

# **Discussion paper “Poverty assessment”**

**January 18, 2008** (concept)

## **Introduction**

The study group explored different available possibilities in determining a poverty line for the Netherlands Antilles. When determining the poverty line on the basis of consumption, several consumption components need to be further examined.

As was discussed during the first meeting of the study group, two poverty lines will be determined:

1. Absolute poverty line:

At this level, sufficient facilities are available to prohibit physical human suffering on the long term. People are provided sufficient healthy food, get sufficient medical attention and are protected from outside hardship in a safe and hygienic environment.

2. Social poverty line:

A community can set a certain standard of what is considered a minimum poverty line. This social poverty line reflects what community thinks is still an acceptable and human worthy level at which anyone within the society should be able to live. In addition to the absolute poverty line, the social poverty line should at least also provide elements of human development, comfort and enjoyment.

## **Methods for determining poverty-lines**

The definition of an official poverty line for a country is important:

- To determine the extent of poverty
- For the poor (target group) to be identified
- For the preparation of poverty profiles
- The development of policies aimed at poverty reduction
- It can measure the impact of poverty reduction

Much has been written internationally about poverty and poverty lines. There are different definitions of poverty, different approaches to measuring poverty, different methods to determine poverty lines.

Globally when defining poverty, the emphasis is on the following:

- The ability to satisfy the basic needs (material deficiency)
- Access to basic services (despite their own resources)
- Social participation (social inclusion)

If we want to get started to determine a poverty line we must keep in view the issues that are relevant for our local situation.

In developing countries the emphasis is more on the basic needs approach. In this approach both the food and non-food component get the attention. When determining income minima, one looks at the costs for the satisfaction of both types of needs. Income remains the most important element in the measurement of poverty, especially in the developed countries, although they are aware of the limitations of this approach. Within the aforementioned approaches, there are several variations of absolute and relative poverty concepts or a combination thereof and objective and subjective measurement methods.

In relative poverty lines a certain percentage of the population is identified as poor in comparison with others. The absolute poverty line is based on a fixed minimum amount, with adjustment of the purchasing power as a consequence of inflation. Relative poverty lines are usually used in richer countries. In countries where there is hunger and lack of basic services, the absolute method is generally used.

Objective measurement methods offer the respondent no room for emotional content to the concept of poverty. In the subjective method however, this is the case.

Governments choose their own definition of poverty and a practical manner to measure this, often at the expense of comparability between countries and in time. Moreover it becomes difficult to get a picture of the regional and global poverty situation.

There are major differences in the definition of basic parameters (definition of purchasing power as income or as spending), as well as a huge diversity in the application of methods to poverty line, as a consequence the results also deviate from each other.

The poverty line can be calculated per capita, household, region (neighborhood, urban / rural, etc.), national and international (1 \$ boundary of the WB).

**The World Bank determines the poverty line based on three methods:** (see Introduction to Poverty Analysis World Bank Institute, August 2005)

- *The cost of basic needs.* Mainly based on the cost of a food package with a minimum acceptable calorie value and a composition that matches the consumption of poor families. Thereafter, the non-food component is added. This method is useful if information on prices and spending behavior is available.
- *Food energy intake.* Looking to the level of total consumption or income which corresponds to an average per capita food - consumption at the level of the minimum acceptable calorie value. The advantage of this method is that information about food prices is not required. Problem: Food - energy depends on many other factors (man-woman, adult-child, diet, food availability, type of work, etc.). This method is used if information on prices / spending behavior is not available.
- *Subjective evaluations.* Ask people how much they minimum necessary need to survive and whether their current household budget or consumption is sufficient to survive.

The first two methods are objective poverty lines.

Subjective poverty lines are generally much higher than objective; they react strongly to increasing expectations.

