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Poverty, inequality and public cash transfers Lessons from Latin America

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1. Introduction

This paper analyses public cash transfers in Latin American countries, focusing on their targeting and conditionality components. Since the mid 1990s, governments across the region adopted cash transfers explicitly aimed at reducing poverty and at reaching population groups largely excluded from formal social protection policies.² In addition to being targeted, such income transfers are commonly characterised by a conditionality component. That is, they are paid to the eligible poor, provided they follow a pre-specified course of action.

More recently, two developments have led to lively debates regarding the policy implications that emerge from the conditional cash transfer (CCT) experience in Latin America and specifically to the role of targeting and conditionality in cash transfers. First, efforts to strengthen social protection and the introduction of cash transfers in low income countries facing high institutional and financial constraints have raised questions regarding the appropriateness of alternative targeting methods and of including a conditionality component. Second, in countries which have implemented cash transfers for some years, policymakers are taking stock of implications arising from the experience to

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² The focus of this paper is on conditional cash transfers that explicitly pursue poverty reduction as their primary objective and that are understood to fall under social assistance in social protection. They are non-contributory and largely financed out of general taxation, in countries where they are nationally financed, or via donor assistance.

date as they consider the “fine-tuning” of CCT policy design parameters. Against this backdrop, this paper makes two contributions.

First, it reviews the evidence available to date on the poverty and inequality impacts of CCTs, paying close attention to the contribution of separate CCT components. The expansion of CCTs in Latin America has rested largely on evaluations highlighting their good targeting performance and progress achieved towards intended outcomes in terms of combined programme effects. Remarkably little evidence however supported the arguments in favour of the adoption of specific targeting practices and conditionality. Drawing on the experience of nine countries in Latin America, the paper highlights the variations in cash transfer component design and implementation and identifies the intended and unintended effects of alternative parameter design details. CCTs reviewed by the paper include (by country and start date): Bolsa Família (Brazil, 2001/2003); Chile Solidario-Programa Puente (Chile, 2002); Familias en Acción-FA (Colombia, 2001); Bono de Desarrollo Humano-BDH (Ecuador, 2003); Red Solidaria (El Salvador, 2005); Programa de Asignación Familiar-PRAF (Honduras, Phase I 1990 and Phase II 1998); PROGRESA-Oportunidades (Mexico, 1997 and 2002); Red de Protección Social-RPS (Nicaragua, 2000 and 2003) and Tekoporã (Paraguay, 2005).

Second, the paper discusses the policy implications arising from the experience of Latin American countries by contrasting evidence on CCT component effects with the claims about their intended outcomes and by linking design and implementation information to CCT outcomes. For example, the adoption of cash transfers with behavioural requirements was supported by the understanding that conditionalities would address the “intergenerational transmission of poverty” and held promise in tackling poverty in the long-term. In the CCT experience in Latin American countries, has the inclusion of conditionality contributed to improvements in human capital outcomes? If so, what does the evidence suggest about the design and implementation details that have facilitated the intended outcomes?

The paper is organised as follows. First, it identifies the central arguments in favour of and against targeting and conditionality in poverty reduction programmes. Second, it highlights the variations in policy parameters in the CCT experience in Latin American countries to reveal the multitude of design and implementation options in practice. Third, it reviews the evidence on CCT poverty and inequality outcomes in terms of income, education and health. This section reports on overall programme impacts and on estimates, where they are available, of the effects of separate CCT

components. Fourth, the paper discusses the potential linkages between policy outcomes and the design and implementation details highlighted in the previous section, arguing that identifying such linkages is central to any informed discussion on policy. This is the paper's main contribution to the ERD's 2010 analysis of policy options in strengthening social protection in less developed countries (LDCs).

2. Targeting, conditionality and public cash transfers: A review of the arguments

The adoption of cash transfers that are targeted and conditional in Latin American countries was largely supported by the promise such policies hold to address poverty both in the short and long run (Britto, 2005). This perceived potential is captured by a widely cited definition of CCTs, which also points to the purposes of their subcomponents: "The cash transfer is aimed at providing short-term assistance to families in extreme poverty (...) while the conditionalities aim to promote longer term human capital investments, especially among the young" (Rawlings, 2004).

CCTs were additionally supported by administrative and political economy claims. Commentators argued that CCTs displayed a reasonably low cost (Morley and Coady, 2003; World Bank, 2004). Furthermore, tying assistance to school attendance would make it politically possible to transfer far larger amounts of resources from the rest of society to the poor than would be the case without such condition (Morley and Coady, 2003).

While intuitively attractive, these claims do not in fact reflect the full range of concerns and trade-offs associated with alternative targeting and conditionality practices. These are briefly summarised here and are grouped around three sets of considerations: administrative, behavioural and political economy. The empirical basis of these arguments is explored in Section 4, which critically examines the evidence available to date on the effects of targeting and conditionality in public cash transfers, focusing on administrative and behavioural considerations.³

Arguments in favour of targeting emphasise its potential to *concentrate resources on vulnerable groups* disproportionately affected by risks that are not addressed by universal spending. Such

³ Although political economy arguments are reviewed here, evidence in support of political economy considerations is not presented in this paper.

considerations have prompted policy discussions to turn to narrow targeting as a means of achieving higher impacts on poverty (van de Walle, 1998). Yet targeting practices are also associated with individual responses and incentive effects, administrative costs and political economy effects that risk offsetting progress in poverty reduction.

