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A functional approach to small area estimation of the relative median poverty gap

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Abstract

We consider the estimation of the relative median poverty gap (RMPG) at the level of Italian provinces using data from the European Survey on Income and Living Conditions. The overall sample size does not allow reliable estimation of income distribution related parameters at the provincial level; therefore, small area estimation techniques has to be used. The specific challenge in estimating the RMPG is that, as it summarizes the income distribution of the poor, samples for estimating it for small sub-populations are even smaller than those available in other parameters. We propose a Bayesian strategy where various parameters summarizing the distribution of income at the provincial level are modelled by means of a multivariate small area model. To estimate the RMPG, we relate these parameters to a distribution describing income and namely the Generalized Beta of the second kind (GB2). Posterior draws from the multivariate model are then used to generate draws for the GB2 area-specific parameters and then of the RMPG defined as their functional.

Keywords: GB2 distribution; hierarchical Bayes; income inequality; poverty; complex sample surveys.

1 Introduction

The relative median at-risk-of-poverty gap is one of the indicators endorsed by the European Union for the assessment of social cohesion (European Commis-

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22 sion, 2004). It is defined as the median distance of the individual poor equiv-
23 alized income from a threshold defined as the 60% of national median, relative
24 to this threshold. The relative median at-risk-of-poverty gap (from now on,
25 RMPG) is an important complement to the information provided by the head-
26 count ratio measure of poverty (at-risk-of-poverty rate) as it offers an insight
27 on how deep is the poverty experienced by the median poor, regardless of how
28 many live below the poverty line.

29 At-risk-of-poverty rates, RMPGs, as well as many other poverty and in-
30 come inequality measures are annually calculated by EUROSTAT for most EU-
31 member states using data from the European Survey on Income and Living
32 Conditions (EU-SILC), conducted under harmonized guidelines (see Atkinson
33 and Marlier, 2010, for a general introduction). Estimates of these parameters
34 are published also for large regions or social groups within countries. This paper
35 is about estimating RMPG in small areas, that is for a collection of population
36 subsets ('areas') for which the subset-specific sample sizes are not large enough
37 to obtain decent precision from ordinary survey-weighted estimators (that are
38 labelled as *direct estimators* in the small area literature).

39 We note that the problem of sample sizes *not large enough* is more severe for
40 the RMPG than for other summaries of the income distribution as it is a (scaled)
41 quantile of the poor income distribution whose direct estimation is based only
42 on those who are poor, usually a minority of the sample units. For instance,
43 if the prevalence of the poor ranges from 5% to 33% the expected area-specific
44 sample sizes available to estimate the sample mean will be from 3 to 20 times
45 larger than those available for the estimation of the RMPG.

46 Specifically, we consider the problem of estimating the RMPG for Italian
47 administrative provinces using data from the Italian section of the EU-SILC
48 survey. In Italy there are 110 provinces corresponding to the NUTS 3 level
49 according to Eurostat nomenclature of territorial units for statistics (Eurostat,
50 2019). Provincial administrations play an important role in implementing poli-
51 cies decided at higher levels (national or regional) and in co-ordinating the ac-

52 tivities of lower administrative levels (municipalities and health districts). We
53 consider data from the 2013 wave of the EU-SILC survey and auxiliary infor-
54 mation known at the provincial level obtained from various sources, including
55 fiscal archives of the Italian Ministry of finance and population registers.

56 Small area estimation is about complementing the insufficient information
57 provided by area-specific samples with auxiliary information known from ex-
58 ternal sources (Censuses, administrative archives,...). The complementing is
59 typically achieved by using models that can be specified at either the area or
60 the unit level (Pfeffermann, 2013).

61 In this paper we consider area-level models (Rao and Molina, 2015, chapter
62 5). These models are less demanding in terms of required information as only
63 direct estimates, associated measures of uncertainty and summaries at the area
64 level of the auxiliary variables are needed. They can represent the only viable
65 strategy to the secondary data analysis that does not have access to the details
66 of the sampling design and relevant unit-level information. Moreover, some typ-
67 ical problems met when using unit-level models, such as possible inconsistencies
68 in definitions and measurement techniques for auxiliary variables between the
69 sample survey and the auxiliary source, are sidestepped. See Tarozzi and Deaton
70 (2009) and Tzavidis et al. (2018) for more general discussions of these topics.
71 In our application, we have limited access to some information on the sam-
72 pling design and dispose only of area-level summary statistics for the auxiliary
73 information we consider in the models.

74 As it relies on area-level models, this research is different from previous
75 literature on small area estimation of the RMPG (Molina and Rao, 2010; Molina
76 et al., 2014) that focuses on unit-level modelling.

77 The inputs of an effective area-level model are: *i*) a set of area-level approxi-
78 mately unbiased estimates endowed with reliable sampling variability measures;
79 *ii*) a vector of area-level auxiliary information with good predictive power for
80 the parameter in question. If we denote η_d the RMPG in area d , $\hat{\eta}_d$ its direct
81 estimate, \mathbf{x}_d a vector of area level auxiliary information, a typical area level

82 model is not a viable strategy as direct estimators of RPMG are biased (as the
83 median is) and very imprecise in small samples (see results in Appendix 1);
84 moreover auxiliary variables with good predictive power are difficult to find for
85 η_d .

86 Our alternative strategy can be summarized as follows. We consider $\boldsymbol{\theta}_d$, a
87 vector of additional small area parameters for which approximately unbiased
88 direct estimators and predictive auxiliary information is available. As they are
89 not of direct interest, we label $\boldsymbol{\theta}_d$ as *nuisance* small area parameters. We specify
90 a small area model for $\boldsymbol{\theta}_d$. The components of $\boldsymbol{\theta}_d$ can be related functionally
91 to each other via $\boldsymbol{\xi}_d$, a vector of parameters characterizing a distribution we
92 assume for income in area d , so that $\boldsymbol{\theta}_d = \boldsymbol{\theta}(\boldsymbol{\xi}_d)$. The solution in $\boldsymbol{\xi}_d$ of this
93 system of equations can then be used to functionally estimate $\eta_d = \eta(\boldsymbol{\xi}_d)$ under
94 the distribution assumed to describe income.

95 A few technical comments are in order: *i*) we consider five *nuisance* small
96 area parameters θ_{kd} so that $\boldsymbol{\theta}_d = \{\theta_{kd}\}$, $k = 1, \dots, 5$; they include three head-
97 count ratios based on different thresholds, a concentration index and the mean
98 of the log-income; their choice is aimed at providing a description of the whole
99 income distribution at the area level. More details will be given in section 2.2;
100 *ii*) we specify a multivariate small area model for $\boldsymbol{\theta}_d$. Multivariate models have
101 a long tradition in small area estimation dating back at least to Ghosh et al.
102 (1996) and they usually lead to more efficient estimators as they exploit the
103 correlation between parameters; *iii*) the parametric distribution we consider for
104 income is the GB2 (Generalized Beta of the second kind McDonald, 1984) that
105 is widely used in the literature. We also consider three distribution that are
106 special cases of the GB2 distribution (Dagum, Singh-Maddala, Beta of the sec-
107 ond kind) that depend on three parameters. The recourse to these special cases
108 is motivated by computational sustainability; more details on this point will be
109 given in sections 4.2 and 5; *iv*) the number of *nuisance* parameters is larger
110 than the size of $\boldsymbol{\xi}$ characterizing the GB2 distribution: this entails a solution of
111 the system $\boldsymbol{\theta}_d = \boldsymbol{\theta}(\boldsymbol{\xi}_d)$ based on the minimization of a loss function that allows

112 more flexible and numerically stable solutions.

113 The core of this methodology, that is the estimation of $\boldsymbol{\xi}$ by solving $\boldsymbol{\theta}_d =$
114 $\boldsymbol{\theta}(\boldsymbol{\xi}_d)$, was introduced in Graf and Nedyalkova (2014). Here we apply it to
115 a small area estimation problem in the framework of a hierarchical Bayesian
116 model. Specifically, we approximate posterior distributions of $\boldsymbol{\theta}_d$ by means of
117 Markov Chains Monte Carlo (MCMC) algorithms. By solving $\boldsymbol{\theta}_d = \boldsymbol{\theta}(\boldsymbol{\xi}_d)$ for
118 each MCMC draw we obtain Markov chains for the parameters characterizing
119 the assumed income distribution at the area level. The $\eta_d = \eta(\boldsymbol{\xi}_d)$ can be
120 exploited to generate a Markov Chain converging to the posterior of the target
121 parameter η_d .

122 Predictors of nuisance parameters are design-consistent (see section 3), i.e.
123 their point predictors converge to area-specific population descriptive quanti-
124 ties regardless of misspecifications of the multivariate model. Asymptotically
125 the estimator of η_d converges to the functional of these population quantities
126 that depends on the assumption of GB2 distributed income in the area. As a
127 consequence, the dependence on the assumption of these distribution remains,
128 but the estimator is robust with respect to misspecifications of the multivariate
129 small area model.

130 The rest of the paper is organized as follows. Section 2 introduces the data
131 set we consider in this application and direct estimation of the *small area pa-*
132 *rameters* involved in the study. In section 3 we introduce the multivariate small
133 area estimation model that provides the basis for the estimation of the RPMG.
134 Section 4 includes a short review of the Generalized Beta of the second kind
135 distribution and its special cases and the illustration of our functional estima-
136 tion methodology. The estimation of RMPG at the level of Italian provinces is
137 illustrated in section 5, with some discussion. As the method is rather complex,
138 we explore the frequentist properties of the proposed estimators by means of
139 a simulation exercise, based on the same sample data (section 6). Concluding
140 remarks are provided in section 7.

