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Can all Cash Transfers Reduce Inequality?

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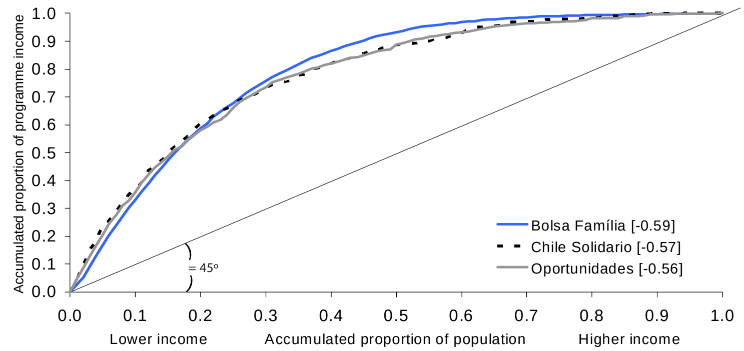
Over the last decade or so, Conditional Cash Transfer (CCT) programmes have proliferated in Latin America and beyond. CCTs are designed to reduce poverty, both in the short and the long term. These programmes usually provide a cash transfer to poor families, conditioned on children's school attendance and regular medical checks-ups of both children and pregnant women. CCTs are seen by many national governments and multilateral agencies as a cost-effective instrument to reduce poverty and provide the poor with opportunities. Overall, the sum of all transfers represents a very small share of national budgets and, obviously, even smaller fractions of national incomes. Still, CCTs *can* have a significant impact on poverty and inequality.

There is an extensive list of studies showing that CCTs reduce poverty, improve education and health outcomes, and alleviate various other sufferings of the poor, such as child labour and child mortality. There is also a heated debate on whether cash transfers should be conditional or not. However, not much has been discussed about their impact on the unacceptably high income inequality that has tormented Latin America for centuries. A recent paper examines the impact of such programmes on inequality in the three countries currently applying the best-known CCTs, i.e., Brazil's *Bolsa Família*, Chile's *Chile Solidario*, and Mexico's *Oportunidades*. These three countries also happen to have solid national statistical systems and household surveys covering periods of reference before and after implementation of their respective CCT programme, which allows good impact evaluation.

These programmes differ from one another in several ways. *Bolsa Família* and *Oportunidades* are both large programmes, covering respectively 11 and 5 million beneficiary households in 2004, but they diverge in the way targeting takes place. While *Bolsa Família* is a highly decentralised programme where targeting is the responsibility of municipal governments, *Oportunidades* undertakes massive surveys of poor areas to choose the target population through a much more centralised mechanism. By contrast, *Chile Solidario* is a small programme covering only about 225,000 households. It targets the extremely poor through a national system that registers beneficiaries on the basis of intense monitoring of families conducted by social workers.

The impact of CCTs on inequality can be gauged from the most widespread measure of income distribution, namely, the Gini coefficient. Total household income derives from several sources: labour, pensions, social security and CCT transfers, among others. Changes in the Gini coefficient can be broken down into changes in each income component. How much any given component actually contributes to the total change in inequality can in turn be indicated by the change in inequality of that component ("the concentration coefficient") and by the change in the component's share of total income.

Targeting performance



All three CCTs examined show outstanding targeting results. Their concentration coefficients are close to –0.5, i.e. nearer the perfect pro-poor coefficient of -1 and far from the least pro-poor, +1. This can also be seen in the diagram, which shows concentration curves for the CCT component of total income in each country. For reference, the graph also shows the 45º degree line that assigns the same income to everyone in the population. Since all three concentration curves pass far above that line, the implication is that CCTs are transferring income to the poorest, thus reducing inequality. Remarkably, despite differences in the targeting mechanism, the effectiveness in reaching the poor is similarly high in the three programmes considered.

The reduction in inequality produced by *Chile Solidario* had only a small impact, changing a meagre 0.1 point in the Gini coefficient. Inequality in Mexico and Brazil, on the other hand, fell by 2.7 points. The key to understanding these results can be found in the share of total income that such transfers represent. The well-targeted income transfers of *Oportunidades* and *Bolsa Família* are sufficiently large to produce a significant reduction in inequality, even though they are small (close to 0.5%) in relation to total national household income in Brazil and Mexico. By contrast, the transfers of *Chile Solidario* are so small (less than 0.01% of total household income) that even with very good targeting they cannot make a dent in inequality.

Much remains to be discussed about CCTs, not least whether transfers should be targeted or universal and whether they should be conditional or unconditional. This brief analysis of three conditional cash transfer programmes and inequality suggests two particular issues for further discussion: (i) the choice among alternative ways to design an effective targeting mechanism; and ii) the optimal scale and income-targeting threshold that can ensure a meaningful impact on inequality.

Reference:

Sergei Soares, Rafael Guerreiro Osório, Fabio Veras Soares, Marcelo Medeiros and Eduardo Zepeda; "Conditional Cash Transfers in Brazil, Chile and Mexico: Impacts upon Inequality." IPC Working Paper No. 35. April 2007.

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