

## Budget Allocation using National Multidimensional Poverty Indices

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### PURPOSE OF THIS BRIEFING

This briefing looks at how budget allocation can be guided by a national MPI. It focuses on how the MPI can inform two approaches: needs-based resource allocation (distributing scarce resources across different geographic regions and groups based on their specific needs) and performance budgeting (setting poverty reduction goals

for different programmes). The brief then explores these approaches using two case studies in Costa Rica (2016–2018) and Mexico (2014–2018).



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## MULTIDIMENSIONAL POVERTY INDICES AS POLICY TOOLS

While poverty has traditionally been measured in terms of income – now classified by the World Bank as living on less than \$3 a day – the SDGs define poverty as having multiple forms, with a target to reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions by 2030.

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The SDG period has witnessed a growing understanding among policy makers of the advantages of using multidimensional poverty measures to complement monetary analysis for designing poverty reduction programmes. A multidimensional approach analyses non-monetary deprivations and their interconnections to inform high impact multisectoral policies that robustly address poverty.

Since 2009, the number of countries with official national multidimensional measures of poverty has increased sharply, led initially by early adoption in Latin America and now represented across the world. As of July 2024, the most used measure of multidimensional poverty, the Multidimensional Poverty Index, or MPI, is reported to the SDG Global Database by 43 countries, home to 2.97 billion people (Alkire and Dirksen, 2024). The governments of Afghanistan, Armenia, Colombia, Bhutan, India, Mexico, Mozambique, Nigeria, Pakistan, and Sierra Leone, among others, have implemented and included nationally adapted multidimensional measures of poverty in their long-term social development strategies.



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National MPIs are usually based on the Alkire-Foster method (Alkire et al., 2015). This method has several desirable advantages for policy. MPIs can first be tailored to their local contexts using country-specific data and indicators to provide a better understanding of country-level poverty. Besides providing a headline figure for poverty, MPIs can be disaggregated by population subgroups (such as by age groups, gender, ethnicity, etc.) and broken-down by indicators to see which ones contribute the most to overall poverty (Alkire et al., 2015). These two properties are crucial for policymakers, as the detailed information on the deprivations faced by different vulnerable groups can be used for more targeted and effective poverty eradication programmes.

Another relevant property of MPIs is that they look at the overlapping or joint deprivations faced by the poor. While dashboards of indicators can be useful to identify those in the population that are deprived in each individual indicator, the MPI goes beyond and looks at the accumulation of deprivations faced by each person. In this way, the MPI sheds light on the fact that people experience poverty differently, and that some poor people might be suffering from a much more intense situation of poverty (i.e. some people living in poverty might be deprived in many more indicators at the same time) than others. This inequality among the poor and the interlinked nature of multiple deprivations should be considered when designing interventions aimed at reducing poverty, as the poorest of the poor will need a comprehensive, multisectoral approach to break free from poverty.

The MPI is a responsive tool because the MPI measures outcomes directly and is built from indicators that can be addressed by policy initiatives. For policymakers it offers the advantage of immediately reflecting changes, such as in the example of school attendance where the MPI reflects the outcomes of effective policy interventions with every MPI update.

In addition to providing information on the levels of multidimensional poverty in a country, national MPIs are a powerful tool for monitoring the fulfilment of different SDGs and for helping governments identify their main priorities. MPIs are consistent with the SDGs' recognition that no single factor can capture the whole experience of poverty, nor alleviate its interconnected causes and manifestations. The SDGs call for integrated multisectoral policies and for disaggregating indicators by regions, age

and other groups to identify and prioritise those furthest behind. Since 2010 the global Multidimensional Poverty Index computed by the Oxford Poverty and Human Development Initiative and the United Nations Development Programme has revealed where the poorest people live in over 100 countries in developing countries and the ways in which they are poor offering important insights into the progress of Goal 1 of the SDGs to end poverty in all its forms everywhere.

As the number of countries developing national MPIs continues to grow, it is important to reflect on how MPIs have been used by countries that already have permanent official MPIs embedded in their national statistics to guide concrete policies. In particular, national MPIs have been used to:

- Complement monetary poverty measures and track poverty trends over time;
- Allocate resources more effectively;
- Improve policy design;
- Identify interconnections among deprivations and support policy coordination;
- Monitor the effectiveness of policies over time;
- Target poor people as beneficiaries of services or conditional cash transfers.

This briefing looks at how budget allocation can be guided by a national MPI by taking advantage of the disaggregations by dimensions and subgroups to allocate resources according to the needs of each region and group. The national MPI provides details as to which indicators contribute the most to poverty. This information can be used to analyse the current budget and adjust it if there are clear mismatches between the needs of a group and the budget allocations for each dimension. In this sense, a national social expenditure budget might be guided by the national MPI, where the coordination of different policy actors becomes important, given the complexities of the process of prioritising programmes, services or policies that will receive funding in a country. The next sections will explore in more detail some of the mechanisms to allocate resources and how the MPI has been used in the process of budget allocation in the pioneering cases of Costa Rica and Mexico.

