



# POVERTY

PERSPECTIVE PAPER

*Benefits and Costs of the Poverty Targets  
for the Post-2015 Development Agenda*

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Post-2015 Consensus

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## **Abstract**

This paper offers some reflections from both a conceptual and pragmatic perspective on the formulation of the first Sustainable Development Goal (SDG1) on ending poverty and its five components as recently proposed in the Open Working Group's report to the UN. In brief, the paper argues the case for aligning the first component on extreme (income) poverty with the World Bank's 3%-target for absolute poverty by 2030, though qualified to apply not only globally but also at the regional level. It also argues for retaining some flexibility with the specification of this target in view of the recent revision of the PPPs as well as future revisions that ought to be anticipated. It offers suggestions for refining the second component on multidimensional poverty (as a useful supplement to the first component) by adopting a global measure of multidimensional poverty. And finally, the paper argues that the remaining three components of SDG1 on poverty could perhaps be absorbed under the first two: either directly within the scope of the second component on multidimensional poverty or by expanding the target group for the first two components to include "the vulnerable", who could be identified through the operationally tractable (though imperfect) device of using a vulnerability threshold that is set higher than the extreme poverty threshold.

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## Introduction

This paper offers some reflections on the Goal 1 of the seventeen post-2015 Sustainable Development Goals (SDGs) proposed by the Open Working Group in its recent report to the General Assembly of the United Nations (OWG, 2014). This goal is stated as: “End poverty in all its forms everywhere”, and is elaborated in terms of five “targets”:

- 1.1 By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day
- 1.2 By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions
- 1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable
- 1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance
- 1.5 By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters

As noted in OWG (2014), these “targets” are intended to be “further elaborated through indicators focused on measurable outcomes”. Ending poverty can justifiably be seen as an overarching aim of all development efforts, and hence one can hardly object to SDG1 as an aspirational goal for “the future we want”. Broadly, the five “targets” or components above can be viewed as: the first (SDG1.1) relating to extreme poverty in terms of consumption or income, the second (SDG1.2) as expanding the scope of poverty to include multidimensional poverty, while the remaining three (SDG1.3-SDG1.5) as further broadening the reach of the SDG1 “target group” to encompass the “vulnerable”, not just the “poor” – in particular, with respect to social protection (SDG1.3), economic and social inclusion (SDG1.4), and resilience against economic, social, environmental shocks (SDG1.5).

With these five “targets” or components taken together, the first thing to note about SDG1 is that its scope is huge – a feature that is quite relevant to how one may assess the formulation of this goal, as further discussed below. The paper offers some observations on SDG1 and its components from both a conceptual and a pragmatic perspective, leading up to a few suggestions on how the formulation of

this goal may be refined or rationalized. The discussion in the sections below follows the order of the five components of the SDG.

## **On eradicating extreme poverty (SDG1.1)**

In April 2013, the World Bank announced the adoption of two principal goals to guide its work – namely, to end extreme poverty and to promote shared prosperity. The latter is articulated as increasing average incomes of the bottom 40% of the population in every country, while the former – more relevant to the discussion here – is defined as reducing the numbers of those living on less than \$1.25 (PPP-adjusted) per person per day to 3% of the global population by 2030.<sup>1</sup> The World Bank goal of ending extreme poverty is thus very similar – though not identical – to SDG1.1. They both adopt the same threshold for extreme poverty (\$1.25 per person per day) and the same target date of 2030. The difference seems to lie in the distinction between “ending” v “eradicating” extreme poverty; the former translating into a 3% global (extreme) poverty incidence by 2030, while the latter presumably implying that no one lives below \$1.25 a day by 2030.

With this backdrop, there is a case to be made here for a fuller alignment of the two goals rather than sharpening the distinction between them. In particular, there is an argument for SDG1.1 to be fully aligned with the articulation of the corresponding World Bank goal – for both conceptual and pragmatic reasons. The conceptual argument has to do with the notion of “frictional” poverty – the idea that at any given point in time, there may always be an irreducible lower bound to poverty given that economic systems are constantly in the process of adjusting to shocks of one kind or another, and even the most comprehensive social protection system is unlikely to guarantee that no one ever falls below the poverty line.<sup>2</sup> Thus, a goal of ending poverty formulated in terms of reducing to a minimal low level, such as 3% of the population, is conceptually sounder.

