



# POLICY SUBMISSION

## **NAPS Income Adequacy Working Group**

### **Submission on Poverty Indicators and Targets**

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### **Poverty indicators**

Social indicators are a vital tool in developing policies to tackle poverty. This is highlighted in recent reports on poverty indicators by the Agency/NPI, Atkinson et al and the EU Social Protection Ctte. Indicators have two functions: to monitor change over time and to record differences in poverty trends between population groups/areas.

Poverty indicators should reflect the core nature of poverty, as outlined in the definition of poverty in the original NAPS (ie exclusion due to a relative lack of resources). Other important criteria are reliability and timeliness of data, comparability over time and with other countries, applicability to specific subsets of the population, including individuals and households (notably the 4 population categories of NAPS2, along with urban and rural areas and perhaps regions). Finally, indicators should be responsive to but not equated with policy interventions, ie they should reflect policy outcomes.

Drawing on the above research, proposed income poverty indicators are:

- population below 40%, 50% and 60% of the median and the mean, disaggregated by population group and geographic area;
- level of income inequality as measured by the top/bottom ratio share;
- persistent poverty, as measured by population share below 60% and 70% of median over two out of three consecutive years, disaggregated by population group and geographic area;
- individuals without access to a bank account, disaggregated by population group and geographic area;
- indebted individuals due to a loan default or payment arrears for public utility, disaggregated by population group and geographic area;
- population experiencing both income and non-monetary deprivation, again disaggregated by population group and geographic area.

Comparative EU data are available on most of the above through the European Household Panel Survey (See draft EU Joint Inclusion Report for details). Also, data on OECD countries could be used, especially in relation to child poverty (see recent UNICEF report on child poverty in rich countries).

### **Poverty targets**

Poverty targets have a different function to indicators. They represent the political commitment to deliver on key policy priorities to combat poverty. As such, targets will be fewer in number than indicators and have specific policy significance. Targets, to be credible, should be both ambitious and achievable in line with international best practice. They should also deliver added-value in relation to existing policy targets.

In the original NAPS, the global poverty target (and by default the income poverty target) was defined in terms of consistent poverty. A number of issues arise in terms of the operation of this target:

- there was no prior debate or consensus on the choice of target;
- it did not contain an explicit income poverty dimension (the reference to the achievement of minimum welfare rates was a policy instrument, not a target);
- the original target figures were out of date, though subsequently reviewed;
- it was not clear what the added value of the target was view of the prevailing policy scenario (ie economic growth and near-achievement of minimum welfare rates);
- there was no international comparison to assess the ambition of the target;
- it had credibility problems because of the growing divergence between consistent and relative poverty and the perceived lack of linkage with rising living standards.

There is an opportunity under NAPS 2 to redress the problems associated with the original global poverty target. Ideally, the target in NAPS 2 should:

- include an explicit relative income poverty element;
- be subject to periodic reviews;
- reflect short and long-term policy contexts;
- seek to bring Ireland's poverty level in line with international best practice.

The following targets are therefore suggested:

Global targets (short-term):

- improve the real incomes of those in poverty in line with (net) wages, while minimising differences between population groups and geographic areas;
- reduce the rate of income poverty in line with the EU norm (from 20% to 17%), while minimising differences between population groups and geographic areas;

Global targets (long-term)

- eliminate consistent poverty across all population groups and areas (by 2004);
- cut the rate of income poverty by half and reduce poverty risk differentials for all population groups and geographic areas also by half (as compared to norm) (2004).

Other income-specific targets:

- reduce the level of income inequality at least in line with the European norm;
- ensure access to basic bank accounts for all;
- reduce obstacles to accessing financial services;
- cut the level of indebtedness by half.

### **Data collection and monitoring**

The above discussion on poverty indicators and targets is predicated on having the required data available. To-date, we have relied on the Living in Ireland Survey, which is part of the European Household Panel Survey. This is due to end this year and a replacement data gathering mechanism must be put in place. There is a proposal for the introduction of a new initiative called EU Statistics on Income and Living Conditions (EU-SILC). Crucially, responsibility for this will be devolved to member states (in Ireland, to the Central Statistics Office). It is important therefore that this proposal is incorporated into NAPS 2. However, other data will also be required for monitoring, both to cover particular issues and to reflect the situation of small vulnerable groups. A procedure for producing analyses based on the data collected will also have to be considered. It is proposed that the Combat Poverty Agency has a key role on these matters, as the statutory body for the promotion/commissioning of research on poverty.

**Text on access to financial services (credit and debt) for inclusion in income adequacy paper**

There is a growing recognition of the impact of financial services, including credit and debt issues, on the living conditions of those on low incomes. In the UK, exclusion from financial services is seen as an important aspect of social exclusion. As part of its renewal strategy for poor neighbourhoods, the government developed an innovative policy statement on access to financial services. The policy response in Ireland is more limited and is mainly reflected in the Money Advice and Budgeting Service and the Consumer Credit Act. The review of NAPS presents an opportunity to develop the policy framework on access to financial services for low-income households. Some specific issues are:

- The procedures governing debt collection and enforcement need to be radically overhauled. In particular, the legal position of over-indebted consumers must be reviewed in order to providing better protection, eg ensuring instalment orders are based on a realistic assessment of ability to pay a debt. In the long-term, existing methods for addressing indebtedness should be examined and new options considered, eg committal to prison for non-payment of debts/fines, imposition of interest penalties in credit agreements, attachment to earnings.
- Credit is an important means of securing household goods and services. Policy should promote access to affordable credit for low-income groups. The Consumer Credit Act is based on regulating the current credit market including moneylending, the main credit source for low-income households. The operation of the Act should be reviewed in terms of protecting low-income borrowers. The Act needs to be accompanied by measures which improve access to credit for such households, in particular ways in which access to credit unions could be enhanced.
- The need to encourage financial investment in disadvantaged communities is another policy concern. Currently, the only vehicle for investment in poor communities is the state, largely by the local authorities in physical infrastructure. There is very little private or third sector investment in such areas, for example in small business, provision of services, housing improvements. The possibility of creating a social investment fund, with private sector support, should be examined, which would channel resources in a sustainable manner for community initiatives.
- The Money Advice and Budgeting Service was established in response to the negative impact of indebtedness on households, especially those on low incomes. This service should be further developed through establishment of the service on a legislative basis, expanding its geographic and minority group coverage and strengthening training and support structures at national and regional levels.
- Measures are required to enhance the capacity of low-income households to build up savings. Savings are important for two reasons: to provide a financial cushion to cope with unexpected costs or a drop in income and to make it easier to access reasonably priced credit. The government recently introduced a special savings incentive scheme to encourage savings among the population. It is likely that this scheme will be of limited benefit for those on a low-income because of the £10 monthly minimum savings requirement, the long duration of the scheme, the low rate of incentive provided and the ban on use of savings under the scheme to access credit. Consideration should be given to a complementary savings scheme targeted at low-income households, which would into account the specific financial circumstances of low-income households.

- Access to other relevant financial services including a basic bank account, home and car insurance, pensions, mortgages and business loans should be examined.