Monitoring Global Poverty

A Cover Note to the Report of the Commission on Global Poverty, chaired by Prof. Sir Anthony B. Atkinson
October 18, 2016

In June 2015, Kaushik Basu, former Sr. Vice-President and Chief Economist of the World Bank, convened a Commission on Global Poverty to advise the Bank on how to improve its practices and procedures for the measurement and monitoring of global poverty. The Commission was chaired by one of the world's foremost experts on poverty and income distribution, Prof. Sir Anthony Atkinson, and comprised another 23 leading economists with relevant expertise. The full membership of the Commission is listed in the Report.

As noted in its terms of reference, the Commission's advice was sought with regard to two basic questions, which are reproduced below:

1. What should be the interpretation going forward of the definition of extreme poverty, set in 2015 at 1.90 PPP-adjusted dollars a day per person, in real terms?
2. What choices should the World Bank make regarding complementary poverty measures to be tracked and made available to policy makers?

It gives us great pleasure now to publish Prof. Atkinson's final report on the Commission's deliberations, which is entitled *Monitoring Global Poverty*. The 232-page report is both comprehensive in coverage and very rich in detail. It contains the most sound and authoritative advice the World Bank Group could have hoped for on how to build upon, improve and expand our recent work in measuring poverty worldwide, so as to provide the international community with the best possible informational base needed to monitor our progress towards ending extreme poverty by 2030. It is remarkable that such a deep and ambitious volume was produced in such a short time, and we are extremely grateful to Sir Tony and to the members of his Advisory Board for their commitment to and timely delivery of this report. We envisage that its twenty-one recommendations – which are listed below as an Annex – will guide the poverty monitoring work of the World Bank Group and other development partners and practitioners for many years to come. Indeed, they have already begun to do so.

The report is organized into three main chapters, as well as an Introduction. Chapter 1, entitled "Monitoring Extreme Poverty", addresses Question 1 above, and contains ten recommendations for improving the Bank's measurement of extreme income (or consumption) poverty. Chapter 2, entitled "Beyond Goal 1.1: Complementary Indicators and Multidimensionality" addresses Question 2 above, and contains nine recommendations on broadening the conception of poverty we try to measure. Chapter 3 is entitled "Making it Happen", and briefly summarizes the Commission's advice on implementation, through two final recommendations.

The report is not only comprehensive, ambitious, and detailed. It is also very clearly written. It speaks most articulately for itself, and it would make little sense for us to attempt to summarize it here. Instead, in addition to expressing our sincere gratitude to Sir Tony and his Commission, this note seeks to set out our initial views on how the World Bank Group will adopt and incorporate the twenty-one recommendations proposed in the Report. We do so by classifying the 21 recommendations into three groups:

- **Group 1:** comprises those recommendations we plan to adopt essentially as stated, and in the short-run (that is, within the next twelve months or so).

- **Group 2:** comprises those recommendations we accept in principle, but where the need for either considerable additional resources or for external collaboration may require a more gradual phasing.

- **Group 3:** comprises the very few (four) recommendations that we actually disagree with. For these, we briefly lay out our reasons for disagreement.

As noted earlier, the full text of the 21 recommendations, quoted directly from the report, is included below as an Annex. For the sake of brevity, they are not repeated verbatim here.

Group 1: Accepted recommendations to be adopted in the short run.

Four Chapter 1 recommendations are in this group. Recommendation 1 calls for the extreme poverty line to be cited as "the International Poverty Line (IPL)", and expressed in each country in terms of its local currency. We agree, and feel that this will help eliminate a recurrent past problem, which arose when journalists or others converted the IPL to national currencies using market (rather than PPP) exchange rates, hence providing an inaccurate description of the line in local currency units. Because we anticipate that people will continue to ask why the line is set at, say, a particular value in Naira per person per day, we envisage reference to its US dollar value (of $1.90) in 2011, at 2011 PPPs, will continue to be needed as ancillary explanation.