It is well known that public budgets are political tools. Thus, trying to influence budget allocation with technical evidence is not an easy task. But when technical evidence

meets political will, when there is a way of linking evaluations and measurements with the political incentives of politicians, then the use of evidence for decision making becomes possible in public policy.

### WHAT IS BUDGET ALLOCATION?

A budget is a financial plan used to estimate revenues and expenditures for a specific period of time (Musgrave, 1959). For a government, this represents the anticipated revenues (derived mainly from taxes) and proposed spending (in goods and services, investment and transfer payments) that will be incurred in a given period – normally, a year. In most countries, the budget needs to be approved by the legislature.

A budget allocation is the amount of funding designated to each expenditure line. It designates the maximum amount of funding that the government can spend on a given item or programme, and it is a limit that is (in theory) not to be exceeded. In the context of a national government, budget allocation also refers to how resources are distributed from a central to a peripheral or sub-national level (Musgrave, 1959). Given that resources are scarce, this process is extremely complex and has significant economic and political implications. It includes aspects related to economic efficiency as well as distributive justice, and it has a direct effect on the behaviour of different economic actors. Budget allocation is in itself a multidimensional process, which involves considerations about different programmes and levels of government, different actors, timelines and priorities.

Depending on the objective of the process of budget allocation, different approaches exist that governments can use to distribute their scarce resources (Musgrave, 1959). A first approach is based on the analysis of existing conditions to provide public goods in a society, through an evaluation of the conditions of supply and demand for public and private goods (Musgrave, 1969). A second approach consists of allocating resources by applying the principle of marginal utility using measures of cost-effectiveness and, in particular, analysing the net social benefits of public spending through the use of cost-benefit analysis (Key, 1940; Premchand, 1983; Boardman et al., 1996). A third option is to allocate resources using collective decision-making, which implies considering citizens' opinions and preferences on the level and type of expenditure (Buchanan, 1967; Cullis and Jones, 1998). Budgets can also be defined based on population needs and lead to

a reduction of social inequalities and poverty (Selowsky, 1979; Jarvis and Micklewright, 1995; Castro-Leal et al., 1998; Tanzi et al., 1999).

For this policy briefing, we are going to explore in more detail the last approach (needs-based resource allocation), which is used in different HIC and LMIC. In addition, we will explore performance budgeting, which is being used by OECD countries and some Latin American countries to improve expenditure control as well as public sector efficiency and performance (Schick, 2003; OECD, 2007).

### NEEDS-BASED RESOURCE ALLOCATION

The allocation of resources under a needs-based approach has the objective of distributing scarce resources across different geographic regions and groups based on their specific needs (McIntyre et al., 2006). With this approach, indicators related to population size, demographic composition, socioeconomic status and other variables reflecting the needs of the population are relevant when allocating the available resources for the next financial year. In some countries, budget allocation also takes into consideration the cost of providing different services and adjustments for differential prices and costs in rural and urban areas (McIntyre et al., 2006).

All this information is included in a budget allocation formula, which can be established using different methodologies and it should fulfil some desirable characteristics. The formula should be based on objective criteria, it should be stable and not provide perverse incentives for local governments or institutions. Indicators considered in the allocation formula should be collected periodically and from trustworthy sources such as administrative records or national representative surveys.

The calculation of the allocation formula usually starts by first considering the size of the population; it then looks at the relative importance of each geographic area using different demographic characteristics. It can consider the percentage of people who are beneficiaries from different services or programmes (if the aim is to have a poverty-reducing budget allocation). When indicators related to socioeconomic characteristics or poverty (such as the those included in national MPIs) are considered as part of the allocation formula, it is important to consider the percentage of individuals who are deprived in each of them and then to cross this information with relevant demographic characteristics, such as age, sex, ethnicity, disability status (McIntyre et al., 2006).

Different methodologies exist to define the structure of a budget allocation formula following a needs-based framework. Depending on the methodology, decisions related to which indicators to include and the weights to use for each of them are defined. The first approach is the ‘per capita-based approach’, which simply considers the total population and allocates resources equally between individuals in the society. On the opposite side of the spectrum, complex formulas can be used, such as ‘expenditure regressions’, including the indicators of need as explanatory variables (usually variables beyond the control of regional authorities). In this case, issues such as population size, population density and regional differences are considered in the regression model (LE Wales, 2009). An intermediate approach, such as the ‘standard cost approach’, can also be applied, which sets needs and weights based on a population measure and on a standard cost of provision of services per capita. In this approach, costs can be determined using the average cost by district or the national average cost.

