



## North-South Knowledge Sharing on Incentive-based Conditional Cash Transfer Programs

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## *Abstract*

Over the last decade, conditional cash transfer (CCT) programs have become one of the most widely adopted anti-poverty initiatives in the developing world. Inspired particularly by Mexico's successful Progresa/Oportunidades program, CCTs are viewed as an effective way to provide basic income support while building childrens' human capital. These programs have had a remarkable global expansion, from a handful programs in the late 1990s to programs in close to 30 countries today, including a demonstration program in the United States. In contrast to many other safety net programs in developing countries, CCTs have been closely studied and well evaluated, creating both a strong evidence base from which to inform policy decisions and an active global community of practice.

This paper first reviews the emergence of CCTs in the context of a key theme in welfare reform, notably using incentives to promote human capital development, going beyond the traditional focus on income support. The paper then examines what has been learned to date from the experience with CCTs in the South and raises a series of questions concerning the relevance and replicability of these lessons in other contexts. We then turn to the North to look at how lessons from the South have influenced the introduction of the first holistic CCT program in the North, the *Opportunity New York City Family Rewards* program. The paper concludes with a call for further knowledge sharing in two areas: between the North and South as the experience with welfare reform and CCTs in particular expands, and between behavioral science and welfare policy.

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## **I. INTRODUCTION**

Conditional cash transfer (CCT) programs are a new type of social assistance program that represents an innovative approach to the delivery of social services. As their name implies, conditional cash transfers provide money to poor families conditional upon investments, most commonly in their children's human capital. To date, in Latin America and increasingly in Asia and Africa, the most common conditions involve sending children to school and/or bringing them to health centers on a regular basis. The cash transfer is aimed at providing short-term assistance to families often in extreme poverty without the means to provide for adequate consumption, while the conditions provide an incentive for longer term human capital investments, especially among the young. These dual goals of poverty relief and human capital development are the core elements of traditional CCT programs.

Thanks to their established track record in reaching the poor and incentivizing investments in children's human capital, conditional cash transfers have become increasingly popular in the developing world and are now being adopted in the developed world in the hopes of replicating some of the human development impacts achieved by these programs. This global exchange of experiences is raising some key questions: (1) Can the North learn from the South? Can the success of these programs be replicated outside the context of the first generation of programs? (2) Can the South learn from the North? What lessons does the experience with welfare reform in the U.S. and developed countries more broadly hold for developing countries as their welfare systems mature?

This paper examines the threshold of the global policy debate on these two questions. First, we describe the emergence of key themes in welfare reform that have influenced policies, notably in the North, but are gaining resonance in the South. Second, we discuss the place of CCTs in this welfare reform movement. Third, we examine the context in which the major lessons learned to date from the experience with CCTs in the South have been derived. Fourth and finally, we turn to the North, outlining some ways in which the North has begun to learn from the South as a few select jurisdictions in the North (notably New York City) begin to experiment with CCTs and what the next generation of CCTs could learn from this experience in the North, particularly given the U.S. experience with welfare reform and the use of incentives as a cornerstone of safety net reform.

## **II. NEW THINKING ON THE ROLE OF WELFARE**

Traditionally, safety net transfers have been used to redistribute income and resources to the needy in society, helping them to overcome short-term poverty during periods of crisis, with little attention to impacts on long-term, structural poverty. However, this view of social assistance transfers is changing.

There are at least three dimensions to this new approach to welfare policy which have been particularly salient to the emergence of CCT programs. These areas are consonant with welfare reform debates, particularly in Latin America where CCTs have had the most traction and in the US where CCTs have now been introduced. First is the

acknowledgement of the clear role that safety nets play over the longer-term, particularly in protecting and developing human capital and in helping people build pathways out of poverty. Second is the growing use of behavioral incentives as part of safety net policy. Third is a broad, systematic push to build a strong evidence base on the performance of safety net programs, both as a crisis response mechanism and as part of a strategy for reducing structural poverty and building human capital. Each of these dimensions is discussed below:

***Short-term relief and long-term development – no longer a tradeoff.*** In the past, the use of transfers was seen as a trade-off between short-term equity and humanitarian objectives achieved through redistribution and long-term objectives of efficient economic growth. Transfers were further criticized for introducing incentives that led to reducing the current labor supply, crowding out private transfers and encouraging dependency. This view is now changing dramatically.

Both the thinking and design of safety net policies and programs has evolved, going beyond the limited focus on short-term poverty alleviation and income redistribution, encompassing longer-term employment, economic growth and human capital development objectives. In short, the agenda has moved from protection to encompass promotion, and from relief to encompass investment (Grosh et al 2008). This maturation is underpinned by a renewed debate on the theoretical rationale for social protection. The renewed debate centers on a re-examination of the presumed trade-off between equity and efficiency, which is being questioned by new perspectives on the long-term social and economic costs of uninsured risks and unmitigated inequalities, and the potential role of safety nets in addressing some of those problems. As explained by Ravallion (2003), by supporting minimum levels of consumption, helping credit-constrained poor people be productive workers, and providing incentives for long-term investments in human capital, safety nets have a potentially important role in compensating for the market failures that help perpetuate poverty, particularly in high inequality settings. Das, Do and Ozler (2004) expand on this line of thinking, pointing out that conditionalities can be used to internalize positive externalities such as children’s education and health that would otherwise not be captured.

