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A Conflict-Sensitive Approach to Conditional Cash Transfers in Indonesia: Can CCTs Reduce Conflict?

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A Conflict-Sensitive Approach to Conditional Cash Transfers in Indonesia: Can CCTs Reduce Conflict?

Submitted to
Professor William Ascher
And
Dean Peter Uvin

by
Glenys Kirana

for
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Abstract

Given that conditional cash transfers (CCTs) can be a very effective social welfare program to reduce poverty and improve education and health outcomes, but may exacerbate conflict, this thesis addresses strategies for conflict-sensitive formulation and implementation of CCTs in Indonesia. This thesis raises the immediate need to address poverty in Indonesia and seeks to learn from the successes and challenges of other CCTs, such as those enacted in Mexico, Brazil, Turkey, and the Philippines. This thesis also looks into existing literature comparing the effectiveness of CCTs to other social protection programs (SPPs) and finds that CCT is one of the most effective (SPPs). Moreover, this thesis also explores the reasoning and conditioning factors as to how CCTs may reduce or exacerbate conflict, and finds that it can reduce conflict through the education channel (e.g. positive peer effect, reduction of time to spend doing other activities), employment channel (e.g. education leading to higher chances of getting employed), and the income substitution channel (cash benefits received would reduce incentives to engage in financially-motivated crimes). Nonetheless, this thesis also seeks to enhance the targeting mechanisms of CCTs to ensure that it does not exacerbate conflict. More specifically, this thesis concludes that Program Keluarga Harapan (PKH), the CCT program in Indonesia, should employ a more centralized targeting to reduce opportunities for local elite capture in its 7,000 districts. Furthermore, this thesis proposes the creation of a more competitive system in electing which districts it works with by asking district heads to submit proposals outlining why and how PKH will work in their respective areas, which will hopefully motivate them to be more accountable and to reduce administrative costs.
Table of Contents

Acknowledgments .................................................................................................................. i
Abstract ................................................................................................................................. ii

Chapter 1: Introduction .......................................................................................................... 1
  Magnitude of poverty in Indonesia .................................................................................... 1-5
  Element of conflict sensitivity ......................................................................................... 5-6
  Magnitude of conflict in Indonesia .................................................................................. 6-9
  CCT as an approach to deal with the problem ................................................................. 9-11
  Successes of PKH ........................................................................................................... 11-12
  Challenges to PKH ......................................................................................................... 12-16
  Conflicts arising from administration of Program Keluarga Harapan ......................... 16-17
  Roadmap ............................................................................................................................ 17

Chapter 2a: Indonesia’s CCT Program ............................................................................... 18
  Geographic targeting ....................................................................................................... 18-19
  Beneficiary selection ...................................................................................................... 19-20
  Cash benefits .................................................................................................................. 20-21
  Impact evaluation .......................................................................................................... 21-23
  Budget stabilization ........................................................................................................ 23-24
  Graduation schemes ...................................................................................................... 24
    PKH KUBE ..................................................................................................................... 25-26
    PNPM Generasi ........................................................................................................... 26-28
    Other complementary programs .................................................................................. 28-29

Chapter 2b: Cross-country comparisons of CCT ................................................................. 30
  Impact that CCT has made in other countries ............................................................... 30
  Impact on income and poverty ....................................................................................... 30-31
  Increase in household expenditure and consumption .................................................. 31-33
  Impact on education ....................................................................................................... 33-35
  Impact on healthcare ..................................................................................................... 35-37
  Impact on conflict ........................................................................................................... 37-38
Challenges to CCTs ................................................................. 38
  Targeting dilemma ......................................................... 38-42
  Budget stabilization ....................................................... 42-45
  Importance of scalability .............................................. 45-46
  Graduation strategy ..................................................... 46-48
Chapter 3: Conditioning factors ........................................ 49-60
Chapter 4a: Comparison of CCTs to other Social Protection Programs (SPPs) ...... 61-63
  Knowledge gaps and challenges in impact evaluations of SPPs ........ 63-66
  Comparing impacts on consumption .................................. 66-67
  Comparing impacts on education ....................................... 67-68
  Comparing impacts on child labor ..................................... 68
  Comparing impacts on health and nutrition ......................... 68-69
  Cost-benefit analysis: what is the best social protection program? .... 70-73
  Why cash transfer is the best SPP ..................................... 73-75
Chapter 4b: Comparing CCTs to Active Labor Market Programs (ALMPs) .......... 76
  The role of ALMPs ......................................................... 76
  Evaluation of ALMPs ..................................................... 76-79
Chapter 4c: Importance of Targeting .................................... 80
  Universality vs. targeting ............................................... 80-85
  Types of targeting ........................................................ 85-87
    Simple-means test ..................................................... 87
    Proxy-means test ..................................................... 88
    Community-based targeting ......................................... 88-89
    Categorical targeting ............................................... 89-90
    Self-targeting ........................................................ 90
  How targeting has worked in other SPPs in Indonesia ............... 91-92
  Best combination for CCT in Indonesia .............................. 92-93
Chapter 5: Conclusion ........................................................ 94-97
References ........................................................................... 98-109
Chapter 1 (Introduction)

Magnitude of poverty in Indonesia

In a country with 252 million people spread across 13,000 islands, the government of Indonesia is tasked with ensuring that every household has access to basic necessities and has equal opportunities and capabilities to make ends meet. Nonetheless, the problem of poverty remains prevalent in Indonesia as 28.6 million (11.3 percent of total population) Indonesians are living below the national poverty line set at IDR330,776 ($22.60) per month per person – which amounts to around US$0.75 per day.\(^1\) The situation looks even bleaker when using the international poverty line of $2 per day as the threshold, which would classify 40 percent of the population as poor.\(^2\) While Indonesia’s average economic growth of 5.8 percent since 2010 has helped to “lift 3.3 million Indonesians out of poverty,”\(^3\) the pace of poverty-reduction efforts has been slowing down in recent years. In the 4-year horizon between 2006 and 2010, poverty incidence rate fell by 1.2 percent per year, whereas between 2011 and 2014, it only fell by 0.5 percent per year.\(^4\)

This is relevant to education, healthcare and income distribution. Given the magnitude of poverty, this incidence affects educational attainments of children in poor and very poor households in the country. Since the 1970s, Indonesia has focused on increasing primary and junior-secondary enrolment rates. Currently, the national primary

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\(^3\) Ibid

\(^4\) Ibid
completion rate and primary school enrolment rate stands high at 105 and 92 percent, respectively, and secondary school enrolment stands at 77 percent. However, the quality of education in Indonesia, remains concerning as it only ranks 69th on the global school rankings, whereas its Asian peers – Singapore, Hong Kong, South Korea, Japan and Taiwan – tops the first five spots on the list. More specifically, compared to its Southeast Asian peers, Indonesia’s relative position still remains pretty low as Vietnam, Thailand, and Malaysia sit at the 47th, 52th and 12th, respectively, on the rankings. In addition, poor school infrastructure, lack of teacher training and low quality textbook material also add up to some of the reasons why statistics alone do not always represent a full picture in analyzing the state of education in Indonesia. On a macro level, low levels of education also result in lower economic productivity for the country. Despite the additional strain on youth-oriented social services at a time when Indonesia is benefitting from a demographic dividend, it is more important now than ever to invest in education and ensure that the country has strong human resources to contribute to the economic growth in the country.

The magnitude of poverty also affects health attainments in the country. Due to the lack of income for medical treatment, only 85 percent of newborns are protected against tetanus. The number of children under the age of five with fever receiving antimalarial drugs at 0.8 percent is also quite low, and rather concerning given that

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5 Secondary school in Indonesia generally encompasses seventh to twelfth grade, with the division being made clear by the terms ‘junior secondary school’ which refers to seventh to ninth grade, and ‘senior secondary school’ which refers to tenth to twelfth grade.


7 Ibid

malaria remains prevalent in all areas of Eastern Indonesia (which refers to provinces of Maluku, North Maluku, East Nusa Tenggara, Papua and West Papua). Moreover, improved sanitation facilities are only able to reach 61 percent of the population with access, and the numbers are even lower for those without. Lack of access and poor medical infrastructure, with only 0.9 hospital beds per 1,000 people puts 28 million people in the country at a disadvantage as they are unable to participate productively in society. In an isolated case, parents who get seriously ill would be cutting off the main, and sometimes only, source of income for the family. In addition, Indonesia also still lags behind in improving health outcomes for pregnant women, as maternal mortality ratio stands high at 126 deaths per 100,000 live births. This raises the question of whether there are adequate health services for pregnant women, or if these needs are prioritized within each household’s spending habits. Similarly, the same can be seen in the health statistics for younger children, as infant and child mortality rates stand high at 23 and 27 percent, respectively. When women and young children do not receive adequate health services, they not only become more vulnerable to diseases, but their future prospects are also more limited.

To make matters worse, the widening income inequality also adds to the relative deprivation of those who reside at the bottom of the socio-economic scale. With 250

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10 Improved sanitation facilities generally refer to facilities that ensure hygienic separation of human waste from human contact, which can include: flush/opur latrine, pit latrine with slab, and composting toilet.


12 In contrast to Malaysia, Singapore and Brunei, which has 1.9, 2.0 and 2.8 hospital beds, respectively, per 1,000 people.

13 Comparing to Malaysia, Singapore and Brunei, which stands at 40, 10, 23, respectively, per 100,000 live births.

14 Again, in contrast to Malaysia, Singapore and Brunei, which stands at 6, 2, and 9, respectively, in infant mortality rates; and 7, 3, and 10, respectively, in child mortality rates.
million people sprawled over 17,000 islands, ensuring equal economic and political participation for all seems like a daunting enough task for any government to accomplish. Nonetheless, income inequality has been on the rise, as evident through the increase in Gini coefficient – from 0.31 in 2000, 0.43 in 2013, and even to 0.51 in 2014 – categorizing Indonesia as a high-inequity country by the World Bank.\textsuperscript{15} Moreover, consumption inequality has also mirrored that of income inequality, as “average consumption per person of the richest 10% of households was 6.6 times that of the poorest 10%; by 2013, this had risen to 10.3 times.”\textsuperscript{16} These statistics are troubling, as a study by Fajnzylber, Lederman and Loayza (2002) has found broad risks that increases in income inequality raises crime rates, which in turn affect the quality of life of those affected “who must cope with a reduced sense of personal and proprietary security.”\textsuperscript{17} High income inequality also leads to reduced socio-economic mobility of the poorest households, weakening consumption growth, reducing investments in human capital, and decreasing entrepreneurial activity; all of which has significant implications on the country’s overall economic growth.\textsuperscript{18}

Furthermore, historically, development has been centered on the island of Java, creating further tension between the inner islands and the outer islands. Data released by BAPPENAS (The State Ministry of National Development Planning) reveals that regional disparity has widened through the years. In absolute terms, while most of the poor reside in the island of Java, however – which follows logically given that 60 percent of the

\textsuperscript{15} Priasto Aji, “Summary of Indonesia’s Poverty Analysis,” 4.
\textsuperscript{16} Ibid.
\textsuperscript{18} Priasto Aji, “Summary of Indonesia’s Poverty Analysis,” 4.
population reside in Java – poverty rate is much higher in the Eastern part of Indonesia. Data from 2014 shows that the highest poverty incidence was found in the provinces of Papua (27.8 percent), West Papua (26.3 percent), East Nusa Tenggara (19.6 percent), Maluku (18.4 percent), and Gorontalo (17.4 percent).\(^\text{19}\) Moreover, regional disparity is also apparent in the differences in the level of physical and digital infrastructure, economic investment and educational and health attainments.\(^\text{20}\)

*Element of conflict sensitivity*

In addition, the gap in poverty is found to be widening between countries affected by violence.\(^\text{21}\) The impact of conflict and violence on poverty-alleviation efforts is so grave that “for every three years a country is affected by major violence (battle deaths or excess deaths from homicides equivalent to a major war), poverty reduction lags behind by 2.7 percentage points.”\(^\text{22}\) More shockingly, the report also found that no low-income fragile or conflict-affected country has yet achieved a single MDG.\(^\text{23}\) The picture gets even bleaker as people in fragile and conflict-affected areas are “more than twice as

\(^{19}\) Priasto Aji, “Summary of Indonesia’s Poverty Analysis,” 4.


\(^{21}\) The role of conflict in development has been the focus of a growing literature, as conflict can get in the way of the implementation of humanitarian assistance or welfare programs. In the same way, humanitarian assistance and welfare programs may also exacerbate conflict when it does not operate in a conflict-sensitive manner. The term ‘conflict-sensitivity’ is often defined as “the capacity of an organization to understand the conflict and context in which it operates, understand the interaction between its operations and the context of conflict, and act upon this understanding in order to avoid negative impacts and maximize positive impacts on the context.” In development work, implementing a conflict-sensitive approach has become essential as failure to do so can create mistrust and disharmony in what otherwise would be potentially beneficial programs. In certain cases, inadequate planning to incorporate conflict-sensitive approach could easily marginalize vulnerable groups, deepen the root causes of ethnic or religious conflict and contribute to the escalation of violent conflict. Source: Adam Barbolet, Rachel Goldwyn, Hesta Groenewald and Andrew Sherriff, “The utility and dilemmas of conflict sensitivity,” *Berghof Research Center for Constructive Conflict Management*, April 2005, accessed November 20, 2015, [http://www.berghof-foundation.org/fileadmin/redaktion/Publications/Handbook/Discussion_Chapters/dialogue4_barbolet_etal.pdf](http://www.berghof-foundation.org/fileadmin/redaktion/Publications/Handbook/Discussion_Chapters/dialogue4_barbolet_etal.pdf).


\(^{23}\) Ibid, 1.
likely to be undernourished as those in other developing countries, more than three times as likely to be unable to send their children to school, twice as likely to see their children die before age five, and more than twice as likely to lack clean water.\textsuperscript{24}

Magnitude of conflict in Indonesia

In the past few decades, Indonesia has experienced different types of violence. During the Suharto years, it experienced high levels of violent conflict, which included state-sanctioned ones, as violence became one of the defining features of the New Order regime for three decades.\textsuperscript{25} Under Suharto’s rule, the security arms of the state used violence to repress opposition and instill fear to secure its power over the country. State-sponsored violence, for example, included the extra-legal killings of alleged criminals from 1983 to 1985, in which 2,000 people were suspected to have died.\textsuperscript{26} Towards the end of his era, communal rioting started to erupt in big cities in Java, Kalimantan and Sulawesi,\textsuperscript{27} and further culminated in May 1998 as citizens – disillusioned with the New Order regime – took to the streets their frustration, forcing Suharto to resign.\textsuperscript{28} The violence that erupted following Suharto’s downfall was unprecedented in its scale. In fact, during early post-Suharto years, Indonesia experienced “the highest levels of violence since the 1965 killings.”\textsuperscript{29} The available data in 17 of the 33 provinces revealed around 21,500 people lost their lives between 1998 and 2003, consistent with

\textsuperscript{26} Ibid.
\textsuperscript{27} Ibid.
\textsuperscript{28} Ibid.
\textsuperscript{29} Ibid.
international patterns of the emergence of violence during authoritarian breakdowns and when rapid economic decline takes place.\textsuperscript{30}

In its transitional years, violence escalated as Indonesia entered the period of ‘Reformasi’ and started to undergo decentralization at a scale not seen before: local officials and religious leaders used violence to assert their newfound power and authority.\textsuperscript{31} The weakening of the military and state security forces as a result of democratization also led to the eruption of large-scale violence in many areas of the country for roughly half a decade.\textsuperscript{32}

The two deadliest forms of violence – separatist civil war and communal violence – led to thousands of deaths. Episodes of large-scale violence became more common, with the most prominent being the anti-Chinese riot in May 1998, the Bali bombing in 2002, and the attacks on Australian Embassy in 2004, and the Marriott Hotel in Jakarta in 2003 and 2009.\textsuperscript{33} Furthermore, other provinces saw escalation of communal violence which could go on for years, creating enormous destruction in terms of lives and property.\textsuperscript{34} The most prominent conflicts are the ethno-religious conflict in Central Sulawesi and Maluku Province, ethnic and inter-religious violence in North Maluku Province, ethnic conflict between the Dayaks and the Madurese in West Kalimantan in the early 2000s. The impact of these communal violence episodes was quite severe – “fatalities were high (over a thousand in each province, except Central Sulawesi), violence was highly organized, government services came to a halt, and clashes were

\textsuperscript{31} Ibid.
\textsuperscript{32} Ibid.
\textsuperscript{33} Ibid, 9.
\textsuperscript{34} Ibid, 10.
spread over large geographic areas.”  

