

PROMISING APPROACH # 3

Provide Financial Incentives to Young People to Promote Good Decision Making

The behaviors of young people are usually guided by a range of factors, including their family environment and upbringing, their education, their culture, and societal norms. In addition, young people often make cost-benefit calculations when deciding whether or not to engage in a risky behavior. It is assumed that if the benefits of making a positive decision are increased then young people will have an incentive to choose positive behavior over risky behavior. In recent years, governments in several developing countries have taken steps to affect this cost-benefit calculation, mainly by increasing the monetary value to young people of staying in school. The best-known way governments affect the cost-benefit calculation is through conditional cash transfer (CCT) programs, which give cash grants to parents or young people themselves *on the condition* that they attend school on a regular basis. Other incentives that governments have given young people to stay in school include establishing individual learning accounts (ILAs) and providing targeted financial assistance for tertiary education (a combination of loans and grants).¹

CCT programs can include both an education and health component. The education component includes a cash grant targeted to children of primary school age and/or, in countries with higher educational attainment, to adolescents of secondary school age. The cash is granted on a per-student basis and is conditional on the young person enrolling and attending school for at least 80–85 percent of the school day and generally covers direct costs (such as school fees, supplies, and transportation costs) and/or the opportunity costs incurred by families when they lose income as a result of sending their children to school. The health and nutrition grants are usually targeted to preschool children and pregnant and lactating women and are usually granted to families (not individuals) on the condition that household members make regular basic and reproductive health visits.²

Individual Learning Accounts (ILAs) aim to encourage families and individuals to save up to cover education expenses while simultaneously providing vouchers to individuals interested in pursuing further education. The amount to which each individual is entitled in an ILA depends on the amount that he or she has saved and on the particular kind of education or training that he or she is interested in pursuing.³

The limited evidence available suggests that CCTs may have an even greater impact on young people (those age 12 and over) than on children (under the age of 12) and may have positive effects in areas beyond education, such as employment and risky behavior.⁴ Thus, CCTs seem to be not only one of the most promising interventions for encouraging young people to complete secondary school but also effective in discouraging a wide range of negative behaviors. Most CCT programs have not existed long enough for full assessments of their effectiveness in reducing long-term poverty and risky youth behavior to have been carried out. Nevertheless, there is enough information to suggest that the concept of cash transfers is a promising approach for promoting positive decision making among young people.

How Do Financial Incentives Encourage Good Decision Making and Less Risky Youth Behavior?

There are two main ways in which cash incentives can encourage young people to make good decisions. First, CCTs and financial incentives such as ILAs encourage young people to enroll and *stay* in school—which has been proven to be one of the strongest protective factors in the lives of young people. Evidence shows the greater the number of years of schooling, the more positive the sexual and reproductive health outcomes. Better academic performance is also consistently associated with a reported lower likelihood of ever having had sexual intercourse, and education is also associated with decreased pregnancy rates. Commitment to

school has also shown to be one of the few protective factors that has reduced the effects of exposure to specific risks for violence.⁵ Conversely, school failure and dropout have been proven to be risk factors for youth violence and delinquency.⁶ Some evidence also exists that CCT programs can mitigate the role of poverty in encouraging risky behavior. For example, those young people who are most affected by economic setbacks are less likely to drop out if they are receiving CCTs. Evaluations of the effects Mexico's CCT program *Oportunidades* on three household-level economic shocks showed that transfers largely or fully mitigated the risk that young people would leave school in response to an economic shock and that CCT programs acted as a safety net for the schooling of children from poor families.⁷

Second, young people make cost-benefit calculations about their actions and are likely to choose actions with benefits. The benefits can include various psychological gains, such as peer acceptance and expectations, as well as monetary benefits. Thus, by increasing one part of this package, the whole value of the package can be affected. This is particularly important for affecting young people's behavior because they are more likely than adults to underestimate the costs of their behavior, to over-value the psychological benefits, and to respond to financial incentives because of their own budget constraints. Cash incentives have repeatedly been shown to be successful in affecting young people's attendance at secondary school, so it can be assumed that they follow the same decision-making process in the case of other kinds of behavior as well.

