

# **Cash Transfers Contributing to Social Protection: A Synthesis of Evaluation Findings**

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# **Cash Transfers Contributing to Social Protection: A Synthesis of Evaluation Findings**

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## Summary

This report has been commissioned by Norad with *the main aim* of providing an up-to-date synthesis of the findings from evaluation of cash transfer programs for social protection. The *positive experiences* with Conditional Cash Transfer programs (CCTs) in Latin America on school enrolment rates, reduced school drop-out and improved health clinic attendance have lead to the recommendation that Conditional Cash Transfers should be promoted. This may be *premature* since there is neither much knowledge about the critical factors that have led to the positive results, nor is it clear whether these programs can keep poor families in poverty traps because they create disincentives to work. Moreover, the context under which Conditional Cash Transfers have brought positive results in Latin America is very different from the context in the areas where such assistance now is planned, like in Sub-Saharan Africa.

Several *requirements* need to be in place before Conditional Cash Transfers can be considered: The public service that the Conditional Cash Transfer is conditioned upon must be functioning, safe, accessible and have to have capacity to include new participants. The administrative capacity and skills must be at the required level to handle complex procedures, and reasons for non-participation in the public services need to be investigated.

In areas suffering from *humanitarian crisis*, insufficient food supply and poor connection to the nearby markets should not be considered for cash transfer programs. If markets function, cash transfers to *vulnerable households* can help to preserve their asset base and increase their future incomes through reductions of distress renting out of land or out-migration, help households pool savings, and allow farmers to sell their crops when prices are high and to buy seeds or livestock so that they could start work again.

Different models of arranging cash transfers to *children* have broadly similar effects on poverty, and it is effective to target children to reach the poor in many developing countries. Cash transfers to the mother improve the wellbeing of her children more than cash given to men, improve her status and reduce tensions in the household. Many Conditional Cash Transfers have contributed to improved status of *women*, but more could have been achieved if gender had been included in the overall program design. The same could have been achieved in an unconditional program if designed accordingly.

*Fine-tuned means testing*, which is the most common mechanism used to curb pension spending in developing countries with non-contributory pension systems, is found to be costly and riddled with errors of inclusion and exclusion. Targeting performance may not yield relevant information about the degree of poverty reduction. Targeting can induce poverty traps where the beneficiaries do not have any incentives to improve their situation. These costs can be very high and are seldom included in the calculations on the efficiency of targeting. This implies that broad targeting and universal cash transfer programs are to be preferred from an efficiency point of view. Such programs are affordable, easier to implement and monitor and sustainable for all developing countries – it is a matter of political will.

*Several implications for Norwegian Development cooperation* are identified: (1) The implications of conditionality should be carefully assessed before embarking on these types of programs as they tend to exclude the most vulnerable groups. (2) One will usually get more poverty reduction for the budget by using universal and broad targeted programs. (3) Gender equality should be a part of the overall design of cash programs. (4) Securing rigorous impact evaluations of universal cash transfer programs may be important for their future popularity.

*“I think these programs (Conditional Cash Transfer Programs) are as close as you can come to a magic bullet in development.... They’re creating an incentive for families to invest in their own children’s futures. Every decade or so, we see something that can really make a difference, and this is one of those things.”*

-Nancy Birdsall, Director of the Center for Global Development, in New York Times  
3 January 2004.

*“Anyone who believes that design choices in social protection programs – whether to apply conditions, to transfer cash or food, who to target – are purely pragmatic technical issues, with decisions based on solid empirical evidence, is missing the point. These are ideological choices...”*

-Devereux and Sabates-Wheeler, Institute of Development Studies (2007)

# 1 Introduction

Cash transfers are now at the forefront in policy discussions, both as a development tool, for providing an effective social protection for vulnerable groups and as an alternative to food aid in humanitarian crises. These types of interventions have been increasingly popular among recipient governments, especially so-called Conditional Cash Transfer programs (CCTs) that condition the transfer of cash to the household on the household using some public services benefiting their children's education, nutrition and/or health. The aim is to enable the poor to invest in the human capital of their children in an effort to break the transmission of poverty from one generation to the next.

The other major type of cash transfer programs are the ones that are not conditioned upon any recipient action. These Unconditional Cash Transfer programs (UCTs) have received most attention as a substitute for food aid in emergencies, but are also implicitly discussed in the literature on CCTs, for example with respect to the discussion about the desirability of imposing conditions (i.e. conditionality) on poor and vulnerable households. The current trend of giving households cash to spend as they choose, as opposed to in-kind donations, reflects an ideological stance where one aim is to use market-oriented interventions to stimulate local markets and avoid the creation of new markets where recipients sell their in-kind donations. Moreover, cash is seen as efficient and flexible in comparison to in-kind donations (Adato and Hoddinott 2008).

An important feature of many cash transfer programs, which is shared with in-kind transfers, is that they are targeted towards poor and vulnerable people. This reflects the aims of the programs – to reduce poverty and promote social security, and it is usually argued in the literature that more can be achieved within a given budget if more resources are given to those who need it the most. Universal cash transfers are seldom developed in poor countries, except for pension schemes. In fact, cash transfers to all citizens – also known as a Basic Income Grant - do not exist anywhere in the world (Willmore 2007).<sup>1</sup> We include discussions of non-contributory pension schemes in this review, while savings and insurance schemes including contributory pension schemes are left out since they are concepts different from the grant nature of the schemes we focus on here.<sup>2</sup>

This report has been commissioned by Norad with *the main aim* of providing an up-to-date synthesis of the findings from evaluation of cash transfer programs for social protection.<sup>3,4</sup> Since the alternative to cash transfers has been in-kind donations, we start with a comparison of these modalities. Moreover, the ToR makes a useful classification of cash transfers according to whether they are conditional or unconditional, and whether they are targeted towards particular groups or universal. We thus proceed with a comparison of the evaluation findings along these two dimensions, and then discuss what the evaluation literature can tell us about impacts of cash transfer programs. The ToR is also asking for the evidence on whether poor countries can afford these programs and on how sustainable they are. Findings on these issues are presented, before we close the report with a summary of evaluation findings. Finally, the ToR asks for the implications of the findings for Norwegian development cooperation. These are discussed when relevant, and conclusions are presented in the final section along with the other results.

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1 Despite its support among social scientists, including Milton Friedman, the Basic Income Grant remains to be implemented in a country, but see the journal *Basic Income Studies* for surfacing evidence on such schemes (<http://www.bepress.com/bis/>). The Basic Income Earth Network is actively promoting this concept (see [www.basicincome.org](http://www.basicincome.org)).

2 Private cash transfers and subsidies are not included in this review.

3 Improving social protection should, in this setting, be understood as reducing an individual's vulnerability and poverty. See DFID (2006) for a discussion of different definitions of social protection and for an overview of typical interventions, and the special edition of the *IDS Bulletin* (Farrington and Slater 2006) on social protection for a discussion of different concepts.

4 In accordance with ToR, we also include the discussions in the literature on the role of cash transfers as a tool under crises and relief operation, whenever that contributes to the major discussions in this synthesis.

A factor shaping this synthesis is the lack of data on the recently introduced African cash transfer programs. A main objective for many evaluations is to present the impacts of the programs, and it would thus have been informative to compare the impacts of cash transfers across the conditional/unconditional – targeted/universal dimensions and across continents. However, the lack of data has implied that no rigorous quantitative impact analysis has been conducted on African cash transfers (Devereux et al. 2005).<sup>5</sup> Therefore, the findings from the rigorous impact evaluations of the CCTs cannot be discussed in a comparative perspective.

The recent emphasis on cash transfers and new data coming from a variety of different CCTs have triggered a range of empirical analyses of impacts of these programs. Moreover, the design of these programs was done in a way that is almost ideal for impact analysis. Many CCTs had a phasing-in of the benefits and a timely and thorough collection of household data that made rigorous assessments possible. Starting with the International Food Policy Research Institute (IFPRI) lead role in evaluating the impacts of the Mexican conditional cash transfer program (PROGRESA) in 2000, there is now a considerable literature on the impacts of such programs. While IFPRI continues to play a major role in providing sound impact analyses, the research community at the Overseas Development Institute and Institute of Development Studies at the University of Sussex are major contributors to evaluations and policy discussions<sup>6</sup>. The World Bank has in addition to its own research contributions created a Safety Nets Publication Database<sup>7</sup> with more than 1000 documents on cash transfers and related social security issues.

