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Discussion Paper 174

The Cost of Poverty Alleviation Transfer Programs: A Comparative Analysis of Three Programs in Latin America

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A common criticism of social safety net programs is that large proportions of their budgets are absorbed by administrative costs. However, there is very little rigorous empirical evidence on the costs and cost structures of such programs in developing countries, making assessment of the criticism difficult, if not impossible. Moreover, the cost information that is presented is rarely comparable across studies, even for similar programs.

Purpose of this Paper

This paper proposes and implements a methodology for a detailed, comparative analysis of the level and structure of costs for three similar poverty alleviation programs in Latin America: the *Programa Nacional de Educación, Salud y Alimentación* (PROGRESA) in Mexico, the *Programa de Asignación Familiar-Fase II* (PRAF) in Honduras, and the pilot *Red de Protección Social* (RPS) in Nicaragua. These innovative programs target cash transfers to the poorest communities and households, and condition them on attendance at school and health clinics. This conditionality effectively transforms the cash transfers into human capital subsidies for poor households.

Methodology

The authors use standard economic welfare theory to characterize the impact of these programs on households and to demonstrate how they evaluate the cost-efficiency of each program by calculating the cost of making a one-unit transfer to a beneficiary; this is the ratio of non-transfer costs to transfers, which they denote the "cost-transfer ratio" (CTR). The use and interpretation of the CTR depends sensitively on program characteristics and on how it is calculated. Features of the program, such as targeting and monitoring; size, type and delivery mechanism of the transfers; coverage; duration; and whether the program is expanding, all influence the magnitude and interpretation of the CTR. So do whether the fixed costs of setting up the program are included and whether the entire life of the program or only a specific period is considered.

To make sensible comparisons of cost-efficiency across programs, both the* level *of costs and the* structure *of costs must be considered.

Analysis of Program Cost Structures

The primary source of information on program costs is the program's accounting records, and preliminary estimates of the CTR can be made using this aggregate information. For PROGRESA, the average CTR for the program to end-2000 is 0.106. That is, 10.6 pesos were spent on administrative costs for every 100 pesos transferred to households. Equivalently, 9.6 percent of the total budget was absorbed by program costs. For PRAF, the average CTR for the program to end-2002 is 0.499 (or 33 percent of the total program budget). For the pilot RPS, the program average CTR to end-2002 is 0.629 (40 percent of the total program budget).

The existence of fixed costs associated with setting up, planning, or expanding program activities means that it would be misleading to use these "unadjusted" CTRs to determine relative cost-efficiency, particularly for programs at different stages in their development or that have different design features. Further consideration of the details of the cost structures is required, and key program activities are identified and linked to their associated costs.

After assigning all costs to specified program activities, the authors then calculate the activity cost shares—the fraction of costs devoted to each activity. For PROGRESA, over the first four years of the program, the largest cost items are identification of beneficiaries, delivery of transfers, and conditionality. The annual profile of PROGRESA's cost shares reflects the sequential nature of these activities, with the shift of costs toward predominantly recurring cost items.

For PRAF, over the first four years of the program, activities associated with the external evaluation and identification of beneficiaries were the most important cost items. In addition to declining fixed costs, the evolution of PRAF cost shares over time also reflects the operational difficulties encountered in the program. It appears that much of the extra time and resources devoted to these problems came at the expense of resources devoted to program monitoring and conditionality.

For RPS, from the start of the pilot in 2000 to end-2002, the largest share of costs was spent on external evaluation and the implementation of the supply side of the program. (Unlike the other programs, RPS trains and pays private providers to deliver the health services.) Similar to PRAF, the annual CTRs decline over time, reflecting declining fixed costs.

Activity Cost-Transfer Ratios

For each program, the annual CTRs for each activity are calculated next. Considering CTRs by activity type facilitates comparison across programs by making clear the composition of the aggregate ratios described above and ensuring that the costs included in those aggregate ratios are consistent across programs. To further facilitate comparison, fixed costs and the costs associated with the external program evaluations (that do little to influence current programs) are re-

moved. This provides an estimate of the long-run CTR and therefore a fairer comparison among programs that are at different stages of maturity. The adjusted estimates are 0.041, 0.068, and 0.212 for PROGRESA, PRAF, and RPS, respectively. Based on these ratios, one gets the same ranking across programs, as when one uses unadjusted program costs, but now PRAF is closer to PROGRESA, while the pilot RPS remains relatively more costly.

Relating Costs to Benefits

Targeting and monitoring help ensure that the programs achieve their goals. However, both require resources, thus increasing administrative costs and CTRs. Indeed, the proportion of total program costs (excluding external evaluations) devoted to targeting and conditioning are substantial: 60, 49, and 31 percent for PROGRESA, PRAF, and RPS, respectively.

Targeting is cost-effective if the incurred costs result in a sufficient increase in the share of transfers reaching the poorest households and improve the programs' current poverty alleviation. The evidence indicates that the payoff from targeting has been high across all three programs. One analysis finds that the poorest 40 percent of households received 62, 79, and 80 percent of total transfers in PROGRESA, PRAF, and RPS, respectively.

For PROGRESA and RPS, the human capital impacts have also been substantial. For education, the main effect of PROGRESA was to increase enrollment rates in secondary school, and among those who successfully completed primary school, the program increased enrollment rates in the first year of middle school for both girls and boys. In RPS, primary enrollment rates in Grade 1 to Grade 4 were about 70 percent before the program and increased 18 percentage points with the program.

The effects on nutrition were also substantial. PROGRESA had a substantial effect on reducing the probability of stunting, and there is evidence of a substantial increase in food consumption and dietary diversity. RPS has also had an enormous impact on a range of health and nutrition indicators.

The available evidence regarding the human capital impacts of PRAF, however, suggests that the effects are smaller. It appears to have had little impact on primary enrollment rates, although there was an improvement in dropout rates. Visits by children to health clinics for growth monitoring and vaccinations increased in areas with the demand-side program, but the program does not appear to have improved health outcomes. Nor is there any effect on the nutritional status of children as measured by child growth indicators.

Conclusions

To assess the cost-efficiency of PROGRESA, PRAF, and RPS, this study focused on the cost-transfer ratio, defined as the ratio of non-transfer costs to transfers. In doing so, it demonstrates that for a meaningful assessment of cost-efficiency, it is misleading to make calculations using only the typically available raw accounting data. Rather, one must delve into the details and activities of the program. This is particularly true for start-up programs, which typically have many up-front fixed costs associated with design and setting up operations, and for complex programs such as conditional cash transfer programs that have a number of costs associated with their specific design features. Even similar programs may have significant design differences that must be taken into account.

It is essential to keep in mind that as we examine program costs and transfers and construct CTRs, we are including not only the costs required to transfer the money to the beneficiaries, but also those for activities that may enhance the effectiveness of program goals. Therefore, in addition to the *level* of costs, we focused on the *structure* of costs as well. These details must be considered to make sensible comparisons across programs.

Keywords: cost-efficiency, poverty alleviation, human capital

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