***The use of incentives as a partnership with the poor.*** Incentives are part of a change in focus from assistance and social responsibility for the poor in alleviating poverty to dynamic support in partnership with the poor in moving out of poverty. This change in focus has been supported by the growing use of incentives, particularly to encourage employment, effective risk management and investments in health and education that are seen as promising pathways out of poverty.

Table 1. Views on Social Assistance

	<i>Temporal dimension</i>	<i>Philosophy</i>	<i>Tools</i>	<i>Perceived Barriers</i>	<i>Goals</i>
Traditional	Assistance in times of need	Social responsibility for the poor –	Transfers	Culture, Dependency	Alleviating poverty, Redistribution,

		“hand out”			Relief
New	Dynamic, tailored support	Partnership with the poor – ‘hand up’	Incentive based transfers	Access to information, Incentives	Moving out of poverty, Growth, Human capital

In the United States, the work requirements that have been introduced in many of the state-led Temporary Assistance to Needy Families (TANF) programs as part of the restructuring of the flagship Aid to Families with Dependent Children (AFDC) U.S. cash transfer program are part of this movement, as are the tax credits for earned income among the poor (EITC) and recent proposals for tax credits for health care and education. This focus on a ‘hand-up and not a hand-out’ has broad political appeal that crossed traditional party lines and is reflected in political discussions and popular debate in both the North and South calling for an emphasis on work, on investing in human capital, on temporary assistance and on co-responsibility between the state and its citizens.

Incentives are also being used to help the poor address barriers to accessing available services. This reflects the recognition that even when there is an adequate supply of available social services, households may face barriers to utilizing these services or applying them properly. Research has documented that these services have often been underutilized by the poor because of demand-side barriers faced by households such as unmanageable out of pocket expenditures, high opportunity costs, difficult access, and poor information.

Interestingly, the design of incentives in holistic CCTs and other health and education programs has proceeded independently of the growing scientific literature on how the nature, size, timing and contexts of incentives affect their impact on human behavior. We expect that this gap between the experimental social policy literature and the scientific literatures in such fields as behavioral economics (Thaler & Susstien, 2008) and motivational psychology (Deci & Ryan, 1985) will be closed considerably over the next decade, much to the intellectual benefit of both fields.

***Using evidence to inform policy.*** In the North, the use of a strong information base to inform policy, including poverty targeting systems, key performance indicators and rigorous impact evaluations has been a cornerstone of effective public sector management in the social sectors (see, for example, Heckman, Lalonde and Smith, 1999, on training and employment programs). Additionally, many policymakers, foundations and research grants have engaged in program demonstrations based on randomized control designs to test the effectiveness of particular policy interventions (Bloom et al., 2007). In the U.S., federal support to local education authorities is increasingly directed to use of “evidence-based programs” and the Obama Administration has recently lent renewed support to this effort through its proposal to fund evidence-based “Investments in Innovation”. Increasingly this focus on evidence-based policy is being adopted in the developing world as well. For example, in Mexico, a 1993 law on social development mandated the evaluation of all major social programs in the country and timed the reporting on the results of the

evaluations with the budget process. In Chile, the Ministry of Finance has spent over a decade developing a monitoring and evaluation system that uses performance indicators for all government programs combined with selected program evaluations, impact evaluations and sectoral expenditure reviews (McKay 2007). As in Mexico, the findings are reported publicly and sent to Congress and the results are used to inform budgetary allocations. Whereas these two systems are still unusual by developing country standards, they represent an important and growing commitment in the South to using evidence-based policy to inform public sector spending.

### **III. THE PLACE OF CONDITIONAL CASH TRANSFERS IN WELFARE REFORM**

With their focus on both short-term financial assistance and long-term poverty reduction, their use of incentives for human capital accumulation and their strong commitment to building an evidence-based policy, conditional cash transfers are a clear program manifestation of the new thinking on the role and function of social assistance.

*The use of incentives to promote investments in children's human capital.* The use of incentives for families to invest in their children's well-being is the most distinctive and controversial feature of CCT programs. These payments to families conditional upon schooling, health and nutrition investments in their children vault CCTs beyond the traditional provision of assistance as a means to improve consumption in the short-term because they focus on long-term investments in the next generation's health and productivity. CCTs also recognize that poverty and inequality in income are associated with inequality in human capital development. CCTs are highly ambitious and seek to foster human capital accumulation among the young as a means to breaking the inter-generational cycle of poverty. Incentives provide the primary vehicle aimed at achieving long-term development impacts by providing the means to address market failures and internalize the positive externalities accrued through increased investments in health and education among the young.

