Conditional cash transfers in high-income countries and their impact on human capital accumulation

Prepared by
Márton Medgyesi, TÁRKI Social Research Institute

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1.Introduction: Background and context

As part of a more general shift by traditional welfare states to a "social investment state" or to an "active welfare policy", social policy measures are more often seen as incorporating behavioral incentives to steer individuals in the direction of more appropriate or desired behavior. Conditional cash transfers (CCTs) also belong to this group of social interventions. These are non-contributory cash subsidies to recipients who first must meet a certain behavioral condition. CCTs have been increasingly popular in low- and middle-income countries of Latin America, Africa and Asia, but such programs are also part of the welfare state of certain high-income countries. In high-income countries, such transfers most frequently relate to unemployment benefits, and the conditions attached require active labor market behavior on the part of transfer recipients. But this type of social policy instrument is also increasingly applied in relation to families with children, with the aim of giving additional incentives to families to invest in the human capital of their children.

Large-scale CCTs in low- and middle-income countries have been the subject of extensive evaluation, which has shown that many programs have significantly increased school enrolment and attendance of children; but the effects on educational outcomes (such as degree attainment, test scores or later earnings) have proved to be mixed. The studies have shown that impacts depend on the social context, specific features of the program design, and the administrative capacity of the institutions. In the case of the EU Member States, the nature of child poverty and the institutional and policy context of these interventions differ substantially from the low- and middle-income countries where most of the evaluations were carried out. This raises the issue of potential transferability of existing approaches and the necessary conditions for further development of CCTs related to children in EU Member States.

This paper is based on a study commissioned by the European Commission, Directorate-General for Employment, Social Affairs and Inclusion (TARKI 2014)[1]. The aim of the study was to present findings on CCT programs and their impact on children in the EU and to provide strategic advice to key stakeholders regarding the introduction or development of such interventions. The study builds on a literature review, an expert survey and case studies of CCT programs in the EU Member States.

2.Examples of CCT approaches taken by EU and high-income countries

Here we define CCTs as non-contributory cash subsidies to recipients who meet a certain behavioral condition. We are interested in programs that formulate a condition related to human capital investment, such as school attendance, school performance, or participation in health examinations by children under 18. The most important design element of these programs are the specific behavioral conditions for access to transfers. These are usually based on some behavior related to human capital accumulation (such as school enrolment and attendance, participation in health prevention, reading books etc.) or on certain specified outcomes (for example, moving up a grade or achieving a minimum test score in education).

Incentives can be framed as gains or losses relative to a baseline case. Accordingly, an eligible person may receive a given transfer only if a behavioral requirement is satisfied (positive incentive), or, alternatively, payment of a regular transfer may be suspended or reduced as a sanction in case of non-fulfilment of the behavioral condition (negative

[1] Downloadable at http://ec.europa.eu/social/BlobServlet?docId=12638&langId=en

incentive)[2]. Monitoring of fulfilment of the behavioral conditions occurs with varying frequency in conditional cash transfer programs. Programs with negative incentives sometimes involve severe sanctions, such as a substantial reduction in benefits or the suspension of benefits for a certain period. Other programs apply softer sanctions, such as an obligatory meeting with a social worker in order to identify the reasons for non-use of the given service and to pinpoint possible remedies. Programs of course also differ in the method of targeting (means test, proxy means test, geographical targeting) and in the size, frequency and recipient of the transfer.

In the following we briefly review examples of CCT programs operating in EU countries and the United States.

CCT programs related to infant health

Several EU countries provide incentive payments for pregnant mothers to motivate participation in pre-natal health check-ups. In some cases these programs do not specifically target the low-income population. E.g. the Finnish *Maternity Grant* provides a single lump-sum benefit (140 EUR) for eligible women if the mother has undergone a medical examination before the end of the fourth month of the pregnancy[3]. Examples of similar programs that apply a means-tested are also found. For example, the *Maternity Allowance* (*Kinderbetreuungsgeld*) in Austria is a means-tested benefit launched in 2001. The condition for receiving the full benefit is to undertake at least 5 pre-natal and 5 post-natal check-ups[4]. In case the required number of examinations is not met, the mother is entitled to a 50% lower childcare benefit. Birth grants with behavioral conditions operate in nine EU countries.

