Summary Findings

Conditional cash transfer (CCT) programs have proved to be effective in inducing chronic poor households to invest in the human capital of their children while helping reduce poverty. They have also protected child human capital from the shocks that affect these households. In this paper, we argue that many non-poor households exposed to uninsured shocks have to use children as risk coping instruments, creating long term irreversibilities in child human capital development. We explore how CCT programs can be designed to serve as safety nets for the vulnerable non-poor when hit by a shock. This would help them not use children as risk coping instruments, thus avoiding long term irreversibilities in child human capital development and creation of a source of new poor.
Uninsured risk and asset protection:
Can conditional cash transfer programs serve as safety nets?

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Abstract

Conditional cash transfer (CCT) programs have proved to be effective in inducing chronic poor households to invest in the human capital of their children while helping reduce poverty. They have also protected child human capital from the shocks that affect these households. In this paper, we argue that many non-poor households exposed to uninsured shocks have to use children as risk coping instruments, creating long term irreversibilities in child human capital development. We explore how CCT programs can be designed to serve as safety nets for the vulnerable non-poor when hit by a shock. This would help them not use children as risk coping instruments, thus avoiding long term irreversibilities in child human capital development and creation of a source of new poor.1

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1. Slipping into poverty due to uninsured exposure to risk

In the last two decades, there have been major successes in moving millions of people out of chronic poverty. Chen and Ravallion (2004) estimated that the number of extreme poor, with daily income less than one dollar, fell by some 400 million between 1981 and 2001, implying a halving of the world extreme poverty rate from 40% to 21%. This success was, however, confined to East and South Asia, and mainly to China. In the rest of the world, the number of extreme poor remained about constant. And it rose in Sub-Saharan Africa, Latin America and the Caribbean, and Eastern Europe and Central Asia. Using a $2 a day poverty line, the number of poor rose for the world over the period.

These figures show that the fight against poverty is far from won. This is in a sense surprising. While major inroads have been made in taking large numbers of people out of chronic poverty, we see reproduction in the number of people in extreme poverty in many parts of the world, and a rise in $2 a day poverty worldwide. This implies that there exists a source of new poor that partially or completely erases the gains made in taking people out of poverty.

Following a pathways from poverty framework (de Janvry and Sadoulet, 2004), reduction in chronic poverty has been achieved through the use of three types of instruments:

i) Asset creation for the poor. This has been the consequence of improvements in human capital such as health and education, redistributive programs for natural capital such as land reform, improved access to financial capital for the poor, programs of capital transfer to poor entrepreneurs, and the build up of social capital among the poor.

ii) Improved opportunities for the poor to use their assets more productively. This has been due to expanding employment opportunities for unskilled and low-skilled labor as a consequence of rapid labor-intensive growth, technological change in smallholder production, access to new markets and reduction of transactions costs in accessing markets, public goods investments such as infrastructure, and institutional innovations supportive of the competitiveness of small farmers and small entrepreneurs such as improved financial services, insurance for production and prices, legal provisions for contracting, and producers organizations.

iii) More effective and more inclusive social protection programs targeted at the chronic poor. This includes large cash transfer and conditional cash transfer programs effectively reaching the poor. In both Brazil (Helfand and Levine, 2005) and Mexico (World Bank, 2004), uplifting large numbers of extreme chronic poor from poverty during the last decade has been largely credited to the transfers achieved through these programs.

While a lot has been learned about how to reduce poverty through these three instruments that offered pathways out of poverty to the chronic poor, uninsured exposure
to risk remains an important source of new poor, and little is known about how to protect the vulnerable non-poor from slipping into poverty due to shocks (Dercon, 2006). As a consequence of this lack of attention to the vulnerable non-poor, some programs targeted at the chronic poor that have been effective in uplifting large numbers of people out of poverty have eventually not reduced aggregate poverty as an equal number of people moved into poverty (UNDP, 2004). A study in Andra Pradesh showed that while an array of government programs helped 14% of poor households move out of poverty, 12% of the non-poor households fell into poverty due to a variety of shocks during the same period, leaving poverty rates largely unaffected (Krishna et al., 2004a). A similar study in Kenya showed that while 19% of households in Western villages moved out of poverty, a similar percentage fell into poverty for reasons associated to idiosyncratic shocks (Krishna et al., 2004b). In Mexico, it is widely recognized that in spite of reasonable economic growth and extensive anti-poverty programs, the reason why the incidence of poverty has remained relatively stable over the long run is because vulnerability to shocks acted as a “fabrica de pobres” (World Bank, 2004).

In a long term perspective of poverty reduction, what these observations tell us is that it may be equally important to prevent downward mobility of the vulnerable non-poor into poverty as it is to assist the chronic poor move out of poverty. Yet, little attention has been given to the first, and there is scant experience in program design as to how to achieve protection of the vulnerable, in particular to prevent them from “excessive” asset decapitalization when hit by an uninsured shock that will create long term poverty traps or strong difficulties in re-accumulating assets to move out of poverty.

This is in particular the case for child human capital, a fundamental asset for poverty reduction in the next generation. Many programs have been effective in inducing poor parents to invest in the human capital of their children. This includes the massive interventions through conditional cash transfers (CCT) on the demand side, and large investment programs in educational and health improvement on the supply side. Yet, the children of vulnerable non-poor households remain exposed to shocks as they are disqualified from inclusion in social protection programs for not being among the chronic poor (World Bank, 2004). The ability of these households to keep their children at school and in good health may be as low as that of the poor when hit by large shocks.

Successful improvement in the education and health of the children of chronic poor households through CCT programs may thus be partially cancelled by a loss of human capital among the vulnerable non-poor. This requires revisiting the design of CCT programs so they could achieve both goals: provide education and health services to the children of the chronic poor, as they currently do, and additionally help keep the children of the vulnerable non-poor at school and in good health when hit by a shock. This is what we explore in this paper. The justification is that extending CCT programs to serve both functions could make a major contribution to long term poverty reduction.

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2 In this paper the word vulnerability and uninsured exposure to risk are used interchangeably. As such, vulnerability refers to vulnerability to uninsured risk and not to “vulnerable groups” like orphans, widows, or people with disabilities.
In order to explore this function of CCT programs, we first review in section 2 the mechanisms through which uninsured exposure to risk is adverse to household welfare: ex-ante risk management that reduces households expected incomes at the cost of risk avoidance; and ex-post response to shocks when harmful risk-coping instruments such as taking children out of school are used, leading to loss of human capital and long term irreversibilities in their income generation potential.

In section 3 we examine how risk focused social protection programs can be used to protect the assets of the poor when hit by a shock. This is done either directly by sheltering the assets of vulnerable households (health, nutrition, schooling, livestock, physical assets), or indirectly by placing conditions on transfers that restrict asset decapitalization.

We then proceed to make the case for a CCT approach by showing in section 4 that it is vastly more cost effective than cash transfers in inducing investment in child human capital. By focusing on education outcomes such as school enrollment, we show that CCT programs in Mexico, Nicaragua, and Honduras have been quite effective in protecting the children of poor beneficiaries from being used as risk coping instruments when hit by shocks. In addition, we also find that there exists a large class of vulnerable non-poor households who are currently excluded from CCT programs that target the chronic poor but who also respond to shocks by using children for risk-coping. It is this class of households that risk-focused CCT programs would protect, thus avoiding that they become a source of new poor when exposed to uninsured shocks.

In section 5, we explore elements of design of a CCT with safety net functions. We do this by reviewing program features in existing risk-oriented programs that allow better targeting of risk-coping instruments, greater program effectiveness for ex-ante risk management, and higher program efficiency by providing incentives to reduce moral hazard, induce self-restraint, and encourage graduation. Finally, section 6 concludes with recommendations about piloting CCT with a safety net function.