CCTs also use incentives as a vehicle for addressing demand-side factors which have been recognized as impediments faced by the extreme poor in accessing health and education services. These barriers include lack of information on benefits, returns, availability, rights; the high cost of transportation and other direct costs to using public services, such as school uniforms; and the opportunity costs, notably of schooling, when families depend on child labor incomes.

However, incentive-based CCT programs have been criticized for paying people to engage in behavior that they should be expected to engage in without incentives. Moreover, there are concerns about the sustainability of the desired behavior once payments are ended. Evidence from some incentive initiatives in both health and education suggest that many positive behavioral changes are not maintained after withdrawal of the cash incentives (Aber, Quint and Willner, 2008). Researchers from various theoretical perspectives have tried to explain the reasons for non-maintenance of behavioral change. But to date, there is

no convincing general theory that could be used to improve the durability of positive behavioral change.

***Focusing on protection and promotion.*** Beyond their dual focus on transfers for relief and incentives for investment, several CCTs have actively promoted policies aimed at strengthening both the protection and promotion functions of social assistance through association with other programs and tailored support to beneficiaries. For example, *Chile Solidario* explicitly serves as a ‘bridging’ functions to other programs, both to address the specific needs of vulnerable groups, as well as to connect able bodied adults to employment through access to training and employment programs. The Jamaican PATH CCT program introduced “Steps to Work” which has similar ambitions, echoing the welfare to work movement that has been at the core of welfare reform in the North, notably in the United States.

***Fostering synergies in human development.*** By focusing incentives and often training on health, nutrition and education, most CCT programs recognize and foster the complementary relationships between these elements of human capital development that are crucial to breaking the inter-generational transmission of poverty. This direct fostering of the synergies between these areas is also a recognition of the evidence concerning the ineffectiveness of certain human capital investments, such as education, without the provision of other basic inputs, such as adequate nutrition. This synergistic approach is critically dependent upon the supply of available, quality health and education services – a precondition which is often not available, posing strong challenge to CCTs ability to achieve their long-term goals.

***Building a strong information and evidence base.*** In many countries, CCTs have led the way in the design of well-run administrative structures for beneficiary selection, payments, poverty targeting and other tools of good public administration which have contributed to enhanced transparency and accountability. In many countries, CCT programs have been actively engaged in adopted these tools from other programs as well as in sharing tools developed in the CCT program with other government agencies, creating economies of scale and promoting the use of empirical data for effective management.

CCTs have also been groundbreaking in terms of the importance they have paid to impact evaluation with credible counterfactuals, As a consequence, CCTs are now arguably the best evaluated development initiative in the global South. These evaluations have formed a cornerstone of the policy initiative and have been carefully planned well in advance with strong support from program staff and policymakers. These evaluations are technically rigorous and have already provided evidence regarding these programs’ effectiveness. The provision of sound, empirically based evidence on effectiveness has facilitated the scaling up of CCT programs nationally, their adoption internationally, and their continuity from one political regime to another.

As is argued above, not only do CCTs reflect much of the new thinking around welfare reform which has emerged in the North, as illustrated in some core features of the CCT model, but CCTs are pushing the boundaries of the new thinking, with their emphasis on

both relief and human capital development, their focus on the dynamics of poverty reduction and their emphasis on information and evidence as a basis for strengthening public sector management.

#### **IV. WHAT HAS BEEN LEARNED TO DATE FROM THE SOUTH: CONTEXTUALIZING FIRST GENERATION RESULTS**

This section looks at what CCTs have accomplished in the context in which the first generation of CCTs emerged – mainly middle income, Latin American countries characterized by concentrated rural poverty, functional public sector institutions and a basic supply of health and education services. A critical question explored in the next section is to what extent these experiences are transferable to other settings, particularly resource-rich environments in the North, areas where poverty is more dispersed and multi-dimensional, and where households face diverse constraints and opportunities.

There is a large and growing literature based primarily on evaluation results from the first generation of CCT programs, which emerged largely in Latin America and has recently been reviewed in Fiszbein and Schady (2009).

Evaluations reveal that CCTs have been quite successful in addressing many of the criticisms of earlier social assistance programs in the South such as poor poverty targeting, disincentive effects, and limited welfare impacts. There is clear evidence of success from a number of programs, primarily from Mexico, Brazil, Colombia and other countries in Latin America, but including Cambodia and Turkey, showing that CCT programs effectively reach the poor and are an important source of income support, and that human development impacts on the use of health and education services are notable. Impacts have been particularly strong on school enrollment, but selected impacts have also been documented in children's health and nutritional status. In education, impacts have been greater in countries and among populations with lower baseline measures of enrollment levels and in transition grades with high dropout rates. In general, impacts have been concentrated where there are greater gaps to overcome in health and nutrition and among poorer households.

