

## **STATEMENT BY THE CONSULTATIVE COMMISSION FOR THE ESTIMATION OF MONETARY POVERTY**

Lima, April 22, 2016

The Advisory Commission for the Estimation of Poverty<sup>1</sup> began its activities in April 2007 and was officially recognized in 2010, institutionalizing its operation and regulating its functions, scope and composition. Since its creation, the Commission's work has focused on reviewing the most important methodological aspects associated with the measurement of monetary poverty<sup>2</sup>. Four great aspects are touched on in this declaration. First, the balance of what was done and obtained during the measurement of monetary poverty in 2015. Second, a balance of the recommendations made to the INEI last year when the results of the 2014 poverty measurement were released. Third, recommendations and suggestions for future work regarding poverty measurement.

### **1. About the procedures for the measurement of monetary poverty in 2015**

For the evaluation and analysis of the procedures used by the INEI to calculate the monetary poverty indicators for 2015 and their consistency with respect to the recommendations, the Commission met in four sessions (March 17 and 31, and March 7 and 14 April 2016). During these meetings, the Commission exhaustively examined the various methodological aspects and results of the measurement of monetary poverty. After evaluating the information, the Commission wishes to express the following:

1. The methodology used in the measurement of monetary poverty for 2015 is identical to that used for the years 2004-2014. In particular, the procedures used to calculate household spending and the monetary poverty lines have been strictly the same as in previous years. Therefore, it can be affirmed that the monetary poverty estimated for 2015 and the variations with respect to 2014 correspond to real changes in the living conditions of households according to the approximation of household expenditures.
2. The monetary poverty indicators presented in the report refer only to monetary poverty. Monetary poor are defined as those individuals who reside in households whose monthly per capita spending is below the value of a basket of products (poverty lines) that allows meeting the minimum needs. The expense estimate considers both monetary expenses,

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<sup>1</sup> The Advisory Commission for the Estimation of Poverty was created by Supreme Resolution No. 097-2010-PCM. The functions of the Advisory Committee are: (1) to advise on the processes for measuring poverty and other related indicators, as well as to supervise the processes that are adopted; (2) evaluate and validate the results of the estimates made periodically; and (3) propose, when pertinent, modifications to the methodologies based on the evaluation of their validity and international experience, provided that the comparability of the indicators over time is ensured.

<sup>2</sup> As a result of this work, the Commission made a set of methodological recommendations. The changes implemented are described in a technical report published on the INEI website: Technical Report: Evolution of Poverty 2004-2010. New Methodology. Lima, March 2012. Available at: [http://www.inei.gob.pe/DocumentosPublicos/Pobreza\\_InformeTecnico.pdf](http://www.inei.gob.pe/DocumentosPublicos/Pobreza_InformeTecnico.pdf)

and non-monetary (self-consumption, self-supply, donations and transfers in kind and in money, whether of private or public origin). It is important to underline that monetary poverty measures the possibility of acquiring the minimum basket, but not necessarily its effective acquisition. Likewise, both in spending and in the consumption basket to calculate the poverty lines, the value of public goods and services (in particular social programs, education and health) is excluded for which a satisfactory method is not yet available. of monetary valuation.