2. The mechanisms through which uninsured exposure to risk reproduces poverty

There are two mechanisms through which uninsured risks contribute to poverty, one in the short run and the other in the long run. In both cases, child human capital may be lost due to these risks.

2.1. Uninsured risk and ex-ante risk management

In the short run, households who anticipate the adverse consequences of shocks against which they are not insured may devise strategies that will reduce the exposure to and adverse consequences of the shock. When there is a risk-return trade-off in activity choice, this will result in a less productive use of the assets, contributing to poverty. This is because such ex-ante risk management strategies have a cost on expected return: income diversification strategies reduce risk but they also sacrifice the expected income gains from specialization, safer traditional technologies have lower expected yields than
modern high yielding varieties, and secure civil service employment offers lower salaries than labor returns in more risky private sector activities.

As a consequence of their need to manage risk ex-ante, the asset portfolio of vulnerable households has been shown to have a high component of precautionary savings which immobilizes assets in unproductive or low productivity activities (Fafchamps, 2003). This can be under the form of cash, jewelry, grain stocks, and animals held for precaution. Buffer stock saving is done at an opportunity cost on scarce capital assets that could be used more productively if there were fewer uninsured risks, and there is relatively more buffer stocking among the poor due to higher levels of risk aversion and greater exposure to insurance and capital market failures than among the non-poor (Rogg’s (2005) study of livestock holdings in Ethiopia). The composition of portfolios of productive assets is also biased toward larger holdings of liquid assets, with a lower return than fixed assets that cannot be used for risk coping if there is a shock. This is the famous study of distorted portfolio holdings toward bullocks and away from water pumps in India (Rosenzweig and Wolpin, 1993).

Other aspects of ex-ante risk management include keeping children close to home and in the local solidarity network, sacrificing the net social gains that could be derived from letting them migrate, in order to avoid the risk of seeing them exit from the social safety net. This “collective conservatism” (Kuran, 1988) in managing risk at the level of kinship networks prevents children from capturing opportunities on their own, including seeking higher education that may help them migrate (Hoff and Sen, 2005). As such, ex-ante risk management has a general income effect that lowers the demand for schooling and it may raise the discount rate that is applied to future gains, thus reducing investment in higher education with delayed benefits.

If risk-focused social protection programs offer insurance against the consequences of shocks, then households can reduce costly ex-ante risk management. It is in that sense that there are efficiency gains to social protection programs when they offer credible insurance or income guarantee schemes allowing greater risk taking. Risk taking does not have to only be in microenterprises that may concern a small fraction of the poor, but also in choosing employment options that promise greater rewards at the cost of higher risk. Social protection programs such as workfare can fulfill this insurance function, helping reduce the cost of ex-ante risk management. Similarly, CCT programs that would provide secure income when shocks occur would allow greater risk-taking while protecting child schooling. It is this potential function of CCT programs that we explore in this paper.

2.2. Uninsured risk and ex-post risk management

The long run effect of a shock on poverty will be felt if the ex-post, risk-coping instruments available to a household are ineffective or incomplete, inducing “excessive” asset decapitalization to cope with the shock and protect consumption. There are four possible consequences of such “excessive” asset decapitalization that imply a long run contribution to poverty.
The first is when assets fall to such low levels that they create sharp convexities in the subsequent asset accumulation trajectories. Hence, once fallen to low levels of assets, it may take a very long time to recuperate a level of assets sufficient to move out of poverty. This path will be all the more convex that poor households manage assets less productively due to the need for risk management. Empirical evidence provided by McKenzie (2005) for Mexico shows that such convexities affect the poor more than the middle class, and the middle class more than the rich, creating divergence in asset accumulation over time.

The second consequence is when irreversibilities are created by asset decapitalization to cope with a shock. Examples abound. Children may be taken out of school because child labor or saving on school expenses are needed to cope with a household income shock, compromising their long term educational achievements due to strong state dependence in returning to school after having dropped out, even for a short period of time (Jacoby and Skoufias, 1997; de Janvry, Finan, Sadoulet, and Vakis, 2005). Infant nutrition may be reduced due to an income shortfall, leading to a long-term negative impact on children’s physical development (Alderman, Hoddinott, and Kinsey, 2003; Hoddinott and Kinsey, 2001). Health facilities may not be used because of an income shock, leading to a long run loss in labor productivity. Seeds may be eaten as food, preventing planting when the rains return.

The third is when there are high re-entry costs into the labor force or an independent business, following exits due to short run shocks. Inability to pay rent for a few months may throw a tenant into homelessness, creating insurmountable difficulties to re-enter the housing rental market and the labor force. Move to a refugee camp may doom the possibility of recuperating land in the community of origin or of starting over an independent business.

The fourth is true poverty traps created by stable low level equilibria into which a household falls back unless there is a sufficiently large jump in asset holdings to reach another stable equilibrium. Santos and Barrett (2005) show that, in Ethiopia, there is a minimum herd size that needs to be maintained to undertake migratory herding and avoid local pasture degradation. Difficulty to recapitalize is reinforced by social exclusionary mechanisms where low asset productivity due to excessively small herd size leads to exclusion from safety nets achieved through animal transfers to assist herd recovery. As a consequence, “excessive” decapitalization can drive the household into an asset poverty trap (Carter and Zimmerman; Carter and Barrett, 2005). While empirical evidence is largely lacking, this is a classical argument in the development literature in favor of protecting the poor from “excessive” decapitalization.

If risk-focused social protection programs offer access to risk-coping instruments, they can help protect households from “excessive” decapitalization. In particular, they may prevent households from using child labor and from saving on nutrition and school

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3 Convexity means that the relation between assets and accumulation is very flat at low levels of asset ownership.
costs as risk coping instruments with long term consequences on child human capital. CCT programs can offer such instruments, as we explore in this paper.

3. Risk-focused social protection programs

There exists a broad range of social protection programs. Most have the purpose of reducing chronic poverty. As conceptualized in the pathways from poverty framework, they focus on building the assets of the poor, insuring opportunities for the poor to use their assets more productively, and transferring cash or quasi-cash to the poor (social assistance programs). The latter include such programs as food transfers (food stamps, food rations, food price subsidies), cash transfers (grants, non-contributory pensions, family allowance programs), service subsidies (social housing programs, utility subsidies, and childcare centers), and conditional cash transfers (conditional on child and maternal health care practices, school attendance, and nutritional standards, or on use of welfare programs as in Chile Solidario). These programs are typically targeted at the chronic poor. Hence, the question of the vulnerable non-poor remains unaddressed. For the chronic poor, these programs indirectly reduce vulnerability by raising income levels, thus lowering the risk of falling back into poverty as a consequence of an uninsured shock.

We are concerned here with risk-focused social protection programs. Following the logic of the role of risk as a determinant of poverty, these programs can be used by households either for risk prevention or mitigation purposes, thus reducing their ex-ante chance of falling into poverty, or for risk-coping purposes, thus reducing the risk of excessive decapitalization of assets resulting in convexities in post-shock capital accumulation, irreversibilities in asset holdings, high re-entry costs, and poverty traps. Such programs include transfer programs, credit programs, insurance programs, workfare programs, and social fund programs introduced as emergency response to shocks.

While these are programs used by vulnerable people when hit by a shock, they affect ex-ante risk management if households can rely on them. For this, the programs must be in place before a shock hits, the conditions for access to the programs must be well known to households before they are affected by a shock, there must be no risk of rationing in use among eligible households and quick certification when hit by a shock, and there must exist a credible commitment device that these conditions will not vanish with occurrence of a shock. Under these conditions, programs with ex-post risk-coping functions can also serve an insurance function, allowing households to reduce the cost of ex-ante risk management which they incur when they adjust their own income earning strategies.