Within the needs-based resource allocation framework, capitation methodologies play a major role on how to define the amount of resources that each institution or programme needs in order to achieve their goals (Smith et al., 2001). When the allocation is between geographic regions or for universal programmes, aspects related to individual characteristics, such as age, gender and disability status are fundamental for deciding the final amount of resources a specific region will receive. The definition of the list of aspects on which capitation will be based should consider characteristics that are universally recorded for the institutions involved in the process. They should be verifiable, consistent and not vulnerable to manipulations by internal or external agents (Smith et al., 2001). In the end, the purpose of the capitation mechanism to allocate resources is to guarantee services are provided according to the needs of the population.

## PERFORMANCE BUDGETING

Performance budgeting aims to achieve the highest levels of efficiency and effectiveness in the allocation of resources. It has gained in importance given the limited resources that exist for public programmes. The aim of performance budgeting is to improve decision making by moving the focus away from inputs such as “how much money will I get?” towards measurable results such as “what can I achieve with this money?” (OECD, 2007).

The implementation of performance budgeting requires four main elements. First, comprehensive information about the results of programmes and other services included in the budget, which needs to be provided by a system of evaluation and monitoring. Second, an evaluation of this information to understand what has worked and what has not. Third, a structure of incentives for institutions that motivate them to achieve their goals. And finally, rules guiding the allocation of funds based on the analysis described above (Inter-American Development Bank, 2011).

The performance of different actors will be analysed to understand the results for the whole system. The process of evaluation must complement the data collected by the general system and provide information on which services and programmes are the most effective and efficient in the use of resources. Other aspects include reviewing mechanisms that distribute resources across institutions to identify mechanisms that are not effective or that provide negative incentives to the different actors involved in the process (Inter-American Development Bank, 2011).

Performance budgeting implies setting clear government goals and priorities and monitoring how different programmes contribute to them. In this sense, it encourages greater emphasis on planning and offers a good indication of what is working and what is not. This tool also improves transparency and accountability to politicians and the public.

Different steps should be undertaken to distribute resources across programmes and services. First, simulations and projections of different scenarios of resource distribution should be analyzed, in order to determine how effective those scenarios could be; second, it should be considered how different social and political circumstances have affected the provision of different services and the implementation of programmes over time; and finally, it should also be considered how the allocation of resources under each scenario might change the social and political climate (Inter-American Development Bank, 2011). The findings from these three steps should be discussed with different political and social actors, who might be affected by the proposed budget.

Given that the distribution of resources aims to improve the efficiency of different programmes and services, incentives become important when using performance

budgeting. Incentives should be designed to promote the correct use of resources and increase efficiency in each institution: governments could decide to offer financial rewards or sanctions, increase or decrease financial and/or managerial flexibility, and “name and shame” poor performers while recognizing good performers. However, it is worth considering that poor performance might not be the agency’s fault; it might be due to changes in the context that are out of the control of the agency managing the programme or intervention (OECD, 2007).

### HOW TO USE A NATIONAL MPI FOR BUDGET ALLOCATION?

National MPIs can be a useful tool in the process of budget allocation. They provide information not only on the incidence and intensity of multidimensional poverty, but also on the specific deprivations faced by those living in poverty. As mentioned before, national MPIs based on the Alkire-Foster method can be disaggregated by subpopulation groups (such as states, provinces and cities, by gender and age groups) and by dimensions and indicators. This information provides a detailed poverty profile that can be used by policy makers to guide budget allocation.

The MPI looks at the overlapping deprivations faced by the poor. When computing the MPI, we create a deprivation profile for each person or household and look at whether they are deprived or not in each of the indicators

included in the measure. That is, we look at the overlapping or joint distribution of deprivations for each observation. So, besides knowing that 20% of the country is deprived in water and 20% in education and 20% have suffered a major weather shock, we also look at whether these are the same people suffering from all these hardships at once – and whether the intensity of their poverty is more intense.

Naturally, some of the deprivations are connected or reinforce others. For instance, children living in a household where adults have not completed basic education and are unemployed are more likely to be out of school or undernourished. By looking at the overlapping deprivations faced by the poor (the intensity of their poverty or accumulation or deprivations), and by considering how these various deprivations are connected, it is possible to identify multisectoral interventions that would be more effective in tackling poverty in all its dimensions. ‘Packages’ of interventions (rather than sector-specific programmes) can be developed that consider the various hardships faced by the poor at the same time. The MPI therefore guides sectoral policies to reduce individual deprivations but also facilitates coordination across sectors and ministries to develop a comprehensive poverty reduction strategy, which can in turn influence budget allocation. This creates savings in administrative and operational costs, while also enhancing the efficacy of programmes in reaching the poorest of the poor.

