CONDITIONAL CASH TRANSFERS AND THE LATIN AMERICAN EXPERIENCE

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RESUMEN

Los programas de transferencias de ingresos condicionadas comenzaron a difundirse en la década de los '90 como mecanismos de contención social enfocados en los segmentos sociales más vulnerables, como consecuencia de las reformas estructurales propiciadas por las instituciones financieras internacionales en países en vías de desarrollo. El presente trabajo describe las principales experiencias, con mayor o menor grado de éxito, desarrolladas en América Latina y realiza una evaluación de las mismas. La principal conclusión a la que se arriba reflexiona sobre la necesidad de encontrar soluciones de largo plazo a los problemas de pobreza estructural que, si bien pueden ser mitigados por programas de transferencias condicionadas bien diseñados e implementados, no configuran una situación de mejoría permanente desde la perspectiva del empoderamiento individual.

PALABRAS CLAVE

Transferencias de Ingresos Condicionadas; Pobreza; Desigualdad; Reforma Estructural; Políticas Universales; Estado de Bienestar; Redistribución; Políticas Públicas; Desarrollo Económico; América Latina

SUMMARY

Conditional cash transfer (CCTs) programs were spread during the early 1990s as social contention mechanisms focused on the most vulnerable segments of society, as a result of structural reforms fostered by international financial institutions in developing countries. This paper describes the main experiences developed in Latin America, with varying degrees of success, and provides a formal assessment of them. The main findings reflect upon the need to find long-term public policies to address structural poverty issues since, though they can be mitigated by well designed and implemented CCTs, the latter do not constitute a permanent solution from a perspective of individual empowerment.

KEY WORDS

Conditional Cash Transfers; Poverty; Inequality; Structural Reforms; Universal Policies; Welfare State; Redistribution; Public Policies; Economic Development; Latin America

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1. INTRODUCTION

During the 1990's conditional cash transfers became broadly recommended as an effective policy instrument for addressing poverty issues. As soon as international financial organisations realised that the pro-growth economic strategies encouraged by the Washington Consensus did not achieve remarkable results in overcoming poverty, the strategy of complementing economic policy reforms with targeted social policies seemed to be the best available alternative. This, in turn, was welcomed by local government elites in many developing countries due to their historic economic mismanagement in terms of sector public deficits, inflation, low-quality public goods and flagrant episodes of corruption, all of which undermined the support for universalist policies.

I will argue that the Latin American experience shows that conditional cash transfers can achieve short-term success, but when we understand the context in which these programmes are meant to change behaviour and change long-term poverty patterns, especially when we use the lens of Sen's capabilities approach, we can see that a 'magic bullet' for short-term success will not necessarily bring long-term human development.

This paper starts by describing the underlying microeconomic theory which is useful for the analysis of the effectiveness of conditional cash transfers and addresses the issues of selectivity and universality in the design of social policies. Then it goes into the analysis of conditional cash transfers in Latin America and compares different experiences, taking into account their scope, institutions and main socioeconomic issues.

2. WHAT CONDITIONAL CASH TRANSFERS ARE AND WHAT THEY ARE MEANT TO DO

2.1 THE ALTERNATE BETWEEN TARGETING AND UNIVERSALISM IN POVERTY REDUCTION

Before analysing conditional cash transfers in detail, it is worthwhile to disentangle the underlying ideological conceptions between the supporters of the universal approach in social provision and those who advocate for targeted social policies, a policy trend which became accentuated during the 1980's gloomy global economic conditions. First, the increasing fiscal restraints which undermined existing welfare states became a powerful argument to advocate for cost-effective targeting policies under the assumption of a 'fixed budget'. Second, the stratification gap between those who were reached by universal policies and those who were not started to increase insofar as the industrialisation process – especially in developing countries – could not complete. Third, it was argued that targeting was a better way for achieving vertical equity – that is, people with higher incomes should be treated differently than those with little or no income – unlike universalism, as the latter provided everyone with the same benefits. Fourth, the concept of 'welfare dependency' – that is, when a household is reliant on welfare public expenditures as the main source of income – was considered to be one of the main causes of what has come to be known as 'poverty traps'. This self-reinforcement mechanism of poverty was said to encourage the misuse of social protection services as a lifestyle rather than as a safety net by many people.

