The Impact of Social Interactions on a Household's Aspirations and Investments in Nicaragua

Sector(s): Education, Finance, Health

Fieldwork: Centro de Investigación de Estudios Rurales y Urbanos de Nicaragua (CIERUNIC)

Location: Nicaragua

Sample: 4,000 households from 106 communities in 6 municipalities

Target group: Children Families and households

Outcome of interest: Student learning Nutrition

Intervention type: Social networks

AEA RCT registration number: AEARCTR-0001794

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Partner organization(s): Bank Netherlands Partnership Program (BNPP), BASIS Research Program on Poverty, Inequality and Development, Centro de Investigación de Estudios Rurales y Urbanos de Nicaragua (CIERUNIC), Government of Nicaragua, Ministry of Family, United States Agency for International Development (USAID), World Bank

Theory suggests that low aspirations, which may be caused by poverty, can act as an obstacle to long-term upward mobility. In Nicaragua, researchers examined the impact of interacting with motivated community leaders on aspirations, household investment, and long-term living standards. They found that social interactions with these motivated community leaders increased households' investments in education, nutrition, and income-generating activities, and improved households' attitudes towards the future.

Policy issue

In many low- and middle-income countries, low levels of investment in education, health, and productive economic activities can prevent poor households from escaping poverty. A growing body of evidence shows that conditional cash transfer (CCT) programs can increase households' investments in education and business activities in the short-term. However, there is little research on whether such programs can go beyond the immediate impact of protecting households from income shocks to facilitate long-term improvements in people's standard of living. Theory suggests that low aspirations, which may be caused by poverty, are an obstacle to long-term upward mobility, even when resources such as cash grants are given. Aspirations can be shaped through social interactions with successful peers and members of one's community. Can learning about the positive experiences that others in your community have had with government transfer programs help change aspirations and, in turn, induce greater investments in education and income generating activities?

Context of the evaluation

This study took place in six municipalities in northwest Nicaragua, selected for their extreme level of poverty. In the aftermath of a drought, and in order to provide a short-run safety net for poor families who might otherwise deal with low income by taking children out of school or reducing food consumption, in 2006, the Government of Nicaragua implemented Atención a Crisis. This

CCT program provided families with cash grants conditional upon their children's attendance at school and health check-ups. The program was also intended to promote long-run upward mobility and poverty reduction by increasing households' assets and diversifying their income sources. Because the CCT program targeted the vast majority of households in each community and explicitly encouraged group formation, it provides a unique opportunity to analyze the role of social interactions on household investments.



A family shop in Nicaragua

Photo: Karen Macours

Details of the intervention

Researchers, in collaboration with the Nicaraguan Ministry of Family, tested the effect of Atención a Crisis on household aspirations and investments. The Nicaraguan Government randomly selected 106 villages into program or comparison groups. In treatment villages, all households which qualified based on their poverty level and whose primary female caregiver attended a registration assembly were randomly allocated to one of three treatment groups:

1. *Basic CCT:* All households received bimonthly transfers that totaled US$145 during the year-long program, even if they did not have children. The transfer was in principal conditional on regular preventative health check-ups for children younger than age of 6, however in practice this was not monitored, and households faced no penalties for non-compliance. Households with children between 7 and 15 received an additional US$90 per household, and an extra US$25 per child, as long as he or she was enrolled in and attended school.

2. *CCT and Vocational Training:* In addition to the basic CCT, households in this intervention group received a scholarship that allowed one family member to attend a vocational training course offered in the municipal headquarters to build new skills and diversify income. The scholarship was conditional on regular attendance to the course.
3. *CCT and Productive Investment Grant:* In addition to the basic CCT, households in this group received a US$200 grant for productive investments, which was intended to encourage recipients to start a small non-agricultural business to diversify their income sources. The grant was distributed as a lump sum, conditional upon the development of a business plan.

In addition, a subset of beneficiary women were selected to serve as *promotoras*, or leaders of small community groups, in order to enhance information flows about the objectives and requirements of the program and increase program compliance. While women volunteered to serve as *promotoras*, they were randomly allocated to one of the three treatment arms described above. Approximately 17 percent of eligible households were headed by a *promotora*.

Baseline data was collected in 2005, and a follow-up survey was conducted in 2006. Surveys focused on income levels and sources, as well as social dynamics and information sharing, and women's socio-emotional state and attitudes.

Results and policy lessons

At the time of follow-up, *promotoras* who received the productive investment package were more likely to have higher income from non-agricultural commercial activities and had earned an average of US$16 more per capita from these activities than leaders in other treatment groups. *Promotoras* with the productive investment package were also 20 percentage points more likely to report positive aspirations about the future than those with the basic transfer package.

Impact on education and health: Researchers found that when *promotoras* received the productive investment package, beneficiaries who attended the same registration assembly (and hence lived in proximity of the *promotora*) invested more in education and nutrition. School attendance increases by an additional 6 percentage points and the share of expenditures on nutritious foods increases by an additional 1.4 percentage points when all of the *promotoras* in one's assembly receive the productive investment grant relative to communities where no leaders received the grant.

Promotoras who received the productive investment grants demonstrated effective use of these funds and enabled others in their community to do better. While there were positive effects across all beneficiaries, the effects of social interactions were strongest for beneficiaries who themselves had received the productive investment grant. School attendance rates increased by an additional 9.7 percentage points and expenditures on nutritious foods increased by about 2 percentage points for households that received the productive investment grant and attended an assembly where all *promotoras* received the productive investment grant.

Impact on economic activities: Social interaction with *promotoras* also had an impact on the type of economic activities households pursued. The higher the share of *promotoras* with the productive investment package in one's assembly, the higher the income from non-agricultural activities for beneficiaries with the productive investment grant. Having one additional *promotora* with a productive investment package in one's assembly increases income from non-agricultural activities by about US$3.30 per capita and increases the average value of a household's animal stock by US$12.

Social interactions have the strongest impact on beneficiaries of the productive investment package, which represents the largest transfer amount, while these effects are smaller and often insignificant for beneficiaries who received the other two packages. This suggests that witnessing local success stories of upward mobility can be an important way to shift households' aspirations and investment behavior, particularly when they are provided with the resources to follow those examples.

Macours, Karen, and Reno Vakis. 2014. ‰ÛÏChanging Households' Investment Behaviour through Social Interactions with Local Leaders: Evidence from a Randomised Transfer Programme.‰Û The Economic Journal 124(May): 607-633.