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Nothing Comes from Nothing? The Effectiveness of Cash Transfer Programs

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While poverty denotes an absence of money, simply providing cash to the poor seems both a logical and counterintuitive tool in development aid: logical because ensuring higher incomes is the ultimate goal, but counterintuitive due to the notion that aid, rather than act as a handout, should preferably target the means to achieving that goal – be it through improvements in health, education, infrastructure, or other areas.

Conditional cash transfers are an incentive for the poor to prioritize their children's education and health

Conditional cash transfers (CCTs) attempt to reconcile these priorities. By distributing cash to poor families as long as they meet criteria in caring for their children (such as regular medical checkups and school participation), CCTs seek to boost consumption while ensuring human capital gains for future generations. At the same time, conditionality is thought to make these programs more politically acceptable than no-strings-attached grants to low-income recipients.

The most prominent large-scale CCT schemes include Mexico's Oportunidades program and Brazil's Bolsa Familia, the latter of which now covers 13.9 million families at a cost of nearly 5 billion USD. Smaller but similar programs exist throughout Latin America, as well as in countries such as Pakistan, Cambodia, and Turkey.

CCTs can improve consumption, but other outcomes are mixed

In a survey of CCT programs, the World Bank (2009) concluded that poor beneficiaries tended to use cash to raise consumption, with larger transfers leading to larger increases. Cash was spent on immediate food purchases, but also served to protect against future income shocks. In addition, the food that participants consumed tended to be more nutritious. Skeptics had charged that higher consumption would represent a disincentive to work, but rather than dissuade CCT recipients from participating in the labor force, such effects were generally modest. An additional benefit was an observed decrease in child labour in families receiving transfers.

Other outcomes are mixed, however, especially when it comes to child welfare. CCT programs have resulted in higher school attendance and more frequent medical visits; and in countries like Bangladesh, Pakistan and Turkey, girls' participation in schooling has particularly improved. On the other hand, the impact of such indicators is often unclear: there are isolated, but not universal, signs of better health outcomes; and despite more frequent school attendance, there is little evidence of improvements in test scores or wages later in life. These findings would seem to indicate that CCTs, though important in raising the poor's use of social services, cannot by themselves transform social outcomes.

Do unconditional transfers have a role to play in generating long-term growth?

While CCTs are larger, more institutionalized, and more studied than unconditional cash programs, the latter have also drawn attention for their potential to address certain needs more effectively.

For instance, while CCTs tend to focus on immediate consumption and childhood development, unconditional transfer schemes may be more appropriate in spurring income-generating activity that leads to longer-term growth. In a recent field study in Uganda, Blattman et al. (2013), analyzed a randomized program that was essentially unconditional in nature, distributing lump-sum grants averaging $382 (equivalent to one year's income) to poor and underemployed young Ugandans. After four years, recipients were more likely to be working in skilled trades than the control group, with three-quarters of them having invested money in skills training. Moreover, their earnings were nearly 50 percent higher on average, with income effects for women especially pronounced.

These results suggest that boosting incomes beyond the short term may be feasible under a cash transfer program despite little oversight of beneficiaries. Such a program may also be simpler to administer and cost less than CCTs because there is less monitoring for compliance. While governments and donors have less say in directing how their funds are used, aid recipients gain in autonomy, and can tailor their spending quickly based on their individual needs.

Despite strong income gains, broader social outcomes may be unaffected

Interestingly, the Ugandan experiment shares a sobering conclusion with the assessments of CCTs. Just as CCTs seem to require additional measures in order to generate a major impact on health and education outcomes, the unconditional transfer program alone, despite its large economic benefits, did not appear to lead to increased social cohesion and stability. Nonetheless, even if transfer schemes cannot be a cure-all for less developed societies, the effects against poverty appear to be significant.■

References

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