HOW TO...

CALCULATE INCOME AND EXPENDITURE

TECHNICAL NOTE

ICRC

The International Committee of the Red Cross (ICRC) uses the Household Economy Approach (HEA), a livelihoods-based framework, as the standard tool for assessing how populations affected by armed conflict and other violence obtain access to their essential needs. The HEA helps us determine people's food and other essential needs and identifies appropriate ways of responding, whether that be by providing short-term emergency assistance, setting up longer-term programmes or making changes to policies. The HEA can be used in a variety of ways to:

- assess emergency food and non-food needs
- inform early warning scenario planning and monitoring systems
- identify appropriate recovery activities in sudden-onset disasters
- consider appropriate social protection measures
- analyse poverty and vulnerability-reduction strategies.

This document provides an overview of the methodology that should be used for calculating household income and expenditure in order to ensure high standards in EcoSec data collection and analysis. Income and expenditure are two of the key components of every household assessment conducted by the ICRC's Economic Security Unit and determine the baseline for every assistance programme that the teams in the field design and deliver.

HOUSEHOLD INCOME

Household income is the sum of all money and in-kind goods and services that members of a household receive in a given period of time. In general, income refers to receipts of a recurring and predictable nature (e.g. daily, weekly, monthly, annual) and can be derived from a variety of sources. The United Nations Statistics Division breaks sources of income down into five broad categories:

- income from employment or self-employment
- property income
- income from household production for own consumption
- transfers received in cash and goods from government, non-profits or other households
- transfers received as services.

WHAT IS EXCLUDED UNDER THIS DEFINITION?

To be considered income, a receipt must:

- be regular and recurrent
- contribute to the economic well-being of a household
- not reduce a household's net worth.

For this reason, irregular and large one-off receipts – such as inheritances and gambling winnings – should not be included in income calculations. Similarly, revenue generated by drawing down assets (e.g. selling property, dipping into savings) and incurring liabilities (e.g. taking out loans) is not considered income. Receipts from informal work (e.g. casual labour, daily wages) are to be considered as income instead.

HOW IS INCOME CALCULATED?

After setting the reference period,[1] income should be calculated by converting all receipts in each of the five categories into their monetary value. This includes assigning a monetary value to all in-kind transfers and household products consumed within the household based on their market value. (It also includes calculating the rental value of owner-occupied housing.) This can be done by checking

1 Household income and expenditure are always calculated for a specific reference period. Determining the reference period depends on the context and the objective of the exercise. Short reference periods (three months) are better for volatile, rapidly evolving contexts and allow for a better understanding of the current well-being of a household. Short reference periods also reduce recall error. Medium reference periods (six months) are better suited to more stable contexts, and provide a more mid-term overview of household economy. A long reference period is used when there is a need to incorporate seasonal changes or to make it easier to identify infrequent or irregular income or expenditure sources several months on from a significant shock, change or event.

the value of the same or similar goods and services in the closest market, or comparing them to market price monitoring data from the closest market.

Household income should always be calculated using the gross sum of all receipts before any deductions like taxes, fees and fines, which can be applied later to calculate disposable income.

HOUSEHOLD EXPENDITURE

Household expenditure is the sum of consumption and non-consumption expenditure. Consumption expenditure is the total value of the goods and services acquired[2] by the household to satisfy the needs of its members during the reference period. This includes all monetary purchases in the market, market transactions made not using money (i.e. bartering or in-kind exchange) and goods and services produced within the household for its own consumption.

WHAT IS EXCLUDED UNDER THIS DEFINITION?

Household expenditure should capture the value of all goods and services acquired or used by the household to satisfy the needs and wants of its members. Households also benefit from services received as in-kind transfers (e.g. from the government), such as education, health, transport and social security. However, when universally distributed (i.e. when public services are available to all), these in-kind services are excluded under this definition of expenditure owing to the technical difficulty of assigning monetary values to them.

Also excluded from household expenditure are investments. This includes savings, debt repayments, financial assets like stocks or bonds and valuables like gold or jewellery. This is because these capital and investment expenditures are not consumed and constitute different forms of savings.