While separatist and ethnic violence incidences do not happen often, they are “typically associated with a high number of deaths.” In contrast, “group brawls and vigilant violence” happen quite routinely, though they only result in minimal deaths.

Breaking down instances of routine violence, a SMERU study finds that it is often correlated with vertical inequality, which means that “the higher the disparity between households or individuals, the higher the chance of routine violence.” Moreover, the study also finds “a highly significant inverted U-shape relationship between income and violence,” indicating that as income increases as violence increase up until the point that conflict needs to subside to make room for more economic growth and higher income.

In the post-conflict period between 2004 and 2012, conflict de-escalation took place in some provinces, though the pace and scales have not been uniform in all provinces. Nonetheless, no conflict has returned to the levels of the early post-Suharto period. Compared to the conflict period between 1998 and 2003, the new post-conflict period saw a “79 [percent] reduction in annual violent deaths in the provinces previously ravaged by communal conflict.” While no large-scale separatist or ethnic conflicts have

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37 Ibid, 1.
38 Ibid, 3.
39 Ibid, 3.
taken place in recent years, there has been a rise in routine violence in “high conflict
areas\textsuperscript{41}” since 2010.\textsuperscript{42}

\textit{CCT as an approach to deal with the problem}

All of these circumstances combined are very concerning for a country with the potential to rise in economic and political prominence both regionally and globally. The unsolved problem of tackling poverty in Indonesia hinders its goals of being more prominent in the regional and global field. Poor households are especially susceptible to negative economic shocks (e.g. sharp increases in food prices, natural disasters, etc.), any one of which may usher them back into poverty.\textsuperscript{43} Thus, the Indonesian government needs to ensure that it has the proper set of social protection program in place to help absorb some of the negative effects of these shocks.

Fortunately, the government has been trying to mitigate the issue of poverty in a number of ways. One is called \textit{Program Keluarga Harapan} (PKH), Indonesia’s version of conditional cash transfer (CCT) program that was started in 2007. Prior to adapting the CCT, Indonesia had also been implementing an unconditional cash transfer (UCT) program, which distributes cash to low-income households with no conditions attached. The purpose of the UCT program was to alleviate the impact of fuel subsidy reductions in 2005, 2006, 2008 and 2009.\textsuperscript{44} When the CCT program was introduced in 2007, it was done with the expectation that it would tackle short-term poverty by giving poor and

\textsuperscript{41} High-conflict areas refer to regions that had a high level of ethnic and separatist violence during Indonesia’s transition times. These regions include: Aceh, Lampung, Jakarta, Banten, West Nusa Tenggara, East Nusa Tenggara, West Kalimantan, Central Kalimantan, Central Sulawesi, Maluku, North Maluku, Papua, and West Papua.
\textsuperscript{42} http://www.smeru.or.id/sites/default/files/publication/inequalityconflictcrime_eng.pdf page 2
\textsuperscript{43} Priasto Aji, “Summary of Indonesia’s Poverty Analysis,” 5.
near-poor households direct cash, and to also invest in health and education of their long-term development.

By 2012, the CCT program covered 1.454 million households spread across 2,001 districts in 33 provinces. By 2015, it has reached 3.5 million household beneficiaries, and the Ministry of Social Affairs just renewed commitments to increase scope of the program to reach 6 million beneficiaries by the end of 2016. In comparison to the UCT program, which covered 19 million poor and near-poor households, the CCT program still has relatively lower coverage. An expansion of the CCT is to be expected, as having conditions for households to keep their decisions accountable is often more politically acceptable to non-beneficiaries, and helps to ensure that the money distributed is going to improve the long-term development of the country.

Specifically, beneficiaries of the program would receive “quarterly cash transfers” ranging from IDR 200,000 (US$14.83) to IDR 600,000 ($44.49). The implementing agency, the Ministry of Social Affairs, initially provided benefits to 432,000 extremely poor households in seven provinces. The pilot program was intended to increase access to and improve the quality of health and educational services for the beneficiaries. In terms of education, qualified households are to send children aged five to 15 to elementary school and junior secondary school (up to ninth grade). In addition, pregnant mothers and

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infants have to go for regular health check-ups at the public health clinics. To increase the incentives for beneficiaries to meet the conditions attributed to receiving the cash, the penalty ranges from reduction of cash given to termination of participation from the program.

Successes of PKH

Initial evaluation of the CCT program has yielded positive results in improving the welfare of participants. On average, monthly expenditures increased by IDR 19,000 ($1.41) per person, which accounts for a ten percent increase compared to pre-program levels.\textsuperscript{48} Through the survey, it has been found that the additional spending has been used on purchasing high-protein foods and health expenditures. The Ministry of Social Affairs also recently announced that CCT is one of the most effective programs in reducing income inequality. An initial impact evaluation (World Bank, 2011) found that there was an increase in the usage of primary healthcare services.\textsuperscript{49} Specifically, pregnant mothers are 13 percent more likely to complete four pre-natal checkups and 21 percent more likely to complete the recommended two postnatal visits, compared to pre-program levels.\textsuperscript{50} Moreover, children are more 30 percent more likely to be taken to local health facilities to be weighed, 11 percent more likely to get vaccinated and 13 percent more likely to get treated for diarrhea.\textsuperscript{51}

Researchers from SMERU Research Institute, a pro-poor think tank based in Jakarta, have noted that beneficiaries often feel non-economic as well as economic

\textsuperscript{48} Ibid, 32. \\
\textsuperscript{49} Ibid, 6. \\
\textsuperscript{50} Ibid, 6. \\
benefits. In terms of cash benefits, one researcher cited the example of households in Gorontalo Province that have used the cash to slowly build the house. In Western Java, one beneficiary graduated from the PKH program because he moved up an income class, after using the cash received from the program to invest in his business and pay for his children’s school fee. Furthermore, non-economic benefits are generally felt in how beneficiaries began to change their behavior, and saw an increase in confidence and awareness of knowledge. These three things are achieved through regular group meetings facilitated by PKH administrators. Through these meetings, PKH facilitators provided information on household management, child care, and entrepreneurship. These counseling sessions induce changes in how beneficiaries understand the importance of seeing a doctor when they are sick. SMERU researchers particularly note the importance of facilitated group meetings that are empowering the households. Since this goal is harder to quantify and cannot be fully achieved in just a few years, PKH has started to expand its activities by setting up PKH KUBE (Kelompok Usaha Bersama), a community-based entrepreneurship program and PKH IFDS (Individual Family Development Session).

Challenges to PKH

Nonetheless, CCT programs face several challenges in its implementation, such as administrative cost, monitoring cost, targeting, corruption, socio-cultural expectations and political tension. Ensuring proper and effective implementation of cash transfer programs is important as poor implementation of cash transfer programs can lead not

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52 Ulfah Alifia and Muhammad Syukri, e-mail message to author, February 5, 2016.
only to financial losses, but also reduction of trust and social capital in the community, which can potentially lead to antisocial behavior like crime.\textsuperscript{53}

Currently, the program targets eligible household using a 30-question test about household assets conducted once every 3 years.\textsuperscript{54} The application process itself requires a huge time commitment and human resources to administer all these tests. The accuracy of these self-targeting tests is also challenged by the initial evaluation results, which shows that increasing the distance to the registration station or requiring an additional family member to be present at the time of registration has not improved the results.\textsuperscript{55} Creating an accurate and effective targeting method is crucial because “crime increased by approximately 0.13 percentage points, which means approx. 70,000 more households were victims of crime than if the program had been accurately targeted.”\textsuperscript{56}

Furthermore, implementation of the CCT program also places a significant responsibility on the part of the district head, who is responsible for distributing the money. Political decentralization in Indonesia also shifts the locus of conflict from broader to more localized levels. With the average district size of 35,000 people – with 7,160 districts spread across the archipelago – it opens up potential for destructive conflict when social tension arises within each community. Given the circumstances, enacting social welfare policies like the CCT puts pressure on the district heads to make a careful selection to determine which families should be qualified for the program. As a result, poverty-alleviation efforts can sometimes lead to increased social tension and

\textsuperscript{54} Ibid, 7.
\textsuperscript{55} Ibid.
\textsuperscript{56} Ibid, 2.
violence, which ends up undermining economic growth and the intended poverty-
 alleviation efforts.

Targeting errors can happen in two instances: leakage – the share of ineligible
households receiving the benefits – and undercoverage – the share of eligible households
not receiving the benefits. Poorly targeted programs risk reducing communal trust and
reciprocity within communities, which reduces their collective social capital, making
these communities more susceptible to crime. In addition, the same study by Cameron
and Shah (2012) also found that targeting leakages error reduces social capital more than
targeting undercoverage error does. To improve targeting mechanisms, the study
highlights the importance of improved communication, transparency and increased
participation of the community throughout the selection process.

Additionally, given that there are approx. 500 district heads at the sub-national
level in Indonesia, administrative cost takes up a large proportion of the government
budget allocated for the program. The big administrative cost of the CCT program is due
largely in part to its conditionality that requires consistent monitoring. To ensure program
efficiency, CCT programs need to monitor whether a beneficiary’s child is attending
school regularly and if infants and pregnant mothers are going for regular health check-
ups.

Furthermore, the selection process, if not done fairly and transparently, can also
lead to more conflict as the added pressure of perception of widening income distribution
also adds to the possibility of conflict through the implementation of these programs.

57 Cameron and Shah, “Can mis-targeting destroy social capital and stimulate crime? Evidence from a cash transfer
program in Indonesia,” 22-23.

58 Ibid.
This is an especially pertinent issue when the targeted area has had pre-existing social, religious, or ethnic conflict prior to the introduction of the CCT. Conflict often gets in the way of development, and can affect the flow of implementation of CCTs. At the same time, introducing CCT in conflict-ridden communities may help to reduce conflicts in these areas. Often times, conflict affects economic activity as it delegitimizes the rule of law, creates insecure property rights – that may reduce investment – and creates an additional tax in conducting economic activity.\textsuperscript{59} Thus, a program that helps to reduce violence and conflict is likely to have beneficial long-term social, economic and political effects.

On top of that, results from a field study conducted by SMERU researchers also show that the lack of physical access to some villages has caused facilitators to only be able to visit some villages sparingly. In some cases, facilitators would only visit when disbursing cash benefits (once every three to four months), making monitoring conditionalities harder. As a result, PKH has run into problems with verifying the fulfilment of conditionalities, as coordination between the facilitators and the school and health center authorities is weak. A better system of taking notes of students’ attendance in schools is also important.

In addition, training and education of program facilitators, whose knowledge and understanding of the program, is still lacking. Given that training has only occurred twice in seven years (once in 2007 and again in 2014), there is a lot of misinformation and miscommunication. The lack of training is concerning, given the tasks that facilitators

face in dealing with poor households of various characteristics and backgrounds. At the heart of it, the key to behavioral change in poor households lies in the ability of the facilitators to motivate PKH beneficiaries. One successful approach for facilitators is to visit beneficiary households whose children would not go to school otherwise.

The lack of facilitators has led to program administrators lowering their standards of what an ideal facilitator should be able to do. The difficulty in finding qualified facilitators can be explained by the lack of incentives. PKH facilitators are expected to fully dedicate themselves to the program, but the work benefits they get is not comparable to the tasks that they have to perform. The expectations for facilitators that they cannot have another job that takes more than six hours per day, whereas people often view working for the CCT program as a side job. The lack of incentives drains the motivation of CCT facilitators. This has led to inappropriate charges on the beneficiaries. A SMERU case study reports cases of facilitators demanding IDR10,000 ($0.76) from each household.

Conflicts arising from administration of Program Keluarga Harapan (PKH)

Some parties – including beneficiary households, PKH facilitators and village officials – admit that there are still targeting errors of overinclusiveness and underinclusiveness in the PKH program. However, SMERU researchers have pointed out that that they have never found a big conflict arising due to the lack of targeting accuracy.⁶⁰ Usually, the problem of targeting error is reduced by village officials using “cross subsidies,” which is to cut other benefits from other programs (e.g. Bantuan

⁶⁰ Ulfah Alifia and Muhammad Syukri, email message to author, February 5, 2016.
Langsung Sementara Masyarakat, benefits given to mitigate the effects of removal of oil subsidies) to give to other households that are considered deserving but are not registered as beneficiaries of PKH. Beneficiaries have suggested that the timing of the cash disbursements should not occur too often, as they create a sense of jealousy among non-beneficiary households. Though this has not created major conflict, some beneficiaries have admitted to being “teased.”

Rather than causing conflict, Indonesia has used PKH as a tool to help victims in conflict-ridden areas. The Minister of Social Affairs Khofifah Indar Parawansa has stated that PKH will be made available for victims of conflict in Aceh and families of members of the former Free Aceh Movement (GAM).

Roadmap

Overall, this thesis demonstrates that when designed and implemented properly, CCT can be a powerful tool to reduce poverty, improve living conditions, and reduce conflict in the area that it operates in. To illustrate this main point, chapter two is going to cover a more in-depth analysis of Indonesia’s CCT program, Program Keluarga Harapan (PKH), and a comparative analysis of CCT programs’ successes and challenges in other countries (mainly focusing on Brazil, Mexico, Philippines, and Turkey). Moreover, chapter three looks at the conditioning factors of CCTs, by exploring underlying assumptions as to why CCTs may or may not work. Finally, chapter four contains a comparison of CCT to other types of social protection program; and investigates further the question of designing the most effective targeting method.

61 Ibid.
Chapter 2a (Indonesia’s CCT program)

Indonesia’s CCT program, *Program Keluarga Harapan*, has been rapidly developing since the pilot program was rolled out in 2007 with 348 participating sub-districts in 49 districts at seven provinces, covering 0.5 million poor households.63 The most recent data show that in 2015, it reached 3.5 million household beneficiaries; and the Ministry of Social Affairs just renewed commitments to increase scope of the program to reach six million beneficiaries by the end of 2016.64 The CCT was designed with three goals in mind: to provide more income to the poor, to improve access of the poor to basic healthcare and nutrition especially for children and pregnant women, and to increase net enrollment in elementary and junior secondary school for the poor children.65

*Geographic targeting*

First, at the provincial level, the pilot provinces were selected based on each provincial government’s willingness to join the program, and the extent to which they represented Indonesia’s diverse characteristics.66 Then, at the district level, 80 percent of the poorest districts are chosen based on transition rate, malnutrition and poverty rate. It is further filtered through from districts that are selected for a different social protection policy program, the rural community-driven development project. At this stage, during the pilot program, 49 districts and cities were considered eligible. Furthermore, at the sub-district level, those considered “supply-side ready” are randomly selected to

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64 Supriyanti, “Program Keluarga Harapan, Ujung Tombak Penangan Fakir Miskin.”

65 Program Keluarga Harapan, “The Indonesian Conditional Cash Transfer Program.”

participate in the program, which are determined by statistical analysis of existing health and educational facilities and providers. In the end, 588 sub-districts were selected, with 259 as treatment groups and the other 329 as control groups.\textsuperscript{67}

\textit{Beneficiary selection}

From 2007 until 2012, the National Statistic Agency used a basic health and education survey to identify extremely poor households. This list is updated annually. The 2005 registry contained about 19.1 million households, supposedly at the lowest income distribution, and had [also] been used as the list for the temporary unconditional cash transfer in 2005.\textsuperscript{68} The survey not only contains questions to assess households but also the readiness of the facilities in certain areas to host PKH. Starting from 2012, PKH program administrators started using the Unified Database (\textit{Basis Data Terpadu}) in conjunction with the National Team for the Acceleration of Poverty (TNP2K), which contains the names and addresses of individuals from households in the lowest 40 percent of welfare distribution.\textsuperscript{69} Furthermore, to minimize exclusion errors, program administrators also interviewed other households not included in the list to identify newly poor households. However, results showed limited impact as only five percent of households were included in the new list. Furthermore, a proxy-means test was used to identify households, who were further screened through categorical targeting based on their demographics.\textsuperscript{70} The criteria include: households with pregnant and/or lactating

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\textsuperscript{68} Nazara and Rahayu, “Program Keluarga Harapan: Indonesian Conditional Cash Transfer Programme,” 2.
\textsuperscript{69} Ibid.
\textsuperscript{70} Alatas, \textit{Program Keluarga Harapan: Main Findings from the Impact Evaluation of Indonesia’s Pilot Household Conditional Cash Transfer Program}, 17.
\end{flushright}
women, children aged 0-15 years, and children aged 16-18 years who have not completed nine years of basic education.

