As our country continues to push through a recession and as debates on various economic and social policies rage on, this edition of PolicyMatters looks at a number of topics that often fail to make the news. These policy issues are just as salient, just as important, and we are proud to bring them to the forefront of discussion in our journal.

This issue begins with a commentary on Mexico’s conditional cash transfer program. In the article Jennifer Tucker questions the program’s targeting methods, specifically the targeting of benefits to particular sectors of economically depressed societies.

In our first feature, Adam Dunn and Patrick J. Caceres look at ways to assess the quality of police through improving the accuracy of statistics on complaints of police misconduct.

Next, Nora Casey’s paper looks at implementation of new federal legislation to extend support to older foster youth.

Keeping with the theme of youth policy, Hillary Noll Kalay compares different economic theories on how to best encourage healthier eating in schools.

In our last feature Britni Must and Kathleen Ludewig look at a program on the rise in developing countries that uses cell phone text messaging as an alternative to traditional banking for poor citizens.

Our interview with Dominick Chilcott, Deputy Head of Mission of the British Embassy, looks at US/UK policy relations, specifically in regards to the Middle East and Afghanistan.

I must thank the authors for giving us such a diverse set of interesting topics as well as our wonderful staff whose tireless efforts brought this magazine to print.

I am also grateful to Stanley Ellicott and Christine Todorovich for their excellent work designing this issue’s cover.

Finally, I would like to thank the entire Goldman School community of faculty, staff, students, and alumni for their continued interest in and support of PolicyMatters. In particular, I would like to thank our advisory board: Henry Brady, David Kirp, Larry Rosenthal, and Jack Glaser.

We hope that you enjoy this edition of PolicyMatters Journal.

Sincerely,

James Baird
Editor in Chief
PolicyMatters

is the student journal of
the Goldman School of Public Policy
University of California, Berkeley
COMMENTARY

Are Mexico’s Conditional Cash Transfers Missing the Target?
Jennifer Tucker

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CONVERSATION

An Interview with Dominick Chilcott, Deputy Head of Mission of the British Embassy
James Baird
Conditional Cash Transfers aim to reduce poverty by making benefits conditional on specific behavior changes by recipients, a program design requiring technical targeting techniques to identify qualified recipients. Transplanting Conditional Cash Transfers from their original rural environment to urban areas significantly complicates attempts to “objectively” identify the poor. The author critically analyzes the social and political implications of targeting, focusing on Mexico’s well-known program Oportunidades.
tion: mothers receive transfers, are charged with monitoring compliance with the program conditions, and are often required to log community service hours or participate in activities aimed at their empowerment.[14][15][16] CCTs explicitly assume women are more likely than men to use the transfer in ways that will benefit child and household well-being. Some view CCTs as the road to women’s empowerment, while others argue it is state-sanctioned retrenchment of traditional gender roles that places the burden of poverty reduction squarely on women’s shoulders.[17][18][19] While the effort of women is central to CCT success, their own well-being is sometimes secondary. For example, some programs provide mothers with nutritional supplements only when they are pregnant or breastfeeding.[20] Some argue that women are being used as “conduits of policy” to increase the future labor productivity of children without sufficiently attending to women’s poverty or how program requirements burden women.[21][18]

MEXICO’S OPORTUNIDADES

Mexico’s Oportunidades is an archetypal Conditional Cash Transfer program. Quantitative studies have documented several positive impacts of Oportunidades,[22] including substantially increased nutrition rates among infants, improved health status across age groups, and increased school enrollment.[15] Evaluations have found these gains may be permanent, with measurable benefits persisting after the cash transfers have ceased.[23] Oportunidades began expanding to urban areas in 2001;[24] by 2004 it reached 20 percent of Mexico’s population.[25] The mean cash transfer, $30 per month, represents a significant contribution to household income, about 25 to 30 percent of an average rural household’s monthly expenditures.[26] Recipients are only eligible for a fixed number of years, varying based on when they began receiving benefits.[27]

SORTING OUT THE POOR AND INSTITUTIONALIZING TARGETING IN SOCIAL POLICY

CCTs utilize a variety of complex means-testing schemes intended to accurately and objectively identify households which meet program criteria.[28] A 1990 World Bank report on poverty identified “well-targeted transfers” as central to poverty reduction, illustrating how targeting is promoted as an essential component to poverty management.[29] CCT proponents have identified complex targeting methods as themselves generating positive externalities in the form of increased administrative capacity to run highly technical social programs.[30] While targeting has been used in Mexico since 1988, the proliferation of CCTs has transformed targeting from an anomaly into a “best practice,” with countries like Paraguay, El Salvador, and Ecuador transferring CCT targeting practices to other social programs. CCTs thus act as “key detonators” in institutionalizing technical, expertise-based methodology as an important component of social programs.[30]

