

Ministry of Finance and Economic Development

Central Statistics Office

POVERTY ANALYSIS

2001/02

Republic of Mauritius

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POVERTY ANALYSIS

2001/02

REPUBLIC OF MAURITIUS

FOREWORD

Mauritius does not have a national poverty line. However, on the basis of available data, an attempt has been made in this report to present an overview of the poverty situation in the country.

The report presents the extent and depth of poverty. It also provides an analysis of the socio-economic characteristics of the poor.

It is hoped that the report will be of use to the public and in particular to policy makers and planners in the implementation and monitoring of policies and programmes to alleviate poverty in the country.

I would like here to thank all staff, both within and outside this office, who contributed in one way or another to the preparation and publication of this report.

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CHAPTER 1 – INTRODUCTORY NOTES

1.1 Introduction

Poverty is multi-dimensional and can be measured in many ways - in monetary and non-monetary terms.

Although Mauritius does not have a national poverty line, poverty related indicators can be derived from available survey data. The analysis in this report focuses on poverty measurement in monetary terms based on data collected from the past two Household Budget Surveys conducted in Mauritius. However, in Chapter 6, the Mauritian poverty situation on the international level is also presented in terms of the Human Development Index which is a non-monetary measure of well-being and poverty.

1.2 Sources of data

Household budget surveys or household income and expenditure surveys are the most important data sources for poverty analysis. The analysis presented in this report is based on data from the Household Budget Surveys 1996/97 and 2001/02.

In Mauritius, the Household Budget Survey (HBS) constitutes the most reliable data source for household income and expenditure data. This survey is conducted every five years by the Central Statistics Office. The main objective of the survey is to obtain up to date information on the consumption pattern of Mauritian households to update the basket of goods and services used for the computation of the monthly Consumer Price Index (CPI).

For both 1996/97 & 2001/02 survey rounds, a two-stage stratified sampling design was adopted. The total number of households covered was 6,234 in 1996/97 and 6,720 in 2001/02. In addition to information on household income and expenditure, the HBS data comprised demographic and socio-economic details.

1.3 Absolute / Relative Poverty lines

A household is considered poor if its income resources fall below a certain minimum threshold called the poverty line.

The poverty line can be an absolute poverty line which is the cost of the basic needs of a household in terms of food, housing, clothing and other essentials for living; such a line is usually referred to as the *minimum vital*. On the international level a poverty

line of \$1 a day per person has been put forward by the UN for monitoring global poverty mainly in the context of the Millennium Development Goals. Details about the Mauritian situation with respect to this line are given in Chapter 6.

Alternatively, a relative poverty line can also be used. The relative poverty line is defined in terms of the poverty of a lower income group relative to a higher income group.

1.4 Definition of the poor

A relative poverty line is used in this analysis; this is based on the half median household income adjusted for household size and age composition as well as for economies of scale. Upon using this line, a one-person household was found to be poor if its income resources fell below Rs 2,004 in 1996/97 and Rs 2,804 in 2001/02. More details are given at Annex 1.

CHAPTER 2 – SELECTED SUMMARY INDICATORS

2.1 Introduction

In order to make an assessment of how poverty has developed over time, a summary poverty index is required. This chapter looks at different aspects of poverty in the Republic of Mauritius through such indicators as the poverty head count ratio, the income gap ratio and the poverty gap ratio. The results are summarised in Table 2.1.

Table 2.1 – Selected summary indicators on poverty, Republic of Mauritius, HBS 1996/97 & 2001/02

	1996/97	2001/02
Estimated number of poor households	23,800	23,700
Proportion of poor households (%)	8.7	7.7
Estimated number of poor persons	92,700	93,200
Proportion of poor persons (%)	8.2	7.8
Income gap ratio (%)	21.0	22.6
Poverty gap ratio (%)	1.7	1.8

2.2 Head count ratio (Poverty incidence)

The Head count ratio which is the proportion of households or persons below the poverty line, has declined between 1996/97 and 2001/02 in the Republic of Mauritius.

The proportion of poor households declined from 8.7% to 7.7%; in terms of number, there was a marginal decrease from 23,800 to 23,700.

The proportion of poor persons declined from 8.2% to 7.8%. In absolute number, however, there was a slight increase from 92,700 to 93,200 due to population growth.

2.3 Income gap ratio

The income gap ratio is an indicator of the depth of poverty and measures the difference between the poverty line and the mean income of the poor, expressed as a ratio of the poverty line.

Table 2.1 shows that though the proportion of poor people declined from 1996/97 to 2001/02, the situation of the poor has deteriorated slightly during that period. This is indicated by an increase in the income gap ratio from 21.0% to 22.6%.

2.4 Poverty gap ratio

The poverty gap ratio indicates the total resources needed to bring all the poor out of poverty. It is thus an important indicator for programmes and policies regarding poverty reduction.

The poverty gap ratio for the Republic of Mauritius was 1.8% in 2001/02. Given a relative poverty line of Rs 2,804 per adult equivalent per month, this implies that around Rs 50.50 would be needed per adult equivalent per month to remove all persons out of poverty. In other words, around Rs 450 million would have been needed in financial year 2001/02 to bring all persons out of poverty.

CHAPTER 3 – POVERTY INCIDENCE

3.1 Introduction

This chapter gives an overview of the poverty situation in the Republic of Mauritius and shows how poverty differs by region and household characteristics. It also sheds light on the types of households that are more affected by poverty.