#### BOX 1. STRENGTHENING GENDER-SENSITIVE BUDGETING THROUGH MPI DISAGGREGATION

Disaggregating the MPI by gender-related variables provides a valuable evidence base for gender-sensitive budgeting. In many countries, female-headed households or households with women as primary caregivers experience higher levels of multidimensional poverty due to systemic barriers in access to education, healthcare, employment, and social protection. By identifying which deprivations disproportionately affect women and girls (such as lack of access to prenatal care, time-based poverty due to unpaid care responsibilities, or limited educational attainment), policymakers can allocate resources more effectively to address structural gender inequalities.

MPI data can inform the scaling up of social safety nets targeted at single mothers, expansion of early childhood care and education programmes, or subsidies for health services that particularly benefit women. Furthermore, when paired with public finance tools such as gender budget tagging or benefit incidence analysis, disaggregated MPI data can help track whether public expenditures are reducing gender-based deprivations over time. In this way, the MPI serves not only as a diagnostic tool but as a mechanism to strengthen gender equity in budget formulation, execution, and evaluation.

## THE USEFULNESS OF THE NATIONAL MPI UNDER DIFFERENT BUDGET ALLOCATION MECHANISMS

Depending on the mechanism used to allocate resources, the MPI can play a fundamental role. On the one hand, in the case of **needs-based budgeting**, the MPI can be used as part of the allocation formula, by identifying the percentage and number of multidimensionally poor people and the deprivations that constitute their poverty. The analysis of the percentage of people deprived in each indicator can provide information regarding the needs of poor individuals in different geographic areas. The estimated costs associated with the reduction of those deprivations can also be estimated for different individual and regional characteristics.

In addition, using capitation methods, the MPI can be a useful tool to prioritise geographic areas and institutions within those regions. Depending on the number of poor individuals in a region and their specific needs, the capitation system can be established, and resources distributed accordingly. Once the budget is defined and resources are allocated to different geographic areas, each area can divide the resources based on the needs of those living in multidimensional poverty.

On the other hand, when a government uses **performance budgeting** to allocate resources, it can use the MPI to set priorities and identify which programmes are the most relevant to reducing individual deprivation and multidimensional poverty overall. One important step is to set the MPI as a priority goal. In fact, it can be included as a strategy goal in the National Development Plan of a government. A second step is to establish different mechanisms to identify existing policies, programmes and services that aim to reduce deprivations in the different indicators included in the MPI. Each indicator included in the MPI will have specific programmes that contribute to the reduction of the proportion of people that are deprived and specific institutions that are responsible for the fulfilment of specific goals. Those goals could be set based on microsimulations or projections of how the effective implementation of those programmes could contribute to the reduction of specific deprivations.

Transparency and accountability are important principles when using the MPI for performance budgeting. Clear mechanisms to track progress in the MPI indicators should be established, including the reporting period and

frequency, the institution that is responsible, the specific targets that will be tracked, and so on.

The decision process under both types of budget allocation mechanisms (needs-based budgeting and performance budgeting) needs to be based on reliable sources of data. In the case of needs-based budgeting, administrative records and surveys are key to define which aspects can be included in the allocation formula. Therefore, if the MPI is going to be used, it is important that the MPI results are disaggregated at the specific level where the budget will be distributed; for example, if the budget is allocated by provinces, the MPI results should be available at the province level. In the case of performance budgeting, information related to the number of poor individuals who will benefit from each of the programmes should be estimated. Specific targets for each of the programmes should be based on the results of the national MPI; for example, a programme increasing the number of children attending school can set the target based on the percentage of children who are deprived in this indicator in different regions, provinces or other geographic areas.

In conclusion, depending on the budget allocation mechanism selected, the MPI can be used in different ways. How countries use the MPI and how effective the use of the MPI will be as a guide for budget allocation will depend on the policy context and how much policy commitment exists. The next sections present the cases of Costa Rica and Mexico as examples of two countries that used their multidimensional poverty measures to guide budget allocations.

## BUDGET ALLOCATION BASED ON THE NATIONAL MPI IN COSTA RICA (2016–2018)

In Costa Rica, poverty reduction was prioritized in the 2015–2018 National Development Plan as one of the three main goals of the administration and the national MPI was included as a strategic tool to redistribute public resources across regions and programmes. Several social programmes from different public institutions in the country used the results of the national MPI to set goals and allocate resources aiming to increase their effectiveness and reduce the levels of deprivation of individual indicators and overall multidimensional poverty.