**The Social and Cultural Planning Bureau of the Netherlands (SCP)** uses the following income limits: (see [www.scp.nl/publicaties/boeken/9037702066.shtml](http://www.scp.nl/publicaties/boeken/9037702066.shtml))

- *The low-income line.* This is based on the income in purchasing power that is comparable with the assistance level of a one person household in 1979. The low-income is the most suitable for comparisons between households over time.
- *The political border.* This is equal to 105 percent of the applicable standards in the General assistance, the General Child benefit and for 65-plussers the state pension (AOW). This is a limit to target groups of the public policies. Because the standards in the assistance and the AOW not always exactly follow inflation, the policy limit is less useful for comparisons over time. (For example guaranteed minimum income in the Netherlands and the international \$ 1, - per day limit, both absolute limits).
- *The relative poverty line.* Is widely used in international comparisons. This limit is defined as 60 percent of the average (median) disposable income of a country.

All three limits have the disadvantage that its rate is not determined based on minimum spending for a household. It is also unclear whether the adaptation of these limits to rising prices and incomes reflects the development of such 'unavoidable' expenditure.

**United Nations** (Handbook on Poverty Statistics)

The research carried out by the UN in 84 countries showed that poverty calculations are based for 50 percent on consumption data, for 30 percent on income data and in 12

percent they combine both techniques.

The food poverty line is only one part of the overall poverty line. There are two methods for adding the non-food components.

The direct method: selection of items such as rent, clothing, transportation, education, health care. Then a price tag is added.

The indirect method analyzes the expenses on food as a share of total spending. By means of a statistical technique the non-food component for households is calculated at the level of food poverty line.

### **ECLAC method**

The ECLAC method for building the poverty line has several advantages over other alternatives: (i) it is well founded and documented, after years of utilization; (ii) it provides an objectively and empirically well grounded tool for measuring poverty; (iii) it is widely utilized in the region, which is good for comparative purposes; (iv) there is a network of people who have developed competences in its design and implementation; (v) the required data to construct the poverty line is contained in a household budget survey, which is available in the country; (vi) it can be adjusted to take into account different poverty thresholds (extreme poverty, poverty, etc) as well differences in household needs (equivalence scales).

### **Proposals for discussion:**

1) An absolute and consumption-based poverty line. The consumption criteria works better in developing countries and income criteria better in developed countries. Consumption varies less. This approach has the advantage that in the border a direct link is laid with spending on unavoidable issues. If for example, households will spend more on housing (strong increase in rent and prices of properties), the poverty line is higher. But with an increase in spending on foreign holiday travel, the poverty line does not change.

2) The necessary cost categories to be considered

- Food
- Beverages (e.g. tea, milk)
- Clothing
- Housing (rent, gas, water, electricity and insurance for the housing, maintenance costs)
- Household items (detergents, etc.)
- Medical costs (contribution)
- Transport and communication (car, public transport, UTS)
- Recreation and development (books, school fees, Internet)
- Personal care
- Other costs (Selikor, passport, driving license, etc)

### 3) Methodological issues

When preparing a package the following should be taken into account:

- The various household types / sizes
- Preferred spending versus available information on actual expenses

Here follows the budget survey datasets (average spending by household) for each of the islands of the Netherlands Antilles.

