

## Brief note by the Parliamentary Budget Office to explain the table on Poverty and inequality in slide 8

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**Date of note:** 10 March 2021

### Purpose of this note:

This note by the PBO serves to provide further information about the indices on poverty and inequality presented in the table in slide 8 of our presentation on the 2021 Division of Revenue Bill.

### Table in slide 8:

*Table 1: The United Nation's estimates of poverty and inequality measures for South Africa*

Inequality Indices	What is measured by the index	SA's index	Comment
<b>Human Development Index (HDI)</b>	Takes into account: A long and healthy life, access to knowledge and a decent standard of living	<b>0.79</b>	Puts SA in the high human development category SA ranked 114 out of 189 countries
<b>Inequality HDI (IHDI)</b>	It takes into account the distribution of the HDI in a country	<b>0.47</b>	Inequality causes a staggering 34% decline from the HDI to the IHDI in 2019
<b>Gender Inequality Index (GII)</b>	Reflects gender-based inequalities in 3 dimensions: reproductive health, empowerment & economic activity	<b>0.41</b>	SA by GDI was ranked 93 out of 162 countries in 2019
<b>Multidimensional Poverty Index</b>	Identifies multiple overlapping deprivations suffered by individuals in 3 dimensions: health, education and standard of living	-	In 2016, 6.3% (3.6 million people) were multidimensionally poor and an additional 12.2% (7 million people) were vulnerable to it

Note: Information on the Human Development Index (HDI) and the other indices in the above table is from the United Nations Development Programme (UNDP). The link to the UNDP's page on South Africa's human development report is <http://hdr.undp.org/en/countries/profiles/ZAF>. Please note that the information is available only up to 2019 and that indices for 2020 have not been released yet. Information on the Multidimensional Poverty Index is available only up to 2016.

### Explanation:

Slide 8 aimed to provide the context for the division of revenue discussion in terms of the prevailing levels of poverty and inequality in South Africa. The table on slide 8 used internationally recognized indices. The description, definition and explanation of these indices are sourced from the UNDP website (<http://hdr.undp.org/en>).

### The Human Development Index (HDI)

The UN explains their motivation for introducing the HDI as follows:

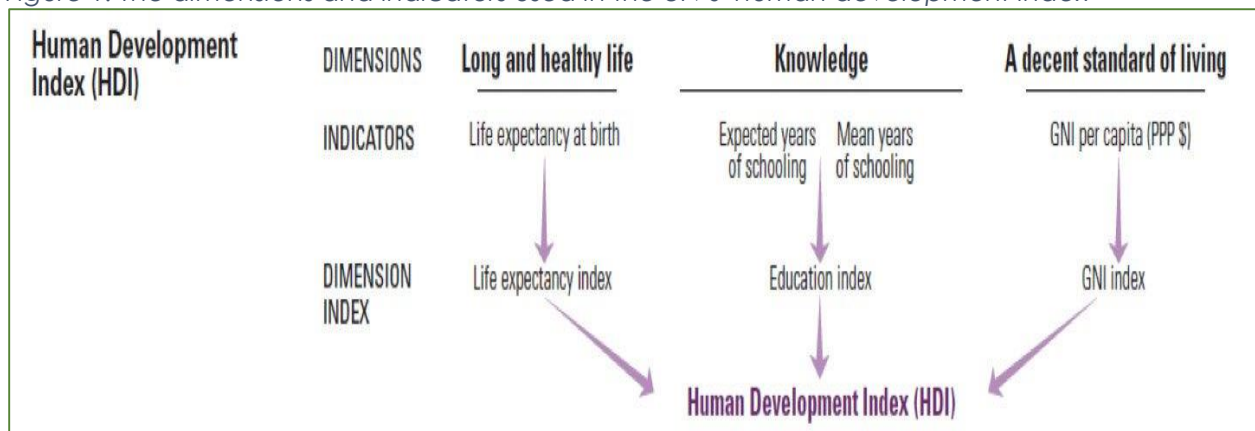
The HDI was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. The HDI can also be used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes. These contrasts can stimulate debate about government policy priorities.

