



Impact of Conditional Cash Transfer Schemes in Human Capital Development: Cross Country Experiences

KEYWORDS

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Introduction

According to UNICEF, India is experiencing “Economic transformation since early 1990s without corresponding positive change in social development.”⁴ UNICEF points out that though some positive trends on certain social indicators, particularly those that respond to vertical, campaign-like approaches: the near eradication of polio and a significant increase in literacy rates, progress has been slow in areas requiring systemic changes, such as in the provision of good quality services i.e. primary health care and community-based nutrition services.

Consequently, India is not making progress to meet its target of reducing child mortality rate by two thirds by 2015, as per the accepted millennium development goals. India needs to reduce infant mortality rate (IMR) to 28 per 1,000 live births by 2015 to meet the target. However, as per Sample Registration System in 2011 IMR was 44 deaths⁵ and meeting the target in the next two years seems to be unlikely. Similarly, efforts of the Indian government to reduce poverty levels – the first in the list of millennium goals – are also not proving to be effective. As per World Bank reports poverty headcount ratio⁶ in 2010 was 68.72 at \$2 (PPP) per day and 32.67 at \$1.25 (PPP) per day.⁷ Though government has been implementing many social welfare programs, the mechanism of implementation of these programs was under severe scrutiny with concerns of leakages and proliferating corruption. To contain these dangers, the government is planning to implement direct cash transfer.

Need and Importance of the Study

As India is bracing to implement direct cash transfers in as many as 29 various welfare programs from 2014 – by which time Indian authorities would have linked the bank accounts of the beneficiaries to their unique identification numbers⁸ – it is of great academic as well as policy interest to study such schemes operational across the globe. Pilot project has already been launched in this connection in 51 districts spanning 16 states in India. While the results from the pilot project are awaited, it is worth to scan the impact of such projects taken up across various countries, with a view to learn from their experiences in indentifying and targeting right beneficiaries and setting up an effective framework as well.

Conditional Cash Transfer – A Back Ground

In 1994, Santiago Levy, who used to teach economics at Boston University, was appointed as Deputy Finance Minister for Mexico. During that period Mexico had several welfare programs aimed at bettering the conditions of the poor. Typical of any under developed nation, associated with inefficient government administration, implementation of these programs was characterized by leakages and worse, resulted in corruption. Levy reformed the system by designing a program that would convert the government spending on

welfare programs would result in investment in developing human capital. Therefore, welfare spending on beneficiaries was linked to each beneficiary's investment on health and education. The program was termed PROGRESAS.

Amie Shei (2011), explains that “Conditional cash transfer programs are innovative social safety-net programs that aim to relieve poverty. They provide a regular source of income to poor families and are ‘conditional’ in that they require poor families to invest in the health and education of their children through greater use of educational and preventive health services.” To qualify for receiving welfare money from the government, regular school attendance of beneficiaries’ children and seeking preventive health care had become prerequisites. The families that fall short on these measures were forced out of the welfare program. The idea was that the public money spent on each family would not only help in reducing poverty levels immediately but would also uplift the poor from vicious cycle by rearing a healthy and well-educated next generation.⁹

The pilot project, implemented in randomly chosen villages, demonstrated a substantial increase in school enrollment, particularly at the secondary level. Secondary school increased from 67 percent to about 75 percent for girls, and from 73 percent to about 77 percent for boys.

The success of PROGRESAS (later on changed to OPORTUNIDADES) was far-reaching. Over 45 countries, majorly in Latin America, South Asia and Africa, implemented conditional cash transfers to more than 110 million or about 11 crore families – roughly around half of Indian population.¹⁰ Governments paid cash to the poor on some conditions instead of spending on universal welfare schemes. Researchers concluded that these conditional cash transfers benefited the respective economies by reducing administrative and transaction costs in social welfare programs; being efficient in income distribution as they contained leakages; minimized the scope for corruption and most importantly these schemes immediately elevated the income levels of these families.

The traditional methods of spending on infrastructure development, skill training, providing nutritional food, schooling, preventive health care etc., took decades, if not generations, to have similar income improving effects. Aditya Chakraborty of *The Guardian* explained, “This is the world of aid turned upside down. A couple of years ago, Oxfam tried the idea out in a few villages in Vietnam. Charity workers gave the equivalent of three years’ wages in one go to more than 400 families. When they returned they found that poverty had dropped through the floor, with most of the money spent sensibly on food or fertilisers, seeds and cows. But older people had put some cash towards coffins, explaining that funerals were a major expense. And one group had built a com-

munal house, to practise yoga." Enticed by such benefits, the Mayor of New York, Michele Bloomberg, introduced a cash transfer scheme to the poor residents of the city if they send their children to schools.

