Abstract
In this paper, we apply a recently developed small-area estimation technique to derive geographically detailed estimates of consumption based poverty and inequality in rural Shaanxi, China. We also investigate whether using environmental variables derived mainly from satellite remote sensing data improves upon traditional approaches that only use household survey and census data. Ignoring environmental variables in statistical analyses that predict small-area poverty rates leads to targeting errors where poor areas would be excluded from the allocation of transfers and non-poor areas are deemed as potential beneficiaries. Using area-based targeting may be an efficient way to reach the poor since many counties and townships in rural Shaanxi have very low levels of inequality, even though, on average, there is more within-group than between-group inequality. There also seem to be evidence that official poverty policy in Shaanxi targets particular areas which in reality are no poorer than other areas do not get targeted.

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