They explain what the HDI is:

The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

The UNDP provides the following diagram to show the elements that make up the HDI:

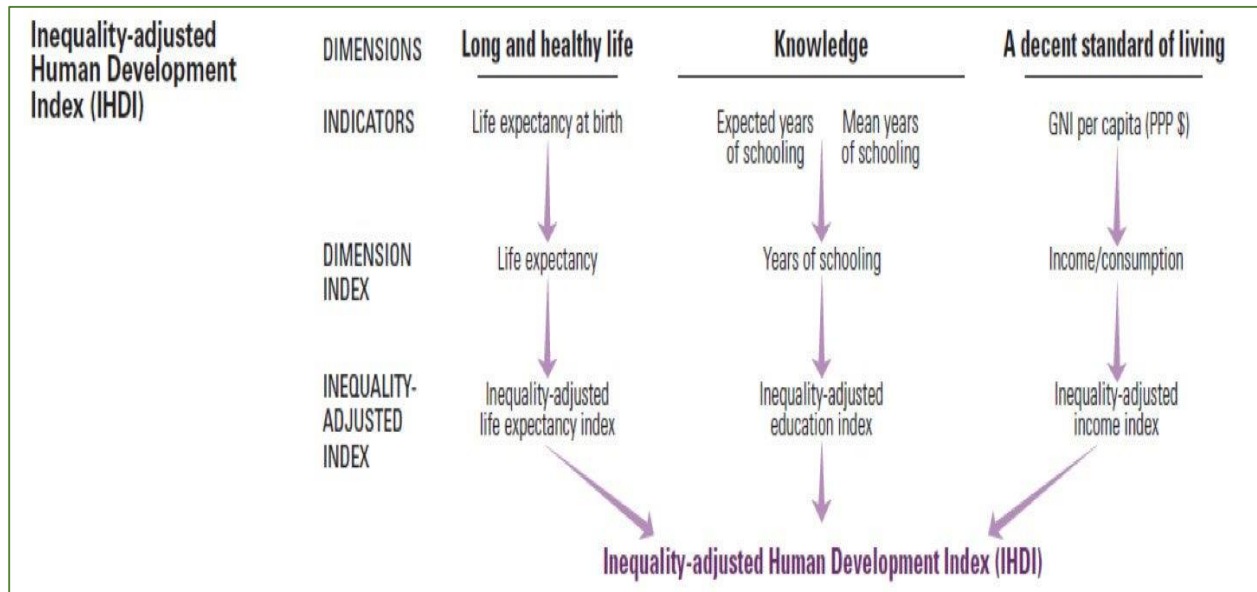
Figure 1: The dimensions and indicators used in the UN's human development index



Source: <http://hdr.undp.org/en/content/human-development-index-hdi>

### The Inequality-Adjusted Human Development Index (IHDI)

Figure 2: The dimensions and indicators used in the UN's Inequality-Adjusted Human Development index



Source: <http://hdr.undp.org/en/content/inequality-adjusted-human-development-index-ihdi>

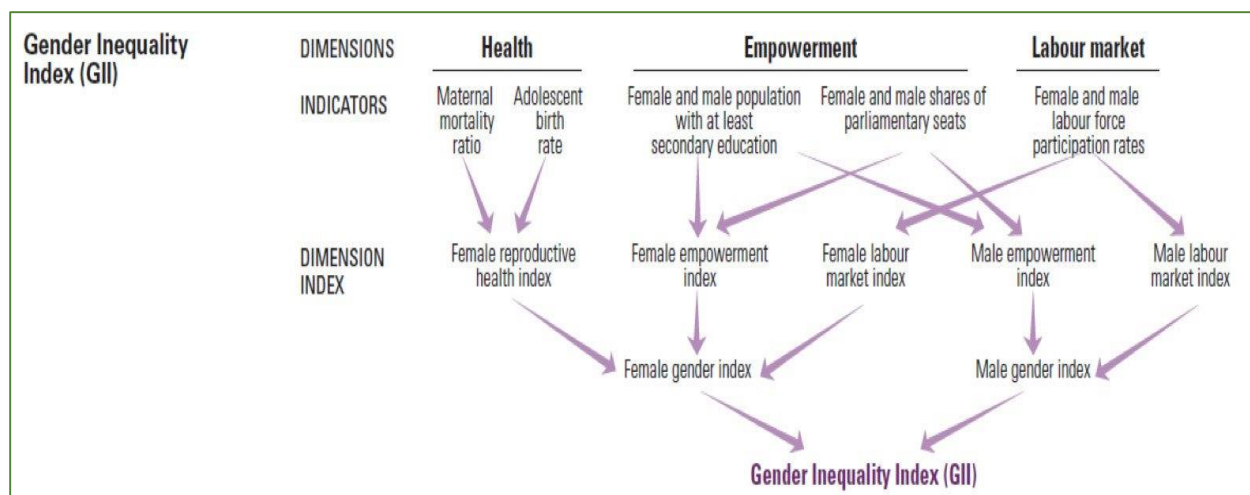
The UNDP describes the IHDI as follows:

The IHDI combines a country's average achievements in health, education and income with how those achievements are distributed among country's population by "discounting" each dimension's average value according to its level of inequality.

