

Conditional Cash Transfers

Theory, Practice and Evidence

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CCT Definition

- Conditional cash transfers (CCT) are cash payments to targeted eligible households conditional on measureable behavior.
- For present, discussion refers to CCTs with the following characteristics:
 - Objective: poverty alleviation in short run and promotion of human capital investment to reduce poverty in the long run
 - Target population: poor and vulnerable households
 - Conditions: household's human capital investment, e.g. school attendance and children's health center visit

Examples of Countries with CCT Programs

| Countries | CCT Program | Transfer (% PCE) |
|----------------|---|------------------|
| LAC | | |
| Chile | Chile Solidario | 7 |
| Colombia | Familias en Accion | 17 |
| Ecuador | Bono de Desarrollo | 10 |
| Honduras | Program de Asignacion Familiar | 9 |
| Jamaica | Program of Advancement through Health and Education | 10 |
| Mexico | Oportunidades | 20 |
| Nicaragua | Atecion a Crisis | 18 |
| Nicaragua | Red de Atencion Social | 27 |
| Non-LAC | | |
| Bangladesh | Female Secondary School Assistance Program | 0.6 |
| Cambodia | Japan Fund for Poverty Reducation | 2-3 |
| Cambodia | Cambodia Education Sector Support Project | 2-3 |
| Pakistan | Punjab Education Sector Reform | 3 |
| Turkey | Social Risk Mitigation Project | 6 |

Source: Fiszbein and Schady (2009)

Presentation: Purpose and Context

- Purpose: to inform interested East Asian policy makers about CCTs
- Relevance of presentation:
 - The steady rise of social protection as a priority development area
 - A surge of interest in CCTs as safety net instrument for poverty reduction and social protection
 - Need for informed decision-making on CCT

Structure of Presentation

- The big picture: roles of safety nets in development
- The microeconomics of CCT: arguments for and against
- Common design features of CCTs
- The evidence on program results
- Conclusion: lessons and future directions

The Big Picture: Roles of Safety Nets in Development Policy

- Safety nets redistribute income to the poorest and most vulnerable, with an immediate impact on poverty and inequality.
- Safety nets can enable households to make better investments in their future.
- Safety nets help households manage risk.
- Safety nets allow governments to make choices that support efficiency and growth

The Microeconomics of CCTs: Framing the Economic Issue

- Is CCT a good use of scarce resources, given alternative uses?
- Why impose conditions? Why not unconditional cash transfers (UCT) instead?

Microeconomics: Arguments Against CCTs

- Returns are lower than to infrastructure and other public services
- More difficult to target and deliver than those other public expenditures
- Wrong incentives: reduced work, dependency
- Handouts lower self-respect

Microeconomics: Arguments For CCTs

- Targeted CCTs can often reach the very poor that other forms of public expenditures cannot
 - infrastructure and other public services often fail to reach the very poor
- CCTs can help the poor be more productive
 - market failures prevent poor people from being more productive
 - redistribution through CCTs can increase efficiency if market failures are too costly to correct
- CCTs can be a suitable instrument to compensate families suffering inherited disadvantage

