

**Press Information Bureau
Government of India
Planning Commission**

07-August-2014 20:53 IST

Rangarajan Report on Poverty

The Expert Group under the Chairmanship of Dr. C. Rangarajan to Review the Methodology for Measurement of Poverty in the country constituted by the Planning Commission in June 2012 has submitted its report on 30th June 2014. In a written reply to a question in the Rajya Sabha today, the Minister of State (Independent Charge) for Planning, Statistics and Programme Implementation and Defence Shri Rao Inderjit Singh has said that as per the report, poverty line is estimated as Monthly Per Capita Expenditure of Rs. 1407 in urban areas and Rs. 972 in rural areas. The highlights of the report are:

- i. The Expert Group (Tendulkar) had used the all-India urban poverty line basket as the reference to derive state-level rural and urban poverty. This was a departure from the earlier practice of using two separate poverty line baskets for rural and urban areas. The Expert Group (Rangarajan) reverts to the practice of having separate all-India rural and urban poverty basket lines and deriving state-level rural and urban estimates from these.
 - ii. The Expert Group (Tendulkar) had decided not to anchor the poverty line to the then available official calorie norms used in all poverty estimations since 1979 as it found a poor correlation between food consumed and nutrition outcomes. However, on a review of subsequent research, the Expert Group (Rangarajan) took a considered view that deriving the food component of the Poverty Line Basket by reference to the simultaneous satisfaction of all three nutrient -norms would be appropriate when seen in conjunction with the emphasis on a full range of policies and programmes for child-nutrition support and on public provisioning of a range of public goods and services aimed at the amelioration of the disease-environment facing the population.
 - iii. Estimates of consumption expenditure seen in the National Accounts Statistics and as inferred from the sample surveys of the National Sample Survey Organisation show a large and growing variance. The Expert Group (Rangarajan) prefers NSSO's estimates and decides not to use the NAS estimates. This is in line with the approach taken by Expert Group (Lakdawala) and Expert Group (Tendulkar).
 - iv. The capture of spatial and temporal variation in prices in estimating the State-level and rural-urban poverty levels (given all-India rural and urban estimates) has undergone substantial refinement since 1979. The Expert Group (Rangarajan) agrees with the methodology adopted by the Expert Group (Tendulkar) in this regard. This overcomes the limitations of using fixed base-year weights by using a combination of unit values derived from successive NSSO's Consumer Expenditure Surveys and price-relatives derived from the Consumer Price Indices.
 - v. Public expenditure on social services has increased substantially in recent years. These expenses are not captured, by design, in the NSSO's Consumer Expenditure Surveys and the poverty line derived from these is thus lower than the services actually consumed.
 - vi. The Expert Group (Rangarajan) is of the considered view that the deployment of criteria other than consumption expenditure in the measurement of poverty raises several issues regarding measurement and aggregation and that these render such exercises impractical. However, the Expert Group (Rangarajan) has considered an alternate view in estimating the poverty line by reference to the ability of households to save.
2. The Methodology recommended by the Expert Group (Rangarajan) for estimation of poverty is as follows:
- i. The poverty line should be based on certain normative levels of adequate nourishment, clothing, house rent, conveyance and education, and a behaviorally determined level of other non-food expenses.
 - ii. The Expert Group (Rangarajan) computed the average requirements of calories, proteins and fats based on

ICMR norms differentiated by age, gender and activity for all-India rural and urban regions to derive the normative levels of nourishment. Accordingly, the energy requirement works out to 2,155 kcal per person per day in rural areas and 2,090 kcal per person per day in urban areas. For reasons elaborated in the text, the Expert Group (Rangarajan) views the Calorie norm not as a single number but as an average in a band of ± 10 per cent of these values and with intakes even at the lower end still being adequate enough to not adversely affect health and work.

iii. The protein and fat requirements have been estimated on the same lines as for energy. These requirements are 48 gms and 28 gms per capita per day, respectively, in rural areas; and 50 gms and 26 gms per capita per day in urban areas.

iv. A food basket that simultaneously meets all the normative requirements of the three nutrients defines the food component of the poverty line basket proposed by the Expert Group (Rangarajan). These nutrient norms are met for persons located in the sixth fractile (25-30%) in rural areas and for those in the fourth fractile (15-20%) in urban areas in 2011-12.

