

Poverty Monitoring Guidance Note 2 Setting Poverty Targets¹

What is a target?

A target is the value that an indicator is expected to reach by a particular date. As laid out in the guidance note on indicators:

- **Goals** are the objectives a country or a society wants to achieve; they are often expressed in non-technical, qualitative terms, such as “eradicate hunger” or “reduce poverty.” Another example could be to “achieve universal primary education”.
- **Indicators** are the variables used to measure progress toward the goals. For example, progress toward eradicating hunger could be measured by looking at the number of underweight children among children under the age of five; progress towards achieving universal primary education could be tracked using the net enrolment ratio in primary education.
- **Targets** are the quantified levels of the indicators that a country or society wants to achieve at a given point in time—for example, a country could set a target of less than 10% of underweight children, or a target of 80% net primary enrolment ratio by 2015.

Targets vary according to the indicator for which they are set and to the level of certainty and predictability of the dimension measured. They can be:

- Points: for example, a target for infant mortality rate of 10 per thousand.
- Ranges: for example, a target for inflation between 3% and 5%.
- Upper or lower bounds: for example, a target of 75% or greater for the literacy rate, or of 30% or lower for the incidence of income poverty.

Why do we need targets?

Clear, explicit targets play an important role in policy making by:

- clarifying the results public action aims to achieve and, in so doing, helping to direct the allocation of resources to specific policy areas and towards achieving specific results;
- focusing the efforts of the various actors involved in the process;
- strengthening accountability; targets provide benchmarks against which the performance of actors can be judged.

Targets do not play these roles automatically, however, and great care must be taken in choosing them.

What attributes are we looking for in good targets?

For targets to perform these functions, they need to be: (1) simple and measurable, (2) relevant for decision-making, (3) consistent with overall priorities and with each other, (4) technically realistic (achievable), (5) fiscally realistic and sustainable, and (6) in line with implementation capacity.

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(1) Simple and measurable

Targets need to be set in clear and simple terms. Ambiguous targets are likely to be interpreted differently by different groups and will not be useful in holding implementing agencies accountable.

Targets should also be set for a small number of indicators. Having a limited number of targets is important to permit prioritization.

When setting targets, there is an obvious need to ensure that the data that will be required to measure the improvements towards the targets will be available when needed, and at the level of disaggregation selected for the target.

(2) Relevant for decision-making

To be useful to policy design and implementation, targets have to be relevant in terms of the types of indicators for which they are set, the level of disaggregation selected, and the time horizon adopted.²

- First, targets may be set for indicators in each of the four categories: (1) Input indicators - financial and physical resources used for an intervention; (2) Output indicators - goods and services generated through the use of the inputs; (3) Outcome indicators - level of access to, use of, and satisfaction with, public services; and (4) Impact indicators - key dimensions of the living standards of individuals, such as literacy, good health, empowerment, and security. The first two categories cover the implementation of public actions, while the last two capture the results of public actions. Since public actions are put in place with some results in mind, it is important to set targets for outcomes and impacts. However, since policy makers typically do not control outcomes and impacts, and results might take time to materialize, targets for inputs and outputs are important tools to assess if programs and policies are on track.
- Second, targets can be set along various dimensions, including location, gender, income level, occupational and social groups. Disaggregating is important since aggregate targets can hide significant variation. It is critical to ensure targets are set at the level of disaggregation most relevant for policy-makers: i.e. if a series of interventions are carried out at the regional level, this would be the relevant level at which to set a target. The level of disaggregation will have to be decided bearing in mind the data available to measure the indicator and the fact that disaggregating targets increases the number of targets and the work required to monitor the indicator.
- Finally, when setting targets, one needs to choose a point in time at which the target is expected to be reached. The choice of the reference period will depend on the type of intervention and the cycle of implementation of the intervention. One can also set various targets for a single indicator: short-term, medium-term and long-term targets.

