POVERTY, INEQUALITY AND PUBLIC CASH TRANSFERS: LESSONS FROM LATIN AMERICA

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ABSTRACT
As governments consider which policy parameters to select when designing a new cash transfer and how to fine-tune existing transfers, information on the design options available, on the contribution of specific cash transfer parameters to outcomes and on the implementation details that facilitate these linkages, is critical. Focusing on public cash transfers that explicitly pursue a poverty-reduction objective, this paper identifies the central issues and trade-offs associated with variations in the design details of transfers, targeting and conditionality. These issues are then examined with reference to the experience of conditional cash transfers (CCTs) in nine countries in Latin America. The paper highlights the variations in CCT design and implementation and reviews the evidence of their impact on poverty and inequality, paying particular attention to estimates, where they are available, of the intended and unintended effects of separate cash transfer components. In the final section, the paper discusses the policy implications that arise from the CCT experience in Latin American countries.

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The views expressed in this paper are those of the authors, and should not be taken to be the views of the European Report on Development, of the European Commission or of the European Union Member States.
1. Introduction

This paper analyses public cash transfers in Latin American countries, focusing on the targeting and conditionality components of social assistance transfers. Since the early 1990s, governments across the region have adopted cash transfers explicitly aimed at reducing poverty and reaching population groups largely excluded from formal social protection policies. 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 that they follow a pre-specified course of action.

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. 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. Furthermore, in countries that have implemented cash transfers for some years, stakeholders are taking stock of the experience to date as they consider the fine-tuning of CCT policy design parameters.

Against this background, the paper is organised as follows. First, it identifies the central arguments both for and against targeting and conditionality in poverty reduction programmes. Second, it highlights the variations in cash transfer, targeting and conditionality in the CCT experience in nine Latin American countries to reveal the multitude of design and implementation options in practice. 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).

Third, it reviews the evidence on the impact of CCTs on income poverty and inequality, education and health. The expansion of CCTs in Latin America rested largely on evaluations highlighting their good targeting performance and on the progress towards intended outcomes in terms of combined programme effects. Remarkably little evidence, however, has supported the arguments in favour of the adoption of specific targeting and conditionality practices. This section reports on overall programme impacts and on estimates, where they are available, of the intended and unintended effects of separate CCT components.

Finally, the paper discusses the policy implications arising from the experience of Latin American CCTs. Building on the review provided by the first three sections - on the theory of targeting and conditionality, on the design details of CCT parameters and on the evidence of their effects - the paper reflects upon the linkages between programme design and implementation details and outcomes. This is the paper’s main contribution to the ERD’s 2010 analysis of policy options in developing social protection in less developed countries (LDCs).

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2 The focus of this paper is on conditional cash transfers that 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 out of donor assistance.
2. Targeting, conditionality and public cash transfers: A review of the arguments

The adoption of targeted and conditional cash transfers in Latin American countries was largely based on the expectation that such policies would address poverty both in the short- and long-term (Britto, 2005). This perceived potential is captured by a widely-cited definition of CCTs, which also points to the purposes of their sub-components:

“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 also supported by claims regarding administrative and political economy considerations. Commentators argued that CCTs display 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 conditionality (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 may be 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 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 considerations have prompted policy discussions to turn to narrow targeting as a means of achieving higher impacts on poverty (van de Walle, 1998). However, targeting practices are also associated with individual responses and incentive effects, administrative costs and political economy effects that risk off-setting progress in poverty reduction. These vary depending on the design and implementation details of targeting mechanisms as well as on the constraints under which policy has to operate.

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. When targeted income transfers display high rates of benefit withdrawal, for example, they risk generating a work disincentive and create a “poverty trap”, so that people have little inducement to increase their income (Atkinson, 1995). The review of targeting practices in the following sections shows that, in practice, efforts to mitigate the risks of work disincentives associated with narrow targeting can be incorporated in targeting design details. Governments may taper the withdrawal of benefits, so that a unit increase in income, say, above the eligibility threshold, does not automatically imply a loss of entitlement to the benefit. Income transfer payment may also be set for a minimum duration, independently of variations in the beneficiaries’ socio-economic circumstances.