By distinguishing between the poor or eligible and the non-poor or ineligible, targeting may generate an *incentive for individuals to modify their behaviour* in order to qualify for a programme. Targeted income transfers that display high rates of benefit withdrawal risk generating a work disincentive and a “poverty trap”, such that people have little inducement to increase their income (Atkinson, 1995). As the review of targeting practices in the following sections highlights, in practice, targeting design and implementation details may mitigate the risks of work disincentives associated with narrow targeting. Governments may taper the withdrawal of benefits, so that a unit increase in income say, above the eligibility threshold does not automatically imply loss of entitlement to the benefit. Income transfer payment may also be set for a specific duration, independently of variations in beneficiaries’ socioeconomic circumstances.

Targeting involves the regular identification of beneficiaries and management of beneficiary data including its verification and reassessment over time. A government’s capacity to target benefits depends on the information available to it and the extent to which it can verify information supplied by others (Atkinson, 1995). Difficulties encountered by governments in assessing and verifying claimant’s means generate *administrative costs* that increase with the informational demands and complexity of the procedures of verification and recertification processes (Besley and Kanbur, 1990). They also generate social costs including low take-up, social fragmentation and tensions that increase with the administrative complexity of targeting (Hernanz et al, 2006).

From a political economy perspective, arguments in favour of narrow targeting underscore its potential for securing public support for a programme by identifying population sub-groups that are deemed to be somehow “deserving”. Yet the political economy literature points to the ways in which narrow targeting may jeopardise *public support for social programmes and hence the redistributive budget available*. Finely targeted policies leading to lower leakage to the middle classes would draw support primarily from those below the poverty line. In contrast, universalist schemes, by increasing the number of beneficiaries, become the interest of additional groups,

promote their protection and the available redistributive budget (Besley and Kanbur, 1990; Gelbach and Pritchett, 2002; Sen, 1995).

Similarly, arguments on conditionality may be grouped around behavioural, administrative and political economy considerations. The inclusion of conditionality in cash transfers is commonly justified to influence *beneficiary behaviour* to favour outcomes deemed to be beneficial to individuals or to society at large (Bastagli, 2008b; De Brauw and Hoddinott, 2008). For example, conditions can address the distortion of choices that arise when myopia or information asymmetry lead individuals to make decisions that do not take into account the mid to long term benefits of human capital accumulation. Poor knowledge of the benefits of health care check-ups, pre-natal treatment and other types of preventative health care might bring individuals to underutilise health services. The inclusion of a behavioural requirement in terms of regular health care visits would address this distortion.

Conditionality has also been motivated to address intra-household bargaining processes to strengthen the position of individuals with weak or no bargaining power. Das et al (2004) illustrate this case in relation to child labour, where parents favour higher income in the short-term over potential long-term returns from increased school attendance. In such cases, the motivation for the inclusion of school enrolment and attendance behavioural requirements for school-aged children rests on its ability to address the differences between child and parent preferences.

At the same time, conditionality may generate high *administrative costs*. Conditionality administration requires the regular collection of information regarding beneficiary behaviour, the verification of compliance and the implementation of responses to non-compliance. These are administratively demanding activities that may display high costs, especially where constraints on regular information collection, transmission and management are high.

Furthermore, conditionality may act as an *additional screening or targeting device* when non-compliance leads to beneficiary exclusion from programme participation. A related concern is its potential generation of exclusion errors, whereby the eligible are excluded from the programme. If conditions burden low income households with behavioural requirements that they are not able to comply with, they risk screening out eligible households. The risk of exclusion as a result of non-compliance, moreover, may disproportionately affect particular vulnerable groups. Poorer

households or individuals facing high opportunity costs in meeting conditions, determined by low resources and limited access to services, may experience a higher risk of exclusion from conditional transfers.

From a political economy perspective, advocates of conditionality emphasise its role in *legitimising cash transfers politically*. According to such claims, CCTs are more acceptable to policy-makers and tax-payers than unconditional schemes. In this view, by increasing political acceptability, conditions would also increase the budget size and sustainability of a programme (De Janvry and Soudoulet, 2006). Yet if we consider that conditionality acts as an additional screening device, the literature on the political economy of targeting serves as a reference and the argument is reversed as, according to this literature, more narrowly targeted policies risk losing support from the middle classes, leading to smaller budgets for the targeted programmes (Besley and Kanbur, 1990).

3. Conditional cash transfers: Design and implementation

Debates on public cash transfers often focus on broad design choices such as whether to target or not, whether to condition or not. In reality, policy design options may be more subtle. Income transfers vary by *degree of targeting* and targeting complexity. When they include conditions, they vary depending on the *definitions and enforcement of behavioural requirements*. The comparison of CCT targeting and conditionality parameters highlights the variety of design options available to governments. The review of the implementation of targeting and conditionality practices provides examples of the challenges encountered at different stages of policy administration and sheds light on the policy determinants of CCT outcomes.

3.1 Cash transfer parameter design

All CCTs reviewed here pursue a poverty reduction objective. Yet the emphasis on how this is to be achieved varies and shapes programme component design details. The inclusion of a transfer and conditions suggests that all CCTs aim to reduce poverty through both immediate income support and by promoting human capital outcomes. However, in some cases, priority is awarded to the human capital accumulation objective. In others, the provision of a minimum income nationally is a central concern. As will become evident over the following paragraphs, in a number of countries the

determination of CCT programme parameters has been characterised more by ambiguity than clarity about main programme aims, leading to contradictions and misguided expectations regarding potential programme impact.