Most programs with risk coping functions are designed to protect a household’s income and consumption when hit by a shock. Protection of income and consumption indirectly protects the household’s assets since it does not need to decapitalize as much as it would otherwise have had to in order to compensate for a shock. However, from a social perspective, the risk coping intervention may want to directly protect the
household’s assets since “excessive” decapitalization will have long run costs, both socially and privately.

This can be done in two ways. The first is through risk coping programs that are directly targeted at sheltering the assets of vulnerable households. This includes health maintenance programs [fee waivers during a crisis (Indonesia 1998, Thailand 1999, Chile 1973-89), school feeding programs during a crisis (Thailand 1999)], school assistance programs [tuition waivers for the children of the unemployed in Korea (1998), “stay at school” program of emergency scholarships during a crisis in Indonesia (1998-2003)], fodder subsidies for livestock during a drought (Namibia 1992-93), and physical reconstruction programs following natural disasters, conflicts, and economic crises (as in many of the social funds programs, particularly in Africa and Central America).

The second approach is through cash transfers for the maintenance of income and consumption, with conditions attached restricting asset decapitalization. This is what CCT programs with conditions on child education and health would achieve: the cash transfer provides income and consumption protection for the recipient household, and the condition implies that accepting the transfer will protect child human capital from being used as a risk coping instrument. The role of the condition, acting as a price effect on the conditioned asset, is to complement the income effect that the cash transfer would induce. If the price effect is much larger than the income effect, then constraining behavior toward asset decapitalization can be an enormously efficient way of providing risk coping while protecting children’s assets.

This potential function of CCT programs has never been implemented. That is, by expanding the scope of CCT interventions in a non-traditional way via targeting non-poor but risk-exposed households, such programs can directly integrate an innovative way to target risk, while complementing existing program aimed at reducing negative impacts of shocks. The next section discusses this further.

4. Why use a CCT approach for risk-focused social protection? Some lessons from education outcomes

In order to strengthen the argument of the appropriateness of a risk-focused CCT approach, we focus on education and schooling decisions to show how CCT can serve as a cost effective instrument in inducing investments in schooling, protecting children from being used as risk coping instruments and allow vulnerable non-poor households who are currently excluded from CCT programs that target the chronic poor but who also respond to shocks by using children for risk-coping.

4.1. Effectiveness of CCT vs. CT in inducing school attendance

CCT programs that impose a condition on school attendance and health practices have proven to be extraordinarily effective in enhancing the human capital of the children of poor people compared to what could be achieved through an income effect. Some of these programs have become quite large, such as Oportunidades in Mexico that covered 4
million families at the annual cost of $2.2 billion in 2005, and Bolsa Escola that covered 4.9 million families at the cost of $700 million in 2004 (Rawlings and Rubio, 2005). Besides the direct poverty reduction effect achieved by the cash transfers, these programs have been shown to be effective in enhancing educational achievements (Schultz, 2004; Behrman, Sengupta, and Todd, 2006), bettering child health (Gertler, 2004), improving nutrition (Hoddinott and Skoufias, 2004), and reducing child labor (Parker and Skoufias, 2004). There are also important secondary effects of the programs such as local expenditure linkages (Coady and Harris, 2001), household income multipliers through investment in productive activities (Gertler, Martinez, and Rubio, 2005), and educational spillover effects on the non-poor in the same rural community (Bobonis and Finan, 2005).

The key issue, if the objective of an intervention is to induce a higher demand for education among the poor, is to decide whether to obtain it through an income effect (cash transfer, CT), or through a price effect (conditional cash transfer, CCT). There are two pieces of evidence that support the proposition that, dollar for dollar, inducing demand for education via a price effect is much larger than through an income effect. The first is through micro simulating the response to a transfer received by children who go to school (and thus meet the school attendance conditionality) when they have the options of working full time, combining work and school, and going to school full time (Bourguignon, Ferreira, and Leite, 2003). The transfer would induce some of the children who did not go to school to start attending school while working, or to attend school and not work. Using a transfer similar to that offered by Bolsa Escola in Brazil, the authors find that, among poor households, there would be a decline of 58% among children not attending school, an increase of 7% for children attending school and working, and of 5% for children attending school and not working. The effect is large among poor households, as 58% of the 10-15 years old not in school would enroll in response to the CCT. By contrast, when the school enrollment condition is not imposed to receive a transfer, the pure cash transfer has a zero effect on school enrollment. Hence, a CCT induces a large increase in child human capital when a CT does not. For Africa, Kakwani, Veras, and Son (2005) show that cash transfers would buy very little in increased school attendance, recommending against their use based on cost considerations. They consequently suggest using CCT instead, but do not provide results of expected impacts due to insufficient information to use a micro-simulation approach.

The second piece of evidence is using the ex-post Progresa effect to measure the impact of an unconditional versus a conditional cash transfer effect on schooling decisions (de Janvry and Sadoulet, 2005). Here, the schooling decision is entry into secondary school for children who are graduating from primary school in poor rural communities. The CCT is exogenous in a randomized experiment organized by Progresa in 500 communities with treatment and control. The CT (household total expenditure) is not a controlled experiment. While this estimate thus suffers from endogeneity, stability of the estimated coefficients to introduction of a very large number of child, household, community, and state control variables gives confidence that any endogeneity bias would be very small. Results in Table 1 show that, using the regression with all controls and a
quadratic function in expenditures, a dollar of CCT is about 8 times more effective in inducing school enrollment than a dollar of CT at the mean income of the poor.\footnote{The range is from 7 to 9 from the first to the third quartiles of poor households. On the other hand, we find no differential effect of the CCT across income levels, as estimated with an interaction effect.}

We can thus conclude that, once the decision has been made that imposing a condition on behavior is acceptable and feasible, a CCT is considerably more effective than an unconditional CT transfer in altering behavior toward schooling. Hence, if the objective of a risk-coping intervention includes preventing decapitalization of child human capital as an element of risk coping, imposing a condition on school attendance to receive a cash transfer could be quite effective.

4.2. Effectiveness of CCT as a risk-coping instrument in protecting child education

A number of recent studies have explored the ex-post coping role of CCT. While none of the CCT reviewed were originally designed as a safety net program in the sense of reacting or adjusting to crises or shocks, they have performed like one for beneficiary households. These results are thus important in demonstrating the value of a CCT approach in preventing decapitalization of child human capital in response to shocks.

4.2.1 Mexico: Progresa

The Progresa randomized experiment can be used to show that a CCT received in the context of an income shock can be effective in preventing children from being taken out of school. In a separate paper (de Janvry, Finan, Sadoulet, and Vakis, 2005), we show that there is a high incidence of shocks in Mexican marginal rural communities, both idiosyncratic and covariate. Most frequent are unemployment and illness of the household head and exposure to natural disasters at the level of the community. In addition, we show that children are taken out of school when parents are exposed to these shocks, most often to save on school costs and also to send them to work.

The study finds that there is strong state dependence in child education: a child who dropped out of school for a semester has a much higher chance of not returning to school the following semester. For instance, a child in secondary school who misses a semester has a 23\% lower chance of being enrolled the following semester. Girls are more likely not to return than boys. In this sense, shocks create irreversibilities: a short run response in taking children out of school as a risk coping instrument has long run consequences on their levels of educational achievements. Uninsured risk exposure thus contributes to deplete the assets of the poor and to replenish the stock of future poor.