Cash transfers are seen to have a main role in providing what has been labeled “social protection”, i.e. to reduce risk and vulnerability for the poor. During the 1990s, the term “social safety nets” was attacked, mainly due to its stigma, its political expediency, the perceived large costs and its static role in providing a minimum existence level for poor people (Devereux and Sabates-Wheeler 2007). The current use of “social protection”, although very similar in practice, reflects a somewhat wider concept – one where the protection of a minimum standard also can contribute to long term development, as exemplified by Devereux and Sabates-Wheeler (2007): “The rapid rise of social protection up the development policy agenda has been startling: it can achieve bigger development objectives, such as economic growth and the MDGs.” Alderman and Hoddinott (2007) concretize these links from social protection to macro indicators of development by arguing that there are five channels through which social protection schemes may increase economic growth:

1. social safety nets help create individual, household, and community assets;
2. they help households protect assets when shocks occur;
3. by helping households cope with risk, they permit households to use their existing resources more effectively;
4. they facilitate structural reforms to the economy; and
5. by reducing inequality, they directly raise growth rates.

Although difficult to entangle, there is evidence in favor of a positive relationship between social protection and investments in productivity and human capital (see Morley and Coady 2003, de la Briere and Rawlings 2006 and Alderman and Hoddinott 2007).

Devereux and Sabates-Wheeler (2007) summarize the debate on social protection by categorizing the proponents of social protection into two camps. The first are the ones who argue that social protection should aim to reduce risks of poor people and make them better able to handle shocks. Most poor countries are characterized by high levels of risk, while the insurance and lending markets are not functioning properly. Hence, social protection schemes must reduce the risk of these people until the markets are developed in such a way that people can handle the risks themselves. Social protection at the intermediate stage is, according to this view, an instrument for risk management that will make it easier for the people to direct their efforts in productive ways. This camp usually defends the conditionality since such obligations for the beneficiaries increase the impact on risk-reduction in the long run. The other group argues that the enormous inequality and vulnerability stems from a social

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5 Some conditional cash transfer programs are now under implementation and hence, the future may bring new insight into these types of interventions in African contexts.

6 The ODI journals - the Journal of Disaster Studies, Policy and Management, and the Development Policy Review - published special issues in conjunction on cash transfers in 2006 (see Harvey (ed.) 2006 and Farrington and Slater (eds.) 2006).

7 See the [www.worldbank.org/safetynets](http://www.worldbank.org/safetynets)

injustice, and that social protection is an inviolable right of citizenship and should hence not be conditioned on certain behavior of the recipient. Hence, the social protection scheme is seen as an intermediate step towards an ideal of a universal guaranteed minimum.

## 2 Transfer of Cash Versus In-kind

### Key features

The key feature of cash transfer programs that distinguish it from other forms for social assistance is that the recipient is given the choice of how to manage the monetary component of the support, i.e. how to spend the money. The donor is thus not, by way of program design, concerned with the recipients' usage of the cash. In contrast, voucher schemes and in-kind transfers are usually designed so that the recipient will use the full assistance to consume some particular goods and services which are chosen by the donor.

Moreover, in-kind and voucher programs usually monitor the recipient's behavior to ensure that the intended consumption takes place and that the recipient does not trade the assistance to get other goods or services. The donors' dilemma is particularly evident in cases where the assistance is aiming for improved nutrition of the recipient population: If the recipients' taste for staples will lead them to buy less nutritious food if they get cash, or tobacco or alcohol, then the donor will get larger improvements in nutritional status with the same budget by giving them more nutritious food in-kind. However, this result is contingent upon the recipients actually consuming the in-kind assistance, and there is no reason a-priori to believe that the recipient will not trade the in-kind assistance to achieve the preferred consumption basket.

Even though cash transfers are intended to provide immediate reduction of poverty, it will usually be the case that some recipients also use some of the cash for investment purposes. Hence, a consequence of using cash instead of in-kind could be that the assistance has a higher long-term impact on poverty reduction and development and a somewhat lower impact on serving the immediate needs.

### Key findings

The World Bank summarizes its practical experiences with unconditional cash transfers as follows (World Bank 2008):

- Once unconditional cash transfer programs are in place they tend to have a lower administrative cost than other transfer programs. In-kind transfer is more costly due to transport and storage, and UCTs does not need monitoring, tools and supervision that comes with many of the other cash transfer programs (cash-for-work, cash-for-education etc.). In India, the costs of purchasing, storing and redistributing food are at least double the value of the food received by intended beneficiaries (World Bank 2003). However, there are, to our knowledge not been any efforts to calculate the exact differences of the administrative costs between the two approaches.<sup>8</sup>
- Cash may be more tempting for dishonest program officers than in-kind donations, and hence, the World Bank (2008) points to the fact that checks and balances need to be put in place to avoid elite capture and ensure efficient use of funds.

Another and more difficult issue to assess is the suggestion that giving the recipients cash instead of in-kind assistance will have very different implications for the spill-over effects on domestic markets. It is generally recognized that handing out cash will stimulate local production and generate multiplier effects in the community much more than handing out in-kind assistance imported from abroad. Moreover, disbursing imported food in poor rural areas where the large majority is small farmers lowers agricultural prices in the area and causes a worse situation for the farmers that are able to produce a surplus (Barrett 2006). However, buying food aid from local areas with a food surplus and disbursing it to the needy instead of relying on imported food can give similar positive multiplier effects in the local

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<sup>8</sup> Kebede (2006) state that in Ethiopia, importing and distributing food costs 39-46 % more than cash transfers, while purchasing local food costs to 6 - 7 % more than using cash.

community. In a review of African cash transfer schemes Devereux et al. (2005) find much anecdotal evidence of cash transfers creating positive local multiplier effects.

A literature review of cash transfers under emergencies by Harvey (2006) underlines that several considerations may be important to whether one chooses cash or kind when there is a humanitarian crisis. There is usually a food deficit in some areas under such circumstances, and there may not be functioning linkages between markets. Giving cash when the supply of food is insufficient to meet the minimum requirements of a population may only have the effect that prices are being pushed up. Hence, cash given to the poorest will redistribute food from the less poor while not solving the basic problem of increasing the supply of food to the area. *This is perhaps the most important argument in favor of in-kind donations, which typically will be most relevant in areas affected of disasters when there is not sufficient food in the nearby markets.* Giving cash when the food deficit is large will result in more people competing for the same food and as a result be less effective in mitigating the crisis as compared to (1) in-kind food assistance, or (2) a situation where there were food surpluses in domestic markets. Moreover, despite the attention to cash transfers as a tool for crisis mitigation and the increasing usage of this measure, Harvey (2006) finds that cash and vouchers are little in use under these circumstances compared to in-kind assistance.

It is important to acknowledge that poor people have a range of coping mechanisms in times of crisis. One approach is to prevent the build-down of productive assets. The poor know that natural disasters are temporary, and hence, preventing the asset base from being depleted is important for long run well being. This has the important implication that it is very difficult for a donor to decide what type of assistance to give those who suffer from natural disasters. Giving them cash may thus be the best opportunity to manage the implications of the disaster according to their own strategy. An evaluation of the “Cash for Relief Programme” in Ethiopia indicated that the cash was used to pay off debts, restore land productivity and help regenerate livelihood (Standing 2007). If the program had handed out food aid instead, it is likely that there would not have been any long-term effects of the program since most of it would probably have been consumed. Similarly, the “Cash for Herder” programs in Mongolia revived investments in assets which could regenerate livelihoods and the local economy. *Hence, giving households cash transfers may help preserving their asset base and increase their future incomes for example through reductions of distress renting out of land or out-migration, help households pool savings, and allow farmers to sell their crops when prices are high and to buy seeds or livestock so that they could start work again* (Standing 2007).

There is a pervasive belief that giving food aid to agricultural based households causes them to put less effort in their own plots and work less, and hence lower agricultural production and their income (i.e. the disincentive effect of food aid). There is very little evidence on this issue (see Barrett 2006 for a comprehensive review), but emerging results indicate that there is no such disincentive effect on food production (see Abdulai et al. 2005 for evidence from rural Ethiopia). Hence, a major argument against food aid is not substantiated by empirical evidence. It is important to note that the findings also suggest that there may *be no disincentive effects of social transfers to the needy in general as long as the beneficiaries do not run the risk of losing the benefit once they improve their situation.* Hence, the widespread belief that social assistance might be unfavorable to the long-term wellbeing of the beneficiaries seems not to be supported.

### 3 Conditional Versus Unconditional Cash Transfers

#### Key features

While the intention of both types of programs is that the cash grant is to relieve immediate poverty and act as a buffer against hardship, it is only the CCT that is designed to build human capital to reduce poverty *over generations*. However, this does not imply that UCT does not have a role in long term development since it provides social protection that can be important for preserving income generating assets of the poor under times of stress.