**Table 1. Average spending by household**

	Bonaire	Curacao	Sint Maarten	Sint Eustatius	Saba
Cereal products	888.9	779.7	560.6	1,145.00	1,024.40
Meat and fish	961.3	1,062.70	863.2	1,121.60	1,640.30
Fats and cooking oils	107.7	105.3	101.9	155.8	207.9
Dairy products (except butter)	406.2	404.1	426	513.8	621
Potatoes, vegetables and fruits	695.1	689.4	718.4	850.6	803.5
Sugar	106	140.5	101.6	148.4	178.5
Prepared food	222.8	260.1	172.6	141.8	184.7
Outdoor-consumption	2,199.50	1,431.00	416	740.8	580.7
Food n.e.s.	973	336.1	791.5	500.6	1,329.70
Food n.e.s.	6,560.60	5,208.90	4,151.80	5,318.30	6,570.50
<b>BEVERAGES AND TOBACCO</b>					
Beverages	603.8	573.7	516.8	1,092.40	864.3
Tobacco	74	88	17.5	32.5	55
Beverages and tobacco	677.8	661.7	534.3	1,124.80	919.3
<b>CLOTHING AND FOOTWEAR</b>					
Clothing	2,077.50	1,693.80	2,271.50	1,734.80	4,408.40
Footwear	450.2	318.8	508.8	272.1	743.1
Clothing and footwear	2,527.70	2,012.50	2,780.30	2,006.90	5,151.50
<b>HOUSING</b>					
Dwelling cost	6,977.70	7,641.80	11,259.90	6,430.80	15,162.30
Energy expenses	2,421.80	2,484.60	2,423.00	2,105.70	2,295.10
Maintenance of dwelling	625.2	1,089.40	813.5	374.4	1,907.50
Garden maintenance	206	377.6	204.1	117.9	204.9
Water	905.7	1,433.30	828	37.7	-
Housing	11,136.40	13,026.60	15,528.50	9,066.60	19,569.80
<b>HOUSEHOLD FURNISHING AND APPLIANCES</b>					
Furniture and illumination	404.1	535.1	284.7	497.4	828
Upholstery and dwelling-textile	231.2	318.9	475	458.1	522.2

Household appliances and tools	706.1	408.6	431.5	798.4	838.3
Household articles	208.6	254	210.9	255.1	554.3
Household expenses n.e.s.	275.3	339	234.3	502	598.9
Domestic services	380.2	521	276.8	63.7	108.6
Household furnishing n.e.s.	554	587.5	429.8	351.5	505.7
Household furnishing	2,759.50	2,964.10	2,343.00	2,926.20	3,956.00
<b>MEDICAL CARE</b>					
Medical care	1,077.00	537.9	1,102.80	472.3	1,436.50
<b>TRANSPORTATION AND COMMUNICATION</b>					
Transport vehicles in ownership	2,025.10	2,437.60	1,977.20	980.5	2,347.20
Expenses for own transport vehicles	2,926.40	3,115.20	2,054.50	1,105.30	2,402.40
Transport services	2,748.10	2,152.70	1,652.90	1,545.20	3,972.20
Communication	2,288.90	1,856.50	2,409.40	2,161.90	4,468.70
Transport and communication	9,988.60	9,562.10	8,094.00	5,792.90	13,190.40
<b>RECREATION AND EDUCATION</b>					
Recreation	2,168.30	1,568.00	1,163.30	1,183.20	2,704.90
Entertainment and culture	247.4	289	193.6	46.2	285.9
Books etc.	220.2	262.3	161.2	153.5	242
Education	1,054.20	1,022.80	746	804.7	1,437.80
Hobby articles	67.1	89.9	17.9	34.4	2.6
Recreation and education	3,757.30	3,232.00	2,282.00	2,222.10	4,673.20
<b>MISCELLANEOUS</b>					
Personal body care	1,275.40	1,406.60	1,086.70	951.6	1,541.30
Insurances	2,116.80	1,862.10	1,098.60	980.8	1,459.90
Commodities and services n.e.s.	2,066.30	1,771.80	1,148.60	1,282.90	2,695.50
Commodities and services	5,458.40	5,040.50	3,333.80	3,215.20	5,696.80
Total	43,943.30	42,246.40	40,150.40	32,145.20	61,164.10

## Housing and living

When determining the poverty line on the basis of consumption, several consumption components need to be further examined. One of these components is housing and living

The team responsible for this subject already made some efforts in determining the level of housing quality that is desirable within the context of the poverty line and the involved costs. As was discussed during the first meeting of the study group, two poverty lines will be determined: absolute and social poverty line. For both levels, the housing and living

component will be determined. A component consists of a set of standards and the involved costs.