The UNDP explains that "...the difference between the IHDI and HDI is the human development cost of inequality, also termed – the overall loss to human development due to inequality". They say that "... the IHDI allows a direct link to inequalities in dimensions, it can inform policies towards inequality reduction, and leads to better understanding of inequalities across population and their contribution to the overall human development cost."

## Gender Inequality Index

Figure 3: The dimensions and indicators used in the Gender Inequality Index



Source: <http://hdr.undp.org/en/content/gender-inequality-index-gii>

The Gender Inequality Index (GII) measures gender inequalities. The UNDP website explains that the GI

... measures gender inequality in three important aspects of human development—reproductive health, measured by maternal mortality ratio and adolescent birth rates; empowerment, measured by proportion of parliamentary seats occupied by females and proportion of adult females and males aged 25 years and older with at least some secondary education; and economic status, expressed as labour market participation and measured by labour force participation rate of female and male populations aged 15 years and older.

They explain that the GII is built on the same framework as the HDI. They say that it is built on the same framework so that it can clearly highlight the discrepancies in the situation between women and men within a country. They explain that “It measures the human development costs of gender inequality” and add that “... the higher the GII value the more disparities between females and males and the more loss to human development.” The GII ranges between 0 and 1. Higher GII values indicate higher inequalities between women and men and thus higher loss to human development

### **Multidimensional Poverty Index (MPI)**

The MPI provides an indication of both the number of people who suffer from poverty in terms of measures of multidimensional deprivation and also the

