Interview with Arturo Martinez, Jr., Kristine Faith Agtarap-Maningding & Rica Cynthia Maddawin, ADB

Poverty & the Cost of Living in Asia & the Pacific

By *Japan SPOTLIGHT*

The increasing cost of living crisis is threatening to push many back into poverty in Asia and the Pacific. Asian Development Bank (ADB) statistician Arturo Martinez, Jr. and ADB consultants Kristine Faith Agtarap-Maningding and Rica Cynthia Maddawin answer questions about how the rising cost of living affects the most vulnerable in the region, based on findings from the ADB's Key Indicators for Asia and the Pacific 2023.

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Arturo Martinez, Jr.   *Kristine Faith Agtarap-Maningding*   *Rica Cynthia Maddawin*

Poverty Concerns in Asia & the Pacific

JS: Why do you think poverty remains an important concern for Asia and the Pacific, despite generally remarkable economic growth in the region over the past several decades?

ADB: Over the past six decades, Asia and the Pacific has gone through an incredible journey from widespread poverty to general prosperity. From being an agrarian, low-income region in the 1960s, it has evolved into the world's manufacturing powerhouse, with diverse exports, expanding innovation capacity, rising megacities, a growing skilled labor force, and a larger consumer base. Along with these developments, it is worth noting that living conditions in the region have substantially improved over time. A number of development challenges, however, persist. These include economic inequality, climate change threats, and heightened risks of conflict, significantly impacting the most vulnerable segments of society, who may be left behind if these issues are not addressed urgently.

In 2015, economies in Asia and the Pacific, along with the rest of the world, made a pact to tackle these development challenges by adopting the 2030 Sustainable Development Agenda. The first Sustainable Development Goal (SDG) aims to end poverty in all its forms everywhere by 2030. It comprises multiple targets, including eradicating extreme poverty, reducing multidimensional poverty, and channeling resources to build a better social safety net.

Economic growth alone is not sufficient to eradicate all forms of poverty, as there is a need to ensure that the benefits trickle down to everyone, especially the poor. Tackling poverty's multiple dimensions requires substantial resources that many governments in developing economies find challenging to address. A study by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) suggests that the total spending required to achieve poverty eradication and other SDGs, such as SDG 2 (zero hunger) and building human capabilities (SDGs 3 and 4), exceeds $669 billion a year between 2016 and 2030, which is less than 2% of the average gross domestic product of developing economies in the region. This amount is well beyond the capacity of many

governments, further highlighting the importance of directing resources to those who need them most. However, estimates suggest that there is still room for improvement for the amount of official development assistance grants from all donors that focus on poverty reduction.

JS: How many poor people are there in Asia and the Pacific?

ADB: When it comes to poverty reduction, our region is one of the best performers. In 2019, before the Covid-19 pandemic, about 4.8% of Asia and the Pacific's population were considered extremely poor – far below the 58.1% estimate in 1990. On the other hand, pre-pandemic estimates show that 19.2% of the region's population lived in moderate poverty (those consuming between $2.15 to $3.65 a day). A study published by the United Nations Development Programme notes that from 2016 to 2021, the prevalence of multidimensional poverty was at least 20% in about one-third of economies in Asia and the Pacific with available data.

By current estimates, about 22.7% of the population in Asia and the Pacific are considered poor, with 3.9% considered to be living in extreme poverty. A large share of the population still lacks access to basic infrastructure and services. The latest estimates show that the prevalence of multidimensional poverty exceeds 10% in more than 40% of economies with available data.

Recent events have made poverty eradication even more challenging. When Covid-19 hit, developing Asia experienced its first economic contraction in nearly six decades, with millions in the region driven into severe economic hardship. Previous estimates, based on data available when the pandemic was unfolding, suggested that it set back the region's progress on reducing extreme poverty by at least two years. On the other hand, as the pandemic began to recede, additional shocks unsettled the nascent economic recovery, with cost-of-living pressures forcing low-income people to allocate a more substantial portion of their already meager resources just to make ends meet. Compared with pre-pandemic poverty forecasts for 2022 (under a counterfactual scenario in which the pandemic and increased cost of living did not happen), estimates show an additional 67.8 million people lived in extreme poverty in developing Asia last year.

Cost of Living & Poverty

JS: How does the cost of living affect the poor in Asia and the Pacific?

ADB: We are now at a critical juncture as we reach the halfway point of the implementation of SDGs. While the pandemic has wound down, the world is still contending with an elevated cost of living. Studies show that even minor fluctuations in prices can have a significant impact on the underprivileged, given that they allocate a significant portion of their resources toward basic, essential goods and services. Poor people with tight household budgets are pushed to disproportionately allocate their meager financial resources when confronted with higher costs of food, other basic commodities, and essential services. In effect, a high-inflation environment is even more arduous for the poor, who were already struggling to make ends meet in a low-inflation situation. These people are most likely to be hit the hardest, due to their higher energy and food budget share, which are key drivers of the cost-of-living crisis. High inflation may also exacerbate economic inequalities because high prices hit income and savings harder for the poor than their wealthier counterparts.