Targeting involves the regular identification of beneficiaries and the management of beneficiary data including its verification and re-assessment over time. A government’s capacity to target benefits depends on the information available to it, and the extent to which it can verify the information supplied by others (Atkinson, 1995). Difficulties encountered in assessing and verifying the claimant’s means generate administrative costs that increase with the informational demands and complexity of the

3 Although political economy arguments are reviewed here, evidence in support of political economy considerations is not presented in this paper.
procedures of verification and re-certification processes (Besley and Kanbur, 1990). They may 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. However, 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 the mid- to long-term benefits of human capital accumulation into account. 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 said 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 the 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 Saudoulet, 2006). However, 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. Is the transfer targeted or universal? Is it conditional or unconditional? 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 of the drivers 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 national minimum income is a central concern. In a number of countries the determination of CCT programme parameters has been characterised more by ambiguity than by 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 Família (Bastagi, 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 (Bastagi, 2008a; 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 protección 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 socio-economic 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 socio-economic 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 to verify the beneficiary information used to determine eligibility.
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 in Chile, Colombia and Nicaragua.

CCTs may rely on geographic targeting to target priority areas, whether based on welfare levels or other requirements such as minimum infrastructure facilities, or a combination of both. In Colombia, Familias en Acción (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, rather than on reported monetary income, when 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 exclusive reliance on declared income, rest on the selection of poverty correlates that are easily verifiable, thus 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 Família, 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 the 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 socio-economic 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. Even a unit increase above the income eligibility level determines the loss of eligibility and, at least by design, the Bolsa Família generates a 100% benefit withdrawal rate (Bastagli, 2008a).

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 mothers. PROGRESA, for example, requires beneficiary mothers to attend workshops on health and programme coordinators’ meetings and to contribute a set amount of hours of work to the programme (Molyneux, 2006).

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4 Whether this programme feature occurs in practice is another matter. Section 3.2 highlights the departures between policy design and implementation in practice.
Conditionality in CCTs also varies depending on its centrality in programme operation. Conditionality is central to CCT implementation when compliance is first verified and benefit payments are only subsequently made (e.g. in Mexico). In other cases, once eligibility is determined, transfer payments are made to beneficiaries and conditionality compliance is verified at a later stage (e.g. in Brazil).

Finally, the 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 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 for 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

Implementation does not automatically follow from official policy regulation and the departures of CCT parameter administration from formal design, in practice, inform the interpretation of the findings of policy impact evaluations. Variations of this kind arise from the challenges encountered in policy implementation. They may also result from differences in people’s perceptions of policy parameter definitions and motivations from those intended by policy-makers and enshrined in legislation.

With regard 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. 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 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 following 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, in 2005, 21% of beneficiary records in the national Cadastro Unico registry used for the identification of Bolsa Familia beneficiaries were “valid”, that is, contained information that 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. Findings from a qualitative study of RPS implementation in Nicaragua, reveal 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).

5 Note that the national Cadastro Unico was operationalised in 2001 and that the Bolsa Familia reform was launched at the end of 2003.
People’s perceptions of the definitions and purpose of 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 Família 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 envisaged by programme regulation. In Paraguay, where the Tekopora programme was introduced in 2005, conditionality monitoring remained broadly ignored in 2007 (Veras Soares and Britto, 2007). In Brazil, administrative records of health conditionality compliance were first drawn together in 2005 and tracked health care information for 6% of Bolsa Família beneficiaries. By 2009, 63% of Bolsa Família beneficiaries had valid health monitoring records (MDS, 2009).

The irregular monitoring of conditionality has 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 Família benefits as a result of conditionality non-compliance took place in 2007, that is, four years after the launch of the programme (MDS, 2009).

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 share of national GDP. In Brazil, the Bolsa Família 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

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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.

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.
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% 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.

Beyond income poverty and inequality, what do we know about CCT impacts on education and health indicators? Studies show that, in some countries, CCTs 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 (see, for example, 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 in 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 the use of preventive infant care, check-ups during pregnancy, after birth and in early childhood. In Nicaragua, the probability for a poor child to be taken to health control and weighed in the last six months has 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 has increased from 17% to 40% as a result of the FA (Attanasio et al., 2005), and in Honduras, PRAF has 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 Acción 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 pre-school 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 Alimentação in Brazil (one of the cash transfers consolidated into the Bolsa Família in 2003), had no meaningful effects on pre-school nutritional status, blood haemoglobin levels and rates of anaemia (Hoddinott and Basset, 2008).

