



Discussion Paper BRIEFS

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Discussion Paper 191

Program Participation under Means-Testing and Self-Selection Targeting Methods

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The use of means testing for determining eligibility has become increasingly popular in developing countries wishing to improve the targeting performance of their social safety net programs. However, past experience shows that means testing often reduces program participation of eligible households—this is true even for universally available programs in developed countries. High non-take-up rates reflect the important role that self-selection patterns can play in program participation levels by different socioeconomic groups. Yet there is still very little empirical evidence on the nature and magnitude of the trade-offs between program coverage of the eligible population and targeting performance, especially for developing countries. This paper contributes to filling this gap by evaluating the targeting performance of Mexico's *Oportunidades* program.

The *Oportunidades* Program

In 1997, the Government of Mexico launched the *Programa Nacional de Educacion, Salud y Alimentacion* (PROGRESA) social safety net program in rural areas. To ensure that benefits reached the target population, the program used a combination of targeting methods to identify eligible households: geographic targeting identified the poorest rural localities and, within participating localities, a proxy-means test identified poor households to be considered eligible for benefits. Evaluations of PROGRESA's targeting performance showed it to be very effective, with 79 percent of program benefits going to the poorest 40 percent of households.

PROGRESA was so successful that in 2002 it expanded under a new name, *Oportunidades*, to include small and medium urban localities. The new program has continued to use a combination of geographic and proxy-means targeting methods to identify poor households, but the relative importance of proxy-means targeting has increased substantially. Because continuation of the previous approach—undertaking a census of the socioeconomic characteristics of all households in participating localities—was deemed too costly for urban areas where poverty rates are much

lower, a strong element of self-selection by households was introduced into the program. The aim was to avoid the costs associated with collecting and processing information on large numbers of households that would likely be ineligible for the program.

Data and Methodology

Our data, drawn from a random sampling of almost 21,000 households in 149 blocks in eligible localities, allow us to distinguish between the various components determining household participation: the household's *knowledge* of the program and decision to *apply*, and the program agent's decision to *accept*. By matching these data with program-level data disaggregated to the program-office level, we also control for various program-level factors influencing targeting outcomes, such as budget and administrative constraints.

We start by focusing on two crucial features of the program. First, we look at the *potential coverage* of poor households, defined as the ratio of total program beneficiaries to the total number of households classified as poor. This gives a measure of the size of the program relative to the size of the target population. Second, we look at the actual *targeting performance* of the program, as captured by the proportion of program beneficiaries that are classified as poor. In the presence of a budget constraint, the only way to increase the impact of the program on poverty is to improve this targeting indicator.

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Results and Discussion

The results indicate that there is substantial undercoverage of poor households, with only 46 percent of eligible poor households receiving benefits. Almost half of this undercoverage reflects the

fact that the size of the program is less than that required to completely cover all poor households. Although the targeting performance is good—the target poor group receives around twice as much as they would without targeting—in the absence of an expansion of the program, increased coverage can only be

achieved through improved targeting. Also, improved targeting is clearly necessary to avoid the high leakage costs associated with higher coverage through program expansion.

The analysis of the sources of program undercoverage found that lack of knowledge of the program accounted for 68 percent of total undercoverage. However, the source of undercoverage highlighted another concern: although knowledge about the program was substantially lower among non-poor households, a high proportion of those who knew applied and—more surprisingly—a high percentage of those applying were accepted. Given that improving knowledge among poor households may simultaneously improve knowledge among the non-poor, it is necessary to look for ways to decrease applications by non-poor households (to avoid costs of collecting and processing their information) and to improve the application of the proxy-means test (to avoid excessive leakage).

Understanding the determinants of program leakage and undercoverage requires an analysis of the determinants of the different components of the participation outcome: knowledge, application, and acceptance. Since lack of knowledge among the poor is such an important source of undercoverage, improving their knowledge is crucial to reducing undercoverage. Our results also suggest that the existence of a budget constraint, especially in poorer blocks, was an important source of undercoverage, especially for more remotely located households. On the other hand, the rationing process used by program agents seems to favor households classified as extremely poor by the proxy-means score, very poor households wrongly classified as non-poor, and households with school-aged children.

As indicated above, increasing program awareness among the poor in non-poor blocks is also likely to lead to improved awareness among the non-poor. Given their high propensities to apply and be accepted, it is important to improve procedures for processing and verifying reported information on household socioeconomic characteristics. One reason the proxy-means score may not succeed in eliminating households classified as non-poor is that program agents may override the proxy-means classification where it is substantially at odds with their “observed” poverty status of the household. Alternatively, households may simply be reporting false information to improve their chances of being accepted.

Areas for Further Research

Given the important role played by the program implementation process and program agent decisions, it is important to understand this process in greater detail. In this respect, it would be useful to complement the analysis in this paper with insights from more qualitative studies of the factors that determined variation in budget constraints, the responses of program agents to these constraints, and the factors influencing their ability and willingness to verify reported information. Such information would help validate the interpretation given to the empirical evidence in this paper as well as provide a basis for more informed policy responses.

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