The results from the experience with the first generation of CCT programs are compelling, but they raise two key questions. First, are they replicable outside of the specific context in which they were first conceived? Second, can the short-term success of reaching the poor, raising their incomes, and enhancing their use of social services translate into longer-term success in terms of learning, health status and poverty reduction? These questions remain to be answered as the global experience with CCTs expands and matures. We briefly examine the first question, identifying salient elements of the context in which the first generation of programs emerged and raising questions about which elements of CCT programs are context specific and which elements are broadly transferable to other settings.

**The country context: extreme rural poverty in Latin America.** The first generation of CCT programs were introduced in Latin America, the region of the world with the highest

income inequality, to address a stark and many would argue manageable problem of extreme poverty, given levels of income per capita, high Gini coefficients on income inequality and limited existing mechanisms for redistribution. At scale, in several countries, CCTs have become one of the primary vehicles for providing social transfers to the extreme poor. In Brazil, the country with the largest CCT program and one of the highest levels of income inequality in the world, *Bolsa Familia* is estimated to have accounted for almost a quarter of recent reductions in inequality.

Though changing rapidly, Latin America's extreme poverty remains concentrated in rural areas. CCTs have to date been largely rural programs, introducing a social safety net among populations with little or no access to any other kind of social assistance program. Only recently have Mexico and Colombia, among a handful of other countries, begun to introduce CCTs in urban areas.

Families living in extreme poverty, commonly understood as those with consumption levels insufficient to meet basic caloric requirements have been strongly and successfully prioritized by CCT programs. Compared to other programs in the countries where they have been implemented, CCTs are among the better targeted social assistance programs and have been reasonably effective mechanisms for income support, providing transfers valued at approximately 10-20% of pre-transfer consumption levels –slightly less than transfer values in developed countries (Grosh et al 2008). These transfers have not only reduced income poverty, but allowed poor families, notably extremely poor families, to change their consumption patterns – results from Brazil, Colombia, Mexico and Nicaragua point to higher consumption and better diets among beneficiary families.

**The institutional context: a capable civil service.** The middle income countries in which CCTs were first introduced are characterized by reasonable public sector operational capacity, a relatively strong and technocratically oriented civil service bureaucracy, and a network of institutions at the level of central and local government that was capable of successfully implementing an administratively demanding program of CCTs. Under their current, common design, even the basic functions of a CCT program require a series of administratively complex activities, from accurate beneficiary identification and registry, to effective communications campaigns regarding program goals and rules, to strong monitoring capacity to verify conditionalities, to effective financial services for transferring money to beneficiaries on a predictable, timely basis.

Beyond these basic operational functions, the specific institutions engaged in the design and implementation of CCTs in the first generation of countries also benefitted from their capacity to prioritize the use of some good practices in public sector administration. These practices include implementing tools for fraud and error control, engaging and coordinating across state agencies and between central and local levels, introducing strong monitoring and evaluation systems, contracting the private sector for core functions they were best suited to perform notably with respect to the transfer of cash to beneficiaries, and engaging civil society to enhance the programs' effectiveness and accountability. The successful design and implementation of these practices is at the heart of CCTs strong track record in targeting and effectively managing an administratively complex program.

Though many of these practices are not intrinsic to the CCT model, they are hallmarks of good public sector administration and have indeed served a demonstration effect for other programs in countries where CCTs have been implemented.

More recently, CCTs have become a cornerstone in national poverty alleviation and welfare reform in several countries. Mexico's CCT program reaches close to 25 percent of the Mexican population. In Brazil and Jamaica, CCTs have replaced a series of income transfer programs, while improving targeting and cost-effectiveness. In Colombia, the CCT program was introduced as a pillar in a safety net strategy designed to respond to the worst recession in close to 70 years and has evolved as a mainstay in a renewed approach to safety nets.

**The service provision context: available schools and health centers.** In the countries where CCTs have been introduced, there has by necessity been an available supply of schools and health centers which beneficiaries could use to fulfill the requirements of the program. Though a share of the rural poor still reside a considerable distance from schools and health centers, gains in access to these services over the past generation are among the main achievements in many of the developing countries that first introduced CCT programs, and CCT programs served as a natural complement for addressing demand side barriers faced by households to access these available services. However, there are many questions currently being raised about the quality of these services, particularly in light of the absence of any impact on achievement test scores from evaluations in Ecuador, Mexico and Cambodia.

### **What does this experience suggest regarding the further expansion of CCT programs?**

The experience with the rapid introduction of conditional cash transfer programs in Latin America and Caribbean presents several questions regarding the reform of social assistance and the introduction of social experiments based on the use of incentives more generally in both the North and South.

*First, what accounts for the substantial reform in the delivery of social services within a short period of time under different country circumstances?* In just a few years, CCT programs have grown and multiplied rapidly, from a handful of programs in the late 1990's to close to 30 programs globally today. Furthermore, within their own countries, many programs have been scaled up from pilots to national programs, some at the center of countries' poverty reduction and social assistance strategies. What accounts for this rapid expansion? Anecdotal evidence suggests that it has been fueled by CCTs' compelling design features, their promising evaluation results and the emphasis on knowledge sharing within the CCT and welfare reform community. This experience provides an example of the speed with which innovation can be adopted and scaled up, following a dynamic demonstration effect, with a solid grounding in evidence.

