

Reducing Poverty and Inequality in Latin America: The Promise of Conditional Cash Transfers



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Table of Contents

- Context in Latin America and the Caribbean (LAC)
- Overview of Conditional Cash Transfers
- Evaluating Impact: Promising Results
- Key Challenges and Future Directions
- For More Information*

*This presentation is based on:

- Direct experience of World Bank staff (including the author) working with government CCT programs in numerous countries
- Various research on CCTs and related themes by World Bank staff (including the author), IFPRI, governments, and others.

CONTEXT

Poverty and Inequality
Human Capital Development
Truncated Welfare States

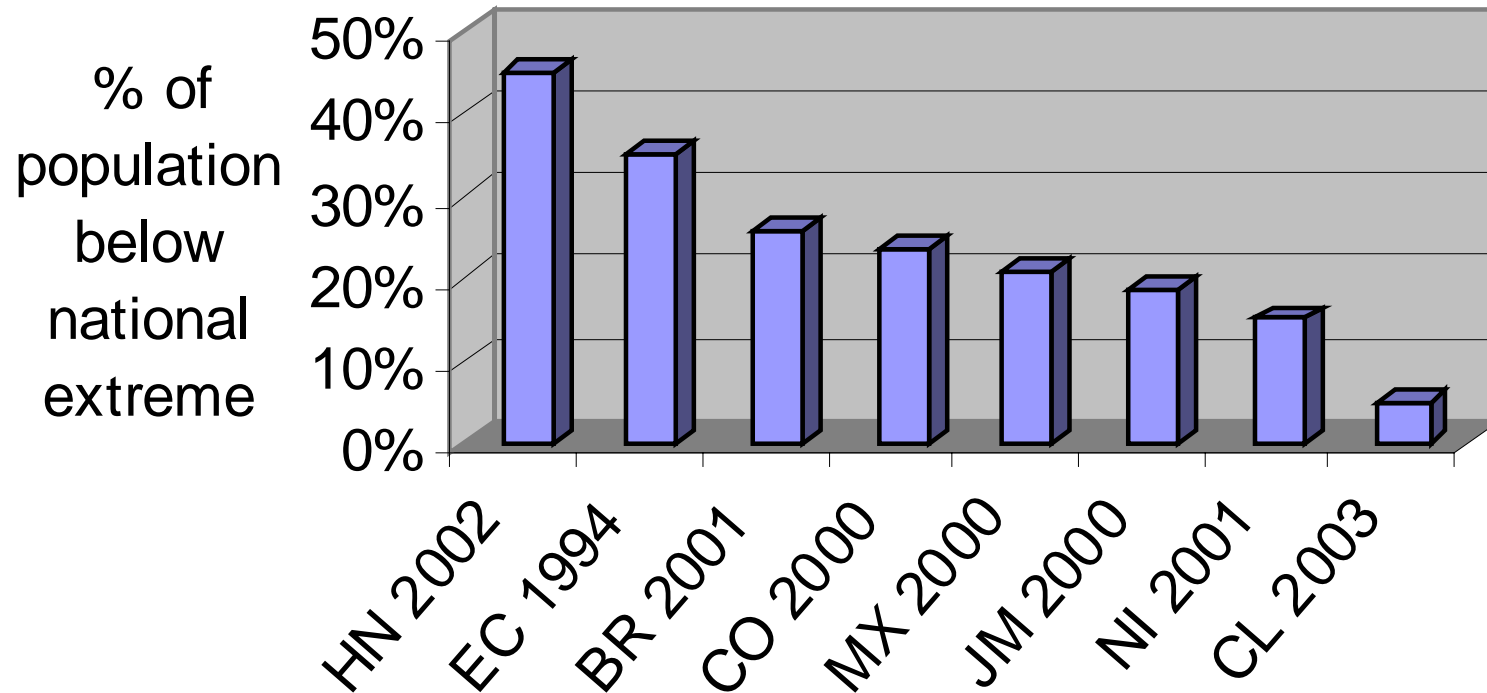




Latin America: High rates of poverty, even in many middle income countries (MICs)

Extreme Poverty Rates in Select LAC Countries

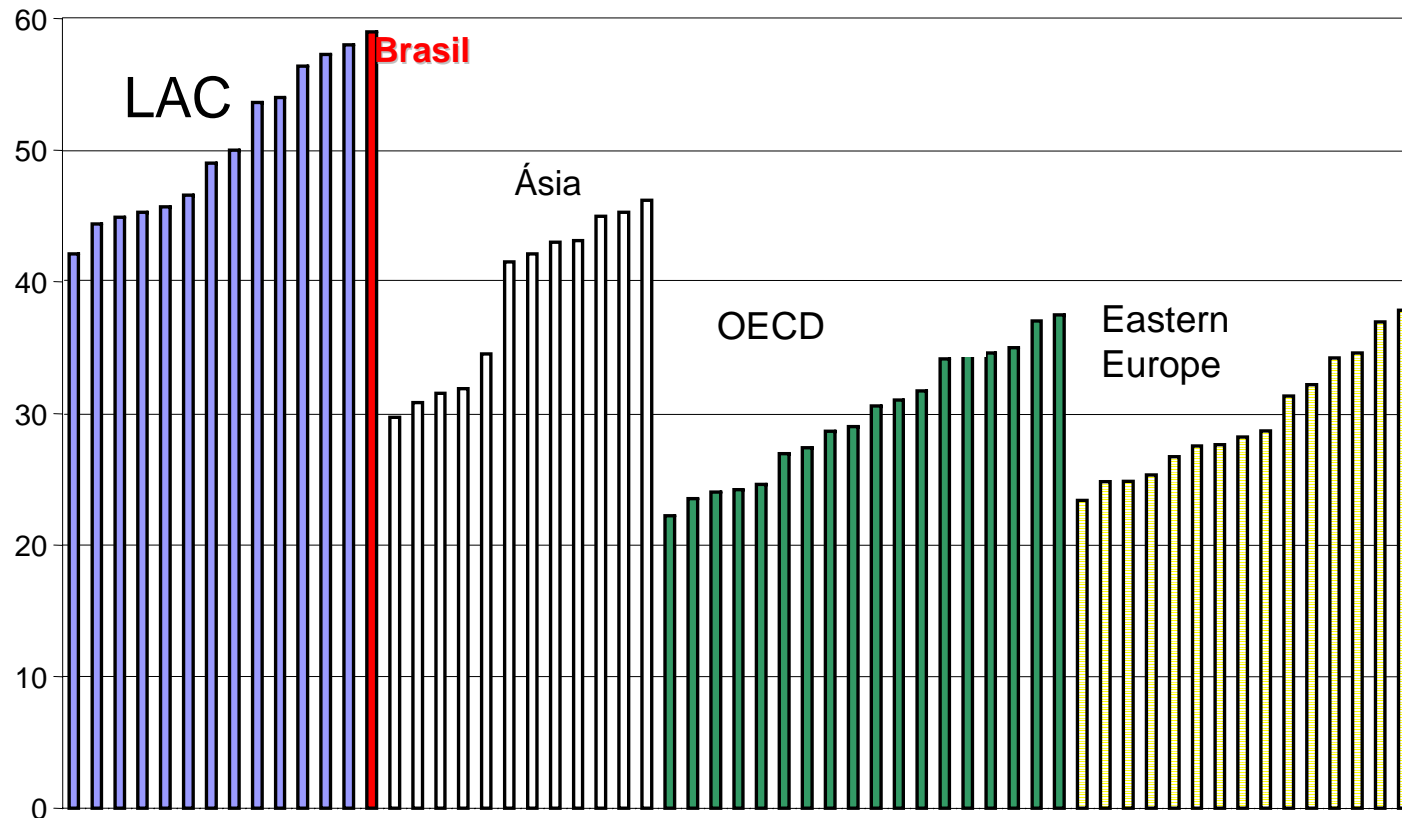
(These Countries all have CCT Programs)





LAC: Among Regions with Highest Inequality in World (along with Africa, not shown)

Gini Coefficient: Distribution of per capita income, various regions, 1990s

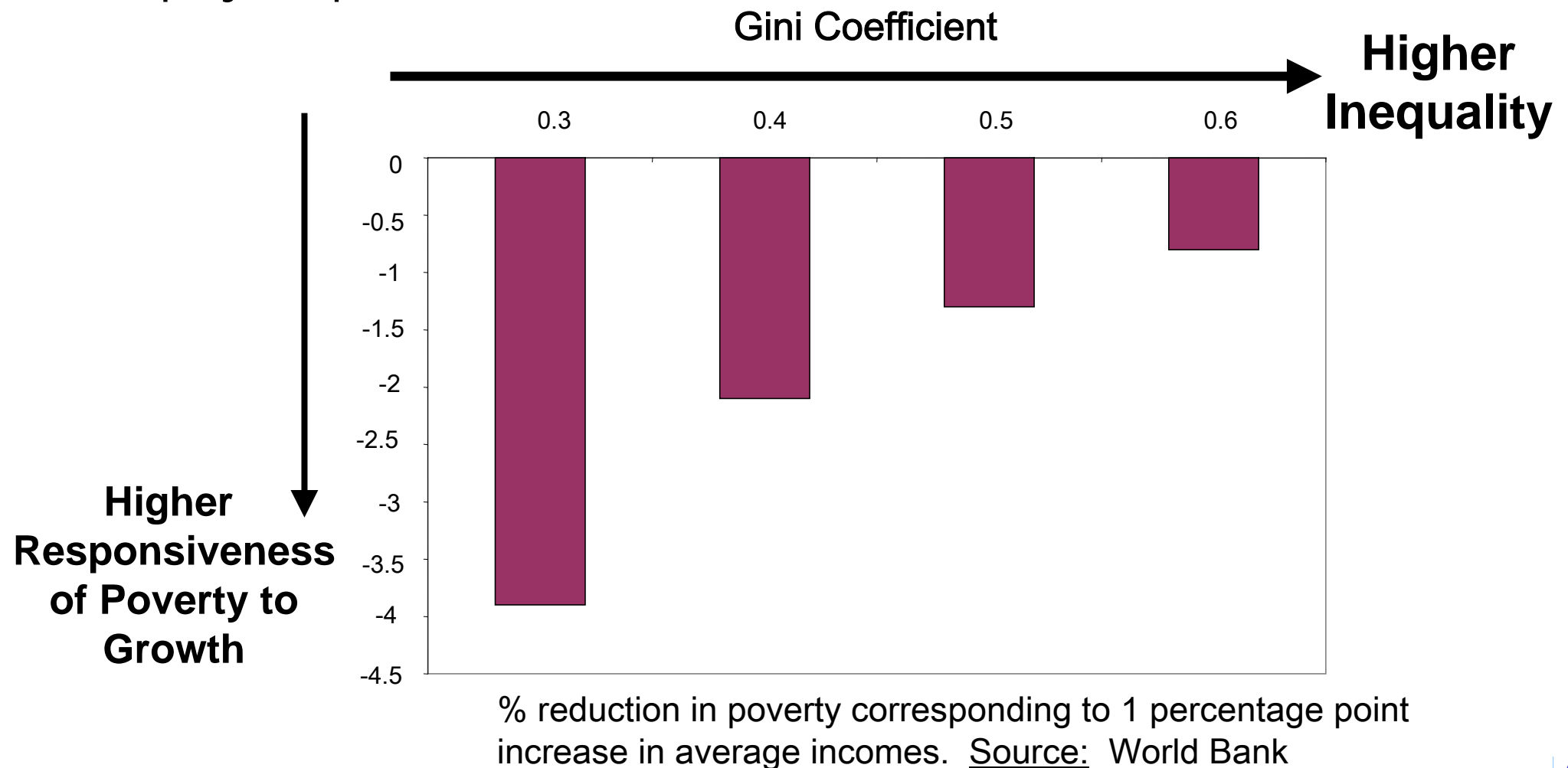


Source: World Bank: SIMA Database

- The richest 10% of individuals receive between 40-47% of total income in LAC, as compared with the poorest 20% who only receive 2-4% of total income.
- Far more unequal than in OECD. E.g., in US, the richest 10% of individuals receive 31%; in Italy they receive 27%.