Recommendation 2, which calls for brief National Poverty Statistics Reports for each country, is a demanding requirement, but one which is fundamental to one of the central themes of the Atkinson Report, namely to better link the global poverty monitoring exercise to poverty analysis undertaken at the national level – both by Bank staff and by other policy analysts and researchers. We will attempt to provide the requested one or two-page reports as an online appendix to the Bank's new Poverty and Shared Prosperity flagship report, which is launched annually in the autumn. That same online appendix will contain a discussion of the principles according to which household survey data are selected for inclusion in our global poverty count, as suggested in Recommendation 6.

Recommendation 10 contains a key element of the answer to the first question initially posed to the Commission, on whether or not – and if so, how – to incorporate future rounds of PPP conversion factors (arising from new price data collection by the International Comparison Project, ICP) into the global poverty monitoring exercise. The Commission debated this long and hard, and ultimately recommends that the cross-country price comparisons (or exchange rates) be fixed at the 2011 PPP values, and that the IPL should be adjusted over time for each country, in local currency, using the national CPI, or suitable alternatives, until 2030.

While we welcome this recommendation, we recognize the trade-off that underlies it: incorporating new PPP values from future ICP rounds is desirable to the extent that real changes in purchasing power across countries are captured; and undesirable to the extent that changes arising only from methodological changes between rounds are captured instead. In the past, vigorous debates have ensued as to whether changes in global poverty when new PPP data became available were real, or induced by methodological instability. A concern that such perceptions undermine the credibility of the entire exercise were paramount in shaping this recommendation. Recognizing this trade-off, we plan to follow this recommendation, but leave open the possibility that future PPP rounds might be used again to inform the construction of the IPL, even before 2030, if and only if we are satisfied that the ICP methods have substantially stabilized over at least two ICP rounds. This would require that our own researchers, and the broader scholarly community, are largely of the view that changes in PPPs are then driven by real changes in cost-of-living parities, rather than in data collection or index-number methodology.

Six of the nine Chapter 2 recommendations are also in this group. Recommendation 11 suggests that the Bank's traditional focus on the incidence of absolute income or consumption poverty (or "money-metric deprivation") should be augmented – but not replaced - by attention to various alternative indicators. We fully support this key recommendation, and will endeavor in future to report a portfolio of indicators that are complementary to the incidence of income/consumption poverty, both at the national and global levels. We note, however, that the reference to its principles being subject to external consultation appears duplicative. The Commission on Global Poverty was the external consultation mechanism for advising us on these principles, and on their implementation. Recommendation 12, on using the poverty gap indicator as a prominent complement to the headcount measure, is wholeheartedly welcome. The depth of poverty is as important as its incidence.

Recommendation 13 calls for a (simple) global poverty profile, including the numbers of women, children and young adults living in poverty, as well as the number of female-headed households in the same condition. This recommendation has already been implemented in part in the recently launched Poverty and Shared Prosperity Report 2016, which reports these numbers for children aged 0-14, those aged 14-17, as well as a rural-urban and some occupational breakdowns. We have not yet implemented the gender breakdowns suggested by the Commission, for reasons which the Report itself acknowledges: The consumption information collected in most household surveys that feed into our database is at the household level. Very few survey questionnaires collect information that would permit a disaggregation of consumption patterns by gender within households. Our estimates of income and consumption distributions therefore ignore intra-household inequalities. Presenting gender-disaggregated poverty statistics that essentially assume equal sharing within households risks portraying such a distorted picture of gender inequality, as to be less than useful. Our colleagues in the Bank's Gender department plan to hold a workshop this winter to examine how to make further progress in this issue, to which we look forward. As an institution, we remain committed to the spirit of this Recommendation in full, but we feel that more work is needed before a gender profile of global poverty that is truly meaningful can be presented.

