

POVERTY REDUCTION STRATEGY PAPER

SECTION 1. POVERTY SITUATION ANALYSIS

CHAPTER 1.

DEFINITIONS OF POVERTY AND EVALUATION METHODOLOGY

40. Poverty evaluation is derived from its definition. Modern definitions are based on the concept of poverty as a multidimensional issue. According to the World Bank⁵, poverty is manifested as: (i) Lack of opportunity: Low levels of consumption/income, usually relative to a national poverty line. This is generally associated with the level and distribution of human capital, social assets and physical assets, such as land, and market opportunities, which determine the returns to these assets. The variance in the returns to different assets is also important.

(ii) Low capabilities: Little or no improvements in health and education indicators among a particular socio-economic group;

(iii) Low level of security: Exposure to risk and income shocks, which may arise at the national, local, household or individual level.

(iv) Empowerment: Empowerment is the capability of poor people and other excluded groups to participate, negotiate, change and hold accountable institutions that affect their well-being.

41. On the basis of the above definition, poverty here is considered as impossibility to meet minimum biological, social, and cultural needs. “Biological needs” should be perceived as meeting minimum food and personal hygiene needs, as well as minimum seasonal clothes, residential unit and affordability of minimum consumption of water, heating and electricity. “Social needs” include health, education, job, and minimum social life (marriage, births of kids, death related ceremonies, interaction with judicial systems) together with relevant material capacities, stability of intra-household relations and accessibility of minimum information (press, television, radio or other mass media), as well as socializing with other people (telephone, transport, other means of communication) and possibilities to participate in public events. “Cultural needs” include minimum affordability of cultural values (not in the context of subjective demands and perceptions, but rather by objectively defined groups, such as minimum participation in already traditional ceremonial life, opportunities to read and listen to music, etc.).

42. A person will be defined as a poor or non-poor given the combination of the above three groups, and meeting exclusively material (biological) needs will not entail enlargement of social opportunities of a person and poverty reduction. Majority of poverty studies undertaken both in Armenia and other countries are nevertheless anchored to indicators of “biological needs”, partially covering health and education accessibility. These predominantly lack other social needs and social and cultural factors.

43. Poverty, being a multidimensional concept, brings about the necessity for development and introduction of a system of indicators for its assessment. Poverty Assessment Indicators System (PAIS) will be developed and introduced as the basis for poverty monitoring methodology (development of

PAIS will start in 2004), which will allow to assess various aspects of poverty at national and regional levels as well as characteristics of poverty among vulnerable groups of the population, so that we will have a more complete picture of poverty and will be able to follow its changes. PAIS will specify the following in a coordinated manner:

- (i) definitions and characteristics of various types of poverty;
- (ii) poverty assessment indicators and methods for their calculation;
- (iii) sources for collecting data on poverty indicators and mechanisms for obtaining them regularly;
- (iv) types and frequency of studies of different aspects of poverty;
- (v) responsible organizations and institutions for conducting studies and collecting indicators;

PAIS will be the core of the comprehensive strategic program for PRSP monitoring, analysis and impact assessment, and it will be developed for the management, monitoring and coordination of PRSP implementation (see Section 5 of this document).

44. Sample household surveys (hereinafter, household surveys) serve the bases for evaluation of the depth of poverty, measurement of various poverty indicators, as well as monitoring poverty programs. With the support of the World Bank, the National Statistical Service (NSS) carried out three such surveys in Armenia, in 1996, 1998/99 and 2001⁶. The 1998/99 and 2001 Surveys generated time series of poverty indicators based on the same methodology of poverty evaluation. This ensures consistency of the indicators in time and comparability with other countries, as well as applicability from the perspective of evaluation of poverty reduction trends.

45. In the absence of PAIS, elaboration and evaluation of PRSP is compellingly based on the NSS methodology with the primary emphasis placed on evaluation of material aspect of poverty.

46. According to the latter, the basis for evaluating poverty of a country's population reflects two absolute poverty lines, i.e. estimation of poverty food line and poverty general line. Both are construed on actual expenses of households for acquisition of food. The minimum level of food consumption is considered to be the quantity of actually consumed food containing 2100 kilocalories per day per capita⁷, while the value of minimum food basket is considered to be the financial resources necessary for acquisition of the above quantity of food. Value of the minimum food basket adjusted with the coefficient of expenditures for commodities and services serves as the consumption basket, or, as mentioned earlier, general poverty line.

47. On the basis of these two poverty criteria, the population of Armenia (households) is divided into three major groups in poverty terms: (i) very poor, whereby average current per capita expenses are lower than poverty food line; (ii) poor, whereby average current per capita expenses are higher than the poverty food line but lower than the poverty general line; and non-poor, whereby average current per capita expenses are higher than the poverty general line. In addition to the poverty level indicator, there are other important indicators such as depth, acuteness of poverty, distribution of incomes, expenses and consumption by decile and quintile groups, as well as the Gini coefficient. Depth of poverty describes how far below the poverty line⁸ are the households. Acuteness of poverty shows the number of the poor in the lowest level of poverty⁹. Distribution by decile or quintile groups is an indicator of direct measurement of inequality and it shows the ratios amongst decile or quintile groups or their share in total. Gini coefficient shows inequality of income distribution among the population. The closer this coefficient is to 1, the higher is the degree of income polarization of the population.

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- 5 PRSP Sourcebook. Overview, WB, 2001.
 - 6 The 1996 Survey was conducted in November-December 1996 and its results are not compatible with the results of the 1998-99 and 2001 Surveys. The reasons lie with methodological differences with the latter, as well as the fact the Survey was conducted in the fourth quarter, when some 35% of GDP is produced in Armenia and incomes and expenditures exceed average annual indicators approximately by 40%. An effort to collate these with the results of the latter Survey was undertaken in the World Bank Poverty Update Paper. This work, however, states that comparisons may serve only as assessments of changing directions rather than bases for drawing conclusions.
 - 7 According to the FAO instruction for developing countries, the level of daily per capita food consumption is 2100 kilo calories. Guided by this level and in order to ensure international comparability, the NSS has simultaneously estimated the composition of food basket on the basis of types and quantities of food actually consumed by households in the country. The Ministry of Health has elaborated the minimum food rational basket, quarterly estimated by the NSS. This basket contains types and minimum rates of foodstuff necessary for sustaining life of a person. Total energy value of the latter is close to 2400 kilocalories. Nevertheless, in the context of PRSP the basis for evaluating poverty level has been selected to be the minimum food basket containing 2100 kilocalories with the objective to ensure comparability of household surveys conducted in various countries in various periods. This does not preclude sustainability of different approaches and assumptions, which are envisaged for implementation in the framework of this program.
 - 8 For example, poverty acuteness of 19% means that if a country is in a position to pool resources equal to 19% of the poverty line and efficiently distribute these among the poor, poverty may theoretically be eradicated. For such an action, Armenia would need dram 46.8 billion in 1996, or 7.09% of GDP, dram 44.3 billion in 1999, or 4.47% of GDP, or dram 32.3 billion in 2001, or 2.74% of GDP.
 - 9 Acuteness of poverty is calculated as arithmetical average of the squares of acuteness.
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