High inequality implies that LAC needs to grow at very high growth rates to reduce poverty

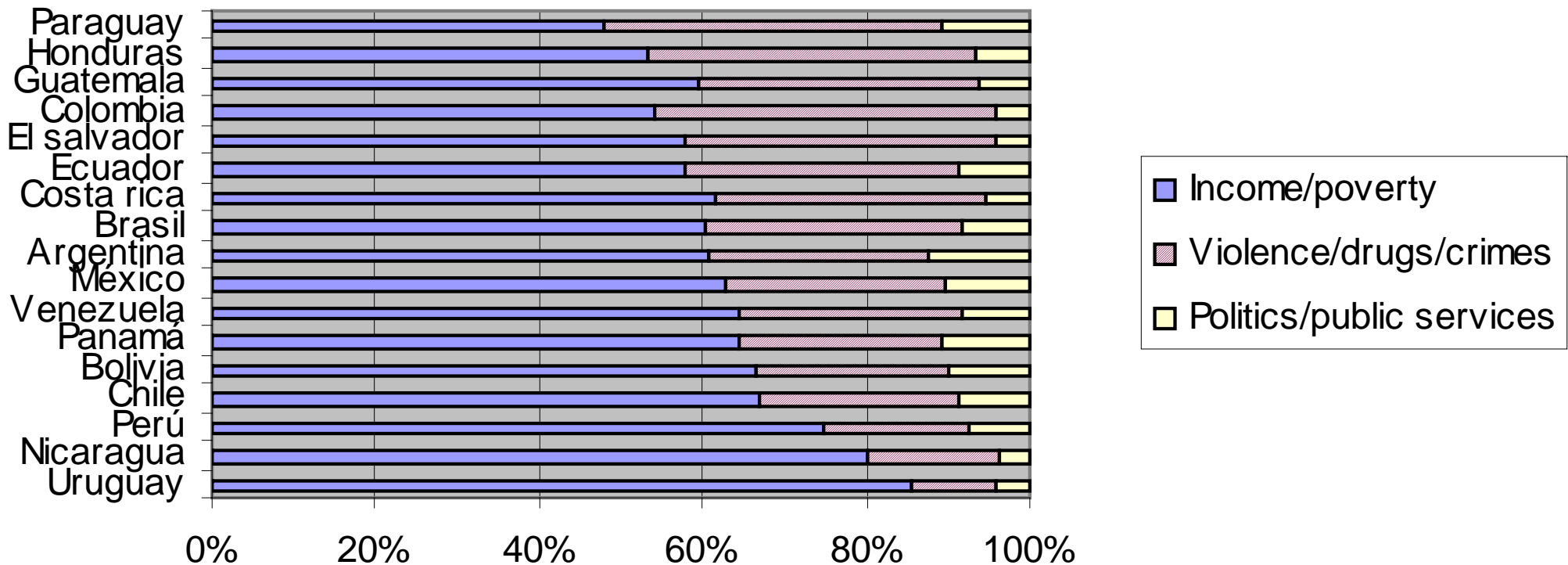
- The elasticity (responsiveness) of poverty to growth is much lower in countries with higher inequality.
- Growth necessary but insufficient to reduce poverty; redistribution also plays important role.





Problems of Poverty, Income Inequality are very disliked in LAC

LAC: Ranking as Most Important Problems in Country
(Popular Perceptions; Latino Barometro Opinion Surveys, 2003)



Source: PRELIMINARY World Bank analysis of Latino-Barometro 2003



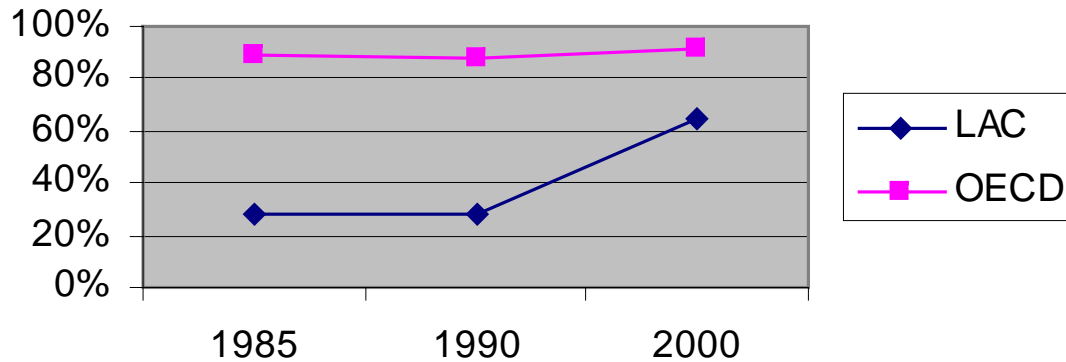
Sources of Poverty and Inequality in LAC: Many Determinants

- **History.** Factor endowments, labor relations, unequal power structures
- **Socio-Political Mechanisms:**
 - **Social relations** that perpetuate exclusionary behavior via assets (education, service provision, market access, labor)
 - **Limited reach of democracy:** processes of party formation leading to vertical alliances between classes, weak working class, poor horizontal alliances; perceptions surveys show Latins to have little faith in democracy (66% unsatisfied with democracy; LB 2003)
 - Historically weak **capacity of the state**
- **Economics and Assets:** interaction between:
 - **Education:** inequality, gaps for poor in access to quality services; weak indicators for poor
 - **Health:** Gaps in service coverage, quality – weak health indicators for poor
 - **Land ownership, access to basic services:** high levels of inequality, gaps for poor
 - **Trans-generational:** high correlation with incomes of parents
 - **Regressive** nature of key aspects of **public spending.**



Despite Progress, Remaining Gaps in Human Development (1).....

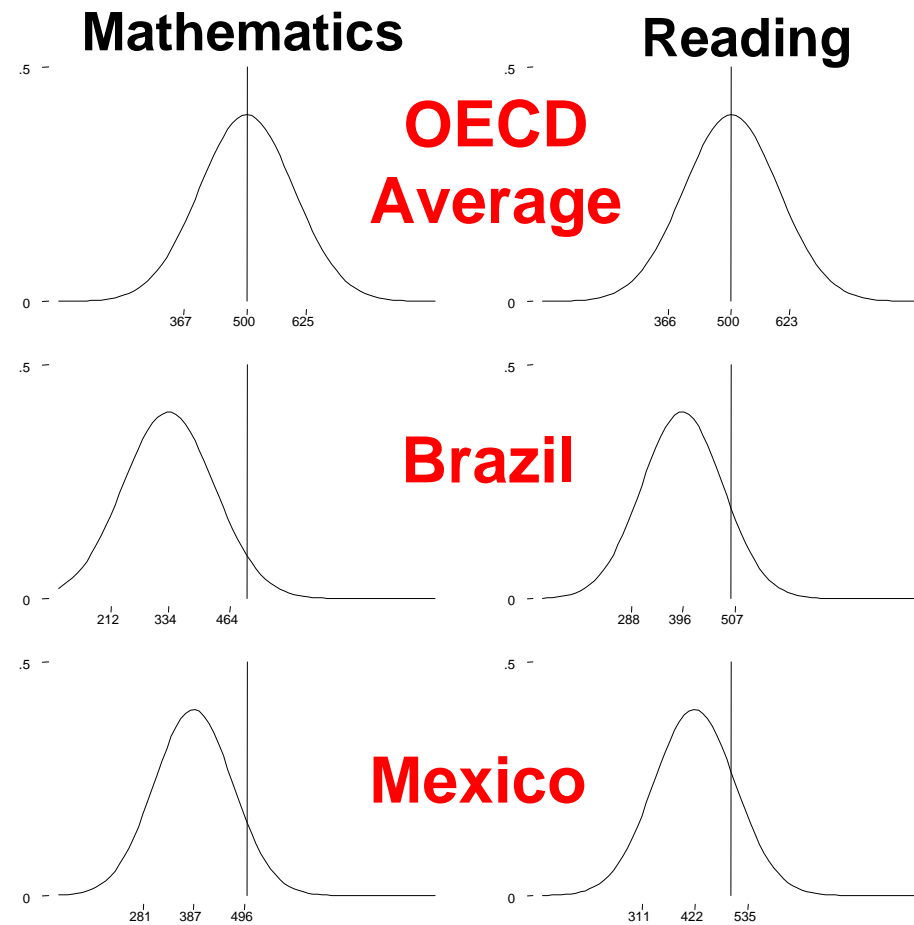
Net Secondary Enrollment



Gaps in Educational Coverage....