### **Set of standards**

In the construction- and living ordinance of 1935 a number of requirements are defined to meet minimal social-hygienic standards.

The requirements are as follows:

- A house should have a living space of at least 12 m<sup>2</sup> and one of the bedrooms should be at least 7 m<sup>2</sup>. The kitchen should be at least 4 m<sup>2</sup> and the other rooms should be at least 5 m<sup>2</sup>.
- The ordinance also contains information about the accessibility of light and fresh air, the number and layout of the personal rooms, the drainage system and the positioning alongside a public road.

A house should at least be equipped with a living room, a bedroom, a kitchen, a toilet, a bath/shower, windows, doors, a cesspit and drainage system and be located near a public road. In case of an absolute minimum the above mentioned numbers may be taken into account. If the space for hallways etc is added, a house should at least be 40 m<sup>2</sup>. When it is smaller it is not considered a house.

On Curacao the minimal space requirements for social housing is 60 m<sup>2</sup>. With the current minimum building price per square meter, a 60 m<sup>2</sup> house will cost ANG 54.000,- to be built.

### **Costs involved**

#### Curacao

The rental commission arrangement states that the rental price of houses with Construction costs of less than ANG 100.000, -, is 12% of the construction costs annually. In case of an ANG 54.000,- house the monthly rent is consequently ANG 540,-<sup>1</sup>. This is way too high for persons receiving an old age pension from the government, an onderstand of even those earning a minimum wage. As a consequence the government has to subsidy housing rents or these people have to rent dilapidated houses in the poorer neighborhoods.

#### St. Maarten

The housing development foundation provides information about social homes. You can see that actually some of the prices (?) are not very social. But for calculation of the poverty line, we should stick to the social houses prices (?).

The surfaces of the houses that will soon be built on Hope Estate are:

The one-bedroom house 44m<sup>2</sup>

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<sup>1</sup> This is more than the welfare, nearly the same amount as the pension and more or less half the minimum income. This explains why the island government must subsidize the rent of FKP houses on such great scale..

De two-bedroom house 55m<sup>2</sup>  
 De three-bedroom house 66m<sup>2</sup>

Table 1 shows the prices for water and electricity usage in Sint Maarten, Sint Eustatius, and Saba provided by GEBE.

<b>Table 2. The running average per year to date November 2007, a household paid for Electricity and Water.</b>			
	Sint Maarten	Sint Eustatius	Saba
Electricity In Ang /kWh.	0.459	0.462	0.454
Water In Ang/ M3.	5.05	na	na

Also important are the cost involved with the basic interior of a house and the costs involved with water and electricity to be able to live a decent life.

### **Set of standards**

Living involves amongst others the following:

- Kitchen
- Bedroom
- Living room
- Sanitary
- TV
- Pc
- Porch/garden layout
- water
- Electricity
- telephone
- Trash disposal services...
- Etc.

The data for the water and electricity consumption calculation is derived from the 2001 report “Huishoudelijk Energiegebruik Onderzoek” from the Fundashon Antiyano Pa Energia. The author is consulted about the relevance of the report since it is already 7 years old. The results of this discussion as well as the most up to date tariffs for water and electricity will be incorporated in the final version of the water and electricity calculations.

The next step for the workgroup/experts is to select the end-uses that belong in the set of standards at a chosen poverty line. For example, it should be discussed whether an airconditioner and tub are part of the set of standards.

### Water consumption

In table 1 the average water consumption is shown. Different end-uses are distinguished. According to the research an average household consists of 3.4 members.

**Table 3. Average water consumption**

household persons:	3.4	
<b>AVERAGE CONSUMPTION</b>	m3/month/user	m3/month/household
WC	1.13	3.85
shower	1.55	5.28
tub	0.01	0.05
dishes	0.20	0.68
consumption	0.05	0.18
cleaning	0.13	0.45
laundry (hand)	0.01	0.03
laundry (machine)	0.40	1.35
garden	0.13	0.45
car	0.03	0.09
<b>total</b>	<b>3.65</b>	<b>12.40</b>

At current prices, the total water consumption leads to the costs as shown in table 2.