3.2 Poverty incidence by region

Table 3.1 – Percentage of households in poverty by urban / rural region, HBS 1996/97 & 2001/02

Region	1996/97	2001/02
Urban	6.2	6.9
Semi-urban	9.0	6.3
Rural	11.8	9.1
Republic of Mauritius	8.7	7.7

During the past two Household Budget Surveys, all the five Municipal Wards of Mauritius were categorised for statistical purposes as urban except for some regions found in remote urban areas which were considered as either semi-urban or rural. Some villages having infrastructural facilities such as hospitals, schools and shopping centres were classified as semi-urban whilst the other villages were classified as rural.

Table 3.1 shows that rural regions were more affected by poverty than both urban and semi-urban regions. In 2001/02, the incidence of poverty in rural regions was 9.1% compared to 6.9% in urban regions and 6.3% in semi-urban regions.

A comparison between 1996/97 and 2001/02 shows that poverty incidence declined in semi-urban (from 9.0% to 6.3%) and rural regions (from 11.8% to 9.1%). In urban regions however, poverty incidence increased from 6.2% to 6.9% indicating a deterioration in the poverty situation of towns.

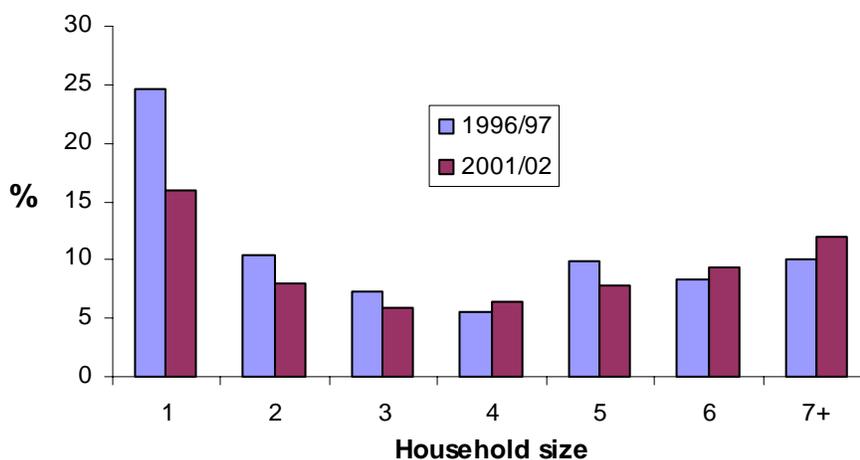
3.3 Poverty incidence by household characteristics

3.3.1 Household size

Table 3.2 – Percentage of households in poverty by household size, HBS 1996/97 & 2001/02

Household size	1996/97	2001/02
1	24.4	15.9
2	10.4	7.9
3	7.2	5.9
4	5.5	6.4
5	9.8	7.8
6	8.4	9.3
7+	10.0	12.0
Total	8.7	7.7

Figure 3.1 - Percentage of households in poverty by household size, 1996/97 & 2001/02



In 2001/02, poverty incidence was highest in very small as well as large households. As shown in Table 3.2 and Figure 3.1, poverty incidence was highest among one-person households (15.9%) followed by very large households with 7 or more persons (12.0%).

A comparison over time shows that the poverty situation of smaller sized households (those with less than four persons) improved from 1996/97 to 2001/02. For instance, the incidence of poverty among one-person households dropped markedly from 24.4% to 15.9%. On the other hand, the situation in large households deteriorated from 1996/97 to 2001/02. Among households with seven or more persons, the incidence of poverty went up from 10% to 12%.

3.3.2 Household type

Table 3.3 – Percentage of households in poverty by household type, HBS 1996/97 & 2001/02

Household type	1996/97	2001/02
Single member household	24.4	15.9
Couple without children	8.0	5.2
Couple with unmarried children only	7.2	7.5
One parent with unmarried children only	15.9	13.6
Other	6.8	5.4
Total	8.7	7.7

Figure 3.2 - Percentage of households in poverty by household type, HBS 1996/97 & 2001/02

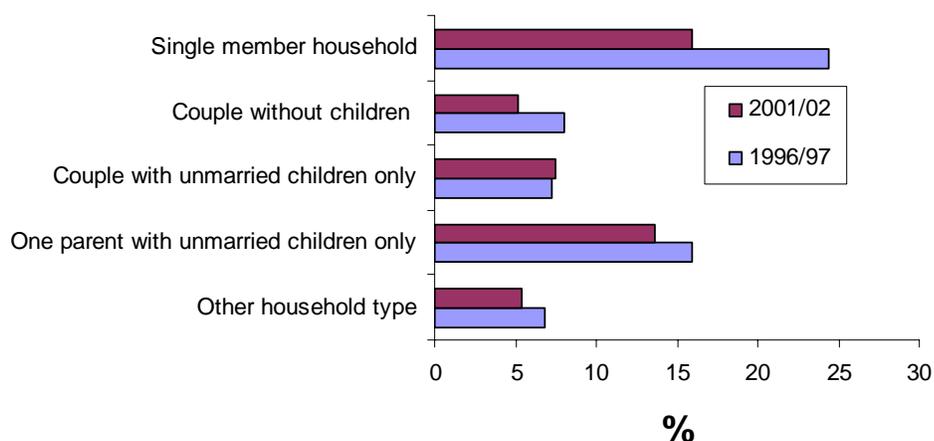


Table 3.3 and Figure 3.2 show that single-member households and households comprising a single parent with unmarried children only were more likely to be in poverty than other types of households. In fact, the highest incidence of poverty is noted among single-member households in both 1996/97 (24.4%) and 2001/02 (15.9%), followed by one-parent households with unmarried children only (15.9% in 1996/97 and 13.6% in 2001/02).

