Conditional cash transfers and their impact on children (Hungary, 8-9 October 2015)[1]

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Introduction: Background and context

As part of a more general shift by traditional welfare states to a "social investment state" or to an "active welfare policy", social policy measures are more often seen as incorporating behavioural incentives to steer individuals in the direction of more appropriate or desired behaviour. Conditional cash transfers (CCTs) also belong to this group of social interventions. These are non-contributory cash subsidies to recipients who first must meet a certain behavioural condition. CCTs have been increasingly popular in low- and middle-income countries of Latin America, Africa and Asia, but such programmes are also part of the welfare state of certain high-income countries. In high-income countries, such transfers most frequently relate to unemployment benefits, and the conditions attached require active labour market behaviour on the part of transfer recipients. But this type of social policy instrument is also increasingly applied in relation to families with children, with the aim of giving additional incentives to families to invest in the human capital of their children.

Large-scale CCTs in low- and middle-income countries have been the subject of extensive evaluation, which has shown that many programmes have significantly increased school enrolment and attendance of children; but the effects on educational outcomes (such as degree attainment, test scores or later earnings) have proved to be mixed. The studies have shown that impacts depend on the social context, specific features of the programme design, and the administrative capacity of the institutions. In the case of the EU Member States, the nature of child poverty and the institutional and policy context of these interventions differ substantially from the low- and middle-income countries where most of the evaluations were carried out. This raises the issue of potential transferability of existing approaches and the necessary conditions for further development of CCTs related to children in EU Member States.

This discussion paper is based on a study commissioned by the European Commission, Directorate-General for Employment, Social Affairs and Inclusion (TARKI 2014)[2]. The aim of the study was to present findings on CCT programmes and their impact on children in the EU and to provide strategic advice to key stakeholders regarding the introduction or development of such interventions. The study builds on a literature review, an expert survey and case studies of five examples of CCT programmes in the EU Member States[3].

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[1] Prepared for the Peer Review in Social Protection and Social Inclusion programme coordinated by ÖSB Consulting, the Institute for Employment Studies (IES) and Applica, and funded by the European Commission.

[2] Downloadable at http://ec.europa.eu/social/BlobServlet?docId=12638&langId=en

[3] Case studies of the following programmes were carried out: Kindergarten Allowance (Hungary), Education Maintenance Allowance (UK), School Allowance (Belgium), Child Allowance (Bulgaria) and the Social Risk Mitigation Project (Turkey).

Main characteristics of CCT programmes targeted to children

Here we define CCTs as non-contributory cash subsidies to recipients who meet a certain behavioural condition. We are interested in programmes that formulate a condition related to human capital investment, such as school attendance, school performance, or participation in health examinations by children under 18.

The most important design element of conditional cash transfer programmes are the specific behavioural conditions for access to transfers. These are usually based on some behaviour related to human capital accumulation (such as school enrolment and attendance, participation in health prevention, reading books etc.) or on certain specified outcomes (for example, moving up a grade or achieving a minimum test score in education).

Incentives can be framed as gains or losses relative to a baseline case. Accordingly, an eligible person may receive a given transfer only if a behavioural requirement is satisfied (positive incentive), or, alternatively, payment of a regular transfer may be suspended or reduced as a sanction in case of non-fulfilment of the behavioural condition (negative incentive)[4]. Monitoring of fulfilment of the behavioural conditions occurs with varying frequency in conditional cash transfer programmes. The trade-off here is between the effect on behaviour and cost: more frequent monitoring of the condition presumably results in a stronger effect on behaviour, but it is also more costly. Programmes with negative incentives sometimes involve severe sanctions, such as a substantial reduction in benefits or the suspension of benefits for a certain period. Sometimes these programmes apply softer sanctions, such as an obligatory meeting with a social worker in order to identify the reasons for non-use of the given service and to pinpoint possible remedies.

Programmes also differ in the method of targeting (means test, proxy means test, geographical targeting) and in the size, frequency and recipient of the transfer. Targeting first of all means channelling subsidies to low-income people by applying some targeting method. On the other hand, in the case of conditional transfers, targeting might also mean directing transfers to segments of the population where there is more likely to be behavioural change in response to transfers.

Part A: Setting the scene – overview of the related policy developments at European level

A.1 The place of the issue on the European agenda

The policy context of this Peer Review is the increased importance of social investment in children within the EU agenda. The EU2020 strategy sets out the way for EU Member States to return to prosperity after the economic crisis that struck at the end of the past decade. The strategy envisages economic growth building on knowledge and innovation and characterised by sustainability, high-employment as well as social and territorial cohesion. The strategy sets out five targets to be reached by 2020, two of which are of special relevance here. In terms of education, the strategy sets the target to reduce the rates of early school leaving below 10% and to raise the percentage of those completing third level education to 40% in the 30-34-year-old age group. In terms of fighting poverty and social exclusion the

[4] An example of the first type is a scholarship, which offers low-income students a specified amount of money if they enrol in some form of post-compulsory schooling (e.g. the Education Maintenance Allowance in the UK), while the second type of transfer can be thought of as the Learnfare programme that operates in several US states, which applies sanctions (a reduction or suspension of welfare payments) if the school attendance of children living in the household of a welfare recipient falls below a prescribed level.

target is to reduce the number of people at risk of poverty and social exclusion by at least 20 million.

The welfare states of the EU are under double pressure of an ageing population and high unemployment resulting from the economic crisis topped with the necessity of budget austerity in many countries. Promoting economic growth and competitiveness in this situation requires investing in human capital, which lays the foundation for future productivity and innovation. In order to support the achievement of the EU2020 targets the European Commission compiled a Social Investment Package (European Commission 2013a) that could help to strengthen the investment function of European welfare states. Social investment is about policies designed to strengthen people's skills and capacities and improve their opportunities to participate in society and the labour market. Key policy areas include education, quality childcare, healthcare, training, job-search assistance and rehabilitation. The social investment approach stresses prevention which could reduce the pressure on welfare states by reducing the need for benefits.

