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**REPORT ON THE PROJECT TO UPDATE THE METHODOLOGY USED TO MEASURE  
POVERTY IN LATIN AMERICA AND THE CARIBBEAN\***

\* Report prepared by the secretariat of the Economic Commission for Latin America and the Caribbean (ECLAC).

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1. The Project for Updating Poverty Measurement Methodology in Latin America and the Caribbean is carried out by the Economic Commission for Latin America and the Caribbean (ECLAC) within the framework of the Initiative for the Promotion of Regional Public Goods, which is financed by the Inter-American Development Bank (IDB). Its overriding objective is to improve the identification and characterization of poverty in the countries of Latin America and the Caribbean by developing a methodology that constitutes a regional public good inasmuch as it represents an essential tool for the effective design, follow-up and assessment of poverty-reduction strategies in the region. Its specific objectives are to:
  - a) Update the parameters and standardize the methodology used to determine poverty lines in the countries of Latin America and the Caribbean as a contribution towards improving the design, follow-up and evaluation of social policies.
  - b) Disseminate methodological advances and their results by means of publications that serve as references in order to enable countries to improve their current procedures and methods.
  - c) Harmonize countries' methodologies at the regional level to enhance the comparability of data and facilitate the evaluation of progress towards the poverty-reduction targets formulated in the Millennium Declaration.
  - d) Provide training to staff from national statistical offices and other public-sector social policy entities in the latest advances in poverty measurement.
2. Thus far, the project's activities have focused mainly on methodological development based on the work carried out by the Statistics and Economic Projections Division of ECLAC with the support of consultants financed with project resources.

In most countries, the analyses were based on the most recent surveys on household budgets (or, in the absence of such surveys, the most recent surveys on living conditions that measure expenditures).

The work carried out has made available a general matrix of the methodology for measuring poverty that takes into account the following elements:

- a) Basic food basket
  - Caloric and nutritional requirements: caloric requirements have been brought into line with the new recommendations of the United Nations Food and Agriculture Organization and the World Health Organization. The recommendations for various micronutrients and macronutrients have also been updated.
  - Improvement of the quality of the information: a mechanism was designed to identify and eliminate extreme values from the main variables used for the construction of the basic food basket.
  - Selection of the reference stratum: different alternatives to the procedure traditionally used were evaluated, and the main characteristics of the method to be used were identified.

- Composition of the basic basket: the procedures for selecting the products that make up the basic food basket were reviewed, as were the rules that are part of the process.
  - Equivalences in food consumption: a procedure for applying consumption equivalences in determining indigence lines was identified, for which purpose the composition of households, by age and sex, was taken into account.
- b) Basic basket of non-food products
- Classification and structure of expenditures on non-food products: non-food products were classified in order to construct a basic basket of such products and facilitate the application of rules for their selection.
  - Treatment of rental: different options for taking rental costs into account in determining the poverty line were evaluated.
  - Selection of products: general criteria are available for determining which categories of products to include and which not to include in the basic basket of non-food products.
  - Economies of scale: a procedure for applying the concept of economies of scale in determining each household's basic basket of non-food products was identified.
- c) Treatment of income
- Conceptual scope: for purposes of poverty measurements, a suitable definition of what constitutes income was worked out, and the capacity of the household surveys in the region to effectively measure this item was assessed.
  - Adjustment for non-response: the various criteria for imputing incomes in cases where no reply was provided were assessed in terms of the advantages and limitations.
  - Adjustment for understatement: new estimates were made of the household accounts in the countries of the region and used to evaluate the gap between the income stated in those accounts and the income recorded in the household surveys.
3. Various meetings of experts for the different countries have been held to share information on poverty measures, including a workshop funded with project resources to review ECLAC methodology for measuring poverty in Latin America and the Caribbean, 18 and 19 October 2007, Santiago, and national and international forums.

In the second half of 2009, a regional conference is scheduled to be held with the statistical offices on the surveys on household budgets, which are to serve as input for constructing basic baskets for measuring poverty. In addition, an experts' workshop will be held on conceptualizing and measuring income within the scope of poverty measurements.

4. ECLAC is closely following the revision of the poverty line currently being carried out by several countries of the region. The meetings referred to above have made it possible to share several of the elements that have emerged from this project, with a view to encouraging greater methodological convergence and comparability of the poverty estimates prepared for the different countries of the region.
5. It has been proposed that a working group on poverty be set up to harmonize the methodologies used in Latin America and the Caribbean for measuring income poverty. The group will look at the new methodological proposal that ECLAC will complete early in 2010 and at the methods being used by various countries to produce their national estimates and will put forward a set of recommendations that place emphasis on the international comparability of measurements.