

# TARGETED CASH TRANSFER PROGRAMMES IN BRAZIL: BPC AND THE BOLSA FAMILIA

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# TARGETED CASH TRANSFER PROGRAMMES IN BRAZIL: BPC AND THE BOLSA FAMILIA \*

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## ABSTRACT

We describe several characteristics of the two most important targeted cash transfer programs in Brazil, the Continuous Cash Benefit (BPC) and the Bolsa Familia. We discuss their institutional aspects, long term sustainability, beneficiaries and levels of targeting. We also address the need for conditionalities, the effects of the transfers on labor market participation, as well as the relevance of the so called "exit doors". Our conclusion is that, on the one hand, the programs are accomplishing the goals they were designed to achieve. They reduce poverty and inequality, under costs which are compatible with the Brazilian budgetary capacity. On the other hand, the programmes have no negative effects on incentives to work and contributions to the pensions system. Consequently, we argue that these programmes should be kept in place and, if possible, expanded in the near future.

## 1 INTRODUCTION

Brazil has recently had a significant boost in cash transfer policies to vulnerable groups. Nowadays, the country holds two major programmes of this kind: the Continuous Cash Benefit (known as BPC, which stands for *Benefício de Prestação Continuada* in Portuguese) and the Bolsa Familia Programme. Even though both programmes' main premise is the direct transfer of cash benefits to beneficiaries, there are several substantial differences between them, including their scope, legal frameworks, eligibility criteria, targeting process, amounts delivered, management structure, and conditionalities.

The objective of this paper is to describe these differences and discuss some of the most common issues that are part of the debate about the effectiveness, sustainability and adverse impacts of cash transfer programmes. Based on primary data and existing studies we argue that, in general terms, the programs are accomplishing the goals they were designed to, particularly in what refers to their impact on poverty and inequality. Compared to experiences in other Latin American countries these programs have a similar performance under costs

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which are compatible with the Brazilian budgetary capacity. In addition we argue that they have no negative effects on incentives to work and contributions to the pensions system.

## **2 BPC AND BOLSA FAMILIA: AN OVERVIEW**

The BPC is a monthly unconditional cash transfer targeted to individuals of any age with severe disabilities and to the elderly over 65, with family *per capita* income below one-fourth of the minimum wage (in both cases R\$87.50 per month in October 2006). The beginning of its implementation, in 1995, took place in a setting of joint management of the contributive and non-contributive social security policies within the Brazilian government. Nowadays, though the Ministry of Social Development (MDS) is in charge of coordinating the programme, the application for the benefit is carried out in branches of the National Social Security Institute (INSS) and, in the case of the disability benefit, the selection of beneficiaries is carried out mostly by doctors, who assess the level of incapacity to work and to lead an independent life of disabled individuals who apply for the BPC.

The Bolsa Familia Programme is a cash transfer launched in the end of 2003, which resulted from the unification of a series of pre-existing conditional cash transfer programmes. It is directed to families whose monthly *per capita* income is lower than R\$ 60 and families with pregnant or lactating women and children and adolescents up to 15 years of age whose *per capita* income is lower than R\$ 120 per month (as of October 2006). Municipalities, through their departments of social assistance are largely responsible for the selection of the beneficiaries. The MDS is in charge of the programme management and the Caixa Econômica Federal (a federal financial institution) operates the transfers. The programme includes education and health conditionalities for the receipt of transfers, basically related to school attendance, children's immunizations and pre and post-natal care, according to the composition of beneficiary families.

## **3 LEGAL AND POLITICAL STATUS**

The BPC and the Bolsa Familia have very different legal frameworks. While the former was enshrined in the 1988 Constitution and later regulated by ordinary legislation, the latter was created through a presidential provisional measure, afterwards transformed into law. Both have operational aspects regulated through Executive decrees and instructions.

Thus, the BPC is clearly a constitutional right. Any individual who meets the eligibility criteria can receive the benefit and might demand it judicially. Bolsa Familia's legislation, in turn, implies, in a somewhat subjective fashion, that the selection of beneficiaries is dependent on the budgetary allocations to the programme, as well as the coordination between municipalities and the federal government. As such, meeting the eligibility criteria does not ensure the receiving of Bolsa Familia's benefits.

The constitutional nature of the BPC resulted in a significant political independence for the programme. Social rights established by the Constitution have a more abiding quality and are not automatically linked to a specific administration. Owing to the fact that it was created by a presidential measure, Bolsa Familia, on the contrary, is almost forthrightly associated to the government that created it. Due to these differences, specific governments, on the one

hand, might not receive direct political praise for managing the BPC but, on the other hand, can be immediately identified with the Bolsa Familia.

Political praise is a motivational factor for the solid management and expansion of these programmes. This is one of the reasons why the governmental effort to disseminate and expand the Bolsa Familia was (and still is) substantially higher than the attention given to the BPC, not only by the government itself, but also by the media and the public in general. Throughout the past few years no government has pledged its political strength to support an independent programme such as the BPC in the same fashion that it has engaged to protect a programme considered its own.

Additionally, these different legal and political frameworks result in different levels of fiscal independence for the programmes. The basic principles of the BPC cannot be altered at a government's own discretion. Slight changes in design and operation—such as the ones referring to eligibility and selection criteria for beneficiaries—might be made through ordinary legislation. Changes in the amount of the benefit, which is set at the minimum wage, for instance, would require an amendment to the Constitution, whose rites for Congress approval are much more complex. If, from the government's point of view, this is a restraint on administrative flexibility, considering the long term sustainability perspective, it protects the programme expenditures from external shocks. This means, for instance, that BPC is not as vulnerable to fiscal adjustments, budgetary cuts, contingencies and other short term measures as the Bolsa Familia is. The ongoing protection for the Bolsa Familia does not have a predominantly legal origin, but a political one. Any fluctuation in the political scenario might, therefore, affect its permanence or future expansions.