It is also observed that the incidence of poverty decreased from 1996/97 to 2001/02 among all household types, except for couples with unmarried children only, who posted a slight increase from 7.2% to 7.5%.

3.3.3 Household composition

Table 3.4 – Percentage of households in poverty by selected household composition, HBS 1996/97 & 2001/02

Household composition	1996/97	2001/02
Households without elderly	7.6	8.1
Households with elderly	11.3	6.7
<i>of which</i>		
Elderly living alone	31.5	19.7
Other	9.2	5.3
Total	8.7	7.7

Poverty incidence can also be analysed in terms of households with and without elderly persons (aged 60 years and over).

Table 3.4 shows that elderly living alone were more likely to be in poverty than elderly persons living in other types of household arrangements. In 2001/02, the incidence of poverty among elderly living alone was 19.7% compared to 5.3% for other household types with elderly persons.

The table also shows that the poverty situation of households with elderly persons improved between 1996/97 to 2001/02 (from 11.3 % to 6.7 %). By contrast, households without elderly were worse off in 2001/02 (8.1 %) than in 1996/97 (7.6 %).

3.3.4 Tenure of household

Table 3.5 – Percentage of households in poverty by tenure, HBS 1996/97 & 2001/02

Tenure	1996/97	2001/02
Owned households	7.0	6.5
Free accommodation	13.4	12.9
Renting households	17.0	16.2
Total	8.7	7.7

As expected, households which do not own their housing unit are more likely to be poor (Table 3.5). In 2001/02 'renting households' had the highest poverty incidence (16.2%), followed by households with free accommodation (12.9%).

Table 3.5 also shows that between 1996/97 and 2001/02, the poverty situation of households by all types of tenure improved.

CHAPTER 4 – CHARACTERISTICS OF POOR HOUSEHOLDS

4.1 Introduction

This chapter gives an insight of the situation of poor households in the Republic of Mauritius in terms of their living conditions, household characteristics, household income and expenditure. A comparison is also made between poor households and all households, in order to show the extent to which poor households are more vulnerable.

4.2 Household type

Table 4.1 – Distribution (%) of households by household type, HBS 1996/97 & 2001/02

Household type	1996/97		2001/02	
	Poor households	All households	Poor households	All households
Single member household	13.1	4.7	10.6	5.2
Couple without children	6.9	7.4	5.8	8.7
Couple with unmarried children only	46.6	56.4	53.8	55.1
One parent with unmarried children only	15.2	8.2	13.6	7.8
Other	18.2	23.3	16.2	23.2
Total	100.0	100.0	100.0	100.0

Figure 4.1 - Household distribution (%) by household type, HBS 2001/02

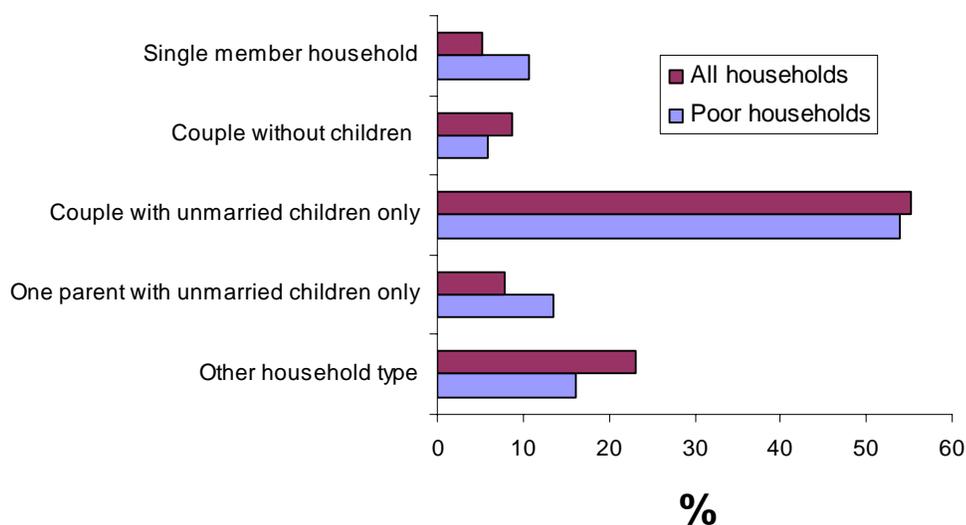


Table 4.1 shows that in 2001/02 around half of poor households comprised couples with unmarried children. Another 14% consisted of one parent households with unmarried children only; some 11% were single-member households consisting mainly of elderly living alone. 'Other' households, mostly of extended type, accounted for 16% of poor households.

Compared to the distribution of all households, poor households were found to be more concentrated in the following types in both 1996/97 and 2001/02: 'single-member households and 'one parent with unmarried children only'.

4.3 Average household income

Table 4.2 – Average household income* (Rs.) of poor households and all households, HBS 1996/97 & 2001/02

Households	Average household income (Rs.)	
	1996/97	2001/02
Poor households	3,668	5,078
All households	12,674	16,642

* Income is defined as disposable income plus imputed rent (See Annex 1).

As shown in Table 4.2, the average household income of the poor differs substantially from that of all households. In 2001/02 the average income of poor households is estimated at Rs 5,078 per month i.e. less than one third that of all households (Rs.16,642).

A breakdown of income by source for 2001/02 indicates that poor households derived about 60% of their income from employment as compared to 75% for all households. Income derived from transfers (mainly pensions and other social benefits) constituted about 20% of the total income of poor households as compared to only 9% for all households. This indicates that poor households rely more on transfers than all households.