But targeting is more than a way to direct benefits to select groups. It also serves as a mechanism by which society articulates which groups are deemed to be deserving of such transfers. For example, targeted CCTs exclude some households who self-identify as poor such that many households facing deprivation do not meet eligibility criteria: “Only in some places and during specific short periods [are self-identified poor households] able to actively claim incorporation.”[20] Targeting is also a strategy to limit the resources directed to social policy programs. Additionally, the current political mood favors limited government intervention, which further informs decisions about the appropriate level of social-sector public spending. Finally, values about which poor populations qualify as most deserving of social-sector programming are deeply integrated into targeting criteria. Because of this active identification of a “deserving poor” and overt limitation of welfare expenditure, the targeting mechanism of CCTs implicitly conveys societal values about who among the poor deserves public support.

THE RATIONALES OF TARGETING

A number of factors influence the decision of governments administering CCT programs to include targeting mechanisms that limit eligibility. Pragmatic concerns about budget constraints drive the spread of targeting to limit spending on social programs. Public perceptions of programmatic legitimacy are fragile in contexts which have been marked by clientelism and systems of patronage, as in many Latin American locales. Thus, transparent and predetermined targeting criteria increase the political feasibility of social protection programs by enhancing “perceptions of effectiveness and fairness.”[31] Assuming a fixed budget, targeting can increase the transfer size to recipients by limiting the number of beneficiaries. Targeting is also a way to avoid creating a minimum guaranteed income by conditioning program eligibility on narrow targeting criteria.

THE LIMITS OF TARGETING

Targeting mechanisms have technical limitations, social consequences and political implications.

Technical Limitations

Targeting excludes households that face deprivation if they do not meet the program’s eligibility requirements, including the transitory poor. Geographical targeting can exclude those who meet other program criteria but who live outside CCT jurisdiction: for example, Progresa, the precursor to Mexico’s Oportunidades, was initially restricted to geographical areas with established health and education services, excluding many remote communities. CCTs also target specific household formations; those outside conventional family
structures, notably homeless children or childless adults, are excluded.[32]

Information problems also challenge sorting the poor from the non-poor. Potential recipients must apply for CCT benefits, and with self-selection comes the temptation to cheat (more technically termed “moral hazard” by economists). Methods that consistently identify the poor based on observable characteristics are associated with another set of problems, including the fallibility of using income as a proxy for poverty and the difficulty of accurately determining income. Inevitably, there are errors of exclusion (type II) in which eligible households are misidentified as failing to meet programmatic criteria. Van Oorshtout calls this the “tragedy of selectivity”—sincere attempts to direct benefits to the truly poor necessarily result in the exclusion of some of the eligible poor.[33] CCT targeting procedures highlight the tradeoff between avoiding errors of exclusion and minimizing the leakage of benefits to the non-poor.

Social Consequences

Invoking Rawls’s assertion that self-respect is “perhaps the most important primary good,” Amartya Sen argues that the stigma associated with programs that pivot on the signifiers of “poor” and “needy” has significant individual-level impacts.[34][35] This can contribute to high rates of non-participation among the eligible.[36] While households commonly underreport the goods used as proxies for poverty in eligibility determinations, researchers have been surprised to also find significant over-reporting, perhaps due to the social stigma associated with signifiers of need.[26]

Another adverse effect at the individual level is what Sen terms “invasive losses” which flow from the “losses of individual privacy and autonomy… involved in the need for extensive disclosures.”[35] Invasive losses vary based on how “fine” the means-testing requirements are. Applied to CCTs, these losses may be considerable, given the extent of conditionality reporting required to maintain eligibility.

Errors of inclusion and exclusion (type I and II errors, respectively) can have negative effects on “community cohesion and solidarity.”[37] Some communities report discontent with the targeting process, especially when targeting criteria are not well understood, perceived as unfair, or even intentionally kept secret from potential program participants to curtail cheating. The lack of adequate mechanisms to appeal inclusion decisions can also lead to dissatisfaction.[37]

Finally, Sen notes that the language of targeting “does not at all suggest that the recipient is an active person, functioning on her own, acting and doing things.”[35] The appropriate role for the agency and participation of the poor in CCTs cannot be thoroughly discussed here, but it is important to consider that time-consuming conditionalities and participation requirements may impede the ability of the poor to exercise agency in other (perhaps more political) realms.

