

Cash Transfers: Learning from Impact Evaluations

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Motivation

- Many countries around the world now have conditional cash transfer (CCT) programs in place
 - In some countries, including **Brazil, Colombia, Ecuador** and **Mexico**, they cover millions of households, give transfers that account for as much as 20% of consumption of the median recipient household, and are assigned ~0.5% of GDP
 - In other countries, such as **Chile**, they are more narrowly targeted at the “socially excluded”, and are meant to fill in the cracks between other social assistance programs
 - In yet other countries, such as **Bangladesh**, they are primarily designed to increase school enrollment among girls

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- Programs vary, but all share some basic characteristics:
 1. They transfer cash
 2. They ask that households comply with a series of conditions—generally, school enrollment and attendance, often also attendance at health centers for young children
 3. They are targeted (to the poor or to those at high risk of dropping out of school, etc.)
- “Twin objective” promise of programs:
 1. Reduce current consumption poverty
 2. Promote accumulation of human capital

Why Cash Transfers in the first place?

- Arguments against cash transfers:
 1. Growth, on average, is good for poverty reduction. So, governments should focus on basic infrastructure and service delivery that will facilitate such growth.
 2. “Handouts” create “dependency”. If government provides the basic necessities of life, then why should people work, especially in low-productivity subsistence activities that pay little?

Why Cash Transfers in the first place?

- Arguments against cash transfers:

1. Growth, on average, is good for poverty reduction. So, governments should focus on basic infrastructure and service delivery that will facilitate such growth.

Q: But, what is the distribution of government spending on social insurance and assistance?

A: Myriad of ad-hoc, in-kind, and in many instances, regressive transfers exist.

“Truncated welfare systems” abound in many settings.

Why Cash Transfers in the first place?

- Arguments against cash transfers:

1. Growth, on average, is good for poverty reduction. So, governments should focus on basic infrastructure and service delivery that will facilitate such growth.

→ So, cash transfer programs can actually be both more **equitable** (by targeting the poor) and more **efficient** (by eliminating the price distortions generated by specific subsidies).

Why Cash Transfers in the first place?

- We'll come back to the “dependency” argument under “political economy” arguments...
- Failures in credit or insurance markets
 - rates of return to capital for small enterprises above the prevailing interest rate; farmers in Ghana, etc.
- If the first-best solution of fixing the market failure itself is not possible (or too costly), then a redistribution of resources could again be more equitable and efficient.
 - Redress inequalities of opportunity through redistributive policies are also “morally” justified.

Why the “condition”?

- So, suppose that we have come to the conclusion that our policies will include some progressive scheme of cash transfers:
 - **Does it make sense to attach conditions to these transfers?**
- The answer under the theoretical default, i.e. under ideal circumstances, is “no”.

Two reasons why conditions might be disadvantageous...

- First, think of households who are poor and living in remote rural areas:
 - Perhaps the children have to help in the field, perhaps the school is too far, or there is no doctor at the health clinic.
- If the condition is costly enough to cause a household to turn it down, then a CCT offer may actually exclude a needy HH from the program.

Two reasons why conditions might be disadvantageous...

- Second, if the household's behavior is optimal (privately and socially) in the first place, then a CCT offer will actually cause costly distractions to households who need the cash and will distort their behavior away from the optimal.
 - ... which brings us back to the question before:

Q: When is a CCT better than a UCT?

A: Generally speaking, when it is addressing a market failure...

Outline for the rest of the presentation

1. Under what circumstances do CCTs make sense?
2. What is the evidence that they have had impacts on consumption poverty and on human capital outcomes?
 - Report draws heavily on a large number of *credible impact evaluations*—more available for this class of program than for probably any other intervention in the developing world
3. Policy implications
 - How to structure CCTs
 - What complementary actions are needed
 - CCTs in the context of social protection policies

Conceptual framework

- **Message 1:** Making transfers that are *conditioned* on household behavior can make sense under some circumstances:
 1. The behavior of households is not **privately** optimal:
 - a. Imperfect information,
 - b. Hyperbolic discounting,
 - c. Intra-household bargaining (principal-agent) problems
 2. The behavior of households is not **socially** optimal, i.e. there are significant externalities.
 3. The “**political economy**” argument.