In the United States, under the *Temporary Assistance for Needy Families (TANF)* program several state run programs that include various health conditions (Urban Institute 2014). Welfare programs contain requirements regarding standard immunizations for children in 24 member states. Health screening requirements requiring regular checkups for children are included in 7 member states. As compared to programs mentioned before, the important difference is that these programs incorporate negative rather than positive incentives. If health related conditions are not met, sanctions affect the whole allowance ranging from a 25-50% deduction or temporary suspension to total withdrawal of the benefit.

CCT programs related to early childhood education and care

Kindergarten allowances and other pre-school incentives are relatively rare in EU countries. These programs support the use of services of kindergartens and crèches, helping low-income families with the affordability of these day-care services. *School Allowance (Schooltoelage)* in Flanders, Belgium, is a means-tested transfer to help families cover expenses related to schooling. The program also covers kindergarten-age children and provides 90 EUR to eligible poor and middle-income families per year. If the program's requirements regarding attendance are not met, the household has to pay back the allowance. *Kindergarten Allowance* (*Óvodáztatási támogatás*) in operation between 2009 and 2015 in Hungary provided incentives for low-income parents to enroll their children in kindergarten before the compulsory age of 5. At the time of first enrolment families received a lump-sum benefit

[2] An example of the first type is a scholarship, which offers low-income students a specified amount of money if they enrol in some form of post-compulsory schooling (e.g. the *Education Maintenance Allowance* in the UK), while the second type of transfer can be thought of as the *Learnfare* program that operates in several US states, which applies sanctions (a reduction or suspension of welfare payments) if the school attendance of children living in the household of a welfare recipient falls below a prescribed level.

[3] http://www.kela.fi/web/en/pregnancy_maternity-grant (25.07.2014)

[4] Information from expert survey and https://www.help.gv.at/Portal.Node/hlpd/public/content/143/Seite.1430500.html (25.07.2014)

(approx.. 70 EUR) and additional transfers (ca. 35 EUR) were given in the beginning of each additional semester in case the child attended regularly (Kertesi and Kézdi 2014).

CCT programs related to compulsory schooling

Some transfer programs include conditions related to schooling behavior or the educational outcomes of children in compulsory schooling[5]. Many such programs apply negative incentives, transfers being reduced or cancelled if recipients do not comply with the requirements. As mentioned before, the *School Allowance* (*Schooltoelage)* in Belgium is designed to help low-income families cover schooling expenses with a yearly cash transfer. If the child fails to comply with school attendance condition, the parents must repay previous year's allowance. This financial incentive is also backed up by supportive efforts of social workers and pupil guidance centres (Cantillon and Van Lancker 2011). In several Eastern European countries child benefit is conditional on school attendance. The Bulgarian government introduced conditions to its child-benefit program in 2002. The means-tested *Child Allowance* is automatically withdrawn for the month following any month in which the child exceeds five unexcused absences from school. Similar conditions have been introduced in universal (non means-tested) child benefit programs in Hungary, Romania, the Czech Republic and Slovakia.

In some countries schooling-related conditions are also included in the minimum income protection scheme. In Bulgaria, the amount of the minimum income benefit is reduced if the family fails to comply with schooling- and health-related conditions. In Slovakia, an allowance part of the minimum income protection scheme *(Príspevok za školskú dochádzku)* provides a cash transfer for poor households with primary and secondary school-age minors who comply with school attendance requirements (Kusá and Gerbery 2009). Conditions relating to compulsory schooling can also be part of Italy's experimental national minimum income program, the Support *for Active Inclusion (Sostegno per l'Inclusione Attiva)*[6]. All together 6 EU countries apply such conditions in the minimum income benefit schemes.