Finally, we also find that Progresa transfers fully compensate the impact of shocks on school attendance. Hence, the CCTs have been effective not only in raising the educational achievement of the chronic poor, but also in helping their children stay at school when hit by a shock. In fact, for the chronic poor benefited by Progresa, we calculated that a quarter of the educational gains from the CCTs were due to their insurance value.
4.2.2 Nicaragua: Red de Protección Social

In Nicaragua, the Red de Protección Social (RPS) is a CCT that targets chronic poor households and provides transfers conditional on children staying at school and making regular visits to health centers. Two recent randomized evaluation studies have shown that, in addition to the overall positive impact of the RPS on schooling and health outcomes, the program has also protected households from various shocks. For example Maluccio (2005) finds that households affected by the coffee sector crisis (mainly small scale farmers) who were participating in the RPS were not only protected against declines in per capita expenditures but also sheltered child human capital in terms of school enrollment rates and child labor outcomes. Specifically, the RPS enabled beneficiary households residing in the coffee region to maintain pre-program expenditure levels compared to a decline of 22 percent in 2001 for non-beneficiary households in the same region. Similarly, while overall enrollment rates in the coffee region increased (presumably as a response to declining employment opportunities for children), they increased more for households in the program (by an additional 25 and 10 percent for boys and girls, respectively). Child labor, especially for girls, decreased among program participants residing in the coffee region by 10 percent relative to their counterparts without the program. In a separate study, Gitter (2005) showed that the RPS helped households affected by droughts to fully protect child schooling: while school enrollment rates declined by nine percent among households affected by drought, the RPS fully protected children against the shock.

4.2.3 Honduras: Programa de Asignación Familia

A recent evaluation analysis of the Programa de Asignación Familia (PRAF) in Honduras suggests that it also protected poor households' welfare in the face of the coffee crisis. The analysis indicates that the cash transfers given out by PRAF conditional on school enrollment have significantly affected the labor allocation decision of credit-constrained coffee farmers while protecting children (Coady, Olinto, and Caldés, 2004). In particular, the study finds that the additional liquidity provided by the transfers has allowed families to maintain children in school, while increasing the time dedicated by adults to coffee farming. As such, the CCTs via the combination of transfers and conditionality have ensured that labor responses to shocks have not occurred at the expense of investments in children’s human capital.

In the three cases reviewed—Mexico, Honduras, and Nicaragua—the CCTs allowed the chronic poor beneficiaries not to use their children as risk-coping instruments, avoiding long term costs on child human capital. This is because the transfers were large enough relative to the shocks observed. This may not always be the case. When transfers are just sufficient to keep children at school in normal times, they may need to be raised when the chronic poor are hit by a shock if child human capital is to be protected. The safety net function of CCTs may thus require to both (1) increase transfers to the chronic poor when hit by a shock to keep children at school, and (2) extend benefits to vulnerable non-poor households with children at risk of being taken out of school in response to a shock.
4.3. Ex-ante protection of children of vulnerable non-poor households

The majority of CCT programs are targeted at the chronic poor. The results obtained above show that the CCTs have been effective in sheltering the human capital assets of the poor from shocks that would otherwise force them to take their children out of school. The next question that we address is whether there are also vulnerable households, excluded from the CCT because they are not chronic poor, that would take their children out of school if hit by a shock. Given strong state dependence in going to school, this would create irreversibilities in response to shocks. If this is the case, extension of CCT coverage to these households when hit by a shock would help protect the human capital of their children.

4.3.1 Mexico: Response to shocks of vulnerable non-poor households

The Progresa randomized experiment that we used above to analyze the response to shocks of chronic poor households can also be used to characterize the responses of non-poor households to the same shocks. The data consist in four rounds of Progresa panel surveys as follows: May and November 1999, and May and November 2000. All of these rounds took place after the start of the program. Although household surveys were collected for two rounds before the start of the program and once more in November 2000, they did not include information on shocks, and hence cannot be used for this analysis.

We focus on the decision to enter secondary school, as enrollment rates are very high in primary school even without any program, leaving little opportunity for any CCT to have any effect on them. By contrast, entry in secondary school is a critical step in rural Mexico on which Progresa has had the most impact, raising the continuation rate from 63 to 76% among the eligible children.

To measure the impact of shocks on school enrollment across households at different levels of welfare, both below and above the poverty line, we estimate the following fixed-effects regression:

\[ Y_{ivt} = \alpha_i + \sum_t \beta_t T_t + \lambda_1 S_{ivt} + \lambda_2 (S_{ivt} \times W_{iv}) + \kappa_1 (P_{iv} \times S_{ivt}) + \kappa_2 (P_{iv} \times S_{ivt} \times W_{iv}) + \varepsilon_{ivt}, \]

where \( Y_{ivt} \) represents whether child \( i \) in village \( v \) at time \( t \) was enrolled in secondary school. \( T_t \) is an indicator variable for the enrollment year, \( P_{iv} \) is an indicator for whether the child is eligible for Progresa (i.e, from a household below poverty level, living in a program village), \( W_{iv} \) denotes the household’s welfare level, and \( S_{ivt} \) is the proportion of households in the community that experienced a natural disaster. The stochastic variable \( \varepsilon_{ivt} \) represents the unobserved determinants of school enrollment, and \( \alpha_i \) represents an individual child fixed-effect. The specification in equation (1) assumes marginal effects of shocks that are linear in the welfare index\(^5\). Although the Progresa effect is estimated from the observations of children that are below the poverty line, we extend the

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\(^5\) A quadratic function in the welfare index was also tested but did not improve on the linear function.
prediction slightly above the poverty level on the assumption that there should be no discontinuity in behavior at this arbitrary threshold. This allows to predict the effect of shocks on the probability of going to school for children who receive (“Progresa shock”) and do not receive (“Control shock”) Progresa, by household welfare level below and above the poverty line.

The predicted enrollment of children that did not experience a natural disaster is embedded in the child fixed-effect. To recover the impact of Progresa on enrollment by welfare level when there are no shocks, we estimate the following equation:

\[
\hat{\alpha}_i = \xi + \delta_1 W_i + \delta_2 C_i + \delta_3 D_i + \delta_4 (C_i \times D_i) + \delta_5 (C_i \times D_i \times W_i) + \delta_6 X_i + \nu_i,
\]

where \( \hat{\alpha}_i \) is the estimated child fixed-effect in equation (1), \( C_i \) denotes whether the child lives in a Progresa village, \( D_i \) indicates whether the child comes from a poor household, \( X_i \) is the age of the child in the base year, and \( \nu_i \) is a random error term. The coefficients \( \delta_4 \) (the direct effect of Progresa) and \( \delta_5 \) (the effect of Progresa by welfare level), along with the constant term in the fixed-effect regression above, give us the predicted enrollment for children who receive Progresa but are fortunate to not experience any shocks.

Results for the probability of enrollment without a shock (equation 2, lower part of Table 2) show that the welfare level influences positively school enrollment. The welfare index calculated by Progresa, based on demographic characteristics, employment status, and indicators of dwelling quality and ownership of common durables, varies from 500 (at the first decile) to 850 (at the ninth decile) with a poverty line set at around 650\(^6\). A child from a poor household with a welfare index of 500 has a predicted probability of enrolling of 80\% compared to a child from a non-poor household with a welfare index of 700 who has a probability of enrolling of 83\% (Table 3). When Progresa is offered to the poor, their probability of enrollment increases from 80 to 85\%, a gain in enrollment of 6.3\%.

Results for equation 1 (upper part of Table 2) show that shocks reduce the probability of secondary school enrollment across all welfare levels. For a poor household, with a welfare index of (say) 500, the probability is reduced by 7\%. For a vulnerable household just above the poverty line with a welfare index of 700, this probability would be −3\%, still about half that of the poor. There are thus many children in non-poor households whose education is vulnerable to shocks. Comparison of the coefficients \( \lambda_2 \) and \( \kappa_2 \) shows that the negative impact of shocks is largely compensated by Progresa across all welfare levels among the poor. Extrapolating this result just above the poverty line thus suggests that access to CCT transfers for the vulnerable non-poor would be of considerable importance to keep their children at school when hit by a shock.

