RESEARCH INSIGHTS

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What Are the Effects of Cash Transfer Programs on Vulnerable Middle-Income Households?

- **Monthly cash transfers delivered to vulnerable middle-income households in Colombia increase per capita income, but the effects on spending appear small and related to nonfood spending.**
- **Cash transfers have a large impact when beneficiary households experience severe economic shocks, suggesting lack of insurance as a major constraint affecting non-poor but vulnerable households.**
- **By encouraging the adoption of digital saving accounts, the program also increased access to formal credit.**

CONTEXT

Over the past five years, social protection has expanded dramatically around the world. In fact, in 2020, 1 in 6 people globally received government transfers. Particularly in upper- and middle-income countries, this expansion has produced a new set of beneficiaries: vulnerable, non-poor households. While scaling up the coverage of social protection programs has the potential to help millions, a major concern is the fiscal cost of broadening the coverage of the safety net beyond structurally poor households. Whether countries should move towards expanding the coverage of social programs or towards schemes with broader coverage is thus a central policy question.

PROJECT

The project studies Colombia's Ingreso Solidario, an unconditional cash transfer program. Starting in April 2020, the program delivered monthly transfers of roughly 40 USD to eligible households, targeting poor households not covered by pre-existing social programs, and ex-ante non-poor households considered vulnerable to poverty based on a proxy-means assessment of their living conditions. The study focuses on the latter, comparing the economic situation of households whose proxy-means-test placed them just below the eligibility cutoff (treatment group), making them eligible for the program, to that of households whose proxy-means-test placed them just above the eligibility cutoff (control group), making them ineligible.

RESULTS

Over an 18-month period, per capita income increased by 25 percent relative to households in the control group, and there is no evidence that that beneficiary households reduced their labor force participation, a common concern among critics of these programs. However, there were no effects on food spending and other measures of food security and relatively small improvements in nonfood spending, past due bills, and savings. Education spending increased, but only temporarily. Compared to children in control households, children in eligible households increased their time allocated to schoolwork. Effects on education spending and time use vanished, however, 18 months after the program was launched. These increases in education spending and time allocation do not appear to have improved educational outcomes, since there is no evidence that the program increased overall attendance, grade repetition or test scores. Likewise, the study finds no impacts of the program on several health outcomes.

The program did, however, deliver large positive impacts on spending when beneficiary households faced substantial negative economic shocks. Specifically, the study shows that, while the death of a household member reduces both household income and household spending, the program was able to offset the negative economic impacts of the shocks. These results indicate that, to some extent, middle-income households may be constrained by lack of insurance. In addition, the program encouraged the adoption of digital bank accounts, which also enabled households to obtain formal loans to cope with shocks and substitute away from predatory loans.

Key Concept

VULNERABILITY TO POVERTY

The risk that a household or community will fall into poverty at least once in the next few years.

POLICY IMPLICATIONS

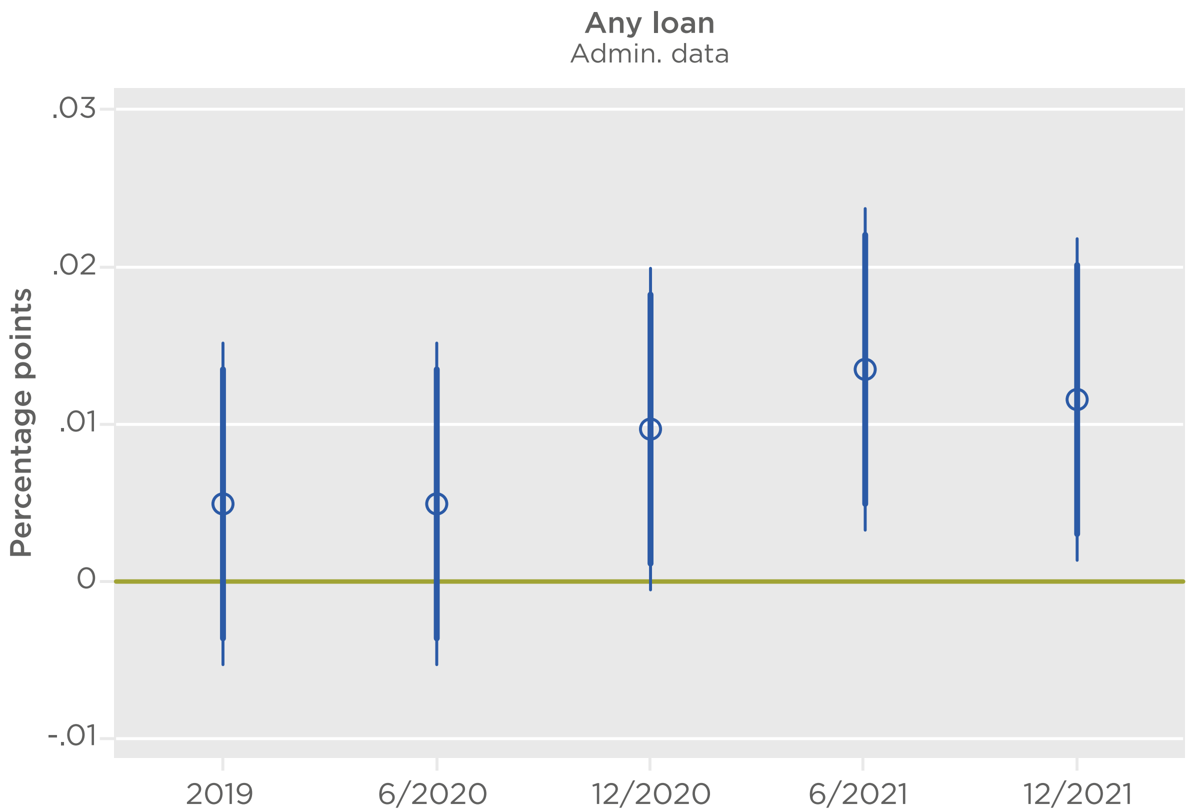
Traditionally, cash transfer programs are viewed as a tool to fight poverty by targeting the poorest households. The results from the Colombian case underscore the importance of cash transfer programs targeted at nonpoor households as a policy tool to prevent economically vulnerable households from sliding into poverty. This is important, as anti-poverty strategies in middle-income countries should be concerned with both lifting households out of poverty and ensuring that middle-income households do not fall into poverty. Finally, it is important to acknowledge that, while cash transfers are tremendously helpful to offset the impacts of shocks, severe shocks do not happen every day and they often affect households at different times. Thus, investments in improving insurance markets or in building adequate targeting mechanisms and delivery infrastructure may help governments reduce program costs and deliver transfers when households need them the most.

Key Concept

PREDATORY LOANS

Loans that impose unfair, deceptive, or abusive loan terms on borrowers.

Figure 1. The Program also Increased Access to Bank Accounts



Note: The figure differences between the treatment and control group before (2019) and after the implementation of the program (6/2020-12/2021).

FULL STUDY

Álvarez, Esteban, Jorge Gallego, Bridget Hoffmann, María Paula Medina, Camilo Pecha, Marco Stampini, David Vargas, and Diego A. Vera-Cossio. 2022. "Evaluación de impacto de corto y mediano plazo del Programa Ingreso Solidario."

DEPARTMENT OF RESEARCH AND CHIEF ECONOMIST

The Department of Research and Chief Economist generates new ideas to enrich the knowledge base that supports the policy agenda of the Inter-American Development Bank (IDB) and its member countries for achieving sustainable and equitable development in the region. To maximize the impact of its research, the Research Department carries out activities that serve as inputs to other IDB departments, governments, the academic community and public opinion in the region.

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