The average monthly per capita consumption expenditure on food in these fractile classes is Rs.554 in rural areas and Rs.656 in urban areas (NSS 68th Round).

v. The median fractile (45-50%) values of clothing expenses, rent, conveyance and education expenses are treated as the normative requirements of the basic non-food expenses of clothing, housing, mobility and education of a poverty line basket. This works out to Rs.141 per capita per month in rural areas and Rs.407 in urban areas. The observed expenses of all other non-food expenses of the fractile classes that meet the nutrition requirements are considered as part of the poverty line basket. This works out to Rs.277 per capita per month in rural areas and Rs.344 in urban areas.

vi. The new poverty line thus work out to monthly per capita consumption expenditure of Rs.972 in rural areas and Rs.1,407 in urban areas in 2011-12. For a family of five, this translates into a monthly consumption expenditure of Rs.4,860 in rural areas and Rs.7,035 in urban areas.

vii. Estimations of the poverty line made for the Expert Group (Rangarajan) based on an independent large survey of households by CMIE and using a different methodology wherein a household is considered poor if it is unable to save, yields results that are remarkably close to those derived using the NSSO data. This provides additional evidence in support of the poverty line derived by the Expert Group (Rangarajan).

viii. Compared to the poverty lines based on the methodology of the Expert Group (Tendulkar), the poverty lines estimated by the Expert Group (Rangarajan) are 19% and 41% higher in rural and urban areas, respectively. The Expert Group (Rangarajan) uses the Modified Mixed Recall Period consumption expenditure data of the NSSO as these are considered to be more precise compared to the MRP, which was used by the Expert Group (Tendulkar) and the URP, which was used by earlier estimations. 67% of the increase in the rural poverty line and 28% of the increase in the urban poverty line is because of the shift from MRP to MMRP.

ix. The national rural and urban poverty lines computed as above were used to derive the state-wise poverty lines by using the implicit price derived from the quantity and value of consumption observed in the NSSO's 68th Round of Consumer Expenditure Survey (2011-12) to estimate state relative to all-India Fisher price indices. Using these and the state-specific distribution of persons by expenditure groups (NSS), state-specific ratios of rural and urban poverty were estimated. State-level poverty ratio was estimated as weighted average of the rural and urban poverty ratios and the national poverty ratio was computed again as the population-weighted average of state-wise poverty ratios.

x. The Expert Group (Rangarajan) therefore estimates that the 30.9% of the rural population and 26.4% of the urban population was below the poverty line in 2011-12. The all-India ratio was 29.5%. In rural India, 260.5 million individuals were below poverty and in urban India 102.5 million were under poverty. Totally, 363 million were below poverty in 2011-12.

xi. The poverty ratio has declined from 39.6% in 2009-10 to 30.9% in 2011-12 in rural India and from 35.1%

to 26.4% in urban India. The decline was thus a uniform 8.7 percentage points over the two years. The all-India poverty ratio fell from 38.2% to 29.5%. Totally, 91.6 million individuals were lifted out of poverty during this period.

xii. The Expert Group (Rangarajan) recommends the updation of the poverty line in the future using the Fisher Index. The weighting diagram for this effort can be drawn from the NSSO's Consumer Expenditure Survey. For the Food –group, the Expert Group (Rangarajan) recommends that the current practice of relying on the unit values derivable from the NSSO Consumer Expenditure Surveys should continue till such time a new CPI of CSO with a weighting diagram based on the 2011-12 pattern of consumption becomes available. In respect of non-food- items, the price indices available in the exiting CSO Consumer Price Indices can be used in the construction of requisite Fisher indices. Once the new series of Consumer Price Index numbers (with 2011-12 as the base year) become available, it may be used if the extent of change in the structure of consumption at that point in time relative to the 2011-12 structure of consumption is not very different.

KSP