*Second, how important is the use of incentives—beyond just the transfer of cash—to achieving desired outcomes? Some non-experimental evidence suggests incentives may be quite important, but it would be valuable to more rigorously evaluate*

*this hypothesis.* Conditional transfers are clearly useful when there are both immediate consumption needs combined with constraints faced by poor households with young families to using available, high quality health and education services. It is not clear that this situation is always the one encountered, for example, among populations with high levels of school enrollments. Indeed, striking a balance between the short-term poverty alleviation objectives and the long-term human capital accumulation objectives presents policy challenges. De Janvry and Sadoulet (2003) argue that Oportunidades' long-term human capital accumulation objective is of pre-eminent importance and would be best met by changing the program's targeting strategy to focus it directly on the population most at risk for being out of school. In a review of education-focused conditional cash transfer programs, Morley and Coady (2003) use data from the Nicaraguan and Mexican CCT programs to estimate the short-run poverty effects as well as the long-run effects of investing in human capital accumulation based on estimations of the future earnings of beneficiaries. They conclude that for every dollar received by the poor as a transfer, the present value of future earnings go up by 1.52 in Mexico and 1.13 in Nicaragua, implying that the benefit from the investment component is of greater value than the transfer component. Bourguignon, Ferreira and Leite (2002) reach a similar conclusion pointing to the relatively greater poverty alleviation benefits of the conditionalities, as compared to the benefits of the transfer alone, in their ex-ante simulation of the benefits of Brazil's Bolsa Escola program. In Mexico, an ex-ante simulation doubling the size of the transfer doubles the estimated effect on years of schooling completed. Finally, in Ecuador evaluators exploited quirks in program administration which resulted in the fact that conditions attached to transfers were publicized, but not implemented. As a result, some households believe that transfers are conditional, others believe they are unconditional. Enrollment response among "conditioned" households is 3-4 times as large as among unconditioned households (Fiszbein and Schady 2009).

Several CCT evaluations today are explicitly testing the use of conditionalities versus unconditional transfers which will yield important evidence on this key question. Some recent evidence coming out of Malawi shows similar impacts on health and schooling outcomes between girls who received conditional cash transfers and those receiving unconditional cash transfers of the same monetary value (Baird, McIntosh and Ozler 2010). As the evidence base expands, it would also be worthwhile to test *how* incentives are applied, not merely the presence of absence of incentives. In particular, there are both theoretical and empirical reasons to believe that how the purpose and structure of the incentives are framed to recipients could have very significant influence on both the take-up rates of the incentives as well as their impact on "final outcomes".

*Third, are the measured achievements among CCT programs to date due to policy, program design or the context in which CCTs have been implemented?* The evaluation evidence provides little insight into the black box of *why* these results have been achieved and there has been little experimentation with program design, as outlined above, or qualitative work or institutional analysis conducted as a complement to the impact evaluation work. There is no doubt that the use of incentives has been important at least politically to convince policymakers that these programs were not a 'hand out' but a 'hand up' based on mutual obligations between the state and its citizens. Further as argued

above, early evidence suggests that in at least certain cases, the use of incentives has produced results above and beyond what would have been expected from the transfers alone. Others have argued that much of the success of CCT programs is not intrinsic to the program model, but instead attributable to sound technical design and creative innovations that could easily be incorporated into other programs. Indeed policymakers today are considering how to use the positive experiences gleaned from CCTs' commitment to poverty targeting, robust impact evaluation results, and financial efficiency as a platform for implementing reforms in other programs and sectors. Finally, as argued earlier, context and scope must also be considered, recognizing that positive evaluation results from a handful of programs does not imply that these experiences can be replicated under different circumstances. Unbundling these questions provides a rich and compelling policy and research agenda for the next generation of programs.

*Finally, what are the complements to CCT programs that are needed to fulfill the ambitious goals of breaking inter-generational cycles of poverty?* Although CCTs have met with measured success in terms of raising income poverty and enhancing access to basic health and education services, the results are less robust in terms of their impact on changing health and education outcomes, including learning achievement and health status. It is clear that CCTs need to be calibrated within an effective safety net and in coordination with available, high quality supply side investments. These programs cannot function in isolation from the provision of quality health and education services which is often a pressing need in the countries where CCTs are being implemented. To put it starkly, there is no compelling reason in getting children to schools and health centers if teachers and health workers are ineffective or absent. The introduction of CCTs has not resolved longstanding issues of quality, efficiency and effectiveness within social sector ministries, across the myriad of often uncoordinated social assistance providers, and in often outdated and financially insolvent social insurance programs.

It will be important to see whether the ambitious forays into coordination with complementary programs being pursued in Chile, Jamaica, Colombia and New York City just to name a few programs, will succeed. Can CCT programs can be effective in addressing problems beyond those they have been designed to take on, notably labor market issues? Are there effective strategies for ensuring adequate coordination between and across programs? Again there will be much to learn from this new generation of efforts.