The advocates of a more universalistic approach towards poverty, as Mkandawire argues (2005), claimed instead that targeting could lead to a dual structure where poor quality merit goods – such as health, education or housing – were to be publicly provided to the poor while the better-off would privately access to better services and opportunities. At the same time, this would reduce the scope of social policy to concentrate on poverty alleviation programmes rather than on a long-term human capital investment policy which could foster economic growth. Furthermore, there was the problem of administrative capacity – more acute in poor countries – which could lead targeting policies to under-coverage – when denying a benefit to someone who really deserves it – or to leakage – when offering a benefit to someone who is not part of the target population. As for vertical equity issues, supporters of targeting were not taking into account the concept of ‘net benefit’, in universal systems, as the difference between gross benefits minus taxes – which varies according to the progressivity of the tax system. Other issues like targeting costs, political patronage and stigmatization in the beneficiaries’ selection process were also raised against targeted policies. Finally, some studies on economic efficiency found that universal programmes were overall slightly more prone to increase hours of formal work and earnings than selective ones (Jackson 1982, p. 27).

2.2 HOW TO COMPARE ALTERNATIVE POLICIES?

In evaluating which policy approach to follow while addressing a specific poverty issue Marmor’s six criteria for comparing alternative programmes can be of great help (1971, pp. 86-90). First, there is the concept of adequacy of the benefit level which can be measured by the proportion of the poverty gap – an index that estimates how far the poor’s average income is from the poverty line – that would be reduced by the given programme. An individual adequacy measure is generally used to complement the above in order to address the guarantee level – the minimum amount of benefit delivered – for different categories of deprivation. Second, the degree of stigma linked to the chosen poverty reduction policy is a relevant issue to be taken seriously. While universal policies are said to have the less stigmatizing effects, means-tested programmes that exacerbate the difference between the ‘deserving’ and ‘non-deserving’ poor can fail to reach the targeted population due to lower rates of application to the specific programme. Third, the concept of equitable efficiency of any programme can be evaluated as the success in which the given programme matches the target population and avoids leakage. While achieving high vertical efficiency – the proportion of benefits received by the target beneficiaries – will certainly reduce the cost of the programme, it can also undermine administrative simplicity and increase social stigma, while reducing at the same time a broader support for the programme. Although a high horizontal efficiency – the ratio of beneficiaries in the target population to the total target population – is also desirable, this does not imply that the adequacy standard is being met. Fourth, the effect of cash transfers in work incentives and family composition ought to be considered as the former could affect the propensity to seek employment which ultimately alters the allocation of economic resources. Fifth, the programme costs are also an important issue since predictions have to be made on when the cut-off point is to be reached and beneficiaries should begin to drop out of the programme. The different layers of government from which the programme is decided to be funded can have an impact on the scope of the programme as well. Sixth, the political support in terms of approval of a certain programme can become a constraint or a leverage which, in turn, can lead to reject a better programme or to underestimate the previous criteria in favour of the last one.

2.3 CONDITIONALITY IN CASH TRANSFER PROGRAMS

Conditional cash transfers could be broadly defined as any social programme that requires a specific behaviour from the target population in order for them to receive certain benefits, either cash or in-kind. This includes workfare programs like Argentina’s Jefas y Jefes de Hogar (Heads of Households) initiated in 2002 as an emergency response to poverty alleviation in a context of high unemployment, or Argentina Trabaja (Argentina Works), a public employment scheme implemented in 2009 during the global financial crisis; anti-poverty-oriented human capital investment like México’s Progresa (Education, Health and Nutrition Programme), Brasil’s Bolsa Familia (Family Allowance) and Nicaragua’s Red de Protección Social (Social Protection Net), where the focus is set on improving schooling and health conditions of the younger poor; and in-kind transfers, such as Western Kenya’s Insecticide-treated Bednet Trial and Perú’s Vaso de Leche (Glass of Milk), which consist of the provision of certain goods or services to the targeted population aimed at addressing a specific situation.

As Das et al (2005) address, there are two main reasons why conditional cash transfers are used: to restore social efficiency when there are market failures or to improve equity through better targeting of social public expenditure and redistribution to the more needy sectors. A typical example of market failure would be when individual households underinvest in their children’s education due to ignoring – either due to lack of information or to a bounded rational behaviour – the long term positive effects on themselves as well as on the rest of the society. A programme like Bolsa Familia, which provides cash transfers to families subject to children's school enrolment and attendance could – and actually did – modify households' behaviour positively. In this case, in order to achieve the desired policy outcomes conditional cash transfer programmes require high participation through a combination of a generous amount of cash provision and a not too costly condition. The fungibility issue – individuals' incentive to offset the costs imposed by the conditions – should also be taken into account when designing a program like this. As for the second situation in which a pro-poor redistributive targeting is pursued, conditionality acts as a transaction cost for the non-target population. When the cost of meeting the condition is higher than the accrued benefit of the cash transfer there is an implicit self-selection or screening mechanism that makes some individuals, the better-off, opt out. However, as it is sometimes difficult to achieve the desired screening rate, policymakers adopt means-testing mechanisms based on collecting detailed data on population wellbeing or other proxy indicators in order to establish an eligibility criterion for the programme's beneficiaries – for example in Argentina's Asignación Universal por Hijo (Universal Child Allowance) only households without formal employment and income below $ 2,875 (US$ 575) are eligible for cash transfers.

