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Analyzing conditional cash transfer programs

Pipin Prasetyono

Introduction

The emergence of Conditional Cash Transfer (CCT) programs in the 1990s has marked the shifting in poverty alleviation strategy globally (Sugiyama 2011, pp. 250-251). From a state-centered strategy which focuses on basic needs provision for the poor, the current poverty alleviation strategy is people-centered, by which the government empowers people, promotes opportunity, and maintains social security. Directing cash benefits to the targeted households with certain conditionality through CCT programs is considered as an effective means in combating poverty (Son 2008, p. 1). Hence, CCTs are currently being implemented by at least 63 countries, a dramatic expansion compared to only two countries (Brazil and Mexico) in 1997 (World Bank 2015, p. 7).

On the other hand, the issue of income inequality continues to exist. It implies the existence of an issue in the welfare distribution among individuals caused by their difference in ability and opportunity. Accordingly, the redistributive character of CCTs as a social policy is expected to be able to reduce income inequality (Briere & Rawlings 2006, p. 6). Against the above background, and by examining Brazil's practical experience in implementing *Bolsa Familia* program, this paper attempts to: (1) identify the features of CCT programs so that they become a social policy instrument which effectively reduces inequality and alleviates poverty, and (2) identify the circumstances needed to make CCT programs become more successful. This paper argues that CCT programs are an effective means in combating poverty and reducing inequality because of: (1) their ability to better target the beneficiaries, and (2) their ability to affect the behavior of the beneficiaries. In addition, to be more successful, implementation of CCTs presupposes a good administrative capacity, an adequate supply side policy, and a well-defined exit rule.

The effectiveness of CCT programs

The advantage of CCTs lies in the existence of 'two tests' which have to be passed by the beneficiaries. First, there are means tests or proxy means tests which aim to qualify the beneficiaries. Means testing is a mechanism to identify the eligible beneficiaries by

comparing individuals' incomes or assets against certain threshold or cut-off point, while proxy means test is calculating a proxy to household income by examining the household's data of characteristic and welfare level (Grosch & Baker 1995, pp. 1-4). Most of the CCT programs across countries are means-tested or proxy means-tested, even though different threshold and means are employed (Fiszbein & Schady 2009, pp. 68-69). Such tests allow the government to identify and target the poorest households as beneficiaries. The process of targeting the beneficiaries implies the role of CCTs as a targeted cash transfer program. In addition, the term of 'targeted' emphasizes the key role of CCTs towards income redistribution.

Moreover, limiting the beneficiaries creates an opportunity for the government to better focus on resources mobilisation towards these targeted people. Consequently, income could be redistributed from high income earners to the targeted people in a more progressive manner. Lustig et al. (2014) argue that both unconditional cash transfers and CCTs possess the redistributive character and are progressive as income redistribution instruments, yet they would be more progressive in absolute terms by targeting the poor (p. 288). In Brazil, income tests are conducted to qualify the beneficiaries of *Bolsa Familia*. People who register for this program are required to self-report their income and can be classified as eligible beneficiary if monthly income of each member of poor households is below the threshold at R\$120 (equivalent to AU\$51), and R\$60 (AU\$ 25) for each member of extremely poor households (Higgins 2012, p. 111; Soares et al. 2010, p. 174).

The second test entailed in the CCT programs is the conditionality upon benefits, which means beneficiaries are requested to undertake pre-specified actions before benefits are transferred. The most common employed conditionality are pre-specified actions on health and education conditions (Fiszbein & Schady 2009, p. 57). The presence of conditionality implies a balance between the objectives of current and future poverty alleviation by providing cash transfers to the poor for their immediate consumption, and fostering future development through investment in human capital (Rawlings 2005, p. 134). Brazil's *Bolsa Familia* enforces following pre-specified conditions regarding education and health: (1) 85 percent school attendance for children between 6-15 years old, or (2) completing immunizations and regular health check-ups for children below six years old, or (3) attending regular health check-ups for pregnant women (Soares et al. 2007, p. 1).

