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MEASUREMENT OF POVERTY IN OIC MEMBER COUNTRIES:

ENHANCING NATIONAL STATISTICAL CAPACITIES

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TABLE OF CONTENTS

FOREWORD

Poverty is a complicated and multi-dimensional phenomenon that goes beyond the monetary aspects. It is associated with poor economies, poor human resources, poor social services provision, and poor policies to tackle the challenges facing human and socio-economic development. Poverty also arises when people lack access to adequate civic amenities like education and health services. Therefore, the status, the determinants, and the policy measures required to eradicate poverty would, by definition, vary from one country to another.

The world has witnessed significant decrease in poverty over the last two decades, where the number of people living below the international poverty line of $1.25 per day decreased from 1829 million in 1990 to 964 million in 2011, corresponding to a decline of 47%. During the same period, the OIC member countries also made significant gains in their fight against poverty, where the number of people living at $1.25 per day decreased from 396 million in 1990 to 322 million in 2011. As a result, the share of poor in OIC total population was recorded at 22.3% in 2011 compared to 41.1% in 1990.

Notwithstanding this progress, currently, over 1.6 billion people in the world are living in multidimensional poverty, corresponding to 30% of world's total population. The incidence of multidimensional poverty remained comparatively high in OIC member countries with 35% of their total population living in multidimensional poverty in 2014. A total of 465 million people in OIC member countries are considered as multidimensional poor, accounting for 29% of the world total multidimensional poor in 2014.

Progress in eradicating poverty remained highly uneven across the OIC member countries. Incidence of poverty, both in monetary and multidimensional terms, remained very high especially in low and lower middle income OIC countries located in Sub-Saharan Africa and South Asia regions. Poverty eradication is a complex task because of the multifaceted nature of poverty. Like many of their developing counterparts, governments in OIC member countries are facing a myriad of issues and challenges in their fight against poverty including access to basic services, availability of financial resources, institutional capacity and political will.

This state of affairs necessitates more commitment and efforts by the governments to consider this important issue at a higher level on their national development agendas. There is also an urgent need for strengthening and enhancing cooperation and collaboration in various poverty related issues at both regional and international level. If OIC member countries are to reduce poverty or to assess the impact of their national socio-economic policies, they need to know a lot about their poor. It is important to know who the poor are; where they live; what assets they command; what their education, health and housing conditions are; and what economic opportunities are available to them. It is not possible to imagine sustainable socio-economic development in these countries without a significant rise in the standard of living of the neediest segments of the population in terms of consumption, health, housing, and education. Investing in people must, therefore, be the highest priority for these countries as long as human capital limitations restrain growth or keep people in absolute poverty.

A major concern is, therefore, the availability of good quality statistics. Without adequate information and data on poor people, policies and programmes with effective engagement strategies for the poor cannot be undertaken and monitored. In this context, recently there has been an increasing interest towards multidimensional measures of poverty, which requires substantial amount of data on various related fields and activities. This state of affairs necessitates the need for both an

in-depth analysis on the state, causes and consequences of poverty as well as an accurate assessment of the statistical capacities and needs for the proper measurement of poverty.

Against this background, the report provides in Part I a brief analysis of various efforts made so far to gauge the scale of poverty in the world especially by highlighting the strengths and weaknesses of these measures. In Part II, the report provides a detailed analysis of the incidence of poverty in OIC member countries both in monetary and multidimensional contexts. It highlights the major causes and socio-economic consequences of poverty in OIC member countries as well as the major challenges and obstacles faced by the OIC member countries in their fight against poverty.

Part III mainly focusses on the current statistical practices, needs and strengths of OIC member countries in assessing poverty. In this regard, the key issues in poverty measurement are delineated based on the answers given by the National Statistical Offices (NSOs) of OIC member countries to the Questionnaire prepared by SESRIC for this purpose. In Part IV, plans and strategies of the member countries are presented to sketch a roadmap for the future. The report concludes with policy recommendations aiming to strengthen National Statistical Systems (NSSs) of OIC member countries in the area poverty statistics, and thus to enhance the national programmes on poverty alleviation.

Prof. Savaş Alpay

Director General

Part I: UNDERSTANDING POVERTY

Today it is a widely held opinion that poverty cannot be measured only in monetary terms. In fact, poverty is a complex, multidimensional phenomenon that arises from the interaction of economic, political and social processes aggravating the destitution faced by poor people. In many instances, addressing the root causes of poverty requires long-term commitment in order to improve the living conditions of people suffering diverse deprivations. Over the years, poverty eradication has become an international concern especially since the initiation of Millennium Development Goals (MDGs) in 2000. Nevertheless, despite continuous efforts at every level, there is still a considerable part of the world population living in unsatisfactory conditions. Therefore, it is no wonder to observe that the problem of poverty is still at the heart of the global development agenda as discussions on the post-2015 development goals intensify and the World Bank has set a new target of eliminating extreme poverty around the world by 2030.

Though there is a world-wide agreement on poverty eradication for socio-economic development, yet there is no international consensus on the definition and measurement of poverty. In this vein, this section provides a brief description of definitions and measurement approaches related to poverty. It should be noted that much of the international efforts are concentrated on eliminating poverty measured in monetary terms, but a more comprehensive stance towards eliminating poverty should be adopted in order to address the multidimensional aspects of deprivation.

1.1. Basic Concepts, Definitions and Approaches

Experts and academics have developed many concepts and terminologies that are commonly used in the literature to explain the different aspects of human wellbeing. In order to better capture the variety of ideas and concepts, this subsection will review some of the most commonly used terminologies and provide a brief discussion on each of these terms. This will include poverty, standard of living and welfare, inequality and social exclusion. The next subsection will focus on the measures of poverty and inequality that are commonly used in the literature. It will provide discussions on both traditional measures of poverty as well as alternatively developed measures that aim at gauging different aspects of poverty beyond monetary measures.