To Condition or Not

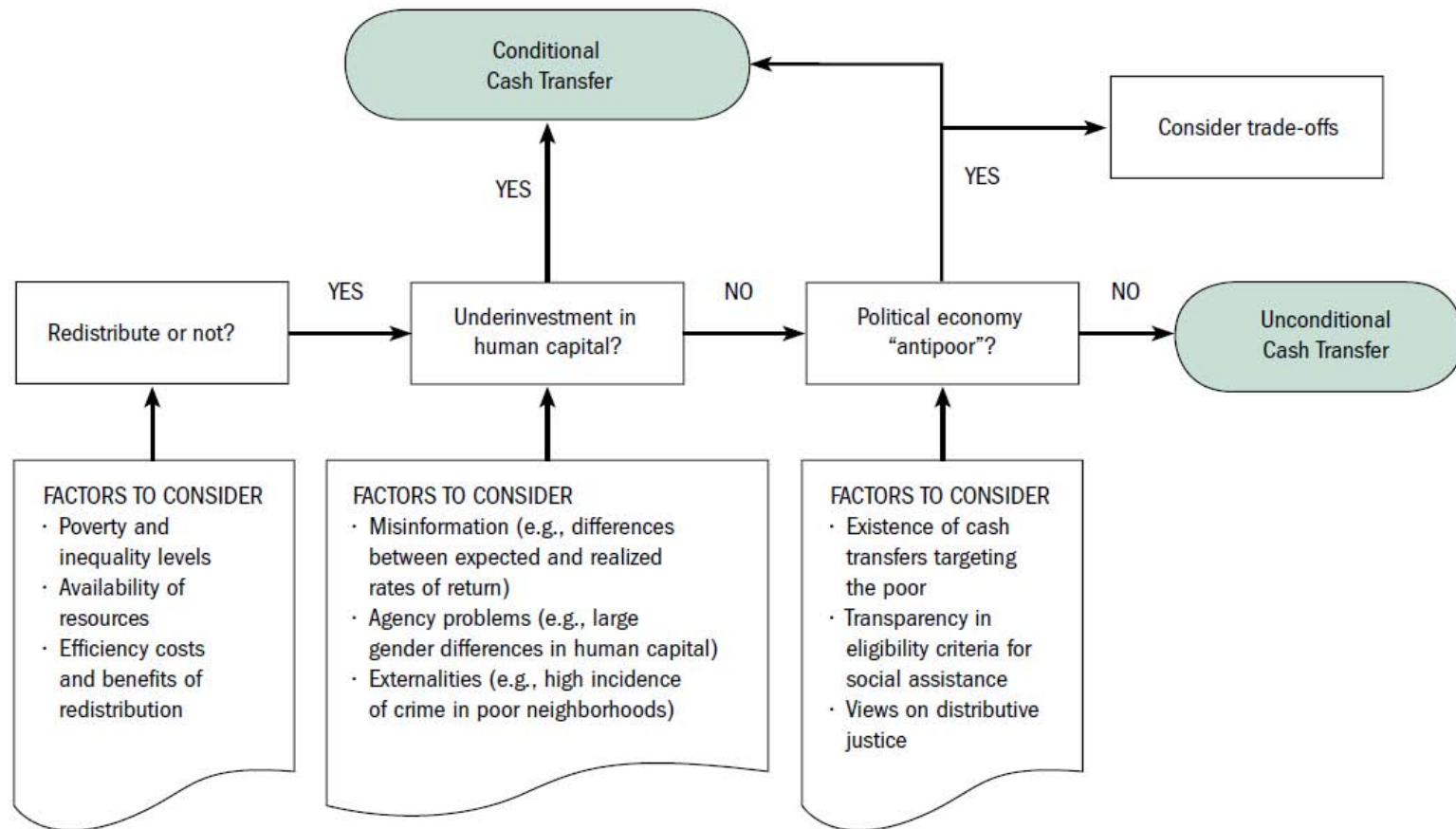
- Arguments against conditioning
 - The choice set is larger with UCT than CCT and in-kind social assistance
 - UCT greater flexibility for tailoring to specific needs and constraints of beneficiaries
- Arguments for conditioning cash grants
 - Persistence of imperfect private information about nature of investments and rates of returns
 - Short-term and long-term inconsistency due to shortsightedness, loss of self-control, and procrastination
 - Incomplete altruism and agency problem

Microeconomics: Conclusions

- CCTs can play some important beneficial roles
- Not a categorical policy imperative that all countries must have CCTs
- Each interested country needs to deliberate the arguments for and against CCTs in relation to its specific situation
- See decision-tree approach below to illustrate

Is CCT the Right Policy Instrument?

