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Cash transfers: targeting

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Key points

- The targeting of cash transfers can increase their impact on poverty, but can be limited by the lack of resources and capacity in low-income countries
- Targeting vulnerable groups is often simpler, more politically acceptable and less socially divisive than means testing
- Good targeting requires an assessment of the distribution of poverty, targeting costs and political acceptability

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The implementation of cash transfer programmes in low income countries is constrained by three crucial factors: financial resources, institutional capacity and ideology. Governments in poor countries have limited financial resources to spread across the range of public expenditure requirements. There are, therefore, limits to what Governments can invest in cash transfers, as well as limited capacity to implement these transfers cost-effectively. How much can be provided for cash transfers is influenced by 'value for money' considerations, as well as by political and ideological concerns regarding 'free handouts' and 'creating dependency' (McCord, 2009). As a result, ensuring that cash transfers are received only by those deemed deserving or eligible, and concentrating benefits on poor households, are high priorities in low income countries. Targeting is the main mechanism by which these priorities can be achieved.

There is evidence that, on average, targeting provides more resources to the poor than random allocations (Coady et al, 2004). But good targeting does not happen easily or without costs. This project briefing summarises the main findings from the targeting component of ODI's three-year research project on cash transfers. The research draws broad lessons on the targeting of social transfers and identifies issues that are particular to cash transfers. The paper assumes that the reader has some knowledge of targeting – in particular the different types of targeting approaches and mechanisms.

Types of targeting

Debates about the best ways of targeting often lack a clear distinction between questions of eligibility (those whom an intervention is designed to reach) and questions of inclusion and exclusion (those whom a programme does or does not reach when implemented). Targeting design is concerned with who, in principle, is to be reached and why, and includes approaches that rely on poverty assessment and social categorisation. Targeting implementation is concerned with questions of how the eligible are identified and reached in practice, and includes mechanisms for self-targeting, means-testing, proxy means testing and community-based selection (Box 1). Geographical criteria are used widely in both design and implementation, often in combination with other approaches. In practice, cash transfer programmes adopt multiple targeting mechanisms.

The distinction between targeting design and implementation is critical, enabling policy-makers to identify which targeting approach will have the greatest impact on poverty. For example, where reducing income poverty and enabling households to meet their basic needs is the main objective of a programme, the targeting approach should be that which will have the greatest impact on poverty. However, poverty impact is not the only consideration for policy-makers – they also have to consider the political acceptability, the practicality of implementation and cost issues associated with different targeting methods.

Political drivers and targeting choices

In many countries there are widely held views that poor people should work for the benefits they receive, and that benefits should not 'leak' to those who do not need them. These views influence programme design – in terms of whether conditions are imposed on those receiving cash transfers – and affect decisions on the targeting mechanism adopted at the policy level.

Concerns about inclusion and exclusion errors, or leakage and undercoverage, lie at the heart of general political acceptability

Box 1: Types of targeting

The eligibility of households and individuals is established using either poverty targeting, based on assessments of income, expenditure and asset ownership, or social categorisation, where households are deemed eligible if they are part of a particular social or demographic group. Where everyone within a social category is deemed eligible, the approach may be termed universal. But some focus on the poor within each group may also be introduced, resulting in a combination of poverty targeting and social categorisation approaches. Universal programmes are rare, and where they exist in low income countries, they are limited to specific age groups, as in the case of old age pensions and child welfare grants.

There are four main mechanisms for identifying eligible beneficiaries. Means-testing uses household poverty indicators, based on the collection and verification of information on a household's income and/or wealth. Means-testing is expensive however, so the poorest countries often use easily identifiable proxy indicators, such as age, gender, state of housing, land access or labour availability to identify poor households. Proxies are reliable only when they correlate well with poverty. Community-based targeting is implemented by elected or imposed committees, though it is rare for communities or committees to identify targeting criteria themselves. More often, targeting criteria are determined externally and communities and committees are expected to deliver on them without being given devolved decision-making power. Self-targeting occurs when programmes are designed so that only the poor will want to participate.

Governments, academics, NGOs, donor and civil society hold divergent views on the desirability of targeting. The two main positions are polarised: some promote poverty targeting, based on actual or proxy poverty indicators and believe that it is possible to identify and reach the poorest, while others, universalists, argue that all citizens within a defined category should receive the same benefits. The former argue that universal benefits are neither progressive nor affordable – especially in the countries where poverty levels are highest. They suggest that poverty targeting is progressive because the share of benefits reaching the poor is greater than an allocation shared across the whole population. Universalists, meanwhile, argue that poverty is multi-dimensional, i.e. it is about more than addressing income poverty. Universal benefits will promote social unity which is, in itself, a major justification for governments to commit scarce financial resources to social transfers for all. They also argue that the implementation of universal transfers may be the most practical and cost effective approach, given capacity constraints and the difficulty of implementing targeting in many contexts. Both groups recognise the flaws in current targeting practice but have different views on the solutions.