The cash transfer

CCT transfer amounts as a share of beneficiary income or expenditures vary from about 20% of beneficiary household annual expenditures in Mexico/PROGRESA and Nicaragua/RPS (Maluccio, 2003), to about 10% of beneficiaries' monthly income in Brazil/Bolsa Familia (Bastagli, 2008a), to 6-7% of the total income of households covered by the programme in Chile/Chile Solidario (Galasso, 2006) and 4% of beneficiary consumption in Honduras/PRAF (Flores, 2003).

The regulation of transfer amounts varies depending on whether they are subject to an adjustment or uprating rule. Mexico's Oportunidades is indexed to inflation (Cohen et al, 2006a). Bolsa Familia benefit values are increased in an ad hoc fashion. Mean real income transfer values fell by 10% between 2001 and 2005 and benefits were increased in 2007 for the first time since the introduction of the Bolsa Familia in 2003 (Paes de Barros et al, 2009). In Honduras, during PRAF I, real transfer values dropped by 30% and for PRAF II, values were indexed to inflation.

Transfer amounts may include phasing-out schemes. In Nicaragua, the RPS declines in value over three years. In Chile's Programa Puente, the bono de proteccion value falls every six months during the two years that beneficiary families are entitled to the transfer. In Brazil, Bolsa Familia payments are made as long as eligibility persists.

CCT participation has a maximum duration when it is set for a specified amount of time and then withdrawn, independently of the socioeconomic circumstances of the beneficiary. Alternatively, a CCT may include a graduation strategy that regulates the circumstances under which beneficiaries leave the programme because of changes in their socioeconomic conditions. Chile's Programa Puente and Nicaragua's RPS both have maximum duration periods (two years and three years respectively). When there is no maximum time limit for participation, CCT regulation typically includes a recertification or reassessment process whereby beneficiary information used to determine eligibility is verified.

Targeting

CCTs are paid to broad segments of the total population in Brazil (26%) and Mexico (15%). Conversely, CCTs are narrowly targeted to population subgroups in Chile (6% of the total population), Colombia (5%) and Nicaragua (3%). They also vary depending on the share of the poor population targeted. CCTs aim to reach all the extreme poor in Brazil and Mexico, all the poor with children in Brazil or all the extreme poor with children Chile, Colombia and Nicaragua.

CCTs may rely on geographic targeting to target priority areas, whether based on welfare levels or on other requirements such as minimum infrastructure facilities, or a combination of both. In Colombia, Familias en Accion (FA) is implemented in poor municipalities with fewer than 100,000 inhabitants, a bank and adequate education and health infrastructure (Attanasio et al, 2005). Similarly, in Nicaragua, RPS was initially implemented in departments that satisfied minimum administrative and infrastructure requirements (Maluccio and Flores, 2005). Beneficiary selection relies on proxy-means testing when, rather than relying on reported monetary income, information on other correlates of poverty is collected to compute a welfare score used to rank potential beneficiaries. The potential advantages of this targeting technique over relying on declared income rest on the selection of poverty correlates that are easily verifiable, helping to avoid the problems of income misreporting and work disincentives generated by straightforward income means tests. Most Latin American CCTs rely on proxy-means tests. A notable exception is Brazil's Bolsa Familia, which relies on self-declared per capita household income.

Targeting practices also vary depending on the regulation of beneficiary reassessment or recertification processes and the associated question of programme duration and exit or "graduation". In countries where programme participation is an entitlement as long as eligibility criteria persist, CCT administration requires the regular recertification of beneficiary records. Mexico and Brazil have set maximum time limits within which beneficiary records must be validated: every three years and every two years respectively.

It is worth noting that these are *maximum* time limits, in some countries they are set as administrative benchmarks for regulating and monitoring the performance of administrators responsible for the management of beneficiary databases. By regulation, and despite maximum time limits for beneficiary recertification, in some CCTs loss of eligibility as a result of changes in the socioeconomics and demographic circumstances of beneficiaries determines termination of

programme participation. This is the case in Brazil, where beneficiaries are required to report changes in their circumstances, including household composition and income. If these imply the loss of eligibility, by design at least, Bolsa Familia beneficiaries are no longer entitled to the income transfer. It follows that by design the Bolsa Familia generates a 100% benefit withdrawal rate (Bastagli, 2008a).⁴

Conditionality

Conditionality requires beneficiaries to follow some *pre-specified course of action*. In the Latin American experience, conditionalities are typically set in the areas of education and health. School-aged children in beneficiary households are required to attend school for a minimum amount of time in the school week. Pregnant and nursing women and young children are required to regularly attend health clinics for check-ups and to maintain an up-to-date vaccination booklet. Some CCTs have *additional behavioural requirements*, commonly targeting the mothers in beneficiary households. PROGRESA for example, requires beneficiary mothers to attend workshops on health and programme coordinators' meetings and to contribute to a set amount of hours of work to the programme (Molyneux, 2006).

Conditionality in CCTs also varies depending on the *centrality it occupies in programme operation*. It is central to CCT implementation when compliance is first verified and benefit payments are only subsequently made (Mexico). In other countries, once eligibility is determined, transfer payments are made to beneficiaries and conditionality compliance is verified at later stages (Brazil).