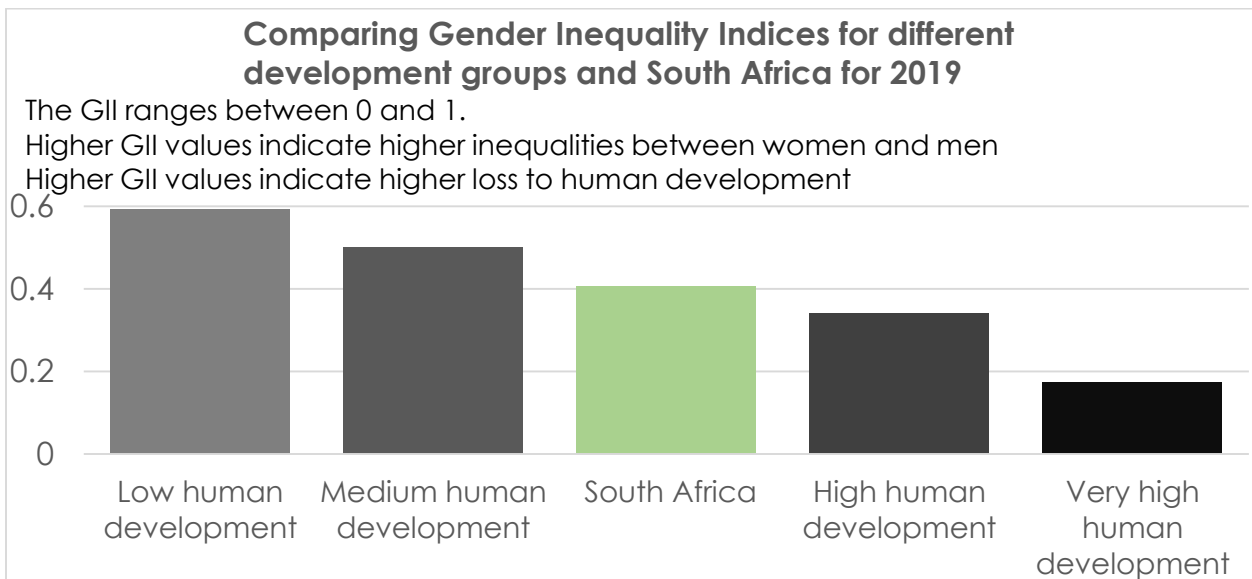
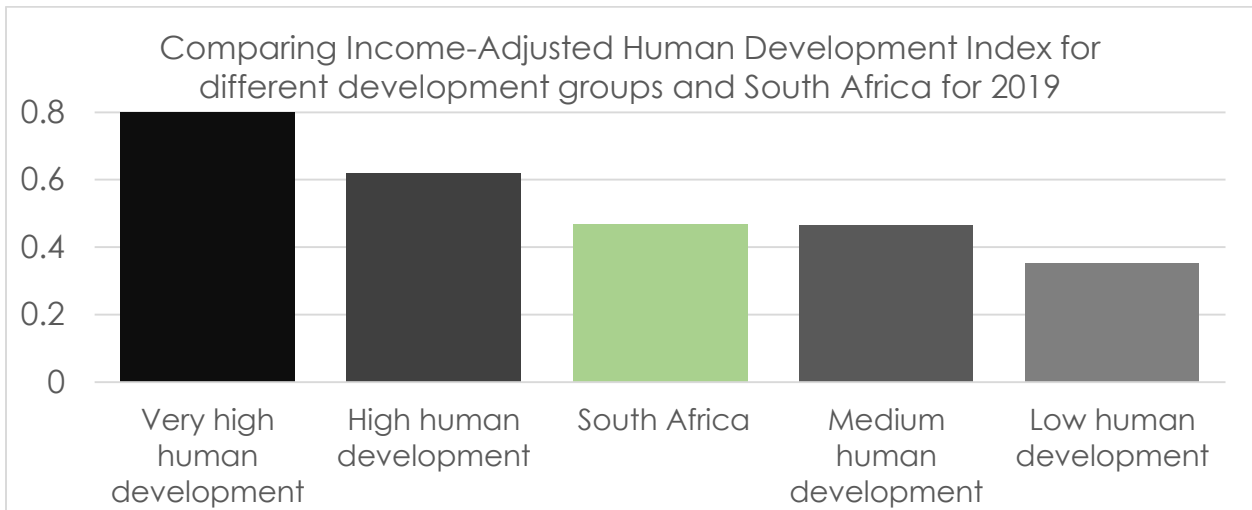
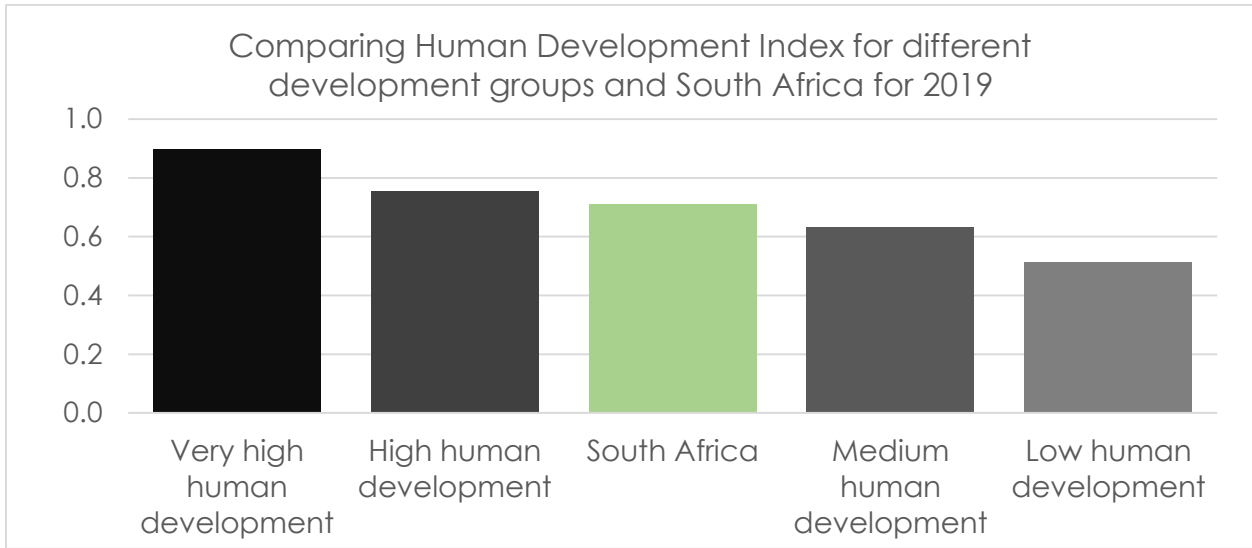
intensity of that poverty, which is measured by calculating the average deprivation score experienced by poor people. The UNDP explains it as follows: “The MPI identifies overlapping deprivations that people experience across the same three dimensions as the Human Development Index (health, education and standard of living) and shows the proportion of people that are poor and the average number of deprivations each poor person experiences at the same time.” (<http://hdr.undp.org/en/mpi-2020-faq>). The UNDP adds: “One deprivation alone may not represent poverty. The MPI requires a person to be deprived in multiple indicators at the same time. A household, and so all its members, is multidimensionally poor if it is deprived in one third or more of the weighted indicators (ibid.)” The UNDP also uses the measure to indicate people and households that are vulnerable to multidimensional poverty and that could easily fall into poverty if there is a loss of income or events that negatively affect household members.

