

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

Lima, April 24, 2018

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>.

This statement addresses the following aspects:

- ✓ First, the balance of what has been done throughout the process carried out by the INEI for the measurement of monetary poverty in 2017.
- ✓ Second, the status of what has been carried out by the INEI with respect to the recommendations made by the Commission.

## 1. Analysis procedures carried out in the measurement of monetary poverty 2017

During the analysis and evaluation stage of the procedures and protocols used by the INEI to calculate the monetary poverty indicators for 2017 and their consistency with respect to the recommendations made, the Commission met in 4 sessions (March 6 and 13 , and April 04 and 16, 2018). During these meetings, the Commission exhaustively examined the various methodological aspects, as well as the results of the measurement of monetary poverty. After completing the evaluation carried out, the Commission wishes to express the following:

1. The monetary poverty figures for the year 2017 have been calculated following the same methodology that has been applied consistently in the period 2004-2016. This methodology includes both the procedures used to calculate household spending and those used to calculate the poverty lines. Due to this, it can be affirmed that the monetary poverty estimated for 2017 and the variations with respect to 2016 correspond to real changes in the living conditions of households according to the approximation of household expenditures and not to changes in the estimation methodology.
2. The 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 and services (poverty lines) that allows meeting a set of minimum material needs. Households in extreme poverty are those whose expenditures are below the cost of the minimum food basket. The expenditure estimate considers both monetary and non-monetary expenses (self-consumption,

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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>two</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 in: [http://www.inei.gob.pe/DocumentosPublicos/Pobreza\\_InformeTecnico.pdf](http://www.inei.gob.pe/DocumentosPublicos/Pobreza_InformeTecnico.pdf)

self-supply, donations and transfers in kind and in money whether of private or public origin). In addition to the incidence of poverty, the gap and severity of poverty were calculated, as in previous years, which measure the average distance of household expenditures from the poverty line and inequality among the poor. It is important to underline that monetary poverty measures the possibility of acquiring said minimum basket, but not necessarily its actual acquisition. Likewise, both in spending and in the consumption basket to calculate the poverty lines, the value of public goods and services received by households (in particular from social programs, education and health) is underestimated for which they have not yet been established. has a satisfactory method of monetary valuation.

3. The estimation of monetary poverty is made based on 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 2017, amounted to 36,996 households in total. In this sense, the results obtained from said survey must always be interpreted considering the inherent sampling errors that accompany the publication of the monetary poverty indicators, which allow us to appreciate the statistical robustness of the results.
4. The Commission values the effort made by the INEI in the continuous improvement of the processes to ensure quality in the information gathering process, making use of technological tools for the implementation of validation controls in real time. This results in increasing reliability of the information collected by ENAH0.
5. The Commission, after having studied the various quality indicators of the survey (dwellings programmed according to the results of the interview, frame errors, total and partial non-response rates, percentage of indirect interviews, extreme values, correction of the non-response, profile of the non-response of absent people and the indirect informant, profile of unoccupied dwellings, profile of panel dwellings, among others) considers that the quality of the data of the ENAH0 survey used in the measurement of monetary poverty in 2017 responds to a high standard of quality. The Commission has also verified that the census operation carried out in 2017 has not affected ENAH0's operations or the quality of the information collected. The commission recognizes the seriousness, rigor,
6. The work of evaluation and validation of the quality and robustness of the 2017 data by the Commission has consisted of important aspects that are mentioned below:
  - ✓ Evaluation of the development of the information collection process, of the monitoring, control and supervision procedures to ensure the quality of the data.
  - ✓ Detailed evaluation of the information on household expenditures and income at all relevant geographic levels, by deciles, by spending groups (8 and 12 groups), types of spending and items; information including sampling errors, difference tests, and mean variation. Likewise, the consistency between the evolution of total expenses according to the different acquisition modes was examined; In relation to income, the added values and the various types of income were reviewed. In this context, the robustness of the expenditure and income indicators was verified using comparisons of the panel component with the total sample of the survey. Likewise, the consistency of the joint evolutions of expenses and income was examined.

- ✓ 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, poverty gap and severity, both for total poverty and extreme poverty.
- ✓ Evaluation of the consistency of the results.
- ✓ Verification of comparability of the methodologies for calculating monetary poverty, ensuring that the procedures used to estimate expenditures, income and poverty lines are consistent with the methodology applied in previous years.

7. The Commission recognizes the effort that the INEI makes each year to make available to the public, via the website, the complete original databases, documentation and programming routines that allow replicating the published results.

