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DEVELOPMENT OF COUNTRY CAPABILITIES: THE NATIONAL HOUSEHOLD SURVEY CAPABILITY
PROGRAMME (NHSCP) AND THE LIVING STANDARDS MEASUREMENT STUDY (LSMS)

The Living Standards Measurement Study (LSMS)

Report of the World Bank

SUMMARY

The present report begins with a brief explanation of the background to a research project undertaken by the World Bank, namely, the accumulated experience of the 1970s in relation to poverty and distributional issues in development (paras. 1-3). In section I, the general approach of the study is set out, and the question "who is benefiting from development?" is taken as the starting point in elaborating its consequences for (a) the demand for household survey results; (b) the dimensions of living standards; (c) the macro framework for microdata; and (d) the complementarity of household and community survey data (paras. 4-26). In section II, the phasing of the work programme of the study is explained together with progress to date and the products which it is hoped that the study will generate (paras. 27-35). Points for discussion by the Commission are included (para. 36).

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INTRODUCTION

1. The Living Standards Measurement Study (LSMS) is a research project, started by the World Bank in 1980. While the ultimate objectives were clear at the outset and largely remain, the research nature of the study implies that the task set and, more especially, the procedures to be followed, were open-ended to a degree, while the significance, if any, that the Bank might attach to the results is entirely open and will remain so until the work has been further developed. The only substantive implication of LSMS from the Bank's point of view, therefore, is that the state of the art in the measurement of living standards was judged, as of 1980, to merit attention, and that it was potentially worthwhile to devote a significant research effort to some of the issues involved.
2. This judgement had several elements. First, it was known that the National Household Survey Capability Programme (NHSCP) had been initiated. The Bank welcomed this and agreed to co-sponsor the Programme. Secondly, it was felt that it might be possible to make more of existing data on household income distribution and expenditure; a joint programme in this field was, therefore, initiated with the International Labour Organisation (ILO). However, it was not expected that the significant improvement which was looked for in the quality and relevance of available data could be found by further analysing existing household surveys. The record of past surveys was often disappointing to Governments in the identification and design of policy needs directed towards development. The advent of NHSCP, which was in part a response to that situation, therefore encouraged a potentially complementary attempt to identify more closely the content of surveys and the ways in which the data they generate could be put to better use. Moreover, it provided a prerequisite for securing data to facilitate the study of change over time in a structured way.
3. A decade of research into income distribution and poverty questions, not only by the Bank but also by many others and notably under the aegis of the ILO through its World Employment Programme, provided further background to the position reached by 1980. The Bank perspective on development strategy was set out in Redistribution with Growth ^{1/} and has since been developed over a wide range of operational and research activities, the latter including joint projects with the Economic Commission for Latin America and the Economic and Social Commission for Asia and the Pacific. These projects reviewed, and attempted to analyse, most of the available survey data at the national level in the respective regions. However, many of the previously canvassed surveys were found to be inadequate as a basis for serious analysis. Similarly, heroic attempts to bring together cross-country data were rightly criticized for lack of comparability. An inescapable conclusion of the work has been that there are few developing countries with data which would readily satisfy reasonable professional standards in

^{1/} Hollis Chenery and others, Redistribution with Growth: Policies to Improve Income Distribution in Developing Countries in the Context of Economic Growth - A Joint Study by the World Bank's Development Research Center and the Institute of Development Studies at the University of Sussex (London, Oxford University Press, 1975).

answering quantitative questions about relative growth rates in real incomes as between, say, urban and rural areas. This was thought to be a serious matter, and the view that the Bank might address itself to some aspects of the problem was encouraged by a series of external advisory panels which reviewed the Bank's research activities. Accordingly, LSMS was launched as an inquiry into the appropriate content and use of survey data from the perspective of wanting to know who was benefiting from development and what form the benefits took. To the extent possible, LSMS was to go further and start to answer questions as to why the distribution of benefits fell into particular patterns.

I. THE LIVING STANDARDS MEASUREMENT STUDY (LSMS) PERSPECTIVE

4. The phasing of work under LSMS and the progress to date are reported in section II below. However, an important part of the early effort was to develop the initial objectives described above and to formalize their implications for the content and design of the study. This led to the development of an LSMS perspective which provides the context within which the work programme is being carried out.

5. The perspective has four main elements, which are not independent, namely, the demand for survey results, the dimensions of living standards, the macro framework for microdata and the complementarity of household and community data. It is appropriate at this stage to set out some detail of this perspective, since it represents a distillation of much of the thinking which has gone into LSMS so far.

