



## CONDITIONAL CASH TRANSFERS AND APPROPRIATENESS OF FINANCIAL INSTRUMENTS IN THE FIGHT AGAINST POVERTY

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### INTRODUCTION

This document was prepared for the Capital Project, an initiative supporting the design and implementation of public policies that combine social protection with financial inclusion. The study examines conditional cash transfer (CCT) programs in Latin America, which are regarded as being at the vanguard in terms of social protection programs technical modernization. With that in mind, this study hopes to contribute to the discussions about the results of CCT programs in fighting poverty; the characteristics of individual initiatives from which to draw lessons for enhancing their effectiveness; their objectives, and an agenda of critical elements of sustainable poverty alleviation policies. In particular, this paper looks at the relationship between CCT programs and financial services, as well as at the feasibility of strengthening their results by linking them with complementary asset

accumulation programs as a mechanism for augmenting their impact.

The study begins with a comparative analysis of CCT programs underway in Latin America in order to establish similarities and differences. We paid special attention to the following points: origin and objectives of the programs; their targeting systems; distribution of management responsibilities by level of government; cash transfer allocation criteria; systems of conditions; monitoring/evaluation tools, and linkage to the financial system of each country. This part of the study required the preparation of individual reports (see annexes to the original report) on the following programs: Bolsa Familia (Brazil), Programa

\* The complete document is available at The Capital Project web page: [http://proyectocapital.org/index.php?fp\\_verpub=true&idpub=115](http://proyectocapital.org/index.php?fp_verpub=true&idpub=115)



Puente - Chile Solidario (Chile); Familias en Acción (Colombia); Bono de Desarrollo Humano (Ecuador); Progresa (Mexico); Red de Protección Social (Nicaragua), and Programa Juntos (Peru).

Following we present a summary of the points identified in the study in relation to these program's results in alleviating poverty; their limitations in terms of providing a sustainable way out of poverty, and their present and potential linkage to financial systems and services.

### IMPLEMENTATION RESULTS

One significant feature of CCT programs is their positive results in comparison to previous social policy strategies; that is, they produce results and have mechanisms to demonstrate them consistently. The evaluations of CCT programs center on their two core objectives: poverty alleviation (short term) and human capital formation (long term). The aspects which these evaluations have looked

at most closely have been targeting mechanisms (including effectiveness and impact on social capital); labor disincentive; impact on the use of education and health services; and impact in terms of cognitive and health results, as well as on the combination of incentives, demand and improved availability.

It should be noted, however, that the programs have not managed to reconcile the tension and, very often, the contradiction between the short-term objective of poverty alleviation and the long-term one of human capital formation. On one hand, to increase their effectiveness regarding poverty alleviation, programs need to focus on the poorest of the poor; on the other, the human capital objective switches the focus toward families with greater probability of maintaining and sustaining their human capital investments. The tension increases in countries where public spending is restricted, as is the case of most Latin American countries, limiting the scale and coverage of programs.

### IMPACT ON POVERTY

PROGRAMS CAN SHOW THAT THEY ARE ADEQUATELY TARGETED AND THAT THEY HAVE EFFICIENTLY CONTROLLED LEAKAGE. SIGNIFICANT IMPACT HAS BEEN MADE IN TERMS OF NARROWING THE POVERTY GAP AND THE SEVERITY OF POVERTY (FGT1 AND FGT2), RATHER THAN ON THE POVERTY RATE ITSELF (FGT0), WHICH SUGGESTS THAT THE BENEFITS CENTER ON THE POOREST; THAT IS, ON THOSE STILL WELL BELOW THE POVERTY LINE. AS WE KNOW, THE LITERATURE SUPPORTING THE USE OF  $FGT > 1$  INDICATORS, CRITIC, AS A STARTING POINT, THE "PROPORTION OF POOR" INDICATOR GIVEN THAT IT OVERLOOKS INCOME IMPROVEMENTS AMONG THE POOREST, PREVENTING THEM FROM MOVING ABOVE THE POVERTY LINE, EVEN THOUGH THAT WOULD CERTAINLY CONSTITUTE PROGRESS IN THE FIGHT AGAINST POVERTY. ACCORDINGLY,  $FGT > 1$  INDICATORS ARE CONSIDERED AXIOMATICALLY SUPERIOR TO FGT0 OR "PROPORTION OF POOR" INDICATORS.