#### **4 TARGETING**

The programmes target different groups and have different administrative mechanisms for identifying and selecting beneficiaries. Both have received criticism for alleged targeting errors. Most of this criticism was anecdotal, without solid empirical evidence that allowed it to be generalized. In practical terms, it was mostly limited to pinpointing one or more beneficiary families with an income above the respective eligibility thresholds and to making inferences, from these deviations, about the whole operation of the programmes.

However, singled out cases are not proper evidence for evaluating programmes, which directly assist almost fourteen million families. Identifying the individuals who actually receive the benefits is crucial to determining to what extent the programmes' goals are being reached and what can be done to improve them. Following the publication of the results of the annual National Household Survey (PNAD – Pesquisa Nacional por Amostra de Domicílios in Portuguese), in 2004, the first studies on the subject, with representativeness at the national level, were made possible.

The data, however, encompass some limitations. Since the creation of cash transfer programmes, the Brazilian Institute of Geography and Statistics (IBGE) has categorized these resources under the denomination "other sources of income", which includes interest from financial investments, dividends and unemployment insurance. The special supplement about cash transfer programmes in the PNAD 2004 did not change this picture, for the supplementary questionnaire applied was linked to the household questionnaire, and not to the individual one. Also, there was no special entry for income arising from transfers, deeming it impossible to

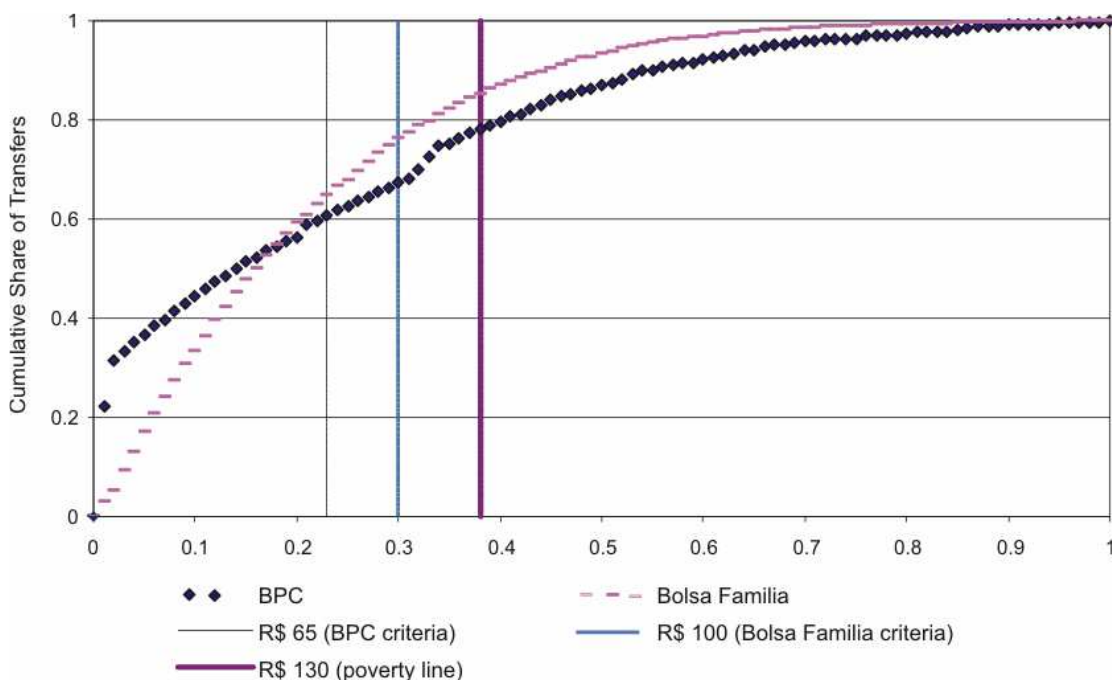
identify the individual entitled to the benefit or to directly disaggregate the transfer income from “other sources of income”. Soares *et al.* (2006) have developed a methodology to make an approximate disaggregation, so as to assess: 1) the capacity of the survey to capture these transfers, *vis-à-vis* administrative registries; and 2) their targeting results.

Although it does not reproduce the absolute figures of the administrative registries of the different cash transfer programmes unified in Bolsa Familia, the survey does reproduce, in relative terms, the regional distribution of beneficiaries and their characteristics. In the aggregate, the BPC is also well represented in relative terms, but not in absolute ones. For instance, the PNAD overestimates the proportion of elderly beneficiaries of the BPC in the North-eastern region and underestimates this group in the Southeast, according to the administrative data. A possible explanation for this might be the confusion, among beneficiaries or the respondents of the household questionnaires, between the BPC and other social security benefits, since they are all handled by the National Institute of Social Security. Therefore, it is possible that a significant part of the BPC be included in the entries related to contributive pensions.

In spite of these difficulties, an analysis of the distribution of the programmes among the population reveals that both the BPC and the Bolsa Familia are, to a great extent, achieving their goals. Figure 1 shows the distribution of transfers among the different population strata. It is noticeable that both the BPC and the Bolsa Familia are highly targeted at the poor.

FIGURE 1

#### Incidence of Income from Benefits for the Population Organized by Level of Net Income (Benefit Excluded)



Note: Since the income from the BPC was not included in the calculation of the *per capita* family income of the Bolsa Familia, the incidence analysis uses the same net income for the calculation of both the BPC and Bolsa Familia.

Source: Based on Soares *et al.* (2006).

However, from the results of the PNAD, it is possible to infer that a large proportion of beneficiaries lie above the income thresholds of the programmes—a quarter of the minimum wage (R\$ 65 in September 2004, the reference month for the PNAD) for the BPC, and R\$ 50 or R\$ 100 for the Bolsa Familia. Actually, around 38 per cent of the BPC income ends up with beneficiaries in families with a *per capita* income of more than R\$ 65, whereas 21 per cent of the income of the Bolsa Familia is delivered to beneficiaries in families whose *per capita* income is higher than R\$ 100. Could this be interpreted as a targeting error? If so, what is the reason for it? More importantly, to what extent could it be minimized? Even though these questions cannot be easily answered, they point out the limitations of any targeting mechanism. Two major factors should be considered in this issue. The first refers to the fluctuation over time of family income; the second, to the intrinsic errors in the selection of beneficiaries for a targeted programme.

