

How Much Do Non-Cash Components and Externalities Affect the Impact of Cash Transfers?

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Much of the debate about conditional cash transfer (CCT) programmes revolves around the issues of targeting and conditionalities. Despite the many impact evaluations of CCT programmes, mostly in Latin America, there is little evidence on either the effect of the cash alone or the value added by the conditionality.

The cash component has an *income effect* that allows families to consume more goods and services, including healthcare and schooling. Depending on the families' preferences, this rise in income may also lead to a change in the consumption share of goods and services. Because of non-cash components, however, there might be a *substitution effect* that changes the way in which households spend their income, aside from the expected changes due to the increased income. Thus the question is how these other components change household behaviour in terms of the consumption pattern.

If the impacts on outcomes of interest were explained mostly by the looser budget constraint, then the other components would add an unnecessary cost to a cash transfer programme. But if monetary transfers were not enough to induce the desired changes, then non-cash components would be relevant. In this case, the cash transfer would serve basically to encourage families to comply with the conditionalities and to engage in complementary programmes.

Another concern in measuring the impact of a CCT programme arises from the fact that both beneficiary and non-beneficiary households can be affected by the mere existence of a social programme and the presence of other beneficiaries in their community. The two most convincing examples of externalities are the effects of general equilibrium, which changes prices and opportunity costs in the economy, and social interaction, which affects households' preferences.

As both beneficiaries and non-beneficiaries are subject to externalities, this effect can heighten (lessen) the programme's potential impact when the externality is in the same direction as (opposite direction to) the intended effect. In the presence of household interactions, therefore, a wider coverage could either increase or reduce the expected impact. If this effect is not taken into account in the evaluation design, impact estimates may be biased.

Ribas et al. (2010) evaluated the impact of Tekoporã, a CCT programme in Paraguay, on consumption and savings. They put forward a methodology that makes it possible to separate the programme's impact into participation (direct) effect and externality (indirect) effect. These effects were further decomposed into income effect and substitution effect, the latter representing the role of programme components other than cash.

The authors claim that in addition to the programme's individual direct effects, its impact is also externalised across households. If the programme had no externality effect, it would increase the level of consumption by 21 per cent, food consumption by 15 per cent, and the share of adult clothing by 0.7 percentage points among treated households. However, the externality effects of the

programme on these outcomes are sufficiently negative to cancel out the participation effect. Hence the programme's total effect on these outcomes is null or even negative.

An externality effect that boosts the participation effect is on savings. Half of the programme's total impact on the savings rate, which stands at 31 per cent, comes from each component—that is, participation and externality. Indeed, Tekoporã's design includes visits by social workers to help households plan their budgets. In a seasonal-agriculture economy, precautionary savings play a critical role in budget planning. Thus the "saving message" transmitted by the social worker may have spilled over onto other poor households, leading to a reduction in their consumption.

The second decomposition shows that the participation effect on the consumption level is mainly due to the income effect. The cash component of the programme, however, has no effect on the consumption share of treated households. Thus an unconditional transfer might be effective in increasing household consumption, but might not be effective in changing the consumption choices.

The externality effect, on the other hand, is not related to income changes. Whenever externality effects are significant, they are entirely due to behavioural change brought about by non-cash components (*substitution effect*). The cash transferred by Tekoporã thus has no multiplicative effect on aggregate demand that would affect the beneficiary households, apart from the direct effect of the transfer.

The results show that non-cash components directly encourage participating households to reduce relative expenditure on food and increase the share of child and adult clothing. Nonetheless, the only effect that remains after taking externality into account is on the share of child clothing. The non-cash incentive to spend money in the best interests of children is behind this result. Furthermore, the lack of an externality effect on child clothing means that the change in consumption preferences toward children, promoted by conditionalities,¹ is not emulated by other households.

All the components of CCT programmes may have some effect on the desired outcomes, but programme managers should know which of them are more effective and efficient for the purposes of meeting programme goals, and through which channels they work. Understanding the impact of the conditionalities and the existence of externalities is an important step in reaching a better assessment of the black-box results of standard impact evaluations, as well as in providing policymakers with better information on the adequacy of their CCT programmes.

Reference:

Ribas, R. P. et al. (2010). 'Beyond Cash: Estimating Externality and Behavioural Change Effects of a Non-Randomised Cash Transfer', *IPC-IG Working Paper 65*. Brasília, International Policy Centre for Inclusive Growth.

Note:

1. Programme managers have argued that the effect on child clothing is strictly related to the increase in school attendance.