High inflation also comes at a perilous period when the social elevator has been damaged, with studies noting that learning losses caused by school closures during the pandemic might undermine the economic mobility prospects of the current generation of learners. With already tight budgets, a higher cost of living may divert lower-income households' resources away from initiatives that could undo learning losses incurred during the pandemic. It could even amplify risk-averting behavior, which make poor people less willing to undertake activities and investments that may have higher expected socioeconomic returns in the long run.

At the macro level, economic slowdowns may also constrain national capacities to invest in poverty-reducing initiatives such as enhancement of health, education, and infrastructure.

Implications of "Poverty Premium"

JS: What is the poverty premium, and what are the factors that make poverty expensive in developing Asia? Does it affect poor people's economic behavior?

ADB: The concept of the poverty premium refers to instances where poor people pay more for buying goods and accessing services than what non-poor people pay for the same goods and services. The concept is not new. Even in the 1960s, there were already hypotheses about the additional costs that people from low-income backgrounds pay compared to the rest of the population. In a way, the existence of the poverty premium contributes to the paradox that

in some contexts, being poor can be expensive.

The notion that purchasing smaller quantities of goods may cost more in the long run is analogous to the concept of economies of scale. With limited financial resources, a lot of poor people are unable to stock food or other goods and, therefore, they have to shop often and can't maximize when such goods are on sale. Location also matters. Consider a remote area with limited access to necessary infrastructure. Prices of delivering a service could be quite expensive, and that's why we see examples where the cost of electricity or water is higher in some rural areas than in urban areas.

Studies also suggest that, although people with lower incomes tend to prefer cheaper commuting options, transportation is also less affordable to them. Poor individuals may have to travel long distances and spend significant amounts of time and money commuting to work. In addition, inferior quality of roads in poorer areas may also contribute to a transportation penalty or premium through longer travel times and increased vehicle maintenance costs. Access to financial services is also more expensive for the poor. Poor people and families may not qualify for bank loans or other forms of credit due to a lack of collateral or credit history. They also may not have the necessary documents or identification to open a bank account. An ADB study also suggests that small businesses in developing Asia often face challenges in accessing credit and may, therefore, have to rely on high-cost alternative lenders to meet their financial needs.

This is especially true during periods of crisis and uncertainty. Studies on multidimensional poverty indicate that people living with multiple deprivations in poorer regions are at higher risks during health crises and less likely to be able to afford professional medical services, due to low income and lack of knowledge of the importance of preventive health care. During the Covid-19 pandemic, poorer communities exhibited lower compliance with mobility restrictions, largely because many low-wage individuals had no choice but to leave their homes to earn income. This increased the risk of transmission of the virus and led to unexpected or additional health-related expenses.

While examples of manifestations of the poverty premium abound, some argue that addressing the issue of a "poor mindset" and the decision-making of poor people when it comes to money and purchases is more important. They contend that poor people may prioritize non-essential items over necessities, leading to seemingly counterproductive economic behavior. However, proponents of "poor economics" explain that poor people are actually rational with money, but the higher opportunity cost they face due to having to focus on meeting basic needs limits their ability to invest in long-

term benefits like education – which, in turn, perpetuates the cycle of poverty. Poverty can also impact mental bandwidth, leading to less willingness to invest in things that may have higher potential long-term returns, as immediate needs take precedence over long-term outcomes.

JS: How do we measure the poverty premium?

ADB: Estimations of the poverty premium have a substantial data requirement, as one needs access to information on prices paid by the poor and non-poor for the same basket of commonly consumed goods and services. If one is familiar with how the consumer price index is compiled, it is basically the same data, but it has to be disaggregated for poor and non-poor people. However, the challenge is that not a lot of statistical systems compile such price data for different income segments. Because this data is not routinely collected, it is challenging to assess whether things are improving over time. On the other hand, in some economies with available data, there is evidence suggesting that lower-income individuals generally experienced slightly higher consumer price inflation from 2009 to 2022, compared to the overall population, as illustrated in the *Chart*.

Nonetheless, given the price pressures that our region and the rest of the world have experienced for more than a year now, it is important that we minimize the poverty premium as much as we can, if we are to draw closer to our commitment to meet the first SDG of eradicating poverty by 2030.