In the US, 38 member states use behavioral conditions in the TANF programs related to compulsory schooling. The most common requirements are regular school attendance (80-95% of teaching hours depending on the state authorities) and enrolment. The majority of programs require a minimum standard of school achievement as well, using education quality indicators (test scores, mandatory final exams under 18 years of age etc.). Many programs (e.g. Florida, Nebraska, Indiana, Wisconsin etc.) encourage parents' active participation in the school activity of their children by motivating them to attend parent-teacher meetings or individual counselling, make development plans etc. In case the requirements are violated, parents must face long-term sanctions. Expected cooperation with a case worker is the least severe "penalty" for managing temporary problems; the next level is the partial suspension of benefits; in the most serious cases the total amount is suspended and the family is removed indefinitely from the benefit (Urban Institute 2014).

CCT programs related to post-compulsory schooling of children under 18 years of age

Post-compulsory schooling-related assistance and scholarship programs with behavioral conditions are widespread in the developed world. In the case of post-compulsory schooling, most CCT programs operate using positive incentives.

One very common form of conditional cash transfer for post-compulsory education is the extension of eligibility for family cash benefits to children in full-time education who are over the upper age limit for standard eligibility. This extension of eligibility is effectively a

[5] Compulsory schooling age varies among the EU countries, but most commonly it is between ages 6 and16.

[6] http://www.conferenzainfanzia.info/images/allegati/Support_for_Active_Inclusion_ex_ante_exercise.pdf (25.07.2014)

conditional cash transfer with a positive incentive, where the condition is enrolment in post-compulsory schooling. EU and OECD countries that have income-tested family cash benefits with an age extension include Australia, Bulgaria, the Czech Republic, Malta, Poland, Portugal and Slovenia (OECD 2011b). Countries that apply an age extension to the universal child benefit include Austria, Germany, Belgium, Luxembourg, the UK, Ireland, Sweden, Greece, Estonia, Latvia, Slovakia and Hungary.

Some countries operate scholarship programs for students from disadvantaged families in post-compulsory education. One example is the *Educational Maintenance Allowance (EMA*) which operates in Scotland, Wales and Northern Ireland. In Northern Ireland students from eligible low-income families can receive payments depending on family income of £10, £20 or £30 direct to their bank accounts every two weeks. The allowance is conditional on fulfilment of the requirements set out in a Learning Agreement and the certification of any absences. Bonuses of £100 are also available to those who attend classes regularly and who perform sufficiently well[7]. Scholarship programs for disadvantaged students in secondary education also operate in other EU countries, e.g. in Austria (*SchülerInnenbeihilfe*), Finland (*Study Grant*), Romania *(Bani de Liceu)* and Hungary (*Útravaló ösztöndíj*).

3.Assessment of conditional cash transfers related to children in high-income countries

Potential impacts of CCTs on human capital accumulation

The literature acknowledges that CCTs can have stronger impact on human capital accumulation compared to an UCT, since the CCTs effectively reduce the cost of further schooling, and thus provide a greater incentive for people to change their behavior (Das et al. 2005). This additional incentive is not always needed however: if the reason for a low investment in human capital lies with the low income level of the poor, demand should be promoted via *unconditional* cash transfers (Fiszbein and Schady 2009). If, however, the explanation for low demand is also due to the lack of information available to parents and children,[8] or to their low level of educational aspirations, or in their impatience for consumption, a *conditional* transfer would be better at promoting human capital investment. It is also important to keep in mind that demand incentives do not help if the low investment is primarily a result of problems on the supply side of the given service (for instance insufficient or low-quality schools and health care services). In this case, development of the institutional system and improvement in the quantity and quality of public services available to low-income strata may bring about the desired results.[9]

The social science literature warns that financial incentives can also have an adverse effect on behavior. For example, the psychological literature discusses the question of whether financial incentives (or other types of extrinsic motivation) may crowd out intrinsic motivation.[10] According to the cognitivist school of psychology when people are rewarded for performance in a certain activity, they begin to do the activity for the external reward, which ultimately undermines intrinsic motivation (Cameron et al. 2001, Sandel 2009). Crowding out might take

[7] In England the EMA has been abolished and another less generous program has been introduced (*16 to 19 Bursary Fund)* to support 16–19 year-olds to stay on at school after the compulsory schooling age.