It is also noted that between 1996/97 and 2001/02, the average income of poor households increased at a faster rate (38.4%) than that of all households (31.3%).

4.4 Average household consumption expenditure

Table 4.3 – Average household consumption expenditure (Rs), HBS 1996/97 & 2001/02

Households	Average household consumption expenditure (Rs.)	
	1996/97	2001/02
Poor households	3,634	4,384
All households	7,846	10,220

Consumption expenditure refers to the acquisition of goods and services by purchase, own production or obtained free of charge. It excludes income tax, social security contributions, insurance and the services provided free by government, e.g. health care and education.

As shown in Table 4.3, the average household consumption expenditure of poor households was less than half that of all households in both 1996/97 and 2001/02.

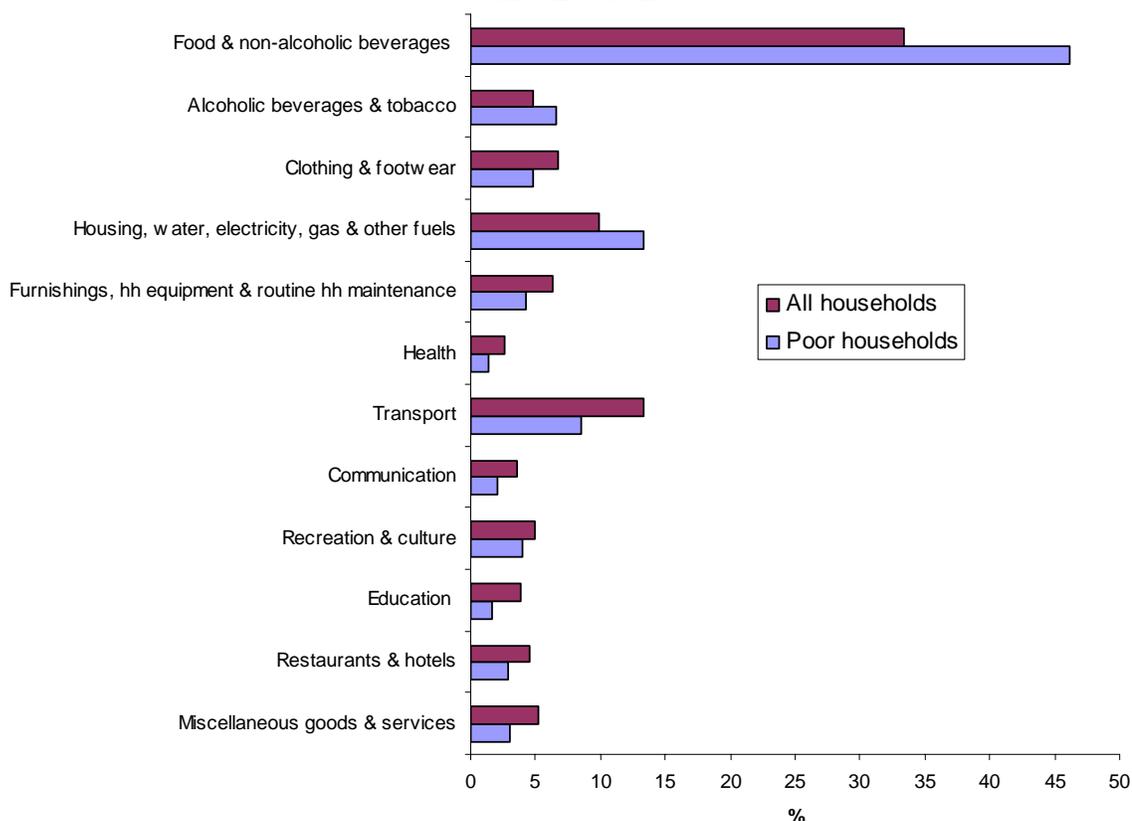
It is also observed that between 1996/97 and 2001/02 the average expenditure of poor households increased at a slower rate (20.6%) than that of all households (30.2%).

4.5 Household consumption expenditure (Rs) by category

Table 4.4 – Distribution of household consumption expenditure by category, HBS 2001/02

Category of Expenditure	Average household consumption expenditure (Rs)		Percentage (%)	
	<i>Poor households</i>	<i>All households</i>	<i>Poor households</i>	<i>All households</i>
Food and non-alcoholic beverages	2,024	3,412	46.2	33.4
Alcoholic beverages and tobacco	291	488	6.6	4.8
Clothing and footwear	208	687	4.7	6.7
Housing, water, electricity, gas and other fuels	586	1007	13.4	9.9
Furnishings, household equipment and routine household maintenance	185	650	4.2	6.4
Health	58	270	1.3	2.6
Transport	372	1,363	8.5	13.3
Communication	89	359	2.0	3.5
Recreation and culture	172	501	3.9	4.9
Education	71	399	1.6	3.9
Restaurants and hotels	198	564	4.5	5.5
Miscellaneous goods and services	130	520	3.1	5.1
Total	4,384	10,220	100.0	100.0