The pragmatic argument for a full alignment of SDG1.1 with the “3%-goal” lies in its signalling a spirit of cooperation and shared understanding that can be mutually beneficial for both the UN system and the World Bank Group (WBG) who arguably represent two of the key players on the international development stage. For the UN system, a fuller alignment opens up the possibility of a useful “division of labor” where the World Bank Group may be entrusted with taking the lead on SDG1.1 in terms of monitoring and promoting this goal, thus allowing it to focus more on other areas of its

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<sup>1</sup> See Basu (2013) for an elaboration of the rationale for these goals.

<sup>2</sup> The analogy with the concept of frictional unemployment is appropriate here. The notion of a full-employment economy is widely understood as implying not a state with strictly zero unemployment, but one that allows for a minimum level of (frictional) unemployment reflecting the constant churning of the labor market.

comparative advantage. For the World Bank Group, a more fully-aligned SDG1.1 will be a useful endorsement by the UN system of something it has already signed up for, which will also allow it to better draw upon the supplementary help from the UN system even as it takes the lead on this goal.

There are of course several other matters that will need clarification and further development with the pursuit of the 3%-goal itself and the monitoring of progress over time. However, there are two further issues that have a bearing on the formulation of the goal itself. The first has to do with the point that the 3%-goal is set at the global level, not 3% for every country. This raises the uncomfortable possibility the 3%-goal could be reached with several times higher incidence of extreme poverty for many of the smaller countries. The World Bank Chief Economist, Kaushik Basu, does address this point by noting that “...while to galvanize action by political leaders it is important to keep the target simple and maybe even simplistic, the World Bank will monitor the performance of all individual countries and make sure that chronic poverty is vastly reduced in all countries... There is one target for the world, but effort has to be made so that no country is left behind” (Basu, 2013). There is nonetheless an issue here that is perhaps best highlighted by considering some recent projections for the 3%-goal by the World Bank (2015).

Region	2011		2030			
			Based on countries' growth experience over the last 10 years using annualized growth rates during 2002-12			
			From national accounts		From household surveys	
	Headcount (%)	Number of poor (million)	Headcount (%)	Number of poor (million)	Headcount (%)	Number of poor (million)
East Asia and the Pacific	7.9	160.8	0.3	5.6	1.0	21.7
Europe and Cantral Asia	0.5	2.3	0.0	0.1	0.1	0.7
Latin America and the Carribbean	4.6	27.6	3.2	22.6	2.9	20.3
Middle East and North Africa	1.7	5.6	1.1	5.0	0.9	4.0
South Asia	24.5	399.0	1.6	32.7	2.4	47.5
Sub-Saharan Africa	46.8	415.4	23.9	339.4	33.2	470.7
<b>Total developing world</b>	<b>17.0</b>	<b>1010.7</b>	<b>5.6</b>	<b>405.4</b>	<b>7.8</b>	<b>564.8</b>
<b>World</b>	<b>14.5</b>	<b>1010.7</b>	<b>4.8</b>	<b>405.4</b>	<b>6.7</b>	<b>564.8</b>

Source: World Bank (2015).

The first couple of columns in Table 1 show the current (2011) estimates of global poverty by \$1.25 standard, which indicate about a billion people, or about 15% of the world population, to be below

that standard. The remaining columns show projections for 2030 based on the countries' growth experience over the past 10 years (2000-12) approximated by annualized growth rates from two different sources: first using the national accounts (estimates of growth in per capita real household consumption or, if that is not available, growth in real GDP per capita); and the second based on household surveys (estimates of growth in real mean per capita consumption or income). National accounts-based estimates indicate a projected decline in the incidence of poverty to 4.8% of the world population by 2030 – a significant decline though still above the 3%-goal. The survey-based estimates indicate an appreciably smaller projected decline in poverty incidence to 6.7% – more than twice the 3%-goal.

