Poverty Targeting Primer

Condensed Version („Quick Primer“)

Concepts, Methods and Tools

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Introduction

Selective targeting of extremely or multi-dimensionally poor individuals and households can help policies and programs achieve greater poverty-reducing effects.

The United Nations' Sustainable Development Goal No. 1 (SDG 1) commits the UN member states to "end poverty in all its forms everywhere". The UN's commitment to inclusive development is most clearly articulated in the document's preamble: "As we embark on this collective journey, we pledge that no one will be left behind". In order to fulfil this pledge, UN member states must face some daunting challenges. Beyond identifying those left behind, there is also the challenge of reaching them through delivery mechanisms. In this context, **poverty targeting** may be used to reach specific groups. In the past, many targeting concepts, methods and tools have been developed and applied with various degrees of success. As will be illustrated below, all poverty targeting methods have advantages and drawbacks.

To further strengthen the contribution of the German government to reducing poverty in its partner countries, the GIZ sector program "Eradicating poverty - reducing Inequality" has prepared and coordinated the elaboration of the present document as a **practice-oriented guidance for staff members** of German development cooperation implementation organizations **and their local partners**. It is the product of a close collaboration between the GIZ and the Kreditanstalt für Wiederaufbau (KfW).

Poverty Targeting Methodologies

A wide variety of poverty targeting methodologies has been developed and applied in many different poverty reduction programs throughout the world. For the purposes of the present review, the concerned methodologies will be divided into the following **six broad categories**:

- Means testing,
- Proxy means testing,
- Categorical targeting,
- Geographical targeting,
- Self-targeting and
- Community-based targeting.

Also referred to as individual or household assessment, **means testing** is a method under which eligibility for social benefits is assessed directly. It aims to identify the poor on the basis of a monetary criterion, used to measure the standard of living of each individual or household in a program's potential beneficiary population. In most cases, the preferred monetary criterion is individual or household income. Given the difficulties of measuring income, however, due in particular to the important role of the informal sector in many developing countries, consumption is sometimes used as a substitute for income. At the same time, purely monetary measures of poverty tend to neglect the importance of contextual factors, such as the urban-rural divide.

Proxy means testing is the identification of poor individuals or households on the basis of one or more non-monetary criteria that are correlated with monetary measures of available means. In general, the criteria used for proxy means tests (PMTs) should be fairly easy to observe, such as location, quality of the dwelling, ownership of durable goods (e.g. car ownership), the kind of cooking fuel used in the household, demographic structure within the household, and the level of education of household members. The required data are derived from surveys and other sources of information.

Also referred to as statistical targeting, tagging, demographic or group targeting, **categorical targeting** involves defining eligibility for poverty-reducing social protection benefits in terms of individual or household characteristics that are considered to be easy to observe, hard to manipulate, and correlated with poverty. Age, sex, ethnicity, land ownership, food insecurity, and household composition (household size, number of children, dependency rates, sex of the household head, levels of education, members living with disabilities) are commonly used characteristics. Categorical targeting tends to be easy to explain and understand as well as transparent and therefore politically more acceptable to decision makers and beneficiaries alike.

Geographical targeting (also referred to as regional or location targeting, and sometimes treated as a form of categorical targeting) aims to rank geographic areas on the basis of one or more poverty measures with a view to targeting poverty reduction interventions in regions with high levels of poverty. Often the chosen poverty measure is per capita income or expenditure, but other parameters including multi-dimensional indexes of poverty may also be used. Geographical targeting is quite widespread in practice, and often used in tandem with other targeting methodologies.

Self-targeting (also known as self-selection) is based on the assumption that, given a set of incentives and disincentives that are defined in the program's design, incentives will encourage the poor to participate, while disincentives prevent the non-poor from participating. Self-targeted social protection programs are universal in the sense that anyone in the population may participate, but actual participation, ideally by the poor only, will be the effective result of self-selection. Self-targeted poverty reduction programs come in a variety of forms, the most common of which may be classified as follows:

- **Self-targeted workfare**: This provides opportunities to poor persons, generally unskilled and low-skilled manpower, to participate in the construction of roads, schools, drainage channels and other forms of public asset creation or maintenance, in exchange for either wages (cash for work) or food (food for work). In most cases, the wage rates in these programs are lower than the minimum wage rate or otherwise prevalent wage rates.