Recommendation 16 calls for the introduction of a societal headcount measure of global poverty, which combines absolute and relative elements of poverty, and thus allows for poverty thresholds that are more generous, in monetary terms, in richer countries. As suggested, we will henceforth report an additional global poverty count based on such an upper-bound, weakly-relative poverty line, similar in spirit to the proposals by Atkinson and Bourguignon (2000) and Ravallion and Chen (2011). The specific upper-bound poverty line is currently under consideration. Although global poverty counts according to this line will be made available, a likely approach may be to use a step-function version of the line, which relies on differentiated lines for low-income, lower-middle income, upper-middle incomes and high-income countries. A detailed justification of the choice of line and the exact parameters used to construct it will be made available in a research paper, prior to the publication of the main results in next year's Poverty and Shared Prosperity Report.

Recommendations 18 and 19 urge the Bank to "establish its own requirements with regard to the measurement of non-monetary poverty", and to introduce a "multi-dimensioned poverty indicator based on the counting approach, and covering the overlap of dimensions". We plan to implement this suggestion by tracking non-monetary deprivations in three specific domains where relative market prices are typically either unavailable or uninformative as natural aggregators, namely: educational outcomes; access to health care; and access to basic services, such as water, sanitation and electricity. We are particularly interested in the overlap among these different deprivations, and between them and monetary poverty. We will therefore include our measure of monetary poverty (with respect to the IPL) as one of the dimensions covered by the index. This has substantial implications for the data sources that can be used to monitor global poverty, and thus for how the other dimensions can be measured. It implies, in particular, that we will rely on household surveys of the kind we currently use to measure monetary poverty, and measure deprivations along other dimensions using variables that are available in the same surveys (even if this implies some limitations in coverage and quality). These dimensions will be aggregated using a member of the class of multidimensional poverty indices proposed by Alkire and Foster (2011).

Recommendation 20, in Chapter 3, is also in Group 1. We endorse the need for a major additional investment in statistical sources and analysis for a better monitoring and understanding of poverty worldwide, with a corresponding priority accorded to it in the work of the World Bank.

Group 2: Recommendations accepted in principle, whose implementation requires either additional resources that are not currently available, or building broader partnerships beyond the World Bank

This group consists of the remaining six recommendations in Chapter 1. As the Report notes, four of these require substantial partnerships with other international organizations and, in some cases, with national statistical agencies. Recommendation 3 asks for a review, "in conjunction with other members of the UN statistical system", of the fitness of the baseline population data for each country, as well as of updating methods. Recommendation 4 suggests that the Bank should "take the lead" in a Joint Statistical Working Group for household consumption statistics. Such a working group would set guidelines for the measurement of household consumption, as well as examine its relation to household income (measured in surveys) and to consumption aggregates from the national accounts systems. Relatedly, Recommendation 7 suggests that "in conjunction with national statistical agencies and other statistical bodies", the Bank should work towards an annual national accounts-based indicator of household living standards that is consistent with household survey practice. Finally, Recommendation 9 asks the Bank to work together with national and international bodies responsible for the construction of consumer price indices, both to improve general CPIs and to build special indices that are more relevant for the consumption patterns of the poor.

By identifying much-needed improvements in the statistical foundations for poverty analysis in these four domains – population statistics, price statistics, household-survey based consumption and income estimates, and their national accounts counterparts – the Commission has done a great service. There is no doubt in our minds that each of these areas is indeed in great need of improvement. However, the scale of the investments and the complexity of the partnerships required to make progress on each one of them should not be underestimated. Given sufficient resources, the Development Economics Vice-Presidency (including both the Research and Data departments), and the Poverty and Equity Global Practice will endeavor to set up each of these partnerships, and to make progress on all four fronts. But we envisage that, realistically, these are likely to take a considerable amount of time to bear fruit.

The last two recommendations in Group 2 are Recommendations 5 and 8. Recommendation 5 suggests that we report margins of error alongside our point estimates for poverty statistics. Specifically, it recommends that we adopt a "total error" approach, recognizing that sampling error (in the underlying household surveys) is likely to be a relatively minor source of uncertainty about our estimates. Other, more important sources of error are likely to include inaccuracies in population statistics; in estimates of the growth rates used to bring poverty estimates to a common "line-up" year; errors involved in the estimation of Purchasing Power Parity exchange rates; and in national consumer price indices.

