

PROPORTION OF POPULATION BELOW 1 \$ A DAY		
Poverty	Income poverty	

1. INDICATOR

- (a) **Name:** Proportion of population below 1 \$ day, also known as poverty rate at \$1 a day.
- (b) **Brief Definition:** The poverty rate at \$1 a day is the proportion of the population having per capita consumption of less than \$1.08 a day, measured at 1993 international prices.
- (c) **Unit of Measurement:** Percentage
- (d) **Placement in the CSD Indicator Set:** Poverty/Income poverty

2. POLICY RELEVANCE

- (a) **Purpose:** Progress against absolute poverty is now a widely accepted yardstick for assessing the overall performance of developing economies. The population below \$1 a day provides a uniform measure of absolute poverty for the developing world, using data from nationally representative household surveys. This indicator is used for monitoring progress towards the achievement of Goal 1 of the Millennium Development Goals - to eradicate extreme poverty and hunger.
- (b) **Relevance to Sustainable/Unsustainable Development (theme/sub-theme):** Poverty reduction is one of the key goals of the international community's sustainable development strategy. Many countries give priority to poverty reduction in their national strategies of economic development. Measuring and monitoring the current level as well as the trend in poverty rates provides useful information for the policy makers, the international development agencies and the donor community to plan and implement pro-poor growth strategies and ultimately contributes to the betterment of human lives across the globe. Moreover, poverty statistics are important for analyzing the relationship of income or consumption poverty to other dimensions of human development such as education, health, labor skills and other measures of living standards.
- (c) **International Conventions and Agreements:** None.
- (d) **International Targets/Recommended Standards:** Goal 1 Target 1 of the Millennium Development Goals sets a goal of reducing by half the rate of extreme poverty between 1990 and 2015.
- (e) **Linkages to Other Indicators:** This indicator is closely linked with other measures of human development (education attainment, literacy, health status, mortality etc) and economic development.

3. METHODOLOGICAL DESCRIPTION

(a) **Underlying Definitions and Concepts:** The population below \$1 a day measures poverty by the level of consumption (or, in some case, income) available to an individual. A person is considered poor if his or her consumption or income level falls below some minimum level necessary to meet basic needs. This minimum level is usually called the "poverty line." What is necessary to satisfy basic needs varies across time and societies. Therefore, poverty lines vary in time and place, and each country uses lines that are appropriate to its level of development, societal norms, and values.⁸ When estimating poverty worldwide, a uniform poverty line has to be used and expressed in a common unit across countries. Therefore, for the purposes of global aggregation and comparison, the World Bank uses poverty lines set at \$1 and \$2 per day (more precisely \$1.08 and \$2.15 in 1993 Purchasing Power Parity terms).⁹

(b) **Measurement Methods:** Information on consumption and income is obtained through sample surveys in which households are asked to answer detailed questions on their spending habits and sources of income. Individual income or consumption levels are calculated as averages of total household income or consumption. In some cases, an "effective" household size is calculated from the actual household size to reflect assumed efficiencies in consumption; adjustments may also be made to reflect the number of children in a household. However, the World Bank's preferred methodology is to make no such adjustments.

Poverty measures based on an international poverty line attempt to hold the real value of the poverty line constant across countries, as is done when making comparisons over time. The \$1-a-day standard, measured in 1985 prices and adjusted to local currency using purchasing power parities (PPPs), was chosen for the World Bank's *World Development Report 1990: Poverty*, because it is typical of the poverty lines in low-income countries. Early editions of *World Development Indicators* used PPPs from the Penn World Tables. Recent editions use 1993 consumption PPP estimates produced by the World Bank. Recalculated in 1993 PPP terms, the original international poverty line of \$1 a day in 1985 PPP terms is now about \$1.08 a day. The 2005 round of the International Comparison Program will provide new consumption PPPs in the coming year.

(c) **Limitations of the Indicator:** International comparisons of poverty estimates entail both conceptual and practical problems. A key building block in developing income and consumption measures of poverty is the poverty line—the critical cutoff in income or consumption below which an individual or household is determined to be poor. Countries have different definitions of poverty, and consistent comparisons across countries can be difficult. Local poverty lines tend to have higher purchasing power in rich countries, where more generous standards are used, than in poor countries. The internationally comparable lines are useful for producing global aggregates of poverty. In principle, they test for the ability to purchase a basket of commodities that is roughly similar across the world. But such a universal line is generally not suitable for the

⁸ For further discussion on poverty lines, refer to *World Development Report 2000/2001: Attacking Poverty*, The World Bank (2000).

⁹ Source: The World Bank website: www.worldbank.org/poverty.

analysis of poverty within a country. For that purpose, a country-specific poverty line needs to be constructed, reflecting the country's economic and social circumstances. Similarly, the poverty line may need to be adjusted for different locations (such as urban and rural areas) within the country, if prices or access to goods and services differs.

The international poverty line uses 1993 consumption PPP estimates produced by the World Bank. Any revisions in the PPP of a country to incorporate better price indexes can produce dramatically different poverty lines in local currency. PPP exchange rates, such as those from the Penn World Tables or the World Bank, are used because they take into account the local prices of goods and services not traded internationally. But PPP rates were designed for comparing aggregates from national accounts, not for making international poverty comparisons. As a result, there is no certainty that an international poverty line measures the same degree of need or deprivation across countries.¹⁰

The national poverty rate is a "headcount" measure, which is by far the most commonly calculated measure of poverty. But it has decided disadvantages. It fails to reflect the fact that among poor people there may be wide differences in income levels, with some people located just below the poverty line and others experiencing far greater shortfalls. Policymakers seeking to make the largest possible impact on the headcount measure might be tempted to direct their poverty alleviation resources to those closest to the poverty line (and therefore least poor).¹¹

Lastly, this indicator measures income/consumption based poverty and does not take into account other dimensions of poverty such as inequality, vulnerability, and lack of voice and power of the poor.¹²

(d) Status of Methodology: The methodology is generally well developed.