of social transfer programmes. Programmes that include many individuals or households that do not need support are deemed to be a wasteful use of public resources, and many targeting decisions are based on attempts to overcome previous leakage problems. There tends to be a much stronger link between political acceptability and targeting that focuses on errors of inclusion, rather than exclusion, because of the concern that inclusion errors may result in wasted resources. Leakage is a measurable driver of political acceptability, but other political drivers are less explicit, especially those underpinned by ideological concerns about whether poor people are 'deserving' or 'undeserving' of support. These concerns often lead to the adoption of self-targeting, where programme design keeps benefits so low that only the poor will choose to participate.

However, the scope and rationale for self-targeting of cash transfers is more limited than with other types of transfers, especially where poverty is generalised across much of the population. Where food is transferred, self-targeting can be achieved if the food transferred is seen as inferior. In public works programmes cash transfers come with work requirements and a wage rate which is often kept low, providing disincentives for all but the poorest to participate. Other mechanisms to ensure that cash transfers are attractive only to the poorest households include highly bureaucratic administration systems that make receiving benefits a long and arduous process, or paying such small amounts of cash that only the poor would try to obtain them. Both may improve targeting effectiveness, but can be counterproductive if they reduce the impact of the transfers on poverty. They raise ethical issues and are often at odds with programming principles of fairness and a rights-based approach to social protection provision.

Targeting trade-offs

There are various types of costs associated with the targeting of cash transfers. The cost of collating, assessing and updating data that enable programme implementers to make decisions about eligibility are administrative costs. Total financial costs are the combined costs of administration plus the costs of implementing targeting (e.g. the costs of social workers carrying out and analysing means tests, the costs of paid community members who sit on panels that carry out wealth ranking exercises in communities, and the costs of recording beneficiaries in district level information systems). Incentive costs (sometimes called indirect costs) occur when people change their behaviour in order to get access to a programme, and can be positive or negative. Private costs are those borne by people in attempting to get onto a programme and vary from relatively benign costs such as the opportunity cost of travelling to and attending a community wealth ranking meeting, to the payment of bribes to get onto programmes. Social and political costs include the potential stigmatisation of poor households or vulnerable groups as a result of participation in a programme, or the cost of including certain groups and excluding others.

Analysing the costs of targeting introduces a number of trade-offs that present major challenges in low income countries. The first of these is that the more programme implementers spend on improving targeting to ensure that cash transfers reach only eligible households, the less cash they have available to transfer to beneficiaries. The second trade-off is that, by contrast, self-targeting approaches are cheap and easy to administer but opportunities for self-targeting are limited in the case of cash transfers and, when poverty levels are high, rarely effective. Approaches relying on means-testing or the use of a poverty threshold are expensive because they need frequent updating of detailed datasets and pose complex problems of interpretation for programme administrators. One way to resolve these first two trade-offs is by using other targeting approaches, such as those identifying the poor based on geographical criteria or according to social or demographic category (such as the elderly, orphans and vulnerable children, women-headed households etc). Those approaches based on social categories or geography have strong appeal to the governments of poor countries, not least because their implementation is low-cost relative to that of approaches based on income.

However, the use of such approaches to reduce targeting costs introduces a third major trade-off between maximising the number of poor people that are included in programmes, and minimising the number of non-poor people that are included. This is a challenge for both design and implementation. In the case of social categorical targeting, there is a risk that some people belonging to this group may not be poor. For example, Table 1 shows that, in the case of Bangladesh, using a given poverty line and the presence of children under five years to target transfers would exclude 42% of poor households from cash transfers, whilst using old age (60 years of age or above) to target households would exclude 75% of poor households. Targeting female-headed households or people with disabilities would render much larger numbers of poor households ineligible for cash transfers (91% and 94% respectively).

However, if lower poverty lines are used (e.g. extreme poverty, or the poorest decile and quartile), the effectiveness of using the presence of children under five years improves, but using old age as an indicator becomes less effective. Evidence from Ghana suggests that other indicators less directly linked to social groups, such as the physical state of shelter (mud walls, mud floors) or the number of years of education of the head of household may offer the best proxy indicators of poverty in terms of reducing the trade-off between cost and poverty impacts.

The implication is that, for demographic or geographical approaches to be effective, there must be robust empirical evidence they correlate well (or at least better than other indicators) with poverty. However, it is rarely the case that programme designers assess empirical evidence to inform their decisions about managing the trade-off. Better tools to assess the implications of different eligibility criteria will enable policy-makers to make more informed decisions on how the trade-offs should be tackled.