There are several reasons why the family income might fluctuate. Job instability, seasonality in the economy, positive and negative external shocks, changes in the family composition, among other reasons, can account for the variation over time of the *per capita* income, especially for those in the informal labour market. Since it is not feasible—nor desirable—to be constantly revising the income of all beneficiary families, it is understandable that part of the beneficiary population be above the eligibility thresholds, even though they had met all the requirements at the moment of their inclusion.

It is not always desirable that a family be withdrawn from a cash transfer programme due to exceeding the income threshold used to select beneficiaries. The risk of disincentives to work is a clear example of that. Members of a family subject to programme exclusion, in case their income increases, will only be motivated to work if the additional income from this work is higher than the transfers received. In this case, the programme should have an exit income threshold higher than the entrance one and a phasing out scheme. In similar cases, it is necessary to take into account the sustainability of the new incomes. The programme ensures income stability, whereas most jobs do not. When choosing whether or not to accept a new job, people must take into consideration, among other things, the risk of trading the steady transfers of the programme for the unstable earnings of low quality jobs. In these situations it would not be advisable to cease the benefits, since exclusion rules of this kind might discourage labour market participation.

Besides, it is essential to have in mind that most of the applications for cash transfer programmes go through processes that correspond to an estimate of family incomes. In the case of the Brazilian programmes, this process is based on the *per capita* family income at the moment of registration. As any other estimate, it is also subject to flaws that cannot be easily controlled.

Every targeting process has intrinsic errors that are difficult to avoid. A major part of these errors reveals the unavoidable trade-off between using extremely rigid criteria, which would lead to the exclusion of families that should receive the benefit (coverage or exclusion error), or being too loose, which would include families that should not receive the benefit (leakage or inclusion error). A number of these deviations—and coverage flaws alike—are due to this intrinsic error in the selection process.

Despite the difficulties to effectively reach the poorest, during the initial phases of a programme, when coverage levels are reduced, it is somewhat simpler to keep the transfers targeted on families that are not above the eligibility limits. As coverage increases and the poorest are included, it becomes harder and harder to avoid having some families marginally

above the eligibility level included. However, the inclusion of families slightly above these limits should be seen as a minor problem, for the intensity of this kind of error is low. The main issue is actually the possible exclusion of potential beneficiaries due to the inclusion of families way above the threshold.

Returning to Figure 1, it can be observed that the incidence of beneficiaries above the thresholds of BPC and Bolsa Familia is significant. However, the deviations mostly occur with families that are slightly above the income limits. In other words, at the same time that the deviation incidence is important, its intensity is very low. Deviations of major intensity are rare: less than 12 per cent of the Bolsa Familia income and 20 per cent of the BPC's is received by beneficiaries with a *per capita* income higher than R\$ 130 in 2004.

In the specific case of the BPC, it must be pointed out that during a few years judicial decisions have allowed beneficiaries with family *per capita* income higher than the limit determined for the programme. The reason for this is that the constitutional provision for the BPC rests in general principles about what is necessary for subsistence. The definition of the operational eligibility criteria rests upon ordinary legislation and Executive instructions, some of which have been successfully challenged by judicial action that update the very interpretation of the constitutional principles. The most usual contentions have endeavoured to lift the limit of the BPC from a quarter of the minimum wage to a half, for the latter would be considered a more acknowledged poverty line in the Brazilian context or, still, to authorize the computation of family income without expenses related to prescription drugs, in an attempt to differentiate needs, a possibility that neither the BPC nor the Bolsa Familia have been able to attain successfully.

Moreover, there are other reasons for having BPC beneficiaries among higher income families. The very concept of family for the BPC differs from the one adopted in Bolsa Familia (and even in the PNAD). BPC uses the same definition of 'family' the pensions system uses. In case of the death of pensioners some of their legal heirs are entitled to receive the pensions. These allowed heirs and all first degree relatives to be understood as the "family" of the pensioners. However, some family members are not included in this family, as it is the case of adult sons and daughters aged 25 or more. For reasons yet to be explained, the BPC uses this same concept of "family" to calculate per capita income. Of course the purposes are completely different and does not make sense to exclude the income of adult family members in the calculation of family per capita income, but the fact is that this practice of BPC has allowed the inclusion of higher income families in the programme (currently it is under revision).

There are also deviations that result from the targeting process, arising either from the usage of inappropriate targeting tools or from deliberate frauds to the system. Better tools, such as an improved application questionnaire and local studies that validate the assessments made by social assistants, doctors and other professionals involved in the selection of beneficiaries for the BPC and the Bolsa Familia, would undoubtedly help improve the targeting of the programmes. The frauds, on the other hand, require cross-check mechanisms to verify other information about registered beneficiaries, such as their receipt of social security benefits, comparisons between programme databases and employers' registries, periodical reviews and, whenever applicable, punitive measures to the offenders.

There is evidence of improvements in the mechanisms of selection and control of the programmes. In these areas, the Bolsa Familia seems to have advanced more rapidly than the BPC, with the establishment of verifying routines of registry consistency and the alteration of the application forms (tools that shall be incorporated by the BPC in the near future). The creation of a public oversight network in 2005, involving several public institutions will be an