Three key areas of the social investment according to the European Commission are (i) increasing efficiency and effectiveness of social systems through simplification and better targeting, (ii) implementing activating policies and (iii) investing in children and young people to increase their opportunities in life. The necessary measures to improve investment in children are outlined in the Commission Recommendation "Investing in children: breaking the cycle of disadvantage" (European Commission 2013b). According to this document the most important measures are to support parents' access to the labour market, provide adequate income support that avoids inactivity traps and stigmatisation and provide access to quality services that are essential to improve children's outcomes (early childhood education and care, quality schools, enhance access to health, housing, social services).

One objective of increasing investment in human capital – also included among the EU2020 targets as mentioned before is the reduction of early school leaving. Early school leavers are far more likely to end up unemployed or at risk of poverty and social exclusion. The reduction of early school leaving is possible through prevention measures, intervention measures and measures aimed at re-engaging people who have dropped out of education (European Council 2011). European documents point to the importance of having access to high-quality Early Childhood Education and Care (ECEC) service as a key preventive measure.

The increasing importance of ECEC services on the EU policy agenda derives from its beneficial effects in several domains. The crucial effect of early life experiences on cognitive function, educational performance and life chances has been demonstrated by a number of studies during the last decades and across different scientific fields (Augustine et al, 2009; Heckman, 2008). Attendance of high-quality childcare institutions may play a central role in mitigating the effects of existing differences in household socioeconomic position during childhood. As a consequence, the provision of high-quality childcare services may prove an important tool in reducing the magnitude of educational, socioeconomic and health inequalities not only during childhood, but also later in life.

From a macroeconomic perspective, affordable access to childcare facilities can have a direct positive effect by improving employment rates of parents. Indeed, without reconciliation policies for work and family life, it will remain hard for women to achieve equal participation in the labour market and for European Member States to achieve the objective of an employment rate of 75% (as listed in the 2020 EU Strategy). Furthermore, providing access to childcare services for every family is a

way to ensure adequate household income for families with children across the socioeconomic spectrum and their inclusion through employment.

A.2 The CCT approaches taken by the European countries

EU Member States and candidate countries apply different conditional cash transfer programmes related to human capital investment. First we describe programmes that make their reward conditional on the use of healthcare services. Health-related conditions include regular check-ups or screening and infant health programmes (primarily compulsory immunisation). Some programmes give financial incentives for participation in early childhood education and care, such as kindergarten. Programmes that make reward conditional on behaviour or performance in education include programmes related to compulsory schooling and post-compulsory schooling periods.

CCT programmes related to infant health

Several EU countries provide incentive payments for pregnant mothers to motivate participation in pre-natal health check-ups, without specifically targeting the low-income population. The birth grants in Finland and Luxembourg have required regular pre-natal screening of pregnant women since the late 1990s (McQuide et al. 1998). Luxembourg's *Childbirth benefit* is composed of three separate payments of 580 EUR[5]. The prenatal benefit is paid after the pregnant woman has had five medical examinations and a dental check. The childbirth benefit, which is due on the day the child is born and the postnatal benefit, is payable after the child has undergone six statutory health checks under the age of two. The Finnish *Maternity Grant* provides a single lump-sum benefit (140 EUR) for eligible women if the mother has undergone a medical examination before the end of the fourth month of the pregnancy[6].

The incentive payments described above are not means tested, and do not specifically target the poor. These programmes thus help narrow the gap between service use by low-income and high-income families only if the poor are more responsive to the transfers than the better-off. Examples of similar means-tested transfers are also found. For example, the *Maternity Allowance* (*Kinderbetreuungsgeld*) in Austria is a means-tested benefit launched in 2001. Pregnant women or mothers with infants are entitled to a benefit which amounts to 14.53-33 EUR per day according to the modality chosen. The condition for receiving the full benefit is to undertake at least 5 pre-natal and 5 post-natal check-ups[7]. In case the required number of examinations is not met, the childcare benefit is cut by 50 %. In France three post-natal child examinations – in the week following birth and again at 9 months and 2 years – are required to benefit from the basic benefit of the *Prestation d'acceuil du jeune enfant (PAJE)*. This is a means-tested benefit paid up to the age of 3 of 184.6 EUR per month[8]. Means tested *birth grants* with behavioural conditions operate in France, the UK and Hungary, they provide cash transfer to mothers if they participate in prescribed medical examinations during pregnancy or after birth. Slovakia or Bulgaria apply health-related conditions in the minimum income scheme.

[5] http://www.guichet.public.lu/citoyens/fr/famille/parents/allocation-naissance/allocation naissance/index.html (23.07.2014)
[6] http://www.kela.fi/web/en/pregnancy_maternity-grant (25.07.2014)
[7] Information from expert survey and https://www.help.gv.at/Portal.Node/hlpd/public/content/143/Seite.1430500.html (25.07.2014)
[8] https://www.caf.fr/aides-et-services/s-informer-sur-les-aides/petite-enfance/la-prestation-d-accueil-du-jeune-enfant-paje-0 (23.07.2014)

CCT programmes related to early childhood education and care

Kindergarten allowances and other pre-school incentives are relatively rare in EU countries. These programmes support the use of services of kindergartens and crèches, helping with the accessibility and affordability of these day-care services. *School Allowance (Schooltoelage)* in Flanders, Belgium, is a means-tested transfer to help families cover expenses related to schooling. The programme covers kindergarten-age children and provides 90 EUR to eligible poor and middle-income families. If the programme's requirements regarding attendance are not met, the household is sanctioned, as described in the next section (for more details see the case study in Volume II of the Report). *Kindergarten Allowance* (*Óvodáztatási támogatás*) in Hungary provides incentives for low-income parents to enrol their children in kindergarten before the compulsory age of 5 (see more details in section B.1.).