Finally, *mechanisms of response to non-compliance* also vary. In some CCTs, non-compliance leads directly to beneficiary suspension from programme participation. This is the case in Chile's Programa Puente, where bono payments are terminated if a family does not meet its commitments. In Brazil, where a beneficiary's failure to comply with conditionality is understood as a "flag of additional vulnerability", in the first instance the response to non-compliance includes verification of the reasons for non-compliance and the beneficiary is entitled to additional support and personalised services from the municipal authorities. Only if non-compliance persists over time for

⁴ Whether this programme feature occurs in practice is another matter. Section 3.2 highlights the departures between policy design and implementation in practice.

five consecutive monitoring cycles and justifications for non-compliance are not provided, is benefit payment initially suspended and eventually terminated (MDS, 2009).

3.2 Implementation

Policy implementation does not automatically follow from official policy regulation. Information on the departures of CCT parameter administration from formal design in practice may be useful in understanding policy performance and in the interpretation of findings of policy impact evaluations. Variations of this kind arise from challenges encountered in policy implementation. They also result from differences in people's perceptions of policy parameter definitions and motivations from those intended by policymakers and enshrined in policy legislation.

With regards to *transfer-subsidy payments*, early CCT assessments reveal that the supply side payments in some countries were not executed in practice. In Honduras for example, Glewwe and Olinto (2004) explain that despite including transfers to service providers by design, in practice PRAF did not execute such payments and efforts to improve service provision as part of the CCT were not implemented during the early years of PRAF implementation.

In the *implementation of CCT targeting*, the management of CCT beneficiary information, including the regular verification and updating of beneficiary records, has encountered challenges that have led to a *gradual implementation of programme rules* in many countries. For example, in Mexico's PROGRESA, by design the eligibility status of households was supposed to be reviewed within three years after a household's entry into the programme. In fact, more than five years elapsed before any effort was made to revise the list of beneficiaries (Skoufias and Di Maro, 2007). In Brazil, 21% of beneficiary records in the national Cadastro Unico registry used for the identification of Bolsa Familia beneficiaries were "valid" in 2005, that is, contained information which had been recently verified and updated.⁵ The share of valid Cadastro Unico records has since increased and reached 85% in 2008 (MDS, 2009).

Studies of the implementation of CCT targeting practices also highlight the *mixed levels of understanding of the eligibility requirements* among benefit claimants and local administrators.

⁵ Note that the national Cadastro Unico was operationalised in 2001 and that the Bolsa Familia reform was launched at the end of 2003.

Findings from a qualitative study of RPS implementation in Nicaragua, reveals that targeting was a poorly-understood element of the programme: "...in particular, very few people understood the basis for the household targeting and why they were included or excluded" (Adato, 2008). Similarly, limited understanding and confusion regarding CCT eligibility criteria among the public are reported in El Salvador, Paraguay and Brazil during the early years of programme implementation (Veras Soares and Britto, 2007; Bastagli, 2008a).

People's perceptions of the definitions and motivation for conditionality vary from official conditionality regulation. In Brazil, interviews with teachers reveal the widespread practice for absent beneficiary children to be marked as present (Bastagli, 2008a). Teachers explained their reluctance to additionally penalise poor children, revealing that their understanding of Bolsa Familia conditionality differs substantially from the official regulation of conditions in Brazil.⁶

The monitoring of conditionalities, involving the regular collection and transmission of information on beneficiary behaviour, has not been consistently implemented as outlined by programme regulation. In Paraguay, where the Tekopora programme was introduced in 2005, conditionality monitoring remained broadly not implemented in 2007 (Veras Soares and Britto, 2007). In Brazil, administrative records of health conditionality compliance were first drawn together in 2005 and reported 6% of Bolsa Familia beneficiaries with health monitoring records (not necessarily complying). In 2009, health conditionality compliance records covered 63% of Bolsa Familia beneficiaries (MDS, 2009).

The gradual and irregular implementation of conditionality monitoring has had implications for the execution of the procedures of repercussion to non-compliance, the first being a necessary prerequisite for the second. In practice, responses to non-compliance in some countries were not implemented or were only gradually administered as regular monitoring was stepped up. In Brazil, the first cancellation of Bolsa Familia benefits as a result of conditionality non-compliance took place in 2007 (MDS, 2009).

⁶ This has led to initiatives funded by the central government and with support from state level authorities in the form of special training sessions for teachers and staff at municipal secretariats to inform them of the purpose for the education conditionality, emphasising the non-sanctionary nature of non-compliance, at least in the first episodes of non-compliance.

4. The impact of cash transfers on income poverty and inequality, education and health

4.1 CCT impact: Combined effects

The implementation of CCTs in Latin American countries has partially offset the historical “truncation” of public transfers in the region, by reaching low income groups previously excluded from formal social protection spending (Lindert et al, 2006).⁷ Compared with the incidence of other targeted transfers, CCTs are among the most progressive programmes. Coady et al (2004) compare targeted interventions in forty-eight countries and find that most CCTs in the sample rank in the top programmes in terms of targeting outcomes.

However, despite coverage and distributional patterns that favour the poor, small unit subsidies limit the poverty and inequality impacts of CCTs. In some countries, CCT impacts on poverty are lower than those achieved by targeted social insurance transfers with relatively higher unit subsidies (Lindert et al, 2006). In many cases, and as a result of both benefit levels and the definition of the target population, CCTs have proved to be quite successful at reducing the poverty gap or the severity of poverty, but have limited or negligible impact on the headcount ratio (Skoufias et al, 2001).