A. The demand for survey results

6. "Who is benefiting from the development effort?" is an obvious question for any policy-maker to ask. The fact that it cannot be answered with reasonable rigour is taken to be an indication of the relative lack of emphasis to date on the use of surveys. This is reflected in the generally weak conceptual basis underlying the typical statistical office publications resulting from household surveys, and the common fate of many questionnaires which gather dust over time once data for some basic tabulations have been extracted. Given the cost of household surveys and their potential as a rich source of information for analysis in support of policy, the primary objective of LSMS is to show how survey results can be perhaps more usefully articulated. This implies a concern for concepts, analyses and the notion that survey results constitute a microdata base which ought to be accessible. But, in the first instance, it implies taking a fresh look at the initial tabulation and presentation of survey results in order to encourage basic publications which are conceptually well founded, interesting and relevant.

7. Inevitably, a survey at a point in time has limitations in attempting to answer questions about change over time. Since it is not realistic (except perhaps on an experimental basis) to promote longitudinal surveys in the typical developing country setting, it follows that "who is benefiting" has to be addressed through a comparison of survey results at different points in time. "Who" in this context cannot refer to particular individuals, so the focus has to be on typical or

representative households for identified clusters. Hence, LSMS is concerned with comparisons over time of averages for socio-economic groups. Distributions within such groups, and hence over-all distribution questions at the individual or household level, are considered to be of secondary importance.

8. The focus on dynamics at the group level of aggregation corresponds well to the focus on policy relevance in a development strategy context. The major implications are, first, the need to clarify grouping criteria, and, secondly, the importance of surveys which are comparable over time.

9. There can be no single, best taxonomy for aggregating households into socio-economic groups; the appropriate classification must be related to particular issues in particular countries. It is in this way that classification criteria are being investigated in LSMS. Equally, the emphasis on changes in means over time for given groups must be complemented by concern for the movements of people which take place over time between groups, that is, the migration/mobility dimension. Accordingly, it is not enough to be able to classify households by group at a point in time: LSMS must define the data needed to identify to which group people belonged, say, five years ago.

10. The need for comparability over time argues that LSMS should strive for simplicity and relevance in determining which data might or might not be collected. It also argues the importance of maintaining the results of a given survey in accessible form in order to facilitate future comparisons.

11. Finally, LSMS emphasis on the demand for survey results through demonstrated uses implies that the initiative within the study has rested, in the first instance, with analysts and users rather than with survey statisticians. Similarly, in emphasizing uses, the eventual products of LSMS should be demonstrated applications and interpretations of survey data which could serve as case-study material for others in national policy agencies to replicate or to adapt to local circumstances. It is the aim of LSMS to encourage the use of the resources which exist in developing countries for such work.

B. The dimensions of living standards

12. The concept of living standards is recognized within LSMS to be multidimensional and, in part, qualitative. It follows that selecting a group of measurable indicators inevitably introduces an arbitrary element and imposes some limitation on the interpretation of results. Going further, in the selection of a set of indicators, statistics which are purely descriptive are inherently less interesting than those which correspond to well-defined concepts which can be understood within a behavioural framework of analysis and causation. The lack of a well-developed framework or calculus for much of social statistics has led to placing incomes and expenditures at the centre of LSMS, and to the use of economic theory as the primary source of concepts. This does not mean that LSMS is concerned with incomes and expenditures exclusively, but rather that these economic variables are the starting point, from which such aspects as housing, nutrition, life expectancy and education are approached. Indeed, the review of social

statistics and human resource analysis which has been undertaken in LSMS clearly shows that data in these areas are of limited use for analytical purposes without matching measures of the major economic variables.

13. In reviewing practices in the measurement of incomes and expenditures, LSMS has concluded that both from the point of view of accuracy in measuring aggregates and in terms of the usefulness of the detail in its own right, income and expenditure estimates need to be built up from details - incomes by type and source and expenditures by type of goods or service acquired. Moreover, there are potential gains in accuracy to be found in a closer integration of the two sides of household accounts within the survey instruments used.

14. Since employment income is the major source for most households, LSMS is giving particular attention to it: what is typically regarded as a labour force survey has to be integral to the over-all design. This is one way to approach questions of time use and the associated issues of imputation and the concept of full income. These remain discussion items on the LSMS agenda at this stage, although it is clear that the main effort will remain with cash incomes and their extension through imputations which are already recognized within the national accounts definition of income. Going further is essentially a matter of how far to take the analysis of given data; it is less a question of which data to collect.