Moreover, linking the cash transfer to health and education co-responsibilities would be able to affect the perception and behaviour of the beneficiaries towards long-term human capital accumulation. First, conditionality would change their perception on the importance of having a healthy and well-educated future generation. It is because people who are in poverty tend to disregard their children's education and health status, rather they focus on income generating efforts to fulfil their daily basic needs, including involving their children as child labour (Das et al. 2005, p. 65). Thus, providing welfare benefits to them with certain conditionality would, at least, affect their perception of the importance of attaining a good education and health status for their children. Secondly, conditionality would also change the behaviour of the beneficiaries towards health and educational services. For instance, lack of knowledge regarding the importance of regular health-care check or immunization might cause individuals to underutilise the health services (Bastagli 2009, p. 129). Since the benefits are linked to the conditionality, beneficiaries would endeavour to meet the conditions by utilising health and educational services which are available for them, to ensure that they are eligible as CCT beneficiaries. In this case, CCTs work as incentives to induce behavioural change of the beneficiaries.

Furthermore, the comparison between previous and post outcomes in education and health can be used to examine the effectiveness of conditionality towards beneficiaries' behavioural change. For instance, in the attainment of school enrolment, Bourguignon et al. (2002) provide evidence that the share of non-enrolled children decreased from 5.8 to 3.9 percent, and non-enrolled poor children from 9.1 to 4.7 percent as a result of Brazil's CCT program (p. 18). In addition, the children's school enrolment rate increased by about 6 percent and drop-out rate decreased by 0.45 percent (Glewwe & Kassouf 2012, p. 505). On the other hand, evidence also shows that there was an increase in health care utilisation especially for services related to the health conditionality of *Bolsa Familia*. For instance, de Brauw et al. (2011) reveal that prenatal care utilised by pregnant mothers increased by 1.5 prenatal care visits, and the probability of a child to receive complete vaccinations before six years old increased by 12-15 percent (p. 9).

Moreover, a combination of better targeted beneficiaries and conditionality underlines CCTs' role in reducing inequality. Income inequality is often associated with inequality in human capital development (Lindert 2005, p. 12). Thus, conditionality regarding investment in human capital boosts future capabilities which in turn creates opportunity

for a better income. Dabla-Norris et al. (2015) argue that conditionality upon education facilitates the poor to accumulate human capital, and dissociates their educational opportunities from the influence of households' socio-economic conditions, which in turn leads to increased ability to deal with technological changes that directly affect productivity levels (p. 31). Furthermore, the effective mechanism in identifying and selecting beneficiaries of CCTs also leads to a progressive impact on inequality. Soares et al. (2009) argue that even though the ratio of cash transfers to total income is relatively low, well targeted beneficiaries make cash transfers' contribution becomes important to reduce inequality (p. 222). Moreover, since the *Bolsa Familia's* experience with good targeting mechanism has resulted a relatively low cost strategy in reducing inequality, this mechanism could be replicated in other countries (ibid, p. 223).

Furthermore, the ability to foster human development causes CCTs to become an effective means in alleviating chronic poverty. A person is said to be chronically poor if he has been below the poverty line for a certain period, hence there is a potential of intergenerational transmission of poverty (Jalan & Ravallion 2000, pp. 82-83). The accumulative deprivation of basic capabilities is the main cause of chronic poverty, therefore those who are chronically poor could not escape from their poverty status unless the government provides social assistance (Hulme & Shepherd 2003, p. 407). According to Hulme et al. (2001), social assistance aimed to help the chronically poor people must be directed to assist them in accessing basic needs, not only limited to food, housing, and clean water, but also broader access to education, health and security (pp. 5-6). Conditionality embedded in the CCTs accentuates the efforts in breaking intergenerational poverty transmission as a distinctive attribute of chronic poverty. A healthy and educated child will have the potential to generate sufficient income in the future to escape from poverty status, thus the poverty cycle will stop at parents.