.... And Quality

Distribution of test scores:

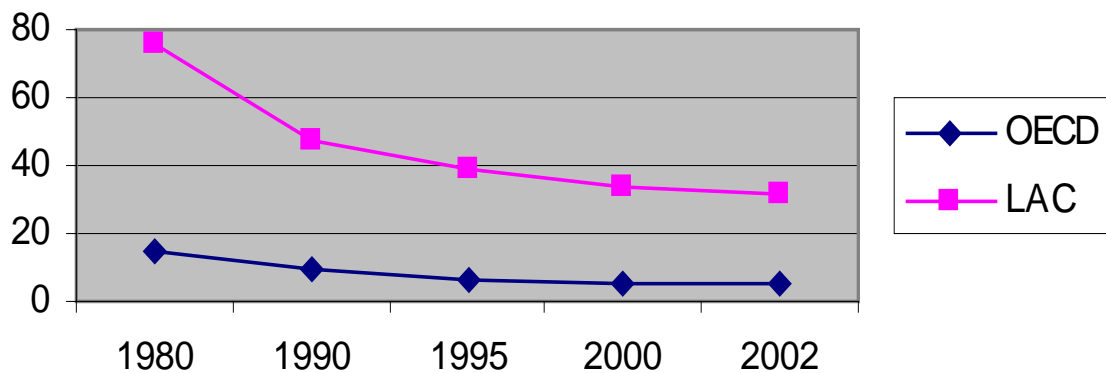


Source: de Ferranti et. al. (2004)



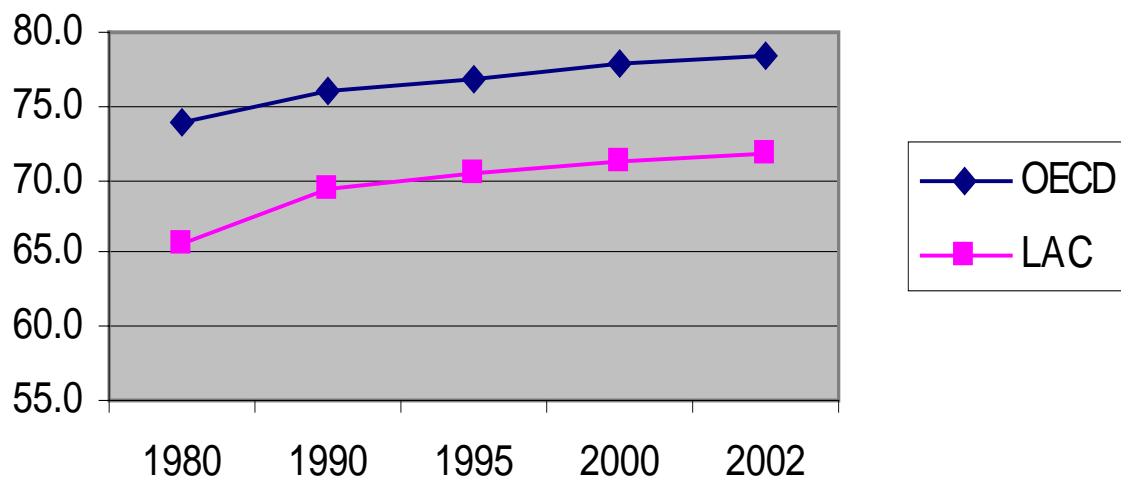
Despite Progress, Remaining Gaps in Human Development (2).....

**Under Five Mortality Rates (per 1000):
LAC, OECD**



Health Indicators

Life Expectancy at Birth (years): LAC, OECD

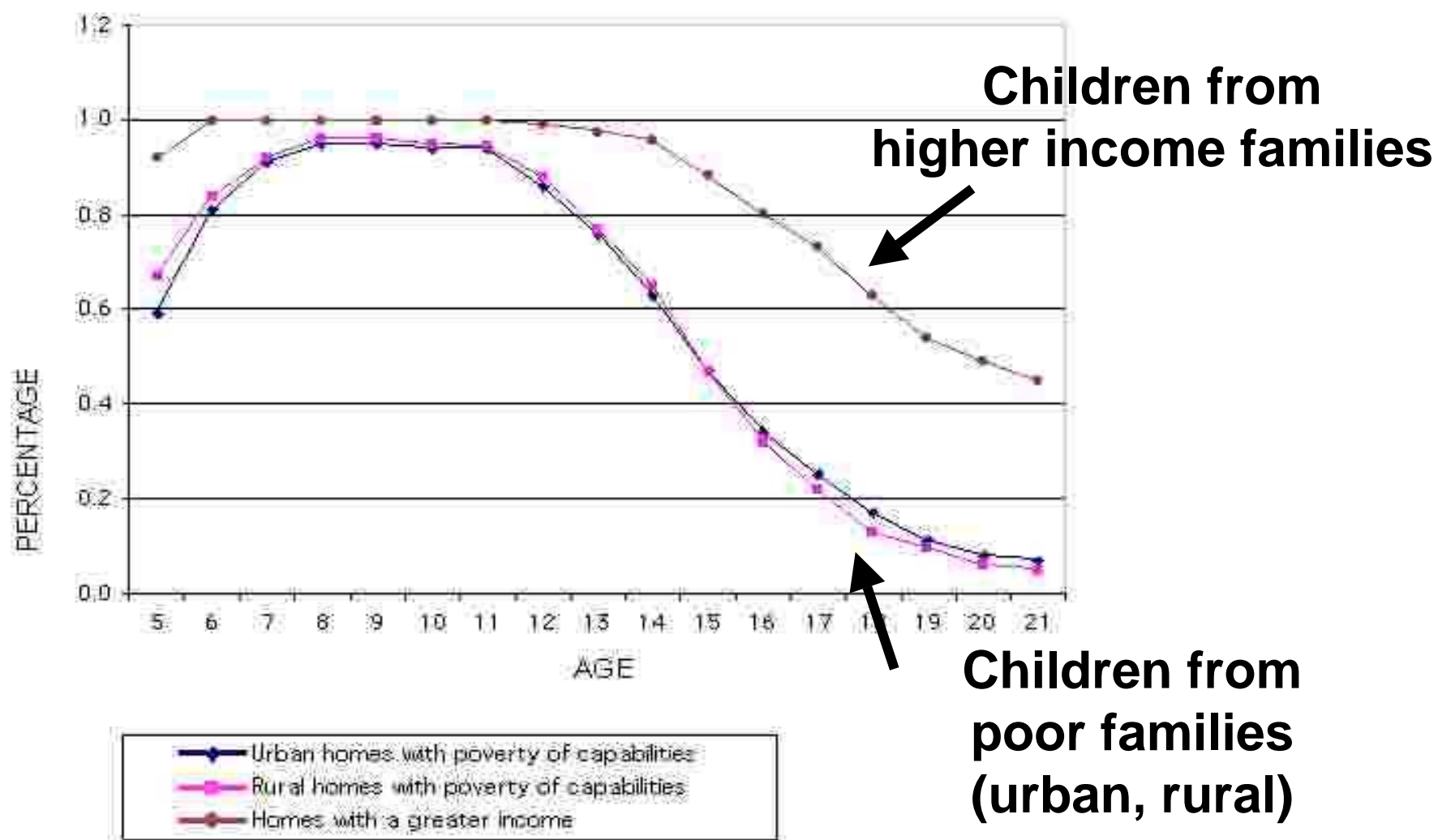




.... Gaps in Human Development Worse Among the Poor (1)

Mexico: School enrollment by age, economic condition, place of residence

School assistance by age, economic condition and place of residence, 2000.



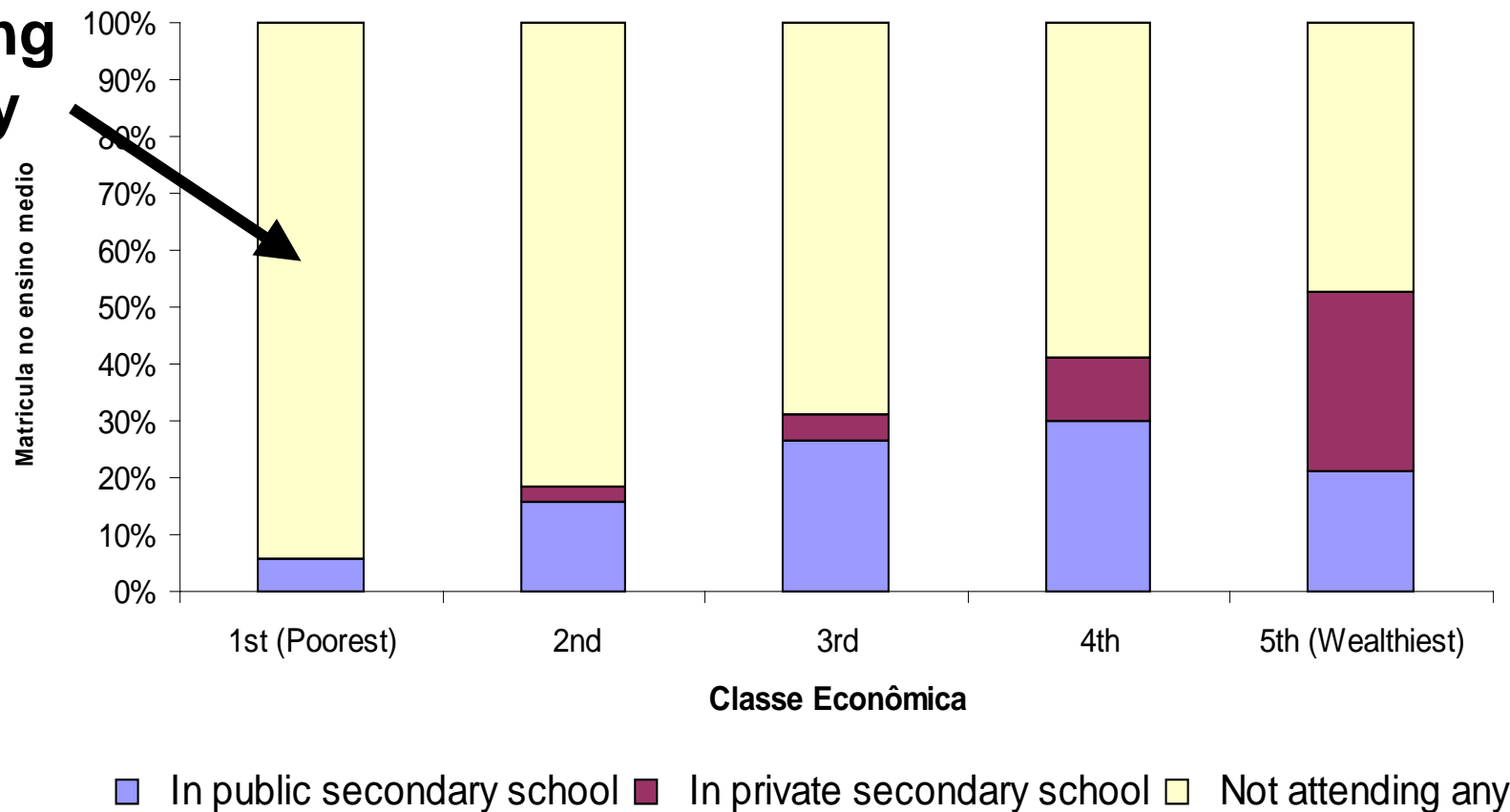


.... Gaps in Human Development Worse Among the Poor (2)

Brazil: Percent Secondary School Enrollment of Youths age 15-19

Porcentagem da população entre 15 e 19 anos no ensino medio

Not attending secondary

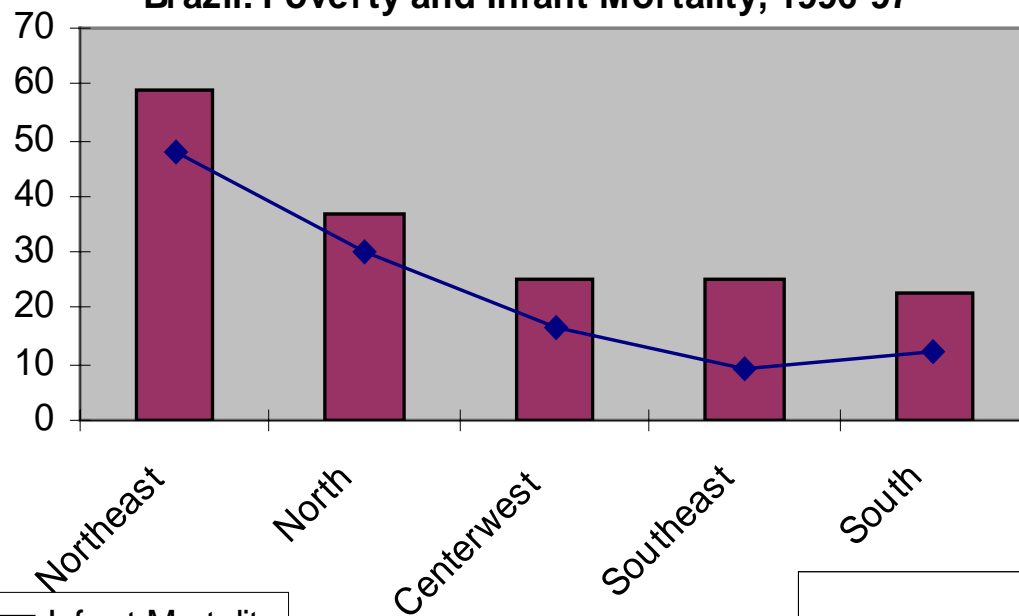


Source: World Bank (2003).



