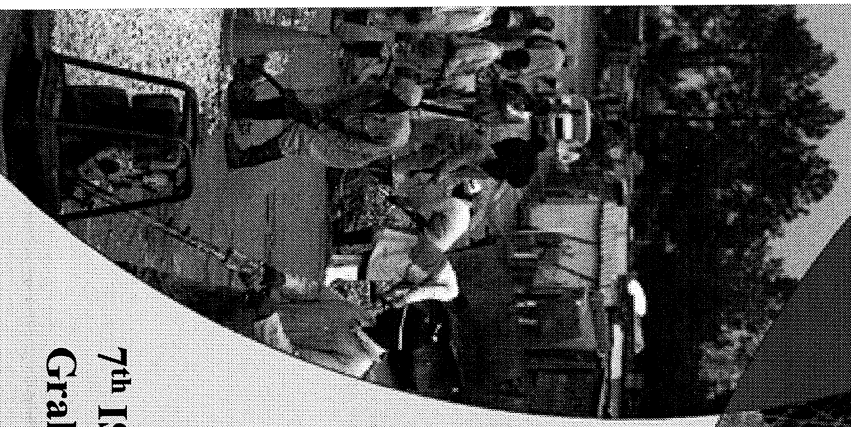


HSRC RESEARCH OUTPUTS

4298



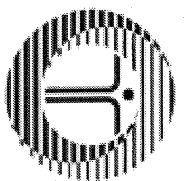
Poverty Diagnostics Using Poor Data

Strengthening the Evidence Base for Pro-Poor Policy Making in Lesotho

Benjamin Roberts* and Julian May

7th ISQOLS Conference, Rhodes University,
Grahamstown, 17-20 July 2006

Social science that makes a difference



HSRC
Human Sciences
Research Council

Context (1)

- Recent impetus for evidence-based policy making in developing countries
 - Poverty Reduction Strategy Papers (PRSPs)
 - International development targets
- Understanding the nature and extent of poverty in a country or region, and developing specific policy interventions...
 - Requires national statistical agencies to provide regular, high quality data
 - Problem: data often not available / incomplete; compounded by capacity constraints

Data

- 1986/87 and 1994/95 Household Budget Surveys conducted by Lesotho Bureau of Statistics (BOS)
- Somewhat dated, but advantages incl.:
 - Use of an accepted and common sample frame
 - Rigorous approach based on diary methodology for collecting consumption data
 - Largely consistent questionnaire design
 - Relatively large sample size: 7680hh in 1986/87; 4580hh in 1994/95.
- Analysis gives more complete picture of poverty and inequality in Lesotho than possible in the past, and forms a critical component of Lesotho's PRSP
- Range of technical and logistical problems had to be overcome to improve data quality and compatibility.

Poverty Lines & Measurement

- Focus on consumption aspects of poverty, making use of income and expenditure data
- Poverty line specification:
 - Absolute, money-metric approach (expenditure-based PL)
 - Public debate: absence of an official national 'needs threshold'
- Determining items to be included in basket
 - Despite rich data, marred in 1994/5 by excessive outliers and zero values, resulting high standard errors across most food items
 - Data checks revealed error in capturing – decimal point incorrectly entered for certain food items
 - Once corrected, HH in the 2nd to 5th deciles in 1994/95 HBS incl., with the bottom decile of the distribution excl. to avoid possible data error

Poverty Lines & Measurement (2)

