
| Poor | Stabilize incomes through targeted poverty and social protection programs at the household level | Promote community level development and empowerment | Stimulate micro-level growth through programs that target micro-finance and support to small and medium enterprises |
| The Poorest | | | |

**To protect the poor, improve wellbeing and expand job creation**

⬇

**Accelerate Poverty Reduction**

**Regulated by Presidential Regulation No 15/2010 on the Acceleration of Poverty Reduction**

# Concluding Remarks

# Concluding Remarks

- **Establishing reliable poverty definition and measurement is an important step** in working with and helping the poor and vulnerable.

- **A consumption-based measure of poverty** is one way and Indonesia has made progress on this measurement. However, there are significant limitations to one-dimensional poverty measures.

- **Multidimensional poverty can complement** but should not replace our consumption-based (standard headcount) measures.

- **Measuring is not enough on its own; <u>we also need to act</u>.**

- To act effectively, **we need to continue recognizing and basing policy on the fact that poverty is multi-dimensional and affects population groups differently.**

- **Just as poverty is multi-dimensional, so has been Indonesia's response** by maintaining a strong multi-dimensional strategy (including new forms of measurement) for reducing poverty and strengthening the country.

**THANK YOU**