Conditional Cash Transfer Program

An Assessment of the Debate on Conditioning Transfers

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SUMMARY

Conditional Cash Transfer (CCT) programs have grown significantly since their inception in 1997 and for good reason. Programs in Mexico, Columbia, and Nicaragua have unambiguously improved the education, health and nutrition of poor recipients. These successes, however, are predicated on the accessibility and availability of appropriate services, institutional capacity to verify compliance, and the ability of programs to sufficiently compensate recipients for the opportunity costs of meeting program obligations. While these conditions are less likely in poor African countries, Africa may find merit in a combined conditional/unconditional cash transfer approach that builds institutional and service capacity towards the long-term goal of complete CCT coverage. Policy makers seeking to adopt CCT programs should examine local service, verification, and budget capacities to determine viability; if a national CCT program is not viable, a combined approach may be an effective alternative.

CCT PROGRAMS AND ACHIEVEMENTS

Conditional Cash Transfers (CCT) are cash transfers to poor households that require families to invest in education, health, and nutrition through mandated service participation. While traditional Cash Transfers (CT) typically use these investment areas as targeting criteria (*e.g.* transfers are made to families with school-aged children), CCT programs make education, health, and nutrition explicit program objectives, extending their use beyond targeting. The overarching goal of CCT programs is the disruption of intergenerational poverty transmission through the long-term accumulation of human capital.[1] Some have thus called the difference between CT and CCT the difference between social assistance and social investment.[2]

While income transfers have been available for more than a century,[3] CCT programs were first employed in 1997 with *Progresa* in Mexico.[4] Since then, CCTs have spread to 20 countries, including Columbia, Honduras, Jamaica, Nicaragua, and Turkey, with a worldwide annual budget of over US$8 billion.[5,6] To varying degrees, these programs consist of subsidies and requirements for school enrollment and attendance of children, visits to health care centers, preventive medicine (*e.g.* vaccinations), maternal nutritional training, and health education. Mexico's *Progresa*, for example, grants households US$8–17 per child per month for primary school plus US$11 annually for supplies, and requires a minimum of 85% attendance, monthly and annually. Some programs impose additional conditions to address other social issues: education grants in Mexico are higher for girls than boys to address educational gender inequalities; grants in Turkey decrease with family size.

CCT programs have been implemented with unprecedented efforts to evaluate their effectiveness. Initial programs, such as Mexico's *Progresa*, were evaluated through randomized experiments: selected communities were randomly assigned CCT programs (treatment) or no programs (control), with evaluations conducted before and after program commencement.[7] Newer programs have turned to quasi-random experiments, which are easier and less-costly to implement, but provide less-robust results. Nonetheless, program evaluation has been an inherent aspect of CCT programs to date, providing strong evidence of the approach's success. In Mexico, for example, primary school enrollment increased approximately 1 percentage point (of approximately 92%) with CCTs, while secondary school enrollment increased by 3.5 to 9.3 percentage points (of approximately 70%).[8] Mexico also realized improvements in health and consumption indicators, as

did Nicaragua and Columba.[9] The effectiveness of CCT programs has likely contributed significantly to the worldwide proliferation of conditional transfers over the past decade.

THE CONDITIONALITY DEBATE

The debate on conditioning cash transfers concerns four general criteria: household choice, program effectiveness, program cost, and welfare and ethical considerations.

Household Choice

Both CT and CCT programs promote long-term human capital accumulation. The programs differ in how this goal is achieved, and thus, potentially, in their effectiveness. CT programs rely on each household to apply a portion of its grant towards education, health, and nutrition; the mix and extent of this investment varies among families according to their needs and preferences. This "poor knows best" approach is guided by ethical considerations and a desire for economic efficiency: household free choice promotes human dignity; it is also economically efficient because it spends grant money as it is needed locally, not as it is assumed to be needed by remote decision makers. Economic efficiency is achieved as long as markets are functioning and household decision makers have free choice. CCT advocates contend that this is not generally the case in developing countries,[10] citing various mitigating factors including under-educated parents, the irrelevance of education in some communities, parental discounting of the future, and the low bargaining position of mothers, among others.[11] Increased future human capital may also be a positive externality, returning fewer benefits to parents than to society at large, and thus providing fewer investment incentives to households than preferred by society.[12] By conditioning transfers, CCTs effectively lower the relative price of socially-desired services, thus biasing households "toward 'high return-long run' human capital investment."[13]