## **V. WHAT CAN NORTH LEARN FROM SOUTH?**

To this point in the paper, we have endeavored to describe the emergence of the CCT movement, place it in the context of global trends in welfare reform, and highlighted what has been learned from the last decade of work in the South. In this section, we turn to the question of what the North can learn from the South as they begin to consider **how** to adopt and test holistic CCT strategies.

While countries of the global North have some experience in developing incentive-based initiatives to change behaviors that promote health and education (Aber et al, 2008), they are just beginning to experiment with “holistic” potentially synergistic CCTs with key

features of the Southern model. The first jurisdiction in the North to take up the challenge of designing, implementing and rigorously evaluating a holistic CCT was New York City. Other jurisdictions in the U.S. (the cities of Chicago, Illinois, and Savannah, Georgia, and the State of California) and Europe (the national government of the U.K.) have actively considered developing CCTs to their specific conditions.

### **What considerations were behind New York City's to introduce a CCT program?**

A number of factors were behind New York City's decision to implement a CCT program, including:

*An interest in using incentives to promote desired behavioral changes.* Policymakers in NYC felt that government should take cash incentives seriously as a potential change strategy and draw on the growing science of behavioral incentive designs (in fields like behavioral economics and motivational psychology) to fashion more effective antipoverty and human capital development initiatives. This use of incentives in a CCT program would help government extend the concept of “co-responsibilities” from the work/welfare domain dominant in the U.S. to the parent/family support domain.

*A recognition of the multidimensional nature of poverty and the important synergies in human development.* It is possible, and may be desirable, to move beyond incentive-based initiatives designed to promote better outcomes in a single domain (e.g. education or health or employment) to initiatives that are more holistic in design and potentially synergistic in impact. (The proof of how desirable it will be awaits the final results of a rigorous evaluation.). In parallel, there was an interest in designing strategies that challenge the seemingly intractable tradeoffs of short-term poverty reduction and intermediate term human capital development that would allow for NYC to do something bold, dramatic, and impactful in poverty reduction and human capital development.

*A focus on adaptation and evaluation.* New CCTs are best designed with knowledge of the successes and failures of past initiatives and with great emphasis placed on making important adaptations in response to the new context. Such initiatives can be designed, implemented and rigorously evaluated in a manner that generates substantial support across a broad political spectrum.

### **New York City's Opportunity NYC Program**

With these and other lessons gleaned from the published literature, learning networks, consultation with policymakers, practitioners and researchers from the South and deliberations with colleagues both within New York City and the U.S., New York fashioned its own pilot CCT. Called “Opportunity NYC: Family Rewards” (Aber, 2009).

Like *Progresa* and many CCT programs developed in the South, Opportunity NYC: Family Rewards provides big, new cash transfers to eligible families (up to \$6,000 a year if families fully meet all conditions), but conditions the funding on parents' investments in their children's (and their own) human capital. While the goals of Opportunity NYC:

Family Rewards resemble models implemented in the South, several of the details are different in important ways.

1. It is based on not two, but three sets of conditions: family health, child education, and adult work/education.
2. The model has a menu of incentives linked to payments so that New York City families become eligible for part of the transfers as each condition is met, whereas in developing countries there are typically only two types of transfers – a family transfer linked to health and investments nutrition and a per-child transfer like to educational attendance.
3. Rather than creating conditions based exclusively on behavioral effort (getting to clinic, attending school), NYC added conditions based on children’s performance, especially educational performance on academic achievement tests.
4. Perhaps most importantly, the CCT program was designed not as a substitute for existing social assistance programs, but as a complement.

In each of these ways, the NYC initiative anticipates the continued evolution in CCTs internationally. Conditions to promote adult human capital development (education and employment training) and transition to full-time employment, conditions rewarding performance and the most effective interactions between CCTs and other social programs are at the forefront of continued international development.

In order to rigorously evaluate the impact of Opportunity NYC, MDRC designed and conducted a random assignment evaluation of approximately 4,800 families and 11,000 children in six very low-income communities, half of whom received cash incentives if they met required conditions and half who were assigned to a control group that could not receive the incentives. In a recent report covering the first 12-to-24 months of program operation, Riccio et al. (2010) found that despite a number of challenges to start up, nearly all families earned rewards that averaged \$6,000 over the first two years. They also found numerous positive effects across a broad range of economic and health outcomes (reduced poverty and hardship, increased savings and use of bank accounts, reduced reliance on hospital ER’s and increased receipt of Medicaid and dental care). But there were few positive effects on education and employment outcomes. The authors emphasize that because these early findings cover the rocky start-up phase of the experiment, it is too soon to draw definitive conclusions about NYC’s effort to adopt and implement a CCT in a services-rich jurisdiction in the North like New York City.

Upon completion of the evaluation of Opportunity NYC, the North may be in a position to begin to share lessons with the larger CCT community of the South.