141 **2 The data and direct estimation of small area** 142 **parameters**

143 **2.1 The data**

144 We analyze data from the 2013 wave of the EU-SILC. The survey is conducted in
145 many countries across the European Union by the relevant National Institutes
146 of Statistics using harmonized questionnaires and survey methodologies. Al-
147 though following common guidelines, sampling designs can differ from country
148 to country. In Italy, the EU-SILC is a rotating panel survey with 75% overlap
149 of samples in successive years. The fresh part of the sample is drawn according
150 to a stratified two-stage sample design, where municipalities (LAU 2 level, see
151 Eurostat, 2019) are the primary sampling units (PSUs), while households are
152 the secondary sampling units (SSUs). The PSUs are divided into strata accord-
153 ing to their population size and the SSUs are selected by systematic sampling
154 in each PSU.

155 We target administrative provinces. The 110 Italian provinces have largely
156 different populations ranging from the 4.3 million inhabitants of Rome, down to
157 less 0.1 million (Medio Campidano, Isernia, Ogliastro). Provinces are unplanned
158 domains for the EU-SILC survey. For the 2013 wave that we consider in this
159 article, province-specific sample sizes range from 6 up to 882 in terms of house-
160 holds and from 10 to 2018 in terms of individuals. The median province-specific
161 sample size is 115 households (274 individuals).

162 **2.2 Direct estimation**

163 Let's consider a population P of size N and a partition of it into D small areas
164 $\{P_1, \dots, P_d, \dots, P_D\}$ of size N_d , $\sum_{d=1}^D N_d = N$. A sample of overall size n is
165 drawn from the population according to a complex design such as the stratified
166 multi-stage design with a rotating panel component used in EU-SILC.

167 Area-specific samples sizes are denoted n_d so that $\sum_{d=1}^D n_d = n$. A survey

168 weight w_{dj} is associated to each unit in the sample ($j = 1, \dots, n_d, d = 1, \dots, D$)
 169 reflecting both inclusion probabilities and non-response corrections. We target
 170 a variable y , the equivalized disposable income, defined as the total disposable
 171 household income divided by the equivalized household size calculated according
 172 to the modified OECD scale (see Fusco et al., 2010).

173 Although our ultimate focus is the estimation of the RPMG, we consider
 174 several population descriptive quantities at the area level that we label *small*
 175 *area parameters*. To avoid confusion, we denote the RPMG at the area level
 176 with η_d and the vector of *nuisance* small area parameters as $\boldsymbol{\theta}_d = \{\theta_{kd}\}$ with
 177 $k = 1, \dots, 5$. Whenever $n_d > 0$ these parameters can be estimated using area-
 178 specific samples using Hájek type (Hájek, 1958) or other design based estimators
 179 that we can assume approximately unbiased. We label these estimators as direct
 180 and denote them $\hat{\eta}_d, \hat{\theta}_{kd}$.

181 The RMPG is defined as $\eta = \{pt_1 - Me_p(y)\}/pt_1$, where $Me_p(y)$ is the
 182 median income of the poor, i.e. $Me_p(y) = Me(y|y \leq pt_1)$ and pt_1 is the national
 183 poverty threshold, defined, in the EU-SILC framework as 60% of the national
 184 median of equivalized income. A survey weighted estimator of η_d is given by

$$\hat{\eta}_d = \frac{pt_1 - \widehat{mp}_d}{pt_1} \quad (1)$$

185 where

$$\widehat{mp}_d = \begin{cases} \frac{1}{2}(y_{(j,d)} + y_{(j+1,d)}) & \text{if } \sum_{i=1}^j w_{(i)} = 0.5 \sum_{i=1}^{n_{dp}} w_{(i)} \\ y_{(j+1,d)} & \text{if } \sum_{i=1}^j w_{(i)} < 0.5 \sum_{i=1}^{n_{dp}} w_{(i)} < \sum_{i=1}^{j+1} w_{(i)} \end{cases}$$

186 $n_{dp} \leq n_d$, is the number of poor in the sample specific to domain d , $y_{(i)} \leq y_{(i+1)}$,
 187 $i = 1, \dots, n_{dp}$ is the non decreasing sequence of poor incomes. $\hat{\eta}_d$ is likely to
 188 be more imprecise than $\hat{\theta}_{kd}$ as it based only on the income of those below pt_1
 189 in the sample, typically a minority. Moreover, in very small samples it can be
 190 substantially biased. A small design-based simulation exercise, based on EU-

191 SILC data and reported in Appendix 1, explores the size of bias and variance
 192 of this estimator in small samples.

193 The *nuisance* parameters we consider in this application are: *i*) the at-risk-
 194 of-poverty rate, $\theta_1 = E\{\mathbf{1}(y \leq pt_1)\}$, a poverty count based on the threshold pt_1
 195 and that represent the most popular poverty measure in the EU; *ii*) the pro-
 196 portion of people living with an equivalized income below the national median:
 197 $\theta_2 = E\{\mathbf{1}(y \leq Me(y))\}$; *iii*) an affluence rate defined as the proportion of indi-
 198 viduals for which $y > pt_3$ where pt_3 is some high threshold, that we fix at twice
 199 the national sample median in line with Peichl et al. (2010): $\theta_3 = E\{\mathbf{1}(y > pt_3)\}$.
 200 Affluence rates are useful to describe the right tail of the y distribution at the
 201 area level; *iv*) the Gini concentration index, can be defined as $\theta_4 = \Delta(2E(y))^{-1}$
 202 where $\Delta = E\{|y_s - y_t|\}$ with y_s, y_t identically distributed as y ; *v*) the mean of
 203 the log-income, i.e. $\theta_5 = E\{\log(y)\}$.

204 We now present direct estimators for the *nuisance* parameters θ_{kd} . For
 205 $k = 1, 2$ they can be written as:

$$\hat{\theta}_{kd} = \frac{\sum_{j=1}^{n_d} w_{dj} \mathbf{1}(y_{dj} < pt_k)}{\sum_{j=1}^{n_d} w_{dj}} \quad (2)$$

206 When $k = 1$, we have the at-risk-of-poverty rate while for $k = 2$ we define
 207 $pt_2 = Me(y)$, i.e. $pt_1 = 0.6pt_2$. We note that, when estimated at the whole
 208 population level $\hat{\theta}_2 = 0.5$; in specific domains it can be read as a departure of
 209 the local median from that of entire population. The direct estimator of θ_{3d} is
 210 defined as

$$\hat{\theta}_{3d} = \frac{\sum_{j=1}^{n_d} w_{dj} \mathbf{1}(y_{dj} > pt_3)}{\sum_{j=1}^{n_d} w_{dj}} \quad (3)$$

211 We note that pt_1 , pt_2 , and pt_3 rely on the estimated national median of the
 212 equivalized income. As this estimate is based on a very large national sample,
 213 we will overlook the uncertainty associated to these thresholds and treat them
 214 as fixed constants.

215 The most popular direct estimators θ_4 , for instance the one considered in
 216 Alfons and Tempel (2013), are biased in small samples. In line with Fabrizi and

217 Trivisano (2016) we consider a nearly unbiased direct estimator that accounts
 218 also for the fact that individuals in the same household share the same income:

$$\hat{\theta}_{4d} = \frac{1}{2\hat{Y}_d} \frac{\sum_{j=1}^{n_d} \sum_{k=1}^{n_d} w_{dj} w_{dk} |y_{dj} - y_{dk}|}{\hat{N}_d^2 - \sum_{h=1}^{m_d} \tilde{w}_{dh}^2}. \quad (4)$$

219 where $\hat{Y}_d = \hat{N}_d^{-1} \sum_{j=1}^{n_d} w_{dj} y_{dj}$, $\hat{N}_d = \sum_{j=1}^{n_d} w_{dj}$ is the Horwitz-Thompson esti-
 220 mator of the domain size; moreover, m_d is the number of households sampled
 221 in domain d and $\tilde{w}_{dh} = \sum_{j=1}^{n_h} w_{dj}$ is the sum of weights associated to the n_h
 222 individuals living in household h ($h = 1, \dots, m_d$).

223 An approximately unbiased estimator of θ_5 can be defined as

$$\hat{\theta}_{5d} = \frac{\sum_{j=1}^{n_d} w_{dj} \log y_{dj}}{\sum_{j=1}^{n_d} w_{dj}} \quad (5)$$

224 The direct estimators $\hat{\theta}_{kd}$ are nearly unbiased but their variance can be large
 225 when n_d is small. In the case of of the EU-SILC survey, their variances will be
 226 larger than those we would have obtained with simple random samples of the
 227 same number of individuals. In the first place, the same equivalized income is
 228 shared by all individuals in the same household (perfect intra-cluster correla-
 229 tion). Moreover, the design effect of the EU-SILC survey for Italy is larger than
 230 1 even considering variables at the household level; although the design is strat-
 231 ified at the first stage, clustering of households within municipalities, unequal
 232 selection probabilities and weighting corrections to counter non response cause
 233 efficiency losses (see Clemenceau and Museux, 2007; Goedemé, 2013, for more
 234 details).

235 To estimate the variances of $\hat{\theta}_{kd}$ we consider a two steps approach: first a
 236 bootstrap algorithm, described in Fabrizi et al. (2011) is used to obtain pre-
 237 liminary variance estimates. These *raw* variances are then used to estimate
 238 design effects and other parameters of variance smoothing models that will be
 239 described in section 5. We note that the bootstrap algorithm does not incorpo-
 240 rate all details of the EU-SILC sample design for Italy because of limited access

241 to municipality level clustering and longitudinal tracking information; based on
242 previous literature (see Goedemé, 2013; Biewen and Jenkins, 2006) we assume
243 that once essential features of the designs are accounted for (stratification, clus-
244 tering at the household level, unequal selection probabilities and weighting),
245 good approximations to actual sampling variances can be obtained. As pointed
246 out in Tzavidis et al. (2018), variance smoothing is a delicate step in building
247 an area-level model, so special attention will be devoted to the assessment and
248 fit quality of these smoothing models in section 5.

249 **3 A multivariate small area model for parame-** 250 **ters related to equivalized income distribution**

251 In this section we describe a multivariate model for θ_{kd} , $k = 1, \dots, 5$. In line
252 with the typical specification of small area models, ours has two levels: *i*) a
253 sampling model that provides a likelihood for the direct estimators and relates
254 them to the underlying population parameters; *ii*) a linking model that relates
255 the small area parameters to auxiliary information and to each other by means
256 of exchangeable random effects according to the principle of *borrowing strength*.