Before moving on the main issue I wish to highlight using these projections, it is worth noting that the latter survey-based estimates cannot be brushed aside as irrelevant. The key issue here has to do with the now widely-recognized drift between national accounts (NA) and surveys growth rates (with systematically higher growth rates using national accounts) for many countries, which in turn is potentially related to the relative inadequacy of household surveys to pick up top income growth. Insofar as the missing top income growth is the reason for drift between NA and survey growth rates, the implication is that (a) poverty estimates based on surveys are more-or-less correct as they will be unaffected by the missing top income growth, (b) the drift offers a rough (indirect) measure of distributional change accompanying growth, and hence, (c) the survey-based projections of poverty for 2030 offer us a rough means of building in the impact of distributional change accompanying observed growth in a way that the NA-based projections do not.

However, even if we were to stick to projections based on NA growth rates over the past 10 years (which themselves are more favourable compared with NA growth rates over the past 20 years, thanks to the generally faster growth in the last 10 years for many developing countries), it is striking that the 4.8% global poverty incidence for 2030 is achieved with a 24% projected incidence for Sub-Saharan Africa (Table 1). There are in fact 17 countries under this scenario that have a projected poverty incidence of 30% or higher: Benin, Burundi, the Central African Republic, Comoros, the Democratic Republic of Congo, Côte d'Ivoire, Gambia, Guinea, Guinea-Bissau, Haiti, Liberia, Madagascar, Malawi, Mali, Swaziland, Togo, and Zambia (World Bank, 2015). 15 of these 17 countries are in Sub-Saharan Africa ! The main point is simple but important: even if do not drill down to the level of 3%-goal being met for every country, at the very least, there is a strong case for modifying the WBG formulation of the 3%-goal met at the global to the 3%-goal being met *for every region*, if



we are to do justice to the priority that needs to be accorded to the greater challenge of poverty reduction in Sub-Saharan Africa.

The second issue relates to purchasing power parities (PPPs). The \$1.25 per person per day standard is set in terms of the 2005 PPPs. Recently, however, a new set of PPPs has become available with the 2011 round of the International Comparisons Project (ICP).<sup>3</sup> The new set of PPPs has already sparked a controversy. Despite the controversy, the descriptive fact on which there is agreement is that the new PPPs entail a large downward revision relative to the 2005 PPPs if extrapolated to 2011 using relative rates of inflation based on national Consumer Price Indices (CPIs). This larger downward revision of the PPPs is a non-trivial issue in terms of how the SDG1.1 target is set. For instance, Chandy and Kharas (2013) estimate that the number of people living below the \$1.25 threshold in 2010 would fall from 1,215 million using the old (2005) PPPs to 571 million using the new (2011) PPPs. Thus, the use of the new PPPs *without a recalibration of the 2005 \$1.25 poverty standard* could imply a reduction of the incidence of extreme poverty by more than half. With a 2011 incidence of around 7-8% (about half the level in Table 1), the 3%-goal for 2030 seems a lot more achievable. Moreover, since the downward revision of the PPPs in the 2011 round of ICP is relatively larger for Asia relative to Africa, “just as the ICP 2005 “Asianized” poverty, the ICP 2011 will “Africanize” it, at least if no offsetting changes are made to the global poverty line” (Deaton and Aten, 2014).

This large change in the PPPs across the two rounds of the ICP raises the question of which of the two sets of PPPs offers a better basis for global poverty estimates. This issue is still being debated. Deaton and Aten (2014) have argued in favour of the use of the new PPPs based on their analysis that the use of the ring method (using 18 “ring” countries) to link PPPs across regions in 2005 could have led to an overestimation of PPPs for Africa and Asia by about a quarter. They also argue that, by replacing the ring procedure with a methodologically superior procedure involving a common global “core” list of goods and services for *all* countries, the 2011 PPPs at least partially undid the overestimation of 2005. Ravallion (2014) does not take a direct position on which set of PPPs offers a better basis for global poverty monitoring, but questions the Deaton-Aten analysis arguing that if other potential covariates of change in PPPs are controlled for, the particular regional pattern of downward drift in PPPs (which supports the ring-overestimation hypothesis) tends to disappear.

