Counting the Asian Poor…
Do revisions in calculations lead to greater understanding?

Jane Carter, October 2014

The *Key Indicators for Asia and the Pacific 2014* is, according to the Asian Development Bank (ADB), its "flagship annual statistical publication" (1). It certainly does no lack figures – including a detailed compilation of statistics, largely of a financial nature, by individual country as well as an overall analysis of trends. This year attention has been drawn to the publication by the Guardian global development blog, amongst others, for its special chapter on poverty in Asia, and its assertion that extreme poverty in the region has been under-estimated (2). This is of course important not only as a fact in its own right, but also because it undermines the claim that the MDG 1 of halving global poverty by 2015 has been met ahead of time. The ADB's argument hinges on questioning the internationally agreed definition of poverty as a per capita income of below US $ 1.25 per day; the bank considers this to be too low a cut-off point. Here it should be noted that the original definition in the MDGs was of "poverty" whereas the ADB consistently refers to "extreme poverty" - by definition, a smaller group of people.

Three reasons for the US $ 1.25 poverty line being inadequate

According to the ADB, a higher figure is needed to define extreme poverty in Asia for the following reasons:

- The consumption figures are set too low, as they were originally determined using 1998 – 2005 data from the world's 15 poorest countries, only two if which were in Asia. This is not only out-dated, but failed to take into account Asian specificities – for example, the ADB notes that a mobile phone is now a "necessity", not a luxury item. (One might question if this argument is Asia-specific or a global reality, given today's use of mobile phones for cash transfer, market information and many other livelihood-related needs). "Broadly following the same procedure used for obtaining the $ 1.25 poverty line" the ADB calculates an Asia-specific extreme poverty line to be $ 1.51/capita/day in 2005 purchasing power parity terms.
- Food insecurity is not adequately factored into the original calculation. Food prices have risen more rapidly than expected, partially due to limited supply (compounded by climate-related crop losses and loss of land to urbanisation), and partially to growing demand (both in quantity die to population increases and quality due to those on higher incomes demanding more resource-intensive foods). The landless and urban poor, who spend a far greater proportion of their income on food than others, are particularly hit by higher food prices.
- The vulnerability to risks experienced by the extreme poor has also been under-estimated. The frequency and intensity of "natural" disasters, often associated with climate change, is increasing. Globalisation has brought many economic advantages but has also increased the probability of financial shocks. In both cases, it is the extreme poor – living in marginalised, high risk areas and with few savings - who suffer the most.

The figures re-calculated

Taking the revised extreme poverty line of $ 1.51, Asia's extreme poverty rate in 2010 is estimated to be not 20.7%, but 49.5%. Clearly this is a huge difference of interpretation. Breaking this down according to the three reasons that they identify, the ADB estimates that there are 343.2 million more extreme poor people due to consumption differences; 140.52 million more due to food insecurity; and 417.99 million more due to vulnerability. This would imply that the vulnerability of the extreme poor to disasters linked to climate change and global economic fluctuations should be at the forefront of the minds of policy makers.

Yet can the new figures be read with any greater confidence than the old ones? The World Bank is also reconsidering the way that it calculates poverty, announcing in May the possible introduction of a new method for calculating purchasing power parity (PPP), used to calculate consumption costs (3). This new method aims to correct for exchange rate distortions; as a result, it "more than halved the estimated number of people living on below $1.25 per day (from 1.22 billion to 0.57 billion). The reduction was mostly due to large adjustments in the numbers for South Asia and in particular India." (4) The ADB and the World Bank are essentially saying the same thing although in terms of "glass half empty" (more poor people) versus "glass half full" (fewer poor people); that is, that living on below $ 1.25 is simply not a very credible indicator of extreme poverty – and certainly not of poverty.

Policy implications

In a blog article posted on 13 June 2014, World Bank staff members Neil Fantom, Haishan Fu and William C. Prince comment with regard to the revisions in defining poverty that, "the analytical classification is used far more extensively outside the World Bank than we had previously known, and in many cases for resource allocation purposes or as the basis for policy decisions. The classification was originally only intended for analytical purposes, such as comparison and aggregation, but it is clear that usage has extended beyond that." This seems a surprising admission – but if the World Bank had not previously realised its influence, it is well that it does so now.

Where does this leave the world's poorest people? Banks of course assess poverty in monetary terms – although most people working in development cooperation are aware that poverty is more complicated and multi-facetted than this; see for example the DAC definition of poverty (5). It is perhaps encouraging that the ADB now recognises the significance of vulnerability in poor people's lives, even if it still does so in financial terms. Clearly for the purpose of counting numbers of people living in poverty or extreme poverty, a simple financial cut-off line is the easiest measure to use, and is thus likely to remain – whatever figure or figures finally agreed. The most important message to retain at international level is that the global challenge of addressing poverty is most emphatically not one that halved overnight. Amongst those responsible for elaborating the SDGs, this is certainly recognised (6).

References

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(3) Brettonwoods Project (2014), Who's poor? New estimates of PPPs led to halving of World Bank's poverty numbers, 6 August 2014, http://www.brettonwoodsproject.org/2014/08/whos-poor-new-estimates-ppps-led-halving-banks-poverty-numbers/

(4) Neil Fantom, Haishan Fu and William C. Prince (2014), "LICs, LMICs, UMICs, and HICs: classifying economies for analytical purposes ", The World Bank Data Blogs, 13 June 2014 http://blogs.worldbank.org/opendata/lics-lmics-umics-and-hics-classifying-economies-analytical-purposes

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(6) UN DESA, (2014), Sustainable Development Affairs Knowledge Platform, Poverty eradication http://sustainabledevelopment.un.org/index.php?menu=233