15. Within the LSMS perspective and largely because of the policy relevance, LSMS is more concerned with the implicit income benefits to be derived from access to public services, notably health and education, which are provided free or at subsidized rates, than with income imputations for housework and leisure time. Similarly, inter-household transfer payments are considered to be important in relation to particular socio-economic groupings and issues.

16. In looking at sources of income, there is particular concern in LSMS with the mapping of incomes by socio-economic groups onto the production structure. This is crucial in addressing some of the "why" questions which follow from a description of who is benefiting, since the mapping, appropriately articulated, can bring out many aspects which are potentially critical for development strategy.

17. On the expenditure side, LSMS has placed more emphasis on analysis (Engel curves, equivalent adult scales etc.) rather than on which data should be collected. On the latter, however, there remain some questions about appropriate methods for collecting price information, and the approach of the International Comparison Project (ICP) is being looked into in this context.

C. The macro framework for microdata

18. Development planning models, as they are now being used to support policy dialogue, have moved a long way forward from the simple input-output framework which is presumed in the System of National Accounts (SNA). Among the various aspects of these developments, a disaggregated view of the household sector and factor accounts is important. A part of the LSMS concern for uses of survey data is to provide a microdata source which will permit the extension of the SNA social

accounting matrix to bring it into line with the data requirements of planning at this level.

19. Given the focus of LSMS on socio-economic groups, their incomes by source and their patterns of expenditure, this application of survey results can follow naturally and reinforce the arguments previously presented. It implies consistency checks on national accounts data which are not now a part of typical practice, and to that extent it sets the results of household surveys at one and the same time in the mainstream of economic statistics and the demands and pressures of development planning. Accordingly, the frequency and timing of surveys which LSMS envisages are geared to the typical five-year planning cycle.

20. While much remains to be done in articulating the use of household income and expenditure surveys within a social accounting matrix framework, there is a growing body of literature to draw on, and new work on constructing matrices is under way in a number of countries, for example, Brazil, Egypt, Indonesia and Thailand. LSMS will be able to benefit from this work. Within the study, links are being explored between social and demographic data, on the one hand, and social accounting matrices on the other, together with ways of sustaining a clear distinction within the accounts between cash and imputed transactions.

D. The complementarity of household and community data

21. In trying to keep a household survey as simple as possible, it is obviously appropriate to ask whether certain types of data might not be better collected from other sources. The particular perspective which LSMS is developing in this context concerns the possibility of undertaking complementary household and community-level surveys.

22. Markets for goods and services, in the economist's sense, are typically spread over space, and actual amounts consumed can be described in terms of availability, cost and utilization. This formalization can be applied both to private consumption and to the consumption of publicly provided goods and services.

23. With respect to costs, the main element in most cash transactions of the household is unit prices and, as noted above, LSMS is exploring the possibility of collecting price data not from individual households (except perhaps as a check on expenditures) but from the markets which households use. This approach would shift the emphasis in the collection of price data away from the household survey and into the realm of cost-of-living measurement - in the LSMS case, for each socio-economic group.

24. With regard to public utilities, it is especially important to recognize that prices paid are only a part of opportunity cost, and an important element of the difference is travel time. Accordingly, in an inquiry into schooling, for example, LSMS is concerned first with the availability of schooling at different levels. Secondly, cost has several elements. One is any charges made - for attendance, books etc. - and data on these, as on availability, are potentially best collected at the community level. The appropriate information to obtain from households is

then restricted to utilization (do the children go to school?) and the elements of opportunity cost not otherwise covered, including costs of access such as travel. Ideally, LSMS would then want to complete the computation of opportunity cost through the imputation of loss of income-earning opportunities, if any.

25. The above example shows that the problems to be faced in providing a sound data base for an analysis of school attendance are not trivial, and similar difficulties need to be faced for other topics, such as in the health field and in labour force participation. Complementing the household level of inquiry with data on the availability of facilities and charges made can potentially make the problems more tractable. However, it inevitably raises the question of how to identify communities.

26. It is generally held that identification of the community is relatively straightforward in village societies, but there remains the difficulty that not all facilities are available in all villages. The only conceptually satisfactory way out is to define the community in relation to the household, that is, from the latter's perspective, "how far is it to the nearest ...?" To follow this approach in the field would potentially impose considerable difficulties. It will be necessary, therefore, to give the problem considerable thought so as to find an operationally and analytically acceptable solution.