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<sup>3</sup> See report by the World Bank (2014) which gives PPP exchange rates for GDP and its main aggregates including household consumption for 199 countries.

It is beyond the scope of this paper to offer a definitive position on this issue which clearly warrants further research, although since Ravallion's analysis is *not necessarily* an argument against the use of 2011 PPPs, the burden of this debate (especially in light of other methodological improvements in the 2011 ICP) may be leaning in favour of an eventual move to the new PPPs. Two considerations for the formulation of SDG1.1 are worth stressing in this regard. First, it seems prudent to leave room for some flexibility in the exact specification of the 3%-goal as the application of the new PPPs also has implications for potentially revisiting the \$1.25 standard itself. Second, a useful lesson from this debate is that future revisions in PPPs over the run up to 2030 should be anticipated for legitimate economic reasons even if there are no statistical or methodological changes in future ICP rounds. This in turn is an argument for retaining some flexibility in the specification of SDG1.1. It is worth recalling that the World Bank has negotiated this territory earlier with revisiting and revising the "dollar-a-day" threshold following the availability of the then new PPPs in 2005 (Ravallion, Chen and Sangrula, 2009). A revision of the threshold should thus be anticipated with every significant and methodologically-sound revision of the PPPs. And, this in turn ought to be reflected in the specification of global poverty targets such as SDG1.1. At the same time, it is worth investing further research effort into developing a consistent methodology for future PPP-revision-induced updates of the international poverty standard as well as for consistently revising the previous estimates of poverty once a new set of PPPs and international poverty standard is accepted.

## **On halving poverty in all its dimensions (SDG1.2)**

SDG1.2, stated in terms of cutting (by 2030) by at least half the incidence of "*poverty in all its dimensions according to national definitions*", draws attention to the multidimensional nature of poverty. The direct reference to the multiple dimensions of poverty guards against the pitfalls of a potentially narrow interpretation of poverty reduction in SDG1.1 built around income or consumption alone. The explicit recognition in SDG1.2 of the need to pay attention to many different forms of deprivation is thus important. However, there is scope for a clearer articulation of this "target"<sup>4</sup> – at least in two respects. Stated simply, first, there is a need to sharpen the distinction between SDG1.2 and SDG1.1, and, second, there is equally a need to sharpen the distinction between SDG1.2 and several of the other SDGs that deal directly with specific non-income goals. The key

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<sup>4</sup> This is perhaps anticipated in the indicators corresponding to each "target" that are still to be developed. But there is arguably a case for greater clarity of the targets themselves. At a minimum, the following discussion may be seen as relevant to the development of indicators for SDG1.2.

principle underlying both points is that the outcome variables targeted by different goals and objectives ought to be mutually distinct.

The simplest way to distinguish between SDG1.1 and SDG1.2 is to note that the former is about consumption (or income) poverty and the latter about multidimensional poverty. The need for a separate focus on multidimensional poverty over and above poverty in terms of consumption or income has both a conceptual foundation as well as a basis in pragmatic empirical considerations. At a very basic level, the conceptual foundations of multidimensional poverty are rooted in viewing poverty as “capability failure”, the most notable exponent of this view being Sen (1980, 1985, 1999).<sup>5</sup> Viewed as such, multidimensional poverty then invites direct attention to a range of specific capabilities including those relating to health, education, shelter, and access to basic amenities. The key pragmatic consideration then turns on the question whether consumption or income offers an adequate representation of an acceptable range of capabilities. If it did, there would really not be much of a case for a separate focus on multidimensional poverty.<sup>6</sup> Conversely, the case for a distinctive focus on multidimensional poverty, and by implication the case for an SDG1.2 in addition to SDG1.1, rests in the proposition that there are many aspects of poverty which, for a variety of reasons, may not be adequately captured by income or consumption. It is presently not necessary to dwell on these reasons which for the most part have to do with market failures of one sort or another.<sup>7</sup> In addition, it is also worth noting that a focus on multidimensional poverty has the potential to draw attention to “government failures” too, especially in relation to provision of public goods and how markets function. The inclusion of SDG1.2 in addition to SDG1.1 could thus also be viewed a “dual check” on poverty reduction. If consumption were indeed coterminous with achievements in a range of multiple dimensions, then the attainment of the 3%-goal for SDG1.1 would also more than achieve SDG1.2. But because such spontaneous “trickle down” to other dimensions cannot be taken for granted, SDG1.2 offers an important dual check.

