

# The Case for Conditional Cash Transfers in the United States

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by Megan Simons

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*Programs in several countries providing conditional cash transfers to low-income individuals and families are focused on improving the education and general well-being of children. The conditions parents must meet range from general health check-ups to school attendance and performance requirements. Though cash transfer programs are popular and successful internationally, particularly in developing countries, Americans have paid very little attention to their potential benefits.*



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**An International Success.** Conditional cash transfers (CCTs) garnered international attention following the success of Mexico's *Oportunidades* program and Brazil's *Bolsa Escola/Familia*.<sup>1</sup> Since the initial success of these programs, more than 30 nations have adopted some sort of CCT program focused on improving health and education outcomes.<sup>2</sup>

Of these programs:

- Fourteen have been nationwide programs, of which eight focus on improving education and health, and six focus solely on education;
- Fourteen focus on improving outcomes by region or for specific groups. Of these, 11 focus on education and health, while three focus solely on education;
- Ten are small-scale or pilot projects, of which seven focus on improving education and health, and three focus solely on education.<sup>3</sup>

These programs have transferred millions of dollars to their target populations over the last several decades, and are credited with improving child health and care, increasing school enrollment, and improving early cognitive development.<sup>4</sup>

*Mexico's Opportunities Program.* Mexico's *Oportunidades* program, an extension of the previous *Progresa* program, was established in 1997. *Oportunidades* aimed to improve children's health and education outcomes by providing cash incentives to attend check-ups, maintain school attendance and meet performance standards. In 2007, with a budget of \$3.7 billion, the program targeted 5 million low-income families across Mexico.<sup>5</sup> While enrollment was optional, 90 percent of eligible households living in treatment areas enrolled in the program.

Families with children are awarded transfers in the form of educational scholarships, starting when children reach the third grade.

### Educational Cash Transfers in Mexico's *Oportunidades* by Age-Group, 1997 (in pesos and U.S. dollars per month)

Third Grade Student	60 (\$7.60)
Fourth Grade Student	70 (\$8.80)
Fifth Grade Student	90 (\$11.40)
Sixth Grade Student	120 (\$15.20)
Seventh Grade Student, Male	175 (\$22.10)
Seventh Grade Student, Female	185 (\$23.40)
Eighth Grade Student, Male	185 (\$23.40)
Eighth Grade Student, Female	205 (\$25.90)
Ninth Grade Student, Male	195 (\$25.60)
Ninth Grade Student, Female	225 (\$28.50)

Source: Lisa Fernald, Paul Gertlaer and Lynnette Neufeld, "Role of Cash in Conditional Cash Transfer Programmes For Child Health, Growth, and Development; An Analysis of Mexico's *Oportunidades*." *Lancet*, Vol. 371, March 2008, pages 828-837.

Children are required to attend school a minimum of 85 percent of the time, and are not allowed to repeat a grade more than twice. Qualifying children also received money for school supplies up to twice a year. The amount of the scholarships increases as children reached higher grades. Additionally, girls receive slightly larger stipends, to encourage older girls to stay in school. While families receive money for each student, the monthly payment was capped at 500 pesos (about US\$45) per household in 2007.

Though these are modest amounts, in a country where the urban poverty income level in 2012 was 2,329 pesos (about US\$177) per month, the cash incentive is enough to encourage children to stay and succeed in school, rather than leaving school for work.<sup>6</sup>

*Brazil's Family Allowance and School Programs.* Brazil's *Bolsa Escola* began in 1995 in two cities. The program originally targeted children age 6 to 15, and required students to enroll and attend at least 85 percent of school days. The program expanded to 50 other cities by 1998, pushing the government to create a federal version of the *Bolsa Escola* program in April 2001. In its latest form, the *Bolsa Escola* program – now called *Bolsa Familia* – serves

over 11 million families whose monthly per capita income falls below 120 *Reais* (US\$57; 2006), or about half of Brazil's minimum wage.<sup>7</sup> Families whose children meet the education requirements are awarded 15 *Reais* per child, for up to three children.

Over time, the *Bolsa* programs have had several positive impacts on school age children:

- School enrollment increased about 5.5 percent;
- Dropout rates fell about 0.5 percent; and
- Grade promotion rates increased about 0.9 percent.