Effectiveness

CCT programs have been found to improve education, health, and nutrition indicators in a number of countries. But are CTT programs more effective than unconditional transfers? Compared to CTs, CCT programs reportedly achieve greater gains in human capital for a given transfer. Some results, for example, "show that a dollar of CCT is about 8 times more effective in inducing school enrollment than a dollar of CT at the mean income of the poor."[14] This is consistent with the finding that the poor generally have "notably low" income elasticities of education – an increase in income among the poor does not generally lead to a significant increase in education.[15] This elasticity is likely the articulation of the market failures and choice pressures that CCTs are trying to address: discounted values of education and the future, and the positive externalities of future human capital. These results, however, are not conclusive, and those who urge caution contend that the differences between the effectiveness of CT and CCT programs have not yet been isolated.[16,17]

Program Cost

The primary financial critique of CCT programs is that they are expensive compared to unconditional transfers. Three reasons have been cited. First, the conditions placed on recipients must be monitored, incurring both fixed infrastructure costs and marginal verification costs.[18] Unconditional cash transfers have no conditions to verify. Second, CCTs can be logistically complicated, with geographic diversity playing a significant role.[19] In addition to verification infrastructure, CCTs rely on the availability and accessibility of targeted services – placing conditions on families for services that do not exist is neither efficient nor ethical. Countries with wide variations in verification and service capacity would have to build this infrastructure as a precursor

to the program or manage a mixed-program approach, applying CT and CCT programs where appropriate. Either effort would incur costs not incurred by unconditional transfers.

A final cost is the size of the transfer itself. Unconditional cash transfers are always income enhancing. Conditional cash transfers, however, are not exclusively so. A condition that requires children to attend school, for example, may impose an opportunity cost on a family if its children have to stop working to do so. Unless this opportunity cost is sufficiently recovered in the transfer, families may choose to opt-out of the program. Figure 1 provides a simple economic picture of this decision. If the direct service costs (*e.g.* school tuition and supplies) are provided *in excess* of the opportunity cost of lost wages, the household is unambiguously benefited by the transfer (point *d* in the figure). The same is also true of transfers that partially, but sufficiently, cover opportunity costs. However, if the transfer is insufficient (point *c* in the figure), the household is harmed in the short-term and may choose to opt-out of the program. Alternatively, the family may participate in the program, keep its children employed, and ultimately default on the conditions of the transfer.

The opportunity costs imposed by transfer conditions make CCT programs a more complex and more expensive instrument than unconditional transfers. However, the expense has been borne in successful and growing programs. Mexico, Turkey, and Honduras, for example, provide complete coverage of educational opportunity costs, while other countries partially cover these costs.[20] The conditions themselves may lead to larger program budgets and increased program uptake by the poor.[21] Regardless, the expense and potential complexity of CCT programs strongly suggest the need for good program design and measurement, both of which have been credited to existing CCT programs.

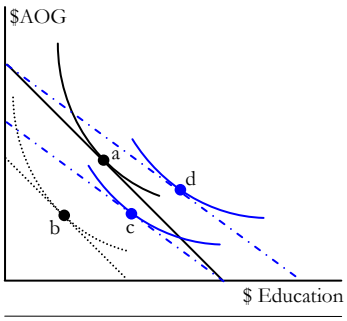

Figure 1: Economic household choices under various conditions: (a) prior to a CCT program with 1 working child; (b) income lost when child stops working; (c) a CCT program that partially covers opportunity costs; (d) a CCT program that covers all opportunity costs. The horizontal axis represents education expenditures; the vertical axis represents expenditures on all other goods (AOG). Diagonal lines are budget constraints; a parallel shift of a budget constraint represents an income change while a rotation represents a price change. Curved lines represent consumption preferences; curves further from the origin correspond to higher levels of consumption. The intersection between a preference curve and budget constraint indicates optimized household choice.