[8] The easiest way to remedy a lack of information is to launch an information campaign, and thus the use of cash transfers is not necessary. But passive information campaigns are not always sufficient, since it is not certain that people are even aware that they lack information.

[9] Other justifications for conditional cash transfers proposed by the literature include the positive external effects of education and the higher social acceptance of conditional (rather than unconditional) transfers for the "deserving" poor (Fiszbein and Schady 2009).

[10] Intrinsically motivated behaviors are those in which there is no apparent reward except the activity itself. Extrinsic motivation, on the other hand, is said to occur when an activity is rewarded by incentives not inherent in the task (Cameron et al. 2001).

place in the short run, while the incentives are still in place and also in the long term, when the incentives are removed (Rodriguez-Planas 2010).

Another potential adverse effect might be lower take-up rates in the case of conditional transfers. Standard cost-benefit logic suggests that individuals will take part in a program if the prospective gains from collecting the benefits are big enough to compensate for the private costs of obtaining benefits (Stuber and Kronebusch 2004). If complying with behavioral requirements of the program also entails important private costs, potential recipients might be less willing to join the scheme even if they are eligible for the benefit. An additional factor that is related to non-take-up of welfare benefits is welfare stigma. Welfare receipt is said to be stigmatised if claiming and receiving benefit from a welfare program is perceived as negative and discrediting in the given society (Stuber and Schlesinger 2006). According to certain opinions, conditional transfers are automatically seen as stigmatising since they are based on the presumption that some of the poor are not acting in a responsible way (Popay 2008).

Results on CCT programs' impacts in high-income countries

Routine government evaluation and monitoring of these programs is in its infancy in many of the high-income countries. This is in contrast with the practice of some Latin American countries where impacts of these programs were evaluated with solid data infrastructure, advanced methodology and intensive debate in the literature. A number of summary reports have been prepared on the results of CCT programs launched in these countries (Parker et al. 2008; Lomelí 2008; Fiszbein and Schady 2009, Baird et al. 2013, Saavedra and Garcia 2013). In the majority of cases these systematic impact studies found that the programs significantly increased the school enrolment and attendance of children, but the size of the impacts measured differed greatly in the various programs. The studies show less impact with regard to educational outcomes, such as degree attainment, test scores or later earnings.

Our discussion of the impacts of CCTs in high-income countries is based on a review of 24 studies of CCT programs and field experiments – mostly from the US – and four case studies carried out in EU countries[11]. Most of the reviewed programmes (see Table 1) were pilot programmes or field experiments, and only a few of them are scaled-up national programmes. The majority of the impact evaluations used randomized experiment design to measure impact. The exceptions are the few scaled-up programmes that we have reviewed: the *Kindergarten Allowance* (Hungary), the *Education Maintenance Allowance* (UK) and the *Advanced Placement Incentive Program* (Texas, US).

These studies showed mixed results regarding the effect of CCT programs on human capital investment. Programs that were conditional on human capital-related behavior (school enrolment, attendance) generally had positive effects on these behaviors, while incentives that targeted school performance produced more mixed results. Differences between program impacts are not easily explained by major choices in program design. E.g. positive effects and null effects of conditional cash transfer programs were found among programs that apply positive incentives and also among programs applying negative incentives. These results suggest that other program-design features (such as targeting, transfer size, monitoring of conditions, sanctioning), implementation quality as well as social and policy context of the programs are also important in determining final impacts.