Considering that about one third of Brazil's children participated in either *Bolsa Escola* or *Bolsa*

*Familia*, some researchers estimate the programs' impacts could be as much as three times higher than the above estimates.<sup>8</sup>

**Conditional versus Unconditional Cash Transfers.** Unconditional Cash Transfer programs (UCTs) are also designed to transfer cash to households at the low end of the income spectrum. The primary difference between CCTs and UCTs is the lack of constraints and conditions. In contrast to CCTs, UCTs do not require participants to meet certain expectations in return for a financial reward. Instead, cash is given with "no strings attached."

Due to the lack of conditions, UCTs require fewer resources to implement, monitor and sustain. Proponents of UCTs cite their ease of implementation in poorer nations and caution against attaching conditions that exclude segments of the population who refuse or are incapable of complying with the conditions.<sup>9</sup> Yet several studies comparing conditional and unconditional cash transfer programs have found that while both CCTs and UCTs improve education outcomes, programs with conditions tend to yield better results.

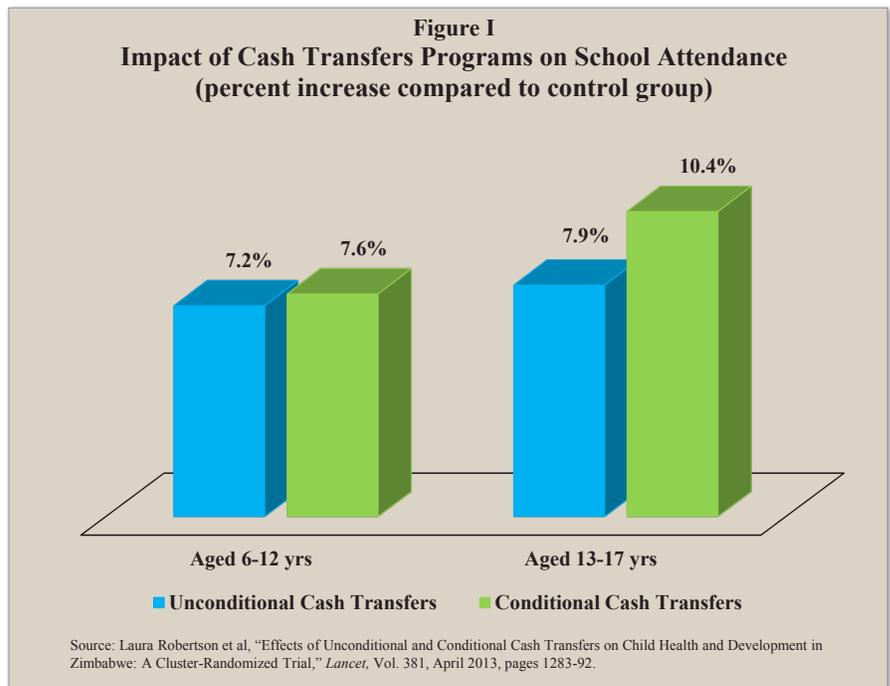
**Cash Transfers in Zimbabwe.** A study of the impact of conditional and unconditional cash transfer programs on school attendance in Zimbabwe found that:

- School attendance for students ages 6 to 12 years increased 7.2 percent for UCT participants and 7.6 percent for CCT participants.
- School attendance for students ages 13 to 17 increased 7.9 percent for UCT participants and 10.4 percent for CCT participants.
- Compared to children who were not given any sort of cash incentive, both conditional and unconditional cash transfer programs yielded higher school attendance overall.<sup>10</sup>

**Conditional Cash Transfers in the United States.** Two notable CCTs were launched in the United States: Opportunity NYC in New York City, and “Family Rewards 2.0,” which operated in both Memphis, Tenn., and the Bronx, N.Y.