.... Gaps in Human Development Worse Among the Poor (3)

Brazil: Poverty and Infant Mortality, 1996-97

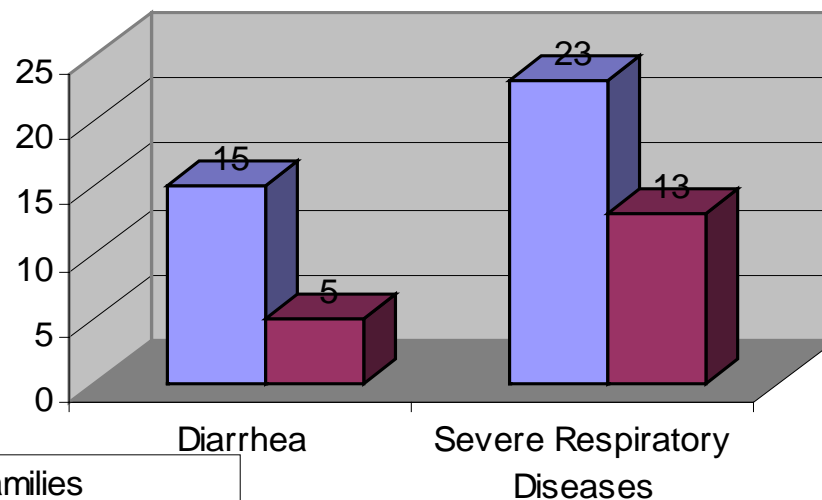


Source: Mexico Oportunidades

Source: World Bank (2003)

Mexico: Poverty and Disease:

% of children under 5 years with diarrhea and respiratory diseases, according to economic status, 1999

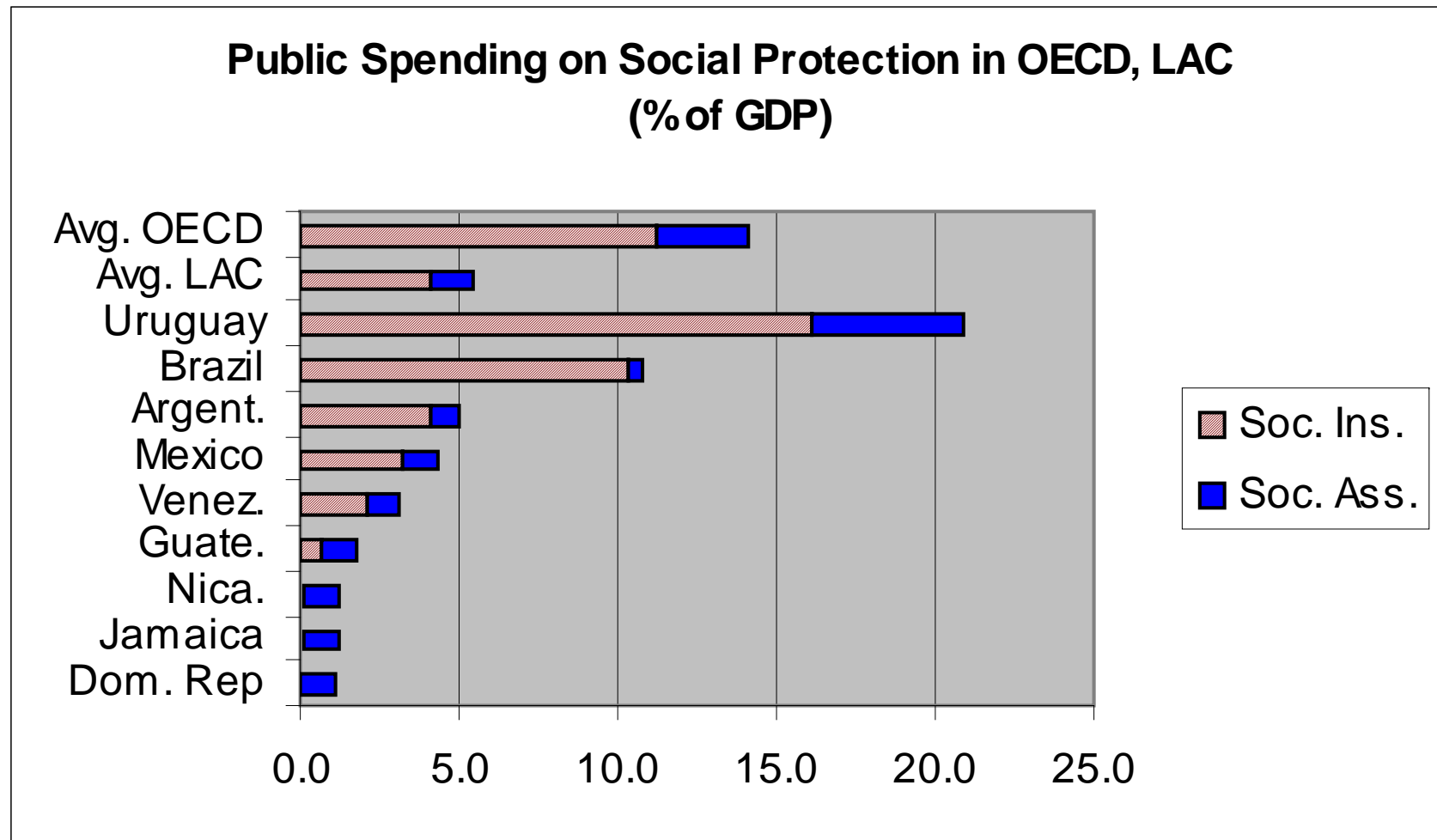


■ Poor families
■ Higher income families



Historically Truncated Welfare State (1): Public Spending on Social Protection in LAC

- Negligible in many countries, or....
- Strongly favors social insurance (formal benefits, such as pensions or unemployment insurance)...

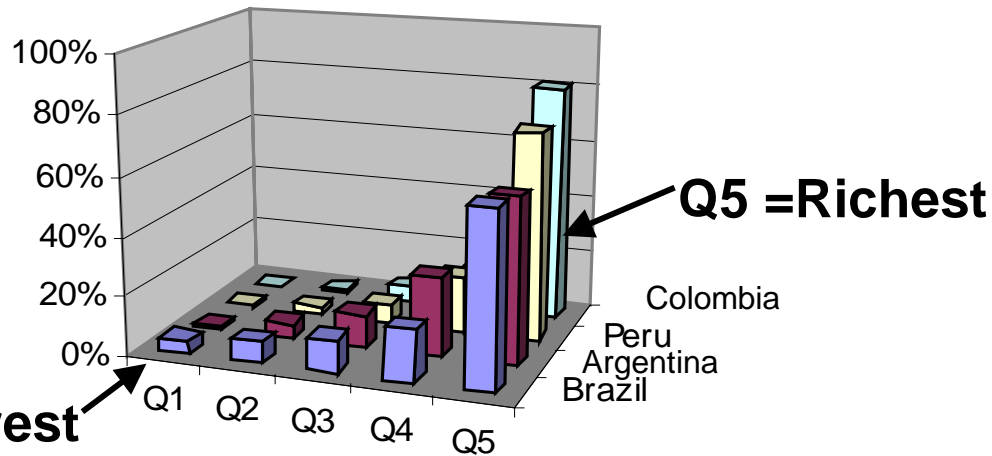




Historically Truncated Welfare State (2): Regressivity in Formal Benefits

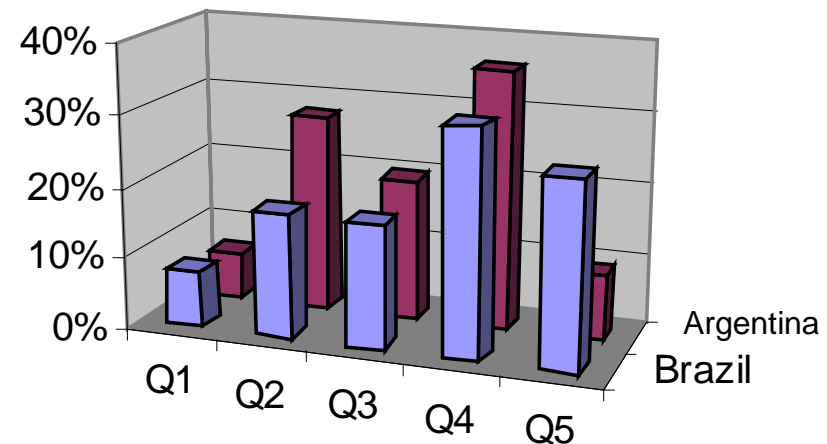
... And the poor receive very little of the resources allocated to social insurance transfers

**Distribution of Pension Benefits
(Absolute Incidence)**



Formal transfers usually require participation in the formal labor market. The poor tend to work in the informal sector.