[11] Case studies of the following programs were carried out: Kindergarten Allowance (Hungary), Education Maintenance Allowance (UK), School Allowance (Belgium), Child Allowance (Bulgaria) and the Social Risk Mitigation Project (Turkey).

The effects of CCT programs reviewed show heterogeneity across the targeted population. In some of the studies program impacts differ by gender of the student. E.g. Angrist and Lavy (2009) or Rodriguez-Planas (2010) show larger effects of financial incentives in case of girls. In some cases, effects varied by social status. In the case of the EMA programme in the UK, the effect of the transfer was found to be larger among students who came from families with few assets (who lived in rented housing) (Dearden et al. 2009). Also, several studies show heterogeneous effects according to the level of school ability; but the direction of the effect varies from across programs. In the cases of the *Learnfare* programme in Wisconsin (Dee 2011) and the UK's EMA programme, the effect of the financial incentive was higher among low-ability students. In the case of the *Opportunity New York City* programme, on the other hand, effects were higher among students with better ability (Riccio et al. 2011).

Unfortunately, there are no studies in high-income country context which would investigate the impact of CCT versus unconditional cash transfers. Some of the experiments however vary the design parameters allowing for a deeper insight in the functioning of a CCT program. A rich study in this respect is the Levitt et al. (2012) study of short-term incentives in three low-performing school districts around Chicago. The results of randomized impact evaluation showed substantial variation in effects according to the design and student characteristics. Negative incentives had a consistently large effect, while incentives framed as gains had a large effect in two districts, but no effect in the third. Financial and non-financial incentives had the same effect among younger students, but older students were more responsive to financial incentives. Immediate incentives had a strong effect, while delayed incentives had no effect on student test scores. The evidence on the effect of transfer size is mixed: while the Levitt et al. (2012) experiment showed greater impact in case of higher financial rewards, an analysis of the impacts of the *Advanced Placement Incentive Program* (APIP) by Jackson (2010) concluded that the results were no better in schools that offered higher incentives. The APIP program was successful because it managed to change both attitudes towards achievement and the culture of schools (Sandel 2009).

Another important issue is whether financial incentives should be combined with social services. According to Campbell and Wright (2005) programs also including social services (like *Learning, Earning, and Parenting* in Ohio or the *Teenage Parent Demonstration Project* in New Jersey and Chicago) had consistently positive impacts on school enrolment. In the evaluation of the *Cal-Learn* program these two elements could be separated: young people entitled to social provisions were randomly assigned to four groups: a group receiving full provision (case management services and the financial awards and sanctions), a group receiving only case management services, a group benefiting only from financial awards and sanctions, and a control group (Mauldon 2000). Among those who received full provisions, the proportion of secondary-school graduates was 7 percentage points higher than in the control group (31 % compared to 24 %). Financial incentives and case management, investigated separately, had a similar impact on graduation, though the impact was significant only in the case of the financial incentives. In summary, it was concluded that the two components of the transfer contributed almost equally to the overall impact of the program.

4.Conclusion

Contrary to Latin-American countries where evaluation of program impacts was part of most CCTs (see Fiszbein and Schady 2009), programs in European countries CCTs were seldom evaluated. Research results are particularly lacking about long-term effects, possible negative effects and mechanisms by which CCTs impact upon behaviour. Research –where it exists– tend to focus on short-time effects (as re-enrolment), but not on long-term effects, as the improvement of educational outcomes. Empirical information on possible negative effects (low take up, stigmatisation, crowding out of intrinsic motivation) is also scarce. Another

aspect which is missing is about the mechanisms behind the impacts of CCT programmes. More research is needed on the precise role of behavioral conditions.

The available studies suggest that CCTs can have positive effects on the behavior incentivized by the program (school enrolment, attendance, participation in health examinations) and in some cases on educational outcomes. CCTs could be used when the reason for underinvestment is low demand for the given service related to lack of information or low motivation, rather than just to lack of resources. The development of educational or health care services is the most appropriate policy solution, however, when the major cause of low human capital investment (for example, dropout from school) lies on the supply side (the unavailability and/or poor-quality of services, etc.).