A further trade-off is between effective targeting and subsequent social costs, which can either take the form of the stigmatisation of programme beneficiaries/participants, or of tensions between those who are eligible and those who are not. In low income settings, where the majority are poor, there may be little stigma linked to poverty targeting. Lessons from the Productive Safety Net Project (PSNP) in Ethiopia suggest that social divisions at community level between programme beneficiaries and non-beneficiaries do not result from stigma associated with poverty. Rather, division emerges when there are many poor people in the community but programme resources mean that only some receive benefits. This is a major risk when attempts

Table 1: Number and percentage of poor(est) households not eligible and non-poor(est) households eligible under different targeting criteria in Bangladesh

	Upper Cost of Basic Needs poverty line			Lower Cost of Basic Needs poverty line			Poorest 10%			Poorest 20%		
Selected household characteristic / targeting proxy indicator	No of poor households not eligible (millions)	Percentage of poor households not eligible	Non-poor households eligible (millions)	No of Poor households not eligible (millions)	Percentage of poor households not eligible	Non-poor households eligible (millions)	No of Poorest households not eligible (millions)	Percentage of poorest households not eligible	Other eligible (millions)	No of Poorest households not eligible (millions)	Percentage of poorest households not eligible	Other eligible (millions)
Old age 60+	8.11	75%	5.20	5.03	76%	6.28	2.20	77%	7.21	4.39	77%	6.53
Female headed hhs	9.86	91%	2.03	6.01	91%	2.35	2.57	90%	2.66	5.20	91%	2.43
Disabled	10.17	94%	0.65	6.23	94%	0.88	2.69	94%	1.09	5.39	94%	0.93
Children U5	4.50	42%	6.37	2.45	38%	8.49	0.96	37%	10.75	2.17	38%	9.09

Notes: Errors resulting from design were calculated for four different poverty thresholds – the upper and lower Costs of Basic Needs (CBN) poverty lines for 2005 (BBS, 2007), and the bottom decile and quintile. In each line, the number of households that would be included, assuming perfect poverty targeting, would be as follows: upper CBN 10.78 million households (around 38% of households); lower CBN 6.61 million households (about 23%); bottom decile 2.86 million households; and bottom quintile 5.73 million households.
Source: Slater and Farrington, 2009.

to target the very poorest households result in the exclusion of many who are only marginally less poor and results in the income and welfare of beneficiaries 'leapfrogging' those who are only very marginally richer (Ellis 2008). In these situations, good community-based targeting can provide a platform for ensuring transparency and accountability of, and support for, targeting decisions.

There are more examples of stigma where social categories or social proxies are used for targeting. Common examples are stigma associated with support to orphans and other vulnerable children (OVCs) in Africa where HIV/AIDS orphans are explicitly targeted, and the targeting of female headed households in South Asia. So, whilst the explicit targeting of vulnerable groups can help to overcome exclusion, it can also further isolate vulnerable groups if programmes are not linked to complementary activities that seek to overcome the drivers of exclusion and stigma.

Making the right choices

The trade-offs identified above are both more pressing and more difficult to manage in countries with fewer resources and capacity. So what can be done to enable the trade-offs to be more effectively managed with the best results for poverty reduction?

First, there is an urgent need to rethink the way that the poverty impacts of targeting are measured. Coady et al (2004) differentiate between asking how accurate targeting is at reaching certain groups of people vs. how effective targeting is as an anti-poverty mechanism. The implication is that the preoccupation with inclusion and exclusion errors should be avoided and targeting performance should be considered in a different way, focusing on the implications for poverty reduction. One example of this approach is work by Stewart and Handa (2008) which, as well as assessing the impact of different social categorical targeting approaches on the poverty headcount, also assesses the impacts on the poverty gap.

Second, programme designers need practical tools to assess targeting trade-offs and support informed, empirically-grounded choices between targeting options. The first step towards this is a tool along the lines developed by ODI (Slater and Farrington, 2009) that gives policy makers access to information about how pro-poor different targeting approaches (such as geographical, categorical or proxy means testing) will occur. However, whilst this tool highlights the optimal targeting solution, it says little about how practical the optimal approach will be. This needs to be complemented by i) better tools for estimating costs of targeting (and to what extent higher costs are justified by the increase in accuracy and subsequent reduction in poverty that follows); and ii) a framework for understanding the political drivers.

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Project Information:

This briefing is one of a series of six produced as an output from a three year ODI research study on cash transfers and their role in social protection. The study explores issues of interest to donors and governments, comparing cash with other forms of transfer, identifying where cash transfers are appropriate, examining how contextual, design and implementation factors affect their impact, and how they may best be targeted and sequenced with other initiatives, and also reviewing affordability and the political economy of cash transfer provision. This project is co-funded by the Swiss Agency for Development and Cooperation (SDC) and DFID who provided earmarked funds for work on targeting.

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