Associated with these positive results is the persistent discussion on how to combine standard objectives of CCT programs with an actual achievement of sustained poverty reduction. Three core issues examined in this regard are: 1) Under what conditions is human capital accumulation among poor families transformed into actual improvements in income and in the corresponding social indicators; 2) the void regarding what happens to families once they leave the program. Do they have to wait an entire generation? 3) How to strengthen the institutional changes that CCT initiate, trigger or make possible.

### THEIR LIMITATIONS FOR SUSTAINABLE POVERTY REDUCTION

One of the main innovations of CCT programs is that, in addition to poverty alleviation, they try to break the intergenerational transfer of poverty by imposing human capital formation conditions to be met by recipient households. Experts have put forward extensive arguments about the elements affecting the link between increased human capital and increased income, emphasizing on the importance of the quality of training, labor demand and access to the market and production assets. In this connection, the reviewed evaluations have not explored the extent to which human capital accumulation by poor households is sustained in the medium and long term; neither has it established how much is transformed into continuous flows of income (or when that occurs). Also, none of the analyzed evaluations refer changes of a more structural nature such as market insertion, new-technology adoption capacity, or development of public institutions inclusive of poor households.

On the other side, CCT programs for the most part, have not established explicit strategies or mechanisms to address the vulnerability problems of families living in poverty and of those that, while not below the poverty line are exposed, all the same, to external factors that could make them fall into a poverty trap. Programs have not taken it on themselves to reduce the risk –or diminish the effects– of potential extraordinary external factors. However, a number of studies suggest that transfers alone do reduce some of this type of risks regarding the human capital of the families that receive them, such as, for instance, the likelihood of dropping out of school during a crisis.

By and large, CCT programs are not harnessing potential synergies with other social protection programs. Their effort to set themselves apart as a “new form” of intervention with “highly technical” operation systems with periodic follow-up and evaluation procedures, turns them into “remote islands”. In many countries an attempt has been made to set up coordination networks, such as Estrategia CRECER in Peru, Red JUNTOS in Colombia, and Chile Solidario in Chile. However, they have proven little more than good intentions that have scarcely reflected in integrated and coordinated operations.

The study also discusses other matters connected with CCT programs that we consider relevant to an agenda for refining them. There are the issues concerning the related objective of empowering poor women and changing gender relations in households. We have also drawn attention to the discussion on institutional frameworks in which programs are managed, subnational government participation, and the false dilemma of opting for centralized or decentralized management.

## RESPONSIBILITIES AND DECENTRALIZATION

It is impossible to determine in advance what an adequate level of decentralization should be. Actually, it depends on the country, the capacity of its subnational agencies and central government, its potential and the processes underway. However, in most Latin American countries the political and administrative processes of decentralization compel programs to adapt to them. It is not possible to conceive social assistance programs disassociated from ongoing institutional processes, or disconnected from the decentralized levels without any coordination to ensure a single registration system and comparable intervention standards.

On the subject of linkage between CCT programs and financial systems, we find two situations. One concerning the existing links that regenerated by CCT programs in order to facilitate cash transfers to families. The other, the potential link whereby the financial system, in particular microfinance entities, could serve as a mechanism offering a sustainable way out of poverty.

### LINKS TO FINANCIAL SYSTEMS

We discovered that the literature we have reviewed devotes practically no discussion to the links between CCT programs and financial systems or to the microfinance services in particular.

