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# DEVELOPING POVERTY ASSESSMENT TOOLS

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A USAID/EGAT/MD Project  
Implemented by  
The IRIS Center at  
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## **MICROENTERPRISE FOR SELF-RELIANCE ACT (2000, amended 2003)**

- US Congress: half of all USAID microenterprise funding must reach the “very poor”
- Definitions:
  - Microenterprise: MF, BDS, Enabling Environment
  - “Very poor”:
    - Bottom 50% below a national poverty line OR
    - Under US\$1/day (at 1993 PPP = US \$1.08/day): international poverty line
- Absolute, not relative measures
- Not specified whether they are income- or expenditure-based
- USAID must develop and certify at least two tools to measure this level of outreach



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## WHAT IS A POVERTY ASSESSMENT ‘TOOL’?

- Includes:
  - Sets of indicators
  - Integration into program implementation: who implements the tool on whom and when
  - Data entry and analysis: MIS or other data collection system/template
  - Instructions for contextual or programmatic adaptation
  - Training materials for users



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## POVERTY ASSESSMENT TOOLS

- USAID-certified tools should be
- Objective: measurement criteria clearly spelled out
- Quantitative: relate to the \$1/day or 50% < NPL; no other dimensions of poverty (health, education, housing, rights, inclusion,...)
- “Low-cost”
- Tools must be field-tested before certification
- Tools must also be applicable in a wide variety of circumstances (see definition of microenterprise...)



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## OVERVIEW OF EXISTING TOOLS

- There are different methods and indicators such as housing index, food security, net worth, and participatory wealth ranking.
- They have different objectives: assessment, targeting, program impact,...
- Most measure relative poverty (except ACCION and, to some extent, FINCA)
- They use a wide and multidimensional range of indicators; most avoid directly investigating income
- They use different systems to weigh the dimensions of poverty (USAID considers dollar measures, they look at social capital, food security, etc – USAID measures only quantitative)
- They are implemented at different times in the practitioner/client relationship



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## **METHODOLOGY: IDENTIFYING THE VERY POOR**

- Very poor households have non-standard and highly variable sources of income → poverty must be measured using expenditure data.
- Expenditure surveys are too costly and time-consuming to conduct on all beneficiaries → short-cut tools should be developed and tested.
- Measure at household level, divide by number of adult equivalent (intra-household redistribution?)
- IRIS testing methodology estimates both the accuracy and the practicality of shortcut poverty assessment tools.



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## **METHODOLOGY: TESTS OF ACCURACY**

- Testing indicators for their ability to act as proxies for poverty
- Approach: two-step process (implemented by local survey firm on 800 households) compares the results of a Composite Survey of indicators against an adapted LSMS Consumption Module – bounded recall
- Composite Survey compiled from existing poverty assessment indicators, as well as other standard practices: internally consistent “tool incubator”
- Tests of accuracy completed in Bangladesh, Uganda, Kazakhstan, and Peru.



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## WHAT DO WE MEAN BY ACCURACY?

<b>Benchmark</b>	<b>Tool</b>		
	% very poor	% not “very poor”	% <i>total</i>
% very poor	18	13	<i>31</i>
% not “very poor”	5	64	<i>69</i>
% <i>Total</i>	<i>23</i>	<i>77</i>	<i>100</i>

