

## About the Brief

Hyun H. Son writes that to address the welfare of the vulnerable and needy, cash transfers—both conditional and unconditional—are among the important safety net programs. This brief focuses on conditional cash transfers (CCT) that are increasingly perceived as an effective tool for poverty alleviation. CCT programs have the ability to enhance both the income of the poor in the short run, and their human capabilities in the medium and long run. The brief discusses issues related to the rationale and implementation of CCT programs and assesses their effectiveness.

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# Conditional Cash Transfer Programs:

## An Effective Tool for Poverty Alleviation?

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ERD POLICY BRIEF NO. 51

# **Conditional Cash Transfer Programs: An Effective Tool for Poverty Alleviation?**

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July 2008

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## Introduction

A strategy of inclusive growth is fast evolving as a key agenda of emerging markets and many developing countries, with the end in view of achieving a significant reduction in poverty. Inclusive growth is anchored on three pillars, all of which aim to disperse the benefits of economic growth (Ali 2007).<sup>1</sup> First, economic opportunities can be created by generating full and productive employment. Second, access to economic opportunities can be broadened by providing mechanisms for capability enhancement. Third, minimum well-being can be ensured by providing social protection. Safety nets are at the core of this pillar, which can be channeled to address the welfare of the vulnerable and needy. Toward this end, cash transfers—both conditional and unconditional—are among the important safety net programs that have so far been implemented. This brief focuses on conditional cash transfers that have attractive features of addressing both extreme poverty and low human capital.

Conditional cash transfer (CCT) programs are increasingly perceived as an effective tool for poverty alleviation. CCT programs have been highly successful in Latin American countries, and are increasingly perceived as a magic bullet for poverty reduction. Well-known programs that follow this approach include the *Progresa* (now called *Oportunidades*) in Mexico, *Bolsa Escola* and *Bolsa Familia* in Brazil, *Red de Proteccion Social* in Nicaragua, *Programa de Asistencia Familiar* in Honduras, Program of Advancement through Health and Education in Jamaica, Food-for-Education (FFE) in Bangladesh, and *Subsidio Unico Familiar* in Chile (de Janvry and Sadoulet 2006). In 2007, the Philippines piloted a CCT program in four provinces and since January 2008, has started to implement this program nationwide.

While there is no guarantee that the success of CCT programs in some countries can be replicated in others, they provide an important example that can yield an array of good practices from

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<sup>1</sup> Ali (2007) provides a good discussion on three pillars of inclusive growth.

which other countries can learn. Experiences highlight a number of issues that countries need to explore in assessing the feasibility of a CCT program: (i) a country needs to assess the current level of specific human capital outcomes and identify key constraints to low outcomes in human capital; (ii) cash transfers without conditionality will not be sufficient to increase human capital outcomes significantly; (iii) monitoring of operations and rigorous evaluation are critical to ensure effectiveness and success of the program; and (iv) good governance and political support at high levels for the program play an important role in implementing a CCT program. This policy brief intends to provide a discussion on these issues. In particular, this brief deals with issues related to the rationale and implementation of CCT programs and an assessment of their effectiveness.

### **Conditional Cash Transfers in Context**

Conditional cash transfer programs have been regarded as an effective way to reconcile safety nets—or more generally social assistance policies—with investments in human development benefiting the poor. Simply handing over cash to poor families will not be sufficient to tackle poverty in the long run. Hence, the idea is to transfer cash to the poor “on condition” that the poor will commit to empower themselves and help bring future generations of poor families out of poverty.

There are several key characteristics of CCT programs. First, CCT programs are targeted to poor or extremely poor households and have a positive gender bias, since the cash benefits are usually addressed to the female head of the recipient households.<sup>2</sup> Second, some programs such as *Progresa* include a nutrition component that provides cash transfers and nutrition supplements to children, and to pregnant and lactating women. Third, cash transfers vary with the number of children, and the size of these benefits changes with the children’s age and gender. Fourth, to encourage greater school attendance for girls, higher transfers are paid for girls than for boys. Fifth, transfer amounts are greater for children at the secondary

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<sup>2</sup> For instance, Brazil’s *Bolsa Escola* transferred monthly payments to poor households with children aged 6–15 enrolled in grades 1–8, on condition that they met at least 85% of school attendance. The transfers were paid directly to mothers.

school age group than those at the primary school age group because adolescent children are expected to have higher opportunity costs of attending school, particularly for poor families.

The main requirement of CCT programs is that recipients commit to undertaking certain behavioral changes in return for the transfers, such as enrolling children in school and maintaining adequate attendance levels, getting prenatal and postnatal health care treatments, and encouraging young children to undergo growth monitoring, immunization, and periodic checkups.