Numerous studies highlight the contribution of CCTs to income poverty and inequality reduction despite accounting for a relatively small shares of national GDP. In Brazil, the Bolsa Familia is the most progressive income source (Soares et al, 2006) and contributed to a reduction of the poverty gap of 12% (Bastagli, 2008a) and of inequality measured in terms of the Gini coefficient of 10% between 2001 and 2005 (Paes de Barros et al, 2009) while accounting for 0.35% of GDP. In Mexico, PROGRESA/Oportunidades reduced the poverty gap *in rural areas* by 19% and accounts for 18% (close to one fifth) of the post-transfers decline in the Gini coefficient between 1996 and 2006 (Esquivel et al, 2009), despite accounting for 0.36% of GDP. In Nicaragua, the RPS reduced the poverty gap *among beneficiaries* by 18% (Maluccio and Flores, 2005), while costing approximately 0.2% of GDP.

⁷ Lindert et al (2006) compare the distribution of public cash transfers in eight Latin American countries. They “net out” average payroll contributions from the social insurance transfers to assess the redistributive impact of the “pure” public transfer from social insurance, the part financed by general revenues not direct contributions.

Beyond income poverty and inequality, what do we know about CCT impacts on education and health indicators? Studies show that in some countries CCTs have improved intermediate education and health indicators in terms of service utilisation. Results on outcomes are more mixed and limited, with evidence available mainly for one country, Mexico (e.g. see Behrman et al, 2005).

CCTs have been successful in increasing rates of school enrolment and attendance and in reducing dropout rates. In Mexico, PROGRESA led to increases in enrolment in secondary school, reductions in repetition and dropout rates in primary and secondary school and years of schooling completed (Parker et al, 2008). In Nicaragua, Maluccio and Flores (2005) estimate that RPS led to an increase in school enrolment of 13 percentage points. Impacts on school enrolment in both countries are higher for poorer children, suggesting that CCTs help reduce inequalities, beyond income measures. However, there is no evidence of significant CCT effects on learning. For Mexico, Behrman et al (2005) show that longer exposure to PROGRESA/Oportunidades has a positive impact on grades of schooling attained, but no effects on achievement tests.

CCTs have led to improvements in health care service use. Studies reveal positive effects on use of preventive infant care, checkups during pregnancy, after birth and in early childhood. In Nicaragua, the probability for a poor child to be taken to health checkups and weighed in the last six months increased by 13 percentage points as a result of the RPS (Maluccio and Flores, 2005). In Colombia, the percentage of children less than 24 months old with an up-to-date schedule of healthcare visits increased from 17% to 40% as a result of the FA (Attanasio et al, 2005) and in Honduras, PRAF increased the proportion of children who had at least one preventive health visit (over the past 30 days) by 20 percentage points (Morris et al, 2004).

Evidence of CCT impact on health outcomes is mixed. In Colombia, the Familias en Accion improved child nutrition as measured by height-for-age (Attanasio et al, 2005). Mexico's PROGRESA and Nicaragua's RPS are also associated with improvements in child height. RPS in particular, recorded a powerful impact in terms of improving preschooler height and led to reductions in stunting and in the prevalence of children underweight (Maluccio and Flores, 2005). However, both PRAF in Honduras and the Bolsa Alimentacao in Brazil (one of the cash transfers consolidated into the Bolsa Familia in 2003), had no meaningful effects on preschool nutritional status, blood haemoglobin levels and rates of anemia (Hoddinott and Basset, 2008).

4.2 CCT impact: The contribution of separate CCT components and component costs

As governments approach the question of which policy parameters to select in the adoption of a cash transfer or how to “fine-tune” existing transfers, information on the contribution of specific parameters and of their design details is critical. What do we know about the effects of specific CCT components? The results reported in the previous section assess the combined effects of all CCT programme components, providing limited indications of what aspects of CCTs facilitate progress towards target outcomes. The following paragraphs review the evidence on the effects of separate CCT components and include a discussion of the costs associated with targeting and conditionality (including administrative costs and unintended behavioural effects identified in Section 2).

The incidence analysis of CCTs, as reported earlier, underscores their good targeting performance. Even though incidence outcomes depend on a variety of targeting features (including coverage rates and characteristics of the target population) and cannot be exclusively attributed to the targeting mechanism used, a comparison of different CCTs suggests that different beneficiary selection mechanisms may work equally well in terms of ensuring resources are concentrated on the target population. For example, the Bolsa Familia, which relies on self-declared income for the selection of beneficiaries, performs as well as the best-performing CCT in terms of targeting, Chile’s Programa Punte, which employs a proxy-means test like most CCTs (Bastagli, 2008a).

Section 2 highlighted the concern raised by targeting theory for targeted income transfers to generate an incentive for individuals to maintain low incomes, offsetting poverty reduction efforts. In the experience of Latin American countries, is CCT participation associated with reduced work effort among adults? Empirical investigations using data for Mexico and Brazil indicate that CCT programme participation in these countries is not significantly associated with adult labour supply decisions. Skoufias and Di Maro (2007) study whether PROGRESA/Oportunidades affects adult participation in the labour market and adult leisure time (over the years 1997-1999) and find that programme participation does not have any significant effect on either outcome. Foguel and de Barros (2010) estimate the effects of CCT participation on male and female adult participation rates and number of hours worked (over the years 2001-2005) and find that Brazilian CCT programmes do not have significant effects on either labour market participation or the supply of hours of men and women.