From there, the National Statistics Agency (BPS) hands the list to implementing agency, Ministry of Social Affairs, who are responsible for finalizing and approving list of beneficiaries. While originally the program only meant to target “very poor households,” additional funding became available so that the scope of beneficiaries may include those in the “poor households” category.\(^7\) To assemble the final beneficiary list, the PKH Implementation Unit (UPPKH) reviewed the data with potential PKH candidate households. Through this selection process, approximately 430,000 beneficiary households were identified during the pilot program in 2007.\(^7\) By 2016, the Minister of Social Affairs Khofifah Indar Parawansa aims to increase beneficiaries to six million households.\(^7\)

**Cash benefits**

The amount that each household receives depends on its individual circumstances. In general, each household will receive a set amount of IDR 200,000 (US$15.26) annually, and households will receive additional cash if they satisfy one of the following conditions: a pregnant mother and children under the age of 6 will receive an additional IDR 800,000 (US$61), primary school children will receive an additional IDR 400,000 (US$30.5), secondary school children will receive IDR 800,000 (US$61).\(^7\) Thus, the least

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71 Ibid.  
72 Ibid.  
amount of money that beneficiaries will receive is IDR 600,000 (US$45.77), and the most is IDR 2,200,000 (US$167.81). However, initial evaluations have come to the conclusion that the amount of cash benefits is too small to cover education and health expenditures. For example, “the poorest 20 percent of households in Indonesia spend, on average, IDR2.8 million (US$213.6) for a year of secondary education per student, which represents approximately 30 percent of total household expenditures.” As a result, the maximum amount of money that beneficiaries may receive (US$167.81), is not enough to cover one aspect of the conditionality. Thus, for PKH benefits to reach its full potential, the amount of cash benefits needs to be reevaluated to mirror the real needs of poor households.

Impact evaluation

An initial evaluation found that the CCT program helped to increase average monthly expenditures on food and healthcare by IDR 19,000 (US$1.41) per person, which amounts to a ten percent increase when compared to pre-program levels. The evaluation also found that generally households spend most of the additional income on high-protein foods and health care. The study also found that mothers are more likely to complete four pre-natal check-ups by 13 percent compared to pre-program levels, and are 21 percent more likely to complete the two post-natal visits. For children up to five years old, the chances of going to the local health facilities to be weighed increased by 30

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75 Ibid.
76 Ibid, 22.
77 Ibid, 6.
78 Ibid, 6.
79 Alatas, Program Keluarga Harapan: Main Findings from the Impact Evaluation of Indonesia’s Pilot Household Conditional Cash Transfer Program, 6.
percent above baseline levels.\textsuperscript{80} Similarly, the chances of children getting vaccinated and getting sent to healthcare facilities when having diarrhea also increased by 11 and 13 percent, respectively, compared to pre-program levels.\textsuperscript{81}

However, as CCT is a demand-side intervention, the introduction of the program has caused an increase in the price of health services for both local health facilities and price of midwives. This dilemma is consistent with one found in another CCT program which shows that pregnant mothers and children are utilizing health services more, yet there are hardly any changes in health outcomes. The weakness in supply-side reveals a general disadvantage found in CCT programs, in which little or no focus is being directed to strengthening and enhancing the quality of the health service providers. While in the initial pilot provinces, supply-side readiness is one of the main determinants, the program will face great difficulty ensuring every sub district will meet its criteria once it starts to expand to further areas in the country.\textsuperscript{82}

In terms of education outcomes, the initial 3-year survey did not reveal any pattern changes in terms of enrolment rates and dropout rates. One explanation for this is that the quarterly cash transfers received did not coincide with the academic school year, which did not allow parents to pay for tuition in time.\textsuperscript{83} Additionally, some parents may not be able to afford to pay for out-of-pocket expenses (e.g. uniform, textbooks), especially if their children are in junior secondary school (seventh to ninth grade).\textsuperscript{84}

\textsuperscript{80} Ibid.
\textsuperscript{81} Ibid.
\textsuperscript{82} Ibid, 23.
\textsuperscript{83} Alatas, \textit{Program Keluarga Harapan: Main Findings from the Impact Evaluation of Indonesia’s Pilot Household Conditional Cash Transfer Program}, 22.
\textsuperscript{84} Alatas, \textit{Program Keluarga Harapan: Main Findings from the Impact Evaluation of Indonesia’s Pilot Household Conditional Cash Transfer Program}, 19.
Moreover, comparing CCT areas with non-CCT areas, the program also does not show any significant changes in level of school enrolment as primary school enrolment rate stands high at 95 percent. The junior secondary school enrolment rate is slightly lower, at 83 percent, however, the evaluation did not yield any differences, which reveals another problem that need to be addressed.

One of the other implied benefits of the CCT is to increase the incentives for students to attend school, thereby lowering the rate of child labor. However, since child labor rates have not gone down since the start of the program, many have suggested that the amount distributed is not enough to lure children to quit work and go back to school. The impact on education also suffers from the supply constraints faced by education providers. An initial report by the National Development Planning Agency found that supply constraints on the education side is apparent in the “[lack of] availability of teachers, overcrowded classrooms, insufficient teaching materials and classroom equipment.”

**Budget stabilization**

The structure of poverty alleviation programs in Indonesia is divided into three different clusters: Cluster 1 is the poverty alleviation program that targets individuals and households (e.g. CCT, subsidized rice program, health insurance and education cash assistance), Cluster 2 includes programs that are community-driven (e.g. PNPM

86 Ibid.
programs), and Cluster 3 includes micro and small enterprises program (e.g. *Kredit Usaha Rakyat*, a credit guarantee program administered by participating public and private banks). Given PKH’s position as a Cluster 1 poverty alleviation program, it has a consolidated multi-year, stand-alone budget, which allows for an easier examination of budget formulation and implementation. Indonesia’s Medium Term (4-year) Development Plan explicitly outlines PKH beneficiary numbers and budget ceilings for four years. Moreover, in recent years, PKH has seen improvements in more timely fund disbursements; despite some disbursement delays in its pilot year in 2007, PT Pos (Indonesia’s national postal service) was able to deliver three out of the four quarterly payments on time in 2008 and 2009.

Going forward, PKH plans to expand coverage to more beneficiaries (as many as six million households in 2016), hopes to double its number of graduates (from 400 thousand to 800 thousand), and plans that by 2017, PKH will be able to cover 25 percent of extremely poor households in the country. President Jokowi, who ran on a populist platform, has been in strong support of the program, and seeks to increase its budget by 78 percent, from IDR5.6 trillion (US$423.6 million) in 2015, to IDR9.98 trillion (US$754.9 million) in 2016.

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90 Ibid.
91 Ibid.
92 Supriyanti, “Program Keluarga Harapan, Ujung Tombak Penangan Fakir Miskin.”
Graduation schemes

Beneficiaries can only stay in the PKH program for a maximum of six years, at which point they are ushered into either one of the graduation programs (e.g. other social assistance programs or other employment-related services) to facilitate them out of poverty if they still have not exceeded the household income/consumption level cut-off point. Prior to the 6-year period, households can also exit the program based on changes in family status, which is reviewed during the recertification period performed once in three years.\textsuperscript{94} The success of a conditional cash transfer program is in a way contingent upon its graduation rate, but also partly on the ability of beneficiaries to be financially independent and seamlessly integrate into the social and economic system. Chile has done this by setting up a multi-layered bridge program to ensure that poor families can reintegrate themselves back into the wider national economy, whereas Brazil has worked with local microcredit and business development enterprises to promote financial independence and entrepreneurship.\textsuperscript{95} Thus, effective graduation schemes would include programs that build on the components of the PKH, such as, well-targeted subsidies in education and health, community development initiatives, direct and proactive entrepreneurship initiatives.

PKH KUBE

In 2015, the government rolled out a new type of graduation approach to PKH, called “Program Keluarga Harapan Kelompok Usaha Bersama,” (PKH KUBE) a type of business-entrepreneurship program. The PKH KUBE builds on the pre-existing KUBE

\textsuperscript{94} “Program Keluarga Harapan: Two Case Studies on Implementing the Indonesian Conditional Cash Transfer Program,” 22.
\textsuperscript{95} Ibid.
program that has existed since 1983. KUBE requires that poor individuals form a group of ten to create their own business plan, which, if successful, will grant them US$2,000 worth of base capital to jumpstart their business. Each group is also equipped with a facilitator, and they meet regularly once a month for three years. Changes in the PKH KUBE not currently present in the regular KUBE program include an emphasis on coaching components by the facilitators for the full three-year duration, instead of the former six-month duration. Another difference is that PKH KUBE participants continue to receive the PKH cash benefits for an additional three years, which could go up to US$300 per year, depending on the category in which they fit (e.g. pregnancy, number of children under five years old, etc.). Moreover, additional benefits include scholarships for school-aged children, health insurance for all family members, and access to a subsidized rice program. In addition, given that PKH KUBE is implemented at a nationwide scale, it has also established a web-based learning center for facilitators and beneficiaries. Currently, the biggest challenge is to mesh together all the various components of the graduation program. While most activities are under the supervision of the Ministry of Social Affairs, some activities, such as the scholarship program and the health insurance program lie under the Ministry of Education and Ministry of Health, respectively.

**PNPM Generasi**

While *Program Nasional Pemberdayaan Masyarakat* (PNPM) *Generasi* is not a formal graduation scheme under PKH, it is considered a complementary program to the

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97 Ibid.

98 Ibid.

99 Juniway and Laras, “Adapting the Graduation Model to Reach Indonesia’s Ultra Poor.”
PKH, as they share many common goals and objectives. Similar to PKH, PNPM Generasi is a social protection program designed to support Indonesia’s goal of meeting the Millennium Development Goals (MDG) in the areas of maternal health, child health and universal education. The main difference is that PKH targets individuals and households (Cluster 1 of poverty alleviation programs), whereas PNPM Generasi is more community driven.

PNPM Generasi has approximately three and a half million beneficiaries, 50 percent of whom are women. However, its scope is not as far-reaching as PKH, as it is currently only active in eight provinces. PNPM is an incentivized community block grant program, which builds on similar objectives to that of the PNPM rural. The flexible approach is expected to help in reducing regional disparity in terms of health and educational attainments across Indonesia. Instead of individual households, PNPM focuses its effort on the community to make decisions and allocate IDR110,000,000 (approx. US$12,000) per village/year of grant fund to target 12 health and education indicators. To ensure that villages are coming up with the most effective policies, the budget for the subsequent year is determined by the program’s effectiveness of tackling the 12 indicators in this current year.

Thus far, PNPM Generasi has shown positive impacts in both health and education indicators, with health indicators showing the largest gains. Some of these gains include “increased frequency of weight checks for young children, increase in the

\[101\] Ibid.
number of iron sachets pregnant mothers receive through antenatal care visits and dramatic increases in health post (posyandu) participation by mothers and children to receive targeted maternal, neonatal, and child health services. Furthermore, a reduction in childhood malnutrition levels ten percent greater than that of children not in the program, and a program evaluation found that the most significant reductions were found in areas that had higher malnutrition rates pre-PKH, which is especially apparent in the case of Nusa Tenggara Timur. In general, the evaluation found that “PNPM Generasi had the greatest impact in areas with low baseline health and education indicators. On average, the project was about twice as effective in areas with very low health and education status (10th percentile of service provision).

*Other complementary programs*

Since the creation of the National Single Registry (BDT) in 2011, linking up complementary programs has become a much easier task. As a result, the names and addresses included in PKH’s program expansion are also included in the targeting for other programs such as Jamkesmas (health insurance program), Raskin (subsidized rice program) and BSM (assistance for poor students). Another crucial component is the role of facilitators in ensuring that PKH beneficiaries are able to access various services offered by the other programs. For example, facilitators should judge whether the PKH cash benefits are enough to buy the subsidized rice from the Raskin program. The role of the facilitator can also be further maximized as the main contact person with both local

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104 Ibid.
105 Ibid.
106 Ibid.
and central government agencies. Moreover, to fully take advantage of program complementarity, program administrators have to make sure that the areas that they operate in have existing school and health infrastructure to be able to support the programs and ensure its effectiveness. Given that the role of the local leaders are crucial in developing local infrastructure, a closer coordination between PKH program administrators, central and local governments remain a pivotal challenge in the years to come.

One recommendation to increase efficiency and coherence of the program is for program administrators to consider consolidating PKH and its graduation programs, similar to how Brazil consolidated its social welfare programs into one streamlined program in the form of Bolsa Familia. Aligning different programs into one might ensure smoother transition for beneficiaries, as well as smoother budget and administrative processes.

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108 Ibid.
Chapter 2b: Cross-country comparisons of CCT

Impact that CCT has made in other countries

In recent times the CCT has been one of the most effective social welfare programs implemented in several other developing countries, among them Brazil, Mexico, Turkey, and the Philippines. These cases are introduced to show what has been accomplished with respect to impact on income, education and health. They also demonstrate the challenges that other CCT programs have faced and how they have been able to overcome them.

Impact on income and poverty

A study done by Fiszbein & Schady (2009) uses three poverty measures to assess the impact of CCTs on income and poverty levels at the program level: headcount index (number of people below the poverty line), poverty gap (average distance between consumption of poor people and the poverty line), and the squared poverty gap (distribution of resources among the poor). Generally, a large impact on consumption also translates into large impact on poverty. For example, in Nicaragua, its CCT program, the Red de Protección Social (RDS), saw a five to seven percent reduction in the headcount index, and a nine to 13-point drop in its poverty gap. Likewise, Colombia’s CCT program, Familias en Accion, saw a seven percentage point drop on the poverty gap and Mexico’s Progresa/Oportunidades saw a 19 percent reduction in the poverty gap.

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between 1996 and 2006. Moreover, Brazil’s Bolsa Familia program has had a significant effect in reducing extreme poverty. For the poorest five percent of the population, the cash transfers that household receive amount to approximately 10 percent or more of their income. Thus, a small cash transfer leads to a bigger impact. In Brazil, a poverty-gap analysis reveals that Bolsa Familia was responsible for a 12 percent reduction in poverty. In 2004 and 2006 alone, the Bolsa Familia program was said to be responsible for reducing income inequality by 21 percent, and for pulling 4.3 million families (out of 12.4 million families) out of extreme poverty.

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Increase in household expenditure and consumption

The objectives of most CCT programs are targeted towards improving the wellbeing of children, thus, they tend to shift budgetary allocations in favor of children as well. Moreover, since the cash disbursements are given to women, it increases their bargaining power in the household, resulting in an increase in food expenditures in the family. However, it remains unclear if these shifts arise out of an increase in income or due to other components of CCT programs. For some CCT programs, like the Bolsa Familia, CCT has not affected the aggregate level of household consumption, though the

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111 Ibid.


reverse is true in Mexico’s *Oportunidades* program.\(^\text{116}\) In terms of CCTs’ impact on consumption, it tends to increase the consumption of items such as food, which was found in the case of *Bolsa Familia* in Brazil.\(^\text{117}\) Soares, Ribas and Osorio (2007) found that “monthly expenditures on [food, education and children’s clothing] increased R$23.18 (US$11.6), R$2.65 (US$1.3) and R$1.34 (US$0.67), respectively, in beneficiary households.\(^\text{118}\)” The change in consumption patterns not only reveal that households are buying more food, but that they are buying higher quality food, such as meat, fruits and vegetables.\(^\text{119}\)

In Mexico, given that the additional cash could only be attained by fulfilling conditionalities set out for children and pregnant mothers, the extra cash is perceived to be a “bonus to be spent in the best interest of their children and the mothers."\(^\text{120}\) Another study by Rawlings & Rubio (2005) also confirms that average level of consumption in Mexico rose 13 percentage points higher after just one year of operation; and food consumption was 11 percent higher in participating households than in non-participating households.\(^\text{121}\)

Looking at the long-term impacts of CCTs on consumption, CCTs can have substantial impact in the long-term if households were to invest the cash benefits into

\(^{118}\) Soares, Ribas, and Osorio, “Evaluating the Impact of Brazil’s Bolsa Familia: Cash Transfer Programs in Comparative Perspective,” 5.  
\(^{120}\) Soares, Ribas and Osorio, “Evaluating the Impact of Brazil’s Bolsa Familia: Cash Transfer Programs in Comparative Perspective,” 5.  
productive activities. Gertler, Martinez & Rubio-Codina (2012) finds that rural Mexican households were able to increase their income by 10 percent after receiving 18 months-worth of cash benefits by investing it and estimates that households invest approx. 26 percent of their income.  