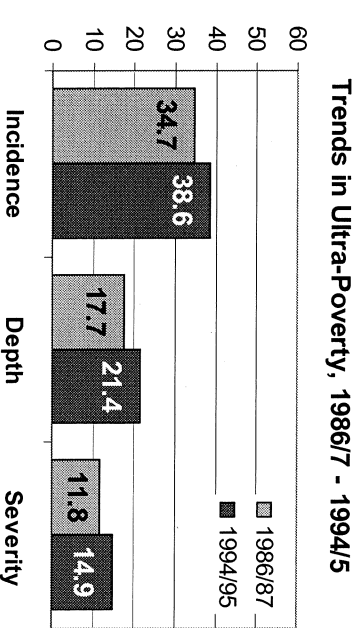
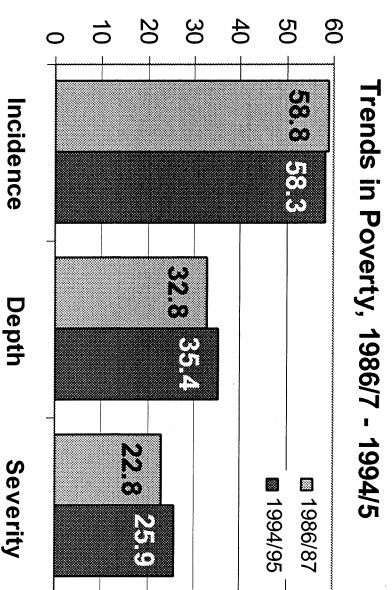
- Determining items to be included in basket (cont.)
 - Top 30 *purchased* food/beverage items for this cohort included in basket, together with 10 most commonly consumed *own-produced* food items.
 - Democratic definition: based on the actual consumption patterns of the lower deciles of expenditure distribution
 - Ensures that expensive, luxury food items are not heavily represented in the basket.
 - Ensures the food and beverage items included in the basket are consistent with local tastes and preferences
- Calculating Food Poverty Line:
 - Similar to food-energy-intake (FEI) approach
 - Convert average expenditure per capita for each of the 40 items into daily calorific values using nutritional data on calorie content per gram.
 - Calculate cost for a household to meet the daily calorific minimum of its members (international norm of 2200 kcal/day) = food poverty line

Poverty Lines & Measurement (3)

- Incorporating non-food expenditure
 - Having sufficient resources in the HH to meet food requirements is critical but inadequate w.r.t determining the threshold below which HH are classified as poor.
 - **Argument:** HH that can afford to meet food requirements of all members, but lack resources to purchase clothing and shelter, for example, likely to be considered deprived in a very basic sense.
 - **Scaling Up approach:** grounds the non-food component of PL in observed consumption behaviour
 - Determine non-food expenditure of people where **total expenditure \approx food poverty line**
 - **Argument:** if HH has ability to obtain minimum food basket, but chooses to divert resources to buy non-food items, the HH must clearly view items as essential.
 - Non-food expenditure again contained extreme outliers – result of confusion over decimal places and over annual and monthly expenditures.
- Final poverty line = sum food and non-food components

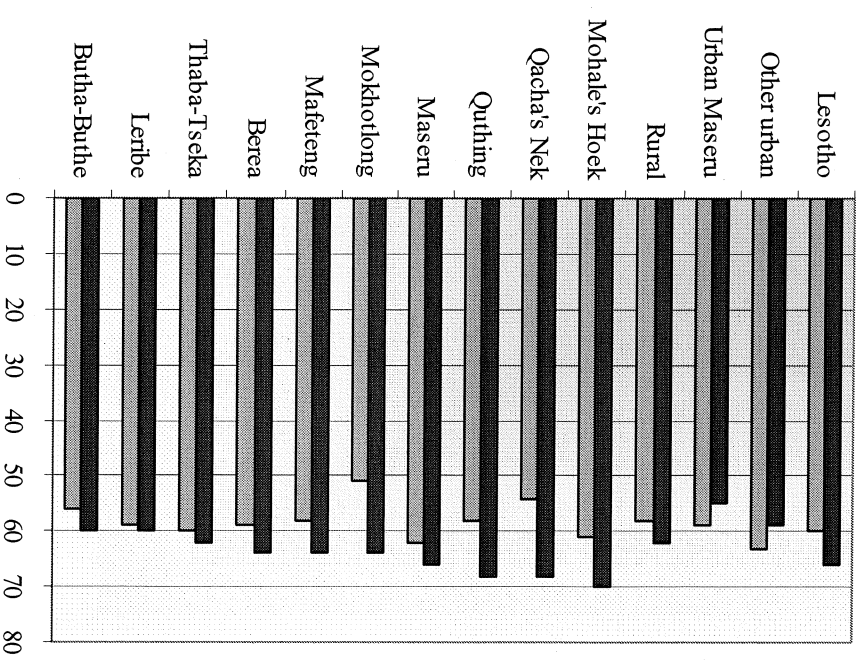
Poverty Trends in Lesotho

- Majority of Basotho live in deep and deepening poverty deprived of incomes that provide access to basic necessities such as food, shelter and clothing.
- Between 1987 and 1995, the **percentage of households below the national income poverty line** was virtually unchanged at about 58%, but the incidence of ultra-poor households increased.
- **Depth and severity** of poverty worsened for poor and ultra-poor
- Slowing economic growth and increased retrenchment of migrant workers in SA mining industry