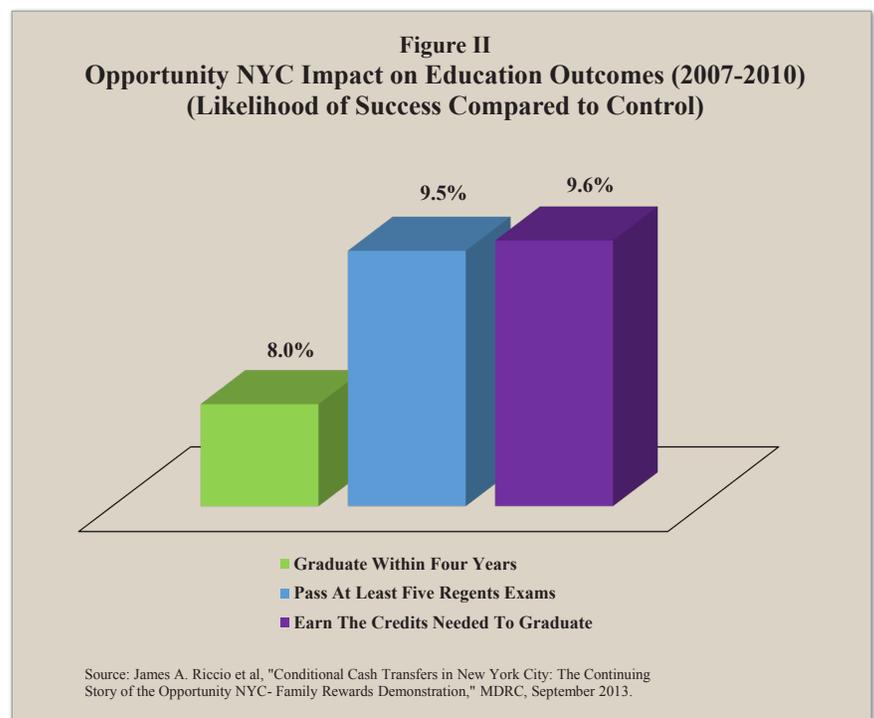
*Opportunity Program.* Opportunity NYC established itself as both the first CCT program in the United States and the first iteration of the Family Rewards Program. The privately funded \$63 million pilot initiative consisted of three distinct programs: Family Rewards, Work Rewards and Spark.<sup>11</sup> Work Rewards targeted adults, while Family Rewards and Spark focused on education and poverty initiatives.

Working with six community-based organizations, these programs were implemented in six of New York City’s highest poverty communities from 2007-2010. Family Rewards targeted both elementary and high school students, but the program had its biggest impact on high school students. The program was particularly effective at incentivizing ninth graders who were proficient on their eighth grade English Language Arts (ELA) exams.



Compared to students who were not proficient on their eighth grade ELA exams, these students were:<sup>12</sup>

- Eight percent more likely to graduate within four years;
- Over 9 percent more likely to pass at least five of New York’s State Regent Exams; and,



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- Nearly 10 percent more likely to earn the credits needed to graduate high school.

*Family Rewards Program.* Family Rewards 2.0, launched in 2011, was fully implemented in 2014. Operating in Memphis, Tenn., and the Bronx, N. Y., Family Rewards 2.0 is the second generation of conditional cash transfer programs in the United States. Building on the successes and criticisms of Opportunity NYC, Family Rewards 2.0 limits its incentives to high school students and has reduced the number of activities for which students receive incentives.

“I think it’s fair to give an incentive to do something,” said Memphis Mayor A. C. Wharton. “Get your job training. Participate in your child’s educational pursuits. For each grade they get you give them a little something. That’s part of the American fabric.”<sup>13</sup>

The first report on Family Rewards 2.0, released in November 2014, outlined the incentives and participation of students in Memphis, Tenn., and South Bronx, N. Y.<sup>14</sup> However, the program is still too new to fully evaluate its impacts on student success and achievement.

**CCTs and Education Savings Accounts: The Missing Link?** For some, the “cash” aspect of CCTs poses a problem: handing parents cash for their children’s performance does not guarantee that money will benefit the students. Previous programs in the United States have had problems getting money to students due to the lack of a bank account, money diverted to spending on items other than the children’s education and the increased strain on high school parents who had to monitor the cash given to their children.

However, CCTs in the United States increase both parental spending on school-related expenses and the proportion of parents who save for their children’s continued education.<sup>15</sup> Additionally, while CCTs have successfully met short-term education goals, such as increasing high school graduation or attendance rates, there has been little proof of long-term household investment in education, as measured by increased college or trade school attendance.

Placing the money earned by students participating in CCTs into Education Savings Accounts (ESAs) could be the missing link between CCT programs and long-term investment in education. Using ESAs as the depository for the cash earned by the students would ensure that funds were applied toward school supplies, tuition at a private high school or institution — or set aside for college.

**Conclusion.** Education comes with its own rewards, but for many students in low-income areas that simply isn’t enough. Providing incentives to stay — and succeed — in school through the use of conditional cash transfer programs would bring free-market principles into the education sector in a new way. Combining CCTs with Education Savings Accounts could be the key to ensuring the benefits outlast the programs themselves.

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*References and sources can be found in the online version at <http://www.ncpa.org/pub/ib165>.*