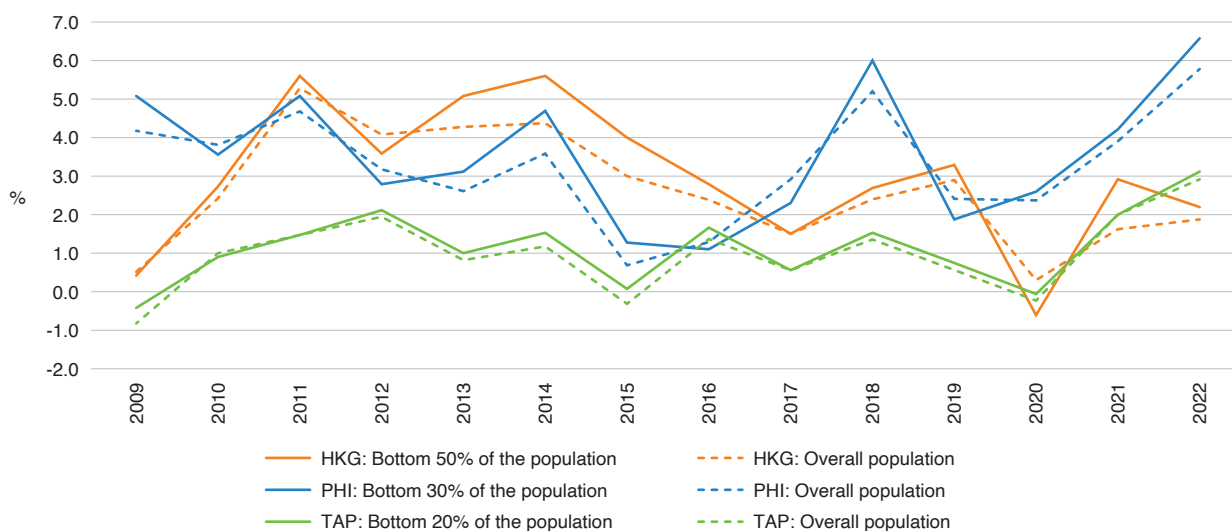### Policies Relevant to Address Poverty & the Cost of Living

JS: What can policymakers do to address poverty and the cost of living in Asia and the Pacific? What measures could possibly address the perceived additional costs for the poor?

ADB: Policymakers should boost agricultural development, invest more in education and infrastructure, and expand access to financial services through innovation. They should also investigate and address why the poor often pay more for everyday essentials than their wealthier counterparts, while minimizing the channels through which poverty premiums manifest.

Social protection coverage is also critical in an era of increasingly severe natural, epidemiological, and economic shocks (including the cost of living). Across Asia and the Pacific, there is diversity in social protection systems. Some are mainly dependent on contributory

Inflation experienced by low-income people vs. general population

Legend:
- HKG: Bottom 50% of the population
- HKG: Overall population
- PHI: Bottom 30% of the population
- PHI: Overall population
- TAP: Bottom 20% of the population
- TAP: Overall population

CPI = consumer price index; HKG = Hong Kong, China; PHI = The Philippines; TAP = Taipei, China.
Sources: For CPI overall population: Asian Development Bank data presented in Table 2,3,1 of Key Indicators of Asia and the Pacific 2023.
For CPI bottom population, for TAP: Government of Taipei, China. Director-General Budget, Accounting and Statistics.
For HKG: The Government of the Hong Kong Special Administarative Region of the People's Republic of China. Census and Statistics Department. https://www.censtad.gov.
hk/en/web=table.html&id=510-60003# (accessed July 24, 2023); For PHI: Philippine Statistics Authority. https://openstat.psa.gov.ph/Database/Prices?Price-Indices (accessed
July 24, 2023).

social insurance and provident funds, while others provide additional assistance for vulnerable groups in the form of food vouchers, child benefits, caregiver allowances, and disability grants. Amid this diversity, however, data show that a substantial number of economies have expanded social protection, especially in recent years. There is a need to further strengthen social protection systems and ensure that social protection coverage extends beyond being a temporary response to pandemics and the cost of living crisis, and target those who need it most. Boosting the socioeconomic resilience of the underprivileged and the vulnerable to better handle future crises should be a crucial component of anti-poverty efforts.

In addition to social protection coverage, there is also evidence from an ADB study (which examined the impact of a graduation approach – an innovative and holistic approach to address poverty and inequality) to suggest that integrating behavioral coaching sessions into broader poverty reduction efforts can enhance decision-making among those living in poverty. Women, in particular, stand to benefit significantly from coaching sessions focused on more efficient consumption patterns. Research demonstrates that women often hold the final decision-making power when it comes to household expenditures, particularly daily purchases.

JS

Arturo Martinez Jr. manages the Key Indicators for Asia and the Pacific, the ADB's flagship statistical publication. He also specializes in compilation of social statistics and other relevant SDG indicators, using a combination of conventional and innovation data sources such as big data. Before joining the ADB, he was a Research Fellow at the University of Queensland in Australia, where he also received his PhD in Social Statistics.

Faith Agtarap-Maningding is an economics and statistics specialist at the ADB providing technical assistance in compiling various indicators for the ADB's Key Indicators for Asia and the Pacific publication. Prior to joining the ADB, she served in the government at the National Statistical Coordination Board (now the Philippine Statistics Authority) where she worked on governance statistics, poverty estimation, and statistical classifications.

Rica Cynthia Maddawin joined the team of Key Indicators for Asia and the Pacific publication of the ADB from 2021 to 2023. She contributed to the compilation of socioeconomic and financial statistics, and SDG indicators of various DMCs of the ADB. She specializes in development economic research and urban planning, and is currently pursuing a master's degree in public policy at the National Graduate Institute for Policy Studies in Tokyo, concentrating on international development policy.