



# Discussion Paper BRIEFS

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*Discussion Paper 144*

## Targeting Outcomes Redux

David Coady, Margaret Grosh, and John Hoddinott

Over the last two decades there has been an emerging consensus that while economic growth is a necessary condition for alleviating poverty within an acceptable timeframe, in isolation it is not sufficient. First, the asset base of poor households needs to be built up so that they can participate in the growth process. Second, growth needs to be more intensive in the assets held by the poor and the sectors in which they predominate. Third, because it takes time for the benefits from such a strategy to accrue, short-term public transfers are required to protect and raise the consumption of the poorest households.

Implementation of this agenda for reducing poverty requires methods for reaching the poor. This can be accomplished by “broad targeting,” in the form of spending on items that reach a wide swath of society, including the poor, or by “narrow targeting,” where methods that identify the poor more specifically are used to confer benefits only to them. The overall poverty impact of a program depends both on the number of poor households covered and the level of benefits they receive. With a fixed poverty alleviation budget, the opportunity cost of transfers leaking to nonpoor households is a lower impact in terms of poverty reduction, reflecting less coverage of poor households and/or lower benefit levels. By targeting transfers to poor households, one can increase the amount transferred to them.

### *Purpose of This Study*

There are sharply divergent views as to how much narrowly targeted interventions actually benefit the poor. These result from differing assessments of three issues: whether better targeting outcomes are likely to be achieved, whether such methods are cost-effective, and whether the living standards of the poor are improved by such targeted interventions. This paper focuses on the first issue. Using a newly constructed database of targeted interventions, it addresses three questions: (1) What targeting

outcomes are observed? (2) Are there systematic differences in targeting performance by targeting methods and other factors? (3) What are the implications for such systematic differences for the design and implementation of targeted interventions?

### *Methodology*

While it would seem that there is a fairly extensive literature on this topic, it is largely dominated by descriptions of individual - sometime idiosyncratic - programs. This partial coverage frustrates efforts to make broader assessments about the effectiveness of different targeting methods or to draw policy-relevant lessons. Consequently, an important outcome of this study was the creation of a database of 111 targeted antipoverty interventions drawn from 47 countries in Latin America and the Caribbean, Eastern Europe and the former Soviet Union, the Middle East and North Africa, Sub-Saharan Africa, and South and East Asia. To our knowledge, this is the most extensive attempt to construct such a database.

The criteria for inclusion in this database were the following:

- The intervention is in a low- or middle-income country.
- A principal objective of the intervention is poverty reduction defined in terms of income or consumption.
- Documentation on the intervention contains information on the targeting method used, its implementation, and something about outcomes.
- The intervention is relatively recent (generally 1985–2002).

***Countries with higher income or governance measures, and countries with better measures for voice do better at directing benefits toward poorer members of the population.***

Included in the data are cash transfers (including welfare and social assistance payments, child benefits, and noncontributory pensions), near-

cash transfers (such as quantity rationed subsidized food rations and food stamps), food transfers, universal food subsidies, nonfood subsidies, public works, and social funds.

### **Results and Discussion**

We find that the median program transfers 25 percent more to the target group than would be the case with a universal allocation. In this sense, “targeting works.” However, a staggering 21 of the 77 programs for which we can assess targeting performance—more than a quarter—are regressive. In these cases, a random selection of beneficiaries would actually provide greater benefits to the poor. Some of this regressivity is driven by the inclusion of food subsidy interventions that use self-selection based on consumption as a targeting method. However, even when these are dropped from our sample, we still find that 16 percent of targeted antipoverty interventions are regressive.

Mindful of a number of caveats enumerated in the paper—such as the possibility that better performing programs are more likely to have been evaluated and documented—we find that countries with better capacity for program implementation, as measured either by GDP per capita or indicators of “governance,” do better at directing benefits toward poorer members of the population. Countries where governments are more likely to be held accountable for their behavior—where “voice” is stronger—also appear to implement interventions with improved targeting performance. Targeting is also better in countries where inequality is more pronounced and presumably differences in economic well-being are easier to identify.

Interventions that use means testing, geographic targeting, and self-selection based on a work requirement are all associated with an increased share of benefits going to the bottom two quintiles

relative to self-selection based on consumption. Demographic targeting to the elderly, community bidding, and self-selection based on consumption show limited potential for good targeting. Proxy means testing, community-based selection of individuals, and demographic targeting to children show good results, on average, but with considerable variation. That said, we again emphasize that there is considerable variation in targeting performance when we examine experiences with specific program types and specific targeting methods. Indeed, a Theil decomposition of the variation in outcome shows that differences between targeting methods account for only 20 percent of overall variation; the remainder is due to differences found within categories.

Thus, while the patterns observed are instructive, they should not be interpreted as a lexicographic ranking of methods. Differences in individual country characteristics and implementation are also important determinants of outcomes and must be considered carefully in making appropriate targeting decisions. This suggests that further work on targeting should extend beyond simple quantitative comparisons of methods to consider more detailed and often qualitative issues of comparisons within methods—how does (and how should) implementation differ in different settings and how can constraints of political economy, poor information, or low administrative capacity best be accommodated or reduced?

**Keywords: targeting, poverty, developing countries**

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## **FCND BRIEFS**



International  
Food  
Policy  
Research  
Institute

2033 K Street, N.W.  
Washington, D.C. 20006 U.S.A.

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