**Distribution of Unemployment Insurance
(Absolute Incidence)**



Overview of Conditional Cash Transfer Programs

Role, Objectives
Design and Implementation Features





Common Objectives of CCTs

In this context, conditional cash transfers (CCTs) have emerged in many countries with the common goals of:

– **Reducing current poverty and inequality**

- Via cash transfers to the poor
- Redistribution and relief role

– **Reducing future poverty and inequality**

- By linking transfers to incentives for investments in human capital (via health/education conditionalities)
- Investment role (structural aspect)



Basic Rationale for CCTs

- **Current situation of extreme poverty, high inequality unacceptable:**
 - Role for poverty *alleviation* (relief)
 - Role for *redistribution* towards the poor
- **Poverty, inequality associated with inequality in human capital development** (health, education)
- **Extreme poor lack access to health and education services because of *demand-side* factors:**
 - Lack of information (on benefits, returns, availability, rights)
 - Transport or other direct costs of participating (e.g., uniforms) are prohibitively high
 - Opportunity costs of participating too high (e.g., need incomes from adult and/or child labor)
 - Hence role for providing demand-side incentives for human capital investments



Underlying Assumptions for CCTs

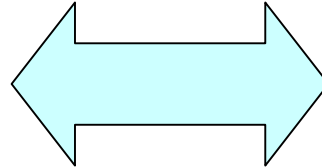
- **Supply side (availability, quality) of health and education services is present**
 - This assumption commonly true in middle-income countries (e.g., Mexico, Brazil)
 - Less true in remote rural areas (even in MICs)
 - Less true in lower-income countries
- **CCT programs also serve to stimulate demand – and a subsequent supply-side response**
- **CCTs should be part of a broader strategy for human capital development** with investments in:
 - Availability of health care and schools, *and*
 - Quality of these services



Basic Functioning, Interactions

Cash Transfers to Poor Families:

- Targeted to poor
- Benefits set to maximize positive H-K incentives
- Paid to women



Co-responsibilities for Beneficiaries:

- Regular school attendance
- Health care:
 - Vaccines
 - Pre- and post-natal visits
 - Regular check-ups
- Participate in HNP seminars

Interactions:

(a) “Income effects” of the transfers:

- Immediate poverty relief, redistribution
- All relief has some structural effect (demand for education, health)

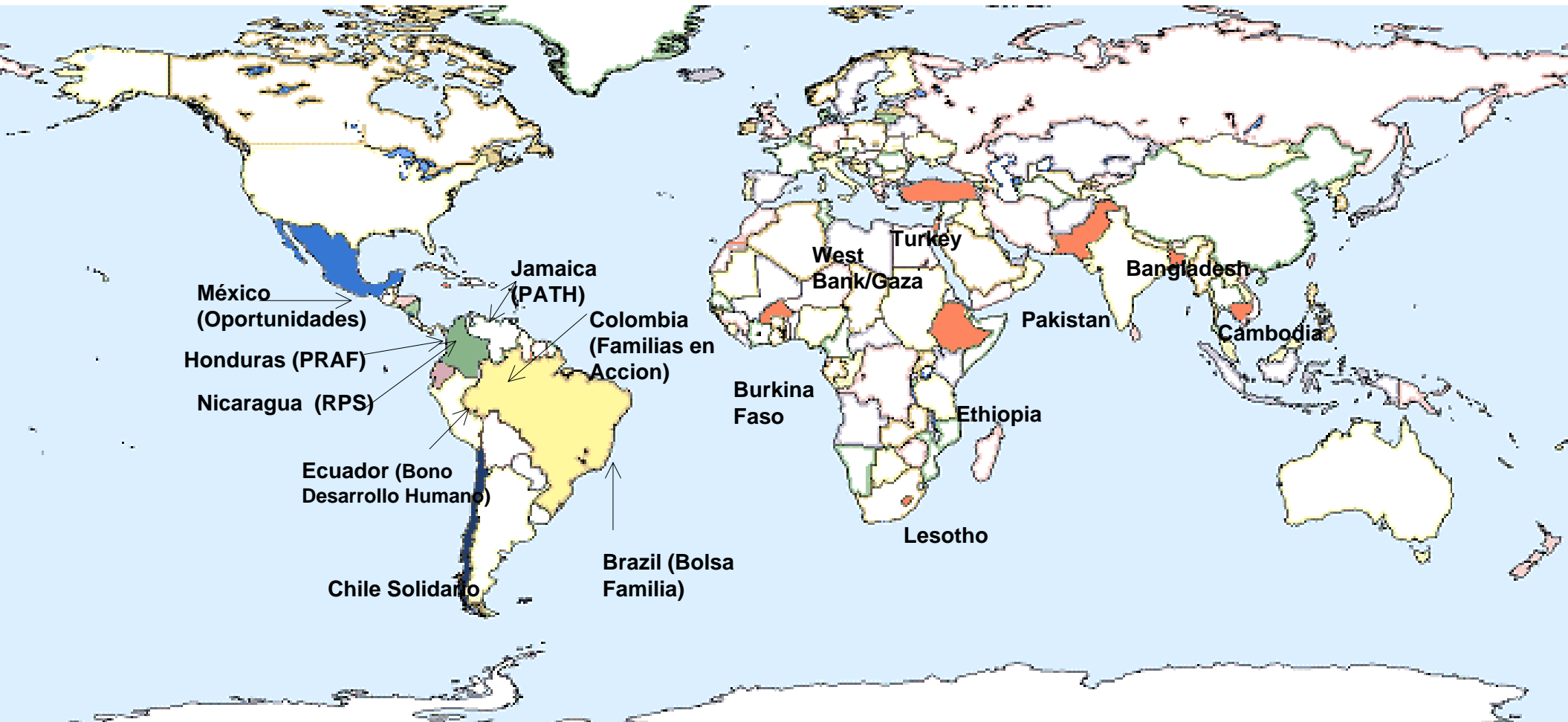
(b) “Price effect:” Stimulating demand:

- Conditionality (co-responsibility) aspects of transfers seeks to foster behavioral changes
- Structural effects on demand for education, health
- Synergies between simultaneously promoting health and education

Seeking to break the **inter-generational poverty trap**
by providing immediate relief (transfers)
and incentives for investments in health and education



Conditional Cash Transfer Programs (CCTs) in LAC and beyond



- Brazil's Bolsa Família Program is the largest, with over 6.5 million beneficiary families (25 million people; January 2005)
- Mexico's Oportunidades Program has 5 million beneficiary families (19 million people; January 2005)



Key Design, Implementation Features

- Determining Who is Eligible: Targeting the benefits to the poor
- Setting Benefit Levels & Policies
- Making Payments
- Establishing and verifying compliance with human capital conditionalities
- Monitoring and Evaluation



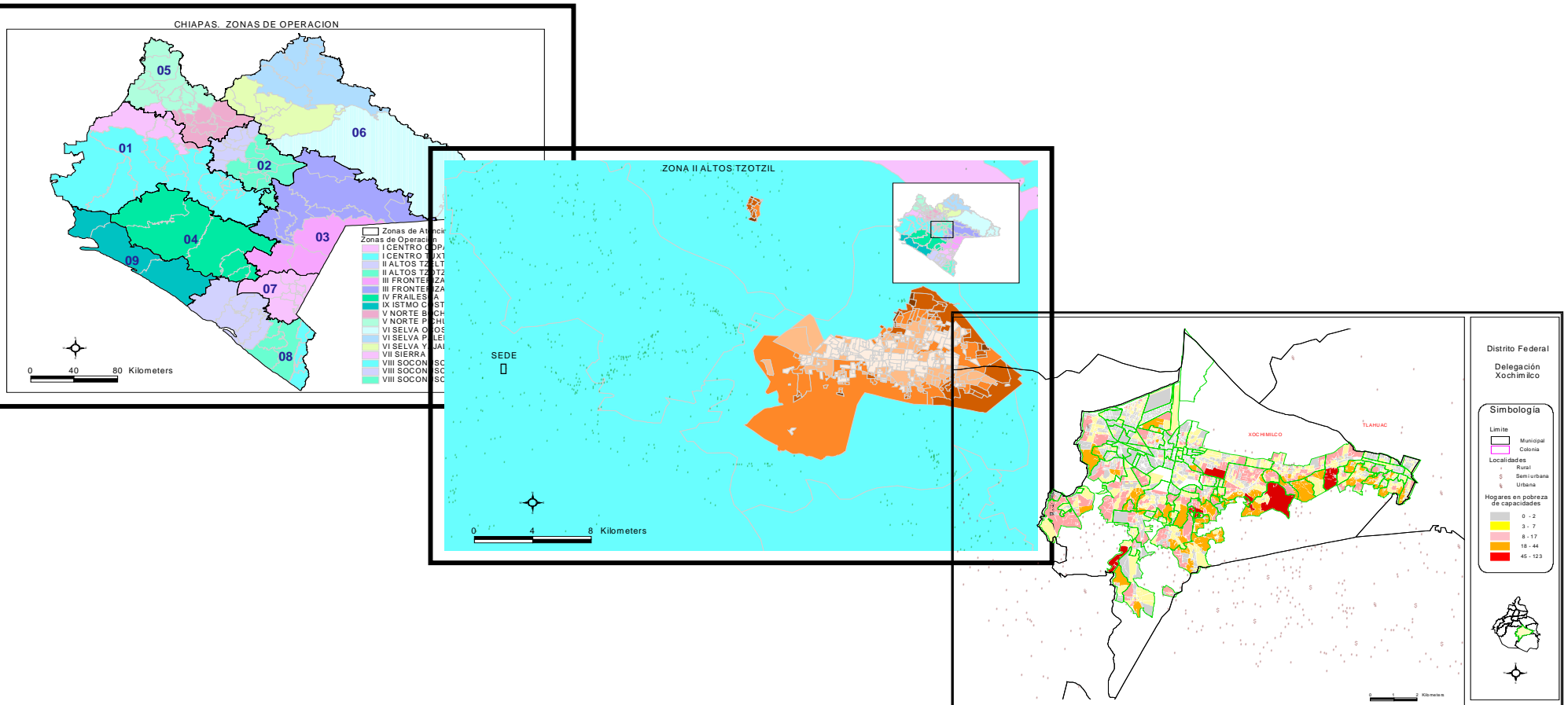
1. Determining Eligibility: Why Target?