Evidence for Nicaragua's RPS, on the other hand, reveals that CCT participation is associated with reduced adult work effort in the first years of programme implementation. Maluccio (2007) finds negative effects on labour supply of RPS beneficiary households in 2001 and 2002. His study however also finds no significant effects on numbers of hours worked in 2004 and suggests that a reduction in transfers for those entering the programme in 2004, compared to transfer values in the initial period of RPS implementation, may have reduced the labour supply disincentive.

Targeting also entails administrative costs. These reflect targeting design and vary over time, as programmes encounter particular challenges or reach stages of maturity. In Mexico's PROGRESA, the identification of beneficiaries accounts for a high share of programme operational costs in the early years of CCT implementation (34% compared with delivery of transfers, equal to 22% and conditionality, 18%). Activity cost shares change over time as conditionality monitoring and enforcement activities are stepped up and in 2000 the identification of beneficiaries accounts for 3% of total PROGRESA operational costs, while conditionality activities amount to 24% (Caldes et al, 2004).⁸

Trends in CCT activity costs also highlight operational challenges encountered in programme implementation. This is the case for PRAF in Honduras.⁹ The administrative cost of identifying PRAF beneficiaries in 1999 amounted to 26% of total programme costs (excluding transfers) and maintained similar levels, at 25% of programme costs, in 2002. Difficulties with the transition to a new programme team and maintaining and updating beneficiary registration lists, Caldes et al (2004) explain, lie behind these trends in programme costs.

In addition to economic costs, targeting may lead to social costs in the form of deepening social divisions. Numerous studies document the types and extent of social costs resulting from CCT targeting implementation in Latin American countries. Adato's (2000) study of Mexico's PROGRESA

⁸ Total administrative costs as a share of the total CCT budget over the time periods indicated here amount to: 9.6% for PROGRESA (1997-2000), 33% for PRAF (1999-2000) and 40% for RPS (2000-2002), 40% (Caldes et al, 2004). Note: For Caldes et al (2004) total CCT costs are given by the sum of transfers, total in-kind expenditures and total operational costs. Operational costs include the following CCT activities-components in analysing CCT costs: programme design and implementation, identification of beneficiaries (collecting, processing, validating and analysing household socioeconomic data), incorporation of beneficiaries, delivery of demand transfers, delivery of supply transfers, conditionality (distributing, collecting and processing the registration, attendance and performance forms to schools and health-care providers), monitoring and evaluation, external evaluation.

⁹ For both Honduras' PRAF and Nicaragua's RPS, it is worth noting that the largest share of programme costs was spent on the external evaluation: up to 35% of total costs (excluding transfers) for PRAF and 22% for RPS (Caldes et al, 2004).

for example highlights the tensions arising from its targeting mechanism in the form of unease and resentment resulting from the distinction between beneficiaries and non-beneficiaries.

With regards to conditionality, two recent CCT impact evaluations estimate conditionality effects on education. Schady and Araujo's (2008) study of Ecuador's Bono de Desarrollo Humano (BDH) exploits variations in households' perceptions of conditionality to assess the impact of conditionality on school enrolment. The study compares 'conditioned' households, which believed there was an enrolment requirement even though no requirements were ever monitored or enforced, with 'unconditioned' households, which did not believe the transfer to be conditioned. It finds that significant (and limited) programme effects on enrolment are only recorded among households who believed there was an enrolment requirement, suggesting that the unenforced BDH schooling requirement has a potential causal effect on outcomes.

De Brauw and Hoddinott's (2007) study on Mexico's PROGRESA also exploits variations in conditionality implementation and perceptions to analyse conditionality effects on school enrolment. They group households according to whether they received school enrolment and attendance monitoring forms and to their knowledge of the conditionality. The evaluation shows that the absence of monitoring forms reduced the likelihood of children attending school, pointing to a linkage between conditionality monitoring and school attendance.

Both studies interestingly reveal that information-sharing associated with conditionality implementation (i.e. people's perception or understanding that transfer receipt is conditional on sending children to school) and initial conditionality monitoring activities (e.g. through the distribution of monitoring forms) are associated with higher school enrolment and attendance.

The inclusion of conditionality in cash transfers has raised concerns regarding risks of exclusion and additional penalisation of vulnerable groups. Poor households facing high opportunity costs in meeting conditions may experience a higher risk of exclusion from the programme. In their study of beneficiaries that left Mexico's PROGRESA as a result of non-compliance with conditions, Alvarez et al (2006) find that indigenous populations and the extreme poor in communities where there is likely to be greater inequality have higher odds of dropping out of the programme. Other studies still, have drawn attention to the ways in which conditionality imposes burdens disproportionately

among household members, with additional responsibilities falling mainly to mothers (Gonzalez de la Rocha, 2005; Molyneux, 2006).

Finally, conditionality costs also arise from people's (mis)perceptions of the definitions and purpose of conditionality and the related unintended behavioural effects. In Nicaragua, one of the conditions during the first phase of the RPS required children to gain weight. If they fell twice below an established weight gain, parents could be sanctioned by suspension of benefits. Adato (2008) reports how this requirement led to overfeeding children before they were weighed. In education, the RPS conditionality requiring pupils to pass their grade successfully led some schools to advance children to the next grade even when such a move was not merited (Maluccio, 2003).

