

# Social Assistance, Labour Markets and Intra-household Decision-making: Evaluation of the AFAM-PE Programme in Uruguay<sup>1</sup>

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The expansion of conditional cash transfer (CCT) programmes in Latin America and the Caribbean (LAC) over the past two decades has renewed interest in how these policies affect the behaviour of beneficiaries in the labour market—in particular, whether or not they discourage labour supply or labour market formalisation. Moreover, the view that women's empowerment is conducive to efficiency and development has shaped the political debate and influenced socio-economic policies in the region.

Thus, most CCT programmes in countries of the LAC region target poor and vulnerable families and see that women are the primary recipient of benefits; the main argument supporting such a distribution is that money received or earned by women is allocated differently in the household budget compared to money received or earned by men. Women tend to use the money in a way that improves the welfare of the household—and particularly of children—as a whole (Thomas 1990). Though women are the main recipients of CCTs, the gender implications of these programmes and their impact on the lives of women, particularly in terms of their

behaviour in the labour market, has not been thoroughly studied (see Bosch and Manacorda 2012 for a recent survey).

Bergolo and Galvan (2015) look at the impact of Uruguay's premier CCT programme, *Asignaciones Familiares-Plan de Equidad* (AFAM-PE), on gender differences with regard to labour market outcomes and the decision-making process within the household. This is important in Latin America, and in particular in the case of Uruguay, where 90 per cent of the recipients of household cash transfers are women, who not only have less access to the labour market (lower participation rate) but also tend to earn less than men. Understanding the impact of the programme on labour market outcomes and on the household decision-making process, as well as its gender implications, is important not only for contributing to academic discussions but also for informing the design of public policies.

## The AFAM-PE programme

AFAM-PE was enacted in 2007 and is currently the largest social assistance

programme aimed at vulnerable families with children in Uruguay, both in terms of coverage and level of benefits. More specifically, the programme targets poor and vulnerable households with either a pregnant mother or a child under the age of 18. Benefit payments are contingent on meeting certain conditionalities, such as school attendance and basic health check-ups. Households may lose the benefit if they fail to comply with the conditionalities or if they do not pass the income verification test periodically administered by government authorities.

In 2014 the programme reached nearly 370,000 children in poor and vulnerable households, a figure that corresponds to 42 per cent of children under the age of 18 in Uruguay.<sup>4</sup> The budget for the cash transfer component of the programme in 2013 was just over 0.35 per cent of Gross Domestic Product (GDP).

The targeting strategy for AFAM-PE entails that applicant households meet two conditions. First, a household must have a per capita income level below a

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Photo: Montecruz Foto, Campo Placeres, 2009, Uruguay <<https://goo.gl/fpRGhA>> <<https://goo.gl/OOAOQfn>>.

TABLE 1

Summary Statistics of Labour Market Outcomes for Men and Women in Couples by Eligibility Status

	Panel A. Eligible households				Panel B. Ineligible households				
	Men		Women		Men		Women		
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	
<b>1. Follow-up survey</b>									
Employment rate	0.93	0.26	0.60	0.49	0.95	0.21	0.69	0.46	
Registered employment rate	0.53	0.50	0.30	0.46	0.67	0.47	0.45	0.50	
Unregistered employment rate	0.40	0.49	0.30	0.46	0.28	0.45	0.24	0.43	
<b>2. Baseline</b>									
Employment rate	0.77	0.42	0.36	0.48	0.77	0.42	0.45	0.50	
Registered employment rate	0.23	0.42	0.11	0.31	0.15	0.36	0.08	0.27	
Unregistered employment rate	0.54	0.50	0.25	0.43	0.62	0.49	0.37	0.48	

Source: Authors' elaboration.

\*Note: SD = standard deviation.

predetermined threshold (i.e. income test). After the income verification test, eligibility for the programme is determined by computing a predicted poverty score for households based on their baseline socio-economic characteristics. Only those applicant households whose predicted poverty score is above a (pre)determined threshold are eligible for AFAM-PE (conditional on income testing). Once the household is considered eligible, only the income test—which is based on the registered (formal) sources of income of household members (i.e. the 'observable' sources of income)—is periodically verified by government authorities.

This eligibility criteria based on a poverty score generates a strong discontinuity in the probability of being admitted to the programme. Those who are slightly above the poverty score threshold are eligible and still receive the benefit, while those who are slightly below are not eligible and do not receive the benefit.

