





## DEFINITIONS AND METHODOLOGY

**Gross Domestic Product (GDP) Per Capita** is the total annual output of a country's economy divided by the population of the country for that year. GDP is the final market value of all goods and services produced in a country in a given year, equal to total consumer, investment, and government spending. Dollar figures for GDP are converted to international dollars using purchasing power parity (PPP) rates and are not adjusted for inflation. An international dollar buys roughly the same amount of goods and services in each country.

PPP rates account for the local prices of goods and services, allowing GDP estimates to be adjusted for cost of living and more accurately compared across countries. PPP rates are estimated through extrapolation and regression analysis using data from the International Comparison Programme (ICP). Computation of the PPP involves deriving implicit quantities from national accounts expenditure data and specially collected price data and then revaluing the implicit quantities in each country at a single set of average prices. GDP data for most developing countries are collected from national statistical organizations and central banks by visiting and resident World Bank missions. The data for high-income economies are from the OECD.

The **Survey Year** shows the years in which the surveys used to collect national poverty data, international poverty data, and income inequality data were administered.

**National Poverty Rates** show the percent of a country's population living below a nationally established poverty line. Estimates include total poverty rates and rates in both urban and rural areas. Values are calculated on a country-by-country basis according to the needs of the poor in a given country. Data for the National Poverty Rates are derived from surveys prepared for the World Bank and conducted between 1985 and 2002. Surveys asked households to report either their income, or, preferably, their consumption levels. These nationally representative household surveys were conducted by national statistical offices, private agencies under the supervision of government, or international agencies. The level of income that is used to determine national poverty lines varies among countries.

**International Poverty Line** data are based on nationally representative primary household surveys conducted by national statistical offices, or by private agencies under the supervision of government or international agencies and obtained from government statistical offices and World Bank country departments. Surveys were conducted between 1985 and 2002. PPP exchange rates, such as those from the Penn World Tables or the World Bank, are used because they take into account local prices and goods and services not traded internationally. In past years, the World Bank has calculated poverty estimates using PPPs from the Penn World Tables. Beginning in 2002 the World Bank used 1993 consumption PPP estimates produced at the Bank.

**Population Living Below \$1/day** is the percentage of the population of a country living on less than \$1.08 a day at 1993 international prices, equivalent to \$1 in 1985 prices when adjusted for purchasing power parity. This amount is calculated as the consumption level necessary to basic life maintenance, and income below this level is referred to as "extreme poverty." **Population Living Below \$2/day** is the percentage of the population of a country living on less than \$2.15 a day at 1993 international prices, equivalent to \$2 in 1985 prices when adjusted for purchasing power parity.

**Poverty Gap** is the mean distance from the poverty line expressed as a percentage of the poverty line, counting the distance of the non-poor as 0. The indicator shows the "poverty deficit" of the country's population, where the poverty deficit is the per capita amount of resources that would be needed to bring all poor people above the poverty line through perfectly targeted cash transfers. This measure therefore reflects the depth of poverty as well as its incidence.

The poverty lines in this table are \$1.08/day and \$2.15/day at 1993 international prices (equivalent to \$1 and \$2 respectively in 1985 prices, adjusted for purchasing power parity).

The poverty gap is calculated by dividing the average income shortfall by the poverty line. For example, in a country with a poverty line of \$1/day and three average daily incomes—\$1.60, \$0.90 and \$0.50—the poverty gap would be 20 percent (Three shortfalls—\$0.00, \$0.10, and \$0.50—are averaged to

yield a mean shortfall of \$0.20, and the resulting poverty gap is  $\$0.20 / \$1.00 = 20$  percent).

The **Gini Index** is a measure of income inequality that describes the deviation of income or consumption distribution from perfect equality. A score of zero implies perfect equality while a score of 100 implies perfect inequality. If every person in a country earned the same income, the Gini Index would be zero; if all income was earned by one person, the Gini Index would be 100. The Gini index is calculated by compiling income (or expenditure) distribution data. For developing countries, the Gini index is compiled from household survey data; for high-income countries the index is calculated directly from the Luxemburg Income Study database, using an estimation method consistent with that applied for developing countries. Once compiled, income or expenditure distribution data is plotted on a Lorenz curve, which illustrates the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index is calculated as the area between the Lorenz curve and a hypothetical (45-degree) line of absolute equality, expressed as a percentage of the maximum area under the line.

**Total Unemployment** is defined as the percentage of the total labor force which is simultaneously without work, available to work, and actively seeking work. Definitions may vary among countries. The World Bank receives its data on national unemployment rates from the International Labour Organization's (ILO) Bureau of Statistics. The ILO compiles this information from a combination of sources, including labor force surveys, national estimates, social insurance statistics, and employment office statistics. The information presented here is the annual average of the monthly, quarterly, or biannual unemployment estimates.

The **Human Development Index** is comprised of three sub-indices that measure health and lifespan, education and knowledge, and standard of living. It attempts to describe achievement of development goals related to quality of life using data that can be compared across countries and time. It is aggregated from 4 indicators: *life expectancy*, *adult literacy*, *the gross school enrollment index*, and *GDP per capita*. *Life expectancy* is the average number of years that a newborn baby is expected to live using current age-specific mortality rates. *Adult literacy* is defined as the percentage of the population aged 15 years and over which can both read and write, with understanding, a short, simple statement on their everyday life. The *gross enrollment index* measures school enrollment, regardless of age, as a percentage of the official school-age population. *Gross Domestic Product (GDP) per capita* measures the total annual output of a country's economy per person. These four indicators are classified in three separate categories—life expectancy, education, and GDP—which are indexed independently and then weighted equally to calculate the final index. More information is available at <http://hdr.undp.org>.