Thus, the question is not *if* but *how* SDG1.2 should be specified. There are two key issues: one, which dimensions should be included in determining who is multidimensionally poor (the identification issue), and two, how should deprivations in different dimensions be aggregated (the aggregation

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<sup>5</sup> Sen’s writings on this subject are many; referenced here are only a few examples (including one of the early ones).

<sup>6</sup> Even from the welfarist perspective of consumption expenditure as a money-metric of utility, consumption may be inadequate as there are other arguments in individual utility functions for which either markets (and hence prices) may either not exist or if they exist may be distorted.

<sup>7</sup> Even in the absence of market failures, total consumption or income as a linear combination of prices and quantities of goods and services implies perfect substitutability between these goods and services – an assumption that is questionable from a non-welfarist or human rights perspective that insists on the essentiality of minimum levels of achievement across a range of dimensions.

issue)? On both issues, there is clear scope for drawing upon the now fairly substantial theoretical and empirical literature on the measurement of multidimensional poverty.

In relation to the identification issue, the dimensions that have been typically considered important are those relating to education, health, housing conditions, access to services (especially, electricity, water and sanitation) and asset ownership. In particular, note in this regard the global Multidimensional Poverty Index (MPI) – based on 10 indicators relating to the three broad dimensions of education, health and standard of living – that is being calculated and reported by the UNDP for more than 100 countries worldwide since 2010; see UNDP (2014) for the latest global MPI estimates.<sup>8</sup> However, as shown in Table 2, several of the other SDGs also relate to the same set of “non-income” indicators as included in the MPI, and there is thus a need for sharpening how SDG1.2 on multidimensional poverty differs from these other SDGs.

MPI dimension/ indicator		Weight	Definition of indicator (and its deprivation cut-off)	Related SDG
Education	Years of schooling	1/6	No household member has completed at least six years of schooling	SDG4.1, 4.6
	School attendance	1/6	A school-age child (up to grade 8) is not attending school	SDG4.1
Health	Child mortality	1/6	Any child under the age of 5 of an ever-married woman has died in the household	SDG3.2
	Nutrition	1/6	A household member is malnourished, as measured by the BMI for adults (women ages 15-49 in most surveys) and by the height-for-age z-score calculated using WHO standards for children under age 5	SDG2.2
Standard of living	Electricity	1/18	The household has no access to electricity	SDG7.1
	Sanitation	1/18	The household’s sanitation facility is not improved or it is shared with other households	SDG6.2
	Water	1/18	The household does not have access to clean drinking water or clean water is more than a 30-minute walk (round-trip)	SDG6.1
	Housing	1/18	The household lives in a house with a dirt, sand or dung floor	SDG11.1
	Fuel	1/18	The household mainly cooks with ‘dirty’ cooking fuel (dung, wood or charcoal)	SDG7.1
	Assets	1/18	The household not having at least one asset related to access to information (radio, TV, telephone) and not having at least one asset related to mobility (bike, motorbike, car, truck, animal cart, motorboat) or at least one asset related to livelihood (refrigerator, arable land, livestock)	SDG8.5, 10.2

Source: UNDP (2014) and OWG (2014).

The most obvious way to distinguish SDG1.2 from other related SDGs is to make a clear distinction between marginal distributions of individual dimensions and their joint distribution. From that perspective, while the other SDGs are concerned with the marginal distributions of specific indicators

<sup>8</sup> Under this approach a person is considered multidimensionally poor if deprived in at least one-third of the weighted dimensions; see Technical Note 5 in UNDP (2014).