However, in their operations the majority of CCT programs rely on the financial system to carry out their cash transfer operations. Mostly, state-owned financial entities are used, but we do find exceptions. At the same time, we identified increasing signs of interest by financial entities in recipient families as a potential portfolio of clients. Having said that, the evidence shows that a certain distance between the two prevents their linkage. Thus far, the main concern has centered exclusively on mechanisms to reduce the cost

of delivering cash transfers to families instead of focusing on the supplementary benefits that they would be able to access.

As we can see, several CCT programs have used the financial system to deliver the monetary transfer to poor households. However, there have been no systematic evaluations as to whether this has brought about any behavioral changes among the beneficiaries and communities concerned regarding the access to and use of financial services in general. At present it is unknown to what extent this first contact with the financial system as a disbursement service has also helped to resolve the problems of ignorance, mistrust and associated transaction costs of other operations.

An issue that needs to be explored are the relations between how targeting, social capital and microfinance. A possible trade-off emerges in the measure that some studies show evidence, -not solid, though - indicating that programs using individual targeting (even if only differentiating between families in with and those without children) in rural areas could weaken social capital. At the same time, several of the most successful microfinance programs harness the community's social capital for "social collateral",



LIST OF CCT PROGRAMS AND THEIR FINANCIAL INSTRUMENTS	
Program	Transfer systems
<i>Bolsa Familia</i> (Brazil)	The state-owned CAIXA and offices of Loterico. Since 2008 they have encouraged the voluntary opening of accounts with electronic cards.
<i>Chile Solidario</i>	RUT accounts with Banco Estado (a former state bank) and at the counters of the pensions institute (Instituto de Normalización Previsional).
<i>Familias en Acción</i> (Colombia)	Since 2009, by means of a public tender won by Banco Agrario in a joint with Assenda, electronic accounts are being opened.
<i>Oportunidades</i> (Mexico)	At Bansefi offices, savings funds, DICONSA stores in rural areas and, in other cases, portable payment offices (TELECOMM).
<i>Juntos</i> (Peru)	Through Banco de la Nación (the state bank) and specialized carriers.
<i>Bono Desarrollo Humano</i> (Ecuador)	Through accredited financial entities. An ATM card service known as MIES Bono Rápido is being introduced.
<i>Familias por la Inclusión Social</i> (Argentina)	Magnetic cards issued by Banco de la Nación Argentina (state-owned bank). There is an alternative payment system (postal offices and banks).
<i>Red de Protección Social</i> (Nicaragua)	Security companies (PRAF I) used to be hired. Later a state-owned bank (Banco Nacional del Desarrollo Agrícola) was used. They also work with the private sector to lower costs.
Tekopara (Paraguay)	It uses the state bank (Banco Nacional de Fomento) with mobile units.
<i>Red Solidaria</i> (El Salvador)	Disbursements to local governments by contracted entities.

“community banking” and “mutual savings group” mechanisms. The question, therefore, arises as to whether individual targeting mechanisms, which many CCT programs highlight as valuable, do not also hamper microfinance options.

Furthermore, as a part of a strategy including a “graduation” from the programs, that considers, at the same time, mechanisms for families not to slide back into poverty, asset accumulation holds, obviously, a privileged spot. In the reviewed literature, we found almost complete consensus over the fact that any sustainable exit from poverty for a family had to combine asset availability, specific human capital formation, technology changes, and adequate market access conditions. In this respect, there is an apparent match-up between financial services and CCT programs, however, there is scant information available to poor households about the advantages and disadvantages of financial assets (highly flexible as well as providing protection against risks) in comparison to fixed assets (livestock, land, machinery) or specific human capital (training).



Finally there are potential synergies to be generated between CCT programs and programs designed to facilitate access to financial services, in particular thanks to technologies and innovations that the microfinance sector offers, and could be applied in unconventional settings such as the households benefited by CCT programs. The development of initiatives and pilot projects for promoting saving, credit and insurance that take advantage of these synergies is highly important. Which of these alternatives it would be advisable to pursue and how to do it will depend on the institutional circumstances of CCT programs and the microfinance sector of each country.



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