Between 1987 and 2016, public spending on Costa Rica's social sector increased considerably: by more than sevenfold for education and by almost fivefold for both health

## BOX 2. HORIZONTE POSITIVO

*Horizonte Positivo* is a private initiative created by prominent business leaders to promote human development and sustainability in Costa Rica. The association provided financing for technical resources – including technology and human talent – to develop the national MPI and other innovative tools for transparency, policy building and decision making, such as the Social Maps and the Social Management Dashboard. Their active participation in this process was also key for gathering the support of the private sector before launching.

and public investment for poverty reduction. However, poverty (measured in monetary terms) did not decline proportionally, and there were very few mechanisms for monitoring and coordinating poverty reduction programmes, none of which were cross referenced. Many social benefits were delivered without a comprehensive understanding of the needs of the population. Consequently, the poverty mitigation efforts were not producing the expected results.

The government of Costa Rica created a commission with the Institute of Statistics and Census (INEC), representatives from the Presidential Social Council Advisory Team, the Ministry of National Planning and Economic Policy, the Ministry of Finance, and the Fund for Social Development and Family Benefits with the goal of creating a national MPI for Costa Rica as an official measure for allocating resources and monitoring and evaluating social programmes. The development and implementation process was supported by a public-private partnership with the non-profit association *Horizonte Positivo*.

Costa Rica's national MPI was presented in 2015 after one year of discussions with representatives from several sectors and ministries to select the dimensions and indicators. The national MPI includes 19 indicators grouped into five dimensions (education, health, employment, housing and social protection). It identifies people as multidimensionally poor if they are deprived in four or more of the weighted indicators.

The national household survey used to compute the national MPI in Costa Rica (*Encuesta Nacional de Hogares*, ENAHO, in Spanish) is representative at the national and regional level. Thus, it was possible to disaggregate the MPI and provide a detailed picture of the deprivations faced by households in each region. Indeed, it was

possible to know the incidence and intensity of poverty for each region and allocate resources based on these results. In this context, institutions providing services to households experiencing poverty were able to identify which regions of the country should be given the highest priority for public intervention.

The Presidential Social Council then used the MPI to identify trends for each dimension and indicator at the national and regional level and compare trends in deprivations with what was being done by the central government's social programmes. The result was illuminating – there were significant opportunities for improving the allocation of resources to ensure that the largest investments went to the areas that were most in need.

The national MPI was approved by the President and his Cabinet in March 2016. The Cabinet came to the following agreement: “To request all officials and mid-level officials from the social sector ministries and institutions to use the Multidimensional Poverty Index as an official diagnostic and monitoring tool for social programmes, as well as part of the criteria for allocating resources to the different regions of the country and programmes with the largest impact on reducing the index” (Government Council Agreement N\* 092-16). In May 2016, a Presidential Directive (No. 045) was issued stating that the MPI must be used by a set of institutions for budgetary planning.

After the publication of this directive, a pilot plan was implemented with seven key institutions (the Housing Mortgage Bank or BANHVI, the Ministry of Labour and Social Protection or MTSS, the Costa Rican Social Security Fund or CCSS, the Ministry of Science, Technology and Telecommunications or MICITT, the National Institute of Apprenticeships or INA, the National Scholarships Fund or FONABE, and the Social Protec-

Table 1. Institutions and programmes selected in 2017

Institutions	Programme	MPI indicator and dimension
MTSS	<i>PRONAMYPE: Capacitación</i>	Low levels of human capital (Education)
MTSS	<i>PRONAE: Empleate</i>	Low levels of human capital (Education)
IMAS	<i>Avancemos</i>	No school attendance (Education)
FONABE	<i>Becas de estudio</i>	No school attendance (Education)
INA	<i>Programa de capacitación y formación profesional</i>	Low levels of human capital (Education)
CCSS	<i>Aseguramiento por cuenta del estado</i>	No health insurance (Health)
MTSS	<i>PRONAMYPE: Crédito</i>	Informal employment (Employment)
MTSS	<i>PRONAE: Ideas productivas</i>	Informal employment (Employment)
BANHVI	<i>Bonos RAMT</i>	Floor, roof and walls material (Housing)
MICITT-IMAS	<i>Hogares Conectados</i>	No internet access (Housing)

Source: *Horizonte Positivo* (2018).

tion Institute or IMAS) and ten social programmes to test how the MPI could be used as an information tool in the process of budget allocation and to evaluate the efficiency of social programmes (Table 1 presents the institutions and programmes selected in the first round). Institutions and programmes were selected according to the likelihood that they would have a direct impact on the national MPI.