In our minds, this is one of the Commission's most important recommendations. World Bank economists have often felt uneasy about the misleading precision with which our poverty estimates appear to become imbued in public debate, despite our best efforts to document in detail the very significant uncertainty involved in each of the various steps leading up to the final numbers. Presenting formal estimates of statistical confidence on the numbers, analogous to the confidence intervals common in usual econometric inference, would enhance the public understanding of the true nature of these estimates. That said, we feel that we do not currently possess the in-house statistical capacity to correctly produce estimates of "total error" arising from the multiplicity of possible sources of error listed above. Given resources, we will invest in building such capacity, with a view to computing "total" confidence intervals for our poverty statistics as soon as it is feasible.

Recommendation 8 suggests investment in rapid-appraisal poverty measurement alternatives, combining scaled-down questionnaire and statistical modeling. The idea, which has already been piloted at the Bank through the SWIFT surveys, is to explore (hopefully) stable statistical associations between comprehensive measures of well-being (that are expensive to collect) and other variables that are easier to measure, in order to 'predict' well-being on the basis of simpler, cheaper and more frequent data collection. This is already an on-going exercise, which we see as best housed under our national poverty measurement efforts. To the extent that generalizable lessons arise from those pilots, it may become possible to integrate them into the mainstream global poverty undertaking.

Group 3: Four recommendations that we do not currently plan to pursue

Recommendation 14 suggests that we explore the use of subjective measures of poverty, based on the "minimum consumption considered necessary to avoid extreme poverty". Although the language used in the Report appears to refer to the well-known Leyden School of subjective poverty measures (see, e.g. Goedhart et al., 1977), some of the concerns that motivate the recommendation are broader. They invoke the need to use participatory methods to really listen to poor people and understand what defines poverty in their view. Particular emphasis is laid on listening to poor children, and to understanding their perceptions of what constitutes poverty.

We fully embrace the principle that in-depth consultation with poor people themselves is essential to an understanding of the true nature of the multifaceted phenomenon we call poverty. The World Bank has pursued this approach on numerous occasions, the best-known being perhaps the *Voices of the Poor* study (Narayan et al., 2000), and its follow-up publications (e.g. Narayan and Petesch, 2007). We continue to promote and deepen this kind of participatory poverty work, most notably through the current operations of the Social Observatory in India (see, e.g. this blog by Vijayendra Rao). However, we feel that a relatively mechanistic application of the Leyden poverty line approach to 137 countries (or more) is unlikely to do justice to the context-specificity and depth that are required for these participatory approaches. We envisage that much – likely most - important and innovative work that pushes the frontiers of our understanding of poverty will continue to take place at the country, or subnational, levels. Not all of it should be shoehorned to fit a global comparisons exercise, and we feel that subjective poverty measurement remains, at least for the time being, in this category.

Recommendation 15 proposes that the Bank should partner with other agencies to collect data aimed at constructing a basic-needs estimate of extreme poverty. Such estimates would then be included in the portfolio of Complementary Indicators (see Recommendation 11). However, as the Report notes, the "basic needs approach is widely employed in the derivation of national poverty lines" which, in turn, provide the foundation for the International Poverty Line (see, e.g., Ravallion, Datt and van de Walle, 1991; Ravallion, Chen and Sangraula, 2009; and Ferreira et al, 2016). As these papers document, since 1990 the World Bank's approach to identifying those living in extreme monetary poverty has been anchored on the definition of poverty in the world's poorest countries for which national poverty lines are available. Such poverty lines typically employ a cost of basic needs approach, or a closely related variant. We believe that the best definition of poverty is one that reflects a measure of societal agreement within the country and, for that reason, we have quite deliberately anchored our IPL standard on national poverty lines. We recognize that the extent to which specific national lines can be construed as representing "societal agreement" varies, but feel that it would be paternalistic and disrespectful to question the choices of the world's poorest countries in terms of what constitutes poverty for them. Just as one should listen to poor people (Recommendation 14), international organizations should also listen to poor countries. If there are problems with the methods used in certain countries to estimate basic needs, we would prefer to work with those countries, through our national engagement on poverty measurement, rather than to sponsor a technocratic alternative led by various international agencies.