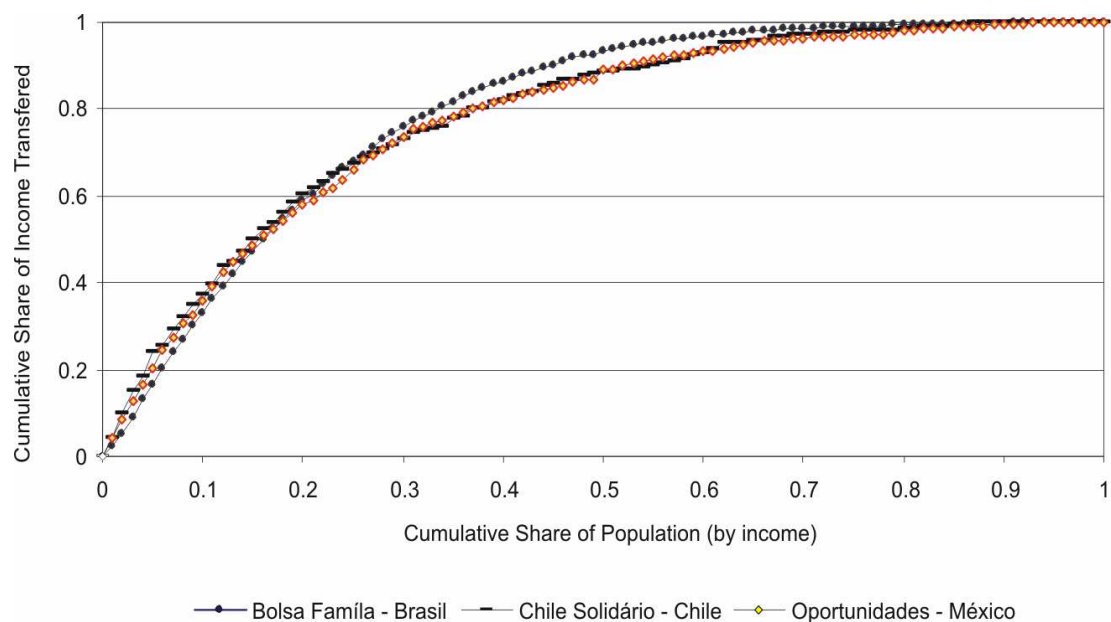


important measure in combating the frauds in the programme. Likewise, the refinement of the mechanisms of participation and social control in municipalities and the establishment of a direct communication channel between beneficiaries or potential beneficiaries and the managerial jurisdictions of the Bolsa Familia shall contribute to disseminate information and reduce coverage errors.

It is always possible to try and obtain more precise information and use more sophisticated tools to target beneficiaries. The question remains, though, whether or not we have not already reached a reasonable targeting level. To answer the question, it is useful to compare the performance of the Brazilian programmes with those deemed successful in other countries. Figure 2, in Soares *et al.* (2007), makes this comparison, using information from similar programmes in Chile and in Mexico.

FIGURE 2

#### Incidence of CCTs Per Hundredths of the Net Per Capita Distribution



Source: Soares *et al.* (2007).

The conclusion drawn from Figure 2 is that the Brazilian programmes' targeting results are almost as efficient as their counterparts in neighbouring countries, frequently cited as best practices. Mexico and Chile, which use extensive and thorough questionnaires to identify beneficiaries, have reached an outcome similar to the highly decentralized targeting process used in Brazil. It is noteworthy that centralized and complex procedures might reduce the possibility of social control of the programmes and that an extremely strict targeting system and shorter benefit review cycles are generally more costly in administrative terms.

It is undeniable that efforts to constantly improve the Brazilian programmes should be undertaken, especially in what concerns attempts to reduce targeting errors. However, these efforts should be guided by cost-benefit analyses that justify them and by the directive of lessening, as much as possible, the exclusion of beneficiaries that might otherwise have the right to participate in the programmes.

## 5 COSTS OF TARGETING

There has never been much controversy over the fact that the BPC is a targeted programme, not only by category (the elderly and the disabled), but also by income criteria (poverty-stricken elderly and disabled). The Bolsa Familia, on the other hand, has been repeatedly attacked for assisting only the poorest part of the population. This is partly due to a controversy between distinct lines of thought that have as a background discussion about a universal cash transfer scheme in the country. Such policy would transfer for all citizens a certain amount of money, regardless of their socioeconomic status.<sup>1</sup>

The controversy is related to philosophical principles, based on sound theoretical assumptions underlying both sides of the debate. There are several arguments for and against targeting, which go from the political frailty of a programme that benefits only the poor to the limited capacity to reduce inequalities of a universal programme. One of the major points against targeting is related to the allegedly high costs entailed. Though this might not be the most important argument against a targeted policy, it is one of the easiest to analyze. Supposing that it were possible to institute a programme of universal transfers, the better-off would receive exactly the same amount of money as the extremely poor. If the programmes were targeted on the poorer half of the population, it would be possible to transfer twice the value paid by the universal programme, a preferential alternative on an egalitarian perspective, due to its higher impact over inequality. For the costs of targeting of this alternative to be deemed unacceptable, through an egalitarian point of view, it would be necessary that they reached more than half of the programme's total cost.

As an illustration, one can assume that the targeting and selection process of the Bolsa Familia should happen every other year and that the programme provided a single cash transfer of R\$ 60 a month for every beneficiary family (approximately the average benefit today). Thus, each family would receive R\$ 1,440 at the end of two years. Assuming also that the targeting and selection process were conducted by a relatively well-paid social assistant, and that the final amount, considering other administrative costs, would reach R\$ 5,760 a month or R\$ 288 a day on a 20 working-day basis. Even if this social assistant did only two interviews a day, the cost of each interview would reach only 10 per cent of the amount of the transfers. Since social assistants are not usually that well-paid and are much more productive and capable of making more than two interviews a day, in the real world this cost is probably even lower. One cannot argue, therefore, that the costs for targeting in Bolsa Familia are prohibitive.

As for the impact over the income of the most impoverished families, the argument rests again on targeting, despite selection costs. The important issue here is to differentiate between resource level and distribution. The selectivity of a targeted programme alters its resource distribution, but not the existing resource level.

As a targeted programme, Bolsa Familia benefits a little more than 11.1 million families. The number of families in Brazil is at least four times that. Should the annual programme budget remain fixed, turning it into a universal scheme would mean dividing by four the amount of the transfers, that is, reducing the average benefit from R\$ 60 to R\$ 15 a month. In a more bountiful scenario, one can assume it would be possible to triple the programme's budget. This would enable the increase of transfers to the most impoverished from R\$ 60 to R\$ 180, should the programme remain targeted. Nonetheless, making it universal would still result in decreases from R\$ 60 to R\$ 49.50 in the transfers, already computing unlikely 10 per

cent savings related to the end of selection costs. Stating it directly: for the most impoverished, a targeted programme transferring R\$ 60 is still better than a non-targeted one with a threefold resource allocation; mind that it does not even consider that, with thrice the resources, the targeted programme would transfer R\$180 instead of the R\$49.50 from the universal programme.