1. Opportunity NYC will provide evidence of whether conditioning a large new supplement, over and above the basic social transfers, can yield significant impacts on poverty and human outcomes.
2. Because it is implemented in a high-income, program rich urban area, Opportunity NYC will provide insight for how to adapt CCTs in these types of urban settings where modifications in beneficiary targeting, incentives structures and coordination

with other types of programs will likely need to be altered from the traditional rural model.

3. Because of the nature of the evaluation design, it will also help begin to open up the “black box” of CCTs by specifying and measuring intermediate processes that could help explain the impact of CCTs on children’s human capital development.
4. In the U.S., a strong critique has been mounted by some researchers and policymakers on the use of cash incentives to motivate change in children’s education-directed behaviors and outcomes. Specifically, Deci and others have argued that providing children external rewards for learning will, over time reduce their intrinsic motivation for learning. This theory might help explain why some CCTs showed improvement in children’s school attendance but not their academic performance. Because a sub-study of the Opportunity NYC evaluation will include measures of change in children’s intrinsic and extrinsic motivations for academic effort, it will be able to address this issue.
5. Throughout the global CCT community, the question of how CCTs might be used to promote transitions to employment and economic self-sufficiency is of increasing interest to policymakers. Opportunity NYC’s efforts to use incentives to promote full-time work and/or education/training may prove useful to workers in the South.
6. Finally, it is likely that policymakers in the North will push CCT program designers to target (and researchers to evaluate) changes in what Fiszbein and Schady (2008) refer to as “final” human development outcomes. In the North, increasing school attendance and clinic visits are likely to be seen as more means to ends. The most valued impact will be on human capital development outcomes (such as learning, and behavioral health) that forecast greater earnings and eventual escape from intergenerational poverty in adulthood.

The first experiments on CCTs in the North increase the likelihood of true North/South dialogue on optimal program designs and evaluation strategies. CCTs are one of the few examples of Northern governments seizing on creative policy developments in the South and struggling to adapt them to their relatively services- and benefits-rich contexts. While we have only begun to scratch the surface of what the South and North could learn from each other about CCTs, our preliminary conclusion is that there will be much reciprocal learning that will occur over the next decade of development in the field.

To ensure the continued generation of knowledge on effective strategies for combating poverty, it is critical to continue to use impact evaluations strategically. The use of experimental and robust quasi-experimental designs in CCT programs around the world has been a hallmark of the programs which has helped ensure a strong evidence base for policy decisions. As CCTs continue to be introduced, particularly in settings distinct from the rural areas of high-inequality middle-income countries where CCTs have been concentrated, it will be important to uphold this tradition of using place randomized trials and other robust evaluation methods to test the effectiveness of CCTs in various settings. In the future, it would also be useful to go beyond rigorously evaluating the effectiveness of a given program on welfare outcomes, but to test various alternatives to achieving a priority outcome.

## **VI. A FORWARD LOOKING PERSPECTIVE ON USING INCENTIVES IN SOCIAL POLICY**

At their core, holistic CCTs endeavor to influence the economic decision making and behavior of poor adults by providing incentives. In the early CCTs in Latin America, the incentives were designed to increase parents' investments in their children's human capital. Concretely, this meant incentives to increase take-up of health (e.g. well-baby visits, nutritional programs) and education (e.g. school enrollment and attendance) programs.

To date, the economic decision making and behavior of the poor have been considered from several perspectives in the social and behavioral sciences, notably behavioral economics (the combination of selected features of cognitive and decision sciences with classical economics), psychology more broadly (including cognitive, motivational, social and developmental psychology) and sociology. Unfortunately, both the design and the rigorous empirical evaluation of holistic CCTs have proceeded without sufficient attention to relevant advances in the social and behavioral sciences.

Over the next decade, this gap between CCTs as applied public policy and theory and research in the social and behavioral sciences can and should be closed. The potential promise of closing this gap has begun to be illustrated by a small community of creative researchers and practitioners who are working across traditional disciplinary boundaries in psychology, behavioral economics and public policy more generally (Amir et al., 2005) and behavioral and marketing strategies to aid decision making among the poor, more specifically (Bertrand, Mullainathan & Shafir, 2006). As Duflo and colleagues (2005) argue, "an important task for future empirical work (on incentives) is to go beyond merely estimating the size of the behavioral responses (to particular incentives) in specific contexts and start exploring the factors that shape the size of the behavioral response".

A growing body of research suggests the importance of such decisions as:

- (1) introducing CCTs via small discussion groups rather than via individual interviews,
- (2) reducing cognitive load and improving information processing regarding incentives,
- (3) "priming the right identities" in introducing CCTs to poor individuals and sub-communities,
- (4) reducing the danger of killing intrinsic motivation by framing CCTs in an autonomy-promoting manner, and

- (5) communicating about CCTs in a manner that conforms to people’s “mental accounting schemes”<sup>3</sup>

We are not arguing that CCTs should immediately adopt these specific design features. Rather, we are arguing that systematically researching these types of factors that appear to shape the size of behavioral responses to social programs like CCTs merits deeper investigation and experimentation in the development of more successful holistic CCTs.