Recommendation 17, wading into territory slightly beyond the Commission's mandate, offers advice on the presentation of the shared prosperity indicator. We agree that the Bank's second institutional goal should be stated unambiguously as raising the living standards of the poorest 40% of the population in each country. Indeed it is so stated, and the corresponding headline indicator in the rate of growth in the mean income of that group in each country.

However, goals can have multiple ancillary indicators. Indeed, this report proposes an array of complementary indicators to assist the headline poverty indicator, namely the proportion of people living under the IPL. Analogously, the latest Poverty and Shared Prosperity report (World Bank, 2016) monitors not only the headline indicator of shared prosperity described above, but also what it terms the shared prosperity premium, defined as the difference in the growth rate of average income among the bottom 40% and the growth rate in the overall population mean. That is, of course, equivalent to the change in the income share of the poorest 40%. We feel this is a highly relevant complementary indicator to the headline shared prosperity measure.

We are also not convinced of the wisdom of extending the monitoring of shared prosperity to the poorest 40% of the *global* population. The idea behind the Twin Goals was that Goal 1 – ending extreme poverty globally by 2030 – was focused on the global poorest. Because this shouldn't be interpreted as letting better-off countries, where the numbers of extreme poor are low, "off the hook", Goal 2 focused specifically on low-income *within* each country, and operationalized that concept through the arbitrary 40% threshold.

Finally, Recommendation 21 in Chapter 3 proposes that the IPL and complementary indicators should be "audited" by a body "fully external to the World Bank" on a regular basis, and that this body should be consulted about major changes in methodology. As the convening of this Global Commission – and many prior, less formal instances of consultation – attest, we place great value on the wisdom and advice we gather from scholars and other members of the international community. We believe that our poverty monitoring work – as indeed almost all of the other research and analytical work we do – has benefitted enormously from these partnerships over the years, and we fully envisage continuing to draw on outsiders for advice and guidance. In a context such as the World Bank, however, the word "audit" carries connotations of formal authority that we believe would be neither appropriate to a collaborative exercise, nor compatible with the intellectual independence of our own researchers.

In closing, we would like to reiterate our real gratitude to Prof. Atkinson and all members of his Commission, for the excellent advice contained in this report. It has already begun to influence our global poverty monitoring in profound ways, and we expect it to continue doing so for some time to come.

Sincerely,

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Annex: Verbatim Reproduction of the 21 Recommendations of the Report of the Commission on Global Poverty

Recommendation 1: The global extreme poverty standard should be cited in general terms as "the International Poverty Line," and expressed in each country in terms of the currency of that country.

Recommendation 2: There should be National Poverty Statistics Reports (NPSR) for each country, giving the Global Poverty estimates, explaining the local currency value of the International Poverty Line and the relation to the official poverty line(s) in that country (where they exist), considering how the trends in poverty measured according to the International Poverty Line relate to those shown by national statistics, and incorporating a set of World Bank Complementary Indicators, as proposed in chapter 2 of this Report.

Recommendation 3: There should be an investigation of the extent to which people are "missing" from the global poverty count, and proposals made for adjustments where appropriate at the national level for survey underrepresentation and non-coverage by surveys; more generally, the World Bank should carry out a review, in conjunction with other members of the UN statistical system, of the fitness for purpose of the baseline population data for each country, and the methods used to update from the baseline to the years covered by the global poverty estimates.

Recommendation 4: The World Bank should take the lead in a standing Joint Statistical Working Group for household consumption statistics, with a remit to set guidelines for the measurement of household consumption, to examine the relation between consumption and income, and to investigate the relation among household survey, national accounts, and other data sources.