Research Findings: Providing the Evidence Base

Impact evaluations of Mexico's CCT program, *Oportunidades*, have shown that it has had a positive impact on youth enrollment (particularly during the transition between primary and middle school), total years of schooling, dropout rates, timely grade advancement, the amount of time that younger children spend working, and the probability of older adolescents finding employment. The most significant effects were seen on the dropout rates and the school reentry rates of older children. The program has also helped to reduce alcohol consumption, smoking, and the number of sexual partners, but it had no impact on the age of first sexual experience, probability of using contraceptives, prevalence of STDs, or number of pregnancies among young women (see figure).⁸ Although not yet evaluated, a new component called *Jóvenes con Oportunidades* was added in 2003 to extend these benefits beyond graduation to provide young people with additional incentives to complete secondary school. The program opens an account for each young person in the last year of lower secondary school (grade 9) and deposits points (equal to pesos) for each subsequent year until the young person completes grade 12. Upon graduation (which must be done before the age of 22), students can choose between waiting two years to obtain the accumulated account balances (with interest) to use as they wish, or having immediate access to the funds if they use the funds to (i) attend college, (ii) purchase health insurance, (iii) get a loan to start a business, or (iv) apply for public housing.⁹

Summary of Impacts on Youth of Mexico's *Oportunidades* Program (Selected Indicators)

Area of Impact	Rural Medium Term (1997–2003)b Compared to controls	Urban Short Term Impact(2002–2004)a Compared to controls
Education		
• Schooling	↑ about one year (boys 15–18 post-program, slightly less for girls)	↑ 0.25 years (boys 12–14); ↑ 0.15 to 0.17 years (girls 12–14); ↑ 0.28 years (boys 15–18) ↑ 0.15 to 0.19 years (girls 15–18)
• Progression	↑ 13.5 %-points (girls 15–21) ↑ 16 %-points (boys 15–21)	↑ 0.1 to 0.15 grades completed (boys 6–17) ↑ 0.08 to 0.1 grades completed (girls 6–17)
• Enrollment		↑ 8 %-points after 1 year (boys 15–18) ↑ 9 to 12 %-points (boys 6–17) ↑ 12.6 to 14.4 %-points (girls 6–17)
Work		
• Premature Entry to Labor Market	↓ 10 %-points (boys 15–16)	↓ 7 %-points after 1 year (boys 12–14) ↓ 13 %-points after 2 years (boys 12–14) ↓ 10 %-points in first year (girls 15–18)
• Employment (excluding domestic)	↑ 6 %-points (boys 19–21) ↑ 5 %-points (girls 19–21)	NA NA
Health		
• Days ill past 30 days	NA	Male & Female (ages 6–15) ↓ 0.269 days
• # of hospitalizations	NA	↓ 0.094
• Days unable to perform normal activities past 30 days	↓ 0.058 days	↓ 0.250 days
Risky Behavior		
• Ever smoked	Male & Female (age 15–21) ↓ 15.4 %-points	↓ 4.4 %-points (M/F 15–21) ↓ 1.6 %-points (M/F 10–14)
• Ever drank	↓ 11.4 %-points	↓ 0.7 %-points (M/F 10–14), no impact (M/F 15–21)
• # alcoholic drinks previous week	↓ 0.155 drinks	↓ 0.147 drinks (M/F 15–21)
• # of sexual partners	↓ 1.0	NA
• Age first sexual activity	No impact on age	↓ 0.055 years (M/F 15–21)
• Pregnancy/STDs	No impact on age	NA

Sources: a. Behrman, J.R., Gallardo-García, J., Parker, S.W., Todd, P.E., Vélez, V. 2006. Parker, S.W., Todd, P.E., Wolpin, K.I. 2006. Gutiérrez, J. P., Gertler, P., Hernández, M., Bertozzi, S. 2004. b. Behrman, J.R., Parker, S.W., Todd, P.E. 2005. 2006. Gutiérrez, J.P., Gertler, P., Hernández, M., Bertozzi, S. 2004.