257 The recourse to a multivariate model is motivated by the fact that the five
258 parameters represent different aspects of the area-level distribution of the tar-
259 get variable y . The estimates $\hat{\theta}_{kd}$, represent summaries of the same area-specific
260 samples, so it is natural to assume they are correlated, and to specify a multi-
261 variate sampling model. We do this by means of a gaussian copula function in
262 line with Fabrizi et al. (2016). See Souza and Moura (2016) for other applica-
263 tions of copula functions in the small area context. We present the sampling
264 model in two steps: first, we introduce the marginal sampling models, then the
265 copula function is used to account for their dependence structure.

266 For the rates θ_{kd} , $k = 1, 2, 3$, in line with Fabrizi et al. (2016), we specify
267 a zero-inflated Beta sampling model to account for the fact that rates range in
268 the $(0, 1)$ interval and that when m_d is small, the direct estimate can be zero,

269 i.e. $\hat{\theta}_{kd} = 0$ even if it is assumed, as we do $\theta_{kd} > 0$:

$$\begin{aligned}
 f(\hat{\theta}_{kd}|\theta_{kd}^*, \hat{\phi}_{kd}) &= (1 - \theta_{kd}^*)^{m_d} \mathbf{1}(\hat{\theta}_{kd} = 0) \\
 &+ \{1 - (1 - \theta_{kd}^*)^{m_d}\} d\text{Beta}(A_{kd}, B_{kd}) \mathbf{1}(\hat{\theta}_{kd} > 0)
 \end{aligned} \tag{6}$$

270 where $A_{kd} = \theta_{kd}^*(\hat{\phi}_{kd} - 1)$, $B_{kd} = (1 - \theta_{kd}^*)(\hat{\phi}_{kd} - 1)$. See Ospina and Fer-
 271 rari (2012), Wieczorek and Hawala (2011) for alternative specifications of zero-
 272 inflated beta regression allowing also for $\theta_{kd} = 0$.

273 The quantities $\hat{\phi}_{kd}$ can be interpreted as an effective sample size in terms of
 274 individuals and are estimated using variance smoothing models. See section 5
 275 for more details on these models and estimation leading to $\hat{\phi}_{kd}$. The parameter
 276 θ_{kd}^* is defined as $\theta_{kd}^* = E(\hat{\theta}_{kd}|\hat{\theta}_{kd} > 0, \theta_{kd}, \hat{\phi}_{kd})$ so the parameter we are actually
 277 interested in is given by

$$\theta_{kd} = \theta_{kd}^* \{1 - (1 - \theta_{kd}^*)^{m_d}\} = E(\hat{\theta}_{kd}|\theta_{kd}^*, \hat{\phi}_{kd})$$

278 Note that in (6) we assume that $P(\hat{\theta}_{kd} = 0)$ depends explicitly on the underly-
 279 ing rate θ_{kd}^* and the number m_d of households sampled from domain d .

280

281 The sampling model for the Gini concentration coefficient is based on a Beta
 282 likelihood, with a parameterization we take from Fabrizi and Trivisano (2016):

$$\hat{\theta}_{4d} \sim \text{Beta} \left(\frac{2\hat{\phi}_{4d}}{1 + \theta_{4d}} - \theta_{4d}, \frac{2\hat{\phi}_{4d} - \theta_{4d}(1 + \theta_{4d})}{1 + \theta_{4d}} \frac{1 - \theta_{4d}}{\theta_{4d}} \right) \tag{7}$$

283 As a consequence $E(\hat{\theta}_{4d}|\hat{\phi}_{4d}) = \theta_{4d}$, $V(\hat{\theta}_{4d}|\hat{\phi}_{4d}) = \theta_{4d}^2 (1 - \theta_{4d}^2) (2\hat{\phi}_{4d}^{-1})$. See 5 for
 284 details on variance model used to obtain the quantities $\hat{\phi}_{4d}$, that will be treated
 285 as known.

286 The sampling model for the mean of the log-incomes $\hat{\theta}_{5d}$ is a normal Fay-
 287 Herriot model:

$$\hat{\theta}_{5d} \sim N(\theta_{5d}, \hat{\phi}_{5d}^{-1}) \tag{8}$$

288 Variances $\hat{\phi}_{5d}^{-1}$ are estimated using the bootstrap algorithm discussed in Fabrizi
 289 et al. (2016). The assumption of known variances for normal small area models
 290 is in line with most literature (see Rao and Molina, 2015, chapter 5). It is also
 291 consistent with (6) and (7) as we consider a two parameter distribution where
 292 one of the two parameters is assumed known.

293 The Gaussian copula (Clemen and Reilly, 1999) used to model the direct
 294 estimators' dependence structure is parametrized in terms of the correlation
 295 matrix \mathbf{R} of a Gaussian multivariate distribution. In detail, we assume that:

$$f(\hat{\theta}_{1d}, \dots, \hat{\theta}_{kd}) = \frac{g_1(\hat{\theta}_{1d}) \times \dots \times g_k(\hat{\theta}_{kd})}{|\mathbf{R}|^{1/2}} = \exp \left\{ -\frac{1}{2} \mathbf{z}_k^T (\mathbf{R}^{-1} - \mathbf{I}_k) \mathbf{z}_k \right\} \quad (9)$$

296 with $\mathbf{z}_k^T = (\Phi^{-1}\{F_1(\hat{\theta}_{1d})\}, \dots, \Phi^{-1}\{F_5(\hat{\theta}_{kd})\})$; the marginal densities $f_k(\hat{\theta}_{kd})$,
 297 $k = 1, \dots, 5$ are defined in (6)-(8) while $F_k(\hat{\theta}_{kd})$ are the associated cumulative
 298 distribution functions. The matrix \mathbf{R} is to be estimated from the data. For the
 299 specific application we consider in this paper, the estimation procedure will be
 300 outlined in section 5.

301 The linking models for the three rates and the Gini coefficients are based on
 302 a logit link

$$\text{logit}(\theta_{kd}) = \mathbf{x}_{kd}^t \beta_k + v_{kd} \quad (10)$$

303 ($k = 1, \dots, 4$), while an identity link is considered for θ_{5d} :

$$\theta_{5d} = \mathbf{x}_{5d}^t \beta_k + v_{5d} \quad (11)$$

304 The vector \mathbf{x}_{kd} contains for each parameter and each area auxiliary information
 305 known at the area level. Note that x_{kd} and β_k may vary with k ; but the first
 306 element of x_{kd} is 1 in all cases.

307 The multivariate relationship among the population parameters θ_{kd} is incor-
 308 porated in the distributional assumption for $\mathbf{v}_d = (v_{kd})$, $k = 1, \dots, 5$:

$$\mathbf{v}_d \sim MVN(\mathbf{0}, \Sigma_v) \quad (12)$$

309 where MVN denotes the multivariate normal distribution. For Σ_v we specify a
 310 prior within the family proposed by Huang and Wand (2013) with the purpose
 311 of keeping the analytical and computational tractability of the inverse Wishart
 312 but improving the non-informativity properties:

$$\begin{aligned} \Sigma_v | a_1, \dots, a_k &\sim \text{Inv-Wishart}(\nu + 1, 2\nu \text{diag}(a_1^{-1}, \dots, a_k^{-1})) \quad (13) \\ a_k &\sim \text{Inv-Gamma}\left(\frac{1}{2}, \frac{1}{A_k}\right), k = 1, \dots, 5. \end{aligned}$$

313 This prior marginally induces $\sigma_k \sim \text{half-t}(\nu, A_k)$. The choice $\nu = 2$ allows
 314 for a diffuse prior, close to the popular half-Cauchy ($\nu = 1$); moreover it in-
 315 duces a marginal uniform prior on the correlations between the random effects.
 316 We choose $A_k = 1$ after careful consideration of the scale of the parameters'
 317 distribution and some sensitivity analysis.

318 For all parameters the point predictor of the small area mean is obtained
 319 summarizing the posterior distribution of θ_{kd} using quadratic loss, so that $\tilde{\theta}_{kd} =$
 320 $E(\theta_{kd} | \mathbf{d})$, $k = 1, \dots, 5$ and \mathbf{d} where shortcut notation for the data.

321 It can be shown that conditionally on Σ_v , $\tilde{\theta}_{kd}$, $k = 1, \dots, 5$ is design con-
 322 sistent provided that $\hat{\theta}_{kd}$ are. For the definition of design consistency we refer
 323 to Fuller (2009), p. 41. For a proof of this design consistency property see
 324 Appendix 2.

325 4 The proposed estimation strategy for the rel- 326 ative median poverty gap

327 4.1 The generalized Beta of the second kind distribution 328 and its special cases

329 The generalized beta distribution of the second kind (GB2; McDonald, 1984) is a
 330 four parameter distribution which is acknowledged as an excellent descriptor of
 331 income distributions (Dastrup et al., 2007; Jenkins, 2009; Graf and Nedyalkova,

332 2011). The GB2 density can be written as:

$$f(x; a, b, p, q) = \frac{a}{bB(p, q)} \frac{(x/b)^{ap-1}}{(1 + (x/b)^a)^{p+q}} \mathbf{1}(x > 0) \quad (14)$$

333 where $a, b, p, q > 0$ and $B(p, q)$ is the Beta function. With the exception of b
 334 which is a scale parameter, the other three parameters are all shape parameters:
 335 a can be interpreted as an overall shape parameter, p rules the right tale, while q
 336 the left one. For a general description of the properties of the GB2 distribution
 337 see Kleiber and Kotz (2003, chapter 6.1), Graf et al. (2011a).