In sum, this section finds that both the economic and non-economic costs associated with targeting and conditionality deserve serious consideration in decisions regarding targeting strategies and conditionality design. Even if a study does, say, detect a statistically significant impact of conditionality on an intended outcome (e.g. on school enrolment), policymakers would need to weigh these benefits against the administrative and social costs of conditionality monitoring and enforcement. Debates on alternative parameter options will benefit from the examination of a broad set of variables beyond those commonly cited – either because they relate directly to intended programme outcomes or because they are easily measurable with available data.¹⁰

5. Conclusion: Linking CCT design, implementation and outcomes

Designing a public cash transfer involves many decisions. These include setting transfer levels, identifying beneficiary selection strategies and deciding whether to condition or not and the nature of conditionalities. As governments approach the question of which policy parameters to select when designing a new cash transfer and how to fine-tune existing transfers, information about the parameter design options available, the contribution of specific CCT parameters to outcomes, and the implementation details that facilitate these linkages is critical. The following paragraphs

¹⁰ It may be difficult to conduct a unified cost-benefit analysis of a programme precisely because of the inability to attach monetary valuations to certain policy outcomes. This should not prevent a discussion on alternative costs and benefits of a programme in the context of both policy design and assessment phases.

summarise the policy considerations that arise from the Latin American experience reviewed here, grouped around two sets of considerations, the broad design of policy and institutions and the details of CCT parameter design.

5.1 Cash transfer objectives and institutions

The design of public cash transfer parameters involves a careful balancing of competing policy priorities and objectives. Governments may have a priority concern for guaranteeing a minimum income or for promoting education and health outcomes, or both. Policy design decisions will also include a balancing of these objectives against others such as the containment of programme costs and the avoidance of disincentives. Policy parameter details are typically the result of a compromise between different objectives, within the context of specific financial and institutional constraints. When this compromise is not discussed explicitly, decisions may lead to ambiguity and contradictions in programme design.

In the Latin American experience, lack of clarity regarding CCT objectives in some cases has contributed to contradictions in programme design and misguided expectations regarding potential outcomes. Such tensions are often compounded by the high financial and institutional constraints faced in some countries (Veras Soares and Britto, 2008). An initial consideration that arises from the Latin American experience then is that from the outset it is useful for governments to *clarify the primary objectives pursued by a cash transfer*. Clarification could be achieved around whether the central programme motivation is to provide an income to the poor and/or to promote human capital accumulation. While CCT parameter details may be defined to pursue both objectives, some CCTs emphasise one aim over the other and this has implications in terms of the groups targeted, programme duration and time limits.

A second institutional dimension along which the CCT experience in Latin American countries varies concerns the broad regulation of CCT and of the role of actors involved in programme implementation. In some cases, the *introduction of a CCT has been accompanied by an explicit effort to rationalise social assistance and poverty reduction strategies* by identifying priority objectives of alternative programmes and designing the CCT within the broader policy framework, even in countries with a weak tradition in formal social protection provision. Examples include the consolidation of programmes, the integration of administrative registries for beneficiary selection

and the standardisation and simplification of policy rules. Where CCTs have been set up with limited coordination with existing structures and practices, they have in some cases led to overlaps and duplications in policy efforts and to tensions between actors.

In Nicaragua, for example, Moore (2009) reports of persisting tensions between Ministry of Health staff and the private health providers responsible for providing services to RPS beneficiaries.¹¹ Tensions were compounded by the fact that the private providers earned higher salaries than the ministerial staff. Institutional frictions also arose from the regulation of RPS programme coordination responsibilities. These were initially executed by a special body, the Fondo Social Suplementario. Attempts to integrate RPS into the country's broader social protection system, by transferring coordination responsibilities to the Ministry of the Family, during the programme's second phase in late 2002 met with resistance (Moore, 2009).

Efforts to stimulate cooperation and communication between institutions involved in CCT implementation have included *terms of agreements* between actors and *government subsidies* to programme administrators, including performance-based administrative transfers. In Brazil, terms of agreements specifying institutional responsibilities and promoting collaboration and information sharing are signed by government offices and other bodies involved in different stages of Bolsa Familia implementation (Bastagli, 2008a; Lindert et al, 2006). Furthermore, to support Bolsa Familia administration activities and to compensate for additional costs arising from such responsibilities in Brazil the federal government pays administrative subsidies to local authorities. Subsidy values are based on needs assessments and are performance-based. An early assessment of these subsidies suggests they are leading to a "catching up" effect among poorer municipalities (Bastagli, 2008a).

Finally, CCTs vary depending on their *financing arrangements*. The availability of external financing has been crucial in initiating safety net measures, particularly in countries with weak public finances. It has helped *legitimise programmes* and has supported CCT monitoring and evaluation. Yet complete reliance on external financing that is guaranteed for limited periods and is subject to renegotiation has additional implications for CCT continuity. In some countries, it is associated with weak *national ownership* and this in turn has shaped programme development. In Nicaragua for

¹¹ Public health services capacity had been deemed insufficient to respond to the additional health service demand generated by programme beneficiaries and RPS relied on private health service providers.

example, the widespread perception that RPS was largely donor driven and a pervasive sense of weak national ownership contributed to its gradual dismantling and the CCT has been discontinued (Moore, 2009).

As is true of other institutional considerations, with regards to policy financing, the CCT experience in Latin American countries highlights the importance of adopting a medium to long-term vision and prioritising institutional development. Where efforts to set up social assistance measures in Latin American countries (including CCTs) have been characterised by a short-term and emergency-based approach, developments led, in the first instance, to interventions with a limited lifespan, the establishment of parallel institutions and the complete reliance on external financing. The central challenge in these countries is the development of adequate fiscal and social protection financing arrangements for national social policy.