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

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 highlighted 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 attributed to the targeting mechanism alone, 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 Família, 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
Puente, which employs a proxy-means test like most CCTs (Bastagli, 2008a).

Section 2 mentioned the concern raised by targeting theory that targeted income
transfers may 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 on the number of hours worked by 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. However, his study also finds no significant
effects on the numbers of hours worked in 2004 and suggests that a reduction in
transfers for those entering the programme in that year, compared to transfer values in
the initial period of RPS implementation, may have reduced the labour supply
disincentive.

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

Trends in CCT activity costs also highlight the 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.

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).
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. The reliance on contextual methods in these studies and the qualitative nature of much of the evidence should not hinder the inclusion of these examples in discussions on the costs and benefits of targeting. Adato’s (2000) study of Mexico’s PROGRESA, 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 shed light on conditionality effects on education. Schady and Araujo’s (2008) study of Ecuador’s Bono de Desarrollo Humano (BDH) exploits variations in households’ perceptions to assess the impact of conditionality on school enrolment. The study compares “conditioned” households, that believed there was an enrolment requirement even though no requirements were ever monitored or enforced, with “unconditioned” households, that did not believe the transfer to be conditioned. It finds that significant (and limited) programme effects on enrolment are only recorded among households which 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 according 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.

Interestingly, both studies reveal that the 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 (for example, through the distribution of monitoring forms) are associated with higher school enrolment and attendance.

The inclusion of conditionality in cash transfers has raised concerns over the risks of exclusion and the 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 who 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 the suspension of the benefits. Adato (2008) reports how this requirement led to the overfeeding of 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 deserved (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 (for example, on school enrolment), policy-makers 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

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 on the parameter design options available, on the contribution of specific CCT parameters to outcomes, and on the implementation details that facilitate these linkages, is critical. What are the policy implications that arise from the CCT experience in Latin American countries? These may be grouped around two sets of considerations, the broad design of policy and institutions and specific CCT parameter design details.

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 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 contributed to 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 is that, from the outset, it is useful for governments to clarify the primary objectives pursued by a cash transfer. Clarification could be achieved as to 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 the 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.

\(^{10}\) It may 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.
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. 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 Família* implementation (Bastagli, 2008a; Lindert et al., 2006). Furthermore, to support *Bolsa Família* administration activities and to compensate for additional costs arising from such responsibilities the Federal Government pays administrative subsidies to local authorities. Subsidy values are based upon 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 helped to *legitimise programmes* and support CCT monitoring and evaluation. However, complete reliance on external financing that is guaranteed for limited periods and 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 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 regard to policy financing, the CCT experience in Latin America highlights the importance of adopting a medium- to long-term vision and prioritising institutional development. Where efforts to set up social assistance measures (including CCTs) were 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 by this paper 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 different policy priorities and concerns arising from policy implementation.

With regard to the determination of the *income transfer level*, the present review shows that 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, were credited for minimising negative labour supply effects that

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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.
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 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 several Latin American countries, cash transfer design details were modified over time in response to growing awareness of the tensions around transfer regulation and programme objectives. For example, benefit up-rating practices were introduced by countries that initially failed to up-rate or revise cash transfer values over time, leading to the erosion of their real value and limiting their poverty reduction and redistributive impact (for example, 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 reflect programme priorities better (for example, in Colombia).

In some countries, CCT implementation proceeded in tandem with the re-organisation of targeting tools, leading to the consolidation of beneficiary registries and to the standardisation of eligibility rules nationally. These reforms 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, evidence for some countries 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 socio-economic 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, conditionality in cash transfers has been revised in response to the experience to date. In some instances, requirements have been modified to take unintended behavioural effects into account. In Nicaragua, for example, RPS conditionality requiring beneficiary children to pass their grades successfully 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 of non-compliance and to incorporate 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* 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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