A presumption embedded in the CCT approach is that the supply of social services for education and health is in place and that stimulating demand through income transfers is necessary to induce major changes in human capital investment. This explains why the success of CCT programs in some countries is no guarantee that they can be reproduced in others with the same performance. For instance, in many developing countries, children, particularly in rural areas, face supply-related problems, i.e., there are not enough schools, classrooms, or teachers to offer adequate education to those who need or want them. In such circumstances, pouring resources into a CCT program may not be able to achieve the educational objective. Thus, in low-income countries with limited social service infrastructure, CCT programs should integrate demand-side with supply-side issues in order to avoid policy inconsistency and resource wastage.<sup>3</sup>

### **Is Conditionality Necessary?**

For countries considering a CCT program, an important question is whether it is necessary to impose conditionality. One stream of arguments supporting conditionality is that when the program's goal is to raise the utilization by poor children of available education and health services, there is justification for imposing conditions on household behavior, and the gains from the conditionality may be outweighed by the administrative costs of monitoring such

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<sup>3</sup> There have been CCT programs with a supply-side component. These have been implemented in low-income Latin American countries particularly in *Red de Proteccion Social* in Nicaragua and *Programa de Asistencia Familiar* in Honduras, where besides the demand component of the cash transfer, there were also investments in infrastructure. A part of the program's budget was set aside for building schools and health centers as well as improving school conditions.

conditions. Corollary to this argument, conditionality can be a means to achieve socially optimal levels of investments in human capital. When households make decisions about children's schooling, they tend to overlook the social benefits derived from educating children, particularly girls. As such, there is underinvestment in human capital by private households, which could be increased by conditionality.

The other stream opposes the idea of conditionality based on the costs and administrative requirements, and prerequisites on adequate access to education and health services. Another concern often raised comes from the view that CCT can be perceived as demeaning because the government imposes conditions on the poor people irrespective of their preferences.

The foregoing arguments provide much scope for future research. Moreover, continued experimentation with program design is called for to find out a more cost-effective approach to implementing the CCT.

### **How Costly are CCT Programs?**

Despite the wide-ranging popularity of CCT programs, they are commonly perceived as too costly. In this context, it will be useful to assess the costs of these programs in relation to other government programs that provide greater benefits to the nonpoor. A typical example would be fuel or energy subsidies. In general, these subsidies are highly regressive and are often more costly than CCT programs. For instance, Indonesia and Egypt spent 5% of their gross domestic product (GDP) in 2005 and 8% of GDP in 2004 on energy subsidies. Another example is the bailouts of insolvent contributory pension funds. In Brazil, the government spends 3.7% of GDP to cover the deficit in the main federal pension programs, which deliver more than 50% of their benefits to the richest 20% of the population. On the other hand, Brazil's *Bolsa Familia*, covering the poorest 20% of the population, cost about 0.4% of GDP in 2007, which is only one tenth of the federal pension programs.

During the initial period of implementation, CCT programs can be quite expensive to administer. Much of the budget is spent on undertaking targeting of transfers and monitoring the recipients' actions. However, administrative costs will spread over the implementation of the programs, and their ratio to total transfers will fall rapidly over the years.

To reduce administrative costs, program designers may opt to reduce expenditures on targeting. Yet, severely weakened targeting performance may result in large leakage of benefits to the nonpoor and thus may endanger achieving the prime objective of the program. In addition, monitoring conditionality is also part of administrative costs in implementing a CCT program. Of the total administrative costs of CCT programs, about 9% was devoted to monitoring in Honduras, and roughly 2% in Mexico. Determining optimal levels of resources to monitor conditionality is a difficult task, and will vary with local circumstances.

Making transfers conditional on the recipients' actions also implies that their private costs in participating in the programs may not be trivial. For instance, in workfare programs, households incur an opportunity cost in terms of foregone income opportunities; queuing to receive benefits also involves similar opportunity costs. Households may also have to incur financial and time costs associated with obtaining certifications required for the program, such as a national identify card and proof of residency or of disability, and traveling costs to and from program offices. It is important to account for these private costs when designing or evaluating transfer programs.

To illustrate the magnitude of administrative costs, experiences by *Progresa* and *Bolsa Escola* could be useful.<sup>4</sup> In Mexico, during the first year of implementation of the *Progresa* in 1997, the cost of targeting represented 65% of the total cost of the program, followed by monitoring at 8%, and actual delivery of transfers at 8% of the total. By 2000, the major component was the actual transfers (41%), followed by monitoring of conditionality (24%), then targeting costs (down to 11%).

In terms of administration, the *Bolsa Escola* program in Brazil has proven to be the most cost-effective. It operates under a system that achieves low costs of making transfer payments to the beneficiaries. More specifically, the mother of each beneficiary

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<sup>4</sup> The Food-for-Education program in Bangladesh is another case in point. The program distributes grain to increase school attendance. Unlike other CCT programs, this type of in-kind transfer program is expected to drive up total administrative costs because of transport costs associated with delivering a physical commodity. According to a recent estimate, total administrative costs for the FFE program comprise as much as 37% of the total cost of the program. This high figure casts doubts on the feasibility of the use of food as a transfer medium.

is given an electronic cash card and an account at a large federal bank. Monthly payments are made through electronic transfers between this account and the national treasury. The mother is then able to withdraw benefits at any of the local banks or other authorized commercial financial outlets. While this approach substantially reduces the transportation and time costs incurred by the program beneficiaries, the system works only if the financial banking system is well established, an advantage that a vast majority of developing countries do not enjoy.