The **Human Poverty Index** is a composite indicator that describes a population's deprivation from three development goals related to quality of life: health, literacy, and sufficient standard of living. The index is scaled from 0-100, with 100 representing the highest possible level of poverty.

Data presented here are from two separate surveys. Non-OECD countries are evaluated using the "HP-1" index based on four indicators: probability at birth of not surviving to age 40 (1/3 total index value), adult illiteracy rate (1/3 total index value), children underweight for age (1/6 total index value), and population without access to an improved water source (1/6 total index value). OECD countries are evaluated using the "HP-2" index with four different indicators: probability at birth of not surviving to 60, adults lacking functional literacy skills, population below income poverty line, and long-term unemployment. The four OECD indicators are weighted equally in calculating the final index. For more information, see <http://hdr.undp.org>

## FREQUENCY OF UPDATE BY DATA PROVIDERS

**Human Development Index** and **Human Poverty Index** data are published annually by the United Nations Development Programme (UNDP) in the *Human Development Report*. **Poverty Rates** and **Income Inequality** data are updated irregularly as surveys are conducted in individual countries; new survey results are compiled and released annually in the World Bank's *World Development Indicators*. **GDP Per Capita** and **Unemployment Rates** are updated annually in *World Development Indicators*.

## DATA RELIABILITY AND CAUTIONARY NOTES

**GDP per capita (PPP):** While the World Bank produces the most reliable global GDP estimates available, many obstacles inhibit data collection and compilation of accurate information. Informal economic activities sometimes pose a measurement problem, especially in developing countries, where much economic activity may go unrecorded. Obtaining a complete picture of the economy requires estimating household outputs produced for local sale and home use, barter exchanges, and illicit or deliberately unreported activity. Technical improvements and growth in the services sector are both particularly difficult to measure. Purchasing power parity (PPP) rates are based on price surveys that do not include a full selection of goods and services, and not all countries participate in the International Comparison Program. The World Bank is in the process of developing updated PPP estimates from new price surveys.

**Income Inequality:** Values are derived in part from household surveys that measure expenditure in different countries. Despite recent improvements in survey methodology and consistency in the type of data collection, income distribution indicators are still not strictly comparable across countries. Surveys can differ in the type of information requested -- for example, whether income or consumption is used. The distribution of income is typically more unequal than the distribution of consumption. Even where two surveys request income information, definitions of income may vary. Consumption is usually a much better welfare indicator, particularly in developing countries. The households that are surveyed can differ in size and in the extent of income sharing among members, and individuals within a household may differ in age and consumption needs. Differences among countries in these respects may bias comparisons of distribution.

**Population Living on less than \$1/day and \$2/day.** The quality of surveys underlying these estimates varies, and even similar surveys may not be strictly comparable. For example, surveys can be based on either household consumption or household income. Consumption data are considered to be more accurate and accord better with the standard of living, but when consumption data are not available, surveys based on household income are used. Household consumption can also differ widely, for example, based on the number of distinct categories of consumer goods they identify. Comparisons across countries at different levels of development pose a potential problem because of differences in the relative importance of consumption of nonmarket goods. The local market value of all in-kind consumption (including consumption from own production, particularly important in underdeveloped rural economies) should be included in the measure of total consumption expenditure. Similarly, the imputed profit from production of nonmarket goods should be included in income. This is not always done, though such omissions were a far bigger problem in surveys before the 1980s. Most survey data now include valuations for consumption or income from own production. Nonetheless, valuation methods vary. For example, some surveys use the price in the nearest market, while others use the average farm gate selling price.

Although the \$1/day and \$2/day poverty lines are commonly used, there exists an ongoing debate as to how well they capture poverty across nations. Values should be treated as rough statistical approximations of the number of people earning or consuming at a given level rather than a certain prognosis of how many people are poor. International poverty rates do not capture other elements of poverty, including lack of access to health care, education, safe water, or sanitation.

**National Poverty Rates:** National poverty lines are based on the calculation of the minimum income necessary to purchase a fixed amount of essential food and non-food items. Since these needs vary by nation, the poverty rates in this category are not comparable among countries, and, unlike international poverty rates, should not be used for comparison. However, national poverty rates can provide a more complete sense of poverty in a nation by describing poverty levels unique to each country and showing the differences between urban and rural areas.

**Unemployment Rate:** Though the quality of the data coming from each source the ILO draws from can vary and differences in national reporting standards do exist, the final estimates should be considered generally accurate. The ILO has developed a rigorous accounting procedure, and balances government reports with employment office statistics as well as its own surveys and the knowledge of in-country experts.

**Human Development Index and Human Poverty Index:** These two indexes have been constructed specifically to use data from respected sources and calculated in a fashion as to allow for time-series analysis and cross-country comparisons. Ultimately, there is some degree of subjectivity in the creation of any index of this sort, but the data underlying the index can be considered reliable. For a discussion of the collection of international statistics and their limitations, see the "Note on Statistics in the Human Development Report" in the Technical Notes and Definitions appendix of the *Human Development Report 2004*.

## **SOURCES**

**GDP, National Poverty Rates, International Poverty Rates, Income Inequality, and Unemployment Rates:** World Bank. 2004. *World Development Indicators Online*. Washington, DC: The World Bank. Available at <http://www.worldbank.org/data/online/onlinebases.htm>.

**Human Development and Human Poverty Indices:** United Nations Development Programme. United Nations. *Human Development Report 2004*. 2004. New York: United Nations. Available at <http://hdr.undp.org/reports/global/2004/>.