- **Why target** conditional cash transfers to the poor?
 - **Basic Economic Rationale:** to maximize coverage of poor with limited fiscal resources (budget constraint)
 - Focus resources where they are needed most (the poor) – higher marginal impact
 - Limited financing available (universal not viable)
 - **Historical rationale:** Exclusion.
 - Historically public spending (particularly transfers such as pensions) go to higher income groups
 - Without active efforts to target resources to the poor, even so-called “universalist” programs tend to miss the poor
 - Poor have historically been excluded from formal-sector benefits, public spending
 - **Human capital rationale:** Higher gaps among the poor.
 - Health and education deficits worse among the poor
 - Poor more likely to be effected by *demand-side* constraints to taking-up health/education services (lack access due to own conditions)



1. Determining Eligibility: How to Target?

- **How to target CCTs?**
 - Many CCT programs combine geographic and household targeting to determine eligibility
 - **First, select priority areas:**
 - Geographic targeting (micro-area poverty maps)





1. Determining Eligibility: How to Target?

– Then, collect data on household characteristics:

- All households in priority areas
- On-demand in other areas (self-selection)

– Then, apply some sort of household eligibility criteria:

- **Verified means-testing** (like in U.S.)
 - Usually not feasible in L/MICs: informal, in-kind, seasonal earnings
 - Fine-tuned targeting less desirable for incentives reasons (marginal taxation and labor supply effects), political support (more narrow support for programs)
- **Unverified means-testing** (currently in Brazil):
 - Measurement errors
 - Incentives for under-reporting
 - Weaker results for outcomes and transparency
- **Proxy means-testing** (most LAC countries):
 - Broader multi-dimensional notion of poverty (more politically palatable)
 - Eligibility based on a weighted index of characteristics (score) that are easily observed but not manipulated and that are associated with poverty
 - Fairly impressive results (see Castañeda and Lindert, 2005)



2. Setting Benefit Levels, Policies

- **Mixed benefits packages:**
 - **Brazil:** Higher benefits for poorer households
 - **Brazil:** Fixed and variable benefits (variable depend on household composition)
 - **Mexico, Colombia:** General benefits vs. tied to specific health/education actions
- **Declining benefits over time with time limits:**
 - **Chile:** benefits decline after six months; time limit = 2 years
 - **Mexico** (emphasis on chronic poverty):
 - All: recertification after 3 years
 - Rural areas: benefits decline after 6 years; time limit = 9 years
 - Urban areas: benefits decline after 4 years; time limit = 7 years
- **Some programs also offer supply-side grants:**
 - **Nicaragua:** teachers receive small bonus per child participating in program (half for school materials)
 - **Mexico:** extra resources for health services to accommodate ↑ in demand (due to conditionalities)
 - **Honduras, Colombia:** grants directly to schools/municipios



2. Setting Benefit Levels, Policies (Cont'd)

- Benefit levels set to encourage positive incentives effects and avoid adverse incentives:
 - Promoting health and education incentives (all countries):
 - Benefits tied to school attendance, graduation (co-responsibility)
 - Benefits tied to health care use (co-responsibility)
 - Reducing child labor:
 - Linking to opportunity costs of labor: higher benefits for families with older children (secondary, etc.) (Colombia, Mexico)
 - Promoting gender equality:
 - Higher benefits for families with girls attending secondary, preparatory school (since girls' drop out rates tend to be higher at those levels – Mexico)
 - Avoiding adverse incentives for adult labor-force participation:
 - Relatively low benefit levels (all – see next slide)
 - Simulations of labor-leisure choice models suggest no significant effects
 - Broader targeting + infrequent recertification (2-3 years) also avoid this
 - Time limits, declining benefits also help avoid this (Chile, Mexico)
 - Avoiding incentives for fertility:
 - Some CCTs cap variable transfers to certain number of children to avoid incentives for fertility (Brazil)
 - New evidence for Honduras, Nicaragua



2. Average Benefit Levels

Program	Average Unit Transfers, US\$PPP (per month per family)	
	Education Subsidy	Health / Nutrition Subsidy
Oportunidades (Mexico)	61.54	21.44
Bolsa Familia (Brazil)	64.29 (total)	
Familias en Accion (Colombia)	53.21	31.38
Chile Solidario (Chile)	22.11 (total)	
PATH (Jamaica)	27.36	27.36
Red de Proteccion Social (Nicaragua)	31.91	53.59
PRAF (Honduras)	22.49	31.30

Source: World Bank calculations using program information (2003).



3. Making Payments

- **To who?**
 - Usually the woman (mother) (most countries)
 - Graduation bonuses (savings accounts) paid directly to the graduating youths (Mexico)
- **How? Varies:**
 - Direct delivery of cash (Mexico, every 2 months)
 - Via monthly credits to Electronic Benefit Cards (EBCs) and banking system (Brazil)
- **Need controls:**
 - Identification cards, numbers (key challenge)
 - On-going supervision by case workers (Mexico)
 - Fraud control systems: audits, reporting, random-sample spot checks (varies by country)



4. Human Capital Conditionalities

- **Innovative aspect of CCTs:**
 - Linking short-term poverty relief (transfers) with incentives for long-term investments in human capital (conditionalities)
 - More politically palatable than just giving out cash

Country/Program	Education Conditions	Health/Nutrition Conditions
Brazil Bolsa Familia	<ul style="list-style-type: none"> • Enrollment (ages 7-16) • Daily school attendance (85%) 	<ul style="list-style-type: none"> • Vaccines up-to-date • Pre-natal care • Health visits/growth monitoring
Mexico Oportunidades	<ul style="list-style-type: none"> • Enrollment (thru preparatory) • Daily school attendance (85%) 	<ul style="list-style-type: none"> • Pre-, post-natal care • Regular health visits (by age, gender) • Participation in health seminars
Colombia Familias en Acción	<ul style="list-style-type: none"> • Daily school attendance (80% on a two month cycle) 	<ul style="list-style-type: none"> • Regular health visits including growth monitoring for children
Chile Solidario / Programa Punte	<ul style="list-style-type: none"> • Social workers assist families to develop tailored plans • Tailored conditionalities for each family • Families meet regularly with social workers to monitor progress 	



4. Human Capital Conditionalities, Cont'd

- **Importance of Awareness:**
 - Publicity, information campaigns
 - Formal contracts with beneficiaries (cadernetas)
- **A “benefit,” “right” or a “contract”?**
 - Some countries argue that health and education are inherent “rights” and that these co-responsibilities encourage the poor to “take up” these rights (Brazil)
 - Other countries emphasize the “contract” aspects of conditionalities (with penalties for non-compliance) (Mexico)
 - Oportunidades beneficiaries (Mexico) perceive that these co-responsibilities:
 - Help make the program “honesto”
 - A “benefit” – they like the responsibility and benefit of health care/schooling

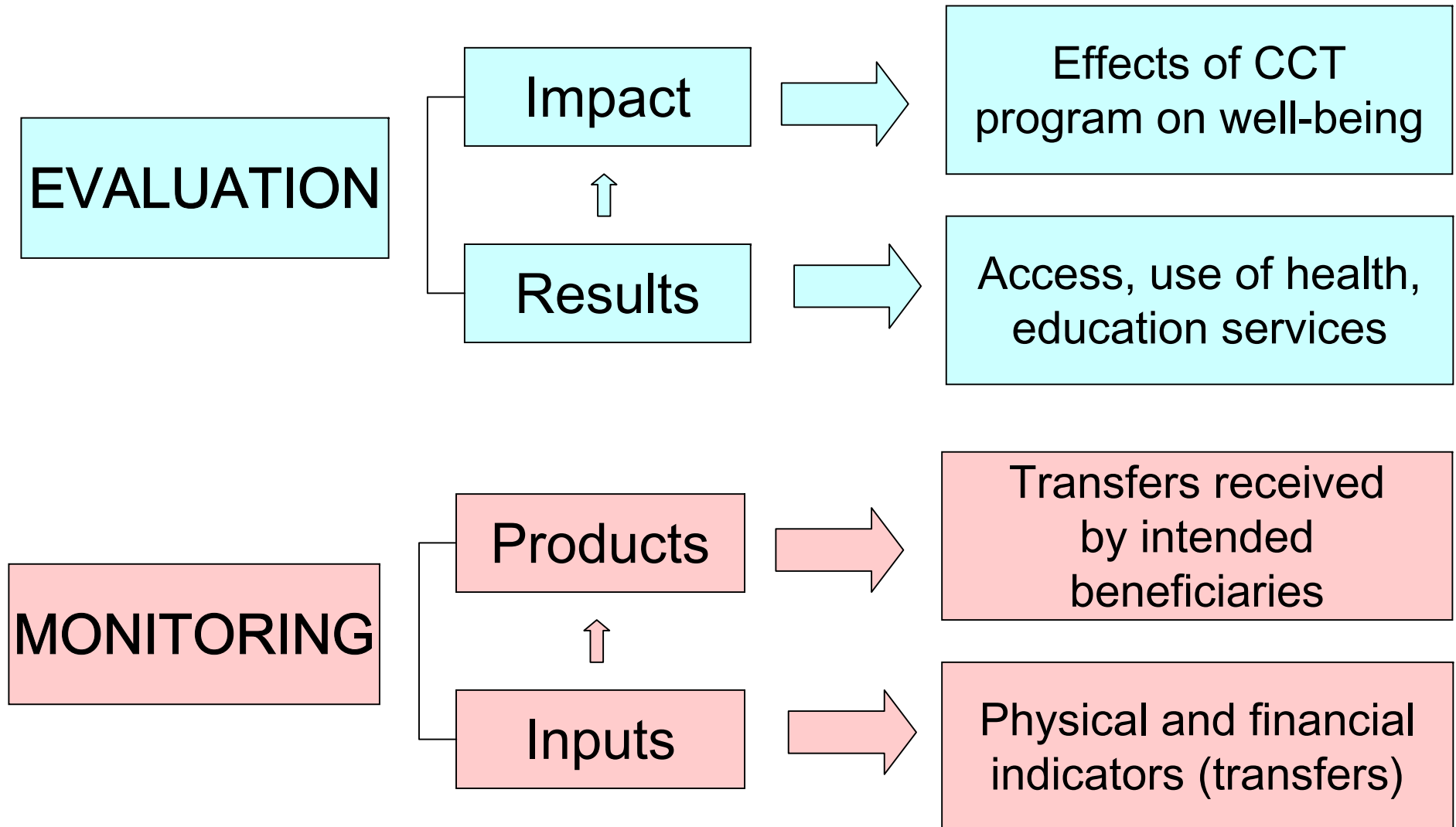


4. Human Capital Conditionalities, Cont'd

- **Verification of compliance:**
 - Not easy. Quality/actual verification varies a lot by country
 - Daily, monthly monitoring for everyone (with case workers, teachers/health agents reporting), and/or
 - Sample-based spot checks (large countries)
 - Decentralized (Brazil) vs. Centralized (Mexico)
 - Links to beneficiary roster and payments databases
- **Policies for non-compliance?**
 - Mexico, others: temporary and eventual permanent suspensions (co-responsibilities are a contract linked to payments)
 - Brazil: evolving.
 - “Red flag” role: Investigate reasons for non-compliance before penalizing the extreme poor
 - Eventual suspensions once verifications system operating



5. Monitoring and Evaluation: Framework





- **Monitoring and Evaluation:
Three Levels of M&E**

LEVEL

- Monitoring Program Execution (inputs, products)
- Monitoring Program Implementation
- Monitoring and Evaluating Impact of CCTs on Results and Outcomes

TIME-FRAME

- On-Going Basis
- Regular basis
- Less frequent (multiple rounds of data collection)



5. Overview of M&E System

Sub-Component (level)	Instruments	Indicators
Monitoring Program Execution	Management Info. System (MIS/SIG)	<ul style="list-style-type: none"> •Physical (coverage, characteristics) •Financial (payments) •Conditionalities compliance
Monitoring Implementation	Supervision	<ul style="list-style-type: none"> •Eligibility information •Payments •Compliance with conditionalities •Beneficiary satisfaction
	Quality Control Reviews (QCR) (random spot-check surveys)	
	Citizen Oversight (social control)	<ul style="list-style-type: none"> •Hotline complaints •Local citizen committee actions
Monitoring and Evaluation of Outcomes	Territorial Impact (spatial analysis)	<ul style="list-style-type: none"> •Broader impact on community/municip.: <ul style="list-style-type: none"> ➢Economic, Social Indicators ➢Complementary Services ➢Social capital
	Impact on Families (household surveys)	<ul style="list-style-type: none"> •Impact of program on: <ul style="list-style-type: none"> ➢Economic, Social Indicators ➢Supply of services