Evidence from evaluations of Colombia's *Familias en Acción* CCT program showed that the program substantially increased the school attendance of youth ages 12 to 17 by 10.1 percent in rural areas and 5.2 percent in urban areas.¹⁰ Brazil's *Bolsa Escola* CCT program reduced dropout rates by 7.8 percent, but repetition rates increased by 0.8 percent because the cash transfers kept in school those children and young people who would have otherwise dropped out.¹¹ Preliminary studies of Turkey's CCT program, the *Social Risk Management Project*, showed an increase in the net primary enrollment rate from 82.6 to 89.7 percent and in the net secondary school enrollment rate from 65.4 to 73.6 percent, but further studies should be conducted on the net impact on beneficiaries.¹² A study of Pakistan's *Female School Stipend Program* in Punjab, which provides a stipend to girls on the condition that they enroll in a government girls' school and attend at least 80 percent of classes, showed that over a two-year period there was an absolute increase of six girl students per school and a relative increase in enrollment of 9 percent.¹³ The Bangladesh *Female Secondary School Assistance Project* was designed to improve the quality of, and increase girls' access to, secondary education in rural areas by providing stipends and tuition for girls. An impact evaluation showed that this program substantially increased girls' enrollment in secondary school (from 1.1 million in 1991 to 3.9 million in 2005), with an increasing number of girls coming from disadvantaged or remote areas (the proportion of beneficiaries from the poorest two quintiles increased from 30 to 35 percent between 2000 and 2005). Furthermore, as a result of the program, female enrollment as a percentage of total enrollment increased from 33 percent in 1991 to 48 percent in 1997 and about 56 percent in 2005. The Secondary School Certificate (SSC) pass rates for program participants also increased from 39 percent in 2001 to 58 percent in 2006. The program also had some indirect benefits, including delays in the age of marriage, more females being employed with higher incomes, and more confident mothers who are involved in their children's education.¹⁴ A quasi-experimental study of the Jamaica *Program of Advancement through Health and Education (PATH)*, a social safety net initiative that began in 2001, found that participants' school attendance increased by approximately 0.5 days per month, which represents a statistically significant increase of about three percent over the baseline level.¹⁵

The *Learning, Earning, and Parenting (LEAP)* program in the U.S. state of Ohio is a mandatory statewide program that provides financial incentives, in addition to case management services, transportation, and child

care assistance, to encourage young mothers on welfare to enroll in school and attend regularly. The program provides bonuses of US\$62 for monthly attendance and for completing the school year, US\$62 monthly sanctions for inadequate attendance, and a US\$200 bonus for completing high school or receiving a GED diploma. An evaluation of the *LEAP* program reported that three years after the random assignment of young mothers to either a control or a treatment group, 48.4 percent of *LEAP* teens dropped out compared with 53.5 percent of control group teens, but this difference was not statistically significant. The study also showed that 50 percent of treatment group members completed grade 11 compared with 45.4 percent of control group members, which was not a statistically significant difference. Lastly, the study demonstrated that 34 percent of *LEAP* teens completed high school or earned a GED compared with 31.9 percent of control group students.¹⁶ The *Cal-Learn* program in the U.S. state of California, designed to assist teen parents receiving benefits from the *California Work Opportunity and Responsibility to Kids (CalWORKS)* to attend and graduate from high school or its equivalent, includes three major components: (i) bonuses and sanctions to encourage school attendance and good grades; (ii) intensive case management to help teens to access education, health, and social services; and (iii) payments to cover childcare, transportation, and education expenses. The program is voluntary, except for pregnant/parenting teens who are receiving *CalWORKS* benefits and are under the age of 19 and have not graduated from high school or its equivalent. The program increases or decreases family support (US\$50 or US\$100) based on a student's course grades and provides a US\$500 award for high school completion or receipt of the GED. An evaluation of the *Cal-Learn* program reported that 44.7 percent of *Cal-Learn* students age 18 or over dropped out compared with 52.3 percent of control group students. Also, 29.1 percent of participating students age 18 and older received a high school diploma or GED compared with 24.2 percent of similarly aged control group members.¹⁷