Decision Tree Approach



Common CCT Design Features

- Defining the target population and establishing the targeting system
- Defining the cash transfer conditions
- Determining the benefit system
- Payment levels
- Compliance verification, enforcement and sanctions
- Program monitoring and evaluation

Empirical Evidence on Program Results

- Consumption, Income, Poverty
- Investment behavior (non-human capital)
- School attendance and education outcomes
- Basic health service utilization and outcomes
- Child cognitive development outcomes
- Work behavior, pattern of consumption, and dignity

CCT Impact on Consumption and Poverty

- Significant positive impact on immediate per capita consumption/income with few exceptions
 - Impact ranges from 7 percent in Brazil and Honduras to 29.3 percent in Nicaragua.
- Distribution of transfers skewed toward the poorest of the poor reducing consumption inequality

CCT Impact on Consumption and Poverty -- continued

- Significant effect on poverty measures (headcount index, poverty gap, and squared poverty gap)
 - in Colombia, Familias en Accion reduced poverty gap by almost 7.0 percentage points
 - In Nicaragua, RPS decreased the poverty gap by 9-13 points and poverty headcount index by 5-7 points.

Effect on Investment Behavior

- Gertler et al. (2006): a good portion of cash transfers in Mexico used to invest in high yielding productive assets (other than human capital)
- Suggestion of lasting CCT impact after transfers stop
- Steady source of income enable households to overcome liquidity/credit constraint due to market imperfections
- Need for more research on this topic

CCT Impact on Education

- Significantly positive impact on school enrollment for virtually all programs analyzed; effects vary, e.g.
 - 21.4 % for Cambodia Education Sector Support Project among children in grades 7-9
 - 5.6% for Familias en Accion in Colombia ages 14-17.
 - 31.3% on girls for the Japan Fund Poverty Reduction program
- Impact bigger for girls; smaller in areas where enrollment coverage is already high.

CCT Impact on Education -- continued

- CCT children are learning as much as non-CCT students
- Evidence on learning outcomes limited, needs further experimentation

CCT Impact on Consumption Pattern

- Proportionately greater increase in food expenditures
- Increased food share (upward shift of Engel's curve)
- Increase quantity and quality of food consumption

CCT Impact on Health Indicators

- On health visits by children, impact significantly positive in general
- On child growth as measured by height, evidence provides a mixed picture

CCT Impact on Child Cognitive Development

- Significantly positive on average cognitive outcomes in Nicaragua and Ecuador
- More experimentation and evaluation studies needed

Evidence on Critics' Claims Against CCTs

- Little evidence to support critics' claims against CCTs
 - Disincentives to work and emergence of culture of welfare dependency not as bad as claimed
 - Beneficiary households using extra cash responsibly
- Child labor: reduced in general by CCTs (a good thing)
- Adult labor: impact ranges from zero to modest due to
 - low income elasticity of leisure at very low initial income
 - substitution of adult for child labor

Evidence on Critics' Claims Against CCTs-- continued

- Beneficiaries using part of transfers to invest in high yielding productive assets
- No evidence of beneficiaries splurging on tobacco, alcohol, entertainment and other low priority consumption
- Increased consumption favors greater spending on quantity and quality of food as well as more education spending
- Well targeted, favoring poorest quintiles

Conclusion: Lessons and Future Directions

- CCTs can be and have been an effective instrument in reducing poverty and inequality -- and raising human capital investment
- An effective political economy tool for moving policy reforms
- They are scalable and sustainable
- Corruption has been negligible and program credibility is high
- Transaction/administrative costs are low relative to other social assistance programs (less than 10%)
- Concerns of CCT opponents overblown re offsetting behaviors and dignity of the poor

Conclusion: continue

- CCTs are, however, not a magic bullet/panacea
 - Not necessarily appropriate for all countries
 - Individual countries need to make their own determination about the appropriateness of CCT
 - Impact on outcomes is a mixed bag, suggesting
 - Need to deliberate on some key design issues
 - Need for complementary measures to reinforce ability of CCT to bring about improved outcomes
 - Need to view CCTs as some components of a social protection system (substitutes versus complements)
 - Need for research and experimentation on certain issues , moving forward

Issues for Future Research

- Long term impacts of CCT and need to test different benefit levels to determine response size
- Impact of CCTs on learning achievement, early childhood cognitive development, and other outcome variables
- Use and impact of outcome-based conditions and other alternatives
- The impact of CCTs versus UCTs and their relative efficiency as counter-cyclical policy tools
- Economic cost/benefit and cost-effectiveness of CCTs versus UCT and social assistance programs
- Effects of savings/investment behavior of CCT/UCT beneficiaries
- Supply-side and other complementary measures