**Table 4. Water costs**

	ANG/m3 (at 12m3)	cost(ANG)/month/household	cost(ANG)/month/user
Curacao	14.10	174.84	51.42
Bonaire	5.67	70.31	20.68
St. Maarten	6.00	74.40	21.88

### Electricity consumption

In table 3 the average electricity consumption is shown. Different end-uses are distinguished. According to the research an average household consists of 3.4 members.

**Table 5. Electricity consumption**

	kWh/year/ household	kWh/month/household	kWh/month/user

airconditioner	1915	159.58	46.94
fridge	854	71.17	20.93
lights	537	44.75	13.16
washing machine	149	12.42	3.65
freezer	1475	122.92	36.15
tv	292	24.33	7.16
radio/stereoset	167	13.92	4.09
black box	180	15.00	4.41
fan	819	68.25	20.07
total	6388	532.33	156.57
total (corrected for household)	4511	375.92	110.56

At current prices, the total (corrected) electricity consumption leads to the costs as shown in table 4.

**Table 6. Electricity costs**

	ANG/kWh (at 500kWh)	cost(ANG)/month/household	cost(ANG)/month/user
Curacao	0.55	206.75	60.81
Bonaire	0.31	116.53	34.27
St. Maarten	0.45	169.16	49.75

### St. Maarten

I was not successful in getting additional information on utility bills, I talked to the director of GEBE, he thought that the information would be available, but he is always off island so it is difficult to pin him down to send me something and he didn't refer me to someone else I could contact as yet.

## Poverty line and treaties

*How can the treaties be of value in the process to determine the poverty line for the Netherlands Antilles?*

In this study several treaties were analyzed on their possible practical implications for the determinations of poverty lines for the Netherlands Antilles. Due to time constraints this study was not exhaustive and consisted of the following:

- The Development Goals
- Human Rights convention
- Other Treaties and international agreements (e.g. Rights of the Child)
- The Statute

Most of these treaties stipulate their goals in broader terms. They do not use universal quantitative goals in order to determine a poverty line but rather work the other way around. In practice this means that countries adhering to international laws and treaties present data on their present status and an appointed committee analyses these data and draws a conclusion on their value and implications, relative to the data provided by other countries.

In practice this means that hardly any data can be provided on forehand, to help us define a just and accurate poverty line for the Netherlands Antilles. This does not mean that the international treaties do not provide us with some sort of context which can be helpful for our explorations. This would implicate a more thorough analysis of the way the different committees work and how they have analyzed other countries in the past. Some valuable data might stem from these analyses, plus it will give us a clearer view of what the Netherlands Antilles have to expect once a poverty line is constructed.

Advise: construct a sub-group with department of external affairs (Bureau Buitenlandse Betrekkingen) and the legal affairs (AJZ) to look closer at the treaties and their respective practical implications.

### **Information regarding welfare facilities provided by the government**

There are several facilities available including accommodation, electricity, clothing, schooling for children, transport and medical services. These facilities are the responsibility of the different Island Territories. For Curaçao the Service for Work and Income (Dienst Werk en Inkomen) is the most important party in evaluating and appointing facilities for those who need them.

#### **Medical costs**

Medical costs for people on welfare or minimum wages are (partially) compensated with the provision of a so called 'PP-Card'. The facilities for compensating in medical costs are relative to individual incomes. The rules are as follows:

- Income between ANG 0,- and 1200,- : applicable for full compensation of medical costs
- Between ANG 1200,- and 1500,- : applicable for partial compensation, determined by DWI
- Above ANG 1500,- Not applicable for any compensation

#### **Costs of water and electricity**

The costs of water and electricity are compensated for those on welfare and minimum wage, depending on income level and size of household. Maximum compensation per month for water is 3 cubic meter, for electricity this is 2 kilowatt.