Regarding their implementation, conditional cash transfer programmes can perform better if country-specific issues are taking into consideration from the stage of design. Delivering a clear and friendly induction workshop, integrating beneficiaries' feedback throughout the programme and encouraging collective empowerment are substantial components for success. However, as Adatto & Hoddinot (2007) state, not every country will benefit to the same extent from a conditional cash transfer program (p. 4). Empirical evidence shows that countries with larger gaps in human capital development can experience much greater improvement from this type of programmes, especially if it is possible to target lagging groups in terms of gender, regional or ethnic differences. Moreover, conditional cash transfers tend to be useful when the infrastructure of public services is underutilised, but they can achieve less significant results if services provision is inadequate. As for its administrative costs, while at the beginning they could climb up to even higher than the total amount of cash transfers, they usually decrease over time and stabilise at around 5 to 15 per cent of the latter, depending on the monitoring degree.

3. EXAMPLES AND ANALYSIS OF THE LATIN AMERICAN EXPERIENCE

The vast majority of Latin American countries eventually adopted CCT programmes during the 2000's (Surgiyama 2011). However, according to Bertranou & Maurizio (2012), two different strategies were pursued within these programs in order to ameliorate structural poverty. While countries like Brazil, México and Nicaragua developed special programmes to address the situation of poor families with children, Argentina, Chile and Uruguay have extended traditional family allowances to the poor through conditional transfers within the realm of the social security system. In this section the Argentinean and Chilean programmes will be analysed and compared to the Mexican and Nicaraguan ones.

3.1 ARGENTINA

The Asignación Universal por Hijo was implemented in October 2009 by a decree of the current Argentinean president which merged all existing similar programmes – such as the former Heads of Households – into it. Even though Argentina's economic performance had improved significantly since late 2002, the level of informal workers remained at high levels – around 40 per cent of total employment – which prevented many workers to access to the contributory family allowance benefits. In 2009 the Global Financial Crisis hit Argentina's economic growth and had a negative impact in the employment creation mechanism, which affected the most vulnerable sectors. In this context, the Asignación Universal por Hijo was implemented on a permanent basis in order to reduce the extreme poverty of children and adolescent from families of unemployed parents as well as from those working in the informal economy who earned less than the minimum living wage. Since then, cash transfer benefits per dependent (up to five) aged below 18 years are monthly paid to one of the parents through a debit card on a semi-conditional basis, that is, 80 per cent is paid in advance and the rest is deposited on a savings account which can be recovered once the parent or guardian certifies medical check-ups and vaccinations of their children and the completion of the academic year, according to their age.

The Asignación Universal por Hijo programme exhibits clear improvements with regard to its predecessors in terms of the principles of targeting, transparency and – to some extent – conditionality. Through the above mentioned requirements 3.6 million out of 4.8 million potential individuals are presumably receiving the benefits (Observatorio de la Deuda Social 2011 in Dinatale M 2011). Beneficiaries are now entitled with a savings account and a debit card for money withdrawals, which leads to higher levels of bankarisation and at the same times reduces the span for political clientelism. The requirements of children health checks and school attendance, in turn, are aimed at supporting a social contract between the state and the beneficiaries. However, the programme has several drawbacks that have not been resolved so far. First, it does not include an automatic cost-of-living adjustment, which becomes a relevant issue in a country where the official annual inflation rate is currently around 12 per cent, while unofficial – and more realistic – sources place it above 25 per cent. Second, the only income requirement to apply to the programme consists of either being unemployed – excluding those who receive other subsidies or pensions – or being employed with a registered wage payment below the minimum wage. But, as there are almost 40 per cent of unregistered workers in Argentina, many of which do not fit in with the target population, the programme is likely to have leakage. Unlike Uruguay, Argentina did not perform a specific census aimed at addressing the most vulnerable sectors. According to IDESA (2011) this could be one of the reasons why Argentina allocated 0.7 per cent of GDP to the Asignación Universal por Hijo programme in 2010 and had a destitution rate of 2.8 per cent, while Uruguay spent only 0.4 per cent of GDP and its destitution rate was 1.2 per cent. Third, in terms of conditionality, besides the fact that the programme's requirements have been criticised of being too flexible to meet and cash transfers often misused by many recipients, as Bertranou & Maurizio (2012) argue, the 'availability of health centres and educational establishments in the beneficiaries' neighbourhoods and surrounding areas must be taken into account, along with the quality of services they provide' (p. 70). In Argentina, the availability and quality of public hospitals and schools where the poorest population lives are, at least, deficient and do not meet the necessary requirements that would help them break the poverty cycle (Jaramillo 2012, p. 83).