- **Self-targeting by quality differentiation and time costs**: This form of self-targeting offers either food or basic social services that tend to be perceived as inferior and therefore are not attractive to the non-poor. Some examples are the subsidization of low-quality wheat and rice which supposedly only the poor are willing to eat, and the provision of health cards giving access to free basic medical treatment that is tied to the fulfilment of certain criteria.

- **Quantity self-targeting** concerns mainly access of the poor to subsidized water and electricity services. The assumption is that the poor consume less water and electricity than the non-poor. Hence, government subsidies are provided to service providers that ensure a tariff structure that permits low-level ("subsistence") consumers to pay a low-level ("block") tariff.

Community-based targeting (sometimes referred to as decentralized targeting) is based on the assessment of eligibility for poverty-reducing social protection benefits by the members of a community or their representatives either through criteria provided to them or based on their own notions of poverty. In the context of a national poverty reduction program, the government delegates the selection of program beneficiaries to the communities and/or their representatives. The concerned communities are, in most cases, low-level administrative units (villages, districts and the like) with basic decision making structures and operational capacities.

Advantages and Disadvantages

The comparison of targeting methodologies is not an easy task. What **measure of comparison** should be used? For many years already, issues of targeting accuracy have dominated the debate around the relative advantages and disadvantages of poverty targeting methodologies. Targeting accuracy is most commonly measured in terms of **inclusion errors** (including non-poor individuals or households in the targeted population) and **exclusion errors** (excluding poor individuals or households from the targeted population). One author concludes that "the higher the method accuracy, the lower the practicality or the higher the costs of implementation and vice versa". Other authors point out that the observed variations in targeting performance may reflect poor implementation rather than poor potential for such programs. They also see a trade-off between the objective of reducing current poverty (e.g. through public-works wage transfers) and the objective of reducing future poverty through developmental public investments (e.g. through the assets created by social fund programs). They also conclude that characteristics correlated with income, such as administrative capacity, are important determinants of targeting performance. **Annex 1** provides a summary overview of the main observed comparative advantages and disadvantages of all six above-mentioned poverty targeting methodologies.

Poverty Targeting in Poverty Reduction Programming

Poverty targeting and subsequent re-targeting, even if carried out to near perfection, cannot guarantee poverty reduction. The ultimate outcome and impact will depend to a large extent on the quality of the poverty reduction program in which these processes are embedded.

The needs of targeting and re-targeting should be taken into account in each phase of the poverty reduction programming cycle, including the feedback loops. Targeting systems tend to be developed and tested within one phase of a series of up- and downstream programming phases. The most targeting-relevant issues in each of the main programming phases may be summarized as follows:

- **Baseline assessment**: The quality and availability of data required for targeting purposes are crucial issues that demand early clarification.

- **Program design and set-up**: Key questions (see examples in **Annex 3**, based on OECD criteria) and objectively verifiable indicators to monitor and evaluate the performance of the targeting system should be defined and approved, ideally in close collaboration with the target groups.

- **Delivery of benefits**: Continuous monitoring of benefit delivery and contextual variables should provide reliable data permitting well-founded assessments of inclusion and exclusion errors as well as other information relating to the quality and performance of the targeting system.

- **Poverty and inequality impacts**: Periodic evaluations should address the performance of the targeting system, identifying and assessing any unforeseen effects of the targeting system, responding to key evaluation questions, and drawing conclusions with regard to the overall design and operation of the system, including the need for periodic re-targeting, among other issues.

The Costs of Poverty Targeting

The main items that affect the fixed and variable costs of a poverty targeting system may be broken down into the following four categories (see **Annex 2** for details):

- **Design costs**: These are for the most part one-off costs incurred during preparation, development and testing of the targeting system including the Management Information System (MIS) and other information and communication technology systems.