338 In the economy of this study we are interested in the expression of the *small*
 339 *area parameters* η_d, θ_d introduced in Section 2.2 when the equalized income
 340 variable is assumed to be GB2 distributed. We use the notation $\theta_{kd|GB2}, \eta_{d|GB2}$
 341 to the denote the expression of θ_{kd} under the GB2 assumption:

$$\theta_{1d|GB2} = F(pt_1, a_d, b_d, p_d, q_d) \quad (15)$$

$$\theta_{2d|GB2} = F(pt_2, a_d, b_d, p_d, q_d) \quad (16)$$

$$\theta_{3d|GB2} = 1 - F(pt_3, a_d, b_d, p_d, q_d) \quad (17)$$

$$\theta_{4d|GB2} = \frac{B(2p_d + 1/a_d, 2q_d - 1/a_d)}{B(p_d + 1/a_d, 2q_d - 1/a_d)} \quad (18)$$

$$\times \{p_d^{-1}G_1(a_d, p_d, q_d) + (p_d + 1/a_d)^{-1}G_2(a_d, p_d, q_d)\} \quad (19)$$

$$\theta_{5d|GB2} = \frac{\{\psi(p_d) - \psi(q_d)\}}{a_d} + \log(b_d) \quad (20)$$

$$\eta_{d|GB2} = 1 - \frac{F^{-1}(\theta_{1d|GB2}/2, a_d, b_d, p_d, q_d)}{F^{-1}(\theta_{1d|GB2}, a_d, b_d, p_d, q_d)} \quad (21)$$

342 Note that F in (15)-(17) is the cumulative distribution function while in (19)
 343 $G_1(\cdot)$ and $G_2(\cdot)$ are generalized hypergeometric series (see McDonald, 1984, for
 344 a detailed definition) depending on all the distribution parameters except the
 345 scale b_d while $\psi(\cdot)$ in (20) is the di-gamma function.

346 The GB2 distribution encompasses several special cases. In this research
 347 we consider the Beta of the second kind (B2) distribution ($a = 1$) the Dagum
 348 distribution ($q = 1$) and the Singh-Maddala distribution ($p = 1$). For these

349 special cases the expressions (15) - (21) are simpler and notably so for the Gini
 350 coefficient (19) that reduces to:

$$\theta_{4d|B2} = \frac{B(2p_d, 2q_d - 1)}{2pB^2(p_d, q_d)} \quad (22)$$

$$\theta_{4d|Dagum} = \frac{\Gamma(p_d)\Gamma(2p_d + 1/a_d)}{\Gamma(2p_d)\Gamma(p_d + 1/a_d)} \quad (23)$$

$$\theta_{4d|SM} = 1 - \frac{\Gamma(q_d)\Gamma(2q_d - 1/a_d)}{\Gamma(2q_d)\Gamma(q_d - 1/a_d)} \quad (24)$$

351 where $\Gamma(\cdot)$ is the Gamma function. The considered special cases of the GB2
 352 are also those identified by McDonald et al. (2013) as the ones characterized
 353 by skewness-kurtosis spaces encompassing the largest portion of income data
 354 set in their cross-country analysis of the Luxembourg Income Study database.
 355 Kakamu (2016), using a simulation study based on data generated from GB2
 356 distributions, characterizes parameters regions in which the fit of the Dagum
 357 distribution is superior to that of the SM distribution and vice-versa. Intu-
 358 itively, data with a heavy right tail should be better fit by SM and those with a
 359 more moderate skewness by the Dagum distribution. Kleiber (1996) expects the
 360 Dagum distribution to fit better than the SM in most real data set; actually its
 361 skweness-kurtosis space includes that of the SM in the direction of more mod-
 362 erate and even negative skewness. The B2 distribution is considered especially
 363 for its popularity in the literature (Chotikapanich et al., 2012).

364 4.2 Indirect estimation of the RMPG

365 Let $\xi_d = (a_d, b_d, p_d, q_d)$ denote the parameters of the GB2 distribution we as-
 366 sume to describe the income distribution in area d . As areas are many, this
 367 description would imply a very large set of parameters to be estimated; this
 368 cannot be done using area-specific samples, as they are typically small. We use
 369 the multivariate model to accomplish this task. Under this GB2 assumption:

$$\theta_d = \theta(\xi_d)$$

370 according to formulas (15) - (20). Using the multivariate model of section 3
 371 we can draw from $p(\boldsymbol{\theta}_d|\mathbf{d})$. For each draw $\boldsymbol{\theta}_{rd}$, $r = 1, \dots, R$ we can solve
 372 $\boldsymbol{\theta}_{rd} = \boldsymbol{\theta}(\boldsymbol{\xi}_{rd})$ in $\boldsymbol{\xi}_{rd}$ thus obtaining a draw from $p(\boldsymbol{\xi}_d|\mathbf{d})$. We can then use

$$\eta_d = \eta(\boldsymbol{\xi}_d)$$

373 defined according to (21) to simulate from $p(\eta_d = \eta(\boldsymbol{\xi}_d)|\mathbf{d})$, by drawing $\eta_{rd} =$
 374 $\eta(\boldsymbol{\xi}_{rd})$.

375 Several technical details about the implementation of this approach now
 376 follow. We note that $p(\theta_{kd}|\mathbf{d})$ depends on the way we modelled the direct
 377 estimators $\hat{\theta}_{kd}$ but not on the GB2 we assume for the income distribution in the
 378 areas. If the size of $\boldsymbol{\theta}_d$ and $\boldsymbol{\xi}_d$ were the same, a solution to the system $\boldsymbol{\theta}_d = \boldsymbol{\theta}(\boldsymbol{\xi}_d)$
 379 can be slow or even impossible to find with numeric methods. In line with Graf
 380 and Nedyalkova (2014), section 5, we use a vector $\boldsymbol{\theta}_d$ of five elements to solve
 381 for the four parameters characterizing the GB2 distribution by minimizing a
 382 relative quadratic loss function:

$$L(\boldsymbol{\theta}_{rd}, \boldsymbol{\xi}_{rd}) = \sum_{k=1}^5 \left\{ \frac{\theta_{krd} - \theta_{krd|GB2}(\boldsymbol{\xi}_{rd})}{\theta_{krd}} \right\}^2 \quad (25)$$

383 With respect to Graf and Nedyalkova (2014) we select a different set of
 384 *nuisance* parameters and namely the θ_{kd} , $k = 1, \dots, 5$ discussed in section 3.
 385 Except for θ_{5d} all parameters have approximately the same scale (as they range
 386 between 0 and 1), while the latter is much bigger in scale. For this reason
 387 when solving the system we consider the scaled values $\theta_{r5d}^* = \theta_{r5d} - \log(K)$
 388 where K is a suitably chosen constant that makes scales of all parameters more
 389 homogeneous. The solution of the system with the original set of parameters
 390 $\boldsymbol{\xi}_{rd} = (a_{rd}, b_{rd}, p_{rd}, q_{rd})$ can be obtained from $\boldsymbol{\xi}_{rd}^* = (a_{rd}, b_{rd}^*, p_{rd}, q_{rd})$ using
 391 a property of the GB2 distribution as $b_{rd} = Kb_{rd}^*$. In line with Graf et al.
 392 (2011a) and Graf and Nedyalkova (2014) we set the constraints $a_{rd}p_{rd} > 1$ and
 393 $a_{rd}q_{rd} > 2$ which ensure that the implicitly defined $X_{rd} \sim GB2(a_{rd}, b_{rd}, p_{rd}, q_{rd})$

394 are such that $E(X_{rd}^{-1}) < +\infty$ and $E(X_{rd}^2) < +\infty$.

395 The minimum is searched using numerical methods and namely the popular
396 Levenberg-Marquardt algorithm. Theoretical properties and efficient implemen-
397 tations of this algorithm have been studied in many papers (e.g. Moré, 1978).
398 Kanzow et al. (2004) show global convergence properties of the algorithm when
399 the constraints set is a convex set as in our problem.

400 Because of the mathematical complexity of (19) the solution leading to the
401 indirect estimation of the GB2 parameters can be slow to find, making the whole
402 method impractical. For this reason we consider three special cases of the GB2:
403 Beta of the second kind, Dagum and Singh-Maddala distributions, characterized
404 by three parameters and much simpler formulas for the Gini coefficient (see 22,
405 23, 24). We keep the same set of five *small area parameters* and a loss function
406 analogous to (25), i.e. $L^{(i)}(\boldsymbol{\theta}_{rd}, \boldsymbol{\xi}_{rd})$, $i = 1, 2, 3$ for the indirect estimation of
407 the three distribution parameters.

408 For each draw θ_{rkd} , $r = 1, \dots, R$, we estimate three parallel non-linear sys-
409 tems: one for each of the three special cases of the the GB2, thus generating
410 separate chains for the three set of distribution parameters. Although the three
411 systems are solved instead of one, this strategy is computationally much more
412 efficient than the one based on the GB2 distribution. If we denote with $\hat{\boldsymbol{\xi}}_{rd}$ a so-
413 lution to (25) the distribution that minimizes $\sum_{r=1}^R L^{(i)}(\boldsymbol{\theta}_{rd}, \hat{\boldsymbol{\xi}}_{rd})$ in i is chosen,
414 separately for each area, as the income distribution model. As a consequence,
415 we adapt possibly different models to the data from different areas.

416 A point predictor for η_d can be obtained summarizing the posterior distribu-
417 tion $p(\eta_d|\mathbf{d})$; if quadratic loss is adopted it will be given by the posterior mean
418 $\tilde{\eta}_d = E(\eta_d|\mathbf{d})$.

419 The small area estimator obtained in this way is not design-consistent as
420 it depends on assuming the GB2 as a description of income within the areas
421 even in large samples. Nonetheless it is robust with respect to misspecifications
422 of the small area model as $\tilde{\boldsymbol{\theta}}_d$ is design consistent and thus converging to $\boldsymbol{\theta}_d$
423 regardless of model misspecifications. Asymptotically the posterior distribution

424 $p(\eta_d|\mathbf{d})$ will collapse on the solution of $\eta_d = \eta(\boldsymbol{\xi}_d)$: the dependence on the GB2
 425 does remain, but that on the multivariate model does not.