Figure 4.2 - Share (%) of household expenditure by category, HBS 2001/02



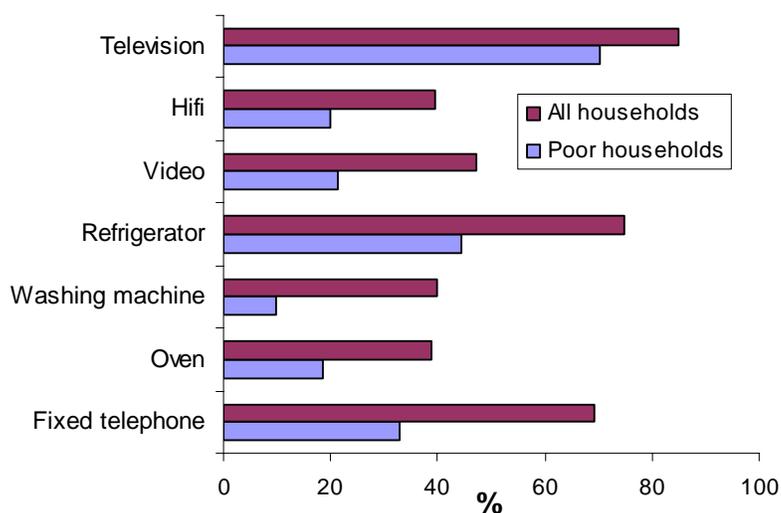
As shown in Figure 4.2, poor households spend mainly on essentials for living, namely ‘food and non-alcoholic beverages’ (46.2%), followed by ‘Housing, water, electricity, gas and other fuels’ (13.4%). On the other hand, poor households spend relatively less on ‘Health’ (1.3%) and ‘Education’ (1.6%), possibly since they rely more on free health and education facilities provided by the state.

4.6 Availability of household items

Table 4.5 – Percentage of households by selected household items, HBS 2001/02

Household items	Poor households	All households
Television	70.2	85.0
Hifi	20.1	39.6
Video	21.3	47.2
Refrigerator	44.2	74.9
Washing machine	9.8	39.8
Oven	18.6	38.9
Fixed telephone	32.9	69.2

Figure 4.3 - Percentage of households by selected household items, HBS 2001/02



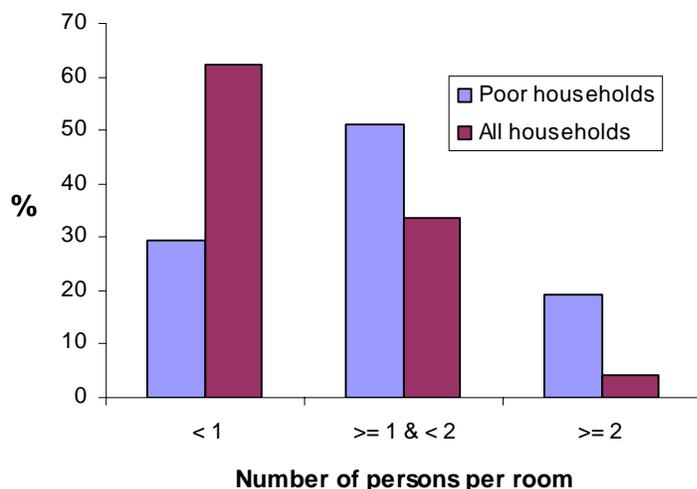
As shown in Table 4.5 and Figure 4.3, poor households are less likely to possess some common household items such as television, refrigerator, fixed telephone etc. In 2001/02, 70% of poor households had a television compared to 85% among all households. The refrigerator which is an important household domestic appliance was available in only 44% of poor households against 75% among all households. As regards fixed telephone, only around one third of poor households had one compared with more than two thirds among all households.

4.7 Number of persons per room

Table 4.6 – Percentage distribution of households by number of persons per room, HBS 2001/02

Number of persons per room	Poor households	All households
< 1	29.4	62.2
>= 1 and < 2	51.2	33.5
>= 2	19.4	4.3
Total	100.0	100.0

Figure 4.4 - Percentage distribution of households by number of persons per room, HBS 2001/02



The indicator, ‘number of persons per room’, is a crude measure of the availability of housing space and has been used here to compare the situation of the poor with that of all households. As expected, poor households had less housing space than all households. In fact, around 60% of all households lived in houses where there is less than 1 person per room on average whereas around 70% of poor households lived in houses with more than 1 person per room in 2001/02.

4.8 Principal fuel used for cooking

Table 4.7 – Proportion (%) of households by selected principal type of fuel used for cooking, HBS 2001/02

Principal type of fuel used	Poor households	All households
Gas	68.3	83.9
Wood	13.0	3.7
Kerosene	7.5	3.0

Table 4.7 shows that poor households tend to use cheaper types of fuel such as wood and kerosene for cooking than all households. In 2001/02, above 20 % of poor households used wood and kerosene as principal type of fuel whereas less than 7 % of all households used such types of fuel.

CHAPTER 5 - CHARACTERISTICS OF HEADS IN POOR HOUSEHOLDS

5.1 Introduction

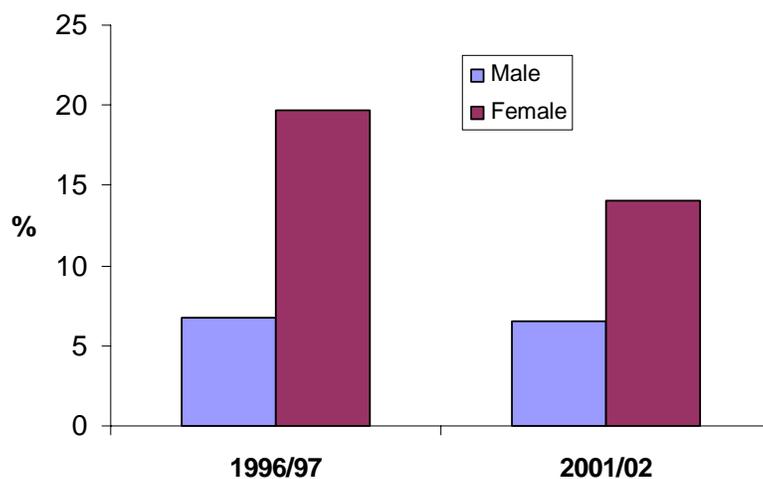
The well-being of a household is largely determined by the socio-economic characteristics of its head. The analysis that follows is based on the characteristics of heads of households in the Republic of Mauritius in terms of marital status, educational attainment and economic activity.