Political Implications

CCT benefits are not an entitlement or a right; targeting and conditionality requirements restrict benefits to households that meet specific criteria. CCTs thus differ from social protection programs which guarantee a minimum level of support for households with incomes below a certain threshold. The implications of this shift are explored in the concluding section. Focusing on poverty reduction as the primary goal of social policy also deflects attention away from income inequality and social equity. In fact, targeting is functionally easier and “better” in situations of extreme inequality; as the income gap lessens, targeting becomes increasingly error-prone.[36]

Targeting also has budgetary effects; policymakers may be pressured to reduce overall spending on social programs if narrowly targeted transfers only benefit a small slice of the population.[38][39] This deleterious budget-shrinking may offset one of the main advantages of targeting, namely, increased transfer size for program recipients. Additionally, targeting is not necessarily pro-poor; some poverty programs employing targeting are actually regressive.[40]

EXPANDING THE DOMAIN: THE RURAL-TO-URBAN TRANSITION IN OPORTUNIDADES

Expanding CCTs designed for rural areas to urban environments is the next frontier of social protection policy. Currently, only Mexico and Brazil include urban areas in their CCTs, but both Colombia and Honduras have planned expansions into urban zones. Mexico’s expansion of Oportunidades to cover 5 million urban dwellers illustrates the challenges of urban incorporation.[41] To date, most rural CCT features—including conditionality requirements and transfer amounts—are not altered when transferring the program to urban areas, although the Inter-American Development Bank (IDB) is evaluating urban targeting strategies.[42]

Many of the human capital benefits attributed to Oportunidades are attenuated in urban areas. Participation rates are lower in urban areas than in rural ones, and dropout rates are higher.[41] The actual rate of participation amongst the urban eligible in Oportunidades is uncertain and disputed; the IDB reports 70 percent[41] while other researchers cite 50 percent[43] and 35 percent participation rates.[44][45] Low participation in urban areas could be due to a lack of information about program benefits, eligibility requirements, and procedures, a lack of attractiveness of the program to the urban poor, or urban-specific barriers that hinder participation amongst the eligible.[46] Enrollment procedures are also more complex in urban areas.[47] One study found that participation dropped to original low levels shortly after a registration drive temporarily increased participation rates, suggesting that a lack of information is not the main problem.[43]

Urban areas are, of course, heterogeneous, but some characteristics tend to distinguish urban from rural areas. Clarify-
ing this difference, without assuming an easy rural-urban dichotomy, is particularly important for policy makers who seek to expand the domain of CCTs.

**Labor markets and human capital investment decisions**

Cost of living is higher in cities than in rural areas, meaning that the real value of CCT benefits is less for urban beneficiaries. In Mexico, the value of the transfer was 25 percent of average household income in rural areas, but only 15 to 20 percent of average urban income.[48] Labor market characteristics and opportunity costs also vary spatially. In urban areas, employment in the informal sector[49] has emerged as an increasingly important strategy among citizens to cushion the impact of economic restructuring and the loss of manufacturing jobs. Marginally better informal and formal employment opportunities for city dwellers mean that the opportunity costs of sending a child to school are higher. Rural CCTs consistently increase school enrollment rates, but near-universal urban enrollment leaves little room for improvement in that particular arena.[8]

**Spatial heterogeneity**

Urban areas are characterized by spatial heterogeneity, with clusters of poverty of varying concentrations spread throughout the urban zone and often confined to peripheral or segregated spaces. An increasing number of the poor in Latin America are living in peri-urban environments at the blurry edges of the urban and rural, where inadequate infrastructure, environmental problems, and unregulated housing development are common.[50] Peri-urban zones typically have lower demographic density, poor sanitation, inadequate infrastructure, and mixed land use.[51] In Latin America, peri-urban areas also tend to be occupied by low-income families,[52] although enclosed, wealthy neighborhoods are also spreading across some peri-urban zones.[53] Transportation to employment and administrative centers can be time-consuming and expensive in many metropolises and peri-urban zones. Spatial heterogeneity complicates standard methods of CCT targeting, which often employ geographical methodologies.