Impact on education

*Bolsa Familia* has also reported a positive impact on school attendance. Children whose families were participating in the program reported 3.6 percentage points lower in terms of school absence and 1.6 percentage points lower in probability of dropping out than those who were not in the program.  

Mexico’s CCT program, *Oportunidades*, which provides monetary educational grants to participating households with children enrolled in school between 3rd and 11th grade, also saw similar results in increasing school attendance, reducing the number of dropouts and increasing re-entry rates among older dropouts. “For Mexico, Behrman et al (2005) show that longer exposure to Progresa/Oportunidades has a positive impact on grades of schooling attained, and positive spillover effects to children in ineligible households, but no effects on achievement tests.” Nonetheless, with the sudden increase in the number of students who are attending school for the first time or re-entering, some schools found that overall achievement scores were negatively affected as

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123 Soares, Ribas and Osorio, “Evaluating the Impact of Brazil’s Bolsa Familia: Cash Transfer Programs in Comparative Perspective,” 5.


125 Soares, Ribas and Osorio, “Evaluating the Impact of Brazil’s Bolsa Familia: Cash Transfer Programs in Comparative Perspective,” 5.

many of the students “are likely to have greater difficulty in catching up with those who have always been in school.”

Meanwhile, the Philippines also noticed a 38 percent increase in education spending per capita compared to those who are not enrolled in the program, indicating a shifting trend that households are investing more money into education for their children. In Turkey, the impact of the program in education also helped to indirectly advance women’s empowerment in the country. Their CCT program – benefits six percent of the Turkish population and seeks to increase school attendance rates and decrease dropout rates for the poor – reported an increase in primary school attendance for girls by 1.3 percentage points and secondary school enrolment for girls by 10.7 percent.

Households have also reported an improvement in the quality of education as it elevates the intrinsic value of education in beneficiary households. While some households have reported that the financial assistance that comes with CCT has eased the burden of paying for school fees, in some households, socio-cultural factors remain deeply entrenched that the benefits associated with the CCT has not influenced the parents’ perspective regarding education (especially for girls). However, in other cases, the effect of education seems to have trickled down to empower women. Some mothers

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127 Soares, Ribas and Osorio, “Evaluating the Impact of Brazil’s Bolsa Familia: Cash Transfer Programs in Comparative Perspective,” 5.
130 Ibid, 47.
have reported that CCT has increased their bargaining power when advocating for their daughter’s education, and that the family will lose the benefits if their daughters are not sent to school. Moreover, since women are often the direct beneficiaries of CCT cash transfers, Turkey’s program has reasserted the role of motherhood in households and “had positive effect on women’s interaction and socialization.”

Impact on education also has spillover effects on child labor. There are two main channels through which this occurs: the first channel is that the time spent in school means that children have less time available to work; and the second channel is that the cash transfer acts as a substitute income to households so that they become less dependent on the children’s income. In Mexico, an evaluation of Oportunidades reveals that child work is reduced among older children aged 12 to 17, especially among boys, and domestic work is also substantially reduced among girls.

Impact on healthcare

CCTs have led to improvements in usage of healthcare services, and have started to change attitudes towards healthcare in certain countries. Studies have shown improvements in preventive infant care, pregnancy checkups, post-birth, and early childhood health checkups. “Studies reveal positive effects on use of preventive infant care, checkups during pregnancy, after birth and in early childhood.” For example, Mexico’s Oportunidades program finds that beneficiary households in Mexican villages

132 Ibid, xi.
136 Ibid.
tend to use public health services than non-beneficiaries.\(^{137}\) However, most CCT program evaluations reveal mixed outcomes in terms of CCTs impact on health outcomes.

For example, an evaluation of Mexico’s *Progresa* also shows a significant increase in nutrition monitoring and immunization rates, finding that participating infants up to two years old showed an increase in growth monitoring visits by 25 to 60 percent, a 4.7 percentage points reduction in illness rates (12 percent lower than baseline value).\(^ {138}\) On the other hand, an evaluation of the *Bolsa Alimentacao* (one part of the *Bolsa Familia* pre-consolidation) in Brazil “had no meaningful effects on preschool nutritional status, blood hemoglobin levels and rates of anemia."\(^ {139}\) Moreover, it is harder to monitor compliance and evaluate outcomes of CCT programs’ impact on health, because in poor areas there tends to be a greater service supply constraint in healthcare than in education. Similarly, it also requires a higher degree of physical and human resources to maintain a health center than it does to run a school.\(^ {140}\)

The impact on healthcare is seen more visibly in Turkey, where health transfers from the CCT program increased the full immunization rate for pre-school children by 13.6 percent and the full immunization rate for infants “against tuberculosis, tetanus, polio and measles jumped from 43.8 percent to 57.6 percent."\(^ {141}\) An interesting finding from Turkey reveals that by encouraging women to conduct regulated health check-ups, the probability of a woman of childbearing age (16-49) to become pregnant has been

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\(^{137}\) Soares, Ribas and Osorio, “Evaluating the Impact of Brazil’s Bolsa Familia: Cash Transfer Programs in Comparative Perspective,” 5.


\(^{139}\) Bastagli, “Poverty, inequality and public cash transfers: lessons from Latin America,” 13.

\(^{140}\) Ibid, 22.

reduced by about 2-3 percent. However, pre-existing socio-cultural expectations may also affect the way households view vaccinations and health care centers. For example, in some cases in Turkey, vaccinations are suspected to be a harmful practice that may lead to infertility.

*Impact on conflict*

A study by Crost, Felter & Johnston (2014) is one of the few studies currently available that looks at the effect of CCTs on civil conflict in the Philippines. Their analysis uses a randomized World Bank experience in which 130 villages were divided into treatment and control group and comparing that to a village-level dataset on conflict incidents. The result of their study indicates that “cash transfers caused a substantial decrease in conflict-related incidents in treatment villages relative to control villages.”

Another spillover effect is that CCT programs increase the opportunity cost of joining rebel groups, making it less likely for beneficiaries to be recruited to join rebel groups and to “export combatants to carry out attacks in other villages.” Interestingly, another study by Crost, Felter and Johnston (2012) found that civil conflict increased in barely eligible households in a community-driven development program due to increased insurgent-initiated incidents during the early stages of program preparation. Their results are consistent with the idea that insurgents would “appropriate program’s resources by violent means” and/or “sabotage program because its success would weaken [the

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142 Ibid, xiv.
143 Ibid, xiii.
145 Ibid, 3.
146 Ibid, 6.
program’s] support in the population.\textsuperscript{147} The differences between the impact of CCT and community-driven development programs on conflict might be due to the fact that community-driven development projects are more highly visible (e.g. they are typically small infrastructure projects) and are easier targets to attack by ineligible groups. On the other hand, the cash disbursements received in a CCT is often transferred directly (e.g. through electronic transfers), making it difficult to target the program or program beneficiaries using violence.\textsuperscript{148}

Moreover, Chioda, Mello and Soares (2012) finds a negative relationship between Bolsa Familia and Crime in Urban Brazil, suggesting that “the main effect works through increased household income or changed peer group, rather than from incapacitation from time spent in school.\textsuperscript{149}"

\textit{Challenges to CCTs}

While the exact CCT policies and implementation vary among countries, there remains common challenges that exist within all of the different CCT programs.

\textit{Targeting dilemma}

One of the most common challenges that CCT programs initially face is creating an effective targeting mechanism. CCT programs differ in how they determine initial eligibility for the program.


In Brazil, Bolsa Familia determines eligibility based on “declared income and not based on proxy means test.” Geographic targeting comes in two stages. At the first level, the federal government initially allots program quotas to municipalities based on poverty estimates. The original municipal allocations are then determined by comparing eligibility criteria (income higher than R$100 – approx. US$48) to the national household survey. At the second level, municipalities use indices of living standards to locate geographic concentrations of the poor. These quotas are only to determine Bolsa Familia’s program benefits, and not “registration quotas,” which were used in initial years of the pre-reform programs. Having a quota for program benefits, combined with formal and social control, could potentially act as a self-regulating mechanism to ensure that municipalities focus on only giving the benefits to those who need them the most, and “reduce incentives for the ‘moral hazard’ in excess registration by municipalities.”

After the geographic locations are established, the program then uses a means-testing mechanism to determine family eligibility for Bolsa Familia. Moreover, family eligibility is determined centrally, based on household registry data that are “collected locally and transmitted into a central database known as the Cadastro Unico.”

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152 Registration quotas limit potential beneficiaries’ entrance into the program and leaves room open for political manipulation
154 Ibid, 35.
Cadastro Unico is an inclusive list that includes all registered families regardless of their eligibility for the program. The Ministry of Social Development then verifies information and establishes eligibility and finalizes the list of the program’s beneficiary payroll. An initial assessment of Bolsa Familia’s targeting system finds that the program is “extremely well-targeted.” The poorest 25 percent of the population received 80 percent of the benefits, 85 percent of the “leakages” went to the near-poor households, and “virtually none” went to the richest quartile of the population. The improvement in targeting likely comes from the creation of geographic targeting within municipalities and the reforms to strengthen the Cadastro Unico.

In another example, the Philippine government – realizing that inefficient targeting system could lead to leakages, low program impact, and wasted public resources – developed the National Household Targeting System for Poverty Reduction to identify the poor in social welfare programs and poverty interventions. The Philippines’ CCT program, more commonly known as the Pantawid Pamilyan Pilipino Program (4P), is the first social-welfare program in the Philippines to adopt the newly established targeting mechanism. There are three stages to the targeting system: geographical targeting, household assessment, and validation of identified households. In the geographical targeting stage, the poorest 20 provinces are selected, out of which eligible districts are set based on the municipalities’ poverty incidence. Unlike Brazil,

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156 Ibid, 37.
157 Ibid, 46.
158 Ibid, 46.
160 Ibid, 3.
161 Ibid, 9.
during the second stage of household assessment, the Philippines uses a proxy means test (PMT), which estimates income and household expenditures with socioeconomic indicators at the household level.\textsuperscript{162} Through a series of interviews, households are asked questions regarding household consumption, education of household members, occupation, housing conditions, access to basic services, ownership of assets and tenure status of housing. Using a regression analysis, proxy means test creates a cut-off point for households to determine eligibility by calculating a proxy income or expenditure per household.\textsuperscript{163}

Mexico’s \textit{Oportunidades} program employs similar targeting method to that of the Philippines. Using both geographical targeting and proxy means tests, the program conducts household surveys in eligible communities.\textsuperscript{164} To build on its credibility, \textit{Oportunidades} has a “rigorous, ongoing evaluation process, with the first stage administered by an external and independent organization, the International Food Policy Research Institute.\textsuperscript{165}” Specifically, in the urban areas, the targeting process begins by identifying eligible households within marginalized localities. Then, “national socioeconomic information from household surveys is used to identify the poorest areas and a marginalization index is constructed for each area and neighborhood.\textsuperscript{166}” After selecting the most marginalized areas, eligible households are then identified within each area. In contrast, \textit{Oportunidades} employs a different targeting system for rural areas, in which the targeting process involves more of a community effort. After establishing a

\textsuperscript{163} Ibid, 9.
\textsuperscript{164} “Mexico’s Oportunidades Program,” 2.
\textsuperscript{165} Ibid, 2.
poverty score for each household through a series of socio-economic questionnaires, the final list of eligible households is discussed at a community meeting.\textsuperscript{167}

As for Turkey’s methodology process, which also adopts the proxy means test, the targeting process starts with an application from the prospective beneficiaries, who are assisted by Foundation officials, teachers, health personnel and shopkeepers. Final applications are decided in Ankara, Turkey’s capital, which raises concerns about over-centralization and over-involvement of the central government.\textsuperscript{168} Additionally, having an application process hinders certain groups of people to apply due to lack of knowledge, lack of support in the application process, legal marriage obstacle, language barriers and the belief that only a limited number of applicants will be accepted.\textsuperscript{169}

\textit{Budget stabilization}

With most social welfare policies, the issue of budget stabilization remains one of the biggest challenges. It is important to create effective strategies to ensure that taxpayers and government officials would continue to maintain support of these programs to ensure sustainability. Consequently, “the immediate challenge is to convince finance ministers and governments generally that [cash transfers] are not simply hand-outs but necessary social investments.”\textsuperscript{170} To increase budget stabilization in cash transfer programs, it is important to look at their legal frameworks. The two different cash transfer programs in Brazil – the continuous cash benefit (BPC) and the \textit{Bolsa Familia} – highlight these differences quite starkly. From a legal standpoint, the BPC is incorporated

\textsuperscript{169} Ibid, 43
in the 1988 constitution and regulated by the legislation, whereas the *Bolsa Familia* was “created through a presidential provisional measure, afterwards transformed into law.”¹⁷¹ Thus, benefits of BPC are considered to be a constitutional right, whereas eligibility in *Bolsa Familia* is more discretionary. Given the constitutional nature of the BPC, it is not as vulnerable to budget cuts and other short-term changes in the economy as the *Bolsa Familia* is. Because *Bolsa Familia* is rooted in a predominantly political – and not legal – origin, “any fluctuation in the political scenario might … affect its permanence or future expansions.”¹⁷² Indeed, a study analyzing the political impact of CCT in Indonesia finds that “the CCT program increases vote shares for legislative candidates from the incumbent president’s party, improves households’ satisfaction with *kabupaten*-level government administrative services, and decreases competition among presidential candidates as measured by the Herfindahl-Hirschman Index.”¹⁷³

One potential solution is to institutionalize CCT programs and establish a consensus that CCT programs are not affiliated with a “single government program” but are part of the country’s policy to strengthen social protection and poverty-reduction strategies.¹⁷⁴ Having strong support from a particular administration is complicated because on the one hand it does facilitate implementation, but, once administrations change, its high association with the previous administration might compromise its

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sustainability.\textsuperscript{175} Institutionalizing cash transfer programs would allow the programs to be more transparent and to have a clearly defined financing stage and legal framework.\textsuperscript{176}

Such example can be found in the case of the Philippines, where the House Committee on Appropriations recently approved the funding provision to institutionalize its CCT program, the 4Ps, to cover 60 percent of the country’s extremely poor, under the “\textit{Lingap Pamilya Act of 2015}.”\textsuperscript{177} Previously, the CCT program was introduced by former President Gloria Macapagal-Arroyo in 2008. Institutionalizing the program not only will broaden coverage and increase funding, but will also disassociate it with a single government and instead incorporate it as a bigger national plan to reduce poverty and strengthen social protection in the country.