CCT impacts on consumption poverty

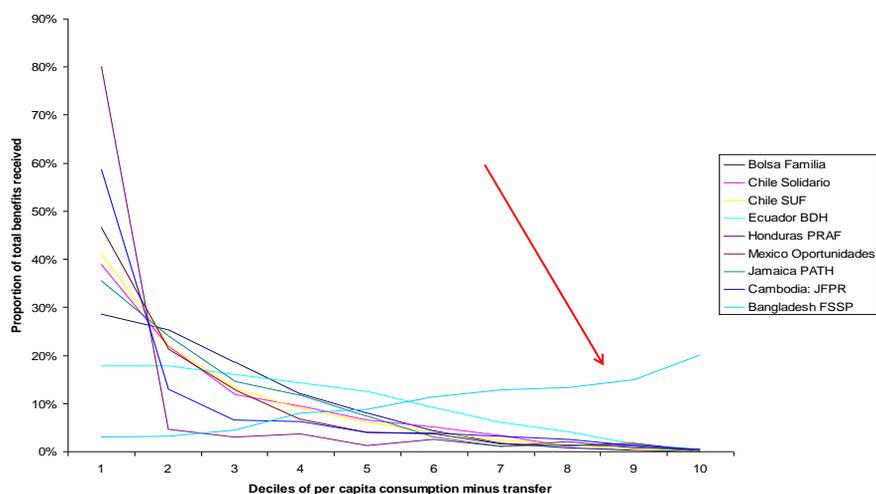
- **Message 2:** CCTs have generally led to substantial reductions in consumption poverty—in particular, when transfers are large
 - In **Nicaragua**, the Red de Protección Social, a pilot program, reduced the poverty gap among beneficiaries by 18 percent
 - In **Mexico**, PROGRESA (now Oportunidades), a program with national coverage, reduced the poverty gap in rural areas by 19 percent

CCT impacts on consumption poverty

Why have CCTs reduced consumption poverty?

- They are well-targeted
- They have made transfers of (in some cases) substantial magnitude
- They have not reduced adult labor market participation
- They have not generally crowded out other transfers, and have not had substantial (local) general equilibrium effects
- Transfers (which are generally made to women) have also changed the composition of consumption
 - More expenditures on food, and on higher-quality sources of calories

CCT benefits are decidedly progressive...

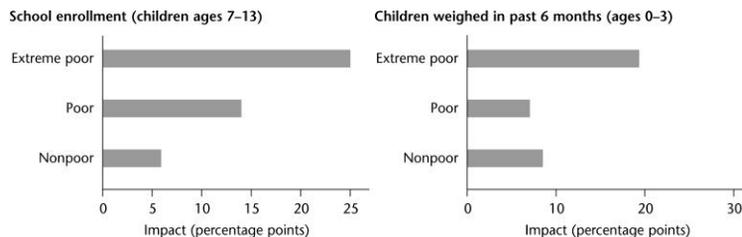


CCT impacts on health and education outcomes

- **Message 3:** CCTs have resulted in substantial increases in the utilization of education and health services – especially among poor households
- Examples — **education:**
 - In **Mexico**, Oportunidades decreased dropout between 6th and 7th grade by 9% points
 - In **Pakistan**, the Punjab Education RSP increased the school enrollment of 10-14 year-old girls by 11% points
 - In **Cambodia**, two pilot programs reduced the dropout between 6th and 7th grade by 20-30% points
- Examples — **health:**
 - In **Colombia**, Familias en Acción increased the proportion of children who had growth monitoring by 20-30% points
 - In **Honduras**, PRAF increased the proportion of children who had at least one preventive health visit by 20% points

CCT impacts on health and education outcomes

- Because impacts are concentrated among the poorest households, CCTs have helped reduced “inequality of opportunities”
- Example: **Nicaragua**



Source: Maluccio and Flores 2005.

CCT impacts on education and health outcomes

- **Message 4:** Despite increase in service utilization, CCTs have had only mixed success in terms of improving final outcomes in education and health:
 - Health
 - Some programs, but my no means all, have improved child nutrition (as measured by height-for-age, hemoglobin status)
 - Education
 - Increases in school enrollment and years of completed schooling have not come hand-in-hand with improved learning outcomes

Program design issues: What we know or will know from impact evaluations...

- Are conditions redundant?
- Does it matter who receives the payment?
- How much to pay?
- How to determine the 'right' conditions? Should we monitor the conditions?

Are conditions redundant?

- The only 'direct' experimental evidence so far on the effectiveness of conditionality is from a program in Malawi:
 - There is no detectable difference in schooling outcomes between conditional and unconditional treatment arms.
- Ongoing impact evaluations in Burkina Faso, Morocco and Yemen are also comparing the impact of conditional and unconditional transfers.
- Other evidence we have, mostly from Latin America is 'indirect' and contradicts the findings from Malawi:
 - School attendance was significantly lower among households who did not think the transfers were conditional,
 - Ex-ante simulations suggest little improvement in school enrollment if the conditionality is removed
- Some evidence that UCTs can improve schooling and child labor outcomes.

Does it matter who receives the payment?

- Typically payments are made to the mother
- Changes in consumption patterns (more and better food in Ecuador, Nicaragua, Mexico) are hard to explain....
- Other evidence on mothers' preferences....
- Ongoing impact evaluations in Burkina Faso, Morocco and Yemen test payments to mothers vs. fathers

- Ongoing impact evaluation in Malawi tests payments to girls vs. parents

How much should a CCT program pay?

- Potential trade-offs between redistributive and human capital goals
 - Larger transfers lead to bigger impacts on consumption poverty
 - Diminishing marginal returns to transfer size in terms of achieving human capital goals?
 - Typically calculated using simulation models (e.g. Brazil, Mexico)
- Impact evaluations have been used to estimate effects of varying transfer size
 - In Cambodia each dollar of the initial \$45 "purchased" ~0.38% points of increased attendance. Each dollar of the additional \$15 "purchased" only ~0.12% points more attendance
 - In Malawi, the findings were qualitatively quite similar.
 - But, this hides the heterogeneity between the impact of increased transfers to the parents vs. the adolescent girls.