In addition, the feature of cash transfers within CCTs would also be effective to alleviate the present poverty. Benefits transferred to the poor households would create an income effect, which is enhancing access to their current basic needs such as food, and subsequently, supporting for their immediate poverty relief. According to Fiszbein and Schady (2009), the ability of CCTs to affect household immediate consumption is an essential determinant of short-run poverty alleviation. For instance, by the ratio of transfer to per capita consumption at 8 percent, Brazil's CCT program has been able to bring a 7 percent impact on per capita daily consumption, (pp. 104-105). The types of consumption

expenditure affected by *Bolsa Familia* are including food (by R\$ 23.18 per month), education (R\$2.65) and children's clothing (R\$1.34) (Oliveira et al. 2007, cited in Soares et al. 2010, p. 182).

Furthermore, the development of poverty and inequality indicators has proven the role of *Bolsa Familia* in reducing inequality and alleviating poverty in Brazil. Prior to the implementation of *Bolsa Familia* in 2003, Brazil suffered with high income inequality and a high poverty rate. At that time, Gini coefficient was about 0.6; poverty headcount ratio was 12.7 percent; and poverty headcount ratio by Brazil national standards was 24.9 percent (World Bank 2017). In addition, about 73 percent of relative poverty at that time was chronic (Ribas & Machado 2007, p. 18). A study on *Bolsa Familia's* impact on inequality conducted by Soares et al. (2009) reveals that it was responsible for 21 percent of inequality reduction in Brazil (p. 219). Moreover, *Bolsa Familia* was also responsible for a 16 percent decrease in extreme poverty (de Barros et al. 2006, cited in Lindert et al. 2007, p. 116). As a result, the World Bank (2017) recent data shows that in 2014, Brazil's Gini ratio was 0.51; poverty headcount ratio was 3.7 percent; and poverty headcount ratio by Brazil national standards was 7.4 percent.

Circumstances needed by successful CCT programs

Since CCT programs entail 'two tests' before benefits can be transferred to beneficiaries, they presuppose a strong administrative capacity. Means testing is the first step to qualify the beneficiaries. It is a crucial process to determine the effectiveness of the CCT programs by which beneficiaries are distinguished from those who are not entitled. CCTs would also necessitate administrative capacity to monitor the beneficiaries' compliance with conditionality. Monitoring the conditionality is important to ensure that the objective of long-term human development could be achieved. In addition, monitoring the conditionality is required to provide timely data regarding noncompliance, therefore sanctions for noncompliance could be enforced (Fiszbein & Schady 2009, p. 85). According to Lindert et al. (2007), monitoring both education and health conditionality of CCTs is routine work that involves many stakeholders such as schools and hospitals as service providers, municipal government, the Ministry of Health, and the Ministry of Education (pp. 62-68), consequently, it is important to have a federal institution in coordinating this process. Therefore, the government of Brazil established the Ministry of Social Development and Fight against Hunger in 2004, and mandated this ministry to

focus on the administrative aspects of *Bolsa Familia* (Hall 2008, p. 805). The effectiveness of *Bolsa Familia*'s targeting system has resulted the higher portion of total benefits received by the poorest, in which the poorest 20 percent of population receive 73 percent of total benefits, compared to 58 percent in Chile, 55 percent in Nicaragua, 32 percent in Mexico and 32 percent in Argentina (FAO 2006, cited in Hall 2008, p. 807).

Moreover, as a targeted program, CCTs must be equipped by a well-defined exit rule. The ideal exit rule of CCTs should be able to automatically graduate targeted beneficiaries once they are no longer poor, or when their incomes are above the designated threshold. Yet, the purpose of long term human capital accumulation arises conflict of exit rule strategy. Handa and Davis (2006) argue that the purpose of human capital investment has created an additional option for exit rules, which is granting the benefits until a cycle of human capital investment is completed, for instance children have graduated from lower or secondary school (pp. 523-524). Granting a full benefit to support the achievement of this purpose even when income of the beneficiary households is already above the threshold would create disincentive to labour supply and could potentially lead to a high dependency to the benefits of CCT programs (Fiszbein & Schady 2009, p. 24). To address this issue, the government should consider to gradually decrease the benefits once household incomes are above the threshold, and continuously granting the benefits until a cycle of human capital investment is completed (ibid).