There are acceptable arguments related to applying income-related eligibility to social policies other than the ones directed to alleviating poverty (such as health and education). Besides, it is possible to argue over the limits and disadvantages of a targeted cash transfer programme from several perspectives, but it is undisputable that the costs of targeting are not a sound argument in favour of universal transfers.

## 6 CONDITIONALITIES

One of the most significant innovations of the Bolsa Familia programme, much like its predecessors, is a design supposed to conjoin two major goals: short-term poverty alleviation, through cash transfers, and the fight against intergenerational poverty traps, through conditionalities that would encourage families to invest in human capital. In addition, the conditionalities, also called co-responsibilities on the part of the families, function as an incentive for the demand for social services. These include health and education and for strengthening the access of the most impoverished population to basic social rights, thus enhancing expansions and improvements in the supply of these services.

The best-known conditionality of Bolsa Familia refers to children's school attendance. The programme demands that children from beneficiary families be present to 85 per cent of the classes and has established a monitoring system that runs from the municipalities to the federal government, in order for the government to apply the notices in case this conditionality is not observed. This is certainly an innovation, for the legal requirement on school attendance was limited to 75 per cent of the classes and the only stakeholders in charge of this control were schools themselves.

From the point of view of outcomes, the need and the impact of the conditionalities in Brazil are controversial. Since the creation of the monitoring system for the educational conditionality, more than 95 per cent of the ones whose school attendance was being monitored complied with the requirement.<sup>2</sup> However, it is difficult to assert whether this is a direct result of the conditionality control itself or an independent trend.

A recent impact assessment shows a few preliminary results about the effects of Bolsa Familia on education (Cedeplar, 2006). The results indicate that the children assisted by the programme are less likely to be absent when compared to children living in similar households who do not receive the benefit. Besides, the likelihood that a beneficiary child will drop out of school is also lower. However, the impacts perceived on education might be the same programme with no conditionalities, for there is evidence that the increase in income by itself may not have an impact over children's schooling. Carvalho (2001) shows that non-contributive and non-conditional rural pensions, while raising the income of the elderly, also had a positive impact on the school registration of the children in the household, especially girls from 12 to 14 years-old. For these children, failure to enrol in school dropped by 20 per cent. Based on data from PNAD, Reis and Camargo (2007) estimated that an important effect related to unconditional retirements and pensions is the increase in school attendance by the youth.

In most cases, the health and education conditionalities only reinforce something that parents are required—be it legally or socially—to do for their children: send them to school, vaccinate them and care for their health. Thus, there does not seem to be any novelty or “intrusiveness” in the conditionalities—which does not mean that there will not be any form of excess in their enforcement.

If the conditionalities are deemed unnecessary, the problem of their existence relates to the costs brought about by their control and monitoring mechanisms. A timely and efficient conditionality monitoring of national scope might entail significant administrative costs, not only for the federal government, but mainly for municipalities, which are in charge of supplying the information. However, careful examination of the benefits and costs of a nationwide uniform control system still needs to be carried out so as to have a better picture of its convenience. While generating information on possible omissions regarding health check-ups and school attendance, the monitoring of conditionalities might work as a tool to warn the government about who are the most vulnerable families, who would need special attention, besides allowing it to identify the gaps in the supply of these services. In sum, it is not known yet how necessary the conditionalities are, how much is spent for controlling them and what benefits they bring about.

If the health and education conditionalities are already an obligation of the parents, regardless of the benefit, why are they so important in the debate about the programme? May be because the debate over the necessity of conditionalities also has a political and ethical background. Conditionalities partly attend to the demands of those who reckon that no one should receive a State transfer—especially the poor—without some form of direct compensation. The conditionalities would be something like the “rightful sweat”; without this somewhat symbolic meaning, the programme would risk losing the support of society. This feature is not an oddity of the Bolsa Familia, for it is also present in several programmes implemented in other countries.<sup>3</sup> The very existence of conditional cash transfer programmes has to be negotiated through the requirement of education and health conditionalities and, in some cases, work, regardless of objective evaluations of the cost-benefit relations of these actions.<sup>4</sup> The debate whether to change the Bolsa Familia into an unconditional programme or keeping its current design is an issue that keeps being avoided mostly for political reasons.

## 7 IMPACTS ON THE LABOUR SUPPLY

The Bolsa Familia mostly targets families that are or could be accommodated in the job market, but still have very low incomes. Therefore, the programme is subject to criticism for discouraging work. The criticism is based on the very plausible notion that, having reached a certain income level, people would tend to work less or quit work altogether.

What makes this criticism frail is the level at which the transfers would really result in relevant disincentives to participate in the labour market. So far there are no sound studies on the topic, but it is possible to discuss some preliminary results and speculate over their rationale. The Bolsa Familia transfers an amount between R\$18 and R\$112 to families with an extremely low income. Though the importance of the programme for the improvement of the living conditions of beneficiary families is undeniable, representing an approximate raise of 11 per cent in their income, the average benefit runs around R\$60, which does not seem to be enough for beneficiaries to quit working, unless their job is extremely low-paid, unstable or even hazardous<sup>5</sup>

Do transfers lower the commitment to work? It is possible that they have the opposite effect, as they provide impoverished workers with resources that allow them to overcome certain entrance barriers in more advantageous segments of the labour market. Here is an example to illustrate the idea.

Picture a self-employed worker, a street vendor, for instance. One barrier for this worker to expand his business and involve other family members in it is the access to credit to generate stocks. If the family of this vendor receives the benefit, this money would be like opening a line of microcredit—without the repayment requirements, of course. Indeed, if the government lowers taxes and interest rates or grants credit to entrepreneurs at the other end of the income distribution, will they become idle and quit working? Generally, the answer to this question is no. It is expected that the impoverished micro entrepreneurs behave like their wealthy counterparts. The transfers, therefore, could end up increasing the level of workers' occupation and their commitment to work.