Incentives to increase kindergarten enrolment and attendance also feature in programmes organised by NGOs. An example in Romania is the *Fiecare Copil in Gradinita* (*Every Child in Preschool and Kindergarten*) programme launched in 2010 by an NGO, Asociatia OvidiuRo, and the Romanian Ministry of Education (Seghedi et al. 2011). The project has several components: it promotes community action to increase the commitment to solving the problems of late enrolment and truancy; it promotes teacher training in kindergartens; and it also aims to increase parental engagement through incentives. Parents receive food coupons (12 EUR) each month if the child attends every day (or has an officially excused absence), and if the parents attend a monthly parent-teacher meeting (at which they are given the coupons). In the school year 2012/2013 the programme covered 1,300 children in 21 disadvantaged communities.

CCT programmes related to compulsory schooling

Schooling-related criteria are the most common requirements of conditional cash transfer programmes. Some include conditions related to schooling behaviour or the educational outcomes of children in compulsory schooling. In this latter case many conditional transfers apply negative incentives, transfers being reduced or cancelled if recipients do not comply with the requirements. Compulsory schooling age varies among the EU countries, but most commonly it is between ages 6 and16.

The *School Allowance* (*Schooltoelage)* in Belgium is designed to help families meet expenses related to schooling. The allowance is designed to prevent non-attendance and early school leaving. If the child fails to attend school for more than 30 half-days a year in two consecutive years, or 15 consecutive days, parents must repay the whole of the previous year's allowance (for more details, see the case study on this programme in Volume II of the report). Discipline is also backed up by supportive efforts of social workers and pupil guidance centres (Cantillon and Van Lancker 2011). A benefit helping poor families pay the cost of schooling is available in Greece, where the Ministry of Education provides an annual benefit of 300 EUR for very low-income families (below 3,000 EUR) for every child registered at school[9].

Also in several Eastern European countries, child benefit is conditional on school attendance. Slovakia introduced a school attendance condition into its *Child Benefit (Prídavok na dieta)* scheme in 2003 (Friedman et al. 2009). If the child has more than 15 hours of unexcused absences during a month, the school is obliged to notify the municipality, which may then suspend payment of the benefit[10]. Back in

[9] Information from expert survey.
[10] Information from expert survey.

2002, before it even joined the EU, the Bulgarian government introduced conditions to its child-benefit programme. The *Child Allowance* in Bulgaria is automatically withdrawn for the month following any month in which the child exceeds five unexcused absences from school (for more details, see the case study on this programme in Volume II). In Romania, a family is eligible for the *Child Benefit* (Alocatia *de stat pentru copii*) if the school-age child attends some form of education without interruption and without receiving a mark of less than eight (out of ten) for attendance (European Commission 2013b). Hungary introduced conditionality on school attendance into its most important family support programme *Schooling Allowance* (*Iskoláztatási támogatás*) in 2010.

In some countries, schooling-related conditions are also included in the minimum income protection scheme. In Bulgaria, the amount of the minimum income benefit is reduced if the family fails to comply with schooling- and health-related conditions. In the case of children aged 7–16, the benefit is reduced from 91 % to 30 % of the guaranteed minimum income (GMI) if the student has five or more unexcused absences in the course of a month, and to 20 % of GMI if he or she does not attend school at all[11]. In Slovakia, as an allowance part of the minimum income protection scheme, the *Benefit for a Child Meeting Compulsory School Attendance Requirements (Príspevok za školskú dochádzku)* provides a cash transfer for poor households with primary and secondary school-age minors. Built into the allowance are strong school-participation criteria, which require cooperation from both children and parents (Kusá and Gerbery 2009).

Conditions relating to compulsory schooling are also part of Italy's experimental national minimum income programme, the Support *for Active Inclusion (Sostegno per l'Inclusione Attiva)*[12]. The programme provides income support via a social card that can be only used for the purchase of food and payment of electricity and gas bills. The transfer is conditional and is based on an agreement of mutual responsibilities between the social services and the household. Household members participate in the drafting of this agreement, but once it is accepted, the transfer is only paid if the behavioural requirements of the agreement are met. Behavioural requirements are not only related to job search but also to the education and health care of the children. The programme has started in January 2014 as an experimental programme and will be gradually rolled out in the country.

Turkey's *Social Risk Mitigation Project*, which covers primary and secondary school students, has certain educational conditions and prescribes at least 80 % school attendance in every teaching month. The amount of benefit differs by gender and grade. The goal of such differentiation is to prevent education-based gender disparity at school, in the workplace and in other areas of social relations, and to prevent early entry into the workforce.

CCT programmes related to post-compulsory schooling of children under 18 years of age

Post-compulsory schooling-related assistance and scholarship programmes with behavioural conditions are widespread in the developed world. Disproportionately high secondary-school dropout rates among young people from low-income households have prompted government social policies that facilitate the participation of vulnerable groups in secondary and tertiary education. In the case of post-compulsory schooling, most CCT programmes operate using positive incentives.

[11] Information from expert survey.
[12] http://www.conferenzainfanzia.info/images/allegati/Support_for_Active_Inclusion_ex_ante_exercise.pdf (25.07.2014)

One very common form of conditional cash transfer for post-compulsory education is the extension of eligibility for family cash benefits to children in full-time education who are over the upper age limit for standard eligibility. This extension of eligibility is effectively a conditional cash transfer with a positive incentive, where the condition is enrolment in post-compulsory schooling. EU and OECD countries that have income-tested family cash benefits with an age extension include Australia, Bulgaria, the Czech Republic, Malta, Poland, Portugal and Slovenia (OECD 2011b). Countries that apply an age extension to the universal child benefit include Austria, Germany, Belgium, Luxembourg, the UK, Ireland, Sweden, Greece, Estonia, Latvia, Slovakia and Hungary. In Sweden the universal child benefit transforms into a student grant, the *Studiebidrag*, when the child reaches 16 years of age. This student grant is given to those (up to age 20) who participate in post-compulsory high-school education or other types of post-compulsory education (but not tertiary education). In this case, there is also a negative incentive element to the programme, since the benefit is withdrawn if the child does not fulfil the requirements (e.g. attendance) of post-compulsory education.