Selecting the appropriate conditions

- Considerable room for experimentation and evaluation—in particular, because best option is likely to be highly context-specific
- Experiment with conditioning on final outcomes in addition to service use (added payment as performance bonus)
 - Bogota: Extra payment for high-school graduation and university admission
 - New York/Washington DC: Extra payment for good grades
 - Kenya: Merit scholarship to girls
- How closely should we monitor the conditions? Or, should we just have social marketing campaigns? Should they be targeted to specific groups, such as adolescent girls, etc.?

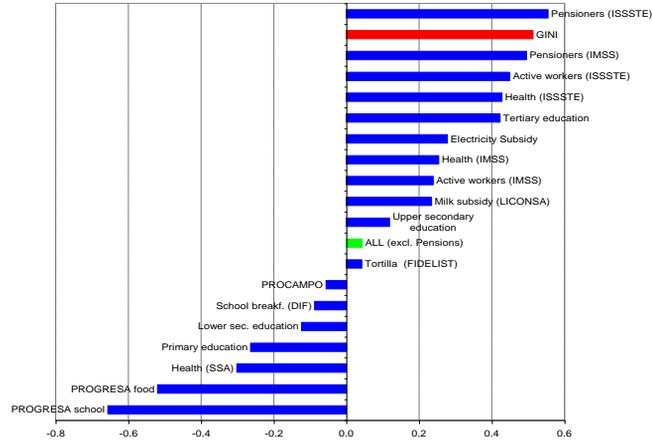
Policy implications

- CCTs have had important institutional legacies
 - CCTs have led the way in the design of well-run administrative structures for beneficiary selection, payments, transparency
 - CCTs have been groundbreaking in terms of the importance they have paid to impact evaluation with credible counterfactuals

Ex-post redistribution: social insurance and social assistance.

Despite recent progress, the incidence of social protection expenditures in LAC still varies dramatically, implying plenty of room for reform.

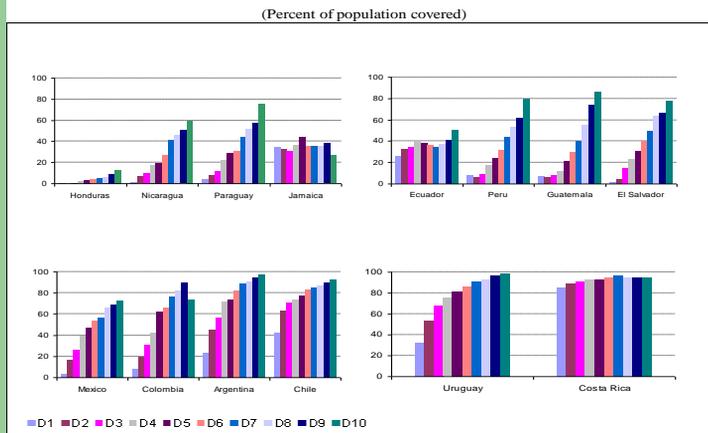
Concentration coefficients for programs in Mexico.



Source: de Ferranti et. al., 2004

Contributory Health Coverage in LAC, mid-2000s, by decile of per capita income.

Figure Error! No text of specified style in document.1: Contributory Health Insurance Coverage in Latin America and the Caribbean, mid-2000s, by Decile of Per capita Income



Evidence on bargaining problems within the household

Schooling changes by Transfer Split for Schoolgirls

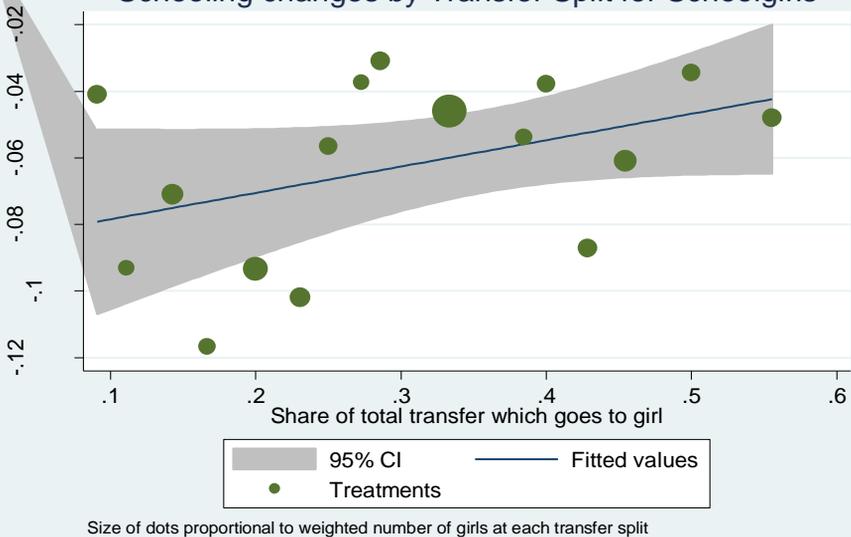


Figure I: Regular School Attendance in 2008 by Transfer Amount