(e) Alternative Definitions/Indicators: There are other useful indicators of measuring poverty: the poverty gap at international poverty line, which takes into account the distance of poor people from the 1\$ a day poverty line; and the squared-poverty gap, which take into account the degree of income inequality among poor people.¹³ Moreover, quantitative methods of measuring income/consumption poverty are increasingly being complemented by participatory methods, in which people are asked what their basic needs are and what poverty means for them. Moreover, quantitative methods of measuring income/consumption poverty are increasingly being complemented by participatory methods, where people are asked what their basic needs are and whether such needs are met. Interestingly, new research shows a high degree of concordance between poverty lines based on objective and subjective assessments of needs.¹⁴

¹⁰ For further details, refer to the *About the data* section of the Table 2.6 in *World Development Indicators 2007*, The World Bank (2007).

¹¹ More information is available at the World Bank's website: www.worldbank.org/poverty.

¹² For further discussions on different dimensions of poverty, refer to *World Development Report 2000/2001: Attacking Poverty*, The World Bank (2000).

¹³ Source: *World Development Report 2000/2001: Attacking Poverty*, The World Bank (2000).

¹⁴ Source: *About the data* section of the Table 2.6 in *World Development Indicators 2007*, The World Bank (2007).

4. ASSESSMENT OF DATA

(a) **Data Needed to Compile the Indicator:** Poverty estimates are calculated from nationally representative household surveys. Another important indicator need for estimating absolute poverty is the consumption Purchasing Power Parity (PPP) rate.

(b) **National and International Data Availability and Sources:** The World Bank produced its first global poverty estimates for developing countries for World Development Report 1990 using household survey data for 22 countries (Ravallion, Datt, and van de Walle 1991). Incorporating survey data collected during the last 17 years, the database has expanded considerably and now includes more than 550 surveys representing about 100 developing countries. Some 1.1 million randomly sampled households were interviewed in these surveys, representing 93 percent of the population of developing countries. The surveys asked detailed questions on sources of income and how it was spent and on other household characteristics such as the number of people sharing that income. Most interviews were conducted by staff of government statistics offices. Along with improvements in data coverage and quality, the underlying methodology has also improved, resulting in better and more comprehensive estimates. In the last 25 years there has been enormous progress in designing, implementing and processing such surveys for developing countries – thanks in large part to the efforts of national statistics agencies throughout the world, and the support of the donor community and international development agencies. Purchasing power parity (PPP) rates are calculated by the World Bank using price data from International Comparison Program.

The problems of estimating poverty and comparing poverty rates do not end with data availability. Several other issues, some related to data quality, also arise in measuring household living standards from survey data. One relates to the choice of income or consumption as a welfare indicator. Income is generally more difficult to measure accurately, and consumption comes closer to the notion of standard of living. And income can vary over time even if the standard of living does not. But consumption data are not always available. Another issue is that household surveys can differ widely, for example, in the number of consumer goods they identify. And even similar surveys may not be strictly comparable because of differences in timing or the quality and training of survey enumerators. Comparisons of countries at different levels of development also pose a potential problem because of differences in the relative importance of consumption of nonmarket goods. The local market value of all consumption in kind (including own production, particularly important in underdeveloped rural economies) should be included in total consumption expenditure. Similarly, imputed profit from the production of nonmarket goods should be included in income. This is not always done, though such omissions were a far bigger problem in surveys before the 1980s. Most survey data now include valuations for consumption or income from own production. Nonetheless, valuation methods vary. For example, some surveys use the price in the nearest market, while others use the average farmgate selling price. Whenever possible, The World Bank

uses consumption data in deciding who is poor and income surveys only when consumption data are unavailable.¹⁵

(c) **Data References:** Data on global poverty is included in the World Development Indicators (WDI) publications and WDI Online database of the World Bank, see <http://go.worldbank.org/3JU2HA60D0> and <http://go.worldbank.org/6HAYAHG8H0>. The World Bank Research Group compiles and maintains a Global Poverty Monitoring Database: <http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>. Global Monitoring Reports (GMR) also publishes data on global poverty, see <http://go.worldbank.org/UVQMEYED00>. The UN Millennium Development Goals website also contain data on global poverty: <http://www.un.org/millenniumgoals/>

5. AGENCIES INVOLVED IN THE DEVELOPMENT OF THE INDICATOR

(c) **Lead Agency:** The lead agency is the World Bank. The contact point is Data Help Desk: data@worldbank.org

(d) **Other Contributing Organizations:**

6. REFERENCES

(a) **Readings:**

The World Bank, *World Development Report* 1990, 2000-2001, and 2006 editions

The World Bank, *World Development Indicators*, various years

The World Bank, *Global Monitoring Report*, various editions

Shaohua Chen and Martin Ravallion, "How Have the World's Poorest Fare since the early 1980s?", *The World Bank Research Observer*, Vol. 19, No. 2, 2004

Shaohua Chen and Martin Ravallion, "Absolute Poverty Measures for the Developing World, 1981-2004", 2007

(b) **Internet site:**

The World Bank: www.worldbank.org/poverty

PovcalNet: <http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>

World Development Reports: www.worldbank.org/wdr

World Development Indicators: www.worldbank.org/data

Global Monitoring Reports: <http://go.worldbank.org/UVQMEYED00>

The UN Millennium Development Goals website: <http://www.un.org/millenniumgoals/>

¹⁵ For further details, refer to the *About the data* section of the Table 2.6 in *World Development Indicators 2007*, The World Bank (2007)