Some countries operate scholarship programmes for students from disadvantaged families in post-compulsory education. In England the *16 to 19 Bursary Fund* is such a programme, which supports 16–19 year-olds to stay on at school after the compulsory schooling age. This post-compulsory school scholarship targets primarily the most vulnerable social groups, such as people with disabilities, young parents, care leavers and caregivers. The Bursary is made up of two elements: first, a base support for the main target group (GBP 1,200 per year) and second, a complementary means-tested support that is available to other low-income applicants as well. Authorisation and disbursement are carried out by the local schools, which can also introduce additional conditions relating to educational outcomes or school uniform.[13] This programme replaced a more generous programme called the *Educational Maintenance Allowance (EMA*) which was closed to new applicants in England in 2011, but remained in operation in Scotland, Wales and Northern Ireland.

Scholarship programmes for disadvantaged students in secondary education also operate in Austria, Finland, Romania and Hungary. The *Pupil Allowance* (*SchülerInnenbeihilfe*) in Austria represents a support for pupils from families with low incomes, so long as they continue at school beyond the general compulsory education. The *Study Grant* in Finland is a monthly benefit for students aged 17 or older. The condition for the study grant is enrolment in school (schooling is compulsory until the age of 16) and satisfactory study progress. Financial aid has to be paid back if it is discovered that study progress has been particularly slow. The *High-school Grant (Bani de Liceu)* in Romania is a means-tested grant for students in high-school and vocational education. The conditions are enrolment in high school or vocational education, passing of all examinations and full attendance.

[13] http://www.direct.gov.uk/en/EducationAndLearning/14To19/MoneyToLearn/16to19bursary/DG_066955 (March 2012).

Table 1. CCTs related to human capital accumulation of children under 18 years of age in EU Member States (y=the transfer operating in the country)

	Health related	Child benefit, with attendance condition	Child benefit: extension	Minimum income benefit with condition	Scholarship in post-compulsory education	Other
AT	y				y	
BE			y		y	y
BG	y	y	y	y		
CY						
CR						
CZ		y	y			
DE						
DK						
EE	y		y		y	
EL			y			y
ES					y	
FI	y[a]					
FR	y[a]					
HU	y	y	y		y	y
IE			y	y	y	
IT						
LT						
LU	y[a]		y			
LV			y			
MT			y	y	y	y
NL						
PL			y			
PT			y			y
RO		y		y	y	
SE			y		y	
SI			y			
SK	y	y	y	y	y	
UK	y[a]		y		y	

Sources: All information from expert survey except information marked [a] are from PF1.3: Family cash benefits, OECD Family Database; and [b] from OECD, Doing Better for Children; No response in expert survey in case of Germany, France, Poland, Finland, Denmark, Cyprus and Latvia.

A.3 Thematic links to earlier policy debate and research

The issue of conditional cash transfers in promoting human capital investment in children is discussed in several policy documents of the European Union. These documents in some instances suggest the use of conditional cash transfers but also show awareness of the potential adverse effects of such policies.

The Commission Communication on social investment (European Commission 2013a) mentions conditionality in welfare benefits as a means to achieve social investment goals. According to the document social investment could be most easily achieved by cash transfers and social services that activate and enable recipients. These activating policies might also be conditional upon certain behaviour by the transfer recipient. As the document states “certain kinds of

support should be reciprocal: conditional upon the individual achieving an appropriate and specific goal to the best of his/her abilities, as often done e.g. regarding unemployment benefits" (European Commission 2013a, page 10.) Conditionality is also a way to make social transfers more efficient. According to the document benefit schemes should provide an exit-strategy and conditionality to achieving an appropriate and specific goal (e.g. participation in training) can be part of this.

The Commission Recommendation "Investing in children: breaking the cycle of disadvantage" (European Commission 2013b) recommends the use of financial incentives to motivate parents from disadvantaged background to make use of ECEC services (especially for children below the age of 3). This document also acknowledges potential adverse effects of conditional cash transfers. The document recommends the use of financial incentives in a way that avoids stigmatisation and segregation. The recommendation also warns against the potentially adverse effects of negative incentive programmes, such as those that make family benefits conditional on parenting behaviour or children's school attendance. The document recommends to act with discretion in case of such programmes and to assess the potential negative impact of such measures.

The Council Recommendation on policies to reduce early school leaving (European Council 2011) recommends that students from disadvantaged families who are at risk of dropping out of education should be given access to appropriate financial support, which might be subject to conditions. The accompanying Staff Working Paper "Reducing early school leaving" (European Commission 2011) also discusses financial incentives for students from families with financial difficulties, that are conditional on school attendance. This document also warns against potential adverse effects of conditioning social assistance on school attendance, as these measures do not necessarily contribute to positive learning outcomes or to maintain the intrinsic motivation to stay in education and training. The document warns that when such conditional cash transfers take place in countries with highly unequal educational system, they tend to reinforce social exclusion. They should therefore be accompanied by targeted measures to support pupils at risk of dropping out from school.

A study by the Thematic Working Group on Early School Leaving "Early warning systems in Europe: practice, methods and lessons" criticises social benefits conditioned on school attendance. Such measures may fail to take into account the wider circumstances of the family, which might be leading the student to withdraw from education, or they may blame parents for the behaviour of their children without offering any efficient support. It is also argued that such fines tend to disproportionally affect poor families, with limited impact on ESL.