Recommendation 5: The World Bank poverty estimates should be based on a "total error" approach, evaluating the possible sources, and magnitude, of error, particularly non-sampling error and the error introduced by the process of determining the International Poverty Line.

Recommendation 6: The World Bank should make public the principles according to which household survey data are selected for use in the global poverty count; and there should be an assessment at national level of the availability and quality of the required household survey data, and a review of possible alternative sources and methods of ex post harmonization.

Recommendation 7: The World Bank, in conjunction with national statistical agencies and other statistical bodies, should explore the construction of an annual national accounts–based indicator of household living standards, as measured by consumption defined in a way that matches as far as possible household survey practice.

Recommendation 8: There should be an investigation for a small number of countries by the World Bank of alternative methods of providing up-to-date poverty estimates using scaled-down surveys, or the SWIFT or other surveys, plus modeling, where the appropriate methods may vary across countries.

Recommendation 9: The World Bank, as a user of Consumer Price Indexes (CPI), should, in conjunction with the responsible international bodies and with the national statistical agencies, seek to improve the quality of the domestic CPI, with particular references to those aspects most relevant to global poverty measurement; this should include examination of the likely magnitude of any bias, and exploration of special price indexes for the poor.

Recommendation 10: The global poverty estimates should be updated up to 2030 on the basis of the International Poverty Line for each country set in local currency, and updated in line with the change in the national CPI or, where available, national index of prices for the poor; the estimates would not be revised in the light of new rounds of the ICP.

Recommendation 11: The Bank should publish, alongside the global poverty count, a portfolio of Complementary Indicators, including a multidimensional dashboard of outcome indicators, where the number of such indicators should be sufficiently small that they can receive prominence in public debate and in policy making; the selection of the Complementary Indicators should be based on an explicit set of principles, and the implementation of these principles should follow external consultation, including with the proposed external audit body.

Recommendation 12: The portfolio of Complementary Indicators should include the mean poverty gap, relative to the International Poverty Line measured over the whole population and expressed as a percentage of the poverty line.

Recommendation 13: The global poverty figure, and the counterpart national figures, should be accompanied by estimates of the numbers of women, children, and young adults living in households with consumption below the International Poverty Line, as well as the number of female-headed households below the International Poverty Line.

Recommendation 14: The World Bank should explore the use of subjective assessments of personal poverty status (in “quick” surveys of poverty), and of the minimum consumption considered necessary to avoid extreme poverty, as an aid to interpreting the conclusions drawn from the global poverty estimates.

Recommendation 15: The World Bank should develop a program of work, in conjunction with other international agencies, on a basic needs– based estimate of extreme poverty; these estimates would, when developed, form an alternative indicator to be included in the portfolio of Complementary Indicators, and serve to provide an interpretation of what the International Poverty Line would buy.

Recommendation 16: The World Bank should introduce a “societal” headcount measure of global consumption poverty that takes account, above an appropriate level, of the standard of living in the country in question, thus combining fixed and relative elements of poverty.

Recommendation 17: The indicator for the shared prosperity goal should be unambiguously stated as raising the living standards of the bottom40 percent in each country (not confounded with their relative share), and extended to include an indicator identifying the growth of per capita real consumption of the bottom 40 percent of the world distribution of consumption.

Recommendation 18: The World Bank should establish its own requirements with regard to the measurement of nonmonetary poverty, for inclusion in the Complementary Indicators (including the overlapping poverty measure) and in other World Bank uses, and ensure that these are fully represented in the activities of the international statistical system, particularly with regard to the proposed SDG indicators.

Recommendation 19: The Complementary Indicators should include a multi-dimensioned poverty indicator based on the counting approach.

Recommendation 20: There should be a major investment in statistical sources and analysis, with these activities being accorded a high priority in the work of the World Bank.

Recommendation 21: The International Poverty Line estimates and the proposed Complementary Indicators should be audited on a regular basis by a body fully external to the World Bank, and this body should be consulted about major changes in methodology.