**Vulnerabilities**

Urban communities face a varying set of vulnerabilities, somewhat distinct from those faced by rural populations. The urban poor are often more vulnerable to shocks in food prices.[41][54] Rural and urban populations may also experience economic shocks differently. Rural farmers, where they can meet basic household needs without relying on wage-labor, are less susceptible to decreases in labor demand or fluctuation in wages. An “urban advantage” may mean city dwellers have more access to services and financial infrastructure, although spatial segregation associated with the geographic dispersion of poverty may offset these potential gains.

**Household dynamics and mobility**

Migration dynamics, urbanization rates, and population growth impact urban settlement patterns. Throughout Latin America, new centers of population concentration are rapidly emerging. Migration and intra-city mobility impact household dynamics and complicate program administration. Migration can influence household size as urban families welcome newly-arrived relatives or friends from rural areas. Mobile populations are harder for program administrators to find, incorporate, and monitor—an important dynamic in light of CCTs’ strict conditionality compliance requirements.

**The invisible poor**

Spatial segregation and other factors may render certain eligible households invisible to program administrators. As CCTs expand to large urban centers, the scale of the city itself becomes a challenge, as does the rapidity of urban growth. This is of particular concern given the high information requirements of targeting and conditionality monitoring. Informality complicates targeting in new and peripheral settlements where land tenure claims are irregular, the attendant real estate and tax records are lacking, and unruly streets spring up without official plans or recognized names.[50] The poor often lack identification documents and birth records. Information from education and health personnel determines conditionality compliance, but public-sector employees, already facing constraints imposed by tight budgets, may struggle to collect and maintain high-quality data. Geographical targeting components require spatially-differentiated data, but detailed census data is often missing for new urban zones. Planners often predict urban growth based on demographics, ignoring the impact of policy decisions like road and infrastructure construction, which can lead to holes in social service maps.[50] Factors associated with high poverty in urban areas—poor infrastructure, record-keeping, data administration, and service coverage—complicate the administration of CCTs.

**TARGETED TRANSFERS AND SOCIAL CITIZENSHIP**

Whether CCTs will be able to interrupt the intergenerational transmission of poverty will remain an open question for some time. Another open question is how CCTs intersect with citizenship rights. I argue there is a tension between CCTs—which embody an expertise-based policy response to acute needs among select observable populations—and a rights-based entitlement approach which prioritizes poverty eradication among all as an essential component of social citizenship.

Here I draw on T.H. Marshall’s formulation of social citizenship which includes “the right to a modicum of economic welfare and security, [and] the right to share to the full in the social heritage and live the life of a civilized being according to the standards prevailing in society.”[55] Poverty is more than insufficient income: it is persistent hardship, constant struggle.
to meet basic needs, and the “tyranny of emergency” in which minor income or health shocks can have disastrous consequences.[56] Poverty impedes the full exercise of citizenship rights. While CCTs support the acquisition of minimal levels of human capital among select populations, they also narrow the interpretation of social rights to a “minimum threshold of survival” detached from a broader conception of citizenship entitlements.[19] If we recognize the link between poverty and an individual’s capacity to engage in society as a full citizen, we must imagine more robust and less exclusive social protection programs.

CCTs are part of an important effort to reassert the legitimacy of social spending after the retrenchment trends of structural adjustment. Yet CCT features such as geographic implementation, technical targeting schemes, low value transfers, and time-limited benefits point to poverty reduction conceived of as the management of social risk, not the elimination of poverty. Claiming targeting as a neutral, objective procedure obscures the ways in which targeting is a value-laden process though which society articulates which groups of the poor are considered worthy of public aid. The emphasis on incentivizing behavior changes among the poor deflects attention away from the political and socioeconomic structures which stubbornly reproduce poverty and deprivation. Finally, more attention should be paid to how participation and community service requirements might additionally burden poor women and how conditionalities monitoring impinges on the privacy rights of the poor.

CONCLUSION

As CCTs expand to urban areas, there will be technical challenges due to spatial heterogeneity, mobility, migration, household dynamics, and labor market structures, complicated by informality in urban settlements. Because the urban environment presents additional targeting challenges, it also provides the opportunity to examine the structures of CCTs—particularly targeting schemes and conditionalities requirements—and what they reveal about our shared values of citizenship. The challenge is to build on CCTs’ proven strengths of increasing human capital accumulation and support their optimistic agenda to interrupt the intergenerational transmission of poverty, while simultaneously demanding a more serious investigation into their impact on the exercise of citizenship by the poor.

Jennifer Tucker will graduate with a Master of Public Policy and International and Area Studies degree from Berkeley in 2010, after which she will pursue a Ph.D. in City and Regional Planning to study urban poverty and immigration.