Given that the impoverished population tends to be in a disadvantaged position in the budget distribution of a political power game, it is important for CCT administrators to highlight the importance of cash transfers as a way to boost consumption, which could then trigger investment.\textsuperscript{178} The importance of communicating CCT’s benefits to create a stronger legitimacy of the program is also found in Honduras – where the CCT administrators were so preoccupied in implementing the program that they did not sufficiently communicate its success to domestic stakeholders.\textsuperscript{179} A lesson to be learned in ensuring budget stabilization from this case is to make sure that a strong public

\begin{footnotesize}
\begin{enumerate}
\item[Ibid, 7.]
\item[Ibid, 4.]
\item[Madeiros, Britto and Soares, “Targeted Cash Transfer Programmes in Brazil: BPC and the Bolsa Familia,” 14.]
\item[“Cash Transfers: Lessons from Africa and Latin America,” 11.]
\end{enumerate}
\end{footnotesize}
relations campaign is established to create a higher awareness of its accomplishments to government officials.\textsuperscript{180}

In the case of Mexico, program administrators took a more proactive approach in ensuring budget stabilization by planning an initial evaluation from the very beginning of the program.\textsuperscript{181} Having an independent academic organization evaluate the program also helps to strengthen their credibility and reduce the possibility of budget cuts.\textsuperscript{182} Of course, to ensure budget stabilization, an ongoing evaluation of the effectiveness of each dollar funneled into the program is also essential. An evaluation of Progresa revealed that “the administrative costs of delivering cash transfers to poor households appear to be small (Mex$8.9 for every Mex$100 allocated to the program) relative to the costs of previous Mexican programs and to targeted programs in other countries.”\textsuperscript{183}

\textit{Importance of scalability}

For CCT programs to be successful it has to be scalable and reach a wide scope of beneficiaries. Generally, cash transfers create a bigger impact on the local economy than the aggregate economy because of “the limited scale of most programs” and “the low absolute value of the transfer.”\textsuperscript{184} Thus, for the impact of cash transfers to be significant, it requires a much larger institutional capacity and bigger budget in order to create a greater impact and better coordination across government agencies.\textsuperscript{185}

\textsuperscript{180} Ibid, 11.
\textsuperscript{181} “Mexico’s Oportunidades Program,” 4.
\textsuperscript{182} “Mexico’s Oportunidades Program,” 30.
\textsuperscript{183} Rawlings and Rubio, “Evaluating the impact of conditional cash transfer programs,” 48
\textsuperscript{185} Ibid, 3.
A study by the Overseas Development Institute also found that increasing the scale of these programs could change consumption patterns within the households. “Small, regular cash transfers are spent mainly on consumption, but larger, lump sum transfers are most likely to be spent on productive activities if stipends are provided simultaneously to support immediate consumption needs.\(^{186}\)

A World Bank study on the Philippines also recommends that health service providers be strengthened to ensure continuity of the healthcare extending beyond the program. The study also found that coverage may have to be extended to more than the current five years to see a sizeable impact.\(^{187}\) The Philippine case also raises the importance of a smooth transfer to a graduation program. Currently, the Philippine government is working with the Asian Development Bank to create an exit strategy and proposing the idea that beneficiaries who graduate the CCT program would be referred to other social welfare programs.\(^{188}\)

**Graduation strategy**

The short time-frame of most CCT programs creates a paradox in which it has a long-term goal of sustaining human capital accumulation, but these programs only retain the beneficiaries for a maximum of five years.\(^{189}\) Therefore, it is important to take note of effective exit strategies and graduation program to ensure that “graduated” families are not vulnerable to sudden economic shocks. The creation of an exit strategy is to avoid

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\(^{186}\) Slater, “Cash transfers: graduation and growth,” 3-4.


\(^{188}\) Ibid.

\(^{189}\) “Cash Transfers: Lessons from Africa and Latin America,” 3.
dependence on the program and ensure that it creates more room for other eligible families. 190

CCT programs were never created to be a once-and-for-all measure to eliminate poverty, and thus exiting CCT programs does not mean that recipients have “escaped” poverty. Exiting the CCT programs means redirecting them to other programs that would improve their living standards and guarantee their social rights that would allow them to eventually escape from poverty in the long-term. 191 Thus, in the short-term, graduation from CCT programs means that households are strong enough that they are able to weather a certain level of economic shocks. The transition should link them to other interventions if necessary. 192 Creating a graduation scheme remains challenging given the perception that cash transfers are targeted toward the non-productive population in society, implying their “ongoing dependence” on the program, while at the same time the program is marketed as a “short-term intervention offering a mechanism for graduation. 193”

Such an example can be found in Brazil’s Bolsa Familia program, which was created to be an income supplementation program, and not the only source of income for its beneficiaries. 194 Bolsa Familia administrators realize that one program cannot be responsible for eradicating poverty, and that it requires a concerted effort from various government agencies to create a series of programs that will ultimately lead to a

190 “Cash Transfers: Lessons from Africa and Latin America,” 8.
191 Ibid, 9.
193 Ibid, 2.
significant boost in economic growth.\textsuperscript{195} Brazilian lenders have examined graduation strategies as “expansion strategies” to create a bridge from \textit{Bolsa Familia} to other programs. Similarly, Mexico’s \textit{Oportunidades} program created a plan that would allow beneficiary families to remain in the program, by using a reassessment plan conducted three years following their admission to the program.\textsuperscript{196}

\textsuperscript{195} “Cash Transfers: Lessons from Africa and Latin America,” 6.
\textsuperscript{196} Ibid, 8.
Chapter 3 – Conditioning factors

There are several conditioning factors that are crucial in our understanding of how and why CCT programs can be helpful in improving people’s lives and reducing conflict. One of the promising goals of CCT programs is its focus on both short-term and long-term development. Underlying these goals are several assumptions that support CCT as a successful intervention to boost education and health rates in the countries in which it operates.

Among them is the assumption that investing on education and health care helps to reduce poverty. On the micro level, this assumption may hold true as many low-income households are often stuck in a perpetual poverty trap, whereby without outside intervention, low-income households tend to stay poor. Similarly, this idea is also seen in the education trap, whereby individuals who received little to no education are unable to get higher-paying jobs, and are often stuck in low-paying jobs, which make it harder to increase savings and investments in other areas in their lives.

By investing in education and making it more accessible, the program offers low-income individuals – who might otherwise be stuck in low-paying jobs – an opportunity to hone their skills and increase their capabilities so that they are able to compete with other people for higher-paying jobs. Investing in education is also an especially important intervention with respect to the role of women in society. Given that the primary beneficiaries of CCTs are often women, it gives them higher bargaining power and allows them more opportunities to determine the allocation of spending within the household. In some cases, women have used the additional cash as a successful
bargaining tool to ensure that their children are able to attend school and get regular health checkups. On a macro level, when the citizens of a country are more educated and are healthier, the country as a whole benefit from higher levels of economic productivity and lower risks of unemployment and health-related problems.

It is also often assumed that being educated leads to more opportunities. Amartya Sen put out the argument of development as freedom, and being educated means having the freedom to think, to learn and to develop capabilities. Following Sen’s arguments, developing these capabilities allow individuals to have more choice, which can extend to choice of employment as well. However, this might not be true when individuals end up being overqualified for the job vacancies that are available. In some cases, there might be no job opportunities regardless of the qualifications that one has. Additionally, some socio-cultural expectations may also hinder girls from going to school as they do not view it as a necessity. For CCTs to maximize its impact on education, it also has to include a counseling component to the program to advise parents and to encourage and motivate children to want to go to school.

In a similar vein, formal education may not prepare individuals with the skills necessary for work, which is where the role of vocational training comes in. CCT programs typically only encourage enrolment in traditional forms of schooling, thus leaving out non-traditional schooling options. In some developing countries, vocational training often provides students with a more practical sets of skills that are valuable in finding employment post-graduation. If CCT programs want to produce students who are

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able to find a job later on, they may have to start including vocational training and encouraging students to look into vocational training options.

Moreover, as the demand for school increases – a CCT program is a demand-side intervention – then local officials have to be able to keep up with the supply. However, they do not always keep up with the demand. Some evaluation of CCT programs have revealed that the quality of education can be negatively affected due to overcapacity of students. This is especially important in areas where under-capacity of teachers and administrators is already rampant, but also in areas where classroom and school infrastructure is limited. The general argument that more students enrolled in schools lead to higher levels of development can only be true when the local governments can keep up with creating more schools. The issue then becomes very political, as the outcome of CCT programs becomes dependent on the government’s willingness and ability to build more schools, train more teachers, and increase the overall quality of the education.

In addition to increasing the quantity and quality schools, governments and program officials also often overlook the infrastructure needed to get to these schools. Physical access constraints, such as distance, poor road condition and unavailable transportation to get students to school, can also be a great hindrance for parents to send their children to school. In order to increase school attendance, CCT administrators would also have to work with the appropriate government bodies to ensure that school buildings in the area that CCT operates in are accessible by its beneficiaries.

Furthermore, although CCT programs frequently promote eligible children to enroll in schools, which might lead to an increase in school enrolment rates, but they do
not always equate to an increase in school retention rates. Since program administrators can only monitor conditionality once every few months or even once a year, beneficiaries can simply enroll their children without following through and ensuring they are retained in the school system. In order to ensure a more thorough impact on education, CCT programs should also measure retention rates as well as enrolment rates in schools. In addition, CCTs may also indirectly lead to more children dropping out of school because with the sudden increase in demand for schools, teachers could get overwhelmed and the quality of education could be compromised.

Another aspect of schooling that CCT also often looks past is that while the cash disbursement may be enough to cover school fees, it may not be enough to cover all the out-of-pocket expenses of going to school, such as the cost of textbooks, uniform, and other secondary school expenses. Some children have reported being embarrassed when they do not have the necessary supplies, or if their “uniform is torn” or “shoes are drenched due to flooding,” as reasons not to go to school.\footnote{Sri Kusumastuti Rahayu, et al., “Program Keluarga Harapan & PNPM-Generasi Qualitative Baseline Study: Preliminary Findings,” \textit{SMERU Research Institute Working Paper 45589 vol.2}, January 2008, accessed March 30, 2016, \url{http://siteresources.worldbank.org/INTINDONESIA/Resources/Projects/288973-1224059746389/Smeru_CCTQualitative_English_Jan2208.pdf}, 14.} In the same way, some children who have been out of the schooling system for a while may be struggling to keep up with the materials, and thus may need extra help to do as well as their peers. CCT programs would do well to have additional study sessions and tutors to help some students transition back into the school system.

In terms of its impact on healthcare, a sudden increase in demand in healthcare services could also reduce the quality of services being offered. A local health clinic
could be overburdened with CCT beneficiaries and might not have the physical and human resources to tend to all patients. Thus, for CCT programs to be successful, the program administrators need to work with the government to ensure that it is able to increase the number of health facilities, and to improve upon infrastructure and access to these health care facilities. Many women have noted that health facilities are often located far away from their house, and the road quality is unsafe for them to go on at times. 199 When governments fail to build stronger medical infrastructure and improved sanitation facilities, the effect of some beneficiaries getting more regular check ups may be offset with those who are unable to receive service due to lack of supply.

With the increase in demand and the awareness of the importance of health check ups, program administrators should also work with the relevant stakeholders to educate more people about the purpose of different vaccines and vitamins, as well as prevention methods. For example, in many societies, false beliefs often take precedent, with some households believing that getting their child immunized will cause a high fever. 200 Healthcare services should also start being more proactive and reach out to beneficiaries, as some of them may be reluctant to go due to traditional expectations that healthcare providers are supposed to treat illnesses, rather than prevent them.

In many societies, men still remain the breadwinner of the family. However, the conditions of CCT programs often exclude men as its main recipients. Often, CCT programs would only encourage children and pregnant mothers to get regular check ups among its criteria for conditionality. When men remain the majority of the breadwinners

200 Ibid, 6.
in low-income households, their sickness could significantly affect spending behaviors of beneficiary families, and most of their assets would have to be allocated toward healthcare spending for the men. Understandably, CCT programs tend to focus on women and children as their needs are often excluded from household decision making. However, encouraging working men to get health checkups could also be beneficial for the family to ensure that its main source of income does not get cut off immediately.

Moreover, a SMERU study looking at whether conditionality is pro-women found that cash benefits do not change the bargaining power of women in households where women are traditionally the ones managing the household budget; thus, the role of the women is simply seen as the “fund manager” and not the ultimate decision maker.201 Thus, CCTs need to create a balance approach by doing more to strengthen the role of women in the program, and given the strong role of men, to involve them more in the program.

Another benefit of CCT programs is that they aim to tackle short-term poverty needs by giving out cash disbursements should participants follow through with all the conditions listed. The caveat is that cash disbursements will only yield future benefits if they are invested in education, home business, or saved for future purposes. Low-income households are frequently put in situations where the money received would have to go to immediate needs. Most of the money received tends to be spent on basic necessities, and little is saved for education or health expenditure. CCT programs consider increasing the

incentives for beneficiaries to invest the cash that they have received to start building a savings account for themselves.

Often, the timing of the cash disbursements also matters in determining what the money will be used for. Some CCT programs found that only when transfers arrived shortly before school fees were due, was the money spent on these services. Thus, each CCT has to ensure that the delivery of the cash disbursements have to be done in a timely manner, and if possible, to coincide with school fee deadline. If in cases where schools have different payment deadlines, CCT programs should aim to give out the disbursements consistently every month so that families can create a better plan in managing their household budget.

One of the critics of CCT programs also points out that giving low-income families cash disbursements will reduce incentives for work. However, because the size of the cash disbursements is not big enough to replace regular sources of income, families typically do not stop working. An assessment of a government program in Uganda (Blattman, Fiala and Martinez, 2013) in which treatment groups received unsupervised grants of $382 per member, found that “relative to the control group, the program increases business assets by 57 percent, work hours by 17 percent and earnings by 38 percent.\(^\text{202}\)" Giving out the cash disbursements may encourage families to work even harder, as they have an extra source of income to start investing in either their personal and professional lives. Given the fact that CCT programs tend to target the poorest people in the country, the nominal amount of the cash transfer might be considered “small,” but

it has a proportionally larger value to low-income households, leading to a bigger impact in their spending habits. Having an extra source of income could also reduce the psychological burden of having to worry about every financial decision. These observations are confirmed in a cross-country study by Harvard and MIT economists, which finds “no systematic evidence that cash transfer programs discourage work” in seven CCTs spread across Latin America, Southeast Asia and Africa.203

CCT programs can also help reduce income inequality within a country by helping low-income families invest in both short-term and long-term growth, encouraging savings and allowing them better social mobility once they are educated and healthy. Nonetheless, within neighboring communities, CCT programs could lead to unintended consequences when income inequality adds to the relative deprivation of those who were not selected as beneficiaries. A study examining the negative psychological externalities of cash transfers on non-recipients in Kenya (Haushofer, Reisinger and Shapiro, 2015) found that as CCT beneficiaries’ wealth increases, life satisfaction, consumption and asset holdings of non-beneficiaries decrease.204 They also found that, “the decrease in life satisfaction induced by transfers to neighbors more than offsets the direct positive effect of transfers, and is largest for individuals who did not receive a direct transfer themselves.”205

neighbors in the same community, do not receive CCT benefits, not only do the relative increase in “wealth” affect them psychologically, but areas in which CCT operates could see an increase in prices due to increase in demand. A GiveWell study found that “a randomized study of the Mexican Oportunidades conditional cash transfer program finds small increases in prices of five of 36 food items for sale in treatment villages immediately following deployment of the cash transfers.” Additionally, if local governments are not able to keep up with the increase in demand, it could lower the quality of education and health services to non-beneficiaries as well. The tension between recipients and non-recipients can be especially important to watch in areas where there is already historical precedent of racial, ethnic or religious tensions within the community.

In addition to improving people’s lives, CCT programs can also help reduce conflict in the areas in which they operate. First of all, in many circumstances, employment may reduce the incentives for people to engage in insurrection. A World Bank report cited “unemployment and idleness” as a main factor in youths joining rebel or gang movements.206 Thus, if CCTs encourages more youths to get educated, thereby increasing their chances of getting employed, then it is likely that being employed might counter these incentives as it would take up most of their idle time. The report further stated that joining rebel organizations or movements makes youths “feel more secure or powerful,” which can arguably be reduced by employment.207 Being employed and feeling like one is a productive member of society can reduce incentives to join these movements. The caveat is that the factors leading people to join militant ideological

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207 Ibid, 9.
movements may be different, and CCT programs might not be able to have an impact on reducing incentives to join these kinds of militant ideological groups.

Similarly, many studies have looked into the role of education itself in reducing incentives for people to engage in criminal activity. Studies have found that “schooling may have long-term effects on criminal behavior through wages and preferences, and therefore, through the relative attractiveness of criminal activities and the cost of expected punishment.” Additionally, the physical time spent in school may also curb incentives and reduce opportunities for youths to engage in criminal and risky behavior. Given that youths account for a disproportionately high fraction of crime-related activities, CCTs may have a unique position in reducing conflict in the areas that they operate in. In Sao Paulo, for example, “between 20 percent and 25 percent of robberies, thefts and motor vehicle crimes are supposedly committed by individuals below age 18.” Another related study also found that CCTs could have potential crime-reducing effect as one of its impacts on vulnerable youths.

Additionally, the regular cash disbursements also could have a direct impact on criminal behavior. Having a boost in their regular income creates an ability to buy other household items, which in turn reduce the incentive to engage in financially-motivated crimes. This is backed up with numerous studies, arguing that the effect of the amount and timing of welfare payments has a negative impact on the total number of crimes.