In its advisory report to the European Commission on policies against child poverty the Social Protection Committee (SPC 2012) also mentions among the key policy issues the necessity of assessing and preventing the negative impacts of conditionality measures and financial sanctions linked to parents' activation into work as well as parenting behaviour (such as children's school attendance).

Adverse effects of conditional cash transfers are also highlighted in NGOs assessment of the EC recommendations. For example Eurochild assessment of the "Investing in children" recommendation (Eurochild 2013) criticises conditional benefits linked to concrete outcomes in education or in the labour market and states that a stronger emphasis on universal benefits and services would be needed. According to the assessment eligibility to family benefits should be first based on the needs of the child and benefits should not be used to penalise parents whose children do not attend school (or to incentivise parental labour market

participation). Eurochild also criticises the idea of using CCTs as a tool for reducing the gap in educational outcomes between Roma and non-Roma population in Central and Eastern European countries. The assessment argues that absenteeism is principally caused by low income, insufficient supply of services (poor quality instruction, lack of accessibility, overcrowding and lack of resources) and discrimination. The document states that school enrolment and attendance incentives should be applied only when such supply side problems have been solved.

Part B: Assessment of the policy under review

B.1 Assessment of conditional cash transfers related to children

Potential impacts of CCTs on human capital accumulation

The social science literature acknowledges that CCTs can have stronger impact on human capital accumulation compared to an UCT, since the CCTs effectively reduce the cost of further schooling, and thus provide a greater incentive for people to change their behaviour (Das et al. 2005). This additional incentive is not always needed however: if the reason for a low investment in human capital lies with the low income level of the poor, demand should be promoted via *unconditional* cash transfers (Fiszbein and Schady 2009). If, however, the explanation for low demand is also due to the lack of information available to parents and children,[14] or to their low level of educational aspirations, or in their impatience for consumption, a *conditional* transfer would be better at promoting human capital investment. Conditional transfers will have a stronger effect because by reducing the cost of human capital investment, they can make it more attractive relative to other types of consumption expenditure. It is important to keep in mind that demand incentives do not help if the low investment is primarily a result of problems on the supply side of the market (for instance insufficient or low-quality schools and health care services). In this case, development of the institutional system and improvement in the quantity and quality of public services available to low-income strata may bring about the desired results.[15]

The social science literature warns that financial incentives can also have an adverse effect on behaviour. For example, the psychological literature discusses the question of whether financial incentives (or other types of extrinsic motivation) may crowd out intrinsic motivation.[16] According to the cognitivist school of psychology when people are rewarded for performance in a certain activity, they begin to do the activity for the external reward, which ultimately undermines intrinsic motivation (Cameron et al. 2001, Sandel 2009). Crowding out might take place in the short run, while the incentives are still in place and also in the long term, when the incentives are removed (Rodriguez-Planas 2010).

Another potential adverse effect might be lower take-up rates in the case of conditional transfers. Standard cost-benefit logic suggests that individuals will take

[14] The easiest way to remedy a lack of information is to launch an information campaign, and thus the use of cash transfers is not necessary. But passive information campaigns are not always sufficient, since it is not certain that people are even aware that they lack information.

[15] Other justifications for conditional cash transfers proposed by the literature include the positive external effects of education and the higher social acceptance of conditional (rather than unconditional) transfers for the “deserving” poor (Fiszbein and Schady 2009).

[16] Intrinsically motivated behaviours are those in which there is no apparent reward except the activity itself. Extrinsic motivation, on the other hand, is said to occur when an activity is rewarded by incentives not inherent in the task (Cameron et al. 2001).

part in a programme if the prospective gains from collecting the benefits are big enough to compensate for the private costs of obtaining benefits (Stuber and Kronebusch 2004). If complying with behavioural requirements of the programme also entails important private costs, potential recipients might be less willing to join the scheme even if they are eligible for the benefit. An additional factor that is related to non-take-up of welfare benefits is welfare stigma. Welfare receipt is said to be stigmatised if claiming and receiving benefit from a welfare programme is perceived as negative and discrediting in the given society (Stuber and Schlesinger 2006). According to certain opinions, conditional transfers are automatically seen as stigmatising since they are based on the presumption that some of the poor are not acting in a responsible way (Popay 2008).

Results on CCT programmes' impacts

Routine government evaluation and monitoring of these programmes is in its infancy in many of the high-income countries. This is in contrast with the practice of some Latin American countries where impacts of these programmes were evaluated with solid data infrastructure, advanced methodology and intensive debate in the literature. This contrast perhaps relates to the fact that in many low-income countries the introduction of CCT programs was linked to practices of international organisations with a strong requirement to carry out evaluations. A number of summary reports have been prepared on the results of CCT programmes launched in low- and middle-income countries (Parker et al. 2008; Lomelí 2008; Fiszbein and Schady 2009, Baird et al. 2013). In the majority of cases these systematic impact studies found that the programmes significantly increased the school enrolment rates of children, but the size of the impacts measured differed greatly in the various programmes. The studies show less impact with regard to educational outcomes, such as degree attainment, test scores or later earnings.

One crucial question in the case of CCT programmes is whether programme effects are really a result of the condition (incentive) applied, or whether a similar effect could be obtained by an unconditional transfer of the same amount. So far there has been no experimental control testing of this crucial question in the developed-country context. Even in the case of low- and middle-income countries, only a few recent impact studies have examined the effect of CCTs versus UCTs (see Baird et al. 2011;[17] Akresh et al. 2013). In these two studies, CCTs had a greater effect than unconditional transfers. In the *Zomba Cash Transfer* experiment in Malawi, both types of transfer resulted in a decline in the dropout rate, but the effects were twice as large in the case of the CCT than for the UCT. Educational performance (as measured by English reading performance) also improved as a result of the cash transfers, but again the effect of the conditional treatment proved stronger. The programme in Burkina Faso also showed that the CCT had a greater effect on school enrolment than an unconditional transfer.