Moving Forward: Factors for Success

- ***High-quality targeting*** is needed to ensure the participation of most at-risk youth.
- ***The value of the transfer should generally be less than a young person's potential earnings but should increase with age to take into account the increased opportunity costs*** to families of sending older children to school and the greater availability of risky opportunities.
- ***Transfers should be higher in situations where children and youth are most at risk: for girls,*** situations involving sexual health, early school leaving, and early marriage; and ***for boys,*** violent behavior and early school leaving in some countries.
- ***Programs ideally should be implemented when young people are moving up from one level of school to another and when young people are going from one developmental stage to the next*** because these are the times when the probability of making risky decisions is the greatest.
- ***CCT programs need to be accompanied by increased resources for schools, health centers, and other complementary services,*** because young peoples' lack of access to these services will undermine the CCT program and reduce the quality of these services for the whole youth population.
- ***Financial programs related to one kind of behavior need to be linked to social assistance programs*** that address a range of different kinds of behavior.
- ***The education and health sectors should fully monitor compliance with program conditionalities*** (when transfers are conditional).
- ***Social workers and family workers*** should be used to ensure compliance with the program.
- ***Institutional arrangements among relevant ministries, particularly education, health, and welfare, should be clearly defined and adhered to.***

Endnotes

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15. Levy, D., and J. Ohls. 2007. "Evaluation of Jamaica's PATH Program: Final Report." MPR Reference No. 8966-090. Mathematica Policy Research, Inc., Washington, D.C.
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17. American Youth Policy Forum 1994; U.S. Department of Education 2006.

Key Implementation Considerations	
Anticipated Outcomes	<ul style="list-style-type: none"> • Poverty alleviation • Increased school enrollment and attendance • Increased educational knowledge and skills, leading to lower likelihood of unemployment • Less risky sex and violence • Delay in pregnancy and marriage in young females
Secondary Effects	<ul style="list-style-type: none"> • Less premature entry into the labor market • Greater probability of finding quality employment • Reduction in alcohol consumption and smoking
Responsible Agency/Actor	Ministries of Social Welfare/Social Assistance, Education, or Health
Targeted Risk Group	Types I and II
Target Age Group	0–18
Examples of Cost per Beneficiary	<ul style="list-style-type: none"> • Brazil: <i>Bolsa Escola</i>—US\$137 per family per year ^a (cash transfer only) • United States (Ohio): <i>Learning, Earning, and Parenting (LEAP)</i>—average of US\$2,256 (in 2005 dollars) per program group member ^b This also includes program costs such as administration, case management, and so forth.
Necessary Initial Conditions	<ul style="list-style-type: none"> • Targeting system in place to identify poorest, at-risk youth and families • Enough schools and school supplies to meet increased demand for education CCTs, similar for health services
Specific Examples & Level of Effectiveness (Strong Evidence and Emerging Evidence)	<ul style="list-style-type: none"> • Mexico: <i>Oportunidades and Jóvenes con Oportunidades</i>—Strong evidence (http://www.oportunidades.gob.mx) • Brazil: <i>Bolsa Escola</i>—Strong evidence (http://www.mds.gov.br/programas/transferencia-de-renda) • Colombia: <i>Familias en Acción</i>—Strong evidence • Turkey: <i>Social Risk Management Project</i>—Emerging evidence • Pakistan: <i>Female School Stipend Program</i> in Punjab—Emerging evidence • Bangladesh: <i>Female Secondary School Assistance Project</i>—Strong evidence • Jamaica: <i>Social safety net initiative, the Programme of Advancement Through Health and Education (PATH)</i>—Strong evidence • United States (Ohio): <i>Learning, Earning, and Parenting (LEAP)</i>—Emerging evidence • United States (California): <i>Cal-Learn</i>—Emerging evidence
Issues to Consider for Replication and Sustainability	<ul style="list-style-type: none"> • Urban/rural, male/female, and age differences and how they affect the design of transfer packages • How the quality of participating schools will be affected (due to congestion or by adding marginal students) • Choice of cash transfer recipient/user of cash transfer (young person or parents) • Importance of conditionality versus cash transfer: does income alone encourage school attendance, or is conditionality always needed? • How to deal with noncompliance in an encouraging, motivating way

Sources:

a. Arends-Kuenning, Ferro, and Levison 2006.

b. U.S. Department of Education 2006.