(e.g. the proportion of malnourished children or the share of population without access to electricity or safe drinking water), SDG1.2 is (or could be) all about the joint distribution (e.g. the share of population that is simultaneously deprived in terms of child nutrition, access to electricity and clean water). Thus, the distinguishing feature of SDG1.2 could be its concern with joint deprivation of a population in a range of indicators. An important reason why the other SDGs by themselves may be considered inadequate is simply that a joint distribution can never be inferred from a series of marginal distributions even as the alleviation of multiple disadvantage is of obvious policy interest.

A “joint-distribution perspective” for SDG1.2 immediately brings into spotlight the question of how a joint distribution could be summarized or represented in a measurable indicator or indicators.<sup>9</sup> Two points are pertinent here. First, the statement of SDG1.2 refers to halving the incidence of “poverty in all its dimensions *according to national definitions*”, which carries the suggestion that, for the purposes of this goal, multidimensional poverty be measured and monitored in accordance with national (country-specific) standards in relation to which dimensions are included, and how they are weighted and aggregated. There is however a case to be made for adopting a global summary measure of multidimensional poverty following a common set of dimensions, weights and aggregation method. This will not only allow international comparability of the extent of multidimensional poverty, but also help legitimize a common yardstick of progress on this goal. The suggested adoption of a global multidimensional poverty measure is not an injunction against the use of national measures in much the same way the use of an international poverty line (as in SDG1.1) is not intended as an injunction against, or even a substitute for, the use of national poverty lines in pursuance of national policy objectives. While the two can usefully complement each other, the use of a global measure for setting an international goal on multidimensional poverty seems appropriate.

Second, the global MPI calculated by the UNDP is a potential candidate for a global measure for SDG1.2. An argument along these lines has been recently pursued by Alkire and Sumner (2013) who propose the consideration of “a global Multidimensional Poverty Index (MPI) 2.0” – modelled on the UNDP global MPI (which is implicitly taken to be MPI 1.0) – as “a headline indicator for the post-2015 Millennium Development Goals, providing an intuitive overview of multidimensional poverty to complement a \$1.25/day measure”. They suggest the development of an MPI 2.0 (embodying choices

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<sup>9</sup> The so-called “dashboard approach” (Ravallion, 2011) is a non-starter in this regard since the dashboard of different indicators is no more than a collection of marginal distributions that is comprehensively unrevealing of the joint distribution. The “cross-tabulation solution” to get at the joint distribution is also a non-starter when the degree of dimensionality is more than two or three; I am yet to find a person who can make sense of 4-by-4 cross-tabulation. Once we are talking of more than a few dimensions, there is no getting away from the need for summary measures for the joint distribution.

with respect to dimensions, weights, dimensional and cross-dimensional cut-offs) through “a ‘voices of the poor’ type participatory exercise”. Some conceptual issues should also weight into the development of a global measure. For instance, the elementary multidimensional poverty measure following the dual cut-off methodology of Alkire and Foster (2011) is the *product* of the incidence of multidimensional poverty and the average intensity of deprivations amongst the multidimensionally poor (and not the incidence by itself).<sup>10</sup> Another conceptual consideration is that multidimensional poverty measures within the Alkire-Foster class (of which the UNDP’s global MPI is a special case) are insensitive to variations in the dispersion or concentration of a given set of deprivations across a population; maximally and minimally concentrated deprivations amongst the poor are treated alike (Datt, 2014). Thus, there is room for a careful development of an appropriate global multidimensional poverty measure that will need to balance different conceptual and practical considerations. The formulation of SDG1.2 should thus leave the door open for the development of such a global MPI-type measure, which also implies leaving the door open for a statement of the 2030 target currently defined in terms of *halving the incidence* of multidimensional poverty. It is difficult to form a judgement on whether halving is an under- or over-ambitious target without settling how what is proposed to be halved is measured.