Furthermore, implementation of CCTs also presupposes complementary supply-side policies in sectors which are specified as the conditionality of the CCT programs. It denotes a government's commitment to develop the sectors in which conditionality of CCTs is linked. It is because the implementation of the CCT would be followed by increasing effective demand of education and health care (Hall 2008, p. 817). Thus, the government should ensure that sufficient supply (availability, quality) in the education and health sectors are available. Without an adequate supply, conditionality required by CCTs would not be able to achieve optimum results in human capital accumulation. Therefore, the IMF (2014) suggests the government to the make adequate investment in these sectors, although it will have an impact on the increase in government expenditure (p. 32). In addition, equitable distribution of health and education facilities across regions within a country would also essential to support the implementation of CCT programs. Stahlberg (2010) notes the underdeveloped health and education facilities in Brazil's Northeast region was responsible for insignificant effects of *Bolsa Familia* to this region.

For instance, several indicators such as illiteracy rate, the Human Development Index, and the Human Values Index for the Northeast region were far below the national average, which in turn led to the highest poverty rate compared to other regions (pp. 3-11).

On the other hand, international support towards CCT programs would also be essential to enhance their development, especially in developing countries with limited financial capacity to finance their programs. For instance, the rapid growth of coverage of *Bolsa Familia* can be associated with the massive support from international organisations. In 2004, the World Bank provided US\$572.2 million of loans for Brazil to develop *Bolsa Familia*, in which 96 percent of this amount was intended as cash transfers and the other four percent was intended for strengthening the system and institutional capacity (World Bank 2010, pp. 3-6). In addition, the Inter-America Development Bank also committed to provide loan amounted to US\$1 to US\$2 billion to support *Bolsa Familia* (IADB 2004). According to Hall (2008), these loans significantly address financing gap of *Bolsa Familia* since they were accounted for about 25 percent of its costs for the period of 2003 to 2006 (p. 806). This fact indicates that Brazil's poverty alleviation strategy through *Bolsa Familia* is appropriate, thus gaining financial support from international organizations.

Lastly, since CCT programs are targeting extreme or chronic poverty, they neglect the vulnerable groups who live slightly above the poverty line, or in transient poverty. Therefore, to be more effective, CCTs must be accompanied by social assistance programs which are focused on managing the risk of transient poverty. Moreover, those who are transiently poor are not necessarily facing a deprivation of wellbeing for a long period as experienced by the chronically poor, yet because they are vulnerable, any income shocks would fall them deeply into poverty (Jalan & Ravallion 2000, pp. 82-83). Therefore, the most appropriate strategy is to reduce their vulnerability by enhancing their income and protecting them from the impacts of income shocks (ibid). In addition, Fiszbein and Schady (2009) argue that CCT programs and their characteristic of human capital accumulation are not an ideal instrument to address transient poverty (p. 196). Accordingly, CCTs require a complementary instrument to protect the transiently poor from income shocks (ibid). Without complimentary policies targeting transient poverty, the efforts of poverty alleviation through CCTs would not be able to cease or reduce poverty significantly. Because there would be individuals falling into chronic poverty caused by income shocks experienced by the vulnerable groups.

Conclusion

In conclusion, Brazil's experience with the CCT program, namely *Bolsa Familia* is evidence that CCTs are an effective means to alleviate poverty and reduce inequality. CCTs are also an effective means to deal with chronic poverty since CCTs accentuate the importance of human capital accumulation, which in turn become an effective instrument to break the intergenerational transmission of poverty. Yet, several conditions have to be fulfilled to achieve CCTs' objectives regarding poverty and inequality. A strong administrative capacity, clear exit rule and adequate supply on the sectors related to the conditionality would be essential to enhance the effectiveness of CCTs. Moreover, the support from international organizations would be essential to deal with limited budgets to finance the CCT programs as well as to strengthen institutional capacity. Finally, CCTs require a complementary social insurance instrument to cover the individuals who live slightly above the poverty line.

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