5.2 Sex

Table 5.1 – Percentage of households in poverty by sex of head, HBS 1996/97 & 2001/02

Sex of head	1996/97	2001/02
Male	6.7	6.5
Female	19.7	14.1
Both sexes	8.7	7.7

Figure 5.1 - Percentage of households in poverty by sex of head, HBS 1996/97 & 2001/02



As shown in Table 5.1 and Figure 5.1, female headed households were more likely to be in poverty than male headed households in both 1996/97 and 2001/02.

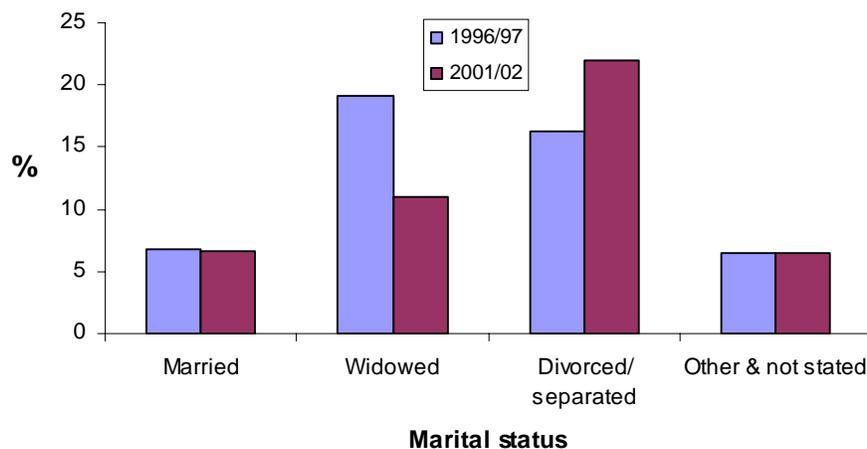
It is to be noted however, that there has been a significant improvement in the poverty situation of female-headed households between 1996/97 and 2001/02. During that period, the poverty incidence of such households declined from 19.7% to 14.1%.

5.3 Marital status

Table 5.2 – Percentage of households in poverty by marital status of head, HBS 1996/97 & 2001/02

Marital Status of head	1996/97	2001/02
Married	6.8	6.6
Widowed	19.2	11.0
Divorced / separated	16.2	22.0
Other & not stated	6.5	6.5
Total	8.7	7.7

Figure 5.2 - Percentage of households in poverty by marital status of head, HBS 1996/97 & 2001/02



As shown in Table 5.2 and Figure 5.2, heads having lost their partners by way of death, divorce or separation were more likely to be in poverty than those in the married state. In 2001/02, poverty incidence among widowed and divorced/separated heads was 11.0% and 22.0% respectively, against 6.6% among married heads.

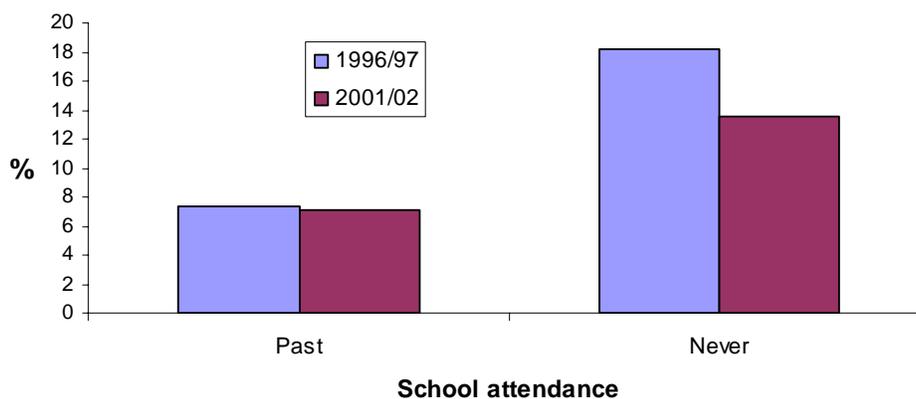
It is also observed that from 1996/97 to 2001/02, poverty incidence decreased for all heads of households except for those who were either divorced or separated.

5.4 Educational characteristics

Table 5.3 - Percentage of households in poverty by school attendance of head, HBS 1996/97 & 2001/02

School attendance of head	1996/97	2001/02
Past	7.4	7.1
Never	18.2	13.5
Total	8.7	7.7

Figure 5.3 - Percentage of households in poverty by school attendance of head, HBS 1996/97 & 2001/02



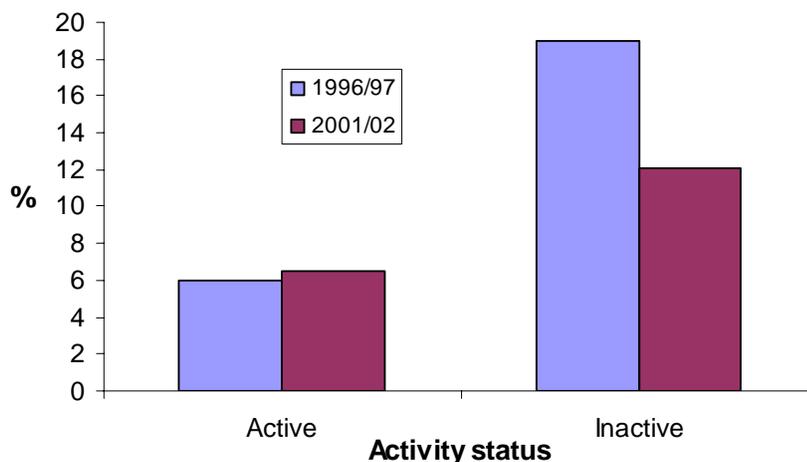
As expected, households headed by persons who never attended school were more likely to be poor than households with a head who attended school in the past. In 2001/02, the poverty incidence for households whose heads never attended school (13.5%) was nearly two times higher than for households with heads who attended school in the past (7.1%).