Welfare & Ethical Questions

As noted, transfer conditions limit household choice and thus, some argue, imply a distrust of the poor to make appropriate decisions.[22,23] CCT proponents, however, contend that limiting choice is not a matter of trust, but an attempt to mitigate market failures and choice pressures.[24,25] They further argue that CCT programs empower the poor, making them partners in their development, and not simply benefit recipients.[26] By granting transfers to mothers, these programs also empower women, giving them household control over a portion of the budget.

One of the more disconcerting concerns is the screening out of the "poorest of the poor" that are unable to incur the opportunity costs required to meet transfer conditions.[27] This concern may be mitigated by compensating recipients for their opportunity costs; as discussed above, this comes at the expense of increased program cost. CCT programs that do not sufficiently compensate recipients for opportunity costs may indeed screen out the poorest of the poor – or be faced with the equally challenging prospect of terminating transfers to those unable to sustain the conditions.

DISCUSSION

Conditional cash transfer programs have undeniably improved the education, health, and nutrition of poor recipients in Mexico, Nicaragua, and Columbia. But these results are predicated on having appropriate conditions in the country and communities being served. Specifically, targeted

services must be accessible and available to program recipients, and they must be of sufficient quality to improve human capital. Additionally, federal and local governments must have the institutional capacity to verify the compliance of CCT recipients. Finally, cash transfers must be sufficiently large to cover the opportunity costs incurred by recipients in honoring their program commitments. Without appropriate services, the government is unable to supply the demand that CCTs create. Without effective monitoring, the program is unable to ensure compliance, and thus puts at risk the very investments in human capital for which it was created. Without sufficiently large transfers, the society may not invest in the "poorest of the poor", those least equipped to escape the cycle of intergenerational poverty.

The debate on household choice is somewhat muted by the evidence of low income elasticities of education among the poor.[28] Whether you call it distrust or market forces, the fact remains that modest increases in income for the poor do not generally translate to significant increases in education spending. CCTs have demonstrated their effectiveness in improving the human capital of recipient households. If this in turn reduces the likelihood or magnitude of intergenerational poverty transmission, then the long-term merits of CCT programs outweigh these shorter-term costs.

Applications to Poor African Countries

The predicates of CCT success suggest that conditional cash transfers may not yet be widely applicable to poor African countries. As discussed by Michael Samson of the Economic Policy Institute of South Africa, education conditionalities are not used in parts of Kenya because of the lack of appropriate schools.[29] Geographic variability is also likely in health services and institutional verification capabilities. High unemployment may also be a factor: with limited jobs available, the opportunity costs of sending a child to school may be too high if he or she is a primary contributor to household income. These factors may not be insurmountable in middle income countries like Mexico, but may pose significant barriers to implementing CCT programs in Africa. But these barriers do not exclude the use of conditionalities in Africa; rather, they suggest a mixed and sequenced approach.

The effectiveness of conditionality in improving human capital indicators associated with intergenerational poverty transmission strongly suggests it as the long-term development approach in poor African countries. Short-term development efforts can employ a patchwork of CT and CCT programs, distributed geographically as appropriate, based on the (a) the available and accessible supply of appropriate services, (b) local verification capacity, and (c) the program's ability to sufficiently fund transfers to cover opportunity costs. While a mixed program is more complex and may thus incur additional costs, these costs may be outstripped by the lower costs of the CT programs. Mid-term development efforts can address the shortage of services and institutional capacity in CT communities, selecting the most viable regions first, with the goal of transitioning these programs to CCTs. Together, these approaches will build the infrastructure needed for effective programming while not delaying the long-term investment in human capital.

CONCLUSION

The effectiveness of conditional cash transfers makes them attractive options for policy makers in countries that do not have CCT programs. However, local conditions matter. Before implementing a CCT program, policy makers should consider regional supplies of targeted services, institutional capacity to verify program compliance, unemployment rates, and their ability to sufficiently compensate participants for the opportunity costs of meeting program obligations. If geographic variability precludes the national adoption of a CCT program, then a mixed approach may be viable, in which CT and CCT programs are applied regionally as appropriate.

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END NOTES

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[2] Székely
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