426 5 An application to Italian EU-SILC data: esti- 427 mation of RMPG in Italian provinces

428 In this section we illustrate the estimation of the RMPG η_d and the *nuisance*
 429 parameters θ_{kd} for the Italian administrative provinces. Input data come from
 430 the 2013 EU-SILC survey sample for Italy and consist of $(\hat{\theta}_{kd}, \hat{\phi}_{kd}, \mathbf{R})$, $k =$
 431 $1, \dots, 5$, $d = 1, \dots, D$. We obtain an estimate of \mathbf{R} starting from Spearman
 432 correlations $\rho_r(\cdot, \cdot)$ among the $\hat{\theta}_{kd}$. Rough estimates of $\rho_r(\hat{\theta}_{kd}, \hat{\theta}_{k'd})$ can be
 433 obtained using the bootstrap algorithm output (see section 2.2). We denote
 434 these estimates as $cor_{boot}(\hat{\theta}_{kd}, \hat{\theta}_{k'd})$. As most of the areas are small, to get stable
 435 estimates, we first assume that correlations $\rho_r(\hat{\theta}_{kd}, \hat{\theta}_{k'd})$ are constant across
 436 areas i.e. $\rho_r(\hat{\theta}_{kd}, \hat{\theta}_{k'd}) = \rho_r(\hat{\theta}_k, \hat{\theta}_{k'})$ and propose averaged estimates $\hat{\rho}_r(\hat{\theta}_k, \hat{\theta}_{k'}) =$
 437 $(\sum_{d=1}^D w_d)^{-1} \sum_{d=1}^D w_d cor_{boot}(\hat{\theta}_{kd}, \hat{\theta}_{k'd})$ with $w_d = n_d$. To obtain even more
 438 stable results, we then restrict the average to the set of the largest areas and
 439 namely to those with a sample size above the median, thus assuming $w_d =$
 440 $n_d \mathbf{1}\{n_d > Me(n_d)\}$. As the matrix \mathbf{R} describes the dependence structure of $\hat{\theta}_{kd}$
 441 on a transformed scale, we finally exploit the invariance of Spearman correlation
 442 under non decreasing monotone transformations and the sin transformation to
 443 switch from Spearman to Pearson correlations (see Elfadaly and Garthwaite,
 444 2013, for details).

445 The parameters $\hat{\phi}_{kd}$ are estimated using variance smoothing models. Specif-
 446 ically, for the rates $\hat{\theta}_{kd}$, $k = 1, 2, 3$ the variances estimated using the bootstrap
 447 algorithm $v_{boot}(\hat{\theta}_{kd})$ are smoothed using the models:

$$\frac{\hat{\theta}_{kd}(1 - \hat{\theta}_{kd})}{v_{boot}(\hat{\theta}_{kd})} = \nu_k n_d + e_{kd}$$

448 where, for the residuals e_{kd} we assume $E(e_{kd}) = 0$ and $V(e_{kd}) = \varrho_k$. For the

449 Gini concentration coefficient, a different smoothing model is adopted:

$$\frac{\hat{\theta}_{4d}^2(1 - \hat{\theta}_{4d}^2)}{v_{boot}(\hat{\theta}_{4d})} = \nu_4 n_d + e_{4d}$$

450 See Fabrizi and Trivisano (2016) for a motivation of this model. The least
451 squares estimators $\hat{\nu}_k$ are then used to compute $\hat{\phi}_{kd} = \nu_k n_d, = 1, \dots, 4$. For
452 our data the squared correlations describing the fit of these models equal 0.82,
453 0.95, 0.78, 0.78 for $k = 1, \dots, 4$ respectively.

454 These data are complemented by auxiliary information from administrative
455 archives. A description of auxiliary variables, defined at the provincial level can
456 be found in Appendix 3. The candidate auxiliary variables are many, some are
457 highly correlated with each other, so selection is needed. Although the model is
458 multivariate, we selected covariates to be used in equations (10) and (11) from
459 the univariate models. Auxiliary variable selection is based on the methodology
460 introduced in George and McCullogh (1993). Details on the variable selection
461 process can be found in Appendix 3 as well.

462

463 All codes used in the estimation exercise are written in R. Posterior distri-
464 butions for the multivariate model are based on Metropolis-Hastings type of
465 MCMC algorithms. Specifically we used the software `jags` called through the
466 R package `rjags` (Plummer et al., 2016). For all parameters single Markov
467 Chains of length 50,000 are run. To assess the convergence of each chain, beside
468 visual inspection of the chains, we use the Heidelberg-Welch diagnostics (Hei-
469 delberg and Welch, 1983; Carlin and Cowles, 1996) that reduces to testing the
470 null hypothesis of a stationary path using the Cramer-von-Mises statistic. A
471 conservative burn-in of 10,000 is used before calculating these statistics. The
472 Heidelberg-Welch diagnostics are based on a single chain; a multichain approach
473 was not advisable in our problem as a careful setting of the initial value is needed
474 to speed up the convergence. In the overwhelming majority of chains the p-value
475 associated to the Heidelberg-Welch diagnostics is above 0.05; for the chains of

476 the parameters θ_{1d} , θ_{2d} , θ_{4d} , θ_{5d} in more than 98% of the cases, for θ_{3d} slightly
477 more than 95% of the cases. In calculating posterior summaries, one every
478 30th draw is kept. This severe *thinning* of the chains is partly motivated by
479 their relatively poor mixing; this depends on the fact that *nuisance* parameters
480 are strongly correlated, as they are all summaries of the same distributions.
481 Moreover, we want to keep the posterior sample size small as its size defines
482 the number of times the non-linear system discussed in section 4.2 needs to be
483 solved. The overall sample from the posterior is of size $R = 3,000$.

484 Each draw from the posterior distribution of θ_{kd} , $k = 1, \dots, 5$ is used to
485 solve the constrained non-linear system discussed in section 4.2. Specifically
486 we work with the Levenberg-Marquardt nonlinear least-squares algorithm as
487 implemented in the `nlsLM` function of the R package `minpack.lm` (Elzhov et al.,
488 2016). Initial values are set solving the system on the ensemble of the posterior
489 means $E(\theta_{kd}|\mathbf{d})$ with a precision $1.0 \times 10E - 10$, while a precision $1.0 \times 10E - 5$
490 is used to assess convergence of solutions for the systems based on individual
491 draws.

492 The application run in about 2 hours using a 4 cores 5500u processor (2.44GhZ,
493 8GB ram memory). We tried to run the same application using the GB2 in-
494 stead of its special cases as the reference distribution: the computing times rise
495 to about 40 hours. This motivates our choice of considering a solution based on
496 the three parameters special cases of the GB2.

497 A special case of the GB2 distribution is chosen separately for each area
498 according to the methodology illustrated in section 4.2. The Dagum distribution
499 is chosen in the large majority of areas (95 times), the Singh-Maddala for 14
500 areas and the B2 only in one area. This result is in line with expectations from
501 the literature (Kleiber, 1996; McDonald et al., 2013) as discussed in section 4.1.
502 For the purposes of the analysis of this data set the methodology could then be
503 simplified and the only Dagum distribution considered. Nonetheless this may
504 depend on specific features of our data and it is not necessarily a general result
505 (see Kakamu, 2016).

506 Markov chains for η_d (RMPG) are generated from those of the parameters
 507 of the chosen distributions. The Heidelbergt-Welch diagnostics computed for
 508 the chains η_d result in p-value greater than 0.05 in 96% of the cases. As this
 509 percentage are in line with the type-I error of the test, we can conclude that the
 510 convergence is satisfying also for these chains.

511 As a further check we apply the functional approach used to generate pos-
 512 terior chains for η_d to the *nuisance* parameters θ_{kd} and compare the posterior
 513 obtained in this way to those directly obtained from the multivariate model de-
 514 scribed in section 3. We focus our comparisons on posterior means and standard
 515 deviations calculating ratios of the posterior summaries obtained according to
 516 the two methods. These ratios show some variation across areas. For posterior
 517 means we have that for all parameters and all areas the difference is less than 5%
 518 with the exception of θ_4 (Gini concentration coefficient) for which the difference
 519 is between 5% and 10% in 20% of the areas; posterior means obtained with the
 520 functional being slightly smaller (3% on average). For all parameters, posterior
 521 standard deviations are very close on average (less than 2%) with the exception
 522 of θ_4 and θ_5 for which the posterior standard deviations based on the functional
 523 approach are 5% larger on average. In the large majority of areas the difference
 524 is less than 10% and for θ_1 , θ_2 and θ_3 less than 5%.

525 In table 1 we present how efficient is our approach in reducing the standard
 526 errors associated to the estimators. We define

$$ser(\eta_d) = \frac{sd(\eta_d|\mathbf{d})}{se(\hat{\eta}_d)} \quad (26)$$

527 where $se(\hat{\eta}_d)$ is computed according to the bootstrap algorithm of Fabrizi et
 528 al. (2011). We calculate also $ser(\theta_{kd})$ that are defined similarly; $se(\hat{\theta}_{kd})$ is
 529 calculated according to the methodology illustrated in section 2.2. We rec-
 530 ognize that this comparison involve two quantities that are logically different
 531 as the numerator is a posterior sd and the denominator a se with respect to
 532 the randomization distribution induced by sampling. Nonetheless this type of

533 comparisons are common in small area literature.

534 The improvement in precision allowed by $\tilde{\eta}_d$ with respect to $\hat{\eta}_d$ is dramatic;
 535 on average the posterior standard deviation is slightly more than one quarter of
 536 that of the direct estimator. Only in large areas, and especially so if located in
 537 the South of the country where poverty prevalence is higher $sd(\eta_d|\mathbf{d})$ is more
 538 than one half of $se(\hat{\eta}_d)$. The posterior standard deviations $sd(\theta_{kd}|\mathbf{d})$ are on
 539 average half the size of the standard error $se(\hat{\theta}_{kd})$ of direct estimators; different
 540 reduction levels in different areas can be explained by different area-specific
 541 sample sizes.

