

TARGETING METHODS FOR SOCIAL PROGRAMS

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This technical note presents some policy guidance on main targeting mechanisms for social programs and criteria for their evaluation.

Criteria

Several methods exist to target social programs to the desired population. These should be judged on the basis of three criteria: i) targeting efficiency, ii) leakage, and iii) administrative costs. Considerations of political feasibility should also be made. A targeting method is efficient when it minimizes the type I error, that is the probability of excluding individuals who should be included. Leakage relates to type II error, that is the probability of including people who should be excluded. The trade-off between the cost of leakage and administrative costs should be evaluated, as well as the possibility that programs with a certain level of leakage may display greater political sustainability than programs with no leakage because of wider population support.

Other issues affecting the choice of targeting mechanisms include incentive costs associated with distortion of economic behavior, and the stigma associated with participation.

Targeting Methods

The main targeting mechanisms are categorical, means-tested or proxy means-tested, and self-selecting.

A. Categorical

Under *categorical* targeting, programs provide benefits on demand to all individuals within a certain geographical area and/or group (e.g. school children in schools located in poor areas).

Geographical targeting requires knowledge of the geographical distribution of the incidence, depth or severity of poverty (or other desired indicator). Communities can be ranked according

to the desired indicator and programs delivered to the lowest ranking ones. The mechanism works well only when high concentrations of poverty do exist (such as urban slums or specific rural areas). In such case, the method is efficient, has low leakage and is administratively inexpensive. As the program expands to communities with higher percentages of non-poor, targeting efficiency will decline and leakage increase. The results also depend on the geographic unit of choice (community, municipality, region, etc.): the smaller the unit the more efficient the targeting and the lowest the leakage. Geographical targeting may induce migration from non-targeted to targeted areas. No stigma is associated with this type of targeting.

Similarly, group targeting requires knowledge of the demographic distribution of poverty. Groups with higher than average incidence can be selected as program targets often in conjunction with geographical targeting to improve both targeting efficiency and leakage levels.

B. Means Testing and Proxy Means Testing

Means-tested targeting programs provide benefits to household with income below an established threshold. Because they require collection and verification of household income information they imply higher administrative costs than either categorical or self-selecting mechanisms. They may also be subject to gaming schemes (e.g., lying and fraud) which tend to increase leakage. (Given the difficulties in selecting an optimal poverty line, gaming may increase targeting efficiency if the majority of people who qualify through lying are close to the poverty line.) Stigma may negatively affect take-up rates.

Proxy means testing bases access to program benefits on easy-to-collect household or individual characteristics that correlate with welfare

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and can proxy for income. It provides a cheaper, more easily verifiable, and harder to game alternative to means-testing. Data is collected on both income and potential indicators on a sample of the population. Indicators are selected and their relative importance established through statistical analysis or calibration. The indicators, weighted appropriately, are then used across the population to predict whether an individual or a household qualifies as poor. The method is less target efficient than direct means testing. How it performs relative to means testing will depend on the goodness-of-fit and out-of-sample predictive properties of the statistical or calibration model. This can be improved by estimating or calibrating on the poorest half of the population, by specific region, and urban and rural areas separately. The costs in terms of both type I and type II errors must be weighed against the cost of wider data collection and verification. Examples of systems using proxy means testing are Chile's Ficha CAS, Colombia's SISBEN and Mexico's PROGRESA.

C. Self Selection

Self-selecting mechanisms impose disincentives to program participation in the form of work requirements, waiting time, and lower product quality, so as to attract only individuals in need. Examples of this are low-wage workfare programs, queuing for health provision, and lower quality public schooling. This targeting mechanism is inexpensive to administer, and has low leakage because only left-tail individuals are willing to incur the cost of participating. It is also a convenient mechanism for automatically adjusting coverage during periods of crises. Its level of targeting efficiency, however, is unclear and must be estimated case-by-case. One example of a self-selecting program is Argentina's *Trabajar*, a workfare program that provides low-wage work to those who need it.

Choice of mechanism

Instead of selecting one or the other of the mechanisms available, mechanisms can be combined optimally in different areas or stages of a program. For example, geographical targeting can be used in the case of homogeneously poor communities as long as the proportion of non-poor in those communities is acceptably low (relative to some policy target or to the administrative cost of the next alternative). This maximizes targeting efficiency and minimizes administrative costs. As the program expands to less homogenous communities, leakage will be-

gin to be a problem. In communities with higher proportions of non-poor, means testing will avoid some leakage particularly if coupled with some mechanisms for self-selection (such as standing in line to apply for the benefit.) With the introduction of means testing, targeting efficiency will decrease. Effort should then be concentrated in reaching excluded individuals, for example, by taking a second look at those who apply but are denied benefits, and outreaching to those who may have been constrained from applying (e.g., street children, disabled). Self-selecting mechanisms will be most useful to minimize market distortions (labor choices, migration, moral hazard), and when an automatic trigger to increase the number of program beneficiaries during periods of crisis is desirable.

Further Readings

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