- **Operational costs**: Once the poverty targeting system is up and running, it will incur not only the direct costs of the benefits (cash transfers, work program wages, food costs for school meals etc.), but also the costs of **re-targeting** and other variable costs (e.g. for administrative staff).

- **External costs**: These are targeting-induced costs that affect parties who are not directly involved in the operations of the targeting system (e.g. for transport to work sites).

- **Opportunity costs**: These are equivalent to the value of the next best alternative benefits foregone by the intended beneficiaries as a consequence of the targeting system.

Cost calculations for poverty targeting systems that have been published in research literature tend to take some but not all of the above cost categories into account. Many researchers come to the conclusion that data constraints in low income countries are such that comparative analyses of the costs of different poverty targeting approaches in these contexts yield little if any guidance for decision making.

Although the issue of cost-effectiveness is a frequently recurring topic in research literature relating to poverty targeting, actual poverty reduction program expenditure data is still quite scarce or at least not easily accessible for research purposes. Only few methodologies for the comparative empirical analysis of targeting techniques have been developed to date. The existence of external and opportunity costs ("hidden costs") is generally recognized, but they are rarely factored into the overall cost-benefit assessment of targeted poverty reduction programs.

Trade Offs in Decision Making

Decision makers are confronted with a wide range of trade-offs when designing and implementing poverty targeting systems. **The overarching trade-off is between universalism (providing social benefits to everyone) and targeting (providing social benefits to the poor and needy only)**: Preferences can shift over time, both among decision makers and the population in general: the design and implementation of poverty targeting systems, especially in the context of redesigning and retargeting, should be sensitive to such contextual changes. Once the basic decision in favour of targeting has been made, however, a daunting multitude of trade-offs remains to be addressed. One of the most commonly cited trade-offs in poverty targeting research is between accuracy and practicability. This concerns the important trade-off between low-error (accurate) targeting and low-cost (practicable) targeting.

Some **other important trade-offs** that decision makers for poverty targeting systems commonly face are summarized in the following bullet points:

- Centrally driven targeting vs. locally driven targeting,
- Single variable targeting vs. multi-variable (multi-dimensional) targeting,
- Technically complex targeting vs. easy-to-explain targeting,
- Popularly acceptable targeting vs. popularly less acceptable targeting,
- Stigmatizing targeting vs. non-stigmatizing targeting,
- Conditional targeting vs. unconditional targeting, and
- Short-term (quick) targeting vs. medium and long-term targeting.

Decision making in poverty targeting can be facilitated through the use of decision support tools such as decision trees and filter questions. An example of the latter approach is presented in **Annex 4**.

The Key Challenge

The most fundamental challenge to poverty targeting today and in the future is enshrined in the UN's imperative to **leave no one behind**. The present "Quick Primer" draws our attention to a multitude of diverse factors that may enhance or inhibit poverty targeting's contribution to meeting this key challenge. But even if all these factors are taken into consideration, good poverty targeting can only be one part of a truly adequate and sustainable solution.

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Note

The present "Quick Primer" is a highly condensed version of the full version of the GIZ's Poverty Targeting Primer (January 2017), which is available through the contact address below.

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Annex 1 Comparison of poverty targeting methodologies