5.2 The determination of cash transfer policy parameters

In terms of specific CCT parameter design, the theory and evidence reviewed above highlight the design options, the trade-offs between alternative features and the decisions made in a number of countries in Latin America in response to varying policy priorities and concerns arising from policy implementation.

With regards to the determination of the *income transfer level*, higher benefit values are associated with higher poverty impacts. At the same time, the relatively low transfer values of CCTs, compared with those of other public cash transfers, have been credited for minimising negative labour supply effects that would offset the reduction in income poverty. Risks of dependency and reduced work effort have also been addressed in some CCTs through the adoption of maximum time limits for programme participation.

Governments face another trade-off when deciding on whether to introduce *participation time limits*. When human capital accumulation is stated as a primary policy objective and CCTs have a maximum duration of say three years, as was the case in Colombia and Nicaragua, participation is permitted for a period well below children's education and health cycles. This leads to an inherent contradiction between policy objectives and design by severely limiting the potential for a cash transfer to promote human capital outcomes.

In practice, in several Latin American countries, cash transfer design details were modified over time in response to growing awareness of the tensions around cash transfer regulation and programme objectives. For example, in a number of countries that initially failed to update or revise cash transfer values over time, leading to the erosion of their real value and limiting their poverty reduction and redistributive impact, benefit updating practices were introduced (e.g. Honduras). In countries where cash transfers were introduced with maximum time limits while pursuing human capital accumulation objectives, duration periods were revised and extended to better reflect programme priorities (e.g. in Colombia).

In some countries CCT implementation has proceeded in tandem with the reorganisation of *targeting tools*, leading to the consolidation of beneficiary registries and to the standardisation of eligibility rules nationally. These reforms have led to administrative simplification and in some cases are associated with reductions of CCT administrative costs. Trends in CCT administrative cost estimates for Brazil and Mexico for example show the progressive reduction of total costs and of activity share costs, with targeting costs declining over time. In Mexico, PROGRESA/Oportunidades administrative costs declined from 57% of total outlays in 1997 (Caldes et al, 2004) to 6% in 2003 (Lindert et al, 2006). Brazil's CCT administrative costs declined from 14.7% (pre-reform CCTs) to 5.3% (Lindert et al, 2006).

Beneficiary identification methods vary depending on *informational requirements* and these in turn are associated with varying administrative and social costs. In the experience of CCTs reviewed here, mechanisms relying on simpler requirements have proved to work as well, in terms of targeting performance, as more complex targeting procedures. The standardisation and simplification of programme rules also holds potential for minimising social tensions and fragmentation by guaranteeing common procedures nationally. These results reinforce some of the advantages of simple targeting practices.

Contrary to what targeting theory predicts, in some countries, evidence points to the absence of a clear work disincentive effect associated with CCT participation, even where *by design* the transfer generates a high marginal tax rate. Difficulties encountered in the regular re-evaluation of beneficiaries (see Section 3) may have contributed to this result by generating a *"fuzzy" implementation of targeting*, whereby in practice, changes in the socioeconomic circumstances of beneficiaries are not immediately recorded and do not automatically lead to the suspension of

benefit payments even when eligibility levels are surpassed. As means testing is stepped up as a result of the closer implementation of programme targeting design over time, whether these results hold remains an open question. The potential negative incentive effects warrant a re-examination as means testing and eligibility rules are more strictly enforced.

In a number of Latin American countries, the definition of *conditionality in cash transfers* has been revised to take unintended behavioural effects into account. In Nicaragua for example, RPS conditionality requiring beneficiary children to successfully pass their grades was suspended once it was observed that this condition was associated with schoolteachers promoting beneficiary children to secure their benefit receipt (Maluccio and Flores, 2005). Concerns that conditionality may additionally penalise vulnerable households have led to the adoption of features aimed at *minimising its sanctionary nature* towards beneficiaries. These include processes of verification of the reasons for non compliance and initiatives to assist beneficiaries in complying with behavioural requirements.

Evidence of the partial implementation of conditionality in practice (i.e. irregular or no monitoring of compliance and failure to implement responses to non-compliance, see Section 3), coupled with the positive *impact of CCTs on the use of services*, suggests that *communicating the desired behaviour* in terms of school attendance and health care visits to the public at large contributes to the intended behavioural effects, independently of the full implementation of conditionality, at least during the early years of policy implementation.

Evidence of *impact on education and health outcomes remains mixed* and points to the importance of government commitment to improving service quality. Results available for Mexico's PROGRESA-Oportunidades for example show that longer exposure to school has no effect on achievement test scores (Behrman et al, 2005). An initial test of links between school characteristics, measured in terms of student/teacher ratios and educational outcomes measured in terms of grades of schooling attainment finds that impacts differ with *the quality of schooling* available (Behrman et al, 2005).

In the area of health too, limited results on outcomes are associated with weak service provision and quality. Hoddinott and Basset (2008) hypothesise for example that shortages and incomplete

deliveries of iron supplements in Honduras help explain the absence of PRAF impact on rates of anemia (see Section 4).

The Latin American CCT examples indicate that the potential for CCTs to promote human capital outcomes may be usefully aided by *supply-side interventions aimed at improving service provision and quality*. A government's commitment to improved services may be an essential ingredient for cash transfers and conditionality to function as intended.

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