ENDNOTES

[1] While poverty is both multi-dimensional and subjective, this paper relies on standard poverty-line methodology of $2 per day for moderate poverty and the revised $1.25 per day for extreme poverty.


[7] Although there is no precise definition of peri-urban areas, they are generally understood to be located in between consolidated urban regions and rural ones.


[11] Here, efficiency is defined as reaching stated program goals at the lowest possible cost while minimizing the leakage of benefits to the “non-poor.” De la Briere and Rawlings 2006; K. Lindert, “Reducing poverty and inequality in Latin America: The promise of Conditional Cash Transfers” (guest lecture, American University, Washington, DC, 2005).

[12] Nancy Birdsall, President of the Center for Global Development, says, “I think these programs are as close as you can come to a magic bullet in development…” C.W. Dugger, “To help poor be pupils, not wage earners, Brazil pays
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[21] This is especially concerning given research suggesting that women bore the brunt of hardship inflicted by structural adjustment as women struggled to deal with decreasing household incomes and state welfare services.
[22] Oportunidades was originally named Progresa.
[28] Common targeting mechanisms include (1) geographical targeting, (2) consumption or income measures of poverty, either self-reported or observed, (3) proxy measures which employ a composite of characteristics assumed to be correlated with poverty (like a lack of running water), and (4) community decision methods which solicit input from the community to identify the poor.
[40] A World Bank study of 122 poverty reduction programs found that 25 percent of poverty-reduction programs were regressive. This means a random selection of beneficiaries would have better served the poor (Coady et al. 2004).
[41] Inter-American Development Bank (IDB), Extendiéndolas barreras a la acumulación del capital humano en zonas urbanas: Una agenda de ajustes al programa Oportunidades (2008).
[42] The IDB is funding an evaluation of urban targeting strategies and design features to “improve efficiency” (IDB 2008).
[45] Enrollment rates in rural areas were much higher: Adato et al. (2000) report participation rates of 97%.
[46] E.g., overcrowded urban public health clinics, reduced support from familial networks due to migration, the reduced value of the transfer in high-cost cities, or the presence of other subsidies (IADB 2008).
[47] Targeting procedures in urban areas are twice as many and distinct from the rural protocol. First, administrators use census data to limit geographic scope to areas of high concentrations of poverty. Second, household eligibility is based on proxy criteria for poverty. Jeff L. Leroy, Heleen Vermandere, Lynnette M. Neufeld, and Stefano M. Bertozzi, “Improving enrollment and utilization of the Oportunidades program in Mexico could increase its effectiveness,” The Journal of Nutrition 138(2008):638-641; Attanasio et al. 2008. Self-selection is clearer among those participating in urban CCTs than in the rural prototype (Coady and Parker 2005).
[49] The informal sector captures all economic activity occurring outside the realm of government regulation, taxation, or monitoring. It is not included in a country’s Gross National Product.
[53] F. Sabanni, Medicina de la segregación residencial: reflexiones metodológicas desde la ciudad latinoamericana - Barrios cerrados en Santiago de Chile entre la exclusión y la integración residencial (Chile: PUC, 2004).
[54] Urban residents lack access to farmable land, although vulnerability to food shocks is not limited to urban areas, especially as shifts in agriculture production transform many of the rural poor into net food buyers.
INTRODUCTION

Police misconduct negatively impacts the legitimacy of local police departments and creates tension between the public and police. This tension is heightened among racial and ethnic groups that may feel unfairly victimized or targeted by police. Typical manifestations of police misconduct include violations of criminal statutes by sworn officers, corruption, and abuse of authority. The last is perhaps the most visible type of misconduct because it often occurs during interactions with the public in situations such as traffic stops. Examples of abuse of authority include excessive use of force, bias toward certain groups, and improper search.

In general in the United States the vast majority of public-police interactions are positive. In a large national survey administered by the US Department of Justice (USDOJ), nine out of ten citizens who had contact with a police officer in 2005 said that the officer acted properly. Available data suggests that most police officers conduct their day-to-day work without engaging in misconduct.

Yet efforts by both citizens and police departments to respond to police misconduct are hindered by the lack of reliable national data. Limited national data collection on police misconduct makes it difficult to determine the rate of misconduct allegations and incidents at the local level, to compare misconduct rates across communities, or to estimate with any certainty national rates of allegations or incidents of misconduct. Greater emphasis on collection of national data on police misconduct, disaggregated to the local level, can help police departments evaluate and improve their interactions with the public and reduce legal exposure to victims of misconduct.