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6 This is an approximate value used for illustration purposes as the calculation of the welfare index and the definition of the poverty line are state specific.
We illustrate these results in Figure 1. The fixed effects line is used as the anchor on which the three categories represented in Figure 1 are drawn. The “Control no shock” line shows how the probability of entering secondary school rises with income (proxied by the Progresa welfare index). When these households are affected by a shock (measured here as the proportion of households in the community that experienced a natural disaster), school participation drops precipitously to the “Control shock” line. For households below the poverty line, Progresa transfers allow to restore school participation to a level that is not significantly different from the no-shock situation, as represented by the “Progresa shock” line. The CCTs are thus effective in sheltering child schooling from these shocks. This risk-coping role of Progresa, if applied to households above the poverty line, would also help them keep their children at school when hit by a shock.

4.3.2 Nicaragua: ex-ante targeting based on both poverty and risk exposure

Building from the RPS results discussed above, an ongoing CCT pilot in Nicaragua (Sistemas de Atención a Crisis) uses both the concepts of chronic poverty and of exposure to uninsured risks in its targeting design. In addition to children’s schooling and health objectives, the pilot aims at enhancing the ex-ante risk management capacity of households related to weather variation via additional components that support income diversification. While the objectives of the pilot are somewhat different from the ones discussed in this paper, it is the only CCT pilot we know that incorporates ex-ante risk considerations in its design and applies targeting based on uninsured risk exposure.

Targeting was done based on both poverty and risk exposure. In a first stage, municipal level data on poverty were combined with rainfall data to create a typology of municipalities based on the two dimensions of poverty and risk. Based on this, six municipalities with high poverty rates and high drought incidences were selected. In a second stage, household eligibility within treatment communities was defined based on proxy means calculations of consumption per capita. Instead of using a national poverty line as a threshold for defining eligibility, a higher threshold was used, the justification being that households above (but close) to the poverty line are also exposed to uninsured weather risk (such as droughts). As such, two categories of eligible households were identified, those based on poverty and those based on uninsured risk exposure.

As we argue in this paper, in the presence of uninsured risks, households might become poor if hit by a shock. While the baseline data cannot be used to confirm this, some of the households in the pilot presumably fell below the poverty line as a result of experiencing one or more of the shocks reported. Indeed, as Table 4 confirms, there is a high incidence of a variety of shocks among poor households in the pilot. For example, 96 percent of all eligible households reported having been affected by droughts during the last year, making many of them fall into poverty. As such, these “new poor” households

---

7 Other justifications for the higher threshold beyond the issue of uninsured risk included concerns of potential underestimates of poverty rates using the proxy means methodology and national poverty line from 2001 (as opposed to a region-specific proxy means methodology that also accounts for price changes and local contexts - the pilot was implemented in late 2005).
became eligible to receive the program based on poverty considerations. While these households are in this case indistinguishable from the chronic poor, they would be exactly the households that a CCT with an ex-ante insurance element would want to extend eligibility to after verifying their exposure to a particular shock.

Targeting non-poor households who are exposed to uninsured risks is crucial for a number of reasons. First, as Table 4 suggests, there is no systematic difference in drought incidences reported between eligible households based on poverty and those eligible based on risk exposure. Similar patterns emerge for all the other shocks except one. Second, while the vulnerable non-poor are more likely to use ex-ante risk management instruments like savings than poor households, they nonetheless cannot fully protect themselves against risk. For example, two thirds of non-poor eligible households have reduced consumption to cope with drought, the same incidence as poor households (Table 5). While they show less exposure to drought than poor households, they had to engage in all cases in significant adjustments to cope with shocks. In particular, despite differences in available risk management instruments, non-poor eligible households do use children to cope with shocks. This is true for a variety of shocks that induce coping strategies that include increasing child labor (Table 6) and taking children out of school (Table 7). We thus see that seven percent of non-poor eligible households use child labor in response to droughts. This goes up to 24 for households exposed to floods. We also see that vulnerable households respond to shocks by taking children out of school, ranging from 4% in the case of droughts, to 9% in case of floods, and 16% when there is a death in the family. Hence, there is much room for using a CCT approach to protect the human capital of children from shocks in rural villages, both among chronic poor and vulnerable non-poor households.

5. How to design a CCT program for risk management? Lessons from Social Protection experiences around the world

Based on the discussion above, how would a CCT program be designed or modified to serve as an instrument to address risk among the vulnerable non-poor which are normally not included among program beneficiaries? In order to answer this question, we review a number of existing social protection and poverty related programs (both CCT and non-CCT) around the world that deal explicitly with risk to draw some insights. The key areas we explore relate to: (i) how to determine eligibility in providing access to risk-coping instruments; (ii) how to insure program effectiveness for risk management; and (iii) how to provide incentives to reduce moral hazard and encourage graduation. Perhaps the initial and not surprising insight in reviewing these programs is the observation that there exists a diverse set of innovative programs with unique features and positive experiences that could be easily integrated in many existing CCT programs to introduce and strengthen their insurance function.

5.1 Eligibility in accessing risk-coping instruments

If a CCT is to serve as a conditional risk-coping instrument to prevent excessive decapitalization in the event of a shock, it is important that the targeting of vulnerable
households be accurately done. There are two options to identify eligible households for a risk-focused CCT, one ex-ante relative to shocks and the other ex-post.

5.1.1 Using risk vulnerability measures to define ex-ante eligibility

Risk vulnerability indicators can be used to define eligibility in an ex-ante manner. In order to implement such an approach in practice, we would need to identify non-poor households who are exposed to specific uninsured risk. For example, in the case of the risk of children dropping out of school discussed above, a risk index can be calculated using a probability equation of the form:

\[
Pr \ (\text{Drop out of school} = 1) = f(\text{child, household, and community characteristics; type and magnitude of shocks; interactions between characteristics and shocks}).
\]

Household characteristics would include not only income/welfare indicators as in the Progresa example, but also many other determinants of vulnerability to shocks such as education, age, demographic structure, and gender of the household head. If eligibility is to be shock-specific, these characteristics should be interacted with shocks in calculating the vulnerability score. Such a score would be used to define eligibility. When a shock occurs, all households deemed vulnerable to the particular shock would then be automatically included in the program. There is no need to verify how the shock has actually affected a particular household, only that it has occurred.

While none of the programs we review in this paper use risk vulnerability indicators explicitly, risk considerations have been considered in the definition of eligibility in various cases. For example, the Korea Public Works Program uses the duration of unemployment for working members in the household in its score system that defines eligibility. In addition, weather insurance schemes in India and Malawi target groundnut farmers on the premise that this is a high risk crop. Similarly, the Livestock Insurance Scheme in Mongolia targets herders due to their high vulnerability to climate shocks.

5.1.2 Defining eligibility ex-post by verifying households’ exposure to shocks

Ex-post eligibility consists of verifying that a formerly non-eligible household has been affected by a shock and that the magnitude of the impact has been large enough to induce eligibility. As such, there are no ex-ante eligibility criteria other than being non-poor in normal times (chronic poor households should have already been incorporated in the program, irrespective of risk exposure). Ex-post incorporation would require re-calculation of the score used to determine eligibility. This calculation could be done on demand, with guarantee of a quick response. As such, the qualification formula should include not only structural indicators to detect chronic poverty, but also indicators that respond quickly to the occurrence of a shock. This includes variables such as adult unemployment, family deaths, disabilities, testing positive to HIV/AIDS, and exceptional medical bills. These indicators used to calculate the eligibility score must all be difficult to manipulate by the household and verifiable by program officers or community
committees. In the example of children dropping out of school, a formerly non-eligible child affected by a shock would be offered incorporation if the new qualification score (capturing the probability of dropping out of school) reaches above the program threshold.