HOW IS EXPENDITURE CALCULATED?

To calculate consumption expenditure you need to have an understanding of the Minimum Expenditure Basket (MEB) for a given location. Consumption expenditure can also be broken down into durable and non-durable goods, and further divided into broad categories like food, housing, transport, clothing, health care, communication, etc. In order to define these categories in a way that is appropriate to the location, you should have an idea of what components are used to define the consumer price index (CPI) in the country. This information is usually available from a national statistical office.

In addition to spending on goods and services, households must cover other obligations and expenses. This is referred to as non-consumption expenditure, and includes compulsory transfers to the government in the form of taxes, fees, fines and contributions to pensions or social security schemes. Non-consumption expenditure also includes non-compulsory transfers to other households, such as remittances, gifts, alimony, child support or donations to non-profits, charities or religious organizations.

Household expenditure is calculated by taking the sum of all outlays made during the reference period for both consumption and non-consumption expenditure. Again, consistent with how income is calculated, this includes converting all in-kind transfers into their monetary value by looking at the price of the same or similar goods in the closest market.[3]

2 In accordance with other reference literature, we recommend using an acquisitions approach to calculating expenditure. This means considering an outlay as expenditure if the household has committed to paying for a good or service during the reference period. In other words, a transaction is registered as expenditure when the household can claim ownership over a good, regardless of whether the household has paid for or used the good during the reference period. This approach contrasts with a payments approach, which focuses on when a good or service is paid for, and a consumption approach, which focuses on when a good or service is used.

3 Certain livelihood groups may require some understanding of the cultural norms that govern economic transactions. For instance, transactions in pastoral households often involve lending, gifting or exchanging livestock in ways that are difficult to classify as income or expenditure. The Food and Agriculture Organization (FAO) provides guidance on measuring income and expenditure of pastoral households.

INCOME	EXPENDITURE
Employment • Employee income – Salaries, wages and benefits – Employer social security contributions – Estimated value of free or subsidized goods and services received from employer • Income from self-employment – Profit or loss from own business or enterprise – Equivalent value of own-produced goods for barter or for own consumption (minus cost of inputs) **Property** • Interest receipts • Dividends • Rent for the use of assets (land, houses or natural resources) • Royalties from intellectual property **Household production of services for own consumption** • Estimated cash flow from owner-occupied housing (i.e. rental equivalent) **Transfers received in cash or goods** • Social security benefits • Pensions and employer-sponsored insurance benefits (allowances) • Assistance from government (including subsidies) • Transfers received from non-profits such as religious bodies, charities or unions • Transfers from other households (remittances, regular gifts, alimony, child support) **Transfers received as services** • Estimated value of services transferred from other households • Estimated value of services transferred from non-profit and government targeting specific households or groups of households	**Consumption** • Goods acquired from the market – Food and drink – Housing – Transport – Clothing – Health care – Recreation – Education and communication – Other goods and services • Goods or income produced by the household for its own consumption (own production of goods) • Goods received from outside the household – Non-monetary gifts from outside the household (e.g. remittances, child support, alimony) – Transfers from government, non-profits or other organizations (e.g. subsidies, relief, social security payments) • Services acquired from the market – Financial services – Interest payments – Non-life insurance payments – Gambling – Housing repairs and maintenance – Regular contributions for services from non-profits (e.g. charities, unions, religious organizations) – Licences or fees for direct services from government (e.g. garbage removal) • Services produced by the household for its own consumption (own production of services) – Cash flow from owner-occupied housing (i.e. rental equivalent) – Unpaid work in the household (e.g. housekeeping, nursing, cooking) **Non-consumption** • Compulsory and non-compulsory transfers outside the household – Compulsory transfers to government (e.g. income tax and other direct tax, compulsory fees and fines) – Compulsory or non-compulsory transfers to other households (gifts, donations, child support, remittances) – Pension and social security contributions

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The ICRC helps people around the world affected by armed conflict and other violence, doing everything it can to protect their lives and dignity and to relieve their suffering, often with its Red Cross and Red Crescent partners. The organization also seeks to prevent hardship by promoting and strengthening humanitarian law and championing universal humanitarian principles.

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