Targeting methodology	Definition	Advantages	Disadvantages	Suitable context
Means testing	Identification of the poor based on direct assessment of income, consumption and/or assets	Potentially high accuracy, reflects international standards of poverty measurement	High administrative costs, neglects multi-dimensionality of poverty, weak access to house-hold income or expenditure data	Good and affordable statistical capacities available, largely stable demographic and economic situation
Proxy means testing	Identification of the poor based on indirect assessment, using variables that are well correlated with income, consumption and/or assets	Potentially accurate and robust, has lower costs as compared to means testing	Less accurate than means testing, black box effect of regression analysis can inhibit local ownership	Good and affordable statistical and analytical capacities available, largely stable demographic and economic situation
Categorical targeting	Identification of the poor in terms of individual or household characteristics that are easy to observe, but hard to manipulate	Based on attributes that are for the most part invariable and indisputable	Possibly weak correlation with poverty	Relevant data is affordable and sufficiently accurate and up to date
Geographical targeting	Ranking of geographic areas on the basis of one or more poverty measures	Uses available geographical information, easy to combine with other methods	High dependence on accuracy of information, static i.e. neglects dynamic / migratory factors	Geographical information is accurate and up to date, geographic distribution of poverty is uneven
Self-targeting	Identification of the poor based on their actions and patterns of behaviour	Mobilizes labour at low cost, rapid response to crisis situations, creates assets, ensures minimum access to basic goods and services	High costs to beneficiaries, possible stigmatization, neglect of asset maintenance, high inclusion of non-poor	Poor are willing and able to provide cheap labour, accept low wages, inferior goods and constrained public utility access
Community-based targeting	Assessment of eligibility for social benefits by the members of a community themselves or their representatives	Use of knowledge of local context and situation of the poor	Risk of local elite capture, weak local transparency, control systems and accountability	Target communities are small, cohesive and well-defined

Sources: Based on Grosh 1994, Lavallee et al 2010, Houssou 2010, Klasen et al 2015, UN 2016 and own assessments

Annex 2 Principal costs incurred by poverty targeting systems

Targeting methodology	Design costs	Operational costs	External costs	Opportunity costs
Means testing	Alignment of data collection and methodology to official poverty statistics systems	High administrative costs, high data collection, processing and verification costs	Monetary costs of data provision and verification for office-based assessments	Time forgone by participants to provide data for office-based approval processes
Proxy means testing	Identification of proxy variables apt to correlate with poverty, assessment of available data	Administrative costs, data collection and analysis to target, verify and re-target	Monetary costs of data provision and verification for office-based assessments	Time forgone by participants (), weak empowerment due to black box effect
Categorical targeting	Identification of categories that are good indicators of poverty, assessment of available data	Regular updating of primary data for (re-)targeting	Monetary costs to candidates to ensure compliance with conditions	Behavioural change to ensure eligibility and comply with conditions
Geographical targeting	Identification and assessment of available geographic data	Regular acquisition of updated geographic data	Monetary costs incurred by eventual interregional mistrust, frictions and migration	Eventual food insecurity and loss of cultural heritage due to migration
Self-targeting	Identification of goods and services that attract the poor and repel the non-poor	Subsidies and logistical costs to provide labour, goods & services to the self-targeted poor	Monetary costs of transport to work sites and points of delivery	Time foregone by participants, eventual stigmatization, loss of self-esteem
Community-based targeting	Decentralized consultation and planning, set-up of decision and control mechanisms, training	Decentralized mobilization and delivery of benefits, data collection and verification	Non-compensated monetary costs of voluntary committee work	Time foregone through voluntary committee work

Source: Own compilation

Annex 3 Key questions for the assessment of poverty targeting systems

Relevance

- Is poverty targeting consistent with and supportive of the government's social policy regime?
- Is poverty targeting consistent with and supportive of the strategies and programs of the government's partners?
- Have key stakeholders including those at grass-roots level been involved in the design of the poverty targeting system?
- Are the concepts and methods of poverty targeting well understood by the stakeholders?
- Is there sufficient local ownership of the poverty targeting process?

Efficiency

- Are the resources available for poverty targeting adequate in terms of quantity and quality, and managed transparently and with due respect of established rules and procedures?
- Does poverty targeting help to achieve more allocative efficiency in poverty reduction (cost-effectiveness, value for money)?
- Does poverty targeting make good use of new technologies in identification, communication, payment, digitalization and data processing thereby reducing transaction costs, minimizing leakages and generating audit trails?
- Are mechanisms in place to prevent and respond to problems of elite capture, rent seeking, corruption and clientelistic practices?
- Does poverty targeting induce hidden costs to the target groups i.e. through eligibility requirements, work requirements (opportunity costs), stigmatization and the like?