In the long run the effectiveness of cash transfers on monetary poverty beyond the immediate one-shot effect is more dubious. Some argue that social assistance like cash transfers have purely consumption effects with no impact on productivity, but this seems not to be the case (see for example Johnstone 2004). However, one can argue that the productivity effect could be higher if the resources are used for education and training, or for direct productivity enhancing efforts like business development. But in that case the program serves other purposes since these latter projects do not have the social security functions as cash transfers have.

Another feature of the CCT is its focus on gender. These programs usually have the mother of the household as the recipient of the cash transfer as it is believed that this will have positive spillovers to the children. Moreover, gender equality is to some extent included in many of the CCT programs.

CCT might be preferable whenever the cash transfer is associated with a social stigma, especially when the stigma is so large that the eligible households consider not receiving the assistance. CCT is usually perceived to generate less stigma than UCT since the former can be seen as a social contract with the state aiming to enable the household to become independent of these types of minimum support. On the other hand, however, some poor may feel demeaned by the fact that the assistance is conditioned upon some actions that they have to take. The CCT may be perceived as a mechanism to get the poor on the right track – i.e. with the underlying assumption that the poor do not know what is good for them.

A major argument against CCT, and in favor of UCT, has been that social protection falls under the Declaration of Human Rights and hence the income grant should not be made conditional upon any action that the recipient must take (Freeland 2007). Thus, since most of the CCTs also function as social safety nets for the poor, it is argued that the conditionality of the CCTs is “morally atrocious” since a safety net for the poor ought to function also for those who are not willing or able to fulfill the requirements (Freeland 2007).

There are two basic types of conditional cash transfer programs – those mentioned above where the household is required to use some services, but in addition, there are CCTs where the beneficiary has to work or take education in order to be eligible, called “cash for work” or “education for work” programs. These programs are designed with an explicit screening mechanism in order to prevent those with better opportunities from getting the grant. Sometimes it is also argued that compulsory work or education will reduce disincentives arising from the cash transfer, and we return to this issue below. Moreover, since the main aim of linking the transfer to work requirements is usually to *target* a particular group of needy, we treat these schemes under the “universal versus targeting” dimension of cash transfers.

#### Key findings

*CCTs are not more effective in reducing immediate poverty.* One of the main questions for interventions aimed at poverty reduction is to what extent the tools are effective and efficient. However, studies of different cash transfer modalities are not conclusive. First of all, it is

important for the discussion of the impacts of cash transfers on poverty to recognize that poverty is usually measured in economic terms, either by consumption or income. Hence, if measured correctly, it is a mechanic relationship between the size of the cash transfer and the extent of immediate income poverty reduction. This implies that the efficiency of the scheme depends on administrative costs, leakage, poor targeting etc., and not on the concepts behind the design. Hence, a CCT and a UCT will, *ceteris paribus*, have the exact same impact on measured income poverty if the cash transfer is the same size in both schemes.<sup>9</sup> Barrientos and DeJong (2006) concludes similarly based on a review of evaluations of the impact on cash transfers on child poverty: “What is particularly interesting is that different models of arranging cash transfers to children have broadly similar effects on poverty, ...”.

A second issue, and probably the reason for the lack of comparison of impacts between different cash transfer concepts, is that a given budget yields very different implications for the aims across schemes. Does it make sense to compare the impacts of CCTs and UCTs if the former has a main goal of bringing children to school to get them out of poverty when they grow up, while the latter aims to reduce immediate poverty and vulnerability? Clearly, such comparisons based on empirical findings would not give very meaningful discussions, and the literature is thus discussing which approach is most suited under different circumstances – and not whether one is more efficient than another in poverty reduction. *Effectiveness of the interventions depends to a high degree on the size of the transfers and coverage, and this is usually clearly spelt out in the literature.*

When the government conditions a cash transfer on some particular services that the recipient has to use, then there is reason to believe that the government perceives that some recipients would *not* have used these services if the transfer had been unconditional. In comparing CCT and UCT some thus argue that conditionality is paternalistic and therefore not necessarily welfare enhancing, i.e. that the CCT has a lower benefit to the recipient as compared to the UCT. However, others may argue that there are some benefits to society of the household performing the particular tasks that are not included in the household’s decision, or valued differently. The empirical base is too scant for drawing firm conclusions, but it is interesting to note the review of the literature in Martinelli and Parker (2003) on the differences between social and private returns from schooling. They could not find any studies that indicated that the benefits to society - in terms of the economic value that educated people have to society - were greater than the private benefits (in terms of the economic value of education to the individual) in the educational sector. Proponents of UCT may argue that this suggests that conditioning cash transfers on education may decrease the welfare of a household in comparison to an unconditional cash transfer, with no extra economic benefits to society.

de Brauw and Hoddinott (2008) summarize the arguments of the literature - including the evaluation literature - in favor and against conditionality of the CCTs. First, from a public perspective, the government may be of the opinion that it knows better than the poor themselves what actions the poor should take to increase their wellbeing. Hence, conditioning the cash transfers of these actions would lead the poor to act in accordance with the government’s prescriptions for a better life. One example could be if the household and the government have different opinions about the value of vaccinating boys contra vaccinating both boys and girls. If the households prefer to only vaccinate the boys, then a government that prefers both boys and girls to be vaccinated would condition cash transfers upon the household bringing all their children to the health clinic for vaccination. The second argument in favor of conditionality is when there are informational asymmetries between the government and the households. One example could be when low caloric intake over a long time period leads to permanent damage as measured in terms of abilities. If the household believes that the effects of poor nutrition for children only has short-term effects, while the government knows that it has permanent effects, then there is a rationale for conditioning cash transfers upon the poor household picking up nutritional additives.

*CCTs may be good for the child, but negative for the household’s economy.* The CCTs may not only have positive effects as seen from the public perspective. From a private view point, there may be benefits from a CCT if it changes the distribution of resources within the household relative to the unconditional transfers. Most obviously, if the child is enrolled into

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<sup>9</sup> The recipients may adapt differently, though. CCT may induce the household to withdraw their children from work and send them to school. This will reduce the impact of the cash transfer on income poverty.

school because of the conditionality, then the human capital of the child is relatively improved at the expense of the alternative cost of having the child at school (for example to have the child working). In many poor countries with low school enrolment rates the children that do not attend school usually provide the household with important income from different types of work. Hence, in the conditional program the household that prefer having their children at work will have less income but higher human capital as compared to the unconditional program.

*Cash to the mother improves her status, and her children's wellbeing.* Another effect that changes the intra-household allocation is the design of the CCT where the cash is disbursed to the mother of the household with the aim of improving her bargaining power within the household and having additional positive impacts on the children's wellbeing. It is found that gender equality is an objective of most CCT programs – but with different emphasis (Adato and Roopnaraine 2008). Giving the cash to the mother was motivated in part by research indicating that income controlled by women was more likely than income controlled by men to translate into higher household food expenditure, caloric intake, and expenditures on health and education (see for example Hoddinott and Haddad 1995). The female recipients were often given a strong message that they should decide themselves about how to spend the cash, and not give it to their male partner. Some CCTs also were more active in discouraging discrimination against girls schooling by giving the household a higher cash transfer for girls' schooling than for boys' schooling.

However, it is important to note that the result that resources given to the mother in the household has positive spillovers to the children of the household, and in particular girls, is a *general result* not linked to conditionality of the cash transfer. Unconditional cash transfers given to the mother shows similar results (Haddad et al. 1997, Duflo 2003 and Charvalo 2000). In addition, it is important to recognize that more impact can be achieved with respect to increased child welfare if the conditional or unconditional cash transfer program is specifically designed for that purpose.

Cash transfers have been shown to be a powerful tool for improving the status of women. However, the programs could have been much more effective in terms of gender equality if gender issues had been included in the overall program design and followed up during implementation. As women's rights is one of the major aims for Norwegian development cooperation, and an area where Norway claims to have comparative advantage (Bistandsaktuelt 04/2008)<sup>10</sup>, this is certainly an area where Norway can contribute in future designs of cash transfer projects.

*Do CCTs increase the burden on women?* A program design of the CCTs that specifically addressed women was that health services for this group were emphasized, and that the educational component on health and nutrition was directed towards the females. However, these design features can be viewed in two ways – both as promoting gender equality and the opposite – to levy an even larger work load on the shoulders of the mothers. The latter perspective stems from the fact that it is usually the mother who bears the burden of the conditionality of the CCT – she is the one that has to spend time on follow the children to the health clinic, attend community meetings and participate at the workshops – in addition to the existing work load (Molyneaux 2007). Finally, it is noted that the CCT feature of giving the cash to the women, and her time-use in the program, could increase tensions with male partners. The evidence, however, indicate that it more often reduced such tensions by providing more resources to the household (Adato and Roopnaraine 2008).