### **Impacts of CCT Programs: What Do Evaluations Say?**

Rigorous evaluations (often built into the programs themselves) show that many, but not all, CCT programs have a positive effect on education and health outcomes (Schady and Araujo 2006). Favorable education outcomes were drawn mostly from the experience of *Progresa* as evaluated by the International Food and Policy Research Institute. The evaluation of *Progresa* showed that there was a significant increase in the enrolment of boys and girls, particularly the latter. The program also increased enrollment in secondary schools by 6 and 9 percentage points for boys and girls, respectively. For girls, who often dropped out before secondary school, the transition rate to secondary school rose by 15 percentage points. Besides *Progresa*, CCT programs in other countries (e.g., Colombia and Turkey) have been successful in improving enrollment rates, particularly at the secondary level. However, such programs had relatively little impact on school attendance rate, on school achievement, or in attracting dropouts to schools. These elements should be integrated into the design of the programs or through complementary programs. For countries where pre-program enrollment rates are extremely low, the impact of CCT programs on enrollment rates is expected to be greater. This is true in Colombia, Mexico, and Turkey where CCT programs hardly increased enrollment rates at the primary level because these countries already had high primary enrollment rates before the program. On the other hand, CCT programs in Bangladesh and Nicaragua significantly raised primary school enrollment by 9 and 13 percentage points, respectively. In these cases, the programs were particularly effective because both countries had a large proportion of children who were not enrolled in primary school.

Conditional cash transfer programs have also had significant impacts on health and nutrition for both adults and children. Children

receiving *Progres*a have a 12% lower incidence of illness, and adults reported a 19% decrease in sick or disability days. In Honduras, utilization of health services among young children increased by 15–21 percentage points. A number of CCT programs show a positive correlation with improved nutritional status among children, i.e., increased height. In Honduras, however, no positive nutritional impacts were observed. This occurred because of problems associated with program implementation. Experience suggests that sufficient and correct information between the program and the beneficiaries is critical to ensure the full impact of the program.

Conditional cash transfer programs have a strong gender focus. Besides substantial increases in school enrollment rates among girls, CCT programs in Mexico and Nicaragua have also found positive impacts on attitudes toward educating girls in general. Studies in eastern Turkey suggested that sociocultural biases against schooling for girls played a bigger role than cash incentives. This indicates the need for complementary programs to overcome sociocultural barriers. Furthermore, CCT programs have contributed to increasing women's status within the household because the program is directed to the female head of the recipient households. As such, women play a major role in intrahousehold resource allocation and in making important decisions within the household.

The impact of CCTs on poverty varies by programs, with *Progres*a yielding the most significant results. Bourguignon and others find very little impact on poverty and inequality for *Bolsa Escola* due to the small amount of transfers (Bourguignon, Ferreira, and Leite 2002). In the long run, the translation of higher educational attainment into higher earnings cannot be taken for granted because of the countries' absorption capacity of skilled labor, and the general rates of return to education. This could be a major concern in developing countries, where returns to education (particularly for primary education) in the rural sector are low, and where the bulk of the problem of school attendance exists.

## Conclusions

For countries considering interventions through CCT programs, a few recommendations emerge from the brief. First, conditionality plays an imperative role in CCT programs. Cash transfer, by itself, will not suffice to increase school attendance significantly, which means that conditionality would have to be introduced, and possibly

also, the quality of schooling improved when administering any cash transfer programs aimed at a sustained reduction in poverty. Second, it is also imperative to ensure ongoing monitoring of operations and rigorous evaluation of effectiveness of CCT programs. Third, good governance is an important component of a CCT program. As is the case for all effective social safety nets, a CCT program should be transparent in operation to encourage learning, minimize corruption, and ensure that beneficiaries and the wider population understand how the program functions. Fourth, political support at high levels for the program is one of the main issues to be considered in implementing a CCT program. Such political supports are critical as a CCT program requires coordination across different sectors in the government, particularly education, health, and social welfare.

In addition, policymakers face many challenges and trade-offs in designing effective social programs such as a CCT. On one hand, the emphasis on targeting and conditionality helps maximize the program's impact and effectiveness. However, targeting and monitoring can increase the cost per beneficiary, which reduces the program's efficiency. On the other hand, designing a program with a weak or nonexistent targeting strategy not only reduces the cost per beneficiary but also leads to leakages to the nonpoor, driving down its impact and effectiveness.

Finally, to ensure success, complementing CCT programs with other components of social policy may prove meritorious. Complementary programs that can manage the supply side of services and accommodate the heterogeneity of targeted household behavior will enhance the effectiveness of CCT programs.

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