

# Education and Conditional Cash Transfer

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## Abstract

Education plays a fundamental role in one's future. With education one can get better jobs, better health and greater gender equality. This study identifies the problems of education in poor households that includes school accessibility, the lack of information in returns of education, and the costly investment of sending children to school. The authors propose a few solutions based on its cost-effectiveness and recommend some changes in the government policy. The ultimate goal is to break the poverty cycle and we support a charity that aligns with the goal and the solutions we proposed.

## **I. The Problem**

Human capital includes the collective skills, knowledge, or other intangible assets of individuals that can be used to create economic value for the individuals, their employers, or their community. One of the important things that human needs for their life prosperity is knowledge through education. However, education cannot be achieved if one does not have access to healthcare. In assessing conditional cash transfer program, we identify many problems including the lack of healthcare, nutrition or food consumption and education. For the sake of simplicity in evaluating conditional cash transfer program, this paper will focus on education in poor households in the developing world.

The problem of education is affecting many children in poor households around the world for various reasons such as its accessibility in terms of readiness and its cost. The lack of education impacts the society to miss out on the opportunity of getting well-paid jobs which makes them stuck in poverty. Not only that education plays a fundamental role in one's future, Karlan and Appel view education to be beneficial as people will have better jobs, better health and greater gender equality (Karlan and Appel 1992). However, there is a bigger problem as these benefits are not clearly seen by parents and children as they underestimate the returns of education. Then, when they understand that school is important, they simply think that education will make them rich without actually having a career goal of what to do with the education that they are pursuing.

## **II. The Cause**

Market for education is not perfectly constructed either on supply side and on demand side, which makes it the main cause of people not having enough education. The reason of this main cause results from lack of demanders and/or products.

The lack of demanders come from either people not having enough money or information. Even when there are some education provided in certain area by suppliers, they set its price too high that not many people can afford in some case. People who try to get education need to pay not only for school fee but also for school supplies and opportunity cost. Kaplan and Appel explain, “even free schooling isn’t completely free....there is the opportunity cost of education” (198). People can lose the money that they could earn, if they go to school instead of work. They also state, “students who did not have these materials (uniforms, textbooks, notebooks, and the like) were embarrassed to come to school” (199). These costs prevent people from coming to school.

In another case, information asymmetry is happening in the market. Jensen explains, “school dropout may be the result of low demand due to low perceived returns” (Jensen 518). If school officials do not provide enough information of the value of education, people will stay unaware of the benefit of education,. There are some area where schooling is provided for free. Even in such areas, sometimes people are not willing to let their children go to school because they will lose their possible income. These people view schooling as a waste of time as the impact of education can only be seen in the long run. Poor households think that education is not worth opportunity cost. In other words, they do not realize the value of education. They value tomorrow’s earning more than future’s earning they gain after education.

### **III. The Solution**

In order to increase school enrollment and attendance in schooling in poor countries, many interventions focus on working on the returns to education. Three main solutions we can conclude from those researches are informing the actual earnings, reducing cost and giving money as CCT. As poor people live in certain areas where they are not well informed about the benefits of schooling, research focuses on the attempts of educating people about the returns of schooling in Dominican Republic to try to help them get out of poverty on the long run. According to the pre-intervention survey results, many families in the Dominican Republic that have children in the age of primary school, underestimate the returns to high school education. They think that there were no difference and benefit from spending additional years of school. So they prefer to let their children work to help earn extra money. Only families with better living standard may let their children study in the higher level, which makes them the only young generations who are really aware of the importance of education. Jensen explains that “high school seniors and college students are relatively well informed of the returns to a college education ... parents in low-income countries may not be as well informed about the returns ... schools typically do not have guidance counselors to provide information about the return” (Jensen 516). This reflects the solution to inform people about possible income after education is really important. Most students have completed 0.2 more years of schooling in average and as every \$50 increase in one person perceived returns to schooling, their likelihood of continuing schooling increase by 9%. Moreover, their work has made 28% of people who are living in poverty increase their perceived returns by \$1000 or more, which help increasing the demand on continuing going to school of students.

Nevertheless, they address the cause on monetary aspect by giving away some money (CCT) to students as the quick returns in attending class. The program runners determine to transfer the money based on the numbers of days that students go to school. The result came out successfully that students are much more hard-working and they go to school regularly. Hence, this solution can increase the demand for education and the problem of underestimate the returns and low demand on schooling will be reduced. CCT also works to solve the problem of lacking teachers presenting in class. As Karlan and Appel discuss, less days teachers are absent, the more they get paid. They take pictures of the class at the beginning and ending of the class to make a proof of the teachers' attendance does increase.

Similarly, the other way to give money to help poor people is lowering the cost of schooling. Although parents understand the importance of returning to schools, low income, school costs and many others fees has stopped children from continuing school. Many poor household cannot afford the cost to invest in education, including enrollment fees, uniforms, materials and time. If those costs are lower than the benefits people expect from having more education, then families are likely to keep their children in school for longer. They address the problem by trying to make education financially affordable for these people. According to surveys, while the above solutions show a similar effect on both poor and normal families, there is still no increase in returning to school among the poorest families in reality. This suggests that reducing the costs of schooling may be needed to increase the attendance for the poorest of children. Also, as the government have the rule of wearing school uniform, giving free uniform for poor students is considered a potential solution to have more students go to school.