CURRENT SOURCES OF MISCONDUCT DATA FALL SHORT

The National Police Misconduct Statistics and Reporting Project (NPMSRP), a non-profit organization, gathers the largest collection of police misconduct data for communities across the United States. NPMSRP produces misconduct allegation counts and rates by state and metropolitan area. This local-level data allows users to compare misconduct complaints between communities using a common metric.
the literature on misconduct, NPMSRP was the only organization collecting such data. Unlike most efforts to gather data on police misconduct, which generally rely on citizen surveys or complaint data from police departments, NPMSRP gathers its data on allegations of misconduct through published media reports of police incidents. The organization finds articles on incidents of alleged misconduct using manual keyword searches of news databases on the internet; these articles and reports are tracked via a Twitter news feed that feeds into a centralized database. NPMSRP publishes data abstracts at quarterly, semi-annual, and annual intervals.

NPMSRP reports an average of 0.2 incidents of alleged police misconduct per 10,000 people in the US.[8] NPMSRP did not publish a misconduct rate per 10,000 Oakland residents; however, its 2009 Annual Report lists 24 cases of alleged misconduct in Oakland. These cases were collected over 8.5 months between April and mid-December 2009. A linear extrapolation of this statistic yields 33.9 cases per year. Using 2000 Census data, the corresponding rate would be 1.1 complaints per 10,000 adults in Oakland, five times higher than the national average.[9]

Two other sources of national data fail to provide meaningful information on rates of misconduct at the local level. The USDOJ Bureau of Justice Statistics (BJS) publishes data on public-police contacts based on a nationwide survey of citizens completed every three years. The most recently published data is from 2005.[4] The BJS survey only asks respondents about two types of misconduct: improper use of force and improper search by an officer. The bureau’s narrow focus likely leads to a substantial undercounting of incidents of police misconduct. For example, these two types of incidents account for less than half the complaints received by an Oakland agency responsible for reviewing citizen complaints of misconduct.[10] Another limitation of the BJS data is that it cannot be disaggregated to the community level, making it impossible to draw meaningful comparisons of the complaint rates faced by different police departments. A much richer dataset is needed to quantify the full range of officer misconduct in the community.

Another noteworthy effort to gather national data on police misconduct was conducted by the International Association of Chiefs of Police (IACP), but this data also fell short of what is needed to gain a comprehensive understanding of rates of police misconduct. The IACP database project asked police departments to provide information on the number of complaints of use of force filed against their own officers. Agencies reported data voluntarily and anonymously, but the response rate was quite low. Of the over 18,000 state, county, and local police agencies in the United States, less than 150 reported data into the IACP database.[11] Data reported to the IACP gives an incomplete picture of the use of force, which is itself only one component of police misconduct.

In the analysis below, we develop our own estimates of misconduct complaint rates in Oakland using local agency data. We then compare this data to the best current estimates, the NPMSRP data.

LOCAL AGENCY DATA YIELDS A HIGHER MISCONDUCT RATE

Data and Methods

We obtained primary data from the Oakland Citizens’Police Review Board (OCPRB) for 710 citizen complaints of police misconduct occurring between 2000 and 2008. Each individual making a complaint to OCPRB can report multiple allegations of misconduct. For the purposes of this analysis, all allegations by one individual were treated as a single complaint. Written citizen complaints were received by OCPRB investigators and entered into a Microsoft Access database. The main data elements captured incident type, location, date, and time, as well as the race and ethnicity of the complainant.

To construct the count of police misconduct allegations, we used the average number of misconduct complaints within each City Council district from 2000 to 2008. Taking an average of complaints reduces the impact of an inflated complaint count in a single year. Citizen complaints missing either the race of the complainant or the City Council district in which the incident occurred (51 cases out of 710) were imputed.[12]

We standardized these counts as rates per 10,000 adults in Oakland and by racial and ethnic group. We chose to standardize by adult Census counts, instead of total population, because more than 95 percent of complaints in the OCPRB database were made by adults. We used Oakland City Council districts as the geographic variable because these locations were coded in the OCPRB database and because Census data was readily available for these districts.[13]

Weighting Samples by Racial and Ethnic Groups Corrects for Systematic Underreporting

The OCPRB data reflects only formal citizen reports of police misconduct. Gauging a more accurate rate of misconduct requires an estimate of public underreporting of misconduct. In order to construct such an estimate, we used survey results from the September 2005 City of Oakland Survey on Police Services and the Filing of Complaints (City of Oakland Survey),[14] a survey of one thousand randomly selected residents of Oakland who had contact with an Oakland Police Department (OPD) officer in the five years prior to the

The City of Oakland Survey indicates that the vast majority of negative interactions with OPD are never formally reported.
survey. We used the results to estimate how many complaints we would expect to see if everyone who had experienced a negative interaction with the police filed a formal complaint. It is worth emphasizing that both the City of Oakland Survey and the OCPRB data show allegations of police misconduct rather than verified incidents of misconduct.