The UNDP further explains that unlike the HDI all MPI data are required to be sourced from the same survey. This approach to the data means that the MPI can provide a comprehensive picture of how poverty affects people's lives. And, it allows one to compare the incidence and intensity of poverty across the world in countries regions. The MPI can also be used for investigating poverty within countries and to compare poverty across provinces, rural and urban areas and other classification of populations.

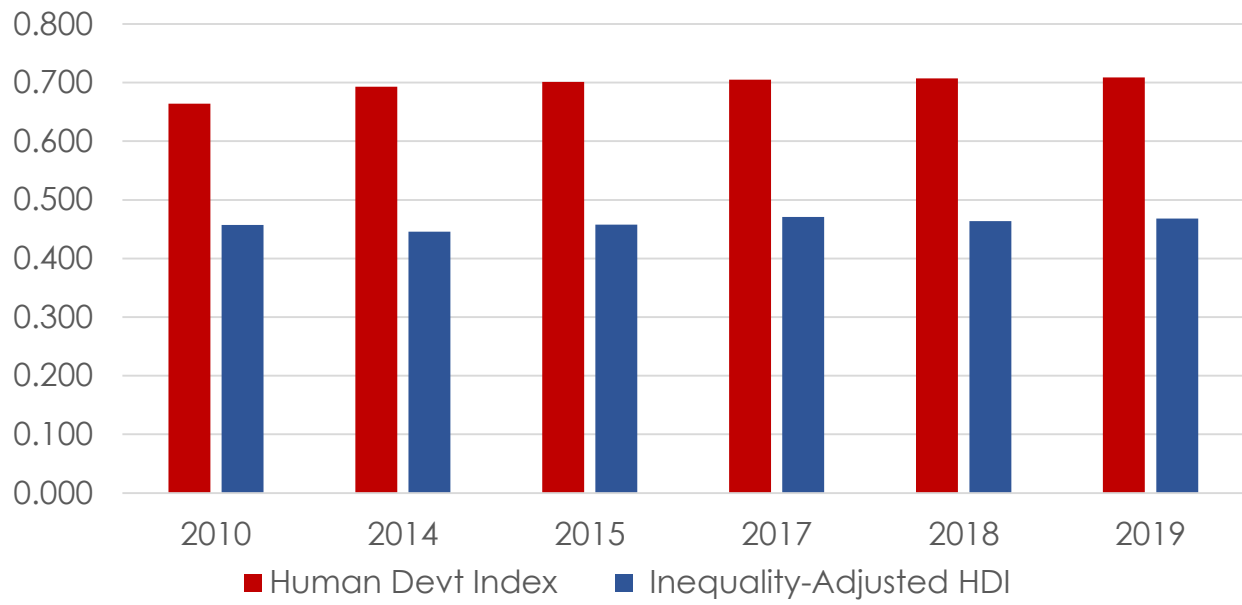
The UNDP explains:

The Global Multidimensional Poverty Index (MPI) identifies multiple deprivations at the household and individual level in health, education and standard of living. It uses micro data from household surveys, and—unlike the Inequality-adjusted Human Development Index—all the indicators needed to construct the measure must come from the same survey. Each person in a given household is classified as poor or non-poor depending on the weighted number of deprivations his or her household, and thus, he or she experiences. These data are then aggregated into the national measure of poverty.

**Appendix: Some graphs on the different indices** (all data is from the UNDP)



**Comparing Human Development Indicator and the Inequality-Adjusted Humand Development Indicator for South Africa  
(selected years)**



**Gender Inequality Index for South Africa for selected years**  
Higher GII values indicate higher inequalities between