Total accuracy:  $18 + 64 = 82$  % correctly predicted

Accuracy among very poor:  $18/31 = 57$  %

Accuracy among not “very poor”:  $64/69 = 93$  %

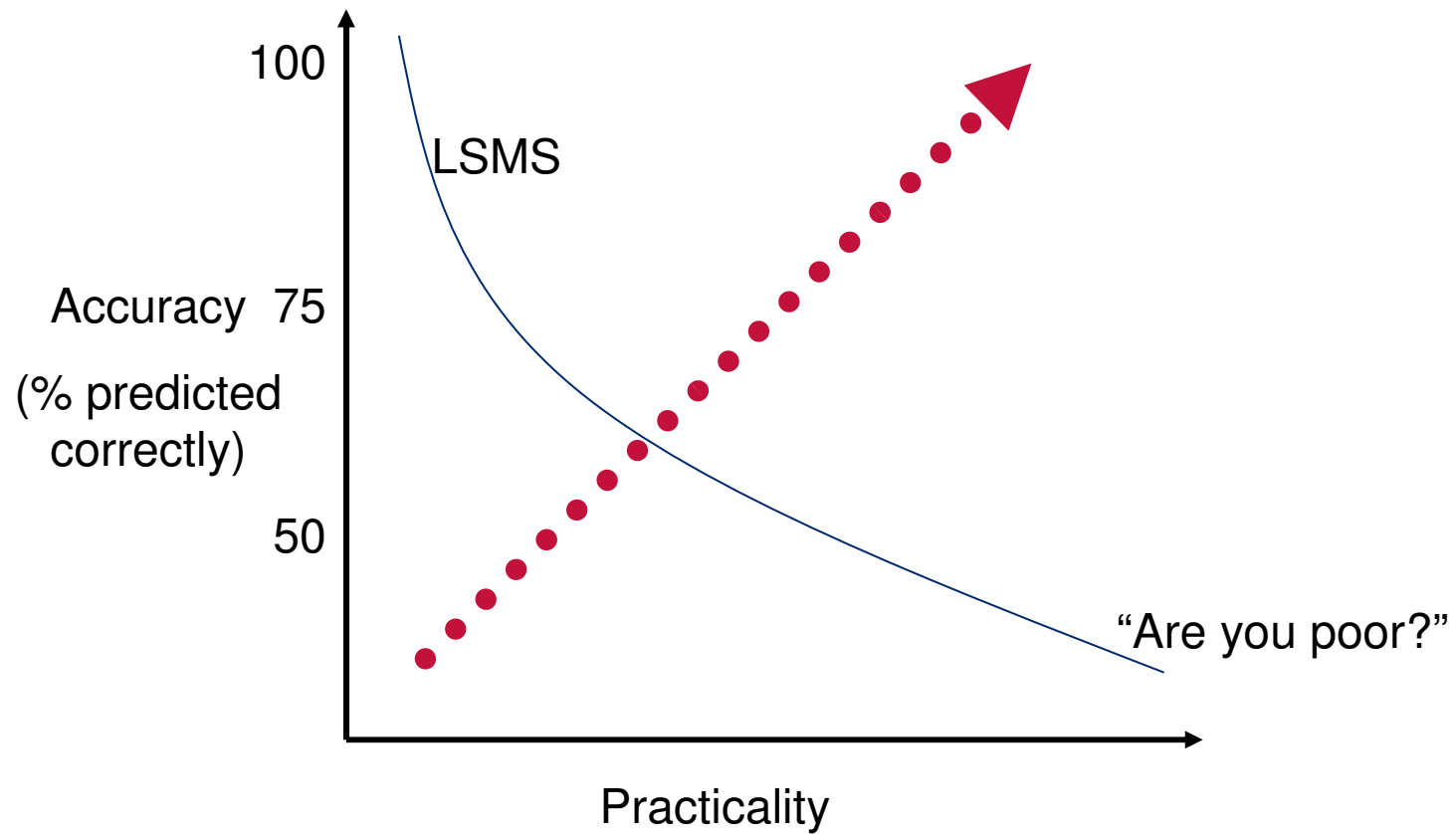
Which accuracy criterion to use for USAID certification?





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## TRADE OFF BETWEEN ACCURACY AND PRACTICALITY





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## **BANGLADESH ACCURACY TEST: FIVE BEST INDICATORS**

- Total value of assets
- Perception of respondents that clothing expenditures are below need
- Clothing expenditures per capita
- Food expenditures
- Share of food expenditure in total household expenditure

Total accuracy: 84 %

Accuracy among very poor: 66 %

Accuracy among not “very poor”: 92 %



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## PERU ACCURACY TEST: FIVE BEST INDICATORS

- Days in past 7 days with main meal consisting of plain rice and any vegetables
- Share of food expenditures from total household expenditures
- Annualized total household expenditures
- Total value of household assets
- Household has electricity

Total accuracy: 84 %

Accuracy among very poor: 64 %

Accuracy among not “very poor”: 92 %



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## **BANGLADESH & PERU ACCURACY TESTS: SUMMARY**

- Few indicators (up to 15) achieve total accuracy rates up to 88 percent at the national level. The gain in accuracy through additional indicators is relatively low.
- Lower accuracy among the poor compared to the non-poor
- Indicators vary in their degree of practicality, and there is a trade-off between accuracy and practicality. Value of total assets is powerful predictor, but requires many questions about all classes of assets.
- In Peru, including expenditure indicators doesn't increase accuracy: good news for practitioners



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## **METHODOLOGY: TESTS OF PRACTICALITY**

- Once indicators are identified, integrate them into ‘tools’ – which includes the process/implementation issues
- Train practitioners
- Have practitioners implement the tools
- Practitioners report back on cost (time to staff & client, data analysis, training), ease of adaptation, applicability in wide variety of settings, and other criteria
- Estimate: 10-15 tests to be run in 2005-6



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## PROVIDE RECOMMENDATIONS TO USAID

- IRIS will then provide recommendations to USAID for menu of tools based on results from the tests of accuracy and practicality.
- Recommendations will:
  - quantify the accuracy of the tools in different contexts;
  - report on their ease/cost of use;
  - describe the nature of trade-offs between accuracy, practicality, and reliability.



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## IMPLEMENTATION ISSUES

- “Half of all USAID microenterprise funding must reach the very poor”: how to manage collective outcome?
- Apply to new/existing clients, and how to sample them?
- What about existing tools?
- Incentives for practitioners. Sustainability or outreach? Cost of going down-market?
- Verification of results reported by practitioners?



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## OTHER PROJECT HAPPENINGS

- Collaboration with World Bank on regression analysis to identify poverty predictors based on LSMS data in 8 countries
- Online discussions on participatory tools, measuring the intra-household distribution of poverty, gender, and applicability to business development service providers
- Ongoing collaboration with the SEEP Network's Poverty Outreach Working Group (POWG)
- Recommendations on how to address gender aspects of poverty





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## MORE INFORMATION

Project Web site:

<http://www.povertytools.org>

- Project updates
- Recent and upcoming events and discussions
- Project e-mail listserv
- Documents
- FAQs
- Links



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