Another way to compare CCTs with UCTs is to compare published results on the effects of different programmes. Baird et al. (2013) provide a systematic review and meta-analysis of the evidence regarding the impacts of cash transfers on school enrolment and attendance in low and middle-income countries.[18] Programmes were grouped into three categories according to the intensity of conditionality: first UCT programmes; then a category that included programmes

[17] Results of this study show that participants in the CCT group were enrolled in school, on average, for 0.54 trimesters longer than the members of the control group (significant). The effect measured in the CCT group is twice as high as in the UCT group.

[18] In the case of school enrolment, 32 studies were used and 35 effect sizes were measured; in the case of school attendance, 16 studies were used and 20 effect sizes were analysed.

with some schooling conditions that were not monitored or enforced; and finally CCTs with conditions enforced. Comparison of programme impacts across this grouping shows clearly that an increase in the intensity of conditionality is associated with a larger effect on school enrolment and attendance. The difference between the extreme cases (clear UCT and CCT) did prove to be statistically significant. According to Baird et al. (2013), other design features of programmes – transfer size, frequency of transfer, recipient of transfer, level of school enrolment in the control group – were not associated with the impact on school enrolment or attendance.

A recent meta study on Conditional Cash Transfers by TARKI (TARKI, 2014) reviews 24 studies of CCT programmes and field experiments in high-income countries. These studies showed varying results regarding the effect of CCT programmes on human capital investment. First and foremost, programmes that were conditional on human capital-related behaviour (school enrolment, attendance) generally had positive effects on these behaviours, while incentives that targeted school performance produced more mixed results. Second, positive effects and null effects of conditional cash transfer programmes were found among programmes that apply positive incentives and also among programmes applying negative incentives. These results suggest that other programme-design features (such as targeting, transfer size, monitoring of conditions, sanctioning), implementation quality as well as social and policy context of the programmes are also important in determining final impacts.

Unfortunately, there are no studies in developed country context which would investigate the impact of CCT vs. UCTs. Some of the experiments however vary the design parameters allowing for a deeper insight in the functioning of a CCT programme. A rich study in this respect is the Levitt et al. (2012) study of short-term incentives in three low-performing school districts around Chicago. The results of randomised impact evaluation showed substantial variation in effects according to the design and student characteristics. Negative incentives had a consistently large effect, while incentives framed as gains had a large effect in two districts, but no effect in the third. Financial and non-financial incentives had the same effect among younger students, but older students were more responsive to financial incentives. Immediate incentives had a strong effect, while delayed incentives had no effect on student test scores. The evidence on the effect of transfer size is mixed: while the Levitt et al. (2012) experiment showed greater impact in case of higher financial rewards, an analysis of the impacts of the *Advanced Placement Incentive Programme* (APIP) by Jackson (2010) concluded that the results were no better in schools that offered higher incentives. The APIP programme was successful because it managed to change both attitudes towards achievement and the culture of schools (Sandel 2009).

Other experiments compared the effect of financial incentives and of social services. In the evaluation of the *Cal-Learn* programme young people entitled to social provisions were randomly assigned to four groups: a group receiving full provision (case management services and the financial awards and sanctions), a group receiving only case management services, a group benefiting only from financial awards and sanctions, and a control group (Mauldon 2000). Among those who received full provisions, the proportion of secondary-school graduates was 7 percentage points higher than in the control group (31 % compared to 24 %). Financial incentives and case management, investigated separately, had a similar impact on graduation, though the impact was significant only in the case of the financial incentives (3.7 percentage points). In summary, it was concluded that the two components of the transfer contributed almost equally to the overall impact of the programme.

Implementation and cost-effectiveness of CCT programmes

The main distinctive feature in the implementation of CCT programmes compared to unconditional cash transfers (UCT) is the monitoring of behavioural conditions and the sanctioning/rewarding of behaviour in accordance with the programme rules. Both the monitoring of compliance with behavioural conditions and the enforcement of sanctions constitute major challenges for CCT programmes. Implementation requires extensive collection and processing of personal administrative data. Appropriate management of the information flow (which normally involves a wide range of actors) and timely transmission of compliance data to the programme operators who impose the sanctions are crucial elements in determining CCT programmes' efficiency. Other important steps of programme implementation are the targeting of beneficiaries and the organisation of benefit payments.

As impact evaluations show, CCTs can have a stronger effect on human capital accumulation compared to UCTs, but this comes at a cost: the need to monitor compliance and enforcement of sanctions increases administrative costs relative to UCTs. Available evidence shows that whether CCTs are cost-effective in increasing human capital investment depends largely on their programme design and implementation. Although administering conditionality does significantly add to administrative costs, administrative costs of CCT programmes do not seem to be excessively high in low- and middle-income countries. A comparison in low- and middle-income countries suggested that targeting is the most important way to enhance the cost-effectiveness of human capital investment programmes. Adding social services to the programmes may increase their behavioural impact but it makes implementation of these programme also more complex which raises further administrative costs.