5.5 Economic activity

Table 5.4 – Percentage of households in poverty by activity status of head, HBS 1996/97 & 2001/02

Activity status of head	1996/97	2001/02
Economically active	6.0	6.5
Economically inactive	19.0	12.1
Total	8.7	7.7

Figure 5.4 - Percentage of households in poverty by activity status of head, HBS 1996/97 & 2001/02



As shown in Table 5.4 and Figure 5.4, households headed by economically inactive persons (neither working nor looking for work), were more likely to be poor than other types of households. For instance, in 2001/02, poverty incidence was 12.1% among households with an economically inactive head, nearly two times higher than among households headed by an economically active person.

Compared to 1996/97, however, an improvement is observed in the poverty situation of households with economically inactive heads. Poverty incidence among such households declined from 19.0% in 1996/97 to 12.1% in 2001/02. By contrast, poverty incidence among households headed by economically active persons increased during that period - from 6.0% to 6.5%.

CHAPTER 6 - INTERNATIONAL COMPARISON

6.1 Introduction

There is international concern to decrease poverty and to promote development at all levels. Agencies like the United Nations and the World Bank have produced different poverty indicators to measure poverty at the global level.

This chapter presents the poverty situation of Mauritius with respect to the UN Human Development Index and the World Bank \$1 and \$2 a day poverty lines.

6.2 UN Human Development Index (HDI)

The HDI is a comparative measure of human development for countries worldwide. It is computed by the UN and measures the average achievements of a country in three basic dimensions of human development namely:

- A long and healthy life, as measured by life expectancy at birth
- Knowledge, as measured by the adult literacy rate and the combined primary, secondary and tertiary enrolment ratio
- A decent standard of living, as measured by GDP per capita

The index ranges between 0 (lowest level of human development) and 1 (highest level of human development).

Based on latest available figures on the HDI, Mauritius was categorised as a country of medium human development with an HDI value of 0.791 in 2003 and was ranked 65 out of 177 countries. During the same year, out of the 177 countries, the country with the highest level of human development was Norway (HDI value of 0.963) and the one with the lowest level was Niger (HDI value of 0.281).

6.3 World Bank \$1 and \$2 a day poverty lines

For the purpose of measuring poverty globally, the World Bank has come up with international poverty lines set at \$1 a day and \$2 a day. In fact, one of the poverty indicators used in the context of the Millennium Development Goals (MDGs) set by the UN, is the *'Proportion of population living below \$1 a day'*.

Using such a poverty line (\$1 per person per day)* and data from the 1996/97 and 2001/02 Household Budget Surveys, the proportion of poor people in Mauritius is estimated to be below 1% in both 1996/97 and 2001/02.

It is to be noted however that the \$1 a day poverty line is more relevant to least developed countries where there is extreme poverty. For developing countries like Mauritius, the \$2 a day poverty line is more relevant. Using this line, the proportion of people is estimated to be less than 1.5% in 1996/97 and 2001/02.

Latest Millennium Development Goals indicators posted on the UN website indicate that:

- Around 17% of the world population lived in extreme poverty (below \$1 a day) in 2005, i.e. out of 1 out of 6 billion people were poor.
- In Sub-Saharan Africa, of which Mauritius forms part, the proportion of persons living in extreme poverty was even higher and was 44.0% in 2002. The corresponding figures for some countries in Sub-Saharan Africa are as follows: South Africa - 10.4% in 1999, Madagascar - 61.0% in 2001, Zambia - 75.8% in 2003, and Nigeria - 70.8% in 2003.
- Extreme poverty was also highly prevalent among medium human development countries such as China (16.6% in 2001), India (36% in 1999), Brazil (7.5% in 2003) and Egypt (3.1% in 2000).

* \$1 refers to \$1.08 based on 1993 Purchasing Power Parity (PPP) estimates. Using the World Bank conversion factor of \$1 = Rs 6.924 in 1993 and updating for inflation in Mauritius, this is equivalent to around Rs 285 per month in 1996/97 and Rs 380 per month in 2001/02. It is to be noted that the PPP is different from the exchange rate. The PPP is the amount of money in a country's currency needed to buy goods and services equivalent to what can be bought with \$1 in the United States.

ANNEX 1 – METHODOLOGY USED FOR POVERTY ANALYSIS**1. Use of income or expenditure data for poverty measurement**

Poverty can be measured using either household income or expenditure data. The relative advantage of expenditure is that it is less subject to underreporting than income in household surveys. However, expenditure data can also present problems since it results in distorted consumption measures in cases of stock piling and infrequent purchases of durables. In the light of this and due to the fact that income data is more appropriate for assessing the degree to which pensions affect poverty in the country, the relative poverty line used in this report is based on income. It is to be noted however that the poverty trends are the same regardless of whether income or expenditure data are used as evidenced by the table below.