Parameter	η	θ_1	θ_2	θ_3	θ_4	θ_5
Min.	0.064	0.102	0.113	0.122	0.078	0.169
1st Qu.	0.168	0.380	0.413	0.303	0.303	0.549
Median	0.265	0.482	0.493	0.398	0.362	0.627
Mean	0.284	0.483	0.511	0.414	0.383	0.627
3rd Qu.	0.358	0.586	0.601	0.506	0.467	0.745
Max.	0.711	0.904	0.93	0.885	0.831	0.926

Table 1: Distribution of the standard error reduction (ser_{kd}) defined in equation (26) across the 110 provinces (areas); η = RMPG, θ_1 = at-risk-of-poverty rate, θ_2 = share of population with income below the median, θ_3 = affluence rate, θ_4 = Gini concentration coefficient, θ_5 = mean of log-income.

542 Statistics Canada (2007) suggests that estimates whose associate coefficient
 543 of variation (CV) is less than 16.6% are reliable enough for general use, those
 544 with a CV between 16.6% and 33.3% can be published but accompanied by a
 545 warning to users while those with even larger CV should be deemed as com-
 546 pletely unreliable and not published. In figure 1 we plot the histograms of
 547 $CV(\eta_{kd}|\mathbf{d})$, $CV(\theta_{kd}|\mathbf{d})$, using the thresholds suggested by Statistics Canada
 548 (2007). We note that, although popular, these criteria can be too exigent for
 549 the estimation of small proportions when a high coefficient of variation can be
 550 the effect of a small estimate; in this case, that encompasses our θ_1 and θ_3 ,
 551 alternative criteria in terms of standard errors can be used (see European Com-
 552 mission, 2013, page 13). We keep the Statistics Canada criteria as, from figure
 553 1 it is apparent that for all parameters the small area estimates we produce

554 are suitable for publication with few problematic cases for the affluence rate
 555 θ_3 , attributable the low point estimates. Notably the posterior coefficients of
 556 variation are acceptable in all cases for the RMPG.

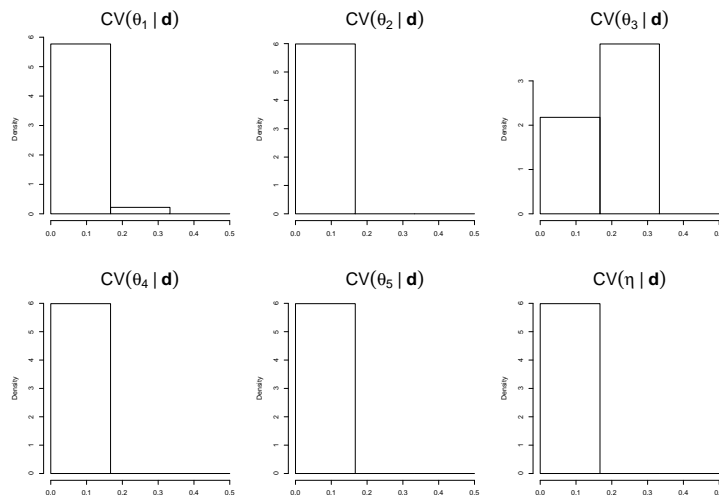


Figure 1: Histograms of the posterior coefficient of variations over the 110 provinces. The breaks in the histograms plot coincide with those suggested by Statistics Canada (2007)

557 6 A simulation exercise

558 The methodology we presented for the estimation of the RMPG is complex as it
 559 involves a multivariate hierarchical Bayesian model and, for each MCMC draw,
 560 the solution of a non-linear system based on a parametric assumption on the dis-
 561 tribution of equalized income in the areas. The good performances in terms of
 562 posterior coefficient of variation that appears in figure 1 can be misleading if the
 563 point estimates were heavily biased. In this section, we introduce a simulation
 564 study to assess the frequentist properties of the RMPG predictor. Specifically
 565 we focus on bias, mean square error and the frequentist coverage of probability
 566 intervals based on posterior quantiles. These properties will be evaluated also
 567 for the predictors of *nuisance* parameters θ_{kd} .

568 The simulation exercise is based on the same EU-SILC sample considered in

569 our application. We assume it as a synthetic population, from which we repeat-
570 edly draw stratified samples and estimate the small area parameters for areas
571 larger than those considered in the application. As the synthetic population is
572 held fixed, the simulation can be labeled as design based.

573 We target administrative regions as areas of interest, an higher level admin-
574 istrative body with respect to the provinces considered in the application; each
575 region includes several provinces; the two exceptions, Valle d’Aosta and Molise,
576 that include only 1 and 2 provinces respectively, are excluded from the syn-
577 thetic population. Administrative regions are planned domain of the EU-SILC
578 survey in Italy. We draw stratified samples from the synthetic population with
579 strata defined by these regions. The size of the 18 administrative regions in the
580 synthetic population ranges, in terms of households from 386 to 1846 with a me-
581 dian size of 998. Stratified samples, drawn without replacement, are allocated
582 proportionally with a sampling rate of 0.115, chosen so that the median size of
583 region-specific samples in the simulation matches the median of province-specific
584 samples in the application. With respect to the application, sample sizes are
585 less variable as they range from 44 to 212 (and not from 6 to 882 as in the case
586 of province-specific samples in the application).

587 For each of the $S = 1000$ samples drawn from the synthetic population we
588 replicate the methodology illustrated in section 5; also the details related to
589 MCMC computation and the non-linear system remain the same.

590 Let’s denote with ${}_P\boldsymbol{\theta}_d$, ${}_P\eta_d$ the syntethic population target parameters,
591 where ${}_P\boldsymbol{\theta}_d = \{{}_P\theta_{kd}\}$ $k = 1, \dots, 5$, while the Bayes estimators based on quadratic
592 loss are denoted as ${}_s\tilde{\boldsymbol{\theta}}_d = E({}_P\boldsymbol{\theta}_d|\mathbf{d}_s)$, ${}_s\tilde{\eta}_d = E({}_P\eta_d|\mathbf{d}_s)$ where \mathbf{d}_s denotes the
593 data from the s -th replicated sample. If we use the shortcut $.\tilde{\theta}_{kd}$ to denote the

594 Bayes estimator for θ_{kd} when averaged over the S replications we can define:

$$RRMSE(\tilde{\theta}_{kd}) = \frac{1}{S} \sum_{s=1}^S \frac{\sqrt{({}_s\tilde{\theta}_{kd} - {}_P\theta_{kd})^2}}{{}_P\theta_{kd}} \quad (27)$$

$$RBIAS(\tilde{\theta}_{kd}) = \frac{1}{S} \sum_{s=1}^S \frac{({}_s\tilde{\theta}_{kd} - {}_P\theta_{kd})}{{}_P\theta_{kd}} \quad (28)$$

$$COV(\tilde{\theta}_{kd}; 1 - \alpha) = \frac{1}{S} \sum_{s=1}^S \mathbf{1}({}_s q_{\alpha/2} \leq {}_s\theta_{kd} \leq {}_s q_{1-\alpha/2}) \quad (29)$$

595 where ${}_s q_{\alpha/2}$, ${}_s q_{1-\alpha/2}$ are the α and $1 - \alpha$ quantiles of $p({}_P\theta_{kd} | \mathbf{d}_s)$. Specifically we
 596 consider $\alpha = 0.05$. Definitions for $RRMSE(\tilde{\eta}_d)$, $RBIAS(\tilde{\eta}_d)$, $COV(\tilde{\eta}_d, 1 - \alpha)$
 597 follow accordingly.

598 In Table 2 we present results for the indicators (27)-(29): we show the three
 599 quartiles (Q_1 , Me , Q_3) of the distribution of these three indicators across the
 600 18 regions considered in the simulation.

Direct estimators		θ_1	θ_2	θ_3	θ_4	θ_5	η
RBIAS	Q_1	-0.005	-0.002	-0.006	-0.005	0.000	0.016
	Me	-0.002	0.000	-0.001	-0.003	0.000	0.035
	Q_3	0.003	0.002	0.007	-0.002	0.000	0.123
RRMSE	Q_1	0.205	0.090	0.250	0.072	0.005	0.320
	Me	0.257	0.116	0.329	0.081	0.006	0.426
	Q_3	0.283	0.124	0.486	0.092	0.009	0.466
Bayesi estimators		θ_1	θ_2	θ_3	θ_4	θ_5	η
RBIAS	Q_1	-0.057	-0.023	-0.046	-0.029	-0.002	-0.054
	Me	0.019	0.003	0.073	-0.004	0.000	0.012
	Q_3	0.101	0.027	0.108	0.028	0.002	0.101
RRMSE	Q_1	0.093	0.043	0.139	0.034	0.002	0.108
	Me	0.115	0.055	0.156	0.041	0.003	0.141
	Q_3	0.160	0.074	0.241	0.066	0.006	0.205
COV (\cdot , 0.95)	Q_1	0.904	0.880	0.933	0.871	0.904	0.911
	Me	0.977	0.983	0.975	0.985	0.955	0.937
	Q_3	0.987	0.985	0.986	0.995	0.979	0.953

Table 2: First, third quartiles and median of $RRMSE$, $RBIAS$, $COV(\cdot, 0.95)$ with respect to the 18 regions considered in the simulation. θ_1 = at-risk-of-poverty-rate, θ_2 = share of population with income below the median, θ_3 = affluence rate, θ_4 = Gini concentration coefficient, θ_5 = mean of log-income, η = RMPG.

601 The RRMSE associated to RMPG has the same magnitude of those of the
602 at-risk-of-poverty rate ($\tilde{\theta}_{1d}$) and affluence rate ($\tilde{\theta}_{3d}$), a good result if we read it
603 considering the little information the direct estimation of the RMPG provides.
604 Smaller RRMSE can be either attributed to a size effect ($\tilde{\theta}_{2d}$ has an MSE similar
605 to that of $\tilde{\theta}_{1d}$ but a larger denominator) or to the more power auxiliary variables
606 have for some parameters (specifically this is the case of the mean of the log-
607 incomes, $\tilde{\theta}_{5d}$). The relative bias is, in all cases, when averaged across areas,
608 close to 0, that is the shrinkage does not imply a systematic tendency to over-
609 or under-estimate the corresponding population parameters. As far as RMPG
610 is concerned, the relative bias is, despite their indirect estimation, small in most
611 of the areas. Negative or positive biases on individual areas is due to a shrinkage
612 effect that is more pronounced when the sample size is small.