Almost one-third (32 percent) of City of Oakland Survey respondents reported a negative interaction with an OPD officer, and the majority of those respondents rated the interaction as “very negative.” Only 11 percent of respondents reporting a negative interaction made a formal report of the event to one of Oakland’s police review agencies (the Internal Affairs Division or OCPRB). In this survey, 59 percent of interactions were initiated by the respondent (for example, through a call for service) while 22 percent were initiated by an officer through a traffic stop or investigation and 19 percent were initiated by a third party. Given that respondents tended to report more positive interactions when they initiated contact, this survey data may be biased towards positive police-public interactions.

The City of Oakland Survey indicates that the vast majority of negative interactions with OPD are never formally reported. Chief reasons cited by respondents for not filing a complaint were lack of knowledge of the formal complaint process or a feeling that the process would take too much time or fail to result in remedial action. Only 16 percent of respondents indicated that they did not file a formal complaint because the “experience was not that bad or serious.”

The City of Oakland Survey shows substantially different formal complaint rates by race and ethnicity. Blacks with negative police interactions were the most likely to file a formal complaint (15 percent). Less likely to file a complaint were whites (10 percent), Asian-Americans (8 percent), and Latinos (4 percent). We used these different rates of formal reporting to weight the reported complaints in the OCPRB dataset to compensate for underreporting of police misconduct by racial and ethnic group. For example, if ten whites in a given geographic area in the OCPRB database filed a formal complaint, then the hypothesized total number of misconduct events would be one hundred (given a 10 percent reporting rate for whites). If ten Latinos filed a formal complaint, however, the hypothesized total number of events would be 250 (to adjust for a hypothesized 4 percent reporting rate). In other words, for every white resident filing a formal complaint, we expect that nine others fail to do so. For every Latino resident filing a formal complaint, however, twenty-four others fail to do so.

We validated these weights using the 2005 BJS Public-Police Contact Survey (PPCS) and found a comparable underreporting rate.[15] Among the one in ten respondents who reported improper behavior by an officer in the PPCS, only 8 percent made a complaint. This rate was found to differ by race and ethnicity: blacks had the highest reporting rate (9 percent), followed by whites (8 percent), Asian-Americans (5 percent), and Latinos (4 percent). While the rate-order of this data was aligned with the City of Oakland Survey, the latter had a higher formal complaint rate among blacks (15 percent). It is possible that the weights used in the City of Oakland Survey are overstating the misconduct complaint rate among blacks. However, applying the weight from the City of Oakland Survey does not change the relative complaint rate position of blacks as compared to other racial and ethnic groups.

Results
In the results below we present the rate of formal complaints to the OCPRB (see Figure 1) and contrast that data with our own estimates of misconduct incidents in Oakland, which we calculate by weighting the OCPRB data to compensate for underreporting of events (see Figures 2 and 3). In all sets of data we show differences in complaint rates based on race and ethnicity. We argue that the weighted estimates in Figures 2 and 3 are a better estimate of the true community rate of police misconduct complaints because they take into account public underreporting of misconduct. We also acknowledge that our estimates represent the rate of alleged, not proven, incidents of police misconduct, so our weighted estimates are likely higher than the rate of actual police misconduct. All three sets of data present substantially higher estimates of police misconduct incidents in Oakland than the largest national data source of police misconduct allegations, the NPMSRP.

Figure 1 shows the overall reported misconduct rate of 2.6 per 10,000 adults in Oakland. NPMSRP had estimated a rate of 1.1 complaints per 10,000 adults in Oakland. NPMSRP, therefore, is underestimating the misconduct complaint rate by a factor of more than two. While NPMSRP does not categorize incidents by
the race or ethnicity of the alleged victim, the OCPRB data shows a substantial disparity in the rate of formal complaints along race and ethnicity. The OCPRB data suggests that NPMSRP is underestimating police misconduct and that rates vary strongly based on race.