(3) Consistent with overall priorities and with each other

The choice of targets should reflect overall priorities because countries have limited resources. Some targets may be achievable but their achievement may require diverting resources from more important goals.

² For more details on the various types of indicators and on disaggregation, see Note on Indicators.

Targets for inputs, outputs, outcomes, and impacts, should also be consistent with each other. This calls for targets that are *vertically consistent*. For instance, a target for increasing primary school net enrolment rate (outcome) may entail a target for the number of schools built and teachers trained (output). This in turn implies a target for spending on primary education (input). Consistency among targets can be checked either by examining how indicators of impact and outcomes have varied with indicators of inputs and outputs in the past in the country or other relevant countries. Targets should also be *horizontally consistent*, that is, consistent across a given level (outcome, etc.). Since outcomes in different areas of well-being are often interdependent (for example both the incidence of income poverty and infant mortality may be affected by female educational attainment), the consistency of outcome targets for different dimensions of well-being should also be checked.

(4) Technically realistic (achievable)

Setting realistic targets is important to mobilize efforts towards a goal; mobilization would be weakened if targets were perceived as being too ambitious or too easy to attain. There are two broad methods to inform the choice of realistic and feasible targets:

- looking at historical experience in the country and elsewhere
- running projections and simulations, using both macro and micro data. This requires establishing an empirical relationship between the variable for which a target is to be set and other variables and assessing the target that can be reached given the anticipated changes in the other variables.

An example will clarify these two methods. Suppose that a government aims to reduce the fertility rate and wants to set a target for this indicator. The first method involves looking at how fertility rates have changed over time in the country in question and elsewhere. The second method involves finding variables that are determinants of the fertility rate, for example per capita income, women's participation in the labor force, use of contraceptives, and so on, and estimating the relationship using historical or cross-country data. Targets can then be derived based on reasonable values for the other variables in the relationship.

When setting targets for income or consumption poverty, projections and/or simulations are used most commonly. Methods range from simple projections to more complex simulations. In the simpler projections, the incidence of poverty is described as a function of per capita GDP (used as a proxy for per capita consumption) and an indicator of inequality (to capture the shape of the distribution of consumption). More complex projections disaggregate per capita GDP into sectoral and/or geographical components to allow for simulations of growth differentiated for each sector and/or region. They can also include other variables, such as migration and urbanization.

These methods can be applied at the aggregate level, using aggregate data and elasticities of the incidence of poverty with respect to growth and changes in inequality derived from country or cross-country data, or at the micro level, using household survey data to simulate changes in consumption at the individual level. For a description of some of the tools available, see Box 1.

Any method needs to be applied with caution, since progress is typically harder as the situation betters (for instance, reducing the infant mortality rate from 150 to 100 per 1,000 is easier than reducing it from 100 to 50).

Box 1. Simulation tools for setting income/consumption poverty targets

Several software packages can be used to carry out projections and simulations. These tools generally use either grouped consumption (or income) data (for example consumption by decile) or unit record data from household surveys. They vary by the type and complexity of the analyses they can perform. Examples of such tools include: POVCAL, SimSIP_Poverty, DAD, and POVSTAT.

POVCAL:

POVCAL is a simple and easy-to-use DOS-based program. It estimates the distribution of consumption (or income) based on grouped data (which is useful when this is all that is available) and, given a poverty line, calculates the incidence, depth, and severity of poverty as well as the Gini index. POVCAL can be used to simulate what happens to these poverty indicators when consumption increases by a certain amount, with or without changes in inequality.

SimSIP_Poverty:

SimSIP_Poverty is an Excel-based program. It requires grouped data (for instance by deciles or quintiles) and information on mean income nationally and by sector (urban/rural or agriculture/manufacturing/services), a poverty line, the average income level of at least two groups in the economy and their weight as a share of the population. With two sets of observations over time and sectors, it enables the user to make poverty and inequality comparisons between sectors and over time. Up to five sectors can be compared. The simulated contributions of sectoral growth to poverty and inequality and the decompositions for changes over time may be used to set targets. Simulations may also be done for the impact on future poverty of population shifts between sectors. SimSIP_Poverty is useful for analysts who do not have access to the unit level records of household surveys but do have a population distribution by level of income.