613 Interval estimates based on posterior quantiles ($q_{\alpha/2}$, $q_{1-\alpha/2}$) usually have
614 an approximate $1 - \alpha$ frequentist coverage if the bias of the posterior mean is
615 small and posterior standard deviation is close to the frequentist standard error.
616 Table 2 shows that in some cases the coverage is below the frequentist nominal
617 level; these cases are those characterized by relatively higher bias levels. In
618 some other cases we have a coverage above the nominal (frequentist) level; this
619 is due to a tendency of posterior standard deviations to be slightly larger than
620 the frequentist standard errors (we can estimate from MC replications).

621 To complete the comparison, for η_d , we simulated also an estimator associ-
622 ated to a *standard* Fay-Herriot type of model assuming approximate normality
623 of $\hat{\eta}_d$, $var(\hat{\eta}_d)$ as known and set equal to their actual values resulting from MC
624 replications. We selected auxiliary variables from those described in Appendix 3
625 and namely the variables x_1 , the anti-logit of x_6 and x_9 that proved to be those
626 providing the best fit. The *ARRMSE* results equal to 0.249 and the *ARBIAS*
627 to 0.059. *ACOV*(0.95) is very close (slightly above) the nominal level; nonethe-
628 less some of the intervals are so wide that the lower bound is negative. This
629 estimator is therefore effective in improving the efficiency of the direct estimator
630 but clearly inferior to $\hat{\eta}_d$; this finding is in line with our expectation: not only

631 the $\hat{\eta}_d$ are very unreliable but it is difficult to auxiliary variables with a good
632 predictive power.

633 7 Conclusions

634 In this research we focused on the estimation of the relative median poverty
635 gap (RMPG), a popular measure of poverty severity, motivated by the need to
636 estimate it at the small area level using Italian data from the EU-SILC survey.

637 We present a small area estimation method based on area-level modelling,
638 that requires only survey based direct estimators and area-level summaries from
639 auxiliary sources. Area-level modelling is therefore less data demanding with
640 respect to unit-level models that, when applied to the estimation of non-linear
641 functional of the target variable population values, require knowledge of indi-
642 vidual level values of the auxiliary variables, a requirement that implies non
643 trivial data quality and disclosure problems.

644 The specific nature of the RMPG, for which direct estimators are in most
645 cases completely unreliable, led us to consider a functional estimation method.
646 We build on a method of using summary statistics to estimate parameters of
647 an underlying income distribution due to Graf and Nedyalkova (2014), apply it
648 within the framework of MCMC based Bayesian inference, and we use it in the
649 opposite direction to estimate the RMPG (i.e. using estimated income distri-
650 bution parameter to obtain an estimate of a population descriptive quantity).

651 Our methodology implies a number of choices, some of them driven by com-
652 putational reasons. Specifically we propose to use three-parameters special cases
653 of the GB2 to describe income distribution in the small area as this choice re-
654 duced computational times by a factor of 20. This computational gain was
655 crucial, especially in view of the simulation exercise we introduced in section 6,
656 to assess frequentist properties of the introduced Bayesian predictors.

657 Simulation results confirm that the method we propose can produce reliable
658 small area estimates of the RMPG. The proposed methodology can be applied

659 to the estimation of other parameters with problems similar to those of the
660 RMPG, such as the quintile share ratio. More details on the estimation of this
661 parameter can be found in Appendix 4.

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819 **Supplementary material**

820 **Appendix 1: small sample properties of the RMPG direct** 821 **estimator**

822 To assess the bias of the relative median poverty gap (RMPG) in small sample we
823 run a design based simulation based on the 2013 EU-SILC sample we considered
824 in section 5. We use the sample as synthetic population and we use the 21
825 NUTS2 administrative regions of Italy as domains. The Monte Carlo experiment
826 consist in drawing repeatedly stratified samples with proportional allocation and
827 a 5% sampling rate. We consider households as the sampling units; in line with
828 the definitions of the EU-SILC survey all individuals in the same household
829 share the same income and the RMPG is defined at the individual level. We
830 obtain very small samples (the sample household range from 3 to 18) similar in
831 size to the poor household sub-samples that we meet in our application. Results,
832 summarizing 5,000 Monte Carlo replication are reported in table 3.

Sample size (m_d)	Rel. Bias	CV
$3 \leq m_d \leq 5$	23.12	69.33
$6 \leq m_d \leq 10$	13.60	55.09
$11 \leq m_d \leq 18$	3.88	36.78

Table 3: Average relative bias and average coefficient of variation (in percentage) in the estimation of RMPG

833 When the poor households in the sample is less than 10 the bias is large and
834 cannot be overlooked if the estimate is going to be used as an input for a small
835 area estimation model. A large portion of the province-specific sample sizes we
836 deal with in our application are below this threshold, especially in view of an
837 overall poverty rate of 18% at the national level.

838 **Appendix 2: Robustness of the proposed small area esti-**
 839 **mator**

840 Let's first consider the rates θ_{kd} , $k = 1, 2, 3$. We note that for large m_d , $\theta_{kd}^* \cong \theta_{kd}$
 841 so that

$$f(\hat{\theta}_{kd}|\theta_{kd}) = \text{Beta}\left(\theta_{kd}(\hat{\phi}_{kd} - 1), (1 - \theta_{kd})(\hat{\phi}_{kd} - 1)\right)$$

842 This Beta likelihood can be approximated by a Normal, as the conditions stated
 843 in Gil et al. (2007), section 10.5, for this approximation are satisfied provided
 844 we assume $\theta_{kd}/(1 - \theta_{kd})$ is bounded away from 0, consistently with (6). Conse-
 845 quently

$$f(\hat{\theta}_{kd}|\theta_{kd}) \cong N\left(\theta_{kd}, \frac{\theta_{kd}(1 - \theta_{kd})}{\hat{\phi}_{kd}}\right)$$

846 We now study the posterior distribution of θ_{kd} , $k = 1, 2, 3$ conditional on
 847 Σ_v and the rest of the parameters assuming, without loss of generality that
 848 $\mathbf{x}_{kd}^t \beta_k = 1$ and setting to 1 also the relevant element of Σ_v

$$\begin{aligned} g(\theta_{kd}|\hat{t}_{dk}, \hat{\phi}_{dk}) &= \frac{1}{\sqrt{2\pi}} \sqrt{\frac{2\hat{\phi}_{kd}}{\theta_{kd}(1 - \theta_{kd})}} \exp\left\{-\frac{\hat{\phi}_{kd}}{2\theta_{kd}(1 - \theta_{kd})}(\hat{\theta}_{kd} - \theta_{kd})^2\right\} \times \\ &\times \exp\left\{-\frac{1}{2}\left(\log\frac{\theta_{kd}}{1 - \theta_{kd}} - \mu\right)^2\right\} \end{aligned}$$

849 For all $x \leq \hat{\theta}_{kd}$ we have that

$$\begin{aligned} \int_0^x g(\theta_{kd}|\hat{\theta}_{dk}, \hat{\phi}_{dk}) d\theta_{kd} &\leq \sqrt{\frac{\hat{\phi}_{kd}}{\pi}} \exp\left\{-\frac{\hat{\phi}_{kd}}{2x(1-x)}(\hat{\theta}_{kd} - x)^2\right\} \times \quad (30) \\ &\times \int_0^x \{\theta_{kd}(1 - \theta_{kd})\}^{\frac{1}{2}} \exp\left\{-\frac{1}{2}\left(\log\frac{\theta_{kd}}{1 - \theta_{kd}} - \mu\right)^2\right\} d\theta_{kd} \end{aligned}$$

850 as $\frac{1}{\sqrt{2\pi}} \sqrt{\frac{2\hat{\phi}_{kd}}{\theta_{kd}(1 - \theta_{kd})}} \exp\left\{-\frac{\hat{\phi}_{kd}}{2\theta_{kd}(1 - \theta_{kd})}(\hat{\theta}_{kd} - \theta_{kd})^2\right\}$ is monotonically increasing
 851 in θ_{kd} on $(0, x)$. Since the integral appearing in (31) is finite and $\sqrt{\frac{\hat{\phi}_{kd}}{\pi}} \exp\left\{-\frac{\hat{\phi}_{kd}}{2x(1-x)}(\hat{\theta}_{kd} - x)^2\right\} \rightarrow 0$ as $\hat{\phi}_{kd} \rightarrow +\infty$ we have that $\int_0^x g(\theta_{kd}|\hat{\theta}_{dk}, \hat{\phi}_{dk}) d\theta_{kd} \rightarrow 0$
 852 when $\hat{\phi}_{kd} \rightarrow +\infty$, a condition that is equivalent to $m_d \rightarrow +\infty$.
 853

854 Similarly, for all $x \geq \hat{\theta}_{kd}$ we have that

$$\int_x^1 g(\theta_{kd}|\hat{\theta}_{dk}, \hat{\phi}_{dk})d\theta_{kd} \leq \sqrt{\frac{\hat{\phi}_{kd}}{\pi}} \exp\left\{-\frac{\hat{\phi}_{kd}}{2x(1-x)}(\hat{\theta}_{kd}-x)^2\right\} \times \quad (31)$$

$$\times \int_x^1 \{\theta_{kd}(1-\theta_{kd})\}^{\frac{1}{2}} \exp\left\{-\frac{1}{2}\left(\log\frac{\theta_{kd}}{1-\theta_{kd}}-\mu\right)^2\right\}d\theta_{kd}$$

855 as $\frac{1}{\sqrt{2\pi}}\sqrt{\frac{2\hat{\phi}_{kd}}{\theta_{kd}(1-\theta_{kd})}} \exp\left\{-\frac{\hat{\phi}_{kd}}{2\theta_{kd}(1-\theta_{kd})}(\hat{\theta}_{kd}-\theta_{kd})^2\right\}$ is monotonically decreasing
856 in θ_{kd} on $(x, 1)$.