Within this effort, resources were allocated based on institutional goals but also using MPI data for targeting new beneficiaries in 2017, as well as for determining the total number of beneficiaries. Workshops were then held to train the institutions on how to target their resources using MPI data, with 2017 as a baseline. Simulations were then carried out for each indicator and region of the country using this data to estimate how the allocation of resources using the MPI in the different programmes would affect poverty levels. It was then requested that each institution should consider the MPI results and how different deprivations were distributed across the country, and then set the target for each programme based on this analysis. Some institutions argued that part of their resources had already been allocated to old beneficiaries, but they pledged to use the MPI data for allocations to new beneficiaries.

To facilitate this process, a Matrix of Programming, Budgeting and Monitoring of Institutional Programmes or MPI management control panel (*Tablero Gerencial*) using the MPI was designed. Using this information, selected institutions presented the results of their interventions (the number of new beneficiaries and the budget associated with each programme) to the other members of the Presidential Social Council in January, April, July and October of each year.

MPI data were also published on the website of the INEC so that a wide range of stakeholders from local governments and private entities to NGOs could use the MPI as a budgeting tool to better target specific regions with their social programmes.

One of the main challenges in the process of increasing the number of beneficiaries based on MPI results was that beneficiaries were not automatically enrolled and needed to apply to be added to programmes. Therefore, unless there was an increase in the number of people who applied to receive the benefit, there would not be a reduction in the level of deprivations. The poverty reduction strategy *Puente al Desarrollo* (Bridge to Development) played a major role in addressing this issue by raising awareness, connecting households to the relevant information and increasing the number of beneficiaries applying to each programme.

### BOX 3. PUENTE AL DESARROLLO

*Puente al Desarrollo* was a coordination mechanism between all programmes, projects and actions aiming to provide access to goods, services and products provided by public institutions. *Puente al Desarrollo* was included in the National Development Plan, with the target of providing services to 22,500 households living in multidimensional poverty. One of the main elements included in this strategy was the existence of caseworkers (*co-gestoras sociales*), whose main task was to visit households to identify possible beneficiaries and to guarantee that those households accessed all of the programmes they needed for comprehensive socioeconomic development. By reaching out to households, the programme aimed to reduce revictimization and expenses incurred by households needing to travel to an institution to seek support.

In addition, a Presidential directive was launched (the *Technical and Methodological Guidelines for Planning, Budgetary Programming, Monitoring and Strategic Evaluation in the Public Sector in Costa Rica*) urging agencies to use the national MPI as a budget allocation instrument. This document also indicated the need to increase the number of institutions and social programmes using the MPI as a mechanism of budget allocation from 14 and to 20. Table 2 presents the new institutions and programmes that were added in 2018.

As in 2017, the process of budget allocation using the MPI included workshops with different institutions and simulations to set targets for each programme, with the aim of reducing multidimensional poverty by between 1.7 and 2.2 percentage points. The MPI was a core component of these discussions, but there were instances where geographical areas and communities identified as priorities by certain institutions for their programmes did not match the priorities suggested by the MPI and the Ministry of Planning. In some of these cases, the final list of programmes included in budget allocation took this into account and was modified accordingly.

**Table 2. Institutions and programmes added in 2018**

Institutions	Programme	MPI indicator and dimension
MEP	<i>Programa de alimentación y nutrición</i>	No school attendance (Education)
MS	<i>Centro de Educación y Nutrición de Centros infantiles de atención integral</i>	Young age without care (Social protection)
CCSS	<i>Régimen no contributivo de pensiones</i>	Elderly people without pensions (Social protection)
PANO	<i>Derechos de los niños, niñas y adolescentes</i>	Young age without care (Social protection)
INAMU	<i>Avanzamos mujeres</i>	Outside labour force because of family obligations (Social protection)
CONAPAM	<i>Construyendo lazos de solidaridad</i>	Elderly people without pensions (Social protection)
CONAPAM	<i>Pobreza y Discapacidad</i>	People with disabilities without benefits (Social protection)
MS	<i>Saneamiento básico rural</i>	Waste disposal (Health)
AyA	<i>Programa Nacional para el abastecimiento de agua de calidad potable a la población</i>	No clean source of water (Health)

Source: *Horizonte Positivo* (2018).

During the constitutional term of 2014 to 2018, nationally multidimensional poverty went from 21.7% to 18.8%. As a result of data driven policy, monetary poverty was also reduced from 22.4% to 20.0%. Extreme poverty (also measured by income) was lowered from 6.7% to 5.7% because of the prioritization of the most vulnerable populations in public policy. The biggest impact of MPI-based budget allocation was in rural poverty, which was reduced from 30.3% to 24.1% thanks to revised funding and necessity-based adjustments made to social programmes and services in those areas.

### USING THE MULTIDIMENSIONAL POVERTY MEASURE TO GUIDE BUDGET DECISIONS IN MEXICO (2014–2018)

Although the main objective of multidimensional poverty measurement in Mexico was not originally budget allocation, between 2014 and 2018 the measure was used to allocate resources analysing which social programmes were the most efficient for poverty reduction. This was done through the federal government's Inclusion Strategy and through some local initiatives at the state level, such as in Puebla and Oaxaca.