A number of existing programs use this approach. For example, the Jaring Pengaman Sosial, a school scholarship program instituted in the aftermath of the Indonesian financial crisis, uses among its components for eligibility the subjective likelihood that a student may drop out of school due to exposure to the crisis (Pritchett, 2002). The Social Relief of Distress Award in South Africa provides cash transfers in the event of shocks. To be eligible, the applicant needs to suffer a shock that renders her unable to support her family’s basic needs. The program defines specific shocks that qualify for relief such as death of the breadwinner, incarceration, hospitalization, idiosyncratic disasters (like fire), and natural disasters (such as floods and tornadoes). Similarly, the Disability Grants Program in South Africa offers cash transfers to people who cannot work due to a permanent or temporary disability, while the Chile Solidario CCT Program allows for non-poor households to request reexamination of eligibility if they have been affected by a shock such as unemployment.

5.2 Program effectiveness for risk management

For a program to serve not only as an ex-post risk-coping instrument, but also as an instrument to reduce costly ex-ante risk-management, the program’s rules of incorporation must be well known to all vulnerable households (well before shocks occur), the rules must be credible and anchored on a commitment device, and the program should have no rationing for those who satisfy the conditions for incorporation. Quick response must be guaranteed, with a timing announced before shocks occur. In order to avoid decapitalization in the event of a shock, the program needs to act fast in terms of certification, verification of shocks, and disbursement of benefits.

5.2.1 Ensure widespread publicity and clarity of program rules and rights

Widespread knowledge of the program and its rules among vulnerable households is important to allow them to seek what is more productive as opposed to what is less risky. Different mechanisms can be used for this. The Thailand Low Income Card Scheme uses village leaders to announce the program one month prior to the registration deadline and then conducts house visits to ask people to submit their applications. Similarly, officials from the BASIX weather insurance program in India discuss with local leaders and farmers the insurance products they offer using household and village level visits. A similar approach is implemented by the GRET Microinsurance program in Cambodia.

5.2.2 Quick verification of eligibility and guaranteed incorporation

Rapid incorporation is particularly important when a risk-management program is demand based. If eligibility is determined ex-ante, then all that is needed is verification of
the shock. For example, weather insurance schemes in India and Malawi can do just-in-time verification of the extent of weather shocks at various stages of the harvest cycle which trigger immediately whether households are eligible for a payment to be made within a month.

If eligibility is determined ex-post, then the procedure may be longer and as such, having a system in place to guarantee a speedy verification and incorporation process is important. For example, the Health Fee Waiver Programs in Kenya and Chile determine ex-post eligibility on the spot. In Kenya, hospital staff determines eligibility and the waivers are granted the same day. Furthermore, emergency assistance can be given temporarily until the verification process is complete. The South Africa Social Relief Distress Award provides applicants with the first month’s payment even if verification has not been completed. Payment is discontinued if the applicant does not present the necessary documents to verify eligibility by the second month. Finally, the San Francisco County Adult Assistance Program grants an initial one-week period of Presumptive Eligibility in the form of in-kind vouchers for food, housing, and transportation. Normal cash transfers begin when determination of eligibility is made.

In addition, the program must credibly guarantee incorporation upon demand for eligible individuals. For example, in the India National Rural Employment Guarantee Scheme each potential worker submits an application for employment to the Gram Panchayat committee. The committee must then offer employment in one of its projects within 15 days. If no employment is available, employment under another implementing agency is offered. If still no employment is available, an unemployment allowance is paid to the applicant.

5.2.3 **Timely Disbursement of Benefits**

The disbursement of benefits needs to be quick once verification of shocks and incorporation have taken place. In the case of the Self Employed Women's Association Micro-insurance scheme in India (SEWA), the old disbursement policy consisted of patients paying the hospital upfront and submitting receipts and doctors’ certificates to the insurance company for reimbursement. In many cases, this induced asset decapitalization to meet the short run costs. As a response, SEWA developed a different mechanism to ensure that members receive services without the need to pay themselves. An insurance agent visits the patient in the hospital, verifies the expected costs with the doctors, and makes part of the payment (80 percent) on the spot. The rest of the charges are paid at the time of discharge and submission of the relevant documents (Chatterjee, 2005). A similar payment scheme is implemented for the GRET Microinsurance scheme in Cambodia.

Another interesting example is the Mongolia Livestock Insurance program where payments are based on the losses in the first six months of the year. Nearly 90 percent of losses occur during this period. As such, if annual losses were used instead, payments would be made almost a year after the shock. The shorter six month cycle for payment ensures on time and fast disbursement of the insurance.
5.2.4 The program must have mechanisms for accountability and conflict resolution

The majority of programs reviewed have internal mechanisms to resolve conflicts and complaints. For example, in the India National Rural Employment Guarantee Scheme, various levels of monitoring and complaint processes have been introduced, ranging from the village council that provides a forum for public hearings, the program officer who handles general complaints at the block level, the state level where a state ombudsman and help line may be installed, as well as a citizens’ charter that outlines all program entitlements and responsibilities. Similarly, the Urban Food for Work program in Ethiopia uses a committee to act as a liaison between the workers and the local authorities. Finally, in various South African cash transfer programs (Foster Care Grants, Social Relief of Distress Award, and Disability Grants Program), applicants who were denied a grant receive a letter outlining why the application has been refused and how the applicant can appeal. Existence of such mechanisms is important in enhancing the ex-ante credibility of a program, and hence its risk-management value.

5.3 Providing incentives to reduce moral hazards and encourage graduation

The structure of benefits needs to be designed in such a way as to ensure the program’s financial sustainability. For this, the program should include safeguards to prevent moral hazards and program abuse via exploring appropriate levels and length of benefits. Similarly, the program needs to provide incentives for program graduation to prevent dependency by integrating benefits that strengthen the risk management capacity of beneficiaries as well as by introducing clear rules for decertification and graduation.

5.3.1 Prevent moral hazard behavior

In providing insurance, controlling moral hazard is crucial. Verification of shocks must be accurate, monitoring and enforcement mechanisms must be in place to prevent abuse, and program rules must encourage self-restraint to prevent excessive risk-taking and abuse. A number of useful insights can be taken from weather insurance programs in India and Malawi: (i) the payouts are conditional on rainfall indicators, which are exogenously collected and monitored separately making verification of shocks easier; and (ii) since the level of the payouts is based on rainfall intensity, the schemes discourage risk-taking behavior by farmers. Similarly, for the Livestock Insurance Program in Mongolia, the insurance is activated whenever the livestock mortality rate in the region exceeds a trigger level and, as such, does not depend on the individual herder’s livestock losses.

Limitations on the level of benefits can also encourage self-restraint and limit program abuse. The Ontario Rent Bank Program offers emergency rent and energy bill payment to low income people with arrears that put them at risk of homelessness due to short-term shocks. The rule to qualify for emergency assistance consists in an offer to cover rent and utility services for two months in a two years period. This induces individuals to exercise restraint in order to maintain the option of calling for assistance in case of future larger shocks. Similarly, a beneficiary of the Korea Public Works Program
cannot work in more than three consecutive projects, which last three months each. Finally, in Trabajar in Argentina, each beneficiary participates in a project that typically lasts 3-6 months. Inclusion into a new project is not automatic. Ravallion et al. (2001) thus find that a large number of workers leave the program after 6 months (45 percent of Trabajar workers participate in only one project).

Having a well functioning data management system can help minimize duplication of benefits, leakages, and exclusion errors but also enhance accountability mechanisms and avoid general corruption and abuse. In addition, since risk defined eligibility will need to be renewed often, a well designed data management system can facilitate the process. One example is the Jefes de Hogar Program in Argentina which has an elaborate system of cross checks to verify eligibility. The data management system also verifies whether an applicant is in another program of the Ministry of Labor, receiving unemployment insurance, has a formal sector job, or is receiving cash transfers from another program.