*Administrative costs vary a lot.* A practical implication of the conditionality, and a key difference between CCT and UCT, is that conditional programs require a monitoring system to certify that the recipient is actually taking the actions required to get the grant. These systems can take a relatively large portion of the grant budget, and make the CCT program even more complex, like in the case where one has to ascertain whether the child of the recipient actually attends school, or be a minor share of the costs, like in the case where the health administration hands out the cash after completed medical examination. Caldes et al. (2006) find that the costs of monitoring the conditionality of the PROGRESA program

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10 Available at <http://www.bistandsaktuelt.no/default.asp?ID=5006&t=a> (in Norwegian).

represents around 18 % of the administrative costs, or 2 % of the total program costs, while they estimate the cost of monitoring in Honduras to be 9 percent of the administrative costs and 3 percent in Nicaragua. The differences in monitoring costs reflect the intensity with which the designers and implementers of the programs have wished to ascertain whether beneficiaries actually comply with the conditions. Hence, the costs can be adjusted in line with the perceived need for monitoring.

Adato and Hoddinott (2007) argues that start-up costs of identifying beneficiaries, establishing mechanisms for delivering the benefits and monitoring and evaluating the performance is similar to all social programs. Moreover, even though the administrative cost of PROGRESA was relatively high in the first year, USD 1.34 for every dollar spent on transfers to beneficiaries, this was reduced to five cents by the third year of operation. Hence, administrative costs went from 134 percent to 5 percent in three years, which indicates that the long-term administrative costs may not be high. *In a careful assessment of total costs of different social protection programs in Latin America, Caldes et al. (2008) find that the total costs of the CCTs are not higher than unconditional programs.*

An implicit challenge for assistance in many forms is the opportunity for the administrators to pocket some of the resources. Corruption may be more of a problem for CCT as compared to UCT as the conditionality will require a bureaucrat to certify that the recipient has fulfilled the requirement before the cash is disbursed. Hence, a corrupt bureaucrat could charge money for this certification, while this particular bureaucratic procedure is eliminated in the UCT programs. Evidence indicates that more bureaucracy and regulations is associated with more corruption and is hence a program feature that one would try to minimize in countries where corruption is a problem. Building a system that prevents corruption in CCTs adds to the administrative costs of these programs.

*CCTs may exclude the most vulnerable.* An important drawback of applying conditionality is that if it is too difficult for the intended beneficiaries to comply with the requirements, then they will be excluded from the program. Hence, the program will exclude mothers who are not able to get to the clinic due to long distance of travel, chronic illness or because other domestic responsibilities make health clinic attendance impossible. As the CCTs are targeted towards the poor, this feature of exclusion of those who are not able to comply with the conditions may hit the poorest and most vulnerable the most. Such exclusion would not be the case under the unconditional cash transfer programs.

Although unconditional cash transfers can provide the same results as CCT with respect to human capital investment and thus reduce poverty in the long run – for example if families send their children to school because the unconditional grant made it affordable – it is suggested that heterogeneity in preferences among recipient parents to imply that CCT is more effective in making recipients invest in human capital than UCT. In other words, some parents that chose not to send their children to school or attend the health clinic before the UCT would continue this prioritization after the UTC as well (Morley and Coady 2003).

*Conditional or unconditional cash transfers?* If cash transfers are chosen as the most appropriate tool, then the policymaker has to decide whether to go for a conditional or unconditional program. A virtue of CCTs is that many of them have been able to induce households to send their children to school and make them stay in school, and to increase the nutritional status of the children (Adato and Hoddinott 2008). However, a cash transfer program conditional on schooling makes little sense if the enrollment rate is close to 100%, so these programs are only relevant if there are low participation rates in the service considered. Moreover, it is necessary that these public services are actually in place and functioning, have capacity to receive more users, that they are within a reasonable distance from the beneficiaries, and that traveling and usage of the service is safe. Hence, there must be schools and health clinics that operate satisfactorily and with a minimum coverage, which is not the case in many areas in the poorest countries. This point, together with the administrative complexity, is of major importance for the probability of having success for CCTs in Africa. An evaluation of the experiences with conditional and unconditional cash transfers in Kenya is in the pipeline and will probably be able to shed light on the importance of these challenges (Adato and Hoddinott 2007).

*Why is there a low utilization of the public services?* However, before turning to a CCT, one should assess whether the low utilization of the services stem from inadequate quality or capacity of the actual public service, a task that has been devoted too little attention by the implementing agencies (Adato and Hoddinott 2008). If the children are not at school because the schools are overcrowded with no extra capacity, are unsafe for children or too far away, or if parents chose not to visit clinics because there are no health personnel present there, then there is reason to start the efforts by solving such quality and capacity problems. After solving those issues and making the target group aware of the improvements, one can assess whether conditionality is required to improve enrolment rates and clinic attendance.

An important question is to what extent there are barriers within the household against using the education, health and nutrition services provided. It is illustrative for the point to note the experience in Latin America that suggest that conditionality may be appropriate to raise enrolment rates for girls when there are strong cultural barrier against educating girls – or other types of discrimination against girls schooling. Another case where conditionality may be useful is when the children have to work to contribute to a minimum subsistence for the household. In that case there may be strong forces preventing the children from attending schools, and any compulsory-schooling-approach would be difficult to enforce. CCTs designed to give the household the required compensation may have a greater success in increasing school attendance.

It is also important to note that the implementing agencies need to have the capacity and competence to handle the CCT, including the effort to monitor whether the reason for not complying with the conditions among defaulters stem from eventualities beyond their control. If some do not send their children to school because discrimination does not allow them to do so (social exclusion, ethnic discrimination, caste etc.) then they will be punished in a CCT since they will be excluded from the program.

The evidence we present in section 4 and 5 below indicates that the CCT have been effective. However, that does not imply that an identical but unconditional program would not have brought similar results. Moreover, if schooling is seen as necessary, then compulsory schooling regulation may be more appropriate than offering the parents a “carrot” and leaving the decision to them. In this case the cash should be given unconditionally. Two studies have been carried out on the role of conditionality, and both indicate that conditionality may be important in explaining the positive results (see Schady and Araujo 2006 and de Brauw and Hoddinott 2007).

## 4 Universal Versus Targeted Cash Transfer Programs

### Key features

Reducing poverty and achieving a more equal society, both of which are important aims of Norwegian development cooperation, implies that some measures have to be taken to lift the poor. One approach is through universal arrangements that are particularly important to the poor, like free universal primary and secondary education, scholarships for all, common basic health care programs and rural development. Such programs are similar to those of the Nordic welfare states, which have been important in minimizing the number of people who fall behind. A different approach, which was also applied by the welfare states in early times during their build-up, is to target the resources towards the poor. The main argument used in favor of targeting is that a given budget will probably help the needy more if confined to this group. In practice, there can be substantial costs of targeting which reduces the budget, so whether targeting helps the needy more is an empirical question that we will return to below.

The targeting of cash transfers aims to reach *all* members of a particular group of designated beneficiaries, *and* to avoid others outside this group to be able to acquire support. Hence, pension systems are often reserved for those who have been working and earning the right for a pension, or all people above a certain age, social assistance may be solely for those who classify as poor according to some poverty line, and child benefits may be reserved children below a certain age, and sometimes reserved only for the poorest segment of families, and so on.

Using targeting in poor countries is based on some principles that are worth considering:

- The poorest will benefit more than the affluent from a given transfer, and the returns to society in terms of aggregated wellbeing of the population will be higher by favoring the poor (confer with the above discussion of implications of social protection on growth). Hence, achieving the most welfare for the entire population implies to use the whole assistance-budget for the poorest segment.
- Targeting is costly in terms of direct administrative costs, in terms of disincentive effects and indirectly by imposing different kinds of requirements for the targeted beneficiary. These costs can be so large that a better targeted program may actually be *less* cost efficient than a less targeted program, i.e. one will have less poverty reduction by a finer targeted program than a less targeted program within the same budget (Ravallion 2007).
- Targeting is often associated with social stigma, and hence, if there are no extra gains in terms of welfare for the poor of targeting, then universal or broad targeted schemes should be the standard.

### Key findings

*Types of targeting.* When the particular group who is supposed to benefit from the program is identified, the program designer has to assess to what extent the targeting mechanism should rely on administrative management or on “self-targeting”. “Self-targeting” implies that the design of the program is constructed so that the target group chooses on their own basis to join the program, while those who are not eligible chooses to refrain from participation.