IMPACT OF CCTs: Promising Results

Distributional Impact

Impacts on Poverty, Consumption and Nutrition

Educational Impact

Impact on Child Labor

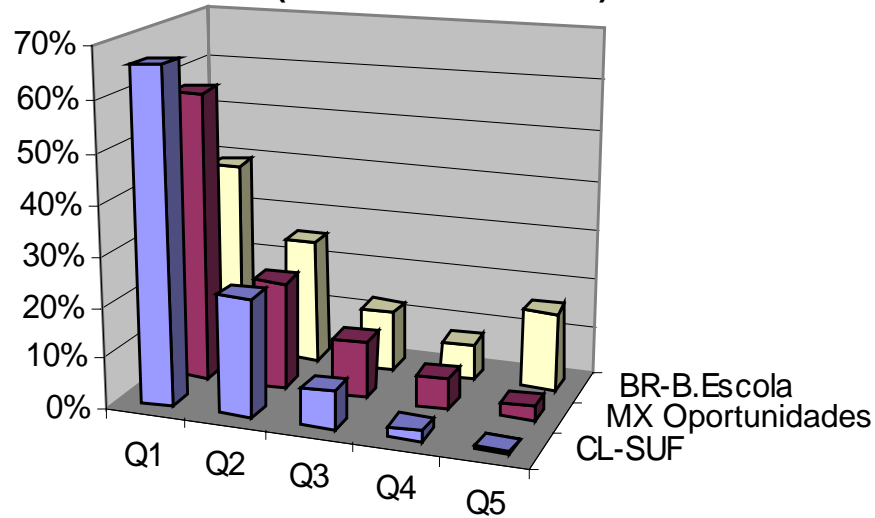
Health Impacts





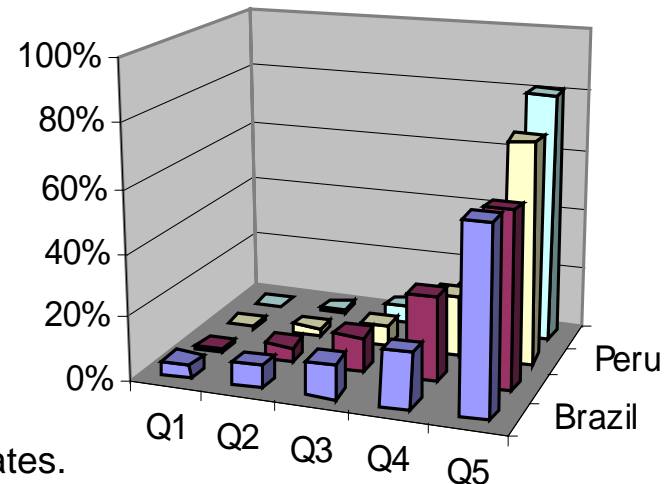
1. Redistributive Impact: Absolute Incidence

Distribution of CCT benefits
(Absolute incidence)



- **Conditional Cash Transfers:**
 - Fairly impressive targeting
 - Large share of benefits to poorest
 - Far more progressive than traditional formal benefits
 - Emerging SSN... eventual “untruncation” of the welfare state?

Distribution of Pension Benefits
(Absolute Incidence)



Sources: World Bank: (a) Castañeda and Lindert (2005); Lindert, Skoufias, Shapiro (forthcoming 2005). Preliminary estimates.



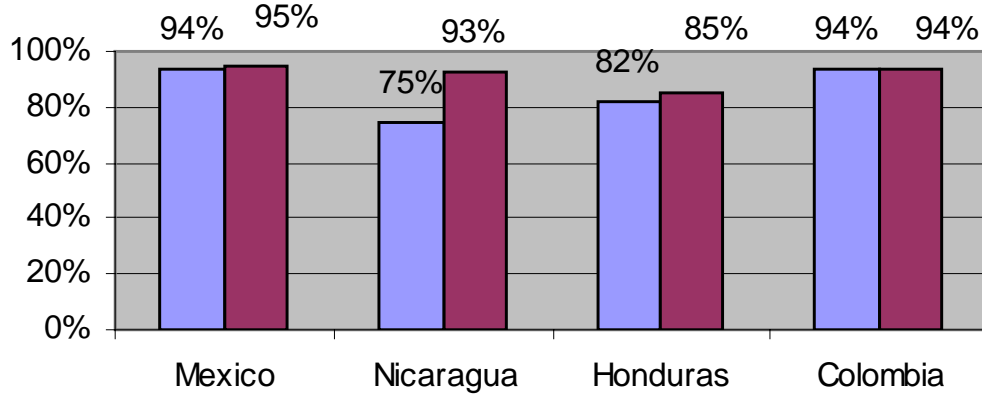
2. Impact on Current Poverty, Expenditures, Nutrition

- Experimental and quasi experimental impact evaluation studies suggest important impacts:
- Increasing total and food expenditures (Brazil BA, Mexico, Honduras, Nicaragua)
 - Increasing caloric intake (Brazil BA, Mexico)
 - Expanding dietary diversity (Brazil BA, Mexico, Nicaragua)
 - Reduced stunting (malnutrition) among young children (Mexico, Nicaragua)