Objectives of the Study

This paper aims to study some of the major cash transfer schemes in select countries across continents with twin objectives:

a) to study the socio-economic impact of conditional cash transfers on people, and b) to understand the conditions that contributed to the success of the schemes.

While the first objective would provide insights on which kind of schemes are generally successful in achieving intended objectives through cash transfers, the second objective would provide policy direction for Indian authorities in preparing necessary framework to make the scheme successful. For instance, Derze concluded that cash transfer schemes were successful in Latin America as they were framed to complement public provision of health, education and other basic services. Respective governments have taken enough care to ensure that the cash transfer schemes are not substituted for providing basic services.

Methodology

This study is exploratory and qualitative in nature intended to evaluate the experiences of the countries where cash transfer schemes were implemented with an objective to develop human capital through improving some of the basic necessities such as health and education. The study is also aimed to provide a framework for designing conditional cash transfers in India.

Data Sources

Since the study is qualitative, required inputs are collected by reviewing the literature available on the subject in various journals of repute and high standing.

Analysis of Results

Impact of conditional cash transfers on improving human capital

Impact on Health

Behrman and Parker (2013) from Center for Research and Teaching in Economics (CIDE), Mexico, examined health and work impacts on the aging of Oportunidades program and concluded, "For a number of health indicators, the program appears to significantly improve health, with larger effects for recipients with a greater time receiving benefits from the program. Most of these health effects are concentrated on women."¹¹

Davide Rasella et al., studied the effect of The Bolsa Familia Programme (BFP) – a widespread conditional cash transfer programme in Brazil – on deaths of children younger than 5 years (under-5), overall and resulting from specific causes associated with poverty: malnutrition, diarrhoea, and lower respiratory infections. The study revealed that Under-5 mortality rate, overall and resulting from poverty-related causes, decreased as BFP coverage increased. The effect of consolidated BFP coverage was highest on under-5 mortality resulting from malnutrition and diarrhoea. The study also concluded that a conditional cash transfer programme can greatly contribute to a decrease in childhood mortality, in particular for deaths attributable to poverty-related causes such as malnutrition and diarrhoea, in a large middle-income country.¹²

The study by Laura Robertson et al., on effects of cash transfers, both unconditional (UCTs) as well as conditional (CCTs), on birth registration and vaccination in Zimbabwe, revealed an increase in the proportion of children with birth certificates and with complete vaccination records in both UCT and CCT groups.¹³ James Manley et al., (2011) found similar effects of

cash transfer schemes in 17 schemes across countries. In their study, they investigated 21 research documents and found that cash transfers have a positive, but not significant, impact on child nutrition. They found significant improvement in child sex ratio and health infrastructure due to cash transfers. The study also revealed that conditionality was not a significant factor in health improvement; rather conditionality could be counterproductive under certain circumstances.¹⁴

Amie Shei (2011), studied Bolsa Familia, conditional cash transfer program implemented in Brazil since 2003, and concluded that the program reduced overall infant mortality rates by 9.3 percent during the first five years. The study also concluded that higher declines registered in postneonatal mortality rates than in mortality rates at an earlier age. The study also brought out the comparative difference between areas under the program to those not covered. The author remarked that "Programs like Bolsa Familia can improve child health and reduce long-standing health inequalities. Policy makers should review the adequacy of basic health services to ensure that the services can respond to the increased demand created by such programs. Programs should also target vulnerable groups at greatest risk and include careful monitoring and evaluation."¹⁵

A 2012 study on Kenya's Cash Transfer for Orphans and Vulnerable Children (CT-OVC) – a national child protection unconditional cash transfer programme that provides a monthly transfer of Ksh 1500 to ultra-poor families with orphans and vulnerable children aged 17 years and younger – revealed that the programme has a positive impact on secondary school enrolments and that the impact is comparable to conditional programmes in other parts of the world. This is when basic schooling in Kenya was free and thus the enrolment rates are relatively high. The study titled, "The impact of Kenya's Cash Transfer for Orphans and Vulnerable Children on Human Capital," was a cluster randomised social experiment conducted during 2007–2009.¹⁶