## **On social protection, inclusion and resilience (SDG1.3, SDG1.4 and SDG1.5)**

The remaining three components of SDG1 pertain to social protection (SDG1.3), economic and social inclusion (SDG1.4) and resilience against economic, social and environmental shocks (SDG1.5). The main point I pursue in relation to these components is to question whether these should be conceived as independent components of the overall SDG1 on poverty. Beginning with SDG1.4 first, it should be noted that many of the elements of economic and social inclusion that this component refers to – including access to basic services, land and other forms of property, new technology and financial services – overlap to a large extent with the non-income indicators purported to be included in a measure of multidimensional poverty. For this reason, there is a case for absorbing SDG1.4 under SDG1.2, if necessary, by suitably augmenting the scope of dimensions that may be included under multidimensional poverty.

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<sup>10</sup> It should be obvious that progress in multidimensional poverty that primarily takes the form of a decline in the intensity of deprivations amongst the poor without a significant change in the number of the poor will be largely missed by a measure based on just the incidence of multidimensional poverty.

In relation to the other two components SDG1.3 and SDG1.5, to begin with these should be viewed together. Social protection systems (SDG1.3) can be thought of as essentially comprising of three sets of programs in terms of their primary functional objectives: (i) poverty-focused income generation programs, (ii) social assistance programs, and (iii) social insurance programs. The first set of programs aim to augment the income-earning capacity of the poor (e.g. microfinance, training programs and active labor market policies, scholarships, fee waivers, asset redistribution), the second seek to supplement the incomes (or consumption) of the poor through direct transfers in cash or kind (e.g. unconditional or conditional transfer programs, free or subsidized provision of certain goods or services, disaster relief), while the third seek to promote greater security against shocks (health, accident and disability insurance, pensions and old age security, catastrophic and index insurance, and a range of mitigation and adaptation measures against climate change). It is obvious that these components of social protection systems, especially social assistance and social insurance, subsume the functional objective associated with SDG1.5, viz., to “build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters”. Thus, conceptually, there is a case for folding SDG1.5 into SDG1.3.

It is also important to note that the distinction between these three types of social protection programs is however necessarily imperfect because (a) all programs provide both short-term and long-term benefits as well as both transfer and insurance benefits (for instance, public works employment can generate both transfer and stabilization or insurance benefits), and (b) the successes or failures of one type of program may reduce or accentuate the need for others. An important implication is that the optimal mix of these different components of a social protection system as well as the optimal size of the overall system will depend on the country context. How the issues of optimal mix and size should be decided upon is arguably best left at the country level rather than encapsulated in an international goal or set of goals. SDG1.3-1.5 also represent a situation where the task of formulation of goals is straying into the formulation of the means of achieving the goals – again, a matter on which there will be a very large element of context-dependence and country-specificity.

A logical implication of the above line of argument is that it is perhaps best *not* to have SDG1.3, SDG1.4 and SDG1.5 as independent components of the overall SDG1 on poverty, whose scope may be more usefully limited to income or consumption poverty (SDG1.1) and multidimensional poverty (SDG1.2) – though appropriately redefined so as to absorb the concerns echoed in the other components, and

perhaps with one possible modification or enhancement aimed at further accommodating these concerns, as discussed below.

One of the aspirational indications in SDG1.3-1.5 seems to be to broaden the intended target group for SDG1 to include the “vulnerable” beyond those who are “poor”.<sup>11</sup> This reflects in part the concern that there is a significant mass of people who are not below an adopted poverty threshold (such as \$1.25 per person per day) but are not sufficiently above it to either experience radically superior life conditions or be immune to falling below the threshold in the face of a negative shock. In part, it also reflects the contemporary concerns regarding higher orders of volatility induced by growing globalization and the challenges posed by climate change. These are reasonable concerns, and hence there is an argument for broadening of the target group to include the vulnerable, which immediately raises the question of how the vulnerable may be identified.