Studies suggest that the impact of CCT programs varies depending on the design of the transfer. The incentive structure is best kept simple and transparent: members of the target group should be able to easily determine the consequences of their decisions (Allan and Fryer 2011). Incentives have to be tailored to the specific policy problem in the given country. The experience of past and existing programs does not give precise guidance for the calibration of the incentive in a given context. This can only be done by conducting pilot projects of the planned intervention, preferably experimenting with different design alternatives. Another condition for the success of CCT programs is efficient implementation. Administrative capacity should be strengthened to handle the procedure of verifying compliance with the behavioral condition. An adequate flow of information needs to be organised between different actors involved in the process (i.e. ministries and sub-national administrations).

When considering the transferability of CCT programs to EU countries, one issue to reflect on is whether there is a need for the adoption of such demand incentives. Although use of public services such as primary or secondary education and health care is generally high in EU Member States and other high-income countries, there is evidence that the poor in general, and certain persistently disadvantaged groups, tend to use social services less and tend to have worse outcomes in terms of human capital accumulation. In light of this, CCT programs in EU Member States can have a potential to reduce disadvantage in the uptake of such services among the poor, especially if low demand is related to lack of information or motivation.

When engaging in policy transfer, policy makers need to be careful in addressing the differences in the institutional, cultural and policy context of these programs between the country of origin and the country of destination. EU Member States, especially countries of the EU-15, generally have an advantage in the supply of services and in administrative capacity compared to low- and middle-income countries, which were the first to apply CCT programs. However, differences in the policy context and differences in the social acceptance of conditional transfers can cause difficulties in the transfer of such policies.

In EU Member States with mature welfare states the introduction of CCT programs should take into account the context of comprehensive package of welfare services and provisions. Thus the interaction between the incentives of the CCT program with incentives inherent in existing welfare schemes should be understood before introducing such benefit schemes. An additional issue is whether CCTs will be accepted by the general public and by experts in EU Member States. Policies are implemented in a context of societal values and beliefs about the role of the state and the relationship between citizens and the state. E.g. countries differ in the extent to which poverty is seen as a consequence of societal injustice (e.g. Nordic countries) or as a consequence of low individual effort (e.g. Eastern European countries), which might make a difference for the acceptance of CCT programs.

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Table 1. A rough categorization of experiments and programs reviewed

	Conditioning on behavior (e.g. enrolment, attendance, homework)		**Conditioning on performance** (e.g. grades, credits, test scores, graduation)	
	Negative incentive	**Positive incentive**	**Negative incentive**	**Positive incentive**
Health	PPI (Maryland) PIP (Georgia)	Opportunity NYC		
Early Childhood Education and Care		Kindergarten Allowance (HU)		
Primary schooling	Learnfare (Ohio) Achieving Change for Texans (ACT) (Texas) ABC (Delaware)	Opportunity NYC Earning by Learning (Dallas)		Opportunity NYC Coshocton experiment (Ohio) Levitt et al. experiment (Chicago)
Secondary schooling	Learnfare (Wisconsin) Learnfare (Ohio) ACT (Texas) ABC (Delaware) SADP (San Diego) Cal-Learn* (California) LEAP* (Ohio) TPDP* (New J., Chicago)	Opportunity NYC EMA (UK) LEAP* (Ohio) Cal-Learn* (California) Quantum Opportunity*	Cal-Learn* (California)	Opportunity NYC Cal-Learn* (California) EMA (UK) The Paper Project (Chicago) Achievement Awards (Israel) Monthly Grade Stipend (US^{+}) Quantum Opportunity* TELS (Tennessee)

Note: programs marked with an asterisk include an important service element, not only financial incentives. +:State or city not reported in Spencer et al. (2005).