The causal effect of AFAM-PE can be identified by comparing labour market outcomes of beneficiary households who are just above the eligibility cut-off point with those of applicant households who are slightly below the cut-off point. This method—known as regression discontinuity design (RDD)—assumes that households close to the eligibility cut-off point are very similar regarding

both observable and non-observable dimensions; thus, any difference in outcomes could be causally attributed to participation in the programme.

### Results in the labour market

Based on a follow-up survey of applicant (eligible and ineligible) households<sup>5</sup> and using an RDD identification strategy as mentioned above,<sup>6</sup> the study (Bergolo and Galvan 2015) finds evidence that participation in the AFAM-PE programme has different impacts on labour market behaviour according to the gender of the individuals in two-parent households.<sup>7</sup> The study analyses the responsiveness to AFAM-PE in three mutually exclusive labour market outcomes: non-employment (unemployed or inactive), registered (formal) employment and unregistered (informal) employment.<sup>8</sup> Table 1 presents employment rates for men and women in couples and the follow-up periods by eligibility status.

As expected, AFAM-PE seems to be associated with an increase in non-employment rates and informal employment rates among beneficiary women; however, the estimated impacts are not statistically significant. On the contrary, the estimates show a statistically significant 20 per cent drop in registered employment among beneficiary women around the eligibility cut-off point.<sup>9</sup> In contrast, AFAM-PE did not have a statistically significant effect on the

employment outcomes of the men in AFAM-PE beneficiary households.

Following the implications of theoretical studies and previous results for developed countries, our study explored the heterogeneous responses in labour market outcomes as a result of participation in the AFAM-PE programme. However, no conclusive evidence of a sizeable heterogeneity in the programme's effects contingent on partner employment status was found for either men or women.

This study assesses the impact of AFAM-PE on employment transitions between two periods—i.e. baseline and follow-up—which allows for a better understanding of the programme's effects. The relevant labour outcomes considered at the baseline are the same as those considered after the follow-up survey data. To perform the transition analysis, the effect of AFAM-PE is estimated on both the probability of remaining in any of the three labour market statuses analysed so far (persistence probabilities), and on the probability of entering each of those employment statuses from the two remaining ones (entry probabilities).

Among beneficiary women, no statistically significant effect was found either on the persistence probabilities in non-employment or on entry probabilities into employment. In contrast, we found a statistically significant increase of

between 19 and 27 percentage points in the informal employment persistence rate among women in beneficiary households, and an increase in the entry probability into informal employment from registered employment—although not stable across specifications. On the other hand, beneficiary women, who were formally employed at the baseline, were less likely to remain in registered jobs. Moreover, the estimates show that their rate of entry into formality from unregistered employment was 20 to 27 percentage points lower than for non-beneficiary women. Among men, the programme did not seem to have a significant effect on any of the employment transitions.

### **Results on the economic decision-making of women**

The proportion of income that each member contributes to the household can have a significant impact on how much each partner in the household (and his/her preferences) influences decisions regarding the purchase of goods and services (Agarwal 1997; Duflo 2011). Thus, cash benefits given to women could increase the probability that they will increase their bargaining power in the household's decision-making process, particularly regarding consumption decisions.

To focus on the decision-making process, we used a group of questions in the follow-up survey to analyse the AFAM-PE's effect on who makes decisions regarding the allocation of the household's budget relative to a number of items. Estimates show that AFAM-PE beneficiaries are more likely to be the main decision-maker regarding a number of items. Indeed, estimates reveal that beneficiary women are between 12 and 19 percentage points more likely than non-beneficiaries to have a decisive say on food expenditures. Regarding who decides how any additional money will be spent at the intra-household level, the results suggest that AFAM-PE increases the probability that the woman will be the driving force behind such decisions. Estimates regarding this factor, though, are not robust across specifications.

### **Policy contribution**

The idea that cash transfers discourage people from working was statistically rejected by this study, for couples who are

beneficiaries of the AFAM-PE programme. Strong evidence was found, however, that the programme discourages formal employment among women and that this effect is associated with a decline in the transition from informal (unregistered) labour into formality; this also seems to be correlated with an increase in the outflows from registered employment to informality. In contrast, the programme was found to have no impact on men in eligible two-parent households.

