

Do CCTs Reduce Poverty? by Eduardo Zepeda International Poverty Centre

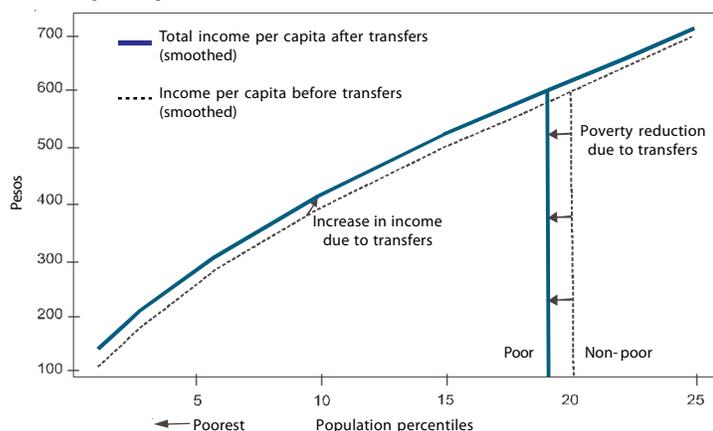
Conditional Cash Transfer (CCT) programmes, borne in Latin America, are often identified as a new generation of anti-poverty policies. They feature targeted transfers to poor households based on the condition that beneficiaries protect and build their human capabilities—e.g., children attend school or family members regularly visit health clinics.

Evaluations confirm that such transfers do reach the poor. They also help increase school attendance (including progression from primary to secondary school), promote more intensive use of basic health services and improve nutrition. Despite some initial concerns, CCTs also do not generally undermine the willingness to work except for the desirable reduction, in some cases, of child labour. In this note, we concentrate on their impact on income poverty.¹

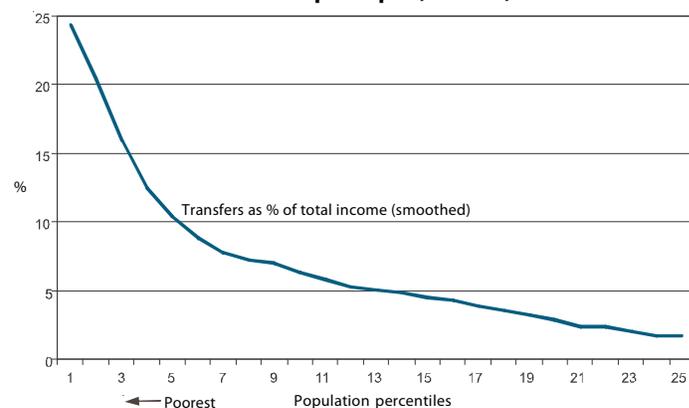
Certainly, CCTs are affordable: their budgets account usually for no more than 1-2% of GDP. In 2004, in the midst of expansion, Brazil's *Bolsa Familia* (including *Bolsa Escola*) and Mexico's *Oportunidades* reached 8 and 5 million households. These programmes do not suffer from much leakage to the non-poor. However, one major criticism is that CCTs appear to produce only a small reduction in poverty—even in countries with wide coverage such as Brazil and Mexico.

While this criticism might be valid, it is misleading. Graph 1 shows total income per capita (smoothed) for the poorest 25% of the population in Mexico before and after *Oportunidades* transfers. Assuming that 20% of the population is poor, these transfers reduce the incidence of poverty to about 19%. Similarly modest reductions in poverty result if lower incidences of poverty are assumed.

Graph 1
Income per capita and CCTs in Mexico, 2004



Graph 2
Share of CCTs in total income per capita, Mexico, 2004



In Brazil, for a poverty line set at one half the minimum wage, the reduction in poverty is from 15% to 13%.²

But focusing on changes in the headcount ratio captures only a small portion of their total benefit. Their impact on poverty should be gauged by measuring the effect of transfers on all poor individuals, whether their income rises above the poverty line or not.

Graph 2 shows that for the 25% poorest in Mexico, cash transfers can represent a significant share of total income. The share of transfers in total income is highest for the poorest (rising to about 25%) and declines as income increases. In Brazil the share for the poorest rises to around 50%. Consequently, more bottom sensitive measures of poverty, e.g. poverty gap and severity of poverty, show larger changes in poverty. While the incidence of poverty declined by 5%, the poverty gap and the severity of poverty measures dropped by 12% and 19%, respectively.

Thus, an affordable CCT programme, featuring well targeted transfers, can make a major difference in the income of poor households. Of course, CCTs are no substitute for widespread employment generation, which could provide sustainable generation of income. In the short term, CCTs cannot be expected to significantly reduce poverty. However, they do, indeed, offer much needed income support to poor households. In this sense, they play a valuable role as basic social protection. If well designed, they could also have a longer run positive impact on enhancing the human capabilities of the poor.

References:

1. See "Social Protection: the role of cash transfers." *Poverty in Focus*, June, 2006.
2. Soares et al, "Cash Transfer Programmes in Brazil: Impacts on Inequality and Poverty." IPC Working Paper 21, 2006.