5.3.2 Provide incentives for participants to graduate from the program and prevent dependency

Providing skills and risk management instruments through the program design can be an effective way to strengthen the households’ capacity to manage risk but also increase the probability of self-exiting the program. As an example, the Nicaragua Atención a Crisis CCT pilot incorporates activities to promote risk prevention (income diversification in non-agricultural activities) and prevent decapitalization (child schooling and health). In this sense, the benefits are used to protect consumption but to also directly provide new income opportunities. Ravallion et al (2001) find that a high proportion of participants in the Trabajar program in Argentina reports that the program improved their chances of getting a job and gave them a marketable skill. A quarter of the participants responded that the program had expanded their contacts, while half of those who graduated from the program found a job within 6 months.

Finally, time limits on benefits receipt can be used to guarantee program exit and minimize program abuse. For example, the South Africa Social Relief of Distress Award is only available for three months and only under exceptional circumstances can an applicant receive another 3-month grant. Similarly, in India’s National Rural Employment Guarantee Scheme, the program only guarantees 100 days per household. While there is no upper limit to the number of days worked, there is no guarantee for more work beyond these 100 days.

6. Conclusions

Despite advances in policy design to reduce chronic poverty through asset creation, improved opportunities to use assets more productively, and more inclusive social protection programs targeted at the poor, exposure to uninsured risks remains an important source of new poor as well as an impediment to sustainable upward mobility. While greater understanding has been gained about the dynamic links between risk and
poverty (Fafchamps, 2003; Dercon, 2006), little attention has been given to ways of protecting those who are exposed to uninsured risks from slipping into poverty. As a consequence of this, while many programs targeted at the chronic poor have been effective in lifting large numbers of people out of poverty, they have often not managed to reduce aggregate poverty since an equal number of people moved into poverty due to exposure to uninsured risks.

This paper explores the potential role of conditional cash transfers programs in serving as safety nets to protect child human capital from being used as a risk coping instrument when households are hit by a shock. We start by observing that uninsured shocks have a double cost on household welfare: an ex-ante cost of risk avoidance, and an ex-post cost of decapitalization and irreversibilities. Both affect child human capital and are a source of future new poor. Risk-focused programs can be used to protect the assets of the poor from uninsured shocks. This is done directly by sheltering assets, or indirectly through transfers (income effects) or conditional cash transfers (price effects). We show that CCTs are vastly more efficient than CTs in inducing investment in human capital by the chronic poor. In addition, CCT programs observed in Mexico, Nicaragua, and Honduras have been effective in protecting child human capital from shocks. There exists, however, a large number of vulnerable non-poor not covered by these programs who also take their children out of school when hit by an uninsured shock. As such, they are a potential source of new poor. CCT programs designed to act as safety nets for these households when hit by a shock could thus be a powerful component of poverty reduction strategies.

In order to explore this further, we finally explore how the design of CCT programs can be modified in order to provide them with the flexibility to achieve this safety net function. We do this by reviewing the risk related features of a variety of programs targeted at the poor in developing and developed country settings. A number of lessons related to household eligibility for risk coping instruments, program effectiveness for risk management, and incentives to reduce moral hazard and encourage graduation and self-restraint are derived. The key insight is the observation that there exist a diverse set of innovative program rules, unique features and positive experiences that could be easily integrated in many existing interventions, including CCT programs to introduce and strengthen their insurance function.

Despite these insights, little is known in practice about how CCT programs can be used to address risk in a systematic way among vulnerable non-poor households who may be the source of new poor if they decapitalize excessively in coping with shocks. To develop this potential of a CCT approach, experimentation in pilot programs is needed. Putting into place these pilot programs should be a priority for international development agencies.
References


Dercon, Stefan. 2006. “Risk, Growth, and Poverty: What do we know, what do we need to know?” Department of Economics, Oxford University.


Table 1. Relative effectiveness of a CCT vs. a CT in inducing a change in behavior toward child schooling. Progresa data.

<table>
<thead>
<tr>
<th>Linear probability model of enrollment in secondary</th>
<th>Mean</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCT: Treatment community (dummy, 1=US$200/year)</td>
<td>0.718</td>
<td>0.130**</td>
<td>0.127**</td>
<td>0.130**</td>
<td>.128**</td>
</tr>
<tr>
<td>CT: Household total expenditure (US$100/year)</td>
<td>8.055</td>
<td>0.003*</td>
<td>0.004*</td>
<td>.011**</td>
<td></td>
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<td>Quadratic term in household total expenditure</td>
<td></td>
<td></td>
<td></td>
<td>-0.00024**</td>
<td>(0.00011)</td>
</tr>
<tr>
<td>Control variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child, household, and community characteristics</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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</tr>
<tr>
<td>State of residence</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCT/CT effect on enrollment</td>
<td>21</td>
<td>16</td>
<td>8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* significant at 5%; ** significant at 1%
Table 2. Linear predictions of enrollment in secondary school (Progresa Data)

**Equation (1): Secondary school enrollment decision**

<table>
<thead>
<tr>
<th>Term</th>
<th>Coefficient</th>
<th>t-stat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural disaster (S)</td>
<td>-0.180</td>
<td>-4.54</td>
</tr>
<tr>
<td>Natural disaster<em>Welfare (S</em>W)</td>
<td>0.00021</td>
<td>4.02</td>
</tr>
<tr>
<td>Progresa<em>Shock (P</em>S)</td>
<td>0.151</td>
<td>2.10</td>
</tr>
<tr>
<td>Progresa<em>Shock</em>Welfare (P<em>S</em>W)</td>
<td>-0.00018</td>
<td>-1.68</td>
</tr>
<tr>
<td>Wave3 (T3)</td>
<td>0.090</td>
<td>42.90</td>
</tr>
<tr>
<td>Wave4 (T4)</td>
<td>0.065</td>
<td>30.94</td>
</tr>
<tr>
<td>Wave5 (T5)</td>
<td>0.034</td>
<td>17.02</td>
</tr>
<tr>
<td>Constant</td>
<td>0.615</td>
<td>438.09</td>
</tr>
</tbody>
</table>

R2 0.0246
Number of observations 107409
Number of groups 35718

Linear probability equation with child fixed effects

**Equation (2): Determinants of child fixed-effect in equation (1)**

<table>
<thead>
<tr>
<th>Term</th>
<th>Coefficient</th>
<th>t-stat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Progresa Village (C)</td>
<td>0.020</td>
<td>3.00</td>
</tr>
<tr>
<td>Welfare Index (W)</td>
<td>0.0002</td>
<td>6.54</td>
</tr>
<tr>
<td>Poor (D)</td>
<td>0.019</td>
<td>2.25</td>
</tr>
<tr>
<td>Progresa Effect (C*D)</td>
<td>0.084</td>
<td>3.14</td>
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<td>Progresa Effect<em>Welfare (C</em>D*W)</td>
<td>-0.0001</td>
<td>-2.70</td>
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<td>Age (X)</td>
<td>-0.076</td>
<td>-152.66</td>
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<tr>
<td>Constant</td>
<td>0.676</td>
<td>31.45</td>
</tr>
</tbody>
</table>

R2 0.4804
Number of observations 26000
Table 3. Impacts of shocks and Progresa by welfare level

**Equation 2: Probability of enrollment w/o shock and w/o Progresa**

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Poor</th>
<th>Non-poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Progresa village</td>
<td>C</td>
<td>0.0195</td>
</tr>
<tr>
<td>Welfare index</td>
<td>W</td>
<td>0.0002</td>
</tr>
<tr>
<td>Poor</td>
<td>D</td>
<td>0.0187</td>
</tr>
<tr>
<td>Progresa effect</td>
<td>C*D</td>
<td>0.0837</td>
</tr>
<tr>
<td>Progresa effect*Welfare</td>
<td>C<em>D</em>W</td>
<td>-0.0001</td>
</tr>
<tr>
<td>Age - (Grade+6)</td>
<td>X</td>
<td>-0.0757</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td>0.6763</td>
</tr>
<tr>
<td>Predicted probability of enrollment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Equation 2: Probability of enrollment w/o shock and with Progresa program for poor**