#### **IV. The Evidence of Cost-Effectiveness**

As many studies have been working on increasing attendance of students at school, financial support has been proved as an effective way to motivate poor households to go to school. As explained in an article from Copenhagen Consensus, “experience shows that merely building more schools is not the best approach. Indonesia doubled its number of schools in six years, leading only to a three percent rise in the amount of time spent at school” (Guide to Giving). Building more schools do not necessarily increase attendance rate because students are not being informed of the importance of education. Within the same reason, if we lower the costs of education by reducing school tuition, students who go to school due to the reduction are more likely to drop out as they haven’t been taught about the importance of education.

A similar result is also shown in Progresa’s CCT evaluation that building more schools are not cost-effective. Rawlings and Rubio explain their study, “the evaluation also found that the cost of generating an extra year of schooling using subsidies is around Mex\$10,000 in secondary school and Mex\$55,000 in primary school, compared with Mex\$168,000 for extensive expansion by building additional secondary schools and thus reducing travel distances” (Rawlings and Rubio 48). We are better off to provide opportunity through cash transfer rather than building more schools. If the government are able to solve the issue of informing people the importance of education, maybe then doubling the amount of school will increase attendance rate.

Adding on to Rawlings and Rubio’s evaluation on Progresa, conditional cash transfer has been proved fairly cost-effective in its attempt to increase attendance of students in school. The evaluation shows that they only spend Mex\$8.9 of every Mex\$100 allocated to the program

(Rawlings and Rubio 48). This is the administrative cost that Progresa is spending in order to keep the transfer activity running. Although there is only little administrative cost spent, a large portion of the cost is allocated towards household targeting and conditioning the receipt of the transfer. The downfall to this cash transfer is the conditionality that the program needs to monitor in order for the cash to be transferred.

On the other hand, another study shows the result of improvement in CCT programs as the program itself has been modified based on various evaluation. This CCT has a new policy that “instead of only providing an incentive to attend school, this treatment also provides an incentive to graduate and matriculate to a higher education institution” (Barrera-Osorio, et. al 171). This change results in a couple of ways: reduce attendance or higher re-enrollment and graduation rates. Since the condition is modified, monthly transferred is reduced from 30,000 to 20,000 Pesos, with the reduction being frozen on student’s account. However, if students remain with good attendance, graduate successfully and even enroll in higher institution, the cash they received is “amounting to 73 percent of the average cost of the first year at a vocational school” (Barrera-Osorio, et. al 172). This will meet CCT’s primary goal to break poverty cycle and will be very cost-effective in the long run if we have counselors to inform students the importance of education.

We identify that nutrition and food consumption is also a problem that can be solved through conditional cash transfer. A study on food consumption shows the result that 48% of households eat better and 19% of household eat more (Houddinott and Skoufias 44). These households receive financial assistance in the form of unconditional cash transfer. In this study, we found that the unconditionality of cash transfer plays a significant role as household receiving

this benefits have “6.4% more calories available per person per day than comparable households in control localities” (Houddinott and Skoufias 48). See Appendix A for comparison of calories in different households.

## **V. The Policy Recommendation**

The problem with education is the lack of information on its benefits, accessibility and the high cost of investment that parents need to make for their children. We propose to solve this problem by suggesting that government officials need to emphasize and inform the importance of education, attract family with conditional cash transfer and tuition reduction including free uniforms.

Based on the cost-effective analysis, we have seen that conditional cash transfer is the best solution that fits with all the problems mention. According to GiveWell, “cash transfers have the strongest track record we've seen for a non-health intervention, and are a priority program of ours” and more lower to middle income countries should consider this solution. However, we have also seen the evidence where unconditional cash transfer works better, especially in increasing the rate of food consumption.

Dean and Karlan explain that uniform is one of the short term solution to increase attendance rate at school. We recommend the government to remove the uniform policy or solve this through subsidize free uniform. Additionally, we strongly recommend the implementation of cash transfer regardless of its conditionality because it is proven that cash transfer can help break the cycle of poverty in the long run, which is the ultimate goal. Our charity recommendation is GiveDirectly because their mission aligns with the ultimate goal to break poverty cycle and they uses the method of door-to-door target and implement cash transfer program.



## Works Cited

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## Appendix A

**TABLE 1**  
**PROGRESA TRANSFERS, IN PESOS, TO BENEFICIARY HOUSEHOLDS**

	Household Size	Average Monthly Transfers Received	Average Monthly <i>alimento</i> Transfer	Average Monthly <i>beca</i> Transfer	Average Monthly School Utilities Transfer
All poor households	5.81	197	99	91	8
Households with preschoolers	6.58	202	101	93	8
Households with school-age children	6.59	239	101	128	11
Households with heads age 60 or older	4.35	138	93	41	3

**Note.** Calculations are based on transfer data provided by PROGRESA averaged across the 12 months period between November 1998 and October 1999 (deflated to November 1998 prices).

Hoddinott, et. Al., p. 48 *PROGRESA Transfers, in Pesos, to Beneficiary Households*.