Effectiveness

- Does poverty targeting help reduce inclusion errors (leakages i.e. including the non-poor) and exclusion errors (under-coverage i.e. not including the poor)?
- Does poverty targeting facilitate access to the poorest individuals and the most marginalized groups and regions?
- Does poverty targeting help increase the amount of assistance actually going to the poor?

Impact

- Does the poverty targeting system contribute to the program's overall success in reducing poverty and achieving society-wide sustainable development?
- Does poverty targeting help ensure that a higher proportion of social benefits reaches poor individuals and households, as compared to alternative, more universal modes of provision of social benefits?
- Does poverty targeting contribute to reducing inequalities?
- Does poverty targeting induce negative side effects such as a sense of stigmatization and disempowerment among the targeted groups, or a sense of discrimination, exclusion and perceived injustice among non-targeted groups?

Sustainability

- Does the poverty targeting system contribute effectively to the program's overall impacts in terms of helping poor individuals and households to escape poverty permanently?
- Is poverty targeting well adapted to the existing administrative and financial capacities?
- Does poverty targeting enjoy broad political and bi-partisan support?
- Is poverty targeting compatible with existing societal values and norms?
- Does poverty targeting induce negative side effects such as higher marginal tax rates for the target groups (risk of poverty traps), behavioural change to ensure eligibility for social benefits (perverse incentives), or undesirable migration between targeted and non-targeted regions?

Annex 4 Filter questions for ranking of poverty targeting methodologies (fictive)

Explanatory note: In the fictive example presented below, green (shaded) cells in the table indicate whether an affirmative answer to the filter question (in that line) is generally considered to be conducive and important for the effective application of the concerned methodology (in that column). This fictive example employs 15 filter questions. If the answer to a filter question is "Yes", then the green cells in that line are checked (here with an "x"). Once all filter questions have been answered, the sum of the checked green cells is tallied in line A. Line B records the total number of green cells (required circumstances) in that column. Line C provides the number of fulfilled required circumstances as a percentage of all required circumstances.

The results of this fictive example may be summarized as follows: The program duration is expected to be long (filter question 9), and the program intervention zone is characterized by reliable financing for administrative costs (3), but administrative capacities are weak (2), poverty is distributed unevenly in the target zone (12) and the poverty situation is instable (6). Under these circumstances, the best ranked targeting methodology is M4 (see line D), with 75% of the required circumstances fulfilled.

No.	Filter questions	Poverty targeting methodology					
		M1	M2	M3	M4	M5	M6
1	Are administrative capacities generally strong?						
2	Are administrative capacities generally weak?				X	X	
3	Are administrative costs financed on a reliable basis?	X					
4	Are good statistical and analytical capacities available?						
5	Is the poverty situation in the target zone stable?						
6	Is the poverty situation in the target zone instable?					X	
7	Is the program relatively large?						
8	Is the program relatively small?						
9	Is the program duration relatively long?	X	X	X	X		
10	Is the program duration relatively short?						
11	Are reasonably good demographic statistics available?						
12	Are the poor unevenly distributed in the target zone?				X		
13	Are schools, clinics etc. able to deliver benefits to the poor?						
14	Does behaviour clearly separate poor from non-poor?						
15	Are local communities clearly defined and cohesive?						
	(Other questions to be specified and assigned)						
A	Sum of circumstances fulfilled (checks)	2	1	1	3	2	0
B	Sum of circumstances required (green cells)	4	5	2	4	4	3
C	% of required circumstances fulfilled ((A / B)*100)	50%	20%	50%	75%	50%	0%
D	Ranking of methodologies	2	3	2	1	2	4

Legend:

M1 Means testing
M2 Proxy means testing
M3 Categorical targeting
M4 Geographical targeting
M5 Self-targeting
M6 Community-based targeting

Source: United Nations, Transforming our world: The 2030 Agenda for Sustainable Development. Resolution adopted by the General Assembly on 25 September 2015 and own assessments.

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