1.1.1. Poverty

Poverty is not a self-defining concept. There is a wide spectrum of perceptions about the nature of poverty and depending on the point of view adopted, different analyses can be carried out and strategies can be devised to eradicate poverty. It would be fair to classify these different perceptions on poverty under objective and subjective measures. Poverty studies in the first category use information collected through variables with a high degree of objectivity. The most frequently used variables are household income and expenditures. By applying an objective focus, a further classification can be made based on absolute and relative terms. The absolute poverty refers to a minimum income threshold below which individuals cannot meet their basic needs that are vital for survival. According to the World Bank, absolute poverty is defined as a state in which a family earns less than US $1.25 per day (in 2005 USD) per person (Ravallion et

al. 2008). In relative terms, poverty is measured as the percentage of population with income less than some fixed proportion of median income. It compares the lowest segments of a population with upper segments. For instance, the Eurostat uses a relative poverty measure based on "economic distance" which corresponds to a level of income set at 60% of the median household income.

In the analysis on subjective poverty, primary source of information is the opinion of the individuals or households. More precisely, this approach makes use of the subjective views that households have of their financial situation as opposed to the objective focus that uses observable and measurable variables. There is another concept called severe poverty that is related to deprivation or the lack of access to certain goods and services considered essential for any person. In this context, poverty is measured with non-monetary variables and deprivation indicators. Moreover, over the past decades, the definitions of poverty have been broadened beyond economic indicators (income) to include social and cultural indicators such as education and health as a better reflection of the well-being of people (Cobbinah et al. 2013).

1.1.2. Standard of Living and Welfare

Standard of living and welfare are two important concepts that are being used frequently in the socio-economic literature to understand or explain the state of human wellbeing. The standard of living refers to the level of wealth, comfort, material goods and necessities available to a certain socio-economic class, in a certain geographic area. In this connection, the standard of living covers a wide range of factors including income, class disparity, poverty rate, GDP, inflation rate and life expectancy.

In the literature, the poverty line is determined in terms of the standard of living. More precisely, poverty lines represent the aggregate value of all the goods and services considered necessary to fulfil the household's basic needs. There are several approaches to construct the poverty lines. The Cost of Basic Needs (CBN) is one of these different approaches, where the total poverty line is constructed as the sum of a food and a non-food poverty line. It first estimates the cost of acquiring enough food for adequate nutrition and then adds the cost of other essentials such as clothing and shelter. Moreover, the Unmet Basic Needs (UBN) or Minimum Basic Needs (MBN) approach measures poverty in terms of peoples' access to basic needs. Housing, basic services, educational levels and heath care represent four main criteria that are used in order to estimate the UBN of a household.

Welfare, on the other hand, is a narrower concept than the standard of living. More precisely, welfare economics refers to the level of prosperity of either an individual or a group of persons. In this context, welfare state is defined as a concept of government in which the state plays a key role in the protection of the economic and social well-being of its citizens in four areas such as cash benefits; health care; education; food, housing and other services (Barr, 2004). According to this definition, the welfare state should support standard of living and prevent behaviour contributing to moral hazard and adverse selection. With regard to welfare economics, Amartya Sen formulated the capability approach in the 1980s. Sen's (1990) key contribution is that people's freedom is essential in order to choose between different ways of life that they can evaluate. In such a setting, Sen highlights that poverty should be seen as a deprivation of basic capabilities and that income poverty alone should not be the core value of development economics.

1.1.3. Inequality

Inequality is a broader concept than poverty because it is defined over the entire population and not just for a particular segment of the population living below a certain minimum income threshold. In this respect, inequality is the situation in which assets, wealth, or income are distributed unequally among individuals in a group, among groups in a population, or among countries. Economic inequality varies between societies, historical periods, economic structures and systems. There are different indices for measuring economic inequality. A widely used one is the Gini coefficient, cf. Section 1.2. A review of literature shows that opinions differ on the importance of the concept of inequality and its effects. For instance, the Kuznets (1955) hypothesis postulates that growth in per capita income initially comes at a cost of a higher level of inequality, but eventually inequality falls with growth.

1.1.4. Social Exclusion

Social exclusion is used in social development literature as a framework to conceptualise human deprivation. This concept captures the dynamic nature of deprivation with different interconnected dimensions. In this context, income exclusion creates other forms of exclusion such as limited access to services including health care and education. However, inadequate income is not the only factor that can influence access to services. Inequitable public policies may lead to exclusion from services. For instance, public pensions or health care in some countries cover only public sector employees excluding the majority of people employed in the informal sector.

Different measures are developed in the literature to reflect different dimensions of social exclusion. The "at risk of poverty or social exclusion" (AROPE) indicator defines the share of people who are at risk of poverty or severely materially deprived or living in households with very low work intensity. People at risk-of-poverty have an equalized disposable income below the risk-of-poverty threshold, which is set by the European Union at 60 % of the national median equalized disposable income after social transfers. An equalized disposable income is the total income of a household, after tax and other deductions, divided by the number of household members converted into equalised adults. Household members are equalised or made equivalent by weighting each according to their age.

Besides, the UNDP Regional Human Development Report on social exclusion in 2011 proposed the Multidimensional Social Exclusion Index, which measures the status of people and their households along three dimensions: economic exclusion, exclusion from social services, and exclusion from civic participation. The social exclusion index uses 24 indicators -eight for each dimension- measuring the level of exclusion in labour markets, education and health systems, as well as to civic and social networks. An individual is defined socially excluded if he or she is deprived in at least nine indicators. Since a dimension contains only eight indicators, to be considered socially excluded a person must be deprived in at least two dimensions.

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