Impact on Education

Elena Del Rey and Fernanda Estevan, examined the relative merits of unconditional cash transfers (UCT) and conditional cash transfers (CCT), along with the effects of improvements in education quality on efficiency and welfare. They concluded that under sufficiently accurate targeting, CCT are more effective than UCT in enhancing the efficiency of these households' decisions. The authors stated that UCT is superior to CCT in terms of welfare unless targeting is perfect, in which case UCT and CCT are equivalent.¹⁷

Mo Di et al., examined whether there is a dropout problem in rural China and to explore the effectiveness of a conditional cash transfer (CCT) programme on the rate of dropping out. They used a sample of the poorest 300 junior high school students in a nationally-designated poor county in Northwest China and found that the annual dropout rate in the county was 7.8 per cent and even higher, 13.3 per cent, among the children of poor households. However, the authors concluded that a CCT program reduces dropout by 60 per cent. The programme is most effective among students with poor academic performance, and likely more effective among girls and younger students.¹⁸

Deon Filmer and Norbert Schady (2011), analyzed the impact of a cash transfer program in Cambodia that made payments of varying magnitude to otherwise comparable households. Their study found that a modest cash transfer, equivalent to approximately 2% of the consumption of the median recipient household, had a substantial impact on school attendance, approximately 25 percentage points. A somewhat larger transfer did not raise attendance rates above this level.¹⁹

Kertesi Gábor and Kézdi Gábor, used institutional kindergarten data and municipality level demographic data spanning ten years (2001-10), as well as administrative data from the

programme in 2009 and 2010, for which the effect on the kindergarten attendance of children of age three and four is assessed. The study found that the programme had some modest positive effects and points to several implementation problems that may have curbed the effects. In particular, the estimated effects are greatest in areas where kindergarten capacities are abundant relative to potential demand, and smaller where capacity constraints may apply.²⁰

Jere R. Behrman et al., evaluated longer-run impacts on schooling that resulted through Mexico's Oportunidades, using experimental and non experimental estimators based on groups with different program exposure. The authors found positive impacts on schooling, reductions in work for younger youth (consistent with postponing labor force entry), increases in work for older girls, and shifts from agricultural to nonagricultural employment.²¹

de Brauw and Hoddinott (2011) tested the importance of conditionality on one specific outcome related to human capital formation – school enrollment – using data collected during the evaluation of Mexico's PROGRESA program. They exploit the fact that some beneficiaries who received transfers did not receive the forms needed to monitor the attendance of their children at school. And they showed that the absence of these forms reduced the likelihood that children attended school. This effect was most pronounced when children are transitioning to lower secondary school.²²

Poverty Reduction and Financial Inclusion

Manuela Angelucci et al., in their paper, "The Impact of Oportunidades on Consumption, Savings and Transfers," studied the effect of the Mexican conditional cash transfer programme, Oportunidades, on transfers, savings and consumption of targeted. The study found positive effects of cash transfers on consumption of non-durable and durable goods. An increase in savings, thereby reduction in debt burden of the beneficiaries, and a reduction of in-kind transfers received by households in the targeted areas was also noticed.²³

Kim Dancy, figured that the regular payments of money, provided by the government, assist in decreasing chronic or shock-induced poverty and reduce economic vulnerability. Further, the author stated that such programs improve access for the financially underserved there by providing safety and control over the funds. It is also concluded that there is a strong argument in favour of leveraging the technological advances in financial services with government payment programmes to promote financial inclusion.²⁴

Claudio A. Agostini, in the paper, "Cash Transfers and Poverty Reduction in Chile," found the headcount ratio (proportion of population below poverty line) in Chile has declined from 40 percent to 14 percent since 1987. Further, the author states that the greatest reductions in poverty occur in rural households, yet population characteristics and geography are also important. The paper suggests that targeting the schemes at low levels of aggregation can deliver further reductions in poverty.²⁵

Impact on Agriculture

Ryan Boone et al., (2013) found a strong increases in ownership of productive agricultural assets. As the farmers owned the land they devoted more time to household farms compared to earlier periods. This helped marginal and small farmers to become self-sufficient as they consumed various food types from own production. This correlated with sharp decrease in ganyu labor,²⁶ which is often used as a coping mechanism when food stocks were depleted. The authors claim "These results are most likely achieved by helping farmers overcome credit and liquidity constraints."²⁷