3.2 CHILE

In 2002 Chile implemented the Chile Solidario (Solidary Chile) programme aimed at easing the access of existing social benefits and services provided by the state to the indigent families. As Borzutzky (2012) states, this programme worked on the demand side to raise the awareness of the safety net available to indigents and on the supply side by strengthening the access to municipal services. Unlike Argentina's Asignación Universal por Hijo, the selection criteria is based on a poverty index through which families are scored in terms of the degree of unsatisfied basic needs, which guarantees a better targeting. Furthermore, the eligible families receive some basic psychological support and training by a municipal social worker, and are then registered in a local health centre. Conditionality on school attendance and children medical check-ups are also required. On the other hand, while Argentina's Asignación Universal por Hijo minimum monthly benefit is currently set at US$ 65, equivalent to 10 per cent of the average monthly wage, Chile Solidario's benefit amount averages US$ 40 and, according to Brozutzky (2012, p. 10), equals 2 per cent of the median income. Another difference resides in the length of the programme, which has a maximum of two years in Chile, whereas in Argentina is permanent. Chile Solidario is meant to be a contract between the family and the caseworker by which the family commits to identifying and solving the problems that prevent them to overcome poverty, which includes looking for job opportunities.

Even though the programme's main goal is to help indigent families move out of poverty through training in labour-reinsertion skills, it appears not to have succeeded and even to have had a negative impact on employment (Hoces de la Guardia et al 2011 in Borzutzky 2012, p. 11).

What is more, as the quality of public schools in low-income areas is low, it is difficult that children who meet the required school attendance will benefit from a better job in the future. In relation to this, the administrative capacity of poor municipalities increases the constraints of the programme delivery, particularly in terms of training and health services. Ultimately, the existing skill-bias in the labour demand of a highly integrated economy like Chile makes employment opportunities more difficult to the poor.

3.3 MEXICO AND NICARAGUA

México's Oportunidades (Opportunities) programme (formerly known as Progresa) was one of the flagship conditional cash transfers that were auspiciously endorsed by the international financial institutions as a model in terms of design, implementation and accomplishments. Created in 1997, Oportunidades' cash transfers were channelled into poor women as beneficiaries of resources aimed at improving children's health and education, as previous research supported the idea that women were prone to manage the funds more properly and efficiently than men – which later became a debatable issue in terms of gender policies as well. One of the advantages of this programme in comparison with Argentina's and Chile's is that the amount of cash transfers varies according to the educational stage of the children – it increases when the children progress through different grades of primary school and high school – and to their gender – with the girls being entitled with a larger sum than the boys. This provides the target population with increasing income support, generates stronger incentives to complete the primary school and to enrol in the secondary school and, at the same time, helps to achieve higher levels of empowerment to girls and women (Bradshaw 2008, p. 192). On the other hand, as conditional transfers are not only contingent on schooling progress and health checks but also on a high burden of beneficiaries' attendance to workshops and related activities, a series of studies have highlighted the restraints these impose to women in engaging in income generating activities.

The Nicaraguan Red de Protección Social programme, unlike Oportunidades, targets the localities included in conditional cash transfers by taking into account not only poverty criteria but also the productive economic potential. Furthermore, while México's programme – like Argentina's – is a static one, the Nicaraguan strategy resembles Chile's in that it is meant to be a three-year long programme. These characteristics of the Nicaraguan programme lead to a more 'targeted micro project' among other economic growth policies (Bradshaw 2008, p. 197), as it is constrained in terms of time and geographic extension. México's and Argentina's programmes, instead, entail a more permanent approach. All in all, while Red de Protección Social has been said to have achieved even more remarkable results than the rest, the impact on employment incentives – particularly on men – appears to have been fairly negative, as men tended to compensate the increased household income with less working hours in farming and harvesting activities. This also led to a situation where even if women had more direct access to household resources, their power of decision on how to spend them became weakened.

