

Is the Conditionality Necessary in Conditional Cash Transfer Programmes? Evidence from Mexico

by Alan de Brauw and John Hoddinott, International Food Policy Research Institute

Conditional cash transfers (CCTs) are an increasingly popular tool for poverty alleviation. Drawing on lessons learned from programmes in a variety of countries—notably Mexico's *PROGRESA* programme—they are now found throughout the developing world. CCTs give cash transfers to households that meet specific conditions or undertake certain actions, such as ensuring that school-age children go to school or that pre-school children regularly see a nurse or doctor.

While empirical evidence demonstrates CCTs improve outcomes related to health, nutrition and education, the desirability of imposing conditions on beneficiaries to attain those outcomes is a contentious issue.

Rationales for imposing conditions emerge from both public and private perspectives. From a public perspective, governments may perceive that they know the actions or behaviors that will benefit the poor better than do the poor themselves. Conditioning transfers then induces changes in behavior that leads to desirable outcomes. For example, governments may value female education more than families do. Conditioning may also help the government overcome information asymmetries. For instance, governments may understand the benefits of immunization, while individuals may be unaware of them. Conditioning transfers on immunization overcomes this informational asymmetry.

Finally, conditioning may have political economy benefits. Politicians and policy makers are often evaluated by performance indicators such as changes in school enrollment or health clinic use. By conditioning transfers on behaviors that increase these indicators, politicians and policy makers can provide useful evidence of accomplishments long before the desired outcome of poverty reduction occurs.

Conditionality can also provide private benefits. It can strengthen the bargaining position of women whose preferences are aligned with the government's preferences, but who lack bargaining power within the household. It may overcome stigma effects otherwise associated with welfare payments. Finally, recent work in behavioral economics finds that myopic households often undertake actions that can reduce their own long-term welfare. Conditionality offers a constraint that limits the adverse effects of this myopia.

Although there are several rationales for conditionality, some have raised concerns about its imposition. Conditionality is costly, and if the benefits of conditionality do not outweigh the additional

costs, it may not be worthwhile. The primary public cost is associated with monitoring behavior, which would not be incurred without the conditions. Conditionality can create an opportunity for corruption, as individuals responsible for certifying that conditions have been met could demand payments for doing so. Conditionality can also impose costs on beneficiaries, and those costs may not be borne equally within the household. If the preferences of the poor do not align the conditions on their behavior, conditionality reduces welfare gains from participation.

Some households may find the conditions too difficult to meet; if such households are poor relative to other participants, imposing conditions may detract from the targeting of the CCT. Lastly, conditioning transfers can be perceived as demeaning to the poor, as one can argue that imposing conditions implies that the poor are either irrational or incapable of understanding their best interests.

Since conditionality is always part of a CCT programme, it is not clear whether its benefits actually outweigh the costs outlined above. To judge the benefits of conditionality, we considered the fact that some beneficiaries of Mexico's *PROGRESA* programme did not receive the forms needed to monitor the attendance of their children at school. Therefore their transfers were effectively unconditional.

Using administrative data on transfers in combination with data collected as part of *PROGRESA*'s evaluation, we assessed the impact of imposing education-related conditions on school enrollment and attendance. Regardless of empirical technique, we find that on average children in households that did not receive the monitoring forms are 7.2 percentage points less likely to enroll in school. When children were making the transition to lower secondary school, the impact was even larger, while there was no measurable impact on children continuing in primary school. The impact is even more pronounced among households with illiterate heads.

Our results show that the benefits of conditionalities can be large. They could also be made much more efficient by calibrating the design of programmes based on the heterogeneity of the effect of the conditionality, they could be much more efficient.

Reference:

Alan de Brauw and John Hoddinott (2008). "Must Conditional Cash Transfer Programs Be Conditioned to Be Effective? The Impact of Conditioning Transfers on School Enrollment in Mexico". IFPRI Discussion Paper 00757, Washington DC: International Food Policy Research Institute (IFPRI). Available at: <<http://www.ifpri.org/pubs/dp/ifridp00757.asp>>.