These findings suggest that AFAM-PE reduces the incentives for beneficiary women to actively look for formal employment, which is consistent with the evidence found for other CCT programmes (see, for example, Garganta and Gasparini 2015). However, the results also suggest that the programme should provide incentives to dissuade some formally employed women in eligible households from switching to informal labour.

While eligibility for the AFAM-PE programme does not exclude employees from the formal sector, since it is basically determined by the proxy means test, policymakers should consider adjustments to the programme's design to address possible incentives to transition towards informality; this is possibly caused by a fear of losing the monetary benefit if the total household income based on registered sources (i.e. those which can be verified by the authorities) surpasses the threshold score established by the income test. Thus, possible changes in the programme's design that could help to eliminate this unintended incentive could include relaxing the parameters of the income test or even eliminate it entirely, using the proxy means test exclusively as the targeting mechanism. In the specific case of AFAM-PE, the implementing institutions relaxed its income test requirements in 2014 by considering the total household income on an annual, rather than monthly, basis.

The results in terms of household decision-making processes seem to support the idea that making women the recipients of cash transfers has a positive effect on their bargaining power with regard to the household's consumption decisions. The programme empowers women as decision-makers and tends to improve overall household welfare. Even if the

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Photo: Gonzalo Useta, *Sonrisas marcadas*, 2013, Uruguay <<https://goo.gl/vZoDWs>> <<https://goo.gl/cefU8>>.



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programme does not produce radical changes in the status of women or how they are viewed within their social environment, the fact that women are the ones receiving the transfer does have immediate consequences for decision-making at home.

A topic to be considered for future research is whether greater bargaining power for women in the household decision-making process, as repeatedly defined and measured in these studies, is actually the most appropriate way to measure and analyse the impact of these programmes on the autonomy and agency of women.

In Latin America little is known about the impact of CCT programmes on female agency regarding decision-making processes, because their stated goals do not explicitly include reducing gender inequality; hence, surveys and management information systems do not offer much information pertaining to this area.

Moreover, CCT beneficiary women have a weak link to the labour market, largely due to low human capital levels and the high opportunity cost of entering the labour market due to the difficulties of reconciling work and family life (Rodríguez Enríquez 2011). In this context, CCT programmes play an important role insofar as they improve the material basis that enables choice between different options. Nevertheless, public policies

should consider combining cash transfer programmes with policies geared to enhancing their effects on empowerment. Specific measures would include policies that facilitate access to quality childcare, as well as services for elderly adults and people with disabilities, and those conducive to changes in traditional gender roles.

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1. This research project was developed in the context of the IDRC-sponsored project Social Protection and Beyond: Labor Markets, Entrepreneurship and Gender Equity.
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4. The information on AFAM-PE's coverage corresponds to January 2014 (see Banco de Previsión Social 2014), while the number of children under the age of 18 corresponds to the national projections by the Uruguayan National Institute of Statistics (Instituto Nacional de Estadísticas: <<http://www.ine.gub.uy/>>).
5. This survey was designed by researchers at the Instituto de Economía (IECON) of the UDELAR, in collaboration with MIDES and other researchers at the Institute of Statistics and the Department of Sociology at UDELAR (Amarante and Vigorito 2011). The follow-up survey comes from a stratified random sample of AFAM-PE administrative records, representing households whose poverty score was close to the eligibility threshold. The follow-up survey was conducted in the field between September 2011 and February 2013. From the households that were originally sampled for the follow-up survey, 1409 eligible households (out of 1750) and 889 ineligible (out of 1700) were successfully interviewed.
6. The robustness analysis performed in the study does not provide evidence that rejects the validity of the assumptions underlying the regression discontinuity estimates. In particular, it verified that (i) there are no discontinuities in either (almost all) covariates or outcomes at the baseline, and (ii) the agents cannot manipulate the assignment variable (i.e. the poverty score), at least not in a discontinuous way.
7. The estimated treatment effect of AFAM-PE on labour market outcomes discussed here is estimated on a selected sample of 1097 eligible and ineligible individuals between 18 and 64 years of age living in two-parent households.
8. The labour market outcomes are constructed as indicator variables for each of the three labour statuses of interest for the economically active population in the analysis sample.
9. Only negative effects on registered employment seems to be significant and robust using a different order of polynomial forms for the function that captures the effect of the programme on labour outcomes (not polynomials, first order, cubic and quadratic).