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Poor</th>
<th>Non-poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Progresa village</td>
<td>C</td>
<td>0.0195</td>
</tr>
<tr>
<td>Welfare index</td>
<td>W</td>
<td>0.0002</td>
</tr>
<tr>
<td>Poor</td>
<td>D</td>
<td>0.0187</td>
</tr>
<tr>
<td>Progresa effect</td>
<td>C*D</td>
<td>0.0837</td>
</tr>
<tr>
<td>Progresa effect*Welfare</td>
<td>C<em>D</em>W</td>
<td>-0.0001</td>
</tr>
<tr>
<td>Age - (Grade+6)</td>
<td>X</td>
<td>-0.0757</td>
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<tr>
<td>Constant</td>
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<td>0.6763</td>
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<tr>
<td>Predicted probability of enrollment</td>
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**Equation 1: Probability of enrollment with shocks**

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<tr>
<th>Coefficients</th>
<th>Poor</th>
<th>Non-poor</th>
</tr>
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<tbody>
<tr>
<td>Shock</td>
<td>S</td>
<td>-0.1800</td>
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<td>Shock*Welfare</td>
<td>S*W</td>
<td>0.0002</td>
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<tr>
<td>Progresa*Shock</td>
<td>P*S</td>
<td>0.1511</td>
</tr>
<tr>
<td>Progresa<em>Shock</em>Welfare</td>
<td>P<em>S</em>W</td>
<td>-0.0002</td>
</tr>
<tr>
<td>Wave3</td>
<td>T3</td>
<td>0.0901</td>
</tr>
<tr>
<td>Wave4</td>
<td>T4</td>
<td>0.0652</td>
</tr>
<tr>
<td>Wave5</td>
<td>T5</td>
<td>0.0342</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td>0.6146</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Poor</th>
<th>Non-poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in predicted probability of enrollment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shock w/o Progresa</td>
<td>-0.07</td>
<td>-0.03</td>
</tr>
<tr>
<td>Shock with Progresa for all</td>
<td>-0.01</td>
<td>-0.01</td>
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Progresa's poverty line is set at a welfare index of 650.
### Table 4. Shock incidences (%), by eligibility method (Nicaragua Pilot)

<table>
<thead>
<tr>
<th>Shock</th>
<th>Poverty</th>
<th>Risk exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drought</td>
<td>96 [93, 96]</td>
<td>95 [93, 96]</td>
</tr>
<tr>
<td>Increases in consumer prices</td>
<td>80 [78, 81]</td>
<td>80 [78, 82]</td>
</tr>
<tr>
<td>Theft</td>
<td>6 [5, 7]</td>
<td>7 [5, 8]</td>
</tr>
<tr>
<td>Mudslides</td>
<td>7 [6, 8]</td>
<td>7 [5, 8]</td>
</tr>
<tr>
<td>Health shock of working member</td>
<td>4 [3, 5]</td>
<td>7 [5, 8]*</td>
</tr>
<tr>
<td>Floods</td>
<td>3 [2, 3]</td>
<td>3 [2, 3]</td>
</tr>
<tr>
<td>Unemployment</td>
<td>2 [2, 3]</td>
<td>3 [2, 3]</td>
</tr>
<tr>
<td>Death</td>
<td>1 [0.2, 1.0]</td>
<td>1 [0.5, 1.5]</td>
</tr>
</tbody>
</table>

* significant difference at 10%

95% confidence intervals in brackets

### Table 5. Coping strategies for those affected by drought (%), by eligibility method (Nicaragua Pilot)

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Poverty</th>
<th>Risk exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worked more</td>
<td>77 [75, 78]</td>
<td>71 [69, 73]*</td>
</tr>
<tr>
<td>Decreased consumption</td>
<td>67 [66, 69]</td>
<td>66 [64, 68]</td>
</tr>
<tr>
<td>Used savings</td>
<td>35 [33, 37]</td>
<td>43 [41, 46]*</td>
</tr>
<tr>
<td>Sold animals</td>
<td>23 [21, 25]</td>
<td>27 [25, 29]*</td>
</tr>
<tr>
<td>Household members had to work</td>
<td>21 [19, 22]</td>
<td>18 [16, 20]*</td>
</tr>
<tr>
<td>Increased child labor</td>
<td>10 [9, 11]</td>
<td>7 [6, 9]</td>
</tr>
<tr>
<td>Applied for a loan from a bank</td>
<td>10 [9, 11]</td>
<td>16 [14, 17]*</td>
</tr>
<tr>
<td>Received a loan from family</td>
<td>9 [8, 10]</td>
<td>11 [10, 13]</td>
</tr>
<tr>
<td>Took children out of school</td>
<td>7 [6, 9]</td>
<td>4 [3, 5]*</td>
</tr>
</tbody>
</table>

* significant difference at 10%

95% confidence intervals in brackets

### Table 6. Percentage of households increasing child labor to cope with shocks, by eligibility method and shock (Nicaragua Pilot)

<table>
<thead>
<tr>
<th>Shock</th>
<th>Poverty</th>
<th>Risk exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drought</td>
<td>10 [9, 11]</td>
<td>7 [6, 9]*</td>
</tr>
<tr>
<td>Increase in consumer prices</td>
<td>11 [9, 12]</td>
<td>8 [6, 9]*</td>
</tr>
<tr>
<td>Theft</td>
<td>12 [6, 18]</td>
<td>13 [7, 19]</td>
</tr>
<tr>
<td>Mudslide</td>
<td>20 [13, 26]</td>
<td>21 [14, 28]</td>
</tr>
<tr>
<td>Health shock of working member</td>
<td>19 [11, 27]</td>
<td>12 [6, 19]*</td>
</tr>
<tr>
<td>Flood</td>
<td>18 [9, 26]</td>
<td>24 [12, 35]</td>
</tr>
<tr>
<td>Unemployment</td>
<td>16 [5, 26]</td>
<td>16 [5, 27]</td>
</tr>
<tr>
<td>Death</td>
<td>21 [1, 41]</td>
<td>26 [5, 48]</td>
</tr>
</tbody>
</table>

* significant difference at 10%

95% confidence intervals in brackets
Table 7. Percentage of households taking children out of school to cope with shocks, by eligibility method and shock (Nicaragua Pilot)

<table>
<thead>
<tr>
<th>Shock</th>
<th>Households eligibility decided on the basis of:</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Poverty</td>
</tr>
<tr>
<td>Drought</td>
<td>7 [6, 9]</td>
</tr>
<tr>
<td>Increase in consumer prices</td>
<td>8 [7, 9]</td>
</tr>
<tr>
<td>Theft</td>
<td>13 [7, 18]</td>
</tr>
<tr>
<td>Mudslide</td>
<td>12 [7, 17]</td>
</tr>
<tr>
<td>Health shock of working member</td>
<td>14 [7, 21]</td>
</tr>
<tr>
<td>Flood</td>
<td>16 [8, 25]</td>
</tr>
<tr>
<td>Unemployment</td>
<td>16 [5, 26]</td>
</tr>
<tr>
<td>Death</td>
<td>11 [-5, 26]</td>
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</tbody>
</table>

* significant difference at 10%

95 % confidence intervals in brackets
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Summary Findings

Conditional cash transfer (CCT) programs have proved to be effective in inducing chronic poor households to invest in the human capital of their children while helping reduce poverty. They have also protected child human capital from the shocks that affect these households. In this paper, we argue that many non-poor households exposed to uninsured shocks have to use children as risk coping instruments, creating long-term irreversibilities in child human capital development. We explore how CCT programs can be designed to serve as safety nets for the vulnerable non-poor when hit by a shock. This would help them not use children as risk coping instruments, thus avoiding long-term irreversibilities in child human capital development and creation of a source of new poor.

Aldain de Janvry, Elisabeth Sadoulet, Pantelis Solomon and Renos Vakis