Mexico's multidimensional poverty measure was launched in December 2009. This new poverty measure was not immediately used for policy making because income-based poverty data were the main input for policy planning. Neither the new multidimensional poverty measure nor the income-based poverty measure were used for budgetary purposes until later on.

Following an increase in the absolute number of poor people in Mexico (which rose from 49.5 million in 2008 to 53.3 million in 2012), the incoming government established the reduction of poverty as a priority. From the beginning, the new administration understood and incorporated the multidimensional poverty measure into its policy planning.

An early attempt was to reduce extreme food poverty – that is, to reduce the proportion living in extreme multidimensional poverty who were also deprived in access to food. With this focus, the government designed and implemented a strategy called *La Cruzada Nacional contra el Hambre* (The National Crusade Against Hunger). This strategy increased the recognition of the importance of coordination between ministries to reduce hunger through public policy. It became clear that decisions taken by ministries and the Presidency on this strategy

should be linked to the budget, since programmes were not effective otherwise.

Despite this finding, and perhaps due to the complexity of the *La Cruzada Nacional contra el Hambre*, the link to the budget was not clearly established between 2012 and 2014. Initial results were unsatisfactory: overall poverty increased during this period from 53.3 million to 55.3 million people. The government then changed its vision and a new strategy, the National Inclusion Strategy, was presented in 2015.

An evaluation process had been running in parallel with the multidimensional poverty measurement since 2011. Annually, CONEVAL (an independent monitoring and evaluation agency which operated between 2004 and 2025) had been producing a document called “Budget Considerations for Social Development”. Using the evaluations from all social programmes (almost 250), it was relatively easy to link those findings with multidimensional poverty and then make suggestions for budget allocation. For instance, if a government priority was to increase education enrollment (thus reducing the educational gap, which is a dimension of the multidimensional poverty measure) and the evaluations showed that some programmes registered good performance in meeting this goal, then the programme was a strong candidate to be favoured by budget decisions. Assuming poverty reduction as the end goal, programmes with other goals or those for which the evaluation failed to show positive results, would be deprioritised when allocating the budget.

CONEVAL undertook this analysis for all social programmes every year and produced a ranking of programmes that should be prioritised. Programmes were classified into four categories: high, medium, low and with no chances to reduce poverty, according to the official poverty measurement.<sup>1</sup> CONEVAL then labelled as Priority Programmes those with some influence on poverty (high, medium, low) and as Non-Priority those programmes in the last category. However, some programmes included in the last group could still be categorised as important for other goals and purposes. The document including the recommendations was then sent to the Ministry of Finance, to the Congress and to all min-

1. CONEVAL's Budgetary Considerations for Social Development are available at [CONEVAL website](#). Please note that CONEVAL was closed down in 2025.

istries every year before the process of budget allocation was set to begin. CONEVAL published this document from 2010; however, budget decisions were not driven by the results of this analysis until 2015. Once the National Inclusion Strategy was implemented, the information produced by CONEVAL started being used as part of the budget allocation process.