The notion that programme transfers are disincentive to work is more based on prejudice than empirical evidence. Recent data from PNAD show that individuals living in households benefited by Bolsa Familia work as much, if not more, as other individuals with a similar *per capita* income. While the labour market participation rates for individuals living in beneficiary households is 73 per cent for the first distribution decile, 74 per cent for the second and 76 per cent for the third, the same rate is 67 per cent, 68 per cent and 71 per cent, respectively, for the individuals living in households not covered by the benefit.

Occasional negative effects over the labour supply of specific working groups should not be automatically seen as negative. Extremely impoverished families tend to intensify the participation of women, children and youngsters in the labour market, mostly in precarious and low-paid jobs. In these instances, the reduction of the participation of these individuals in the labour market, due to the receipt of the benefit from Bolsa Familia, should be seen in a positive light.

Disaggregating the economically active population (between 18 and 65 years-olds) by sex and status in the family (household head or spouse), reveals some differences. Using the data from the PNAD 2004 and a probit model estimate obtains the following results. For the first three deciles of the distribution—the 30 per cent poorest—and controlling the impact of age and family structure (number of children and elderly people in the household), it was possible to estimate that the labour supply of only one of the four model combinations (female household heads, female spouses, male household heads and male spouses) is negatively affected by Bolsa Familia. Only women who are household heads and receive the benefit are less likely (and statistically significant) to participate in the labour market than women who are household heads and do not receive the benefit. As for the other three groups, the transfer does not impact on labour supply of beneficiaries when compared to similar groups.

Following the same line of thought, the results of the impact assessment of Bolsa Familia carried out by CEDEPLAR (2006) show a positive impact of the programme on the supply of labour. According to the survey data, the participation rate in the labour market for adults in Bolsa Familia beneficiary households is 3 per cent higher than adults on similar non-beneficiary families. Moreover, this impact is higher for women (4 per cent) than men (3 per cent). The programme also lowers by 6 per cent the chances that an employed woman will quit her job.

What the data show is that the disincentives to work resulting from the transfers is not confirmed by the available research. Actually, the ones who seem to have a lower participation

rate in the labour market, when compared to individuals in similar situations, are those situated at the richer decile of the distribution and who receive income categorized as “other income sources” by the PNAD. At this level of the distribution, this category embodies basically interest and dividends from financial investments. Apparently, the disincentive effect is stronger at the upper end of the distribution than in the bottom-end.

## 8 “SOCIAL IN-SECURITY”

While Bolsa Familia is frequently criticized for its presumed disincentives to work, the BPC is criticized for presumably encouraging evasion of social security contributions. The criticism is that the BPC would substitute, with an assisted benefit, part of the social security benefits of contributory nature. The rationale underlying this criticism is that, if individuals will receive through the BPC the same amount they would receive from a regular pension, there would be no reason to contribute to the public social security system.

This kind of criticism is mainly speculative. In Brazil, there is no any rigorous and comprehensive study about the motivations related to contributions to the social security system. Therefore, there is no evidence to support the idea that the expectation of receiving the BPC is linked to a reckless or careless behaviour from potential contributors to the pensions system. Besides, even if this effect is existent, it might still be irrelevant to the social security system as a whole. Thus, the validity of the criticism will depend not only on the existence of reckless behaviour, but also on its magnitude.

The hypothesis underlying the criticism is plausible. But is it reasonable? The social security contributions are not progressive. Thus, in terms of welfare, the burden of a social security contribution is much higher for the most impoverished, even if the better-off and the poor contribute at the same rate, proportionally to their income. In other words, contributing with 10 per cent of the income represents a much higher burden for the poor than for the wealthy. Indeed, for low-income groups, affording a social security contribution implies giving up an income that is very important for them. The trade-off for this is the expected burden—present and future—of not being able to depend on the income from work. If this burden is high enough to offset the burden of losing part of the current income, it is advantageous to open a savings account, public or private that can be used when working is no longer possible.

The social security savings account chiefly occurs by imposition of social security contributions to formally employed workers. Proportionally, the level of voluntary contributions among low-income informal or self-employed workers have always been very low. According to data from the PNAD, between 1992 and 2005, the proportion of informal employees contributing to the social security system has risen from 6 per cent to 11 per cent, while the percentage of self-employed workers who contribute has dropped from 20 per cent to 15 per cent. If we consider only the informal employees and self-employed workers in households below the poverty line, we will come across a similar pattern: in the first case, the percentage that contributes to social security has risen from 2 per cent to 4.5 per cent, and in the second case the percentage has dropped from 6 per cent to 3 per cent.

If the BPC transfers were really inducing individuals not to pay the social security contribution, we would expect to come across major evasions from voluntary contributions both among informal workers and self-employed ones. Similarly, an increase in informal jobs—so as to avoid the burden of contributions—would also be expected. However, between 1992

and 2005, what happened was a slight tendency to reduce informal jobs—in 1992 the percentage of informality was 51.9 per cent, peaking to 53.0 per cent in 1998 and dropping back to 51.7 per cent in 2003 and to 50.4 per cent in 2004 (Ramos, 2007). These data are not conclusive in what concerns the absence of impacts of the BPC over social security contributions, though they definitely do not prove otherwise.

Should there be fewer contributions, it does not seem this would have a substantial budgetary impact. Therefore, the costs entailed would probably be overcome by the direct and indirect benefits that the BPC might offer. The study of Reis and Camargo (2007), for instance, shows that pensions and transfers—which include the BPC—have a relevant positive impact on the likelihood of young people aged 15 to 21 attending school, an impact even higher than the one related to the likelihood of their not participating in the labour market or studying. This kind of result, highly important for long term poverty alleviation, might justify a minor burden on the social security system.