Moreover, CCTs may also reduce conflict as it increases the opportunity cost of criminal

209 Ibid, 2.
210 Ibid, 2.
behavior, in terms of individual crimes. If individuals realize that they could increase their income by meeting the CCT eligibility guidelines, then they might not want to engage in criminal activity anymore. Having a selection process ensures that potential applicants have a clean record so that they would be able to make it pass the selection process, thus, making criminal behavior less attractive.

However, while the correlation between CCTs and crime rates may be more clear-cut, in some cases, CCTs may exacerbate conflict when program designers and administrators do not adequately take into account pre-existing racial and ethnic tension. This is especially relevant during the beneficiary selection process, and depending on how each program administrator carries out the targeting method, the process and outcome could unintentionally or intentionally sideline certain race or religious groups. If, for example, the district or village head, who has an important role in determining the list of beneficiaries, belongs to a certain racial, ethnic or religious group, they may favor applicants who belong to the same group. In some cases, it also could be that the non-beneficiaries who belong to a different identity group would want to “sabotage” the CCT program during its implementation to undermine its position. However, this problem could be partly mitigated by ensuring that the benefits that are distributed to the households directly through beneficiaries’ bank accounts. By ensuring that the benefits are distributed in a more private way also helps to reduce the perception of bias by non-beneficiaries.

Therefore, the selection process of CCT programs ought not include only stakeholders who represent the same identity groups. Having a group that reflects the
variety of different interests in the same community will also create a higher sense of accountability for everyone involved. If only one person, or one group of a particular identity group is in charge, then the enormous room for autonomy permits nepotism and corruption within the implementation of the program. If there is no measure to ensure that diverse interests are represented, poverty-alleviation efforts can lead to increased social tension and violence, which can ultimately undermine economic growth and the intended poverty-alleviation efforts.

In a similar vein, therefore, determining eligibility ought not to be done in a communal process, as it might leave room for non-related reasons to cloud people’s judgments (e.g. neighbors having disagreement with one another) and may in fact deepen conflict that happens at a community level. If a group of people help to determine eligibility, their inputs should be monitored and ought not be the ultimate determinant in selecting participants. Thus, in order to promote a fair selection process, a clear-cut guideline should ensure that the process is fair to everyone. However, it is also important to keep in mind that in areas where households’ incomes are all in a similar range (e.g. in more equal societies where everyone is generally equally as poor), everyone should be deemed eligible because if the cut-off point is taken too strictly, it may create further tension within the community.
Chapter 4a – Comparison of CCTs to other Social Protection Programs (SPPs)

One way to understand the effectiveness of CCTs is to compare its performance with that of the other government programs. These other government programs are generally under the category of “social protection programs,” which is often defined as, “a collection of programs that address risk, vulnerability, inequality, and poverty through a system of transfers in cash or in kind (Fiszbein, Kanbur, and Yemtsov, 2013).” Most of these programs are created as insurances, to allow households to invest in human and physical capital, and improve household’s social risk management. Generally, social protection programs include: conditional and unconditional cash transfers, school feeding, social pensions for elderly, disability assistance, family and child allowances, and in-kind benefits such as food stamps and other vouchers. Most of these programs have been implemented in Europe and Central Asia, Latin America and the Caribbean, as well as East Asia and the Pacific.

The creation of such programs is driven by the need to address extreme poverty and rising inequality. As such, developing countries have expanded their social protection programs and established numerous cash transfer programs focusing on low-income households and marginalized groups in society. The need to expand social protection programs is also embodied in the UN Social Protection Floor Initiative (ILO 2011), which calls on countries to strengthen their social protection programs and recognize it as

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213 “Evidence and lessons learned from impact evaluations on social safety nets,” 1.
an international human right. Currently, social protection programs globally are preventing 150 million people from falling into poverty.\textsuperscript{214}

Fiszbein even goes so far as to arguing that social protection should be present in the post-2015 Millennium Development Goals as a key element of the discourse.\textsuperscript{215} Part of the reasons why many scholars are arguing for the development of social protection programs is due to rising inequality in many developing countries that are inhibiting its poverty-reduction goals. In Asia, calculations have shown that if inequality had not risen, “economic growth could have lifted almost 250 million people out of poverty over the last two decades.”\textsuperscript{216} Similarly, in Brazil between 1998 and 2009, if inequality had not risen, annual growth could have been four percentage points higher.\textsuperscript{217} An outlier to this trend is other Latin American economies, though this could be explained by the fact that since 2000, these countries have focused its efforts on developing social protection programs.\textsuperscript{218}

Moreover, social protection programs have been on the forefront of poverty-reduction agenda given that some of the risks and vulnerabilities faced by the poor are not fully captured in standard poverty statistics. Thus, if dimensions of vulnerability and risks are adjusted in poverty measures, then current poverty measures “may understate actual poverty.”\textsuperscript{219} A more indirect effect can be seen in the way that these vulnerabilities expose the poor to remain in poverty, health, education traps as they may lose out on long-term benefits when there are other pressing short-term needs in the family. For

\textsuperscript{215} Ibid, 4.
\textsuperscript{216} Ibid, 6.
\textsuperscript{217} Ibid, 6.
\textsuperscript{218} Ibid, 5.
\textsuperscript{219} Ibid, 6.
example, babies who do not receive enough nutrition in their early years cannot be compensated with improved nutrition in their later years.\textsuperscript{220}

\textit{Knowledge gaps and challenges in impact evaluations of SPPs}

In trying to rank various social protection programs, the challenge arises due to the different objectives, locations and program administrators (e.g. NGOs, international donors, or a branch of the government) of the program. Another limitation is that most impact evaluations of social protection programs are heavily concentrated on conditional cash transfers, school feeding and workfare programs, thus, not much is known about the impact of other programs such as employment and wage subsidies, unconditional cash transfers, disability benefits, food aid, family and child allowances, and general subsidies.\textsuperscript{221} Most of these evaluations also focus on short-term effects (e.g. utilization of education and health services), but less so on long-term effects and outcomes of increased usage of these services. Given these differences, it becomes challenging to conduct a cost-benefit analysis that would take into account all of the different objectives, locations and administrators of the programs. In the impact evaluation carried out by the World Bank, for example, only a quarter of the SPPs are included in the cost-benefit analysis.\textsuperscript{222}

Nonetheless, Fiszbein Kanbur and Yemtsov (2013) have tried to create a graph of cost-benefit ratio for various types of social protection programs, ranging from zero to one, with one being the perfect standard for SPPs. They found that on average, the cost-

\begin{flushright}
\textsuperscript{221} “Evidence and lessons learned from impact evaluations on social safety nets,” 62.
\textsuperscript{222} Ibid, 63.
\end{flushright}
benefit ratio is above zero, and a score of 0.5, for example, means that for every dollar of transfer that goes to the beneficiary, at least 50 cents is going to fill the poverty gap.\textsuperscript{223,224}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{benefit_cost_ratio.png}
\caption{Benefit-Cost Ratio for Different Types of Social Protection}
\end{figure}

\textit{Source: Fiszbein, Kanbur, and Yemstov (2014)}

Interestingly, the graph reveals that there is no direct correlation between program type and efficiency in reducing the poverty gap. The distribution of the cost-benefit ratio for cash transfers, social pensions and family/child or disability allowances look very similar, with the majority of the programs having a cost-benefit ratio between 0.3 and 0.6. However, out of all the social protection programs, CCTs tend to have the highest

\textsuperscript{223} Fiszbein, Kanbur and Yemstov, "Social protection, poverty and the post-2015 agenda," 17.
\textsuperscript{224} Poverty gap refers to “the mean shortfall of the total population from the poverty line, expressed as a percentage of the poverty line. This measure reflects the depth of poverty as well as its incidence. (MDG Indicators, The Official UN site for the MDG indicators) http://mdgs.un.org/unsd/mdg/Metadata.aspx?IndicatorId=2
efficiency in reducing poverty as it is the only SPP that has a cost-benefit ratio that stands relatively higher at 0.6, 0.7 and 0.8. On the other hand, the least efficient programs seem to be “other programs” – which often includes subsidies and social services – and public works or cash-for-work. One important thing to note when looking at the rate of return is that one program might have a higher BCR but its impacts may not be directed toward low-income households, thereby affecting its effectiveness in reducing poverty.

The impact on poverty and income can most directly be felt by in kind or cash transfers, which can immediately transfer purchasing power to the beneficiaries. Another benefit of cash transfers is that it acts as an insurance against shocks and can be invested for future needs. This indirect effect is not available in other SPPs, especially those programs with benefits that are less tangible and transferable for other needs (school feeding program, subsidies and food stamps). Increasing the targeting efficiency of these SPPs is important as the median social protection program transfers 12 times the poverty gap (assuming an international extreme poverty line of $1.25/day), which shows the potential that SPPs have in reducing poverty.

The 2011 World Bank evaluation shows that nine out of 11 programs have been shown to be effective in reducing the number of people below the poverty line. Though the magnitude of impact fluctuates as poverty headcount is mostly measured through changes in consumption behavior. Moreover, “six out of nine evaluations suggested that workfare, UCT, and CCT programs lead to a net increase in short-term

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226 Ibid, 16.
227 Five CCTs, a food aid, a pension, a UCT and a workfare programs)
household income, the majority of which is in direct response to the transfers.\textsuperscript{228} Increases in income may allow households to expand and invest in their economic activities and to have more disposable income to increase consumption and savings. Some studies have found that effect on income can be negative in cases where a reduction of child labor reduces the family’s income, and the effects of encouraging children to go to school will not be felt in the short-term.\textsuperscript{229} However, simulation analyses have been used to identify the effects of short-term investments on future earnings; which found that the impact of SPPs on income growth happens through two main channels: school attainment and improved nutrition and health.\textsuperscript{230}

\textit{Comparing impacts on consumption}

The effect on consumption varies according to the size of the transfer itself. “Ten of 14 evaluations indicated that CCT, UCT, workfare and food aid programs increase short-term consumption.\textsuperscript{231}” Some of the short-term effect on consumption is often carried through in the long-term as well. Two workfare programs in Colombia (\textit{Empleo en Accion}) and Ethiopia (Employment Generating Scheme) have shown that beneficiaries’ consumption continues to increase even after nine to 18 months after exiting the program.\textsuperscript{232} Similar results are also found in two CCT programs in Colombia and Mexico, whose beneficiaries are shown to increase consumption after two years and five and a half years, respectively, after joining the program.\textsuperscript{233} They have also found that

\textsuperscript{229} Ibid, 9.
\textsuperscript{230} Ibid, 38.
\textsuperscript{231} Ibid, 21.
\textsuperscript{232} Ibid, 38.
\textsuperscript{233} Ibid, 38.
with programs that show no short-term impact on consumption – such as China’s unconditional cash transfer program – also do not reveal any changes in the long-term.234

Comparing impacts on education

Several SPPs such as CCTs, school feeding, and education fee waivers have been found to increase usage of educational services. This is partly attributed to the fact that these programs condition such inputs, though increased usage does not always result in equal educational outcomes. An interesting outlier is UCTs, which does not necessarily tell beneficiaries to spend cash benefits on education, have positive impacts on increased school attendance.235 Upon closer examination, the size of impact is also larger for secondary school than primary school, which could be attributed to the fact that primary school attendance has generally been the focus of many governments. Thus, to increase cost-benefit ratio of these programs, SPPs should look into focusing its efforts on secondary-level education where there are greater needs to be filled.236

The predominance of CCTs in in these impact evaluations also skew the result to show that there is positive impact in at least 70 percent of the studies that measure the outcome of grade progression, repetition and dropouts (mostly in primary school).237 Nonetheless, this seems to suggest that there is value to assigning conditionalities on regular attendance. Furthermore, while CCTs have been found to increase attendance and reduce dropout rates, its impact on learning outcomes is vaguer. Looking at changes in test scores, these impact evaluations have found mixed results. For example, two CCTs in

235 Ibid, 23.
236 Ibid, 24.
Colombia and Cambodia do not see significant changes on test scores, whereas two CCTs in Argentina and Malawi are seen to improve beneficiaries’ grades and college entrance exam scores. Mexico’s Oportunidades program also found that participants see improved scores in some subjects but not others, thus, there is not yet a clear relationship between SPPs and effect on learning outcomes for older children.

Comparing impacts on child labor

One of the observed indirect effects of SSN programs is a reduction of child labor, which happens as a result of increased participation in schools for children. Moreover, 13 out of 19 programs evaluated in the World Bank report found positive impacts in reduction of child labor, which included “six conventional CCTs, two CCTs that exclusively target girls in Cambodia and Pakistan, two school feeding programs in Bangladesh and Burkina Faso, one UCT in Ecuador, and two education fee waiver programs in Colombia and Indonesia.” Another important finding is that even if parents do not withdraw children completely from income-generating jobs, the number of hours worked can be reduced as a result of money received from the transfer; thus, children can devote more time for education.

Comparing impacts on health and nutrition

The most explicit positive effect in increased usage of healthcare facilities comes from CCT recipients, which require its beneficiaries to do so in order to receive the transfer. However, most of the increased usage of healthcare facilities have yet to

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239 Ibid, 35.
translate to better health and nutritional status for children.\(^{242}\) Most of the programs evaluated in the evaluation showed positive impacts, except for a UCT program in Ecuador.\(^{243}\) One of the challenges of measuring health outcomes is different measures used – some looked at increased visitation to health centers, and others focused on uses of preventive treatments. However, since most of the evaluated programs include visits to health centers as part of their requirements, the evaluations end up becoming a “measure of compliance with program rules.”\(^{244}\)

In terms of health outcomes, most of the social protection programs (SPPs) have shown mixed and limited results. Only the Mexican CCT program, Oportunidades, showed a reduction in infant mortality (two fewer deaths per thousand births).\(^{245}\) In terms of effects on prevalence of diarrhea, anemia and parasitic infestations among young children, there is mixed evidence showing five positive impacts and five with no impact at all. As for health outcomes that are not part of the objective of the program (referring to CCTs), hardly any effect is observed. For example, “less than half of the evaluations found any significant increase in the rates of immunization for children under six years old.”\(^{246}\) In addition, only three evaluations looked into the effect of SSNs on adult health – Mexico's CCT, Mexico’s housing subsidy and South Africa’s pension scheme – but all showed positive results.

\(^{243}\) Ibid, 27.
\(^{244}\) Ibid, 27.
\(^{245}\) Ibid, 28.
\(^{246}\) Ibid, 28.
Cost-benefit analysis: what is the best social protection program?

Overall, while different programs showed different results with respect to their impacts on poverty, consumption, education, and health, there is a general sense of which programs show the most impact. On reducing poverty, workfare programs, CCTs and UCTs have been the most effective, though not by the full amount of the benefits “due to foregone income and to parts of the transfers being saved and invested.”

On health and education, “almost 90 percent of the impact evaluations with evidence showed that [CCTs], education fee waiver, and school feeding programs increase school enrollment, attendance, and school progression as well as reduce child labor. Health care usage and growth monitoring are also enhanced through these interventions.” In terms of income and ability to save, some evidence seems to point out that CCTs, UCTs, workfare programs and pension schemes are helpful in reducing households’ credit constraints and allowing them to make “more, and better, investments in assets and production.” Furthermore, SSNs that target increase in income in the short-term also could “signal adjustment in attitudes toward investments in the well-being of household members” thereby leading to reduction in poverty among beneficiaries.

CCTs also have many indirect effects. Most large cash benefits, including conditional and unconditional cash transfers, appear not to crowd out private transfers. CCT programs have also worked to encourage more girls to attend school, thereby

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248 Ibid, xi.
249 Ibid, xi.
250 Ibid, 71.
251 Ibid, ix.
reducing prevalence of early marriage and childbirth.\textsuperscript{252} One of the advantages of cash transfers is the income effect, which increases the budget of households and give them greater flexibility in their purchasing power. Cash transfers are also administratively simpler to manage than in-kind transfers. In some cases, in-kind transfers may be the way through which policymakers impose their own perception of what types of goods low-income household needs, and may indirectly distort prices.\textsuperscript{253} In-kind transfers are also more costly to deliver and create additional challenges in its implementation. On the other hand, cash transfers are more cost effective and “a cheaper vehicle to deliver benefits compared to in-kind benefits.”\textsuperscript{254} Cash transfers also ensure that policymakers do not distort consumption and impose more consumption on certain goods they deem more valuable or necessary.\textsuperscript{255} Cash transfers expand each household’s purchasing power and their ability to choose how to best spend the money. In addition, cash is easier to transfer than in-kind goods, which means that it could reduce the potential for conflict in certain areas (e.g. a truck carrying food products could easily be hijacked by groups of non-beneficiaries).

