# About SEDLAC methodology:

SEDLAC constructs the total household income by aggregating all individual and household income sources and making two prices adjustments. The two specific differences between the simple income aggregate and the SEDLAC harmonization of total household income are the following:

## Accounting for regional differences in prices:

Rural areas tend to have lower incomes, but also tend to face lower prices than urban settings. This is due to many factors. For example, subsistence farming or easier access to food could imply a lower price index for rural areas than for urban ones.

This translates into different areas having the same nominal income but face different sets of prices for the same set of goods and services, and therefore will have different purchasing powers and living standards. To address this situation, the SEDLAC project adjusts rural incomes up by a factor of 15 percent to capture rural-urban price differences. With this, the regional price differences are addressed and a consistent methodology is applied to all countries. Even though this procedure does not take into account the particular price differences within each country, nor the evolution of this difference over time, no better methodology has been proposed so far. The SEDLAC project is working on finding a better real price adjustment.

## Implicit Rent:

The SEDLAC project defines income as the flow of resources obtained as remuneration for the use of all the assets owned by an individual or household. Accordingly, families living in their own dwellings implicitly receive a flow of income equivalent to the market value for the use of the house. In other words, two identical families with the same demography, living in similar houses, and with the same nominal income level should have different real incomes when one of them owns their dwelling and the other does not. The SEDLAC project follows four criteria to impute housing rents to household income.

• If the National Statistics Office (NSO) creates an official variable for imputed rent, SEDLAC adopts that variable in its harmonization.

• If there is no official estimate and if owners are asked in the survey to estimate the rent they would have to pay if they had to rent their own houses, the SEDLAC project takes that value as the implicit rent of the household.

• If the implicit rent question is not asked in the survey, total household income of owners is increased by

10%, which is the average of implicit rents in the region (Beccaria and Glüzmann 2013).

• If the survey does not provide information about housing property, an imputation equal to zero for rent values is included in the harmonization.

Since St Lucia’s SLCHB asks the question of implicit rent, this is used in the harmonization. Specifically, the rent is imputed for owners of dwellings, or those who do not pay rent: if h1\_5<=2 | h1\_5==5 | h1\_5==6

# Income Harmonization

Components of income are divided into two types of categories: labor and non-labor income, monetary and non-monetary. Since the harmonization seeks to capture current income flow, it does not take into account non-regular income such as coming from severance payments or inheritance. All income is in monthly values.

Income variables are divided into first and second order variables. First order variables are constructed individually for each country/year/survey, using each country’s questionnaire and raw data.

Then, second-order income variables are created from the aggregation of first order variables, using the same harmonization process for all countries/years/surveys. This guarantees comparability between countries.

First order variables are marked by the suffixes that represent the type of occupation (p – principal/main occupation, np – non primary/other occupations) and the type of income (m – monetary, nm – non monetary, ns – non specified).

For example, the second order variable for labor income as salaried worker (iasal) is composed of the first order variables: iasalp\_m, iasal\_nm, iasalnp\_m, iasalnp\_nm.

## Labor income

These variables denote the income from the income source defined by the type of employment in the main occupation: employers, salaried workers, self-employed and not salaried workers. The variables are also divided into monetary and non-monetary income.

These include:

* **iasal:** Labor income as salaried worker
* **ictap:** Self-employed income
* **ipatr:** Business owner income
* **iol:** Other labor income

## Non-labor income

These include income from three main types of sources: pensions, capital income andtransfers.

* **ijubi:** Income from retirement and pensions
* **icap:** Capital income, interests, rents, revenue, dividends

### Transfers:

* **itranext:** Income from remittances from abroad
* **itrane:** Public Transfers income
* **itranp:** Income from private transfers
* **itranint:** Income from private transfers from within the country
* **icct:** Income from conditional cash transfer programs
* **inocct:** Income from public transfers that are not CCT
* **inla\_otro:** Other non-labor income

Total transfer income (itran) is constructed as the sum of the corresponding transfer components.

## Other second order variables:

These variables aggregate other the first order variables.

* **ila:** Total labor income – ipatr + iasal + ictap + iolp + iolnp
* **inla:** Total non-labor income – ijubi + icap + itran + inla\_otro
* **ii:** Total individual income – ila + inla
* **itf\_sin\_ri**: Total family income without implicit rent – sum of individual incomes (ii)
* **itf:** Total family income with implicit rent – itf\_sin\_ri + renta\_imp
* **ipcf:** Per capita household income – itf/(number of members in household)
* **ipcf\_ppp11:** Per capita household income in USD PPP 2011

Poverty and other welfare measures are calculated using the variable for per capita household income in PPP11 (ipcf\_ppp11).