4. EVALUATION

Conditional cash transfers programmes – when they were consciously designed and properly implemented by taking into consideration basic principles such as adequacy of the benefit payment, equitable efficiency, stigma, work incentives and programme costs – have proven to be a reliable policy tool to improve educational attainment and health standards of people living under extreme poverty in Latin America. México's Oportunidades programme appears to be the best example in terms of targeting and indentifying 'the poorest rural areas and urban blocks' based on census data (Perkins et al 2013, p. 207). The permanent monitoring system and the widely publicised programme evaluation – a relevant characteristic that Argentina's Asignación Universal por Hijo lacks – has also helped to ensure that the positive social impact is verifiable and cost-effective. What is more, the incremental scale of cash transfers according to the children's school grade – present in México's and Uruguay's programmes – best fulfills the principle of adequate level of benefits.

There are also other factors that can be of great influence on the perceived outcomes –beyond the programme characteristics – which are related to the country's specific situation. Conditional cash transfers appear to have worked better when initial situations were worse. In 1995, Mexico had 10 million people without access to basic health services and around 1.5 million children out of school, high levels of absenteeism and school desertions (World Bank 2009). Bolsa Familia lift many poor Brazilian families above the poverty line, however it has been less effective in urban areas where costs are higher (Perkins et al 2013). Another issue that can undermine a programme's effectiveness is the extent to which public health and school infrastructure is evenly developed across the country. Argentina and Chile severely suffered from this drawback, as the poorer a municipality is the more inefficient is deemed to be the provision of municipal services. A progressive policy strategy could consist of delivering better public services in poorer areas than in average cities, in order to balance structural inequalities.

On the other hand, existing patronage practices and electoral vote-buying strategies can also undermine the success of any conditional cash transfers programme in, at least, two ways. When political clientelism is embedded into social service agencies, these are more prone to deviate resources from the original target population towards political pointers across specific social movements. This can also reduce or minimise the effectivity of conditional mechanisms which, in turn, will affect the expected behavioural change in population. As for electoral purposes, as Surgiyama (2011) argues, it has been suggested that Lula's re-election bid received great support from the rural areas where Bolsa Familia had a huge incidence. In Argentina, taking into account recent electoral practices of the Peronist party (Nichter 2008), it would be reasonable to link the Asignación Universal por Hijo's less targeted scope to an electoral strategy aimed at achieving a higher voter turnout in support of the current president.

Ultimately, even when a country's socioeconomic situation is likely to benefit from the implementation of a conditional cash transfers programme while appropriate conditions for its success are met, whether long-term human development of the poor will improve and social dualism will fade away remain an open question. As Sen argues (1983, pp. 160-163), it is not the access to the good itself – that is, food, shelter, health and education – the essential part of an increase in the standard of living, but the capabilities a person acquires by using that good. While by preventing hardship, improving health status and increasing literacy levels conditional cash transfers could definitely reduce the relative poverty of the neediest sectors in terms of commodities and resources, they might still remain in absolute poverty in relation to the space of capabilities. The ability to achieve self-confidence and respect, meet the conventional requirements, participate in the standard activities of the community and keep up with the demands of the modern economy will require increasing – and different – levels of commodities according to each particular society.

5. CONCLUSIONS

In line with Adato et al (2007) I am of the view that conditional cash transfers can be of great help in the short term to alleviate the situation of clusters of families who are in extreme poverty, in terms of improving their nutritional status and assuring minimum health and education standards. There is plenty of evidence in Latin America on the progress being made on the average daily calorie intake, school attendance and health inmunisation in population in the lowest income deciles. This has been possible due to sensible conditionality mechanisms which allowed reducing situations of social stigma while reorienting population behaviour in terms of socially efficient decisions. Furthermore, there has generally been a broad political support for this type of programmes as they have been reasonably well administered in most cases.

On the other hand, if conditional cash transfers are to be evaluated under the World Bank's conception of 'a policy aimed at alleviating poverty, without creating long-term dependence' but with the capacity 'to break the poverty cycle by changing the behaviour of the poor' (Borzutzky 2012, p.2), the results are often far less than desirable. Even when families could barely climb above the poverty line, there is no guarantee that future generations will have a better quality education and increased job opportunities. They will probably achieve a better – yet modest –

standard of living in the short term, however, through the lens of Sen's capability approach, further policy decisions ought to be taken into consideration so that the worst-off can become fully integrated in a modern society.

All the above leads me to conclude that while targeted social programmes should be seriously considered as a policy choice to address situations of hard-core poverty, a broader set of public policies ought to be developed in order to disarm poverty traps in the long term. Among the latter, an aggressive strategy of public infrastructure investments in economically disadvantaged zones, a vibrant and integrated market-driven economic development policy and the implementation of active labour market policies should not be ignored.

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