Covarrubias Katia et al., (2012) in their study "From Protection to Production: Productive Impacts of the Malawi Social

Cash Transfer Scheme," analyzed the productive impacts of the cash transfer schemes. The study found that the scheme generates agricultural asset investments, reduces adult participation in low skilled labour, and limits child labour outside the home while increasing child involvement in household farm activities. The authors contest the notion that cash support to ultra poor households in Malawi is charity or welfare, and provide evidence of its impact on economic development.²⁸

Maria Knoth Humlum and Rune Majlund Vejlin, found that the cash transfer increases the labor market participation of youth and the number of months worked. The estimated effect is larger for individuals from low-income families. However, the results found no evidence of corresponding effects on academic performance, thus they conclude that alleviating the constraint appears only to affect consumption decisions and not human capital investment.²⁹

Political Impacts

Julien Labonne (2013), in the paper "The local electoral impacts of conditional cash transfers: Evidence from a field experiment," assessed the impact of targeted government transfers on a local incumbent's electoral performance. The study concluded that the incumbent vote share was 26 percentage points higher in municipalities where the program was implemented in all villages compared to the municipalities where the program was implemented only in half of the total villages. However, those results were in municipalities where political environment was competitive. In the municipalities where dynastic control influenced the political environment, the program had no impact. In other words, higher levels of political competition correlated with higher impact of the program, thus local political competition could be said to one of the required factors for better implementation of such programs.³⁰

Ana L. De La O, in the paper, "Do Conditional Cash Transfers Affect Electoral Behavior? Evidence from a Randomized Experiment in Mexico," examined the argument that targeted programs increase pro-incumbent voting by persuading beneficiaries to cast ballots against their first partisan choice. The evidence, from the randomized component of Progres, showed that early enrollment in the program led to substantive increases in voter turnout and in the incumbent's vote share in the 2000 presidential election, but the opposition parties' vote shares remained unaffected. Thus, the author concluded that the electoral bonus generated by CCTs may be best explained by a mobilizing rather than persuasive mechanism.³¹

Conditions that contributed to the success of the schemes

Sebastian Galiani and Patrick J McEwan (2013) caution the governments to be judicious in targeting the beneficiaries to maximize the impact and cost-effectiveness of CCTs. They studied 40 of 70 poor Honduran municipalities, within five strata defined by a poverty proxy. The results showed that eligible children were 8 percentage points more likely to enroll in school and 3 percentage points less likely to work. The effects were much larger in the two poorest strata, and statistically insignificant in the other three.³²

Persson U Martin, and Francisco Alpizar, developed a conceptual framework to reveal the main determinants of the impact of Conditional Cash Transfer (CCT) and Payments for Environmental Services (PES) programs. The study "Conditional Cash Transfers and Payments for Environmental Services—A Conceptual Framework for Explaining and Judging Differences in Outcomes", used multi-agent model and evaluations of existing programs, and showed that (a) the share of the population who would meet the program's conditions in the absence of payments is a powerful predictor of program efficiency. In other words, the higher the number of people out of the total population that meet the program prerequisites the higher would the impact of the program. And (b)

the problem of selection bias would reduce the efficiency of the program.³³

Viviane Azevedo and Marcos Robles criticized that targeting mechanisms used by CCTs have been generally successful in identifying the income poor but have not fared as well in identifying households that under-invest in human capital. These mechanisms do not consider the multidimensional aspect of poverty, even when composite measures are used, as they do not capture each dimension-specific deprivation.³⁴

Conclusion

As the evidence provided by the studies, the conditional cash transfers have a positive impact on human development, particularly on child mortality, education and poverty reduction. However, the scheme should be designed, for positive results, keeping the following points under check:

i) Policy makers should review the adequacy of infrastruc-

ture before implementing the scheme. For example, basic health services should be strengthened or improve schooling facilities so that they can respond to the increased demand created cash transfer programs. Else, the cash transferred by the government would be misused.

- ii) Programs should target most vulnerable groups at greatest risk for better and fast results. People at the bottom of the social spectrum would be gleefully accepting the conditions as any marginal increase in income will have a greater impact on their life style compared to other sections.
- iii) The authorities must include careful monitoring and periodic evaluation to ensure that the beneficiaries use the money transferred to them for the specific purpose.
- iv) Regions with adequate political competition must be chosen, as the poor are vulnerable to political pressures and adequate political competition could act as a deterrent for exploitation.

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