3. The estimation of monetary poverty is carried out with the information from the National Household Survey on Living Conditions and Poverty (ENAH0). This survey is carried out every year and throughout the year in the national territory to a sample that in 2015 totaled 34,564 households<sup>3</sup>. However, the results obtained from said survey must always be interpreted considering the sampling errors that accompany the publication of the monetary poverty indicators that allow us to appreciate the statistical robustness of the results. The Commission expresses its satisfaction with the good practice applied by INEI, which should be extended to the set of social indicators produced by INEI.
4. The Commission, after having examined the various quality indicators of the survey delivered (total and partial non-response rates, percentage of direct and indirect interviews, extreme values, frame errors, correction of non-response, profile of non-response , imputations, among others) considers that the quality of the data of the ENAH0 survey used in the measurement of monetary poverty in 2015 responds to a high quality standard. The commission congratulates INEI for the seriousness, rigor and speed of the work carried out, which allows it to provide information on poverty in a timely and reliable manner.
5. The stage of evaluation and validation of the quality and robustness of the 2015 data by the Commission has consisted of aspects mentioned below:
  - ▣ Detailed evaluation of the information on household income and expenditure at all relevant geographic levels, by deciles, by expenditure groups, types of expenditure and items; information that included sampling errors, difference tests, and mean variation. Likewise, the consistency between the evolutions of the total expenses and according to the different acquisition modes with respect to the income in their added values and according to sources was examined. Finally, the robustness of the expenditure and income indicators was verified using comparisons of the panel component with the total sample of the survey.
  - ▣ Evaluation of the robustness of the reference population and prices of the food basket used since the base year 2010.
  - ✓ Analysis of the results of the evolution of the incidence of monetary poverty, gap and severity of monetary poverty.
  - ✓ Verify the comparability of the methodologies for calculating monetary poverty, ensuring that the procedures used to estimate expenditures, income and the monetary poverty lines are the same as those of previous years.

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<sup>3</sup> Includes 1,134 oversample dwellings from the upper stratum; This increase in the sample has been carried out since 2013 on the recommendation of the Commission to ensure greater robustness in the results of the poverty indicators. With this same purpose, additionally in 2015, there was an increase of 1,740 homes distributed nationwide in all strata.

6. Finally, the Commission welcomes and congratulates that the INEI continues to make available to the public, via the website, the complete original databases, detailed documentation and programming routines that allow replicating the published results.

## **2. Commission recommendations implemented in 2015 by the INEI<sup>4</sup>**

- (i) *The Commission recommended systematizing existing practices and defining a standard protocol for the detection and treatment of extreme values of income and expenses to be used in future quality evaluations of ENAHO.* The INEI has developed a Survey Management and Monitoring System, the progress of which was presented at the first meeting of this year to the members of the Advisory Commission, its implementation is planned for the second quarter of 2016.
- (ii) *The Commission recommended improving the capture of non-purchased modalities of spending (self-consumption, self-supply, as part of payment to a member of the household, given away or paid for by a member of another household, given away or donated by a social program, others) that are currently captured with little precision when the same non-purchased item has more than one form of acquisition.* In this regard, INEI concluded with the migration of data entry programs in TABLET, starting their use in the survey from January of this year; In this system, the expenditure questions independently capture each of the sources of expenditure that are not purchased. In addition, other support mechanisms for the interviewer have been included to facilitate the interview in the field (such as the inclusion of the expenses annex, among others). As the INEI is implementing new data collection processes with new technologies (new software) and procedures in the questionnaire, monitoring systems must be implemented to ensure the comparability of the information collected with that of previous years.
- (iii) *The Commission recommended taking action preventive methodologies in the case of Tacna, given that it was the department with the highest non-response rate during the last three years.* In this regard, the INEI, since May 2015 incorporated an oversample of 38 annual conglomerates in that department in order to reduce the bias that could be causing the non-response.
- (iv) *The Commission recommended incorporating the socioeconomic stratum into the published databases with a brief technical document that explains the criteria for its construction.* The INEI, as of 2015 in the published database, has included in Chapter 100: "Characteristics of the dwelling and household" the variable "ESTRSOCIAL" which contains five stratification categories, as well as the descriptive document of this variable.
- (v) *The Commission is aware that the current methodology for measuring monetary poverty does not adequately include the valuation of social programs and transfers received from households in health, education and food (such as SIS, Qali Warma, among others). What is recorded in the survey corresponds only to the out-of-pocket monetary payments made by the informant of the services received, which implies an underestimation. Therefore, the Commission has suggested to INEI, in coordination with MIDIS and MINSA, to explore*

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<sup>4</sup> Watch the Statement of the Advisory Committee of April 23, 2015 where recommendations were made: [https://www.inandi.gob.pe/media/cifras\\_de\\_pobreza/declaracion\\_comision\\_consultiva\\_1.pdf](https://www.inandi.gob.pe/media/cifras_de_pobreza/declaracion_comision_consultiva_1.pdf)

*jointly the methodological options that allow to correct the problem.* In this regard, the INEI will resume the coordination with the institutions related to these social programs and together with the Commission will carry out the evaluation of the criteria to be considered in the valuation of public goods.