B.2 Assessment of the Hungarian policy on conditional cash transfers related to children

The social context in Hungary

Hungary is a country with at-risk-of-poverty rate (14.3 %) somewhat below EU average (16.6 %), but with a poverty rate for children at 23.2 %, which is much higher than poverty for the total population in Hungary and exceeding also the average at-risk-of-poverty rate for children in the EU. Most important risk factors of child poverty are low education level and unemployment of parents, living in small settlements of deprived regions and Roma ethnicity. The percentage of early school leavers was 11.4 % in 2014, which is close to the EU average but higher than the 10 % target. There is also evidence of a social gradient in use of health care and educational services. Although primary school completion is nearly universal, there are important differences in school choice and dropout in secondary schools. Children from disadvantaged families are more likely to choose vocational education rather than schools leading to the matriculation exam (and eventually to tertiary education). Studies on dropout in secondary schools also show important differences according to the educational level of parents and to ethnicity: only 9 % of non-Roma students but 48 % of Roma students quit secondary school without obtaining a degree (Hajdu et al. 2014). These differences result from a combination of supply side (inequality in the availability and quality of services) and demand side-related factors. Although scientific evidence is scarce on this issue some qualitative studies suggest that misinformation about the value of education and lower educational aspirations among disadvantaged families also play a role (Andor and Liskó 2000).

Description of CCT programmes in Hungary

Several conditional cash transfer programmes operate in Hungary. CCT programmes that motivate human capital investment of children include health-related conditions, conditions related to pre-school, compulsory and post-compulsory education. The most important cash transfer with a health-related requirement is the *Birth Grant*. Hungary's *Birth Grant* (*Anyasági támogatás*, worth approximately 222 EUR), is paid directly to the mother within 180 days of giving birth. At least four pre-natal check-ups are required in order to qualify for the grant.[19]

Kindergarten Allowance (*Óvodáztatási támogatás*) in Hungary provides incentives for low-income parents to enrol their children in kindergarten before the compulsory age of 5. The programme uses a means test, and an additional eligibility requirement is that the parents should themselves not have completed secondary school. Families receive a 20,000 HUF (70 EUR) lump-sum benefit at the time of first enrolment, and another 10,000 HUF (35 EUR) at the start of each additional semester, on condition of regular attendance by the child.[20] Kindergarten attendance is regarded as regular if the child stays for at least six hours per day, and if the total number of days missed (certified and uncertified) does not exceed 25 % of total kindergarten days. This transfer will be eliminated as the compulsory starting age of kindergarten attendance will be decreased to the age of 3 from September 2015.

Hungary introduced conditionality into its most important family support programme *Schooling Allowance* (*Iskoláztatási támogatás*) in 2010. Under the programme, the allowance is suspended if the student fails to comply with the school attendance requirement. After 10 hours of school missed in a single month without a good excuse, the local municipality warns the family; after 50 hours missed, the child is taken into the protection of the local authorities. As long as the child remains in child protection, the cash transfer is suspended and the benefit is paid in kind, under the close supervision of a caseworker.[21]

The most important scholarship-type transfer is the *Equal Opportunities Scholarship* (*Útravaló-MACIKA ösztöndíj*), which provides monthly payments and mentoring for students in secondary education from disadvantaged families. In the school year 2012/2013, some 17,700 students participated in the programme. For students on pathways leading to the matriculation exam, monthly payments are in the range 27-50 EUR, depending on the grade-point average of the previous school year. For students in vocational education, monthly payments are in the range 23-42 EUR, again depending on grade-point average. Teachers providing mentoring to participating students likewise receive a monthly payment, which is partly dependent on successful grade completion by the student.

Impacts of CCT programmes in Hungary

Unfortunately, quantitative evidence on the impact of CCT programmes in human capital accumulation is scarce. The only quantitative (non-experimental) study analyses the impact of the *Kindergarten Allowance.*

Kertesi and Kézdi (2014) carried out a quasi-experimental impact evaluation of this programme. They compared pre-reform and post-reform kindergarten attendance rates in treatment and control zones, in an aggregate-level (kindergarten zone level) analysis. Although the kindergarten attendance programme was launched

[19] Information from expert survey and http://www.allamkincstar.gov.hu/maganszemelyek/anyasagi_tamogatas (24.07.2014).
[20] Information from experts survey and http://csaladitudakozo/kormany.hu (25.07.2014).
[21] http://www.allamkincstar.gov.hu/maganszemelyek/csaladi_potlek (25.07.2014).

country-wide in 2009, there were zones where no one applied for this form of assistance, and these could serve as a non-experimental control group. According to the researchers' results, a sixth of the children newly enrolled within the framework of the programme enrolled as a consequence of the financial incentive. The remaining five-sixths of the subsidised children would have been enrolled in kindergarten at the age of 3–4, even if the programme had not existed. The effect of the programme is also proved by results showing that kindergarten attendance increased most in precisely those zones where uptake of the *Kindergarten Allowance* was highest.

In case of the *Schooling Allowance* there is no quantitative evidence on the impact of introducing the school attendance condition. One study used mixed methods (school survey, interviews) to analyse the impacts of the programme (Tárki-Tudok 2011). In the survey among school directors, 25-38 % of respondents reported a decline of the chronically absent (more than 50 unexcused absences) after the introduction of the school attendance condition, while 12-16 % of schools reported an increase. One quarter of the respondents, who reported declining absenteeism attributed the decline to the impact of the conditional transfer.

According to the study the beneficial effect of introducing the school attendance condition is that it mobilises all the participants in the process. As there is a formal sanction attached to truancy, schools must be more attentive to absenteeism and must report/take actions if a student attains the given number of unexcused absences. On the other hand in segments of the school system with massive absenteeism (Northern Hungary, vocational secondary schools) this is not sufficient to solve the problem: more complex approaches would be needed, where schools would apply personalised pedagogical methods to keep in schools those children who are at risk of dropping out (Tárki-Tudok 2011).

B.3 Assessment of the policy in relation to the priorities of the Europe 2020 Strategy and the Social Investment Package: learning value for other Member States

As demonstrated by the review of the evidence the available studies suggest that CCTs can have positive effects on the behaviour incentivised by the programme (school enrolment, attendance, participation in health examinations) and thus on human capital investment. CCTs could be used when the reason for underinvestment is low demand for the given service related to lack of information or low motivation, rather than just to lack of resources. The development of educational or health care services is the most appropriate policy solution, however, when the major cause of low human capital investment (for example, dropout from school) lies on the supply side (the unavailability and/or poor-quality of services, etc.).