## 2. Status of the recommendations made by the Commission to the INEI3

Recommendations implemented:

- (i) Regarding the grouping of expenses in 8 groups, it is convenient to update the nomenclature of expenses in 12 groups, since they correspond to the latest revision of National Accounts (Classification of Individual Consumption by Purpose - CCIF); for example, in the grouping of 8 groups "education and recreation" appear together so that their variations could be misinterpreted. *In this regard, the INEI made available to the public on the website the information from the 2016 summary file organized into 8 and 12 expense groups.*
- (ii) It was recommended to investigate in depth the case of non-responses due to the significant number of vacant homes, abandoned in order to better understand the dynamics of territorial mobility and improve the survey designs. The results of the next Population and Housing Census will constitute a valuable contribution in this regard. *In the second meeting of this year, the INEI presented to the Commission the "Profile of vacant dwellings" for its evaluation, concluding that these dwellings tend to be more precarious, are rented and differ according to geographic area, among other characteristics.*
- (iii) It is recommended to carry out a study on the possible biases that the panel sample could be presenting, given the indications observed by the Commission that the differences between the general sample and the panel sample would be widening. *In this regard, the INEI at the third meeting presented to the Commission the "Profile of the panel dwellings that remain occupied in the following visit year" for its evaluation, concluding that they present similar profiles and with expected differences given the nature of the panel.*

Recommendations in process:

- (i) The Commission requested to present a list of the pending methodological documents related to the inputs for the measurement of monetary poverty based on 2010. Also, that a work plan and schedule be presented on the documentation of the pending processes regarding the measurement of monetary poverty indicators with the

<sup>3</sup> See the Statement of the Advisory Committee of May 10, 2017 where recommendations were made:  
[https://www.inei.gob.pe/media/cifras\\_de\\_pobreza/declaracion\\_comision\\_consultiva\\_estimacion\\_de\\_pobreza\\_monetaria\\_2016.pdf](https://www.inei.gob.pe/media/cifras_de_pobreza/declaracion_comision_consultiva_estimacion_de_pobreza_monetaria_2016.pdf)

new base. *In this regard, the INEI on July 25, 2017 delivered to the Commission four methodological documents related to the methodological update of monetary poverty for observations, pending the preparation of the document "New spatial deflator".*

- (ii) 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. *INEI, working together with CENAN, has been working on the caloric equivalent of food from charitable institutions. As soon as the information is available, the new estimates of the caloric deficit will be made for evaluation by the Commission.*
- (iii) Within the framework of the Sustainable Development Goals (SDGs) that establish as one of their axes the "eradication of poverty in all its forms", the Commission recommended to INEI the development of a work plan to discuss and evaluate the relevance of implement a multidimensional poverty measurement methodology complementary to the measurement of monetary poverty. This recommendation included the need for said plan to specify the topics to be discussed in the different sessions, define a calendar of meetings and activities, and establish the formation of a technical team made up of INEI technicians and members of the Committee in order to carry out the different specific tasks included in said plan. *With regard On this subject, during 2017, 2 work meetings were held; in the first, "a recount of the activities carried out was carried out and the schedule of activities and strategies to be followed was discussed"; the second meeting addressed the topic "why measure multidimensional poverty and the map of actors". Once the revision of the estimate of monetary poverty in 2017 has been concluded, the meetings on multidimensional poverty will resume in order to continue the working discussions and advance in the definition of the dimensions and indicators.*

Proposed recommendations to continue with the continuous improvement process:

The list of topics to be developed is detailed below:

- (i) Educational guidelines for the user about the limits of inference of various indicators that can be obtained from the total sample and from a panel sample.
- (ii) Evaluation of the current correction of the non-response bias in the upper strata through expansion factors and propose a solution in case it is required to improve the post-sample adjustment methodology.
- (iii) Carry out a study with ENAHO on the behavior of households regarding their spending, investment and savings.
- (iv) Evaluation of the ENAHO design, and make a proposal to improve the precision of poverty indicators at the departmental level, particularly in those where the incidence of poverty is low and the coefficients of variation are high.
- (v) Carry out a study that allows verifying the possible biases that the constant growth of the indirect non-response rate would be causing in some important variables.
- (vi) Carry out the construction of a food price index based on ENAHO unit values, for evaluation with the CPI.
- (vii) Explore methodologies that allow adequate monetary valuation of social programs and transfers received by households in health, education and food, for which the INEI will initiate coordination with MIDIS and MINSA.