Inequality

- **Gini coefficient for Lesotho climbed sharply from 0.60 to 0.66** over the period, which is among the highest in the world.
- **Poorest 10% commands only 0.27% of total national consumption; richest 10% accounts for 52% (1994/95).**



■ 1987 ■ 1995

Poverty Elasticity & Pro-Poor Growth (1)

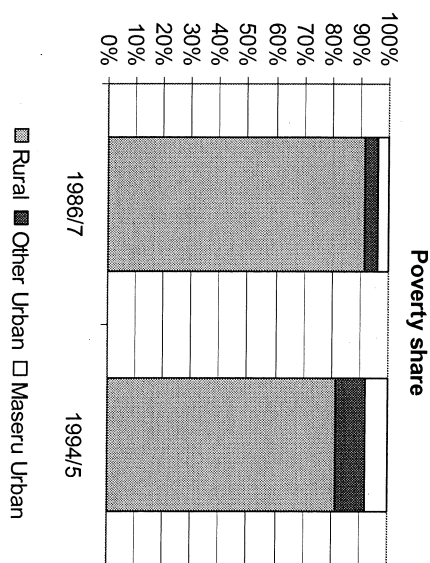
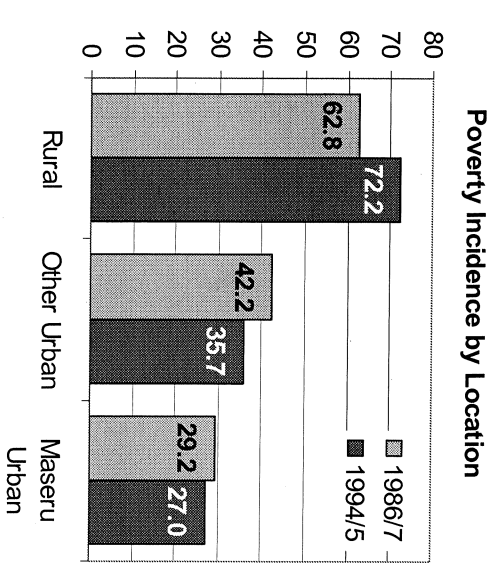
- **Poverty elasticity** of growth: measure of how effective growth is in reducing income or consumption poverty
- Lesotho, 1987-95: poverty elasticity of **-0.12**
- **Interpretation:** during the period, a 1% increase in per capita GNP resulted in a corresponding decrease in the incidence of poverty by 0.12%.
- Growth experienced between late 1980s and early 1990s tended to be **weakly pro-poor**
 - Lesotho highly inefficient in turning econ. growth into improvements in the well-being of the poor
 - Despite econ. growth (3.5% GNP growth p.a. 1981-97) driven by LHPW investments, marginal gains in poverty rate did not translate into improved well-being for the most poor.
- Impact of growth appears to have been at best confined to a limited area and to a number of limited beneficiaries.

Poverty Elasticity & Pro-Poor Growth (2)

- Part of the **reason for weak trickle down** of the benefits of econ. growth is high levels of inequality
 - Economic crisis in SA during 1980s and subsequent mine retrenchments
 - Marginalisation of a large component of the population, esp. those in rural areas, from the formal economy
- **Implication:** significant poverty reduction unlikely w/o substantial, structural reforms in Lesotho's economy
 - For high poverty, high inequality countries such as Lesotho, the MDG targets will remain elusive if the historical trends continue.
 - Alternatively, if redistributive policies are adopted which reduce levels of inequality and pro-poor growth strategies are adopted which increase the poverty elasticity, substantive reductions in poverty incidence could be achieved.

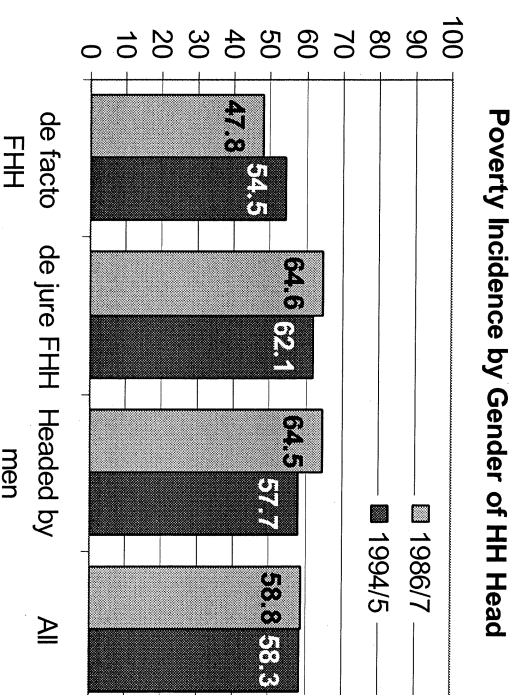
Poverty Profile (1)