857 It easily follows that

$$\int_0^1 g(\theta_{kd}|\hat{\theta}_{dk}, \hat{\phi}_{dk})d\theta_{kd} \rightarrow 0 \quad (32)$$

858 as the sample size grows large, and $E(\theta_{kd}|\mathbf{d}, \Sigma_v) \rightarrow \hat{\theta}_{kd}$ from which design
859 consistency follows.

860 A parallel argument follows the small area estimator of the Gini coefficient,
861 i.e. θ_{4d} . In this case as well, using the general results from Gil et al. (2007),
862 section 10.5 we can approximate the Beta likelihood:

$$f(\hat{\theta}_{4d}|\theta_{4d}) \cong N\left(\theta_{4d}, \frac{\theta_{4d}^2(1-\theta_{4d})^2}{2\hat{\phi}_{kd}}\right)$$

863 Proof of desing consistency follows along the same lines we have seen for θ_{kd} ,
864 $k = 1, 2, 3$. The parameter θ_{5d} is modelled using a Normal likelihood for \hat{t}_{5d} and
865 the proof is even more simple.

866 The posterior distribution involved in the minimization (25) converges to
867 the design-consistent direct estimators $\hat{\theta}_{kd}$ $k = 1, \dots, 5$ as the sample size grows
868 large. It is easy to note that estimators $\hat{\theta}_{kd}$, $k = 1, 2, 3, 5$ are in fact methods
869 of moments estimators; $\hat{\theta}_{4d}$ can be also seen as an estimator in the same class
870 (see Giorgi and Gigliarano, 2016). Thereby, in large samples, (25) converges
871 to a function of $\hat{\theta}_{kd}$, $k = 1, \dots, 5$ that can be viewed as a generalized method
872 of moments criterion function. Assuming the GB2 is an adequate description
873 of the income distribution in the area, consistency of $\tilde{\eta}_d$ follows from the arg-

874 max (arg-min) continuous mapping theorem (van der Vaart and Wellner, 1996,
875 chapter 3).

876 This result implies that $\tilde{\eta}_d$ enjoys design-consistency type of robustness with
877 respect to mis-specifications of the multivariate small area model discussed in
878 section 3. Nonetheless we cannot talk of design-consistency as the assumption of
879 GB2 distribution for income is still playing a role.

880 A design-consistent estimator for η_d can be obtained using composite esti-
881 mation

$$\tilde{\eta}_d^{dc} = \gamma_d \hat{\eta}_d + (1 - \gamma_d) \tilde{\eta}_d \quad (33)$$

882 where $\gamma_d \in (0, 1)$ is some weight going to 0 when $\text{var}(\hat{\eta}_d) \rightarrow 0$ and to 1 when
883 the information provided by the direct estimator is much larger with respect to
884 that proposed by the model. We propose

$$\gamma_d = \frac{|\tilde{\Sigma}_d|^{1/5}}{|\tilde{\Sigma}_d|^{1/5} + \text{var}(\hat{\eta}_d)} \quad (34)$$

885 where $\tilde{\Sigma}_d = E(\Sigma|\mathbf{d})$ and Σ_d , the random effects covariance matrix is defined
886 (12). $|\tilde{\Sigma}_d|^{1/5}$ summarize the information provided by the multivariate model
887 and generalizes the variance of the random effects ordinarily used in Fay-Herriot
888 model. An hierarchical Bayes version of (33) can be obtained by drawing sam-
889 ples from its posterior distribution, that can be easily expressed as a function
890 of that of $|\tilde{\Sigma}_d|^{1/5}$. In principle we can replace $\text{var}(\hat{\eta}_d)$ with $|\hat{\mathbf{V}}_d|^{1/5}$, where
891 $\hat{\mathbf{V}}_d$ is the covariance matrix of the *nuisance* parameters variance estimators, as
892 $|\tilde{\Sigma}_d|^{1/5}$ and $|\hat{\mathbf{V}}_d|^{1/5}$ are more directly comparable; nonetheless this would lead
893 to an unjustified large γ_d as $\text{var}(\hat{\eta}_d)$ is much larger than $|\hat{\mathbf{V}}_d|^{1/5}$ in practical sit-
894 uations. We do not insist on (33) for two reasons: first, we think that assuming
895 the GB2 for income is not a particularly strong assumption, especially as the
896 left tail, the one involved in the definition of the RMPG is concerned; secondly
897 the low efficiency of $\hat{\eta}_d$ leads in practice to composite estimators dominated by
898 $\tilde{\eta}_d$, i.e. the estimator we proposed.

899 **Appendix 3: Auxiliary information used in the estimation**

900 Auxiliary information is obtained from publicly available archives at the mu-
901 nicipal level, and then aggregated to obtain province level variables. Literature
902 on poverty and income inequality determinants within regional communities is
903 vast; a review of it is out of the scope of this paper. See European Commis-
904 sion (2010), Perugini and Martino (2008) among other references. In small area
905 estimation, we do not aim to obtain an explanatory model for the target vari-
906 able, rather, we use auxiliary information as a tool to improve the precision of
907 estimators. Since auxiliary information should be accurately known at the area
908 level, the choice is severely limited by this requirement.

909 A preliminary selection of variables was based on results from previous stud-
910 ies (Fabrizi et al., 2016; Fabrizi and Trivisano, 2016). Although several sources
911 were initially considered the most powerful auxiliary variables are obtained from
912 the fiscal archives held by the Italian Ministry of Finance. The variables we di-
913 rectly consider in this study are: percentage of residents aged more than 15
914 filling tax forms (x_1), total taxable income claimed by private residents divided
915 by the overall population size (x_2), the share of population aged 65 or more (x_3),
916 the mean log income (x_4), the logit transform of the Gini index (x_5), headcount
917 ratio poverty rate (x_6), share of people with income below the median (x_8) and
918 affluence rate (x_7). Variables x_4 - x_8 are approximations calculated from fiscal
919 income distributions published at the municipal level by the Ministry of Fin-
920 cance. The rates are not only approximated but also based on approximated
921 thresholds.

922 In variable selection we consider univariate models. Specifically sampling
923 models are those described in (6), (7) and (8). Also linking models are the same,
924 i.e., (10) and (11), but we assume independent random effects: $v_{kd} \sim N(0, \tau_k^2)$,
925 $\tau_k \sim Unif(0, C_k)$ for some large C_k instead of (12).

926 For the β_k in (10) and (11), in line with George and McCulloch (1993)
927 we assume a *spike and slab* prior on the coefficients associated to candidate

Parameter	θ_1	θ_2	θ_3	θ_4	θ_5
x_1	✓	✓	✓	✓	✓
x_2	✓	✓	✓	✓	✓
x_3	✓			✓	✓
x_4		✓		✓	
x_5	✓	✓	✓	✓	
x_6	✓	✓		✓	
x_7	✓	✓	✓		
x_8	✓	✓	✓	✓	

Table 4: Summary of the variable selection procedure. Checkmark is used to indicate when a variable is selected into a model

928 auxiliary variables:

$$\begin{aligned}\beta_{kj} &\sim N(0, \zeta_{kj}), j = 1, \dots, p = 8 \\ \zeta_{kj} &= (1 - \gamma_{kj}) \times 0.001 + \gamma_{kj} \times M \\ \gamma_{kj} &\sim Ber(0.5)\end{aligned}$$

929 We set $M = 10$ after a careful sensitivity analysis. This value is conservative in
930 allowing the selection of a relatively large number of regressors in the models.
931 The results of variable selection are summarized in table 4.

932 We also consider more severe M , leading to more parsimonious models, but
933 the effect on posterior distribution of θ_d is negligible.

934 **Appendix 4: estimation of the quintile share ratio**

935 The quintile share ratio is defined as the sum of incomes in first quintile divided
936 by the sum of incomes in the last. This measure of income inequality is not of
937 direct interest in this research, but it is considered as it offers the opportunity to
938 illustrate how the indirect methodology introduced to estimate the RMPG can
939 be applied to estimate other summaries of the equivalized income distribution.

940 A direct estimator of the quintile share ratio can be defined as follows:

$$\hat{\kappa}_d = \frac{\sum_{j=1}^{n_d} w_{dj} y_{dj} \mathbf{1}\{y_{dj} \geq \hat{q}_{0.8}(d)\}}{\sum_{j=1}^{n_d} w_{dj} y_{dj} \mathbf{1}\{y_{dj} \leq \hat{q}_{0.2}(d)\}} \quad (35)$$

941 where $\hat{q}_{0.2}$, $\hat{q}_{0.8}$ are the 20th and 80th percentiles of the equivalized income
 942 distribution estimated from the $d - th$ area-specific sample. See Langel and
 943 Tillé (2011) for more details.

944 We note that when the sample size is small, $\hat{q}_{0.2}$, $\hat{q}_{0.8}$ can be substantitally
 945 biased and $\hat{\kappa}_d$ as well. Moreover summations in (35) involve only 40% of the
 946 sample observations n_d , so the estimator $\hat{\kappa}_d$ is very likely to be very imprecise
 947 in small samples.

948 The quintile share ratio (κ_d) under the GB2 assumption is given by:

$$\kappa_{d|GB2} = \frac{1 - F_{(1)}(x_{80}, a_d, b_d, p_d, q_d)}{F_{(1)}(x_{20}, a_d, b_d, p_d, q_d)} \quad (36)$$

949 where $F_{(1)}(x_{80}, \dots) = E(X|X \leq x_{80})/E(X)$ is the incomplete moment of order
 950 1 for the distribution truncated in the 80th percentile and $F_{(1)}(x_{20}, \dots)$ is defined
 951 analogously for the 20th percentile.

952 An indirect estimator of κ_d can be obtained in the line illustrated in section
 953 4.2.