In sum, there is no evidence that there has been a general demotivation to social security contributions due to the BPC, or that the budgetary impact of this demotivation would be significant. Until there are more studies, this kind of criticism to the BPC should be seen as mere ideological speculation, with no unequivocal scientific grounds about the existence and the real scope of the problem.

## 9 FISCAL RESTRAINTS

It is estimated that transfer programmes alone are accountable for 23 per cent of the drop in income inequality between 2001 and 2004 in the country (IPEA, 2006). Together, the BPC and Bolsa Familia cover more than thirteen million low-income families in Brazil. Their benefit is indisputable. How about their costs?

In 2005, the total expenditure with cash transfers in Brazil through the BPC and Bolsa Familia was approximately 0.8 per cent of the GDP. Just for the record, the federal expenditures with the interests of the public debt in the same year reached 6.7 per cent of GDP. This means that directly assisting thirteen million low-income families costs a little over one tenth of the expenditures with interests, that is triggered by a monetary policy whose number of direct “beneficiaries” is much lower. It is difficult to determine how much lower, for the PNAD not only strongly underestimates the receipt of interest, dividends and profits, but also places this information in one sole income category. However, should we disaggregate the “other income sources” from the PNAD as suggested in Soares *et al.* (2006), it is possible to roughly estimate that half of this income was earned by the 3 per cent wealthiest strata of the population.

It is clear that the indirect impact of monetary policies is relevant for all, including the poor, who also benefit from macroeconomic stability. The comparison between social programmes with monetary policy measures is oversimplified and should be regarded as illustrative only. What really matters here is to clarify that the Brazilian fiscal restraints cannot be ascribed to the targeted transfer programmes and that it is unreasonable to hinder their expansion or criticize their sustainability under the argument that they represent an excessive burden on the government budget. A preliminary analysis of the cost-benefit relation is enough to indicate that the programmes should be shielded from attempts of fiscal adjustment.

Since the government operates under undeniable budgetary restrictions, would it not be better to employ the money used in the transfer in investments? Surely the public investment

rates in the country could be higher, but this is not the most appropriate question. It would make sense if the budget were completely rigid, that is, if the only alternative were to decide between transfers or investments.

That is not the case. The public budget is a result of a series of choices. Major changes in budgetary allocation might be unattainable in the short run, but there surely is some room for manoeuvre for several small-scale reallocations. It is a fact that the budget distribution is a direct result of a political power game in which the most impoverished population finds an unfavourable position: the poor are not the main direct beneficiaries of the major part of public expenditures. This, however, does not mean that they should not deserve special attention in the budget. Closing our eyes to this situation would imply the perpetuation of a strategy that has been going on for decades in Brazil, and which has proved to be a failure: poverty eradication by means of investments in infrastructure and economic growth.

Opposing transfers and investments disregards the possibility for them to be complementary. After all, the transfers allow the families to consume more, and an increase in consumption might boost investment. If people are willing to buy more, the entrepreneurs will be eager to produce more. This virtuous circle might be furthered even more with investments in infrastructure. Therefore, transfers and investments may walk hand in hand. Whether or not they are complementary remains a question to be answered.

## 10 “EXIT DOORS”

Cash transfers increase the purchasing power of families as long as they receive the benefit. Obviously, if the transfers are interrupted, this power is immediately curbed. At least in the short run, the families that escape poverty thanks to the transfers depend on them to keep their consumption level. This has triggered criticism that cash transfers are not a satisfactory solution for the poverty problem because they are not emancipatory. The argument here is that Bolsa Familia was designed in such a way that it opens entrance doors, but it does not signal any exit doors. In other words, beneficiaries would become dependent on the programme and would stick around indefinitely, while the ideal situation would be for Bolsa Familia to be a temporary mechanism for poverty alleviation, the final solution being a regular job for the poverty-stricken.

There is much confusion and conflict of values in the debate about solutions for poverty. In this debate, a somewhat naive moralism thrives, which bestows to the poor themselves the responsibility for the solution of the poverty problem, streamlined in the assumption that work would be the only adequate exit door from extreme poverty. Following this line of thought, the most important would be “not to give the fish, but to teach how to fish”, and the keys to the exit doors from poverty would essentially be education and credit.

Solving an existent problem and avoiding its resurgence in the future are two different issues. There is general approval among experts that, in order to reduce poverty in the long run without the dependence on transfers, it is necessary to improve the distribution of assets in society and to alter the occupational structure of the population. Improving the asset distribution means modifying not only the distribution of individual productive capabilities (largely related to education), but also the distribution of property and opportunities.



Nevertheless, these changes do not consolidate overnight. There are structural aspects that simply cannot be altered in a matter of few years. Education is a long-term investment. Even in a hypothetical “perfect” school system, comprehensive and qualified, with no repetition or evasion, it would take more than a decade to adequately educate a child. In what concerns the adult population, altering the educational background of the current workers is a difficult task. This is because the leading path to improving worker qualification in a lasting fashion is through formal education, for specific professional training, although useful, is limited and not adaptable to long term changes in production. Quality education demands several hours of dedication a day, through the years. Adults who are already in the labour market split their time threefold: household chores, work and rest/leisure. For them to dedicate some time to studying, it would be necessary that some of these activities be compensated for or substituted. Full-time work and study are not easily compatible activities. This is clearly shown in the prohibition of child labour and the regulation of youth labour.

The distribution of education cannot be altered in the short run, but the concession of credit can. Therefore, the credit alternative should be analyzed as a short-term measure. Actually, in terms of investment, cash transfers might have an impact similar to long-term micro-credit. The difference from other forms of micro-credit lies mostly in the repayment requirement. The need for repayment could function as an important motivation to work—since it is necessary to pay off the debt, the money received cannot be spent with consumer goods. This argument, however, would only make sense under the notion that poverty is the result of the lack of incentive to work, which, in simple terms, would imply that poverty is a consequence of the idleness and lack of efforts from the poor.