- National figures conceal **striking geographic differences**
 - Poverty incidence, depth and severity declined in urban Maseru and other urban areas, while increasing in rural areas
 - Poverty measures worse in the predominantly mountainous districts
- However: decrease in the proportion of poor people who are living in rural areas
 - In 1986/87, 92% of all poor households were rural, which had declined to 82% by 1994/95
 - Poverty share in other urban areas and in Maseru increased from 4.5% and 4.0% hh respectively to 10.5% and 8% in 1994/95



Poverty Profile (2)

- **Household size and composition**
 - Larger households tend to be poor
 - Positive relationship between poverty and age dependency ratios
 - 66% of children <6 years live in poor households, as are 65% of children of school-going age
- **Headship: *de jure* FHH had a higher incidence of poverty than *de facto* FHH or MHH.**
- **Vulnerability of *de jure* FHH:** typically aging widows (67%) who may have lost assets and struggle to secure a cash income (early mortality amongst miners).
- ***De facto* FHH:** Lower poverty levels probably explained by HH' access to wage income of absent husbands
 - Worsening poverty: preliminary indication of the effect of mine retrenchments



Poverty Profile (3): Livelihoods

- 1986-95: **notable shift in main income source** for Basotho HH
 - 1986/87: dominance of remitted income (35%), subsistence farming (22%), and domestic wages or salaries in cash (17%).
 - By 1994/95: relative importance of migrant remittances diminished (23%), with increasing dependence on subsistence agric (32%).
 - Income from waged and salaried employment in Lesotho also rose (27%)
- **Principal income sources vary substantially between poorer and better off households**
 - **Ultra-poor / poor HH**: increase in the share engaged in subsistence farming; declining migrant remittances and cash cropping/livestock sales
 - **Non-poor HH**: relative reversal in weight attached to remittances from SA and regular wage empl. in Lesotho

From Diagnosis to Policy (1)

- Data provide few clues on how to significantly reduce poverty without some form of **direct transfer**
 - Agricultural assets: limited
 - Job opportunities outside Lesotho: scarce
 - Niche export opportunities – clothing/textiles (AGOA): important but insufficient given overwhelming poverty.
- Simple **microsimulation** to open up policy debate
 - Test possible direct impact of 3 types of transfer payment (M100 / month) on poverty measures
 - (a) Old age pension; (b) child support grant payable per child to poor HH with children <6 years; (c) education incentive grant payable per child aged 6–18 years to poor HH on condition that child remains at school
 - Education incentive grant: produce biggest decline in poverty, but costly (M61m/year)
 - OAP: most cost-effective option in that a 1% decline in the poverty incidence could be achieved at a cost of M43 million/year (excl admin costs)

From Diagnosis to Policy (2)

- Much of the analysis presented fed into the poverty diagnosis section of the final PRSP document
 - Coupled with information from village consultations
- **GOL introduced non-contributory old age pension in Sep 2004**
 - Fourth country in region to do so – but by far the poorest
 - Designed, implemented and financed entirely by the GOL (against IMF advice - declared it unaffordable);
 - Responds to vulnerability among older people;
 - Universal for all citizens over 70 years, rather than means tested – a right of citizenship.
 - Social pensioners are entitled to M150 (£13) per month.
 - High age criterion (70 years) cuts programme costs – important given Lesotho's low GDP – but the pension still amounts to 3% of gross national income.
 - Challenges: extend coverage by lowering the age threshold; cover other gaps in social welfare provision

Conclusion

- Despite problems in Lesotho relating to data quality and the capacity of national statistical infrastructure...
 - Existence of data on the income and consumption dimensions of poverty spanning six years **facilitated a more thorough analysis of the extent, nature and trends in poverty**
 - 2002/03 HBS data: opportunity to further deepen understanding of poverty in Lesotho
- Consumption poverty does not constitute the only form of deprivation.
 - E.g.: critical capability-related measures, such as access to services and empl., need to be considered in conjunction with the conventional poverty measures
 - Money-metric analysis of poverty: only the starting point for a broader, multi-dimensional analysis of poverty and deprivation
 - Proposal: IMD for Lesotho at the small area level

Thank You