The table presents poverty indicators for the Republic of Mauritius based on both income and expenditure data from the past two Household Budget Surveys using different poverty lines.

	1996/97	2001/02
Half median monthly household income (Rs)	3,935	5,575
% households below the half median income	14.2	13.1
Half median monthly household expenditure (Rs)	3,068	4,077
% households below the half median expenditure	13.3	12.3
Half median monthly household income per adult equivalent (Rs)	2,004	2,804
% households below the half median income per adult equivalent	8.7	7.7
Half median monthly household expenditure per adult equivalent (Rs)	1,616	2,204
% households below the half median expenditure per adult equivalent	7.8	7.6

2. Definition of income for poverty measurement

The income resources used for this poverty analysis are based on disposable income since it represents what the household can actually spend to acquire the goods and services that it needs. In the case of owner-occupiers and households not paying rent, the income resources additionally include the “imputed rent” i.e. the equivalent rental value of their house.

The components of the “income measure” used for the poverty analysis are:-

- (1) employment income both for employees and the self-employed
- (2) property income (interests, dividends and rent of buildings, land, etc.)
- (3) transfer income (pensions, allowances and other social benefits)
- (4) other income derived from own-produced goods
- (5) imputed rent for non-renting households

3. Definition of the poverty line used

The relative poverty line used in this report is **the half median monthly household income per adult equivalent**. Based on the 1996/97 and 2001/02 HBS data, the relative poverty line is estimated at Rs 2,004 per adult equivalent per month in 1996/97 and Rs 2,804 in 2001/02. These can be interpreted to be the corresponding poverty lines for a one-person household.

4. Why ‘per adult equivalent’?

The requirements of a household depend largely on its size as well as its composition in terms of age of members. For example, in larger households requirements are expected to be higher than those in smaller households. Also, a child’s requirements differ from that of an adult. Thus, in order to take into consideration these intra-household differentials, adjustment for household size and household composition is important to obtain the number of adult equivalents in each household.

5. Equivalence Scale used

The Bank and Johnson’s non-linear equivalence scale is used in this report as recommended by the World Bank. This scale caters for intra-household differentials as mentioned above and also for economies of scale. It is of the form

$$E = (A + 0.7 * C)^{0.7}$$

where

- E = Number of adult equivalents
- A = Number of adults (aged 16 years and over)
- C = Number of children (aged below 16 years)

The table below gives the number of adult equivalents by household type:-

Household type	Household size (unadjusted)	Number of adult equivalents
One adult	1	1.0
One adult, one child	2	1.4
One adult, two children	3	1.8
Two adults, one child	3	2.0
Two adults, two children	4	2.4
Three adults, one child	4	2.5
Three adults, two children	5	2.8

6. Determining poor households

For each household covered in the survey, information is available on its size, and composition, age of its members and on its different income components.

For the purpose of the analysis, a household is determined poor as follows:-

- (i) The monthly resources of the households (R) is calculated as the sum of total household disposable income and imputed rent
- (ii) The number of adult equivalents in the household (A) is calculated using the Bank & Johnson's non-linear equivalence scale
- (iii) The monthly household resources per adult equivalent = $R_a = R/A$
- (iv) R_a is then compared with the poverty line. If R_a is less than the poverty line, the household is considered to be poor.

Using 1996/97 and 2001/02 Household Budget Survey data, the poverty lines were estimated at Rs 2,004 in 1996/97 and Rs 2,804 in 2001/02. Thus, a household was considered poor if Ra was less than Rs 2,004 in 1996/97 and less than Rs 2,804 in 2001/02.

7. Poverty line for selected household compositions

The poverty lines based on the 'equivalence scale' for some selected household compositions are given below.

Household composition	Poverty line (Rs)	
	1996/97	2001/02
One adult	2,004	2,804
One adult, one child	2,806	3,926
One adult, two children	3,607	5,047
Two adults, one child	4,008	5,608
Two adults, two children	4,810	6,730
Three adults, one child	5,010	7,010
Three adults, two children	5,611	7,851

ANNEX 2 – DEFINITION OF TERMS

1. Head count ratio

The **head count ratio** is the most common indicator used for poverty measurement. It is defined as the proportion of households or population whose income is below the poverty line. The formula can be expressed as follows:-

$$H = \frac{q}{n}$$

Where, H = Head count ratio
 q = Number of poor households / persons
 n = Total number of households / total population

The head count ratio is easy to interpret; it is an indicator of the *incidence of poverty* and indicates how many poor there are.

2. Income gap ratio

The income gap ratio is a measure of the depth of poverty. It measures the difference between the poverty line and the mean income of the poor, expressed as a ratio of the poverty line. The formula is as follows:-

$$I = \frac{z - y_q}{z}$$

$$y_q = \frac{1}{q} \sum_{i=1}^q y_i \quad (y_i < z)$$

where I = Income gap ratio
 z = Poverty line
 y_q = Average income of the poor
 y_i = Actual income
 q = Number of poor

3. Poverty gap ratio

The poverty gap ratio is the mean distance separating the population from the poverty line (with the non-poor being given a distance of zero), expressed as a percentage of the poverty line. This indicator considers both **the number of poor people and how poor they are**.

The formula is expressed as follows:-

$$PG = \frac{1}{n} \sum_{i=1}^q \left[\frac{z - y_i}{z} \right]$$

where PG = Poverty gap
q = Number of poor
n = Total population
y_i = Actual income (y_i < z)
z = Poverty line

The poverty gap can also be expressed as the product of the average income gap ratio of poor people and the head count ratio.

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