There are, however, certain situations in which cash might not be the best solution. These are circumstances at times of wars or natural disasters, when supply of essential goods are disrupted, when it is impossible to administer proper targeting, or in

\textsuperscript{252} Ibid, 72.
\textsuperscript{253} “Evidence and lessons learned from impact evaluations on social safety nets,” 8.
financial markets when cash is hard to move.\textsuperscript{256} Aside from these extreme circumstances, cash is appropriate to use in situations of chronic poverty, in situations when the poor can access financial facilities and when there is a strong market for the things that they could buy with the money.

Moreover, the role of conditionalities among SSN programs has resulted in higher efficiency in programs such as CCTs, school feeding programs, and workfare programs. “It is expected that the ‘price’ effects induced by these conditions will affect the behavior of those beneficiaries on the margin.\textsuperscript{257}” Certain programs, such as CCTs in Malawi and Mexico, and a UCT in Ecuador, show that imposing conditionalities increased the likelihood that beneficiaries’ children are enrolled in school.\textsuperscript{258} Another example, Argentina’s CCT program, shows that when future receipt of scholarship is conditional upon academic performance, the impacts are larger.\textsuperscript{259} However, to date, whether the higher marginal effect of conditional programs outweighs its costs of enforcement is still a question to be investigated.

Additionally, given the importance of employment in reducing poverty, more weight should be given to SPPs that lead to higher employment. SPPs with links to employment include: guaranteed work programs, unemployment insurance, unconditional income triggered by poverty and/or inability to work, unconditional food subsidies, and conditional cash transfers. On the other hand, some SPPs have been shown to help the poor the least, such as subsidies and contributory pension plans. Contributory

\textsuperscript{256} Ibid, 5.
\textsuperscript{257} “Evidence and lessons learned from impact evaluations on social safety nets,” 51.
\textsuperscript{258} Ibid, 51.
\textsuperscript{259} Ibid, 51.
pension plans exclude those who are outside of the formal economy, and especially given that low-income families often do not have jobs for which pensions exist. Furthermore, it also gives out benefits that may not target the most vulnerable (e.g. older people who had earned a high income may have savings that they can use).

Why cash transfer is the best SPP

Thus, given the importance of cash transfers and the role of conditionalities in SPPs, conditional cash transfers seem to satisfy most of the criteria and have some of the biggest impacts. This is in line with the benefit-cost ratio study, which shows that CCTs have the most potential to have the highest benefit out of every dollar that is invested in the program.\footnote{Fiszbein, Kanbur and Yemstov, "Social protection, poverty and the post-2015 agenda," 11.} Politically, CCTs induce “the principle of shared responsibility” which leads to a higher political appeal and broader political support for CCTs by all parties in countries such as Brazil and Mexico. The attractiveness of CCT has also spread to over 50 countries around the world, and is one of the most extensively evaluated SSN programs in the world.\footnote{Lindert, “Conditional & Unconditional Cash Transfers,” 14.}

In addressing poverty and increasing human capital investment, a CCT is also more optimal than UCT. Though the cash amount may be the same, UCT merely raises a household’s level of permanent income, but does nothing to induce parents to invest more in their children’s education or health status. On the other hand, CCTs’ conditionality aspect helps shift the favor toward human capital investment that may benefit the children more in the future. In addition, within the household, the parents’ interests may take precedent over those of the children’s, and parents may discount the future benefit of
schooling at a higher rate, thus demanding "less schooling than the child’s optimal." Moreover, in households where women have less bargaining power, CCT is more powerful in ensuring women’s voice are more heard in making household spending and time allocation decisions.

While the targeting methods used by CCT programs can be improved, its beneficiaries are targeted at those with the lowest income in society, arguably the most vulnerable people in society. Larger CCT programs usually only cost about 0.4 percent of GDP, and CCTs tend to replace other more expensive and less efficient programs. In light of other government programs, such as pension systems which can take up as much as four percent of GDP (which does not always target low-income households). Given the breadth of its scope, CCTs also have the potential to consolidate other less-efficient programs, such as in-kind transfers (e.g. Mexico) and energy subsidies (e.g. Brazil and Indonesia).

In addition, cash transfers also fare better than direct investment in public infrastructure, which has been seen as an effective way to generate economic development, as public expenditure on infrastructure often fails to reach those that need it most. For example, in Nicaragua, a program seeking to expand access to electricity could only reach a small subset of low-income households as only 10 percent of the poorest households had access to electricity, as opposed to the extensive coverage available to the richest households (more than 90 percent). Likewise, Mexico’s electricity subsidies in

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262 Fiszbein, Schady, and Ferreira, Conditional cash transfers: reducing present and future poverty, 58.
265 Ibid, 16.
266 Ibid, 18.
Cash transfers more directly target the poor in a way that is both more efficient and more equitable. Moreover, other market intervention to reduce poverty may not be as effective in reducing poverty as poor people are often prevented from being as productive as they could be in an imperfect market environment. General macroeconomic intervention to boost the economy also might not reach the poor given the inequality that exists in the way that women, ethnic or religious minorities, do not have the same level of access to opportunities. Given this “inequality of opportunity,” CCTs are in a better position to address these inequalities and reach these segments of the population in a way that is more equitable for all.

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Chapter 4b – Comparing CCTs to Active Labor Market Programs (ALMPs)

The role of Active Labor Market Programs (ALMPs)

There is no discounting the role of generating employment in boosting economic growth. Government interventions in this field can take the form of Active Labor Market Programs (ALMPs), defined as, “selective interventions by the government in the pursuit of efficiency and/or equity objectives, acting directly or indirectly to provide work to, or increase employability of people with certain disadvantages in the labor market.” ALMPs are a more active form of labor market policies as opposed to unemployment insurance that acts as an income replacement. These interventions take the form of direct employment, livelihood or enterprise development and employment services. Another way that the government can generate employment is by investing in companies to hire more people or investing a certain amount of money to build up a particular industry. While not discounting the role of employment in generating economic growth, it is hard to find what the implications are on broader alternatives. To date, there is no evaluation that compares the rate of return of social protection programs and employment-generating programs. Thus, SPPs and ALMPs cannot be compared quantitatively and can only be analyzed separately.

Evaluation of ALMPs

There are four different types of ALMPs, including labor market training, job subsidies, direct job creation (e.g. public works), job search assistance, and counseling.
Overall, past evaluations have shown that ALMPs’ positive impact tends to be outweighed by substantial deadweight costs and displacement effects.\textsuperscript{268}

Labor market training has produced mixed results. Even though it typically increases the productivity of the labor force and is helpful when the economy is expanding, it requires good targeting mechanisms and is a relatively costly program to implement. It also typically favors the most skilled workers with the highest labor market prospects.\textsuperscript{269} In addition, retraining program typically only helps out younger workers and have limited impact on older workers even though both might have the same level of education and vocational skills.\textsuperscript{270}

Moreover, job subsidy programs are typically implemented during periods of high unemployment as a way to boost certain industries. It may act as an alternative to unemployment benefits and may even lead to more permanent employment for some employees. Evaluations have found that they are most helpful in the short term among the “hard-to-employ” groups.\textsuperscript{271} However, companies may use this subsidy as a way to hire cheap labor and may have high deadweight losses and displacement effects (toward smaller enterprises).\textsuperscript{272}

\textsuperscript{270} Sim, Negara, and Suryahadi, “Inequality, Elite Capture, and Targeting of Social Protection Programs: Evidence from Indonesia,” 54.  
\textsuperscript{272} Dorenbox, Tanzer, and Vossen, “Active labour market policies for youth employment in Asia and the Pacific: Traditional approaches and innovative programmes,” 17.
In addition, direct job creation programs, which usually take the form of public works, are beneficial both because they can help long-term unemployment as well as create more public goods and infrastructures. The World Bank has also found that public work schemes are often more cost effective than subsidies. For example, the assessment found that the Indonesian public works program spent less than $4 for each $1 transferred as opposed to the rice subsidies program that expended $8.20 for each $1 transferred.\textsuperscript{273} Evaluation of the outcomes shows that these types of programs mostly help the most disadvantaged groups (older workers, long term unemployed).\textsuperscript{274} However, it also focuses on the short-term and is quite costly to implement. The jobs that they would get also may be low skill and are not preparing them for their next jobs, and may even crowd out private jobs.\textsuperscript{275}

Furthermore, job search assistance and counseling programs are a helpful way to help screen participants for other ALMPs from which they might benefit, and is the least costly to implement. However, it requires a lot of manpower, and benefits only a small fraction of the people because the number of providers is limited and the process may take a long time. This program also requires good targeting, as sometimes it can be hard to identify the beneficiaries. Modifying this program for the youth must be integrated into the education system to avoid redundancies. Giving youth access to information about various opportunities in employment may help improve the efficiency of their choices of

\textsuperscript{274} Sim, Negara, and Suryahadi, “Inequality, Elite Capture, and Targeting of Social Protection Programs: Evidence from Indonesia,” 56.
\textsuperscript{275} Dorenbox, Tanzer, and Vossen, “Active labour market policies for youth employment in Asia and the Pacific: Traditional approaches and innovative programmes,” 11.
Another interesting type of ALMPs is entrepreneurship assistance. However, the program tends to only attract a small subset of the population (primarily male, better educated, in their 30s), and excludes women.

One difficulty in assessing the effectiveness of ALMPs is that it is hard to isolate the impact on the programs since most participants would be looking for jobs even if they had not participated in the program. Also, no rigorous cost-benefit evaluations have been done on these programs, and the few existing evaluations do not track long-term outcomes. Another difficulty is in calculating the deadweight loss, substitution, and displacement effects of these types of programs. It should also be noted that the creation of ALMPs alone cannot solve all unemployment problems, as they only mainly target disadvantaged groups, and thus may not have substantial impact on the unemployment rate. Nonetheless, ALMPs remain an important tool for government during periods of economic growth, but also reduce unemployment among the most marginal populations.

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277 Ibid, 59.
278 Coady, Grosch, and Hoddinott, Targeting of Transfers in Developing Countries: Review of lessons and experience, 54.
Chapter 4c – Importance of Targeting

Universality vs. targeting

In designing any social protection program, most of the debate surrounds which targeting methods should be used. However, Gelbach and Pritchett (1997) have argued in favor of universality, stating that “social welfare is maximized in political equilibrium only when all revenues are spent on universal transfers and none spent on targeted ones.” They argue that targeting has the reverse effect than what is typically anticipated – instead of redistributing from the rich, it redistributes from the poor and benefits the rich. One example is that “when the tax rate is low, high levels of targeting will make the combination of informal sector work and large targeted transfers more attractive to middle income or rich agents than formal sector work without targeted transfers.” However, a limitation of Gelbach and Pritchett’s idea is that it rests on a simplistic model of “political equilibrium” insofar that benefits are targeted to the poor, others will want to reduce that amount. In reality, there are other reasons that people would want to favor targeting, namely, to protect the poor in downturns, poor households may create disruptions if they do not receive targeted benefits during transition, and in the long run, the aspect will increase overall productivity in which everyone benefits.

Their argument has also been supported by Mkandawire (2005) who argues that the logic of targeting is flawed in that the countries that need targeting the most are those


that lack the administrative skills and capabilities to do so. \(^{282}\) Another argument against targeting put forward by both Mkandawire and Gelbach and Pritchett is that the money allocated toward targeting would take up the amount of money that could otherwise have gone to the beneficiaries, so that “more for the poor means less for the poor.” \(^{283}\) Weiss (2004) argues that since targeting is inherently incompatible with administrative capacity in developing countries, even in cases where targeting precision is improved, some targeting and misappropriation error are inevitable. \(^{284}\) Rather, Weiss finds that macroeconomic growth, rather than targeted interventions, has been the key driver in reducing poverty. \(^{285}\) Nonetheless, despite the difficulty and costs associated with targeted interventions, Weiss (2004) would concede that social protection programs still hold a pivotal role in protecting the poor in times of crises, citing that health and education interventions in Indonesia after the 1997 Financial Crisis as a prime example. \(^{286}\)

Moreover, the extra targeting and monitoring costs associated with a CCT may also be justifiable because “unlike a UCT, a CCT can be seen not as plain social assistance, but rather as part of a social contract whereby society (through the state) supports those poor households that are ready to make the effort to ‘improve their


\(^{283}\) Ibid, 13.


\(^{285}\) Ibid, 10.

\(^{286}\) Ibid, 10.
lives.287 “A recent analysis of the treatment of the Bolsa Família program in the Brazilian media provides additional support to the idea that conditions make transfer programs more politically palatable. There is little question that Bolsa Família is a popular program in Brazil. An Ipsos opinion poll taken in September 2007 found that the program tops the list of items mentioned in response to a question on what President Luiz Lula da Silva had done well in office.288” While not discounting the role of macroeconomic growth in reducing poverty, those types of intervention typically discriminate against the poor who may not be able to take advantage of all the opportunities presented.

Inserting conditions may also be necessary as households do not always behave the way informed, rational agents would. Research has suggested that “people often suffer from self-control problems and excessive procrastination, in the sense that their day-to-day behavior is inconsistent with their own long-term attitude toward the future.”289” Voters, and other decision makers, may also perceive households that are investing in their children’s welfare as more deserving, and therefore may be more receptive to the idea of CCTs resulting in a higher budget availability.290 Furthermore, households may also have “misguided beliefs” on the expected return of human capital, thereby discounting the need to send children to school or for health check ups. The rate of expected return is even lower among poorly-educated parents, which is reflected in the

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288 Ibid, 62.
289 Ibid, 50.
290 Ibid, 60.
case of Mexico, where expected returns among 15 to 25 year-olds (whose fathers have lower education levels) are lower than realized returns.\textsuperscript{291}

On the other hand, however, universalism has also been criticized due to its lack of feasibility in its implementation. In practice, universalistic policies end up being captured by those in power who wish to grant the benefits only to themselves.\textsuperscript{292} Furthermore, while advocates for universalism argues that targeting is not redistributive, its critics would pose the same argument, given that the same amount of income transfer would be given to households of different income levels.\textsuperscript{293} In this way, targeting is seen as “quintessentially redistributive” because the amount of benefits given to each household would correspond to their income level: higher benefits for lower-income households, and vice versa.\textsuperscript{294}

Regardless of the arguments for universalistic policies, the balance has now shifted toward targeting since the 1980s.\textsuperscript{295} R.E. Goodin (1985) argues in favor of targeting, pushing for the idea that targeting should be broader so that those that genuinely need the benefit are not excluded because of targeting errors.\textsuperscript{296} Expanding targeting may lead to errors of overinclusiveness, but it may be worth it to ensure that program administrators do not leave out deserving beneficiaries. For example, if the targeting method aims to reach the bottom 20 percent of the population, the means test should cover 30 percent so as to reduce the chances that we are excluding people who

\begin{footnotesize}
\begin{enumerate}
\item Fizbein and Schady, “The economic rationale for conditional cash transfers,” 54.
\item Mkandawire, Targeting and universalism in poverty reduction, 4.
\item Ibid, 6.
\item Ibid, 6.
\item Ibid, 1.
\end{enumerate}
\end{footnotesize}
need it. Moreover, Goodin also brings up the importance of the relative costs of the program. In terms of CCT, the question becomes whether it is more expensive to keep eligible people out or to pay for ineligible people in the program. In reducing poverty, inclusion error affects eligible poor households by leaving “less” for poor households, making the program less efficient. Conversely, an exclusion error also reduces inefficiency as it leaves eligible households without help.\(^{297}\) In this way, Goodin (1985) concludes his argument that “it would be indubitably worse to deny welfare benefits to people who need and are entitled to them than it is to grant welfare benefits to people who are not.”\(^{298}\) In a way, despite the errors of over-coverage in targeting, the number of ineligible people who are receiving the benefits are still fewer compared to the number of people who do not necessarily “need” the benefits yet are receiving them under a more inclusive policy. The other conclusion that Goodin draws is that in situations in which more people are deserving of the welfare benefits, program administrators should have more lax policies in terms of applicant screening.\(^{299}\) Goodin’s conclusion is echoed by Cameron and Shah (2012) who argues that errors of undercoverage are judged more harshly than errors of overcoverage; and finds that “a poorly targeted and administered program can significantly disturb the social fabric within a community, to the extent that people disengage from the community, [which] makes it more susceptible to crime."\(^{300}\)

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\(^{298}\) Goodin, "Erring on the side of kindness in social welfare policy," 149

\(^{299}\) Ibid, 151.