There are of course many different notions and measures of vulnerability in the literature, though most typically involve some measure of the variability of outcomes for individuals or households. However, variability of individual or household outcomes is hard to estimate even for a single country and a single time spell, let alone monitoring this over a longer period of time for a large number of countries.<sup>12</sup> Thus, a pragmatic solution (or compromise) may well be simply setting the bar higher to identify vulnerability, i.e. adopting a vulnerability threshold that is set above the poverty threshold. For instance, relative to the poverty threshold of \$1.25 per person per day (SDG1.1), the vulnerable could be identified as those living below \$2 per person per day. Thus, the poor are a subset of the vulnerable, but the vulnerable could include many non-poor who are nonetheless vulnerable to poverty in that they could be consigned to the ranks of the poor if hit by a negative shock. Similarly, for multidimensional poverty (SDG1.2), the vulnerable could be identified by raising the dimensional (deprivation) cut-offs, or if using a dual cut-off approach, by lowering the cross-dimensional cut-off.<sup>13</sup> To make this simple notion of vulnerability operationally relevant would however further require that SDG1.1 and SDG1.2 are augmented with vulnerability targets commensurate with the poverty targets; for instance, the 3% consumption poverty target for 2030

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<sup>11</sup> See the explicit reference to “the poor and the vulnerable” in the statements for all three of SDG1.3, SDG1.4 and SDG1.5.

<sup>12</sup> There is in particular the thorny problem of separating measurement error from genuine variability which has in fact been either largely ignored or imperfectly treated in applied work.

<sup>13</sup> This pragmatic approach to identifying the vulnerable is not a new idea, and is in fact already being used in applied work. For instance, in case of the MPI, Alkire, Conconi and Seth (2014) identify those deprived in 20%-33% of weighted dimensions as “vulnerable to poverty”.



may be supplemented with, say, a 10% target for the incidence of vulnerability<sup>14</sup>, and analogously for multidimensional poverty and vulnerability.

## Conclusion

This paper has sought to offer some observations – from both a conceptual and pragmatic perspective – on the formulation of the Sustainable Development Goal on ending poverty and its five components as recently proposed in the Open Working Group’s report to the UN. In brief, the paper argues the case for aligning the first component on extreme (income) poverty with the World Bank’s 3%-target for absolute poverty by 2030, though qualified to apply not only globally but also at the regional level. It also argues for retaining some flexibility with the specification of this target in view of the recent revision of the PPPs as well as future such revisions that ought to be anticipated. It offers suggestions for refining the second component on multidimensional poverty (as a useful supplement to the first component) by adopting a global measure of multidimensional poverty. And finally, the paper argues that the remaining three components of SDG1 on poverty could perhaps be absorbed under the first two: either directly within the scope of the second component on multidimensional poverty or by expanding the target group for the first two components to include “the vulnerable”, who could be identified through the operationally tractable (though imperfect) device of using a vulnerability threshold that is set higher than the extreme poverty threshold.

These observations and suggestions are guided in good measure by considerations of parsimony of goals and targets that are also mutually distinct and individually well-defined. Of course, setting goals cannot be confused with achieving them, but a clear and thoughtful enunciation of goals has its place and role – the ideal for which is perhaps most succinctly articulated in President John F. Kennedy’s Commencement Address of 1963 when speaking of the goal of world peace in the aftermath of the Cuban missile crisis: “By defining our goal more clearly, by making it seem more manageable and less remote, we can help all peoples to see it, to draw hope from it, and to move irresistibly toward it.”<sup>15</sup> Despite the very different context, these words can be a useful goalpost for the SDG process itself.

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<sup>14</sup> The 10% target is mentioned as an illustrative figure only; the development of vulnerability targets will require a careful consideration what is realistic over the time frame.

<sup>15</sup> Transcript of President John F. Kennedy’s Commencement Address at American University, June 10, 1963; accessed at <http://www.jfklibrary.org>.

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This paper was written by Gaurav Datt, Associate Professor at Monash University. The project brings together 60 teams of economists with NGOs, international agencies and businesses to identify the targets with the greatest benefit-to-cost ratio for the UN's post-2015 development goals.

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