II. PHASING OF THE WORK AND PROGRESS TO DATE

27. The work programme of LSMS consists of three phases: conceptual work, field work, and analysis.

28. It is expected that the conceptual work of LSMS will be largely completed in 1982. This has involved a variety of activities, some of which have been crucial in developing the LSMS approach described above.

29. In undertaking the first phase, conceptual work, LSMS has been assisted by a wide range of consultants and collaborators, working individually and occasionally getting together in a workshop or consultative group setting. The first such meeting was held at Washington, D.C., in February 1980, and was co-chaired by the Bank and the Statistical Office of the United Nations Secretariat. The second was held at Warwick, United Kingdom of Great Britain and Northern Ireland, in May 1981, and the third took place at Belmont, Maryland, United States of America, in October 1981. The first of these meetings focused on the general strategy and design of LSMS; the second on the major economic areas of income, expenditures and employment; and the third on measurement and analysis of human resource dimensions. Papers from the three meetings have been widely disseminated through an LSMS working paper series, as have others which LSMS has commissioned or produced internally from time to time. Additionally, LSMS staff have presented papers in various professional forums, notably the general meetings of the International Statistical Institute (ISI), the International Association for Research in Income and Wealth (IARIW) and the American Statistical Association (ASA). In this way, LSMS hopes to stimulate wide professional comment.

30. As the major effort on conceptual issues draws to a close (it will, of course, remain under review throughout), the emphasis has shifted to drafting questionnaires and issues of survey design, in which field LSMS is being assisted by the International Statistical Programs Center of the United States Bureau of the Census.

31. By the end of the first phase, it is expected that prototype materials will be available under two main headings:

(a) Draft questionnaires and associated materials on survey design, field manuals, data processing and tabulation packages;

(b) Draft outlines of a series of monographs on particular subjects, giving the rationale for the survey content, the conceptual basis, and the recommended tabulations, analyses and their interpretation.

32. All the material will be widely distributed for comment, and it is envisaged that there will be a fourth workshop focusing on the material described in paragraph 31 (b) above.

33. In the original LSMS work plan, it was envisaged that the second phase, field work, would begin before the first phase was completed. Some progress has been made in Malawi with the initiation, through the Bank's rural development activities, of a major NHSCP project. It is expected that there will be more substantive details to report during the twenty-second session of the Statistical Commission. Meanwhile, it can be noted that LSMS envisages undertaking both full-scale, nation-wide studies and smaller, partial experiments. The latter are particularly relevant, since LSMS has been under considerable pressure from the outset to engage in a wide range of experiments which would test alternative survey methodologies. To date, these pressures from the supply side have not been allowed to deflect the primary focus on the uses of surveys. However, it is considered that, compared with what survey statisticians feel they ought to know about appropriate methodology, there has been limited "learning by doing" over the years. In developing plans for the second phase, LSMS will be exploring opportunities for making some contribution towards meeting the apparent need for such fundamental work.

34. The materials gathered in the second phase will provide the necessary data for revising and filling out the products from the first phase. In particular, the monographs on specific subjects are intended to demonstrate what can be done to inform and advise policy-makers, which is the main objective of LSMS. It is envisaged that the topics might include poverty and income distribution, consumer behaviour and demand analysis, labour markets, the macro framework and national accounts, human resources, and access to public services.

35. As the third phase, analysis, draws to a close, the results of LSMS will be evaluated by the Bank and will be widely disseminated for comment. Through the close collaboration which the Bank expects to maintain with the Statistical Office of the United Nations Secretariat and the International Statistical Institute, it

is hoped that there will be broad interest in the results of LSMS and that it will be appropriate to draw conclusions from the work which may merit consideration as recommendations by the Statistical Commission.

III. POINTS FOR DISCUSSION

36. The Commission may wish:

(a) To discuss the emphasis LSMS places on articulating the uses of survey results and on the complementarity of LSMS with NHSCP;

(b) To discuss the importance of the LSMS conceptual framework, especially the disaggregated view of the household sector and the factor accounts, as an extension of SNA in order to make the latter more relevant for development policy planning;

(c) To discuss the relevance of community-level surveys as the basis for providing information complementary to that obtained from household surveys;

(d) To express its view on the suitability of the materials proposed as an output of LSMS, with a view to extracting from them recommendations for international use.