However, like in all ranks of society, not all the poverty-stricken population has the necessary skills to invest the credit received. Besides, even if we do not overlook the issue of appropriate ability to run a business, it is the macroeconomic dynamics that will mostly influence the success or failure of the new business. Therefore, though it is important to defend micro-credit as a mechanism of poverty alleviation, it is unwise to consider it a panacea that can offer an automatic and preferential exit-door to beneficiaries of cash transfer programmes. Very little is known about the issue, but it is possible to estimate that micro-credit dispensed to a population without the proper skills to use it and a favourable economic environment would not induce a significant impact in the short run.

Since there are a number of unqualified workers in the market, another possibility to tackle the problem in the short run would be to increase significantly the demand for unskilled labour, so as to raise its relative price. Increasing the demand for poor workers means promoting the economic growth in industries that are highly intensive in unskilled labour, in such a way that it would be enough to make scarce not only the unskilled labour, but also labour of the currently unemployed who have intermediate qualification, for the latter will eventually compete with the first as job positions start offering better salaries.

In sum, the best efforts to reduce educational inequalities will not impact the income distribution immediately. Credit lending is a positive measure, but its impact is limited to a fraction of the population. Creating job positions for the whole uneducated population is not an easy task. This suggests that long-term actions, specially the ones related to education and income generation among the poor should necessarily be complemented with short and medium-term actions. While the first ones are necessary to avoid more poverty in the future, the second represent the immediate fight against the morally unacceptable existence of

poverty in a relatively affluent society. Taking the proposal to eradicate poverty in Brazil seriously requires dealing with the idea of having families participate in cash transfer programmes for a long time.

## 11 FINAL REMARKS

Cash transfer policies have become an important aspect of the Brazilian social protection system. In spite of criticism or implementation problems, the two main programmes of this nature, the BPC and Bolsa Familia, have experienced considerable expansions in the past few years and had positive impacts on the poverty and inequality indicators in the country.

Even though they are similar in a few aspects, there are important differences between both programmes. In what concerns the amounts transferred and their impact on beneficiaries, Bolsa Familia was designed as an income supplementation programme, assuming that beneficiaries might have other income sources besides the transfers. The BPC assumes that its beneficiaries do not have any other income sources. This partly explains—though not necessarily justifies—the considerable difference in the benefits they provide. The transfers from the BPC are much higher than the ones from Bolsa Familia. Therefore, while the cost per beneficiary of Bolsa Familia is lower, the capacity for the BPC to lift a family above the poverty line is higher. This difference, however, should not be interpreted as an argument for the increase in Bolsa Familia's transfers, for the programmes have distinct goals.

The concern with the intergenerational transmission of poverty also differentiates the programmes. Bolsa Familia highlights this issue through conditionalities that are intended to promote investments in education and health. Partly due to the characteristics of its target public, the BPC does not demand any behavioural compromise. However, survey results show that the mere rise in income brought about by the transfers, even without any conditionalities attached, has already made an impact on the schooling levels of the youth in beneficiary families. From a moral standpoint, conditionalities demand from the families no more than what is their legal duty, thus Bolsa Familia cannot be accused of intruding people's private lives any more than what is legally (and socially) determined. From the standpoint of the cost-benefit relation, the truth is that, so far, it is not clear how necessary they are and what the costs for controlling them are.

The programmes have their own administrative mechanisms for targeting beneficiaries. The costs of these mechanisms do not seem to be an encumbrance to their sustainability. The little information available on targeting accuracy comes from a household survey that shows that a significant part of the beneficiaries are above the eligibility levels determined by the programmes, though still below the poverty line. These are, therefore, low-intensity targeting errors. If compared to similar programmes in Latin-American countries, the Brazilian programmes reach their target public almost as efficiently, with a much more decentralized procedure. Targeting results can and should be improved, but it is hard to determine to what extent this would bring significant advancements to the present-day situation, for some of the deviations observed might be related to cyclical fluctuations in the families' income or to intrinsic errors in the targeting process, whose control can be extremely costly.

The debate over the so-called "exit doors" from cash transfer programmes, fostering the emancipation of beneficiary families is, undoubtedly, relevant, but part of this debate neglects that altering both the labour market structure and the educational level of the labour force is

not an easy task for a social programme. The transfers, therefore, should not be regarded as a temporary solution. If Brazil is serious about eradicating poverty, they will probably have to be continued for many years to come.

The positive results of the programmes are undeniable: their impact on poverty and inequality is evident. Their negative side is not so clear-cut. First, there are no indicators that the transfers might significantly (and undesirably) affect the participation in the labour market. Much to the contrary, for reasons yet to be studied, such participation is higher among beneficiaries. Second, there is no sound evidence that the transfers affect negatively the social security contributions, and even less evidence that this impact is meaningful for the social security system. Should there be an evasion of compulsory contributions; the impact on the budget would be minimal. Finally, the budgetary burden of the targeted programmes is not heavy. The transfers benefit around one quarter of the Brazilian families, though their cost is approximately 1 per cent of the GDP.

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## NOTES

1. Though it is not frequently mentioned, Brazil already has a bill that addresses the principle of a minimum citizenship income. Law n. 10.835, sanctioned in 2004, allots a benefit, enough to attend to an individual's basic expenses with food, education and health, as a right of all Brazilians and resident aliens that have been in the country for more than five years, regardless of their income. Considering the country's level of development and budgetary possibilities, the law establishes that the universal range of the benefit should be achieved in stages, at the government's discretion, priority being given to the population most in need.

2. Despite reaching almost all municipalities, the response level of the system varies, thus there is no information related to the totality of the beneficiaries. The results of the control of conditionalities in Bolsa Familia can be seen at: <http://www.mds.gov.br/bolsafamilia/condicionalidades/resultados/>.

3. Handa and Davis (2006) single out this issue as one of the recurrent ones in cash transfer programmes in Latin America.

4. As an example: one candidate to the legislative assembly in Brasília-DF proposed as her political platform a motion to "force" the beneficiaries of government-financed social programmes to do "volunteer work" as a trade-off for receiving the benefit.

5. Those which cannot be deemed "decent work", as established by the International Labour Organization (ILO).



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