NPMSRP used 2009 media reports (and interpolation to “annualize” the estimates), while OCPRB data is averaged over the years 2000 to 2008. The difference in time frame suggests a possibility that this is an unfair comparison. This would only be the case, however, if 2009 data from OCPRB showed a much lower volume of complaints than in previous years. The aggregate number of complaints received in 2009 by OCPRB, however, was 20 percent higher than the average for the previous four years (ninety-six complaints were received in 2009 versus less than eighty received in each of the previous four years). This suggests that NPMSRP is truly undercounting the rate of misconduct by using media stories as a proxy for misconduct events.

**Figure 2** shows our combined estimates of reported and unreported incidents of alleged police misconduct, weighting the OCPRB data using the weights we created based on the City of Oakland Survey. The rate of 23.4 misconduct events per 10,000 adults is almost twenty times greater than the estimate provided by NPMSRP. When taking into account the race of the complainant, we see that black citizens face a community rate of alleged officer misconduct more than twice as high as whites and almost twice as high as non-black minorities. Because black respondents were found to have a higher rate of formal reporting in the City of Oakland Survey, the difference between the true community rate of misconduct against black citizens as compared to other racial groups is reduced somewhat from the reported rate in Figure 1.

The opposite is true, however, of non-black minorities. When underreporting is taken into account, the rate of alleged misconduct faced by non-black minorities is 40 percent higher than among whites, suggesting that the true rate of police misconduct may be higher in non-black minority communities as compared to whites, but that cultural, language, or other barriers may cause the number of formal complaints to be lower.

In order to determine the role of neighborhood income demographics in police misconduct rates, we stratified Oakland City Council districts by average household income. This analysis (see Figure 3) shows that misconduct allegation rates differ greatly between high-income and low-income City Council districts.[16]

**Figure 2: Accounting for Systematic Underreporting of Police Misconduct**

*Figure 2 shows changes in misconduct complaint rates.*

**Figure 3: Misconduct Complaints Differ Greatly by District Household Income and Complainant Race and Ethnicity**

*Figure 3 shows the weighted police misconduct complaint rate per 10,000 adults for different districts.*

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CONSTRUCTING A BETTER ESTIMATE OF POLICE MISCONDUCT

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On average, citizens in low-income districts in Oakland faced alleged police misconduct twice as often as citizens in high-income districts. The largest disparity is between white residents of high- and low-income districts. Whites in low-income districts on average face a rate of alleged police misconduct more than three times as high as whites in high-income districts. Among blacks and non-black minorities, the disparity of incident rates between high- and low-income districts was not as great (a difference of about 1.5 times). Across racial groups, citizens in high-income districts tend to face lower incident rates.

These differences may reflect very different rates of police service calls to these districts. For example, there may be a higher rate of service calls to low-income districts, a larger number of police-public interactions in these districts, and a correspondingly larger sample of interactions from which officer misconduct may occur. The data may also reflect a disparity in quality of service between high- and low-income districts: if low-income districts receive a poorer quality of police service, this may be reflected in the higher rate of complaints of misconduct in these districts.

Overall, the agency data on police misconduct in Oakland show that community reports of misconduct are much higher than that reported by NPMSRP. When formal complaints are weighted to account for underreporting, the estimated rate of incidents alleged to represent misconduct is twenty times higher than that reported by NPMSRP. Because NPMSRP is the only organization collecting nationwide data on misconduct that allows comparisons between different localities, its shortcomings show that better collection methods are needed to accurately measure police misconduct.

**DISCUSSION & POLICY RECOMMENDATIONS**

Cities have a vested interest in heading off police misconduct in order to prevent costly court settlements with victims of officer misconduct.[17] In addition, local elected officials have strong political incentives to avoid both the negative media attention that police misconduct creates and the feelings of mistrust among groups that feel targeted by misconduct. Improving data collection on misconduct is an important step cities can take to reduce rates of misconduct and improve relations between the police and the community. Higher-quality data collection would allow cities to factor rates of police misconduct into performance evaluations of their police departments as a measure of the quality of public safety services provided.

Most police departments do not publish data on misconduct, and estimating it using agency complainant data (as in this analysis) is only a preliminary step towards devising valid, unbiased estimates of community occurrence of misconduct. We make the following policy recommendations to strengthen data collection on local police misconduct. These recommendations will allow agencies to target problem areas, identify problem officers, track progress over time, and reward improvement.

**Recommendation 1: Police Departments Should Collect and Publish Data on