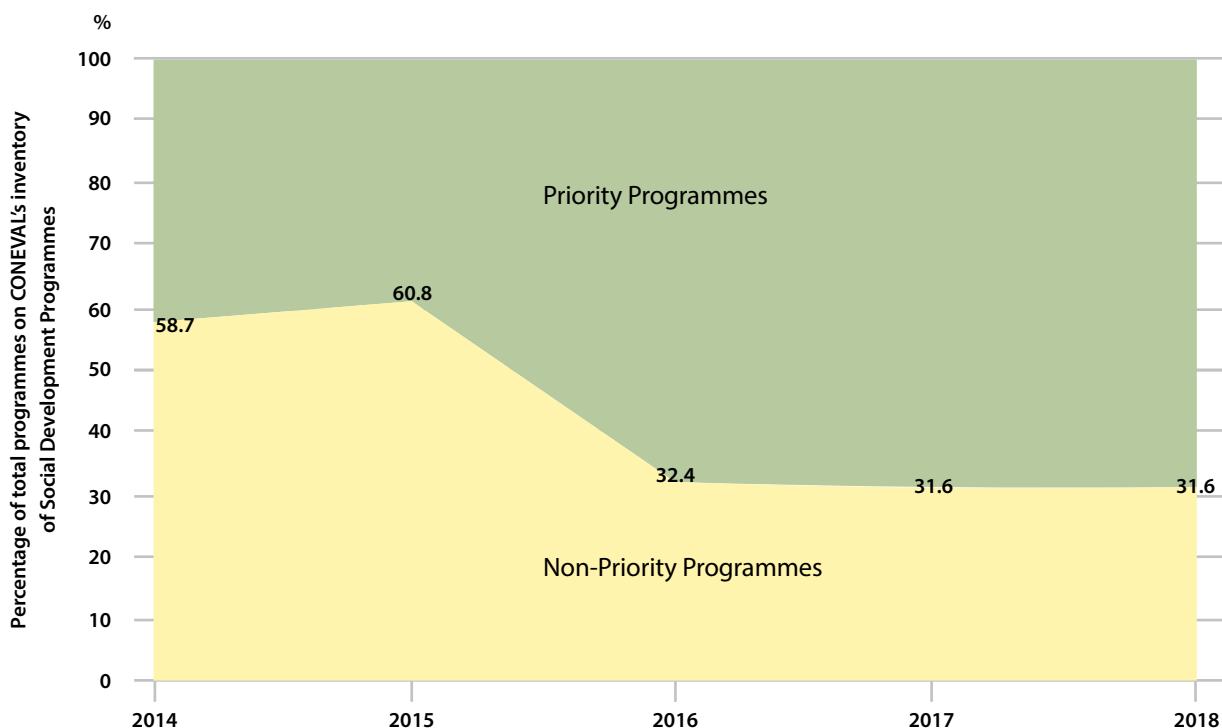
The purpose of the National Inclusion Strategy was to reduce multidimensional poverty, with special emphasis on extreme poverty, by targeting all dimensions and indicators through social programmes. Thus, social programmes were prioritized in the budget using the resources of the document produced by CONEVAL. In addition, the federal government announced to all state governors that reducing (extreme) poverty through this strategy was the main goal for social policy. The government would allocate resources to the states if they would prioritise certain programmes that targeted poverty. Many state governors joined the strategy following these strong political and financial incentives to reduce poverty.

To function the National Inclusion Strategy needed a considerable amount of information. There were aggregate figures of deprivations by state (with information from 2014)

and by municipalities (using information from 2010). But the government needed information from actual households to determine the deprivation gaps, which programmes were needed and, then information to determine the budget for each programme. There was a need to complete this information from the ground, building on an information gathering process started by the previous government (*Cuestionario Único de Información Socioeconómica, CUIS*). These tools were imperfect, especially because in Mexico there was no universal ID number, but there was information on the living conditions of households in poor municipalities. With this information, the next step was to identify how deprivation gaps should be covered. The government based their answers on the Budget Consideration for Social Development document written by CONEVAL, amongst other internal information.

Using the information gathered by CONEVAL and other institutions, the Ministry of Social Development, acting as the head of the National Inclusion Strategy, led the way to reach budget decisions that matched the programme needs identified on the ground. There are no public records of what happened or how these decisions were taken, but cer-

Figure 1. Evaluation of the Budget between Priority and Non-Priority Programmes for Social Development



Source: CONEVAL (2018c).

tainly an important part of the social budget was decided in this manner, especially between 2015 and 2018.

Figure 1 shows how this process influenced budgeting and created a step change in 2016. The Ministry of Social Development and the Ministry of Finance made an important effort to convince the Presidency, other ministries and the Congress about the importance of Priority Programmes, according to CONEVAL's definition. In 2016, the main social programmes were favoured as Priority Programmes and this remained the case for the next two years.

A very similar experience was observed in the state of Puebla, and also in other states such as Oaxaca, San Luis Potosí, Guanajuato, Tlaxcala and Yucatán. Even though the experience in each state was different, the approach was similar: a public measure of poverty was updated every two years and information about the effectiveness of social programmes to reduce poverty in all dimensions was used to guide budget allocations.

## CONCLUSION

The MPI can be used as a powerful tool to guide budget allocation either by supporting needs-based resource allocation (being included in the allocation formula) or through performance budgeting (setting goals for different programmes aiming to reduce overall multidimensional poverty or individual deprivations). In both cases, the MPI provides information on the levels of poverty and deprivation of different geographic areas and how different services and programmes might play a role in reducing hardships faced by the poor. In this brief we have seen how two countries institutionalized the MPI for budget allocation and used it to allocate resources to programmes that would address MPI. In Costa Rica the MPI became an important resource for coordinating and monitoring multiple programmes designed to address poverty. The Costa Rica example demonstrates how MPI was used for both a needs-based approach, where new beneficiaries were identified based on the MPI. It also demonstrates the MPI being used for performance budgeting as goals were assigned for a selection of programmes based on simulations. In Mexico, the MPI was used as part of a performance budgeting exercise to make a case to prioritise social programmes in the budgeting process between 2014 and 2018 to respond to government pledges to address poverty. Programmes that demonstrated greater levels of success for reducing multidimensional poverty were prioritized in the national budget.



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