Thus, given that targeting is often perceived as more politically acceptable, it is important to calibrate the precision of targeting. In Indonesia, past cases involving other social protection programs such as, JPS (first massive social safety net) and a fuel subsidy program, have shown that targeting mechanisms remain poor and suffer from both inclusion and exclusion error.\textsuperscript{301} In Indonesia, the need to increase efficiency for targeting is enhanced by fuel subsidies reductions since 2000.\textsuperscript{302} Given that precise targeting requires high administrative capacity that may not exist in developing countries where most CCTs are enacted, the challenge remains to create combinations of targeting methodology that fit each community best.

Crafting the appropriate targeting method for each community is also especially relevant in communities where there is a high potential for conflict, as an error of overcoverage or undercoverage may serve as a trigger point in exacerbating pre-existing conflict in the community or creating new conflicts.

\textit{Types of targeting}

Different regions have tended to opt for different targeting methods. For example, given its history of central planning, East and Central Asia have inherited a more extensive administrative system that have a higher capacity to conduct proxy-means tests.\textsuperscript{303} Southeast Asia, on the other hand, has tended to use categorical targeting or self-targeting based on work or consumption.\textsuperscript{304} Moreover, richer countries which arguably

\textsuperscript{301} Sim, Negara, and Suryahadi, “Inequality, Elite Capture, and Targeting of Social Protection Programs: Evidence from Indonesia,” 1.
\textsuperscript{302} Ibid, 4.
\textsuperscript{303} Coady, Grosch, and Hoddinott, \textit{Targeting of Transfers in Developing Countries: Review of lessons and experience}, 19.
\textsuperscript{304} Coady, Grosch, and Hoddinott, \textit{Targeting of Transfers in Developing Countries: Review of lessons and experience}, 19.
have higher administrative capacity, tend to opt for simple or proxy means tests whereas less developed countries would generally use more self-targeting and categorical targeting method. Moreover, across program types, cash transfers typically use some sort of means testing and categorical testing (e.g. age of child to determine cash benefit).

In designing a targeting methodology, it is important to determine who should be in charge of determining beneficiaries of the program. On the one hand, a decentralized targeting method seems efficient because local leaders tend to have better knowledge of local context than the central government, such as additional household’s income and assets which they might otherwise try to hide from a central government official. However, local leaders might not be best for deciding beneficiaries in areas where “possibility of local conflict is high” due to pre-existing ethnic and religious tension (or income inequality). Decentralized targeting methods are also prone to local elite capture, in which the powerful few in the community would capture a bigger share of the benefits. On the other hand, centralized targeting method may be more efficient as they can have greater access to a centralized information system and can be more impartial to certain regions, or even households in the community. Thus, the question between centralized or decentralized targeting method should hinge upon, is to decide which actor has the best access to knowledge on individual households or circumstances and has the

306 Ibid, 3.
307 Ibid, 3.
best ability to deliver the benefits most cost-efficiently and would make decisions that avoid exacerbating conflict.\textsuperscript{308}

Beyond deciding who should determine the beneficiaries, program administrators also have to look at the different types of targeting methods. Some of the most common approaches used in designing social protection programs include, in order of most exhaustive and administratively costly to the least, proxy-means tests, simple-means tests, community-based targeting, categorical targeting, and self-selection.

\textit{Simple-means test}

Simple means test is an individual assessment comparing “resources such as income under the command of an individual or household with some threshold or cut-off.”\textsuperscript{309} It is often used as a targeting method for direct transfer programs and fee-waiver programs.\textsuperscript{310} This type of targeting method is often found in parts of Latin America, and East and Central Europe; and the majority of means-tested methods are used in cash transfer programs.\textsuperscript{311} Simple-means tests usually focus on income level as its sole indicator, and requires less administrative work compared to proxy-means tests. Since the answer is more clear-cut, this type of test leaves smaller room for enumerators’ discretion and may be a more objective and impartial method. It also reduces administrative costs as answers may be submitted without a home visit. Given that most developing countries do not have a high administrative capacity yet, simple-means test seems to work best as an initial, first-step filter.

\textsuperscript{308} Coady, Grosch, and Hoddinott, \textit{Targeting of Transfers in Developing Countries: Review of lessons and experience}, 15.  
\textsuperscript{309} Ibid, 31.  
\textsuperscript{310} Ibid, 13.  
\textsuperscript{311} Ibid, 34.
Proxy-means tests

Proxy-means test is a systematic way of generating a score through observable household characteristics (e.g. location and quality of house, ownership of assets, education and occupation of the household members).\(^{312}\) Information is gathered similar to that of means tests, either by household visits by administrators or office visits by potential beneficiaries. Proxy-means test is considered the more exhaustive than simple-means test because it requires a home visit and leaves more room for discretion on the part of the enumerators as the set of questions are more open-ended. However, processing the information gathered from proxy-means tests requires a high administrative capacity and a large information processing system.\(^{313}\) Typically, these proxy-means tests are created by a single agency in the central government. This type of targeting is best used when countries have a moderately sophisticated computer network, and used in long-term development programs rather than short-term humanitarian assistance following a crisis.\(^{314}\) One reason for this is because household surveys take a while to register information and does not take into account “quickly changing variables."\(^{315}\)

Community-based targeting

Community-based targeting involves a group of community members to decide who the beneficiaries should be in that particular community. The advantage of community-based targeting is that locals have the best knowledge of each families’ living conditions and may be a more accurate measure than a simple means test or any other method.

\(^{312}\) Coady, Grosch, and Hoddinott, Targeting of Transfers in Developing Countries: Review of lessons and experience, 13.
\(^{313}\) Ibid, 37.
\(^{314}\) Ibid, 41.
\(^{315}\) Ibid, 41.
household visit by a program official. Another advantage is that local communities can decide for themselves its own criteria to define need as most relevant to each community.\footnote{Coady, Grosch, and Hoddinott, Targeting of Transfers in Developing Countries: Review of lessons and experience, 42.} It is also typically considered a low-cost method, as community members who play a part are not paid for their time. However, the downside is both conscious and unconscious bias of each community member who may favor particular ethnic or religious groups, and thus widening preexisting conflict within the community. Also, community-based targeting may also perpetuate pre-existing patronage structures to benefit their close family networks.\footnote{Ibid, 43.} Moreover, community-based targeting usually does not stand alone as a sole targeting method, but is often paired with other types of targeting methods. For example, Mexico’s \textit{Progresa} program integrates community input only after creating a poverty map to identify poor households and a proxy means test to screen out non-poor households in those areas.\footnote{Ibid, 43.} Given the high probability of conflict that community-based targeting can cause, it is best used in smaller, tight-knit communities where members know each other and would presumably all come from the same ethnic or religious background.\footnote{Ibid, 43.}

\textit{Categorical targeting}

Categorical targeting grants individuals eligibility if they fit under a certain category, such as particular age, gender, ethnicity, land ownership, geographical location.\footnote{Ibid, 43.} This method is also often referred to as the statistical method. Categorical targeting leaves little room for personal interpretation, as the categories used are typically...
“fairly easy to observe, hard to falsely manipulated, and correlated with poverty.” In the case of cash transfer programs, number and age of children would be the most relevant categories to look at.

**Self-targeting**

Self-targeting is the least administratively exhaustive and costly as it is up to the individual to self-report and self-identify as beneficiaries of the program. While the program is open to all, the criteria of the program make it so that only the poor are attracted to the program. Such example might include: giving out lower quality grain/wheat, offering low wages on public work schemes, etc. As a result, the non-poor would choose not to use these benefits. One caveat of self-targeting is the stigma associated with it, but it may vary depending on how the culture views poverty and the role of the state in providing welfare benefits. In Indonesia, for example, the *Padat Karya* workfare program, which uses self-targeting method, finds high participations for women in Bali (mostly Hindhus) and less so in other areas of the country (mostly Muslims). This type of targeting method is generally desirable if the country lacks sophisticated administrative capacity, or in crisis settings where income is irregular and cannot be properly quantifiable through proxy means test or simple means test.

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321 Coady, Grosch, and Hoddinott, *Targeting of Transfers in Developing Countries: Review of lessons and experience*, 14.
322 Ibid, 15.
323 Ibid, 56.
324 Ibid, 57-58.
325 Ibid, 58.
How targeting has worked in other social protection programs in Indonesia

In Indonesia, a study by Suryahadi, Sim and Negara (2015) argued that centralized targeting is generally superior to decentralized targeting, as shown through the example of the “Rice for the Poor” program and direct cash transfers.\textsuperscript{326} The “Rice for the Poor” is a decentralized program, with local leaders determining the list of beneficiaries, while the Bantuan Langsung Tunai (direct cash transfer program) is a centralized program, with the central government determining the list of beneficiaries. How the targeting works for the “Rice for the Poor” program combines both the efforts of the central and local government agency. First of all, the central logistic agency, Bulog, determined quantity of rice by the number of poor households in a particular village to be purchased by local village authority. From there, local village officials take over and are the ones distributing the rice directly to the appropriate households.\textsuperscript{327} However, decentralized targeting method is also susceptible to local elite capture, which compromises protection for minorities and results in poorer targeting performance.\textsuperscript{328} Interestingly, although little evidence shows the effect of local elite capture in Indonesia on targeting, elite capture happens more often during distribution.\textsuperscript{329} For example, local village leaders hold the power to tell program officials where to distribute the rice benefits in the “rice for the poor” program, and uses this as a base for their own electoral support.\textsuperscript{330} Thus, given the prevalence of elite capture, centralized targeting methods

\begin{footnotesize}
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\item[\textsuperscript{326}] Sim, Negara, and Suryahadi, “Inequality, Elite Capture, and Targeting of Social Protection Programs: Evidence from Indonesia,” 2.
\item[\textsuperscript{327}] Ibid, 6.
\item[\textsuperscript{328}] Ibid, 4.
\item[\textsuperscript{329}] Ibid, 5.
\item[\textsuperscript{330}] Ibid, 8.
\end{itemize}
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often work better in the case of Indonesia. Furthermore, in high-inequity communities, there is a decrease in exclusion error, but no effect on inclusion error, due to a clearer distinction between beneficiaries and non-beneficiaries. Thus, in areas that are more highly unequal, it is easier for local officials to distinguish beneficiaries.

*Best combination for CCT in Indonesia*

First, the central government must work with local governments and the National Family Planning Coordination Agency (BKKBN) to compile a special household economic survey, which includes households’ poverty status to determine targeting region. To screen out the applicants, the central government would have to create a set of national criteria. Moreover, in the case of CCTs, there also needs to be categorical targeting that filters through eligible households by only highlighting families with children and/or pregnant women. Moreover, currently, most targeting methods for social protection programs in Indonesia would include enumerators who would visit local district heads to conduct field investigation and interview local community figures to narrow down the list of beneficiaries. However, studies have often found that at this stage, enumerators are prone to skipping houses and not conducting a full and fair field investigation. They are also often overwhelmed with the number of interviews to conduct and houses to visit.

Thus, to reduce the workload of the enumerators, there has to be an in-between stage, whereby village heads – not individuals in those villages – are to submit a proposal to the central government outlining how they would equitably distribute the benefits in

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331 Ibid, 17 – 18.
their community. The village heads would also have to make the case as to how their proposal would fit under the national criteria set out by the central government. By empowering the village heads to “compete” to get these benefits, this would increase effectiveness and accountability when implementing the program. It would also help the monitoring process done later on by the enumerators on a selective basis, who would only focus on ensuring the village heads are following through with their proposal instead of doing a general field research and using the same set of categories to judge different communities. Since previous experiences in Indonesia have shown that a centralized targeting method works better, the central government will decide which applications get through, with the help of a committee comprising of representatives from each province in the country. The central government and the committee would then be able to see if the proposal set forth is deemed as feasible, cost-effective and equitable to all members of their community.

In certain cases, the central government may make special provisions to universal benefits in a particular community when there is a high degree of income equality in the area (and all the households fit around the same income threshold). On the other hand, in highly unequal areas, the central government would have to allocate more toward targeting and monitoring costs, as small errors in targeting could lead to higher probability of conflict.
Conclusion

Since its pilot program in 2007, Program Keluarga Harapan has shown significant positive impacts on increasing access to education and healthcare, as well as a tool to reduce conflict. Given the magnitude of poverty in Indonesia, PKH is a necessary intervention to ensure that the poor are provided with the opportunity to improve their livelihood (micro-level effect) and to increase stability as the program works to reduce income inequality and conflict (macro-level effect). By looking at cross-country and cross-program comparisons of CCTs in other countries, as well as other social protection programs in Indonesia, this thesis finds that CCTs may reduce or exacerbate conflict, and subsequently, this thesis seeks an understanding of the right set of policies for the Indonesian context. Conflict often gets in the way of development, and any program that can reduce conflict will typically have beneficial long-term social, economic and political impact.

In particular, this thesis delves into the dilemmas found in creating a targeting method for CCTs, in terms of whether it should be universal or targeted, loosely or tightly targeted, and whether it should be determined by local or central government. Often, in creating the list of beneficiaries, local conflict may arise as local district heads use their own discretion, which can be greatly influenced by their own pre-existing ethnic or religious bias. This is especially relevant in the case of Indonesia, with its decentralized democratic structure, as there are 473 district heads who have considerable power in their respective jurisdictions.
This thesis finds that a more central-government focused targeting would work best in Indonesia, as it streamlines the targeting process and leaves less room for power abuse at the local level. That being said, targeting should be looser when conducting the national level proxy-means test to include five to ten percent additional recipients in the target population. For example, if the test intends to target the lowest 20 percent of the population, the test should be set at 30 percent instead to ensure that it does not exclude eligible households that may also benefit from the program. This thesis also proposes a new targeting strategy by replacing the work of enumerators with a system calling for proposals submitted by the district heads outlining why and how PKH will work in their respective areas. This is hoped to increase competitiveness among districts, in order to motivate them to be more accountable and to reduce administrative costs.

Indonesia is a unique case. Given Indonesia’s geographic size, ethnic and religious diversity, and history of violence, its targeting method should be more centralized rather than localized. However, in thinking about how CCTs should be implemented elsewhere, the usual brief in favor of decentralization may hold even if it does not hold for Indonesia. For example, in countries that are more ethnically homogenous, targeting need not be so centralized and community-based targeting may be advisable as part of the targeting process. In an ethnically heterogeneous country like Indonesia, community-based targeting may lead to more conflict, especially if the traditional power structure tends to favor one group over another. Furthermore, given Indonesia’s relative size, it is also more cost-efficient to control targeting and monitoring costs centrally, though this may not be the case everywhere.
Perhaps one aspect of the policy that is transferable to other countries is the creation of a nationwide household survey to identify poor households that can be used to streamline all other social protection programs in the countries. A national survey, which is also implemented in the Philippines, will allow similar or complementary programs to work together.

Moreover, this thesis finds that CCTs are more than just a cash transfer program and highlights the importance of its conditionality in cash transfers. The role of facilitators in CCTs, in contrast to in UCTs, is vital in changing perceptions and promoting behavior changes in terms of how families perceive the importance of education and health services, which ultimately helps to shift the favor toward human capital investment. Furthermore, the role of facilitators and counseling support are also crucial in PKH’s graduation schemes in ensuring households go through a smooth transition and reintegration back into the economy. Through entrepreneurship support and household management, CCT beneficiaries gain confidence and a sense of empowerment, and induce lasting behavioral changes.

This thesis also finds that the role of conditionality is crucial in reducing incentives to engage in criminal activity. This works through the income effect – when beneficiaries receive more dispensable income through the program, they are less likely to engage in financially-motivated crimes – and through the time effect – when children are enrolled in school, they have less time to engage in criminal and risky behavior.

Finally, though many conditions and measures are required to ensure that CCT programs are successful in improving people’s livelihood and reducing conflict, the
Indonesian case demonstrates that CCT programs can be highly worthwhile. People in fragile and conflict-affected states are “more than twice as likely to be undernourished as those in other developing countries, more than three times as likely to be unable to send their children to school, twice as likely to see their children die before age five, and more than twice as likely to lack clean water.”

CCTs can address these problems, and if conflict risks development, then any effort to mitigate conflict that simultaneously boosts development should be explored further.

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