DAD:

DAD, a software for distributive analysis, is designed to facilitate the analysis and comparisons of welfare, poverty, and inequality across distributions of standards of living. It estimates a large number of indices as well as curves that may be used for distributive comparisons. It provides the asymptotic standard errors to enable statistical inference, basic descriptive statistics, and simple non-parametric estimations of density functions and regressions.

PovSTAT:

PovSTAT is an Excel based program. It uses country-specific household survey unit record data and a set of user-supplied projection parameters including forecast horizon and poverty line. Optional projection parameters on employment shifts across sectors, changing terms of trade reflecting differential prices faced by consumers and producers, and changes in the relative price of food can be added. These projection parameters help avoid biases typically associated with the simple forecasts relying only on per capita GDP growth and on an empirical elasticity of poverty measures with respect to growth.

The forecasts produced by PovSTAT vary in complexity depending on the availability of reliable data for the post-survey period and on the extent to which various factors influencing poverty levels are incorporated. Forecasts may be: *naïve* (most basic level: forecasts made using information on real per capita GDP growth alone, assumed to be evenly spread over the whole population leaving relative inequalities unchanged); *base* (next level of complexity: incorporates the sectoral pattern of growth, requiring the specification of GDP and employment growth rates by sector; under this scenario, household living standards grow at the rates of per capita income growth in the sector of the employment sector of the head of the household); *extended* (one or more of the following additional factors can be incorporated into the construction of the forecasts: changes in the consumption-income terms of trade, changes in the consumption-income ratio or the average propensity to consume, changes in relative price of food).

(5) Fiscally realistic and sustainable

The choice of a target needs to take into account the ability of the country to mobilize the fiscal resources needed to reach the target and to sustain the effort. Estimating the cost of reaching specific targets is a critical element in the setting of targets, their prioritization, and the resulting allocation of resources.

Typically, the cost of the inputs necessary to reach a target is calculated to include investment costs, functioning costs, and management/overhead costs. Ideally, marginal costs, which measure the cost of an additional unit of outcome, should be used. In practice, average costs are more readily available and often used as proxies. This can be a source of underestimation if marginal costs can be expected to be significantly higher (e.g. the cost of expanding education services in very remote areas may well be far above the average cost of the service in urban centers), or overestimation when investments have already been made and the cost of an extra unit of coverage would be smaller than that of previous units (e.g. if new connections are made to an existing electric grid). Similarly, marginal costs allow taking into account potential gains in efficiency – reduction in unit costs experienced as programs or activities expand (e.g. if services or goods are delivered more effectively, or if administrative costs are fixed). The costs to sustain the interventions are estimated to reflect the costs

involved in ensuring that efforts are continued and that earlier investments are maintained and used appropriately. Typically, these include recurrent costs, administrative, and functioning costs.

Fiscal sustainability has to be assessed in light of the overall resources and the range of activities planned, rather than by focusing on a single activity or program. It has to be evaluated for both the short term, as well as for the medium term.

(6) In line with implementation capacity

Finally, other capacity constraints need to be taken into account to ensure realism of targets. These include constraints in human and physical resources, as well as implementation capacity constraints. The first set of constraints suggests that targets have to take into account existing human resources – type of skills available, number of individuals available, and physical resources, which can include the amount of land available, the quality of that land, water resources, and other natural resources available in the country. Implementation constraints are also critical, although often forgotten. Implementation capacity is limited in many countries, partly because of human resource limitations, but also because of weaknesses in institutions, lack of a regulatory framework for implementation, and of authority for implementation. All these aspects are critical, not only when setting specific targets for selected public action or programs, but also when deciding on priorities between public actions, to ensure the entire set of public actions is consistent with the existing capacity.

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