Studies also show that the impact of CCT programmes varies largely depending on the design of the transfer. One conclusion that emerges from the literature is that incentives are most likely to produce behavioural change if the potential recipients are well-informed about the goals of the programme and understand the incentives (Allan and Fryer 2011). The incentive structure is best kept simple and transparent: members of the target group should be able to easily determine the consequences of their decisions. Incentives have to be tailored to the specific policy problem in the given country. The experience of past and existing programmes does not give precise guidance for the calibration of the incentive in a given context. This can only be done by conducting pilot projects of the planned intervention, preferably experimenting with different design alternatives.

Another condition for the success of CCT programmes is efficient implementation. The most important task in implementation of CCT programmes is the monitoring of compliance with the behavioural conditions and the actual rewarding (or sanctioning). Administrative capacity should be strengthened to handle the procedure of verifying compliance with the behavioural condition. An adequate flow of information needs to be organised between different actors involved in the process (i.e. ministries and sub-national administrations).

The literature also warns against the potential negative effects of CCTs. Conditional benefits should be designed and implemented in a way that minimises potential adverse effects such as the possibility of stigmatisation of benefit recipients. Information on noncompliance with behavioural conditions should be treated with discretion. The usual methods for reducing stigma in means-tested programmes – such as treating benefit claimants with trust and respect – should also be applied.

When considering the transferability of CCT programmes to EU countries, one issue to reflect on is whether there is a need for the adoption of such demand incentives. Although use of public services such as primary or secondary education and health care is generally high in EU Member States and other high-income countries, there is evidence that the poor in general, and certain persistently disadvantaged groups, tend to use social services less and tend to have worse outcomes in terms of human capital accumulation. In light of this, CCT programmes in EU Member States can have a potential to reduce disadvantage in the uptake of such services among the poor.

When engaging in policy transfer, policy makers need to be careful in addressing the differences in the institutional, cultural and policy context of these programmes between the country of origin and the country of destination. EU Member States, especially countries of the EU-15, generally have an advantage in the supply of services and in administrative capacity compared to low- and middle-income countries, which were the first to apply CCT programmes. However, differences in the policy context and differences in the social acceptance of conditional transfers can cause difficulties in the transfer of such policies.

Depending on the maturity of the welfare state in EU Member States CCTs may already form part of a comprehensive package of welfare services and provisions. Thus the interaction between the incentives of the CCT programme with incentives inherent in existing welfare schemes should be understood before introducing such benefit schemes. An additional issue is whether CCTs will be accepted by the general public and by experts in EU Member States. Policies are implemented in a context of societal values and beliefs about the role of the state and the relationship between citizens and the state. There is no direct survey evidence on the acceptance of conditional transfers, but it is well known that countries differ in the extent to which poverty is seen as a consequence of societal injustice (e.g. Nordic countries) or as a consequence of low individual effort (e.g. Eastern European countries). The support for CCTs is expected to be lower in the former countries and higher in the latter.

Conclusions

The place of CCT programmes in EU Member States with a long tradition and a wide range of social policies may not be as large as in low and middle-income countries, where programmes like the *Oportunidades* programme in Mexico or *Bolsa Família* in Brazil are seen as major vehicles of anti-poverty policy. However CCTs may, in specific circumstances, be a useful policy tools in EU countries, in particular as a measure to promote human capital investment among well-known disadvantaged

groups. In these cases CCTs have to by designed and implemented in a way to minimise the potential negative effects of these programmes.

The review of the literature also shows that more information is needed on the impacts of such programmes and on the specific mechanisms by which they alter behaviour. Research which also addresses negative effects of such programmes is also needed. The introduction of CCT measures can be regarded as a form of social experimentation to achieve a better investment in human capital in specific sections of society. As such, it should be firmly based on evidence of success and reasons for failure. This motivates us to say that any introduction of new instruments should be backed up by a properly designed randomised experimentation and evaluation.

Questions / issues for debate

- Are there special advantages or disadvantages in the use of CCT programmes for human capital accumulation as opposed to their use in other policy domains (such as employment policy)?
- What can be the place of CCTs and other policy instruments to foster human capital investment in EU countries? These countries apply an array of instruments to promote human capital investment: is there a place for CCTs in this policy mix?
- Are the problems (insufficient information, low motivation) that the CCTs promise to solve salient in EU countries?
- In low and middle-income countries CCTs are targeted to the poor. In contrast some EU countries (e.g. Slovakia, Hungary) also operate untargeted (universal) conditional transfers. Can universal CCTs be an effective way of motivating families to increase human capital investment in their children? Can there be other rationales for universal CCTs?
- How to target groups that are more likely to change behaviour? The effectiveness of CCTs could be enhanced if transfers could be targeted to groups who are more likely to change behaviour in response to a CCT. Are there effective ways to do so?
- How can CCTs impacts on educational outcomes (test scores, graduation rates) be increased? CCTs are often reported to increase the specific behaviour that is being incentivised, but impacts on educational outcomes have rarely been found.
- General criticisms of CCT programmes point to the potential negative effect on take-up, welfare stigma and crowding out of internal motivation. How can potential adverse effects of CCTs be mitigated?
- Critics also argue that targeted CCT programmes with negative incentives are selective and punish inappropriate behaviour only in case of the poor. Another line of criticism argues that suspension/withdrawal of benefits makes the situation of disadvantaged families even more difficult. Are these strong arguments against the introduction of such programmes?
- CCTs in EU countries are more often applied in liberal welfare states and in Eastern European countries. What are the most important issues of transferring CCTs to Western or Northern European countries?

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