## VII. CONCLUSION

We began this paper by describing how social assistance policies are undergoing rapid change in many parts of the world. In the 1990’s, the emergence of CCTs in Latin America converged with welfare reform initiatives in the United States and the United Kingdom. While the evolution of social assistance policies and practices are rooted in countries’ and regions’ specific historical, social-economic, political and cultural contexts, we argue nonetheless that core elements of reform appear to be converging. The more traditional view of social assistance (transfers as a handout in times of need to alleviate poverty) has begun to evolve into a new view of social assistance as a dynamic where protection is complemented by dynamic, tailored support to develop the human capital needed to move out of poverty. The use of incentives to affect individual investments, spur effective practices among providers, and leverage mobility out of poverty are increasingly being applied within this new paradigm. Yet participants in this debate are quick to point out potential problems associated with incentives, particularly if they substitute for individual initiative and intrinsic motivation.

It is our judgment that this convergence of core elements of social assistance reform has increased both interest in and the practical utility of more extensive and intensive knowledge sharing across countries and regions. Such knowledge sharing was quite evident between countries within Latin America and between States in the U.S. Broader North/South knowledge exchange has been slower to develop, but over the last few years, the North/South gap has begun to be bridged. One clear example is the unprecedented influence of the Progreso/Oportunidades initiative in Mexico on the development of Opportunity NYC/Family Rewards in New York City.

Such exchanges work best when they are not one way streets. Indeed, Mexico was eager to consult with New York City in part because it had yet to embark on adapting the theory and practice of CCTs to urban, relatively services-rich jurisdictions. And such exchanges are valuable as bilateral initiatives, but perhaps can be more efficient and more influential if they are more multilateral in design and execution. The World Bank, the United Nations, the Inter-American Development Bank and other multilateral development institutions have also been actively engaged in the promotion of multilateral exchange

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<sup>3</sup> see Bertrand et al., 2006, for a fuller discussion of the emerging research which suggest that each of these strategies increases the probability that CCTs will positively influence the economic decision making of the poor.

across CCT practitioners, including through international conferences, teleconferenced learning networks, websites and publications.

More recently, the Rockefeller Foundation set up a learning network among policymaking, program developers and researchers from a small number of countries who were at the early stages of developing and implementing CCTs and several countries with more extensive experience. Additionally in the Fall of 2009, the Organization of American States (OAS) announced a major new North/South initiative in Social Assistance in the Americas. The Secretary General of OAS was joined by President Michelle Bachelet of Chile and Secretary of State Hillary Clinton from the U.S. to announce the initiative. This multilateral agreement and public launch of the Inter-American Social Protection Network have included follow-up meetings to work out the technical details needed to create a new cross-national network of demonstration and shared learning.

Paradoxically, the current global recession has created both an urgent need for the expansion and reform of social assistance policies, as well as a set of fiscal challenges to mounting new initiatives. For these reasons, it is an excellent time to take North/South knowledge sharing on social assistance, especially on policies aimed at protecting the poor and promoting human capital development, to the next level.

Finally, besides the North/South gap, another gap needs to be bridged in this next phase of development of social assistance policies, the gap between basic research in key areas of the social and behavioral sciences (e.g. behavioral economics, motivational psychology, social network analysis) and the design and evaluation of CCT initiatives. The good news is that rigorous evaluations of CCTs have paid great dividends in learning what works and what doesn't and in facilitating the scale-up and sustainability of more effective and efficient social assistance policies. But it is striking to us how divorced the design, implementation and evaluation of CCTs have been from significant advances in scientific knowledge about how variation in the timing, nature and contingencies of incentives affect their impact, about how such impact may vary by context and about how the "framing" of incentives affects their influence. A robust research agenda should become a critical feature to future efforts in North/South knowledge sharing.

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### **Abstract**

Over the last decade, conditional cash transfer (CCT) programs have become one of the most widely adopted anti-poverty initiatives in the developing world. Inspired particularly by Mexico's successful Progresa/Oportunidades program, CCTs are viewed as an effective way to provide basic income support while building childrens' human capital. These programs have had a remarkable global expansion, from a handful programs in the late 1990s to programs in close to 30 countries today, including a demonstration program in the United States. In contrast to many other safety net programs in developing countries, CCTs have been closely studied and well evaluated, creating both a strong evidence base from which to inform policy decisions and an active global community of practice.

This paper first reviews the emergence of CCTs in the context of a key theme in welfare reform, notably using incentives to promote human capital development, going beyond the traditional focus on income support. The paper then examines what has been learned to date from the experience with CCTs in the South and raises a series of questions concerning the relevance and replicability of these lessons in other contexts. We then turn to the North to look at how lessons from the South have influenced the introduction of the first holistic CCT program in the North, the Opportunity New York City Family Rewards program. The paper concludes with a call for further knowledge sharing in two areas: between the North and South as the experience with welfare reform and CCTs in particular expands, and between behavioral science and welfare policy.

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