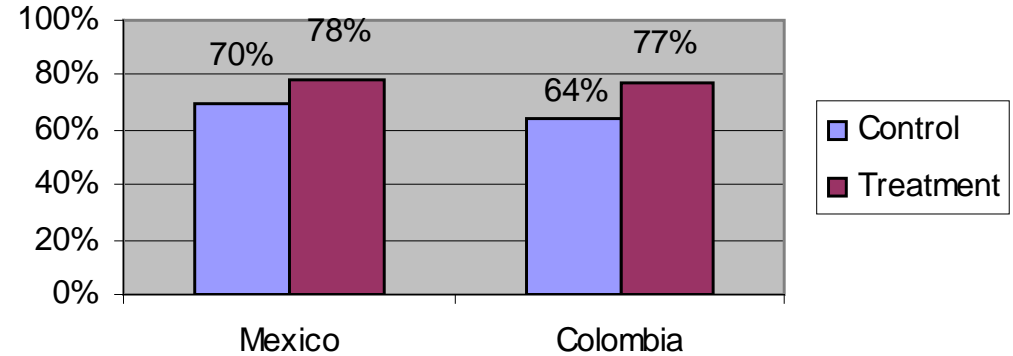


3. Impact on Education

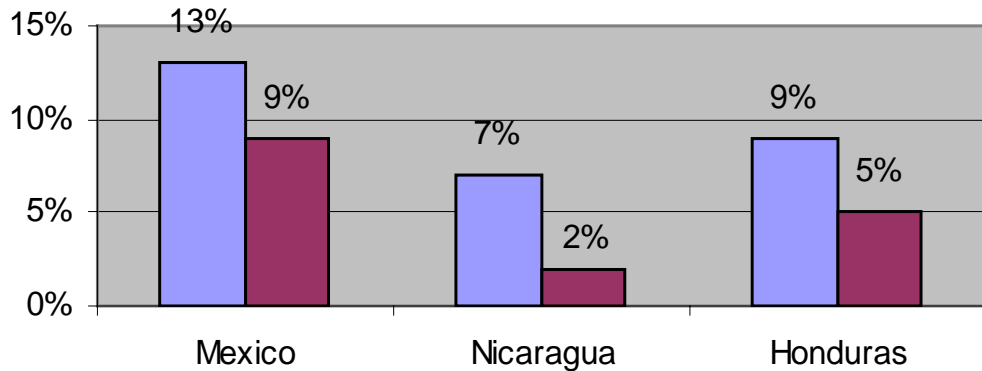
Impact on Primary Enrollment



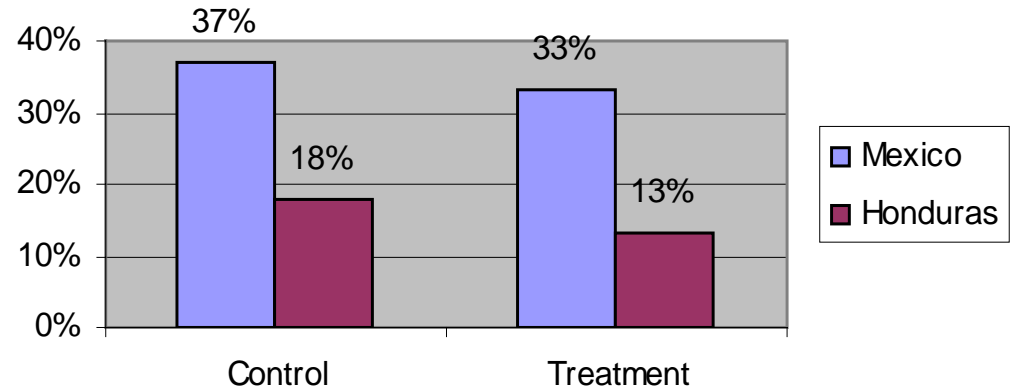
Impact on Secondary Enrollment



Impact on Dropout Rate



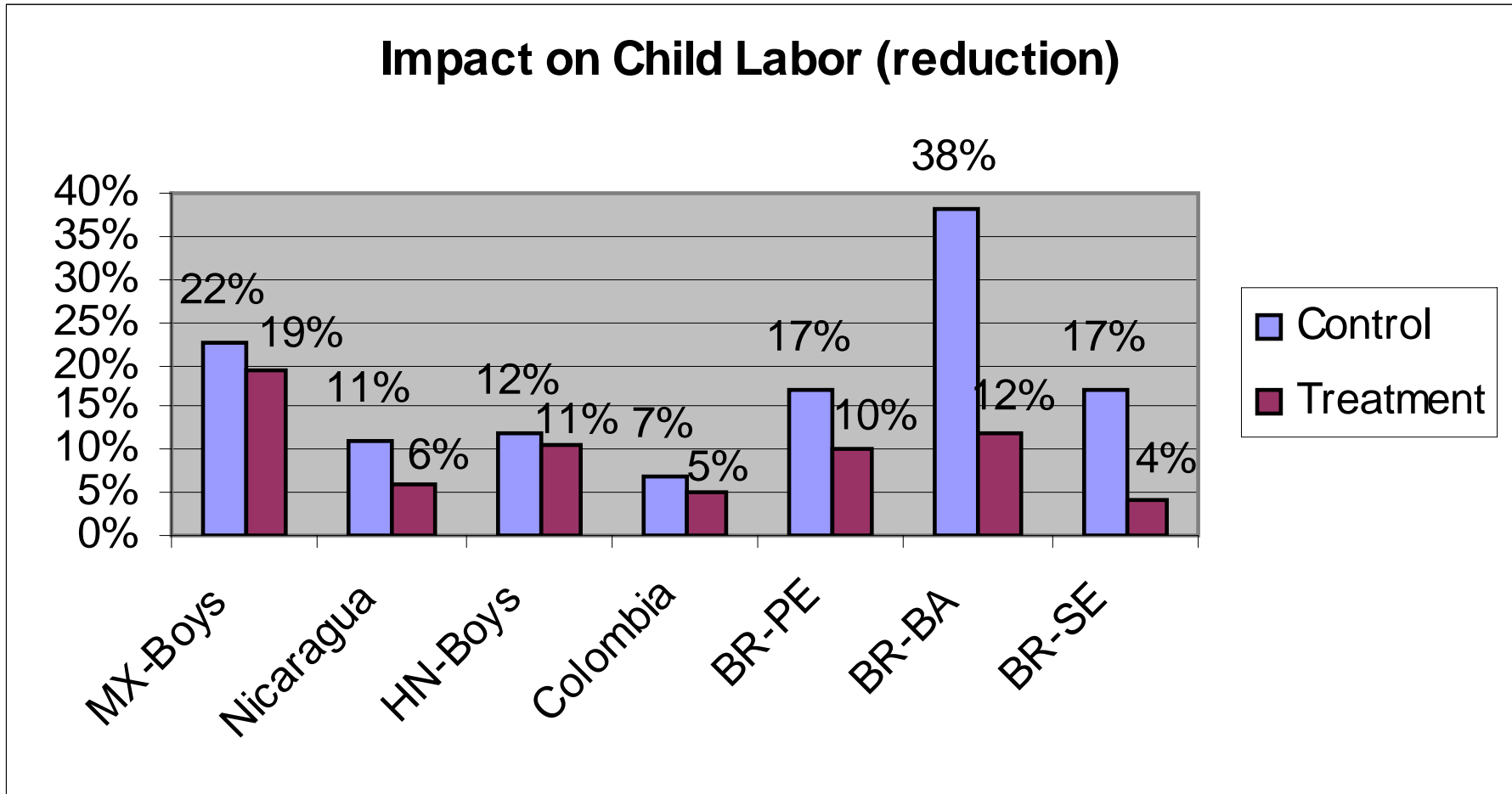
Impact on Grade Repetition



Source: Olinto (2004)



4. Impact on Child Labor

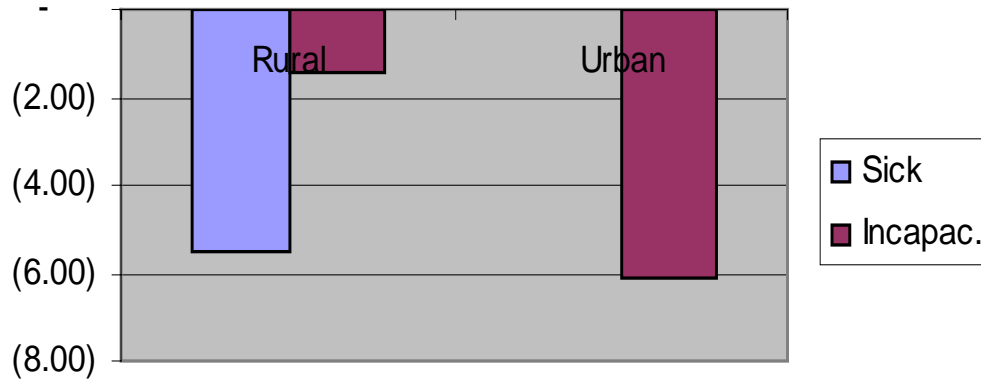


Source: Olinto (2004)

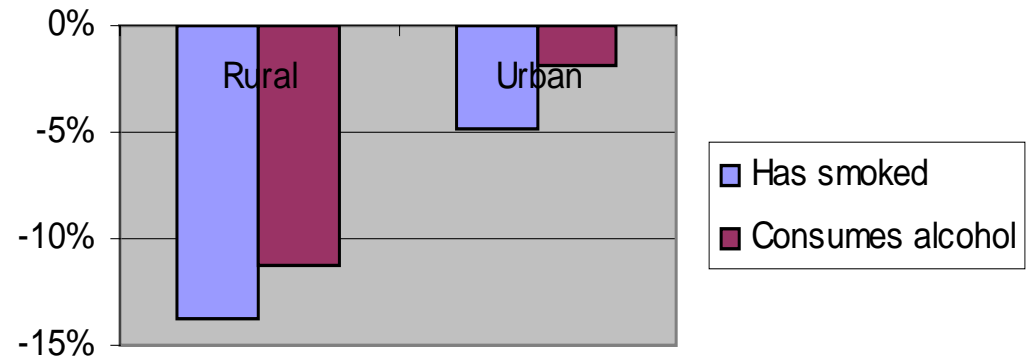


5. Health Impacts

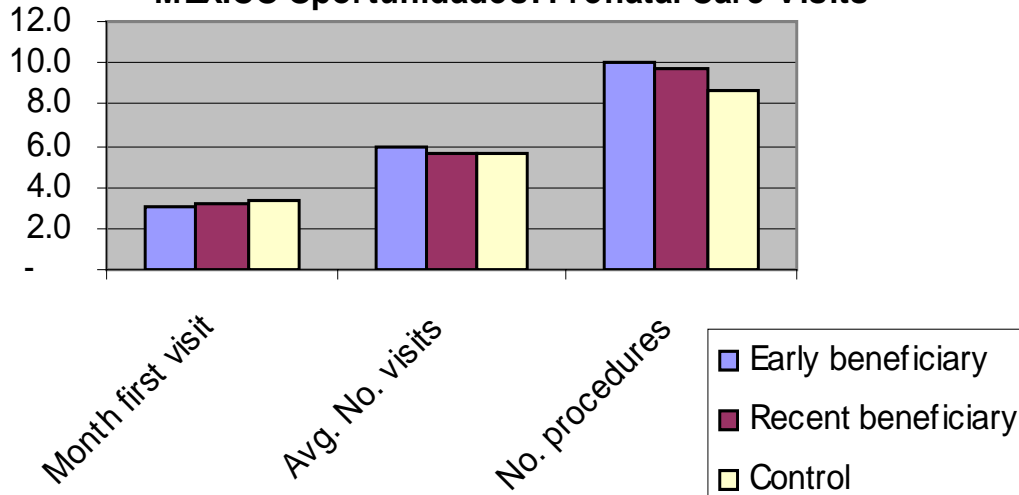
MEXICO Oportunidades Program: Reduction in number of sick and incapacitated days (% change for beneficiaries as compared with control)



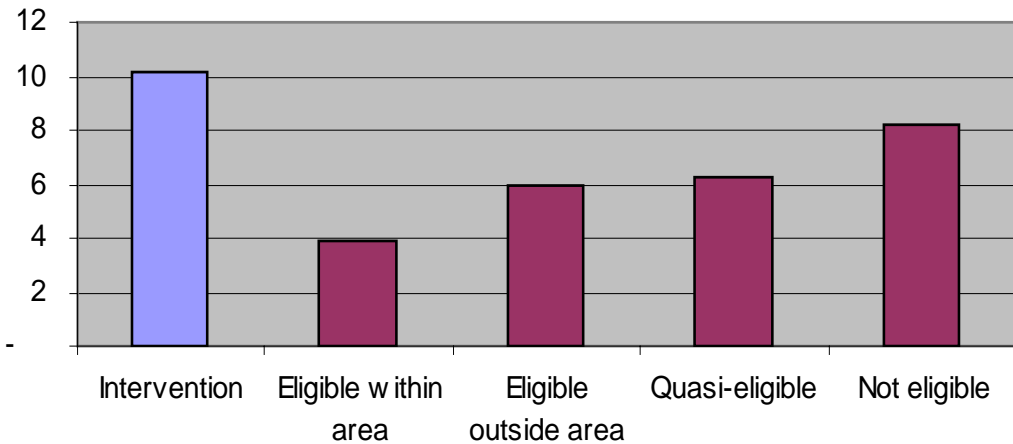
MEXICO Oportunidades Program: Reduction in % of Youths Reporting Tobacco and Alcohol Consumption (% change for beneficiaries)



MEXICO Oportunidades: Prenatal Care Visits



MEXICO Oportunidades: Number of health visits (last year)



CHALLENGES AND FUTURE DIRECTIONS FOR CCTS





Challenges

- Strengthen basic program architecture (administrative):
 - Targeting (eligibility, including re-certification)
 - Conditionality monitoring
 - Monitoring, Evaluation, Fraud Controls
- Expand Role as SSN Mechanism – “Untruncate” the Welfare State:
 - Fiscal limitations
 - Inter-linked with other social protection reforms: pensions, labor markets, taxation



Directions for the Future

- Innovating for “second-generation” issues
 - Developing graduation and exit strategies:
 - Bonuses for graduation (Mexico youth savings accounts)
 - Time limits, reduced benefits
 - Linking CCT beneficiaries to other intermediate services:
 - One-stop shop role, bridging function (Chile, Brazil)
 - Social worker accompaniment (monitoring) (Chile)

FOR MORE INFORMATION ON CCTS





For more information

- Select Papers and Presentations:

- de Ferranti, David et. al. (2004). *Inequality in Latin America: Breaking with History?* The World Bank.
- Rawlings, Laura (2004). “A New Approach to Social Assistance: Latin America’s Experience with Conditional Cash Transfers.” World Bank SSN Primer Paper
- 世界銀行 (2005)。 “條件性現金轉移：拉丁美洲的經驗與教訓。” 世界銀行社會安全網首創論文。
- Bourguignon, François, Francisco Ferreira, and Phillippe Leite (2003). “Conditional Cash Transfers, Schooling and Child Labor: Micro-Simulating Brazil’s Bolsa Escola Program.” World Bank Economic Review 17 (2): 229-54.
- Coady, David, Margaret Grosh, and John Hoddinott (2004). *The Targeting of Transfers in Developing Countries: Review of Experience and Lessons*. The World Bank.
- Castañeda, Tarsicio and Kathy Lindert (2005). “Designing and Implementing Household Targeting Systems: Lessons from LAC and the U.S.” World Bank SSN Primer Paper.
- Lindert, Kathy, Emmanuel Skoufias and Joseph Shapiro (forthcoming 2005). *Redistribution and Transfers in Latin America*. World Bank (in progress).
- Lindert, Kathy et. al. *Brazil’s Social Safety Net*. World Bank (in progress).
- Maluccio, John (2004). “Effects of Conditional Cash Transfer Programs on Current Poverty, Consumption and Malnutrition.” Second International Workshop on CCTs, São Paulo.
- Olinto, Pedro (2004). “The Impact of LAC CCT Programs on Schooling and Health.” Second International Workshop on CCTs, São Paulo.



For More Information, Cont'd

- Select Websites:
 - <http://www1.worldbank.org/sp/safetynets/>
 - <http://www.ifpri.org/>
 - <http://www.mds.gov.br/>
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