- (vi) *The Commission recommended that information on their quality be included in the analysis of the results of basic services, taking as a source other surveys applied by the INEI with national coverage (such as ENAPRES, among others)..* The INEI has taken into account the recommendation given by the Commission and is including in the presentation of its results other complementary indicators that allow public decision makers to have more elements related to the quality of basic services.
- (vii) *The Commission recommended carrying out an evaluation of the nutritional contribution of food consumption outside the home based on the results of the investigation carried out in 2013; and evaluate its implications in estimating the caloric deficit of households.* In this regard, the INEI is in the stage of coding the foods consumed outside the home registered in question 559 of the ENAHO 2013-2015 and based on this information the current estimate of the caloric deficit will be evaluated.
- (viii) *The Commission recommended expanding the methodological discussions including in its work agenda the consideration of multidimensional poverty..* For this, INEI first signed a framework agreement with the Oxford Poverty and Human Development Initiative (OPHI) of the University of Oxford in England, who developed the methodological proposal for the Multidimensional Poverty Index (MPI) adopted by various countries and international organizations. . Initiating these activities, the INEI organized a Multidimensional Poverty Measurement workshop that was held from March 1 to 3 of this year with the participation of experts from said university, national experts, members of the Advisory Commission and officials from various ministries. In order to carry out this workshop, the INEI made representations to various international organizations and obtained financing from the World Bank.

### **3. recommendations and perspectives**

The recommendations made by the Commission during the 2016 meetings are as follows:

1. Regarding the presence of a high non-response rate in the upper strata, it is convenient to evaluate whether the current correction of the bias through the expansion factors is sufficient or it is necessary to improve the methodology that guarantees an assertive calculation of the indicators. of inequality in living standards.
2. In relation to the constant growth observed in the indirect non-response rate, an in-depth study is required to verify the biases that would be causing in the indicators relevant to the population's living standards.
3. The Advisory Committee on Poverty requested the INEI to present a list of the pending methodological documents related to the inputs for the measurement of

monetary poverty with base 2010 pending. Likewise, that a work plan and schedule be presented on the documentation of pending processes regarding the measurement of monetary poverty indicators with the new base.

4. It was observed that in the monetary poverty indicators there is little level of statistical significance in the differences with respect to the previous year in almost all geographic domains and departments, for which the Commission recommended that INEI evaluate the design of the ENAHO, and carry out a proposal for the improvement of this. Likewise, the Commission indicated several options that should be included in this proposal, from improvements in the stratification for the sample design, expansion of the total sample or on samples focused on specific areas from time to time, etc.
5. Along these lines, the Commission underlined the importance of estimating monetary poverty indicators including sampling errors and robust groups at the provincial and district level every five years. To measure these indicators of monetary poverty in smaller areas, it is essential to be able to have the National Population and Housing Census carried out in 2017. The new 2017 Census will also allow to improve the designs of the different household surveys as well as the precision and robustness of social indicators.
6. The commission also recommended the construction of a food price index based on the unit values of the ENAHO, taking into account the urban and rural areas in order to carry out the corresponding evaluations at detailed levels and compare them with the CPI series. The members of the Commission observed that when these unit values are evaluated in detail (for example at the level of product varieties), although the differences between those observed in the survey and the price indices captured by the INEI are lower at the aggregate geographical level, the differences become greater at higher levels of disaggregation.
7. Finally, the Commission recommended that the INEI, together with the Commission, prepare a work program for the measurement of multidimensional poverty specifying the topics that will be addressed in the different sessions, define a calendar of meetings and activities, and designate the technical team formed. by INEI technicians and members of the Committee in order to implement the various recommendations of the committee.