**Rental costs**

Intakes are handled by DWI. The rules and regulations are not very transparent at the moment. Once DWI has finished the evaluation an advice will be sent to the Social Housing Foundation.

**Costs of garbage removal**

People on welfare can apply for a compensation of ANG 20,- per month. The application is handled by DWI.

**Costs of clothing**

Every family on welfare receives ANG 100,- per child yearly as a compensation for clothing costs.

## Alimentation

The idea is to calculate the minimum price of a food basket, which somebody can eat healthy and varied, both in terms of calories and nutrients (protein, carbohydrates, fat, vitamins, minerals). There is a need to put together a package for several days, since variation is an essential characteristic of healthy eating.

The actual costs involved with board and lodging is done in collaboration with the following agencies:

- Medical & Health Service (GGD). The dietician of this service has prepared a menu cycle for breakfast, bread meal and warm meal.
- Central Bureau for Statistics (CBS). CBS has supplied price information to determine the costs involved with the menu cycle. The price information used is from March 2006. Also, CBS has supplied data concerning rental costs (based on 2001 Census and adjusted to 2005).
- Fundashon Antiyano pa Energia (FAPE). FAPE did in 2001 a research into water and electricity usage by consumers.

From the research, the following amounts have emerged:

2006	breakfast	bread meal	warm meal	cost	lodging	cost & lodging
ANG		ANG	ANG	ANG/month	ANG/month	ANG/month
Curacao	1.70	2.09	4.03	238	241	<b>479</b>
Bonaire	1.80	2.47	3.92	249	172	<b>421</b>
St. Maarten	2.04	2.21	3.98	250	211	<b>461</b>
Saba	2.04	2.21	3.98	250	211	<b>461</b>
St. Eustatius	2.04	2.21	3.98	250	211	<b>461</b>

In table 2 is a menu cycle proposed by the GGD (Public Health Service):

<b>Breakfast</b>	<b>basic</b>	<b>Beleg</b>	<b>drank</b>
Monday	bread	Cheese	Tea/coffee
Tuesday	bread	Meat	Tea/coffee
Wednesday	bread	Egg	Tea/coffee
Thursday	bread	Cheese	Tea/coffee
Friday	bread	Poultry	Tea/coffee
Saturday	bread	Sweet	Tea/coffee
Sunday	bread	Meat	Tea/coffee
<b>Bread meal</b>	<b>basic</b>	<b>Beleg</b>	<b>drank</b>
Monday	bread	poultry	fruit juice/milk
Tuesday	bread	cheese	fruit juice/milk
Wednesday	bread	meat	fruit juice/milk
Thursday	bread	poultry	fruit juice/milk
Friday	bread	cheese	fruit juice/milk
Saturday	bread	meat	fruit juice/milk
Sunday	bread	sweet	fruit juice/milk

<b>Warm meal</b>	<b>meat</b>	<b>starch</b>	<b>vegetables</b>	<b>drink</b>	<b>dessert</b>
Monday	meat	rice	vegetables	water (700ml)	fruit and/or pudding
Tuesday	chicken	potatoes	vegetables	water (700ml)	fruit and/or pudding
Wednesday	fish	Funchi (cornmeal)	vegetables	water (700ml)	fruit and/or pudding
Thursday	chicken	rice	vegetables	water (700ml)	fruit and/or pudding
Friday	beans	funchi (cornmeal)	vegetables	water (700ml)	fruit and/or pudding
Saturday	fish	rice	vegetables	water (700ml)	fruit and/or pudding
Sunday	omelet	potatoes	vegetables	water (700ml)	fruit and/or pudding

### **Medical care**

Regarding medical expenses, see table 1, pages 6 and 7.