A main vehicle for targeting cash transfers has been to condition the benefit upon some work requirement, i.e. “cash-for-work”, “education-for-work” and similar types of programs. By giving the recipient a small amount of cash upon completion of some clearly defined and monitored task like digging a ditch or attending a course, many people who would be interested in having the benefit but have a higher wage working elsewhere would abstain from the program. Hence, the targeting mechanism secures that those better off select not to enter the program, while the needy will choose to enter. A main challenge is that many people who are equally needy as those who enter the scheme, are, for some reason or another, not able to work or come to the course and hence excluded from the program.

Imposing work requirements for beneficiaries may not only stem from targeting-motives, but also as a response to concerns about disincentives to work. On the other hand, if the beneficiaries see the cash-for-work as better than working on their own agricultural plots, then the scheme could actually divert effort away from productive investments in their own agriculture and towards the work-component of the cash program.

The other method usually applied for selecting the particular beneficiaries in the target group is to choose people from particular geographical areas with high concentration of people in that group and/or to base the eligibility on some measurable criteria. These criteria could be landlessness, unemployment, poverty in terms of income and/or assets, orphanage etc. A main challenge for using many of these targeting criteria is that it can induce the beneficiary to maintain status quo.

*Several developing countries have universal old age pension schemes.* There are very few universal broad targeted cash transfer programs in developing countries. Exceptions are universal non-contributory social old age pension schemes, where Nepal, Mauritius, Bolivia, Samoa, Brunei, Kosovo, Mexico city, Namibia and Botswana have systems where all elderly receive a pension with no tests or requirements other than citizenship, residence and age (Willmore 2007). However, several other developing countries have similar pension schemes that are targeted towards the poorest group of elderly by using a *means test* – i.e. elderly citizens in these countries receive a pension if their income and/or wealth are below a certain threshold (see Willmore 2007 for an overview of these countries). Thus, the aim of the means test is to support only the neediest, or, as in the case of the broad and generous system in South Africa, to exclude the most affluent. None of these non-contributory schemes have been evaluated in a rigorous manner (Devereux et al. 2005), but some high quality evaluations have surfaced, especially on the South African pension system.

Willmore (2007) provide an overview of the structures of different pension systems in developing countries, and presents some of the experiences on the different pension models. *One important conclusion is that if an aim of the pension system is to prevent old aged to fall into poverty once they are no longer able to work, then non-contributory systems must be the standard.* The reason is that most of the poor are never in a position to contribute to a pension system and hence will be excluded from contributory schemes. This is particularly the case for workers in the informal sector, for farmers and for women – groups which add up to the majority of workers in most of the poorest countries.

Evaluations of the broad targeted South African pension scheme find that it is “a significant source of income, with definite redistributive effects; they are a reliable source of income, which leads to household security; they are the basis of credit facilities in local markets, further contributing to food security; they deliver cash into remote areas where no other institutions do; they are gender sensitive toward women; and they reach rural areas as few other services do” (Ardington and Lund, 1994). Moreover, Case (2001) and Lloyd-Sherlock (2000) find that this pension system has directly improved the health and life expectancy of the beneficiaries. However, if the aim is to keep the old aged person out of poverty, it is important to note the findings that other family members reduce their economic support to the old person once old age pensions are introduced (Cox et al. 2006). Hence, the elderly will not benefit fully from the pensions, and it is found family support can be reduced on average by as much as 37 cents for every dollar in pension. *Hence, pensions should be set at a higher level than what would be indicated from covering the gap between old persons’ income and the national poverty lines.* Adding to the challenge of reducing old-age poverty, it is also found that the old aged are often living in extended families and shares their pension with the other family members.

*Another finding is that a flat rate universal non-contributory pension scheme that is not means tested is the most cost-effective arrangement* (Willmore 2007). It is also well suited for developing countries since it is easy to administer, there are no demanding and costly operation to determine eligibility and it is transparent and easy to understand which reduces the risk of corruption. Means testing, which is the most common mechanism used to curb pension spending in developing countries with non-contributory pension systems, is found to be costly and riddled with errors of inclusion and exclusion: A large share of the poor and

eligible people do not receive pension, while rich and non-eligible receive a large share of the total (Willmore 2007).

*Reaching all the eligible elderly in poor countries where the administrative capacity is weak is feasible, although it can be challenging - especially in rural areas.* The evidence indicates that even in Nepal, which suffered from armed conflict for more than a decade until November 2006, the coverage rate was 77 % of the age-qualified population measured during the civil war. Other reasons for not reaching all the eligible in Nepal are difficulties in establishing proof of age, a slow process of approving applications, difficulties in reaching remote areas of the country, and wealthy elders that are not interested in applying for a pension (Palacios and Rajan, 2004). Moreover, in Bolivia and Mauritius, all eligible are reached, and a range of other developing countries have achieved coverage rates of between 80 and 100 % (Willmore 2007).

*Willmore (2007) finds that some very poor developing countries have implemented universal non-contributory pension schemes.* One of the world's poorest countries in the world, Nepal, and the poorest country in South America, Bolivia, have both provided this type of pensions to all elderly residents since mid 1990s. Six other developing countries also have universal systems, plus Mexico City, and these governments spend between 0.1 % of GDP in Nepal and 1.7 % in Mauritius. These countries also have other cash transfer programs directed towards disabled, widows, orphans and others.

A general draw-back of universal and broad coverage systems is that they can be expensive since all or a large share of citizens will get the benefit. This is also the case with universal pension systems even though the evidence indicates that even the poorest countries can afford it. Many governments with non-contributory schemes have implemented several arrangements to reduce the fiscal burden: (1) requirements of lengthy residence in the country - 40 – 50 years – in order to qualify for pension, (2) reduce pension with earned income after eligibility age for example through taxation of pensions, and (3) means test. Developing countries generally rely on the means test for curbing expenditures.

*Targeting performance overshadows poverty reduction.* The success in means testing and subsequently, in reaching the target group, is called “targeting performance”. Targeting performance has been highlighted as an important indicator of program success, despite the fact that it can be completely uninformative about whether the program achieves its aims (Ravallion 2007). To illustrate the point, assume that a fine-targeted program reaches 90 % of the poor, but that the administrative costs of identifying the poor in an exact manner takes 50 % of the total program budget. If a cruder targeting would reach 80% of the poor but take 10 % of the budget in administrative costs, the former targeting scheme would be deemed better than the first if targeting performance is used as an indicator of program success. Using cost effectiveness as a criterion for program success would give the opposite result – the latter program is, *ceteris paribus*, able to provide more resources to the poor than the former.

Despite the warnings in the literature that better targeting need not imply that the program will reduce poverty more (Besley and Kanbur 1993 and van de Walle 1998), fine-tuned targeting of cash transfers has become increasingly popular among donors and recipient governments. This trend has primarily come as a component built into the CCTs and as an alternative to in-kind donations in emergency relief operations, but also as a general measure intended to get the most impact of the scarce resources devoted to assisting needy people. The Zambian cash transfer scheme that targeted households with poor income generating capacity is one example of a program where the argument of getting more out of the resources is used (for details about the pilot, see Schubert and Goldberg 2004). Devereux et al. (2005) present an overview of African unconditional cash transfer schemes, and many of these are targeted towards the most destitute groups like vulnerable children, orphans and disabled, but also to stabilize post conflict situations through cash transfers to demobilized soldiers. *A common feature of these programs is that they usually reach very few beneficiaries in comparison to the actual size of the group.*

The practical experiences with other types of social assistance have also contributed to the up-swing in the interest in designing targeting mechanisms. Group-based programs where group-members would play a key role in using the assistance typically did not perform well in

part because better-resourced people were more likely to form groups and receive the assistance (Farrington et al. 2006 and Adato and Hoddinott 2008). In Latin America, several social assistance programs were found to be benefiting some who needed it, but even more people who were not needy (Levy 2006). Hence, a debate was created on how to improve the targeting mechanisms, while the issue of how to improve the impact on the program with respect to poverty reduction received much less attention.

Ravallion (2007) presents a thorough study of different targeting efforts within a cash transfer program aiming to reduce urban poverty in China – the Chinese “Minimum Livelihood Guarantee Scheme”. The program aims to bring all urban households above a particular poverty line, which is set by each municipal authority. By 2003, 22 million people were covered, representing 6 % of urban households in China. Although ambitious, the program is on the aggregate only able to reduce the gap between the incomes of the poor and the poverty lines with only 12 percent (i.e. adding the missing 88 percent could eliminate urban poverty). Looking only at the participants of the program, however, it is basically a success in reducing poverty: The poverty rate is 45 % with the cash transfers, while it would have been 57 % without these transfers. In addition, many of those below the poverty line have got increased incomes, albeit not enough to get above the line.<sup>11</sup> However, Ravallion finds that the degree of targeting does not explain the success and failure of reducing poverty across cities. *He finds that cities that did a good job in excluding non-poor from their program tended to do less well in reducing poverty, which illustrates the point that targeting performance may not yield relevant information about program performance.*

A major cost of targeting is that the poor will be punished for escaping poverty since they no longer will be eligible for the support if they are able to climb above the program threshold. Moreover, the benefit is a stable income while the income from a job is uncertain in that wages can vary and employment can be terminated. A response to reducing risk is to continue with the benefits and decline to work. In essence, this is a situation where the targeting mechanism creates a poverty trap where people have no incentives to work harder to get out of poverty. *Ravallion (2007) finds that in the Chinese social assistance program there were no incentives for the beneficiaries to work since the benefit would be reduced with the same amount as the income from working.* Although such disincentives to work may imply huge costs of targeting, these are seldom included in the discussion of costs of targeting (see for example Medeiros, Britto and Soares 2008).

The CCTs use a range of targeting mechanisms. Since PROGRESA was the first CCT program and has been copied in a range of other Latin American countries, we use this program to exemplify the targeting mechanisms of these programs. The targeting process of PROGRESA was different in rural and urban areas, and in rural areas a rather advanced three-step procedure was applied. First, there was a selection process based on geography where poorer rural areas were selected. Then income and a number of household characteristics were used to classify the households into poor and non-poor, which in turn determined eligibility for program participation. The third step was then to publish the list of households eligible for the program, and then allow community leaders to express their reservations against households that they perceive to be non-poor. This, in turn, may result in the transfer of these households into the non-eligible group (Parker et al. 2008 p. 3977).

The later inclusion of urban areas led to a targeting that included an element of self-selection. Administrative offices were set up in the poorest urban areas and the individuals had to contact these to apply for participation in the PROGRESA program. The PROGRESA administration would then assess the applicant according to her socio-economic characteristics along the same dimensions as in the rural areas. A very interesting finding important for the discussion of targeting versus non-targeting is that the self-selection component implicit in the urban targeting of the PROGRESA program has the effect that many eligible households do not apply for program participation. *Thus, there may be reason to believe that the eagerness to target implies that the program miss many of the needy.*

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<sup>11</sup> The reason for the much lower impact on poverty reduction at the target population as a whole, only reducing the headcount rate in urban areas in the study from 7.7 % to 7.3 % is that the program does only reach a quarter of the urban poor.

A similar issue is whether the cash transfers are reaching the most vulnerable groups. The literature indicates that well planned and implemented cash transfer schemes broadly reach the intended beneficiaries. So if the most vulnerable are in the target group, then a large share of this group will usually be reached (Devereux et al. 2005). However, many cash transfer programs do not reach the most vulnerable by design. “Cash for work”-schemes excludes those who cannot work, cash transfer programs conditioning upon sending the children to school exclude households without children and orphan care grants may exclude the poorest children. Hence, to what extent the most vulnerable groups are reached through cash transfer programs depends on the intentions of the program, degree of universality and on the efficiency and effectiveness of the implementation.

An assessment of a cash-for-work program in southern Somalia undertaken by Mattinen and Ogden (2006) illustrates a much more cost effective approach to targeting, and also shows how cash transfers can contribute towards building the productive assets of the poor. The program was targeted to one of the poorest and most vulnerable rural area in Somalia, and then targeted towards those households with the lowest asset bases according to a wealth ranking criteria where ownership of livestock was important. Since assets are more easily monitored than income, this approach did not require fewer resources than more fine-tuned targeting. The work requirement for the eligible households was to contribute to the rehabilitation of water catchments in 31 villages, which was successfully accomplished.

The rehabilitation of the water catchments was successfully accomplished. It is interesting to note the beneficiaries’ use of the cash in different periods during a year. In the low season, also called the hunger period, 33 percent of the cash went to buy food, while 38 % were used to service debt, 8 to buy seeds and 5 to animals. After the harvest, however, 18 percent was used to buy food while debt servicing was approximately the same. More interesting is that 28-29 percent was used to buy livestock. Hence, poor rural households in a drought-struck area uses a third of the cash in the harvest seasons to buy assets that can increase their incomes in the future. Furthermore, by comparing program villages with non-program villages the authors find that the former were able to plant on 26 percent more land than non-program villages, and they harvested 22 percent more. *Hence, the cash component of the program seems not only to contribute to the immediate social security of the beneficiaries, but also to improve their abilities to increase their future income both through more planting and better harvesting and through a higher stock of animals.* However, the methodology behind these findings does not qualify as sound impact evaluations, so no firm conclusions should be drawn.

## 5 What We Know about Impact

The CCTs in Latin America have been evaluated rigorously by sound impact evaluation approaches. Nevertheless, it is challenging to assess some of the main aims of these programs – in particular the aim of reducing intergenerational poverty since this will only be evident after the children have become adults. Moreover, the conditionality implies that the impacts of the CCTs need not be related to the monetary input.

### Background and program features

The first and most studied conditional cash transfer program is the *Programa Nacional de Educación, Salud y Alimentación* (PROGRESA) that was introduced by the Government of Mexico in 1997. The program was renamed to Oportunidades and expanded to urban areas when Vicente Fox became the President of Mexico in 2000. As mentioned, most CCTs follow the main design principles of PROGRESA, and hence, we describe this program in more detail before the differences with the other programs are noted.

From the start, PROGRESA aimed at improving the educational, health and nutritional status of poor rural families, particularly children and their mothers. Households eligible for the program were selected from rural communities with less than 2500 inhabitants, and among those, the poorest were selected based on household characteristics indicative of the poverty level of the families. Thus, the targeting was both geographically and according to poverty-indicators at the household level, which is a principle also applied by the other CCTs in this review. By mid 2007, PROGRESA reached more than 5 million families in 86.000 localities in all of Mexico's 31 states. The rural focus is underlined by the fact that approximately 40 % of the rural households were included in the program at that time, which corresponded to one ninth of all families in Mexico (Maluccio and Flores 2008).

The PROGRESA consists of three major components:

- Scholarships conditioned upon the children attending school (the *beca*)
- Money for school supplies
- Cash transfer for the intention of buying food (the *alimento*)

The scholarships were conditioned on two components. The first was that the school-aged children in grade 3 and above had to have an attendance rate of at least 85 %, while the second condition was that the parents had to show up at monthly meetings (called *platicas*). The cash transfer was handed out every second month to those who were qualified based on the monitored results, and were intended to be used for increased consumption of the receiving family. However, it is interesting to note that this was just a stated aim – there was no monitoring or attempts to control the actual spending of the money.

Maluccio and Flores (2005) provide a particularly important rigorous quantitative evaluation of the Nicaraguan *Red de Protección Social* (RPS) – “*Social Safety Net*”- which was modeled after PROGRESA and implemented in 2000. Their study is important because it is one of few that evaluate a CCT in a low-income country. Nicaragua had an income per capita of USD 500 in 2001, and around half of the population was defined as poor (Handa and Davis 2006). Hence, it compares to the average SSA country in terms of GDP and poverty, although such simplistic comparisons must not be used for drawing any conclusions. What is interesting is that a very poor country can handle the implementation of a rather complex and demanding program. The lesson from Nicaragua is that, despite the initial skepticism, the CCT proved to deliver results on a range of the output indicators. Important for other low income countries, however, is that the RPS was not simply copied from PROGRESA, although most of the basic features of PROGRESA mentioned above were present in the Nicaraguan program. Two important differences were that the target population for school transfers was different from

that used in PROGRESA, and the health-care supply was provided by government-contracted NGOs instead of the usual approach through the Ministry of Health (Maluccio and Flores 2005).

### Inputs in the CCTs

The size of the average transfer ranged from 10 percent of the average household consumption in Honduras to 30 percent in Bolivia. In percent of the poverty line, the average transfer amounted to between 8 percent in Honduras to 23 percent in Mexico. Hence, depending on the severity of poverty (i.e., how far from the poverty line the households are), these figures suggest that the CCTs would probably have a substantial effect on immediate income poverty. Table 1 below gives the details of the monetary inputs.

Table 1. Monetary inputs

Country Program	Monthly monetary benefits (USD)	Average monthly transfer (USD)	Average transfer as % of poverty line	Average transfer as percent of average household consumption
<b>Brazil</b> <b>Bolsa Escola</b> <b>Bolsa Familia</b>	\$6-9 per child \$18 per extremely poor family;; \$5 per child up to 3 children	\$24	12 (IPEA poverty line)	n.a.
<b>Columbia</b> <b>Familias</b>	\$20 per family; 6\$ per child in primary school, \$12 per child in secondary	\$50	n.a.	30
<b>Honduras</b> <b>PRAF I</b>	\$4 per family; \$5 per child	\$17	8	10
<b>Mexico</b> <b>PROGRESA</b>	\$13 per family; \$8-17 per child primary; \$25-32 per child secondary; one-time grant \$12-22 per child for supplies	\$20	23	25
<b>Nicaragua</b> <b>RPS I</b>	\$18 per family; additional \$9 per family with a school-age child; \$20 once a year per child for school supplies	\$25	18	20

Sources: Handa and Davis (2006).

### Outputs: Impressive increases in school enrolment (and reduced dropout) and health clinic attendance

It is important to distinguish between the outputs and the impacts of the program. The former is typically referring to the number of children enrolled in school, the number of children vaccinated number of children included in school feeding etc. Impacts are the results of the program measured by indicators of wellbeing, like for example knowledge, illness and stunting. The difference is thus of major importance since there can be schooling where the pupils are not learning, there can be successful vaccinations where the vaccinated get ill anyway, and the school feeding may lead parents to lower the school children's ration of food at home so that stunting is continuing as before.

It is evident that the main outputs from the programs when it comes to school enrolment rates and attendance is rather impressive. However, it is interesting to note that there seems to be a large potential to increase the impacts of these programs. Behrman and Parker (2008) show that the enrolment impact of PROGRESA could be improved by 25 to 40 percent, where an important measure would be to ensure that more children were able to transit from primary to secondary school.

Table 2. Average outputs

Country Program	Mexico PROGRESA	Nicaragua RPS	Columbia Familias	Brazil Bolsa Escola/ Alimentacao	Honduras PRAF II
School enrolment	+ 6 percentage points for boys + 9 percentage points for girls	+ 13 percentage points (+ 25 p.p. for the poorest)	No effect	Increase	+ 1-2 %
Years of education completed	+ 10 % (+ 0.7 years)	+ 25 % (+ 0.8 years)	n.a.	n.a.	Small increase
Health clinic attendance	+ 18 %	+ 16 percentage points	Increase	Increase	+ 15-21 %
Vaccination	Increased	? <sup>12</sup>	Increase	No impact	Pentavalent: + 7-9 percentage points Measles: no impact Tetanus: no impact

Sources: Morley and Coady (2003), Maluccio and Flores (2005) and Handa and Davis (2006).

## Impacts

The general finding is that many, but not all, CCT programs have been successful in improving health, nutrition and food consumption. There are, however, a number of areas where the programs do not achieve their aims, in particular for health impacts and educational attainment (Adato and Hoddinott 2008). The main impacts of the CCTs found from rigorous impact evaluations are summarized in Adato and Hoddinott 2007, and several of the results reported here are taken from that overview. For a review of the findings of the impacts of CCTs on poverty and consumption, see Morley and Coady (2003). Table 3 below presents the main impacts.

Table 3. Impacts

Country Program	Mexico PROGRESA	Nicaragua RPS	Brazil Familias	Honduras PRAF II	Columbia
Per capita income	Poverty headcount ratio: - 17%	+18% +30% (poorest)	n.a.	n.a.	n.a.
Cognitive achievements	Limited	n.a.	n.a.	n.a.	n.a.
Caloric acquisition (poorest tertile)	+ 5.6 %	+ 12.7 %	n.a.	+ 6.9 %	n.a.
Nutrition	Improved	Improved	No impact	No impact	n.a.
Anemia	Reduced	No impact	n.a.	No impact	n.a.
Stunted children	-10 percentage points	-5.5 percentage points	n.a.	n.a.	-7 percentage points
Working children	No impact	-6%	No impact	n.a.	No impact
Illness (children)	-12 %	n.a.	No impact	No impact	n.a.

Sources: Maluccio and Flores (2005), Handa and Davis (2006)

There seems to be positive effects on nutrition from the CCT, although the exact mechanism through which the program affects behavior is not known. The most used indicator of long-

<sup>12</sup> Vaccination rates climbed 30 percentage points in the RPS areas, but that happened also in the control areas where RPS was not implemented. Hence, the increased vaccination in the non-RPS areas used for control is probably a spillover effect since the vaccination rate decreased in rural areas that were not affected by the RPS at all (neither a treatment nor a control area).

term nutritional status, child height for age, improved under the CCT in Mexico, Columbia and Nicaragua. Hence, stunting was reduced by 10, 7 and 5.5 percentage points, respectively. The results may come from the improvements in income that the recipient families' experience, which enables them to buy more nutritious food, from the nutritional information distributed during the meetings at the health clinics, and from the nutritional supplements that were handed out to the program families.

It is also interesting to inquire into the reasons for why the programs in Brazil and Honduras did not impact on long-term nutritional status of the children. In Brazil, anecdotal evidence suggested that there were a perception among mothers that they would lose the program support if their children gained weight. Hence, it illustrates the importance of having transparent and clear criteria for allocating benefits and to make sure that the program does not create perverse incentives. A related problem was encountered for the iron-supplement component in Nicaragua. Although mothers received the supplement, they did not give it to their children in the belief that it would be bad for their stomach and teeth. Hence, no effect was measured on anemia rates in Nicaragua, while the same type of intervention worked well in Mexico with substantially lower anemia rates among the program children. The point seems thus to be that the participants needs to be informed about the program and the likely effects in a credible manner. Another reason explains the lack of results on stunting in Honduras –here it was due to implementation problems with the program.

*Many of the CCTs have important positive implications for gender relations, particularly in countries where girls have been discriminated against with respect to schooling.* Firstly, the cash grant is usually given to the mother of the household, and secondly, the programs implicitly or explicitly address the discrimination against girls in education and in some health and nutrition issues. Findings from Mexico and Nicaragua indicate that this has led to reduced tensions in the household, and where the CCT has organized meetings, committees and workshops, the women has reported increased self-confidence. Moreover, discrimination against educating girls has been reduced through the CCT. It is found, both in Mexico and in Nicaragua, that the programs are associated with improved attitudes towards educating girls, and increased enrolment rates for girls. However, a common finding is that the programs are found to make much less out of the positive opportunities to promote gender equality in the implementation, and that there has been little attention towards reducing negative implications of the CCTs on gender relations (see Adato and Roopnaraine 2008 for a comprehensive review of the issues).

*There is, unfortunately, not very much evidence on the impacts of the CCTs on the cognitive achievements of the children. The single study that addresses this question finds that there have been limited impacts of the PROGRESA.* Although one study is too scarce to draw any implications from, this area should be followed up since a major aim of making the children attend school, and graduate, is to increase their skills. An important task for donors could be to assist in ensuring that the CCTs actually result in improved cognitive achievements. Many of the donors have vast experience of testing cognitive achievements in their own country, and hence, many of these lessons could be applied to investigate how to improve the impacts of the CCTs along this dimension. Moreover, the next generation of programs should also include a design to ensure that the children in the programs are actually learning more when they stay longer in school.

Finally, several evaluations point to indirect unintended effects of the CCTs, including changes in attitudes and intra-household decision-making (PROGRESA) discussed above, spillover effects on non-beneficiaries, reduced international migration in the short term and spending on productive activities that has the potential for generating domino-effects in the local economy (Handa and Davis 2006). Moreover, the cash transfer is found to have an important risk-coping role in Nicaragua and Mexico in times of crisis.

## 6 Can Poor Countries Afford It?

An important question is to what degree low and middle income countries can afford cash transfer schemes, and how they may be financed. It may be illustrative to note that the child benefit in Norway, which is now in practice given to all children, was introduced when the country was one of the poorest in Europe, in 1946. At that time, it was given only to single mothers, which was a very small group. Hence, irrespective of the discussion about whether benefits should be universal, it may be worthwhile for countries with low administrative capacity and scarce resources to start with simple targeted programs with modest benefits, and then increase coverage and generosity. Several developing countries are now leading the way in illustrating in practice that cash programs are affordable. South Africa's cash transfer program has now 10 million recipients, while Kenya, Zambia and Malawi has entered partnerships with international donors to scale up cash transfer programs that aim to reach hundreds of thousands of recipients (Adato and Basset 2007).

It is evident that the costs of cash transfer programs are small in comparison with the sums spent on the non-poor. Most energy subsidies go disproportionately in favor of the more affluent households, a feature which is shared with many pension schemes. PROGRESA in Mexico that covers 5 million of the poorest households costs 0.4 percent of GDP (Adato and Hoddinott 2007). In comparison, Egypt and Indonesia spent 8 and 5 percent of their GDP on energy subsidies, respectively. Similarly in Brazil – it would cost only 0.4 percent of their GDP to broaden their CCT to all of the 20 percent poorest households in the country, while the Brazilian government is using ten times as much resources to cover the deficit of the national pension scheme that deliver 50 percent of the benefits to the richest 20 percent of the population. Looking at the costs of cash transfer programs relative to other expenditures of poor countries, like military expenditures and industry development, there is no reason to argue that the countries cannot afford these programs – it is only a matter of prioritization.

*The evidence on old age pension systems indicates that also universal programs are affordable in poor countries.* Nepal has since 1995 maintained a universal non-means tested old age pension, while Bolivia started its scheme in 1997. For these two countries and the six other developing countries that have universal old age pension systems, plus Mexico City, we find a range of government spending on transfers to the aged from 0.1 % of GDP (in Nepal) to 1.7 % (in Mauritius) (Willmore 2007). Adding the budgetary outlays these countries have on other cash transfer schemes to promote social protection, to disabled, widows, orphans and others, and comparing it with other government expenditure in developing countries, it is clear that it is a

- political priority and not affordability that determine whether poor countries implement universal pension systems in particular, and broad cash transfers in general.

One issue worth considering in the discussion is whether governments' resources in many low income countries are best spent on providing basic public services to all (Schubert and Slater 2006). Willmore (2007) argues that universal pensions systems are complementary to public services, and that reducing less prioritized government expenditures has proven feasible to get such pension systems in place in poor countries. The complementarity argument applies to cash transfers more generally as these schemes can make it possible for poor people to access basic services.

### **Are cash transfer programs sustainable?**

The implementation capacity of the recipient could be too weak to sustain the program after the donor withdraws from the project. This is particularly a challenge in the poorest countries where even the least advanced public programs suffer from poor implementation (Schubert and Slater 2006). This challenge is particularly evident for the more complex CCTs, which also require a great coordination effort across several ministries. Hence, it is vital that a cash

transfer program is tailored to the administrative capacity and competence of the recipient country.

*The evidence indicates that in order for a cash transfer program to be implemented in an effective manner, there has to be high-level political support of the program.* This is even more important for the CCTs where cooperation and coordination between several ministries is necessary. The ministries of health, education and finance, and often even other ministries, needs to be involved in these programs. Complicated procedures adds to the challenge of having political accept for the program. Experiences from Mexico show that the PROGRESA survived several changes of government - both in 2000 and in 2006. Yaschine and Oronzco (2008) note that the program survived in 2006 due to a political consensus of the impartiality of the targeting method, the effectiveness of its operation, positive evaluation results and popularity among the electorate. The Nicaraguan RPS, on the other hand, was closed in 2006. This was due to lack of political support and occurred despite the fact that it had demonstrated high impact. The literature also points to the fact that fine targeting of antipoverty programs may undermine its support (Ravallion 2007).

In the poorest countries where CCTs have been financed through loans, fiscal sustainability remains a concern. Handa and Davis (2006) find that the PRAF II in Honduras, which has been supported through soft loans from the IDB, will probably continue to rely on international lending. This, they argue, will probably postpone the Government's decision to fund the programme permanently. Similarly, Columbia's program is also funded by international finance institutions' lending, through IDB and the World Bank. The potential for financial sustainability is less clear than in Honduras' case (Handa and Davis 2006).

*Finally, it is worth noting that political considerations have contributed to the rapid expansion of conditional cash transfer programs.* Around 20 countries mostly in Latin America have now adopted a CCT in one form or another, and approximately 20 more are considering to implement one (Adato and Hoddinott 2007). It seems to be more popular among governments to provide conditional transfers as opposed to unconditional as the former can be seen as an energetic initiative to lift people out of poverty in the short and the long run, while the latter may be viewed as a passive handout that may segment existing inequalities. This difference is even enlarged by the fact that the conditional transfer programs usually require the recipients to use some public services that are intended to increase their human capital. As improved human capital is singled out in the poverty-reduction debate as a major prerequisite for breaking the transmission of poverty from one generation to another, the conditional cash transfer programs have been attributed a central role for long-term development in many Latin American and Caribbean countries. Hence, politicians may be evaluated on basic performance indicators like school enrolment and health clinic usage, and conditioning the cash transfer on such behavior may therefore give positive results in the medium term that may help them stay in office. This does not imply, however, that CCTs will be embraced by governments in other developing countries. Schubert and Slater (2006) notes that a government's perception of CCTs probably will depend on how its electorate view poverty. If poverty is seen as a result of individual failure rather than lack of opportunity, as is found in Latin America, then CCTs may be more popular among the voters since these programs "force" the recipients to get on track for long-term poverty reduction.

## 7 Summary of Evaluation Findings

The positive experiences with the CCTs in Latin America have led to the recommendation that conditional cash transfer programs should be promoted. However, our synthesis suggests that these recommendations may be premature since there is neither much knowledge about the critical factors that have led to the positive results that have been recorded, nor is it clear whether these programs can keep poor families in poverty traps because they create disincentives to work. The latter point is straightforward in that targeting benefits to the poorest imply that these will lose the benefit if they increase their income above the threshold. Hence, it may be better for poor people not to work in order to keep the benefit. Finally, the context under which conditional cash transfers have brought positive results in Latin America is very different from the context in the areas where such assistance now is planned, like in Sub-Saharan Africa.

The main findings from the evaluation literature can be summarized as follows:

- In areas suffering from humanitarian crisis, insufficient food supply and poor connection to nearby markets should not be considered for cash transfer programs. In-kind food assistance would be more effective in reducing the hardship.
- Giving vulnerable households cash transfers may help to preserve their asset base and increase their future incomes through reductions of distress renting out of land or out-migration, help households pool savings, and allow farmers to sell their crops when prices are high and to buy seeds or livestock so that they could start work again. Some also invest some of the cash in productive activity and hence contribute to long term poverty reduction.
- Cash transfers may be more prone to corruption and elite capture than in-kind assistance, and CCTs even more than the UCTs as the certification induced by conditionality gives the opportunity for dishonest bureaucrats to take bribes.
- Different models of arranging cash transfers to children have broadly similar effects on poverty, and it is effective to target children to reach the poor in many developing countries.
- Effectiveness of the cash transfer interventions depends to a large degree on the size of the transfers and program coverage. A common feature of African cash transfer programs excluding pension systems is that they usually reach very few beneficiaries in comparison to the actual size of the group.
- Conditioning cash transfers on use of public services may decrease the welfare of a household in comparison to an unconditional cash transfer.
- Several requirements need to be in place before CCTs can be considered: The public service that the CCT is conditioned upon must be functioning, safe, accessible and have to have capacity to include new participants. The administrative capacity and skills must be at the required level to handle complex procedures. The reasons for non-participation in the public services need to be investigated.
- Cash transfers to the mother improve the wellbeing of her children more than cash given to men, improve her status and reduce tensions in the household.
- The World Bank experience suggests that UCTs tend to have lower administrative costs than other social assistance programs. However, the total costs of CCTs in Latin America are not higher than unconditional programs in that region. The costs vary substantially across programs and can be adjusted in line with the perceived need for monitoring.
- An important drawback of applying conditionality is that if it is too difficult for the intended beneficiaries to comply with the requirements, then they will be excluded from the program. Many CCTs do not reach the most vulnerable by design. As vulnerable groups are of major concern for Norwegian aid, the implications of conditionality should be carefully assessed before embarking on these types of programs.

- Means testing, which is the most common mechanism used to curb pension spending in developing countries with non-contributory pension systems, is found to be costly and riddled with errors of inclusion and exclusion.
- Targeting performance may not yield relevant information about program performance and degree of poverty reduction. Targeting can induce poverty traps where the beneficiaries do not have any incentives to improve their situation. These costs can be very high and are seldom included in the calculations on the efficiency of targeting. This implies that broad targeting and universal programs are to be preferred from an efficiency point of view as more poverty can be prevented for a given budget. This is important for Norwegian development cooperation as poverty reduction is the overarching aim of this assistance.
- Universal and broad targeted cash transfer programs are affordable, easier to implement and monitor and sustainable for all developing countries – it is a matter of political will.
- The main outputs from the CCT when it comes to school enrolment rates, reduced school drop-out and improved health clinic attendance are rather impressive. Conditionality may be important in explaining the positive results of CCTs, but it is not measured against other relevant interventions.
- There seems to be positive effects on nutrition from the CCT, although the exact mechanism through which the program affects behavior is not known.
- Many CCTs have contributed to improved status of women, but more could have been achieved if gender had been included in the overall program design. The same could have been achieved in an unconditional program if designed accordingly. As women's rights is one of the major aims for Norwegian development cooperation, this is certainly an area where Norway can contribute in future designs of cash transfer projects.
- Another point worth considering for Norwegian development cooperation is to make sure that new universal and broad targeted cash transfer programs have similar monitoring and evaluation designs as the CCTs. Results from rigorous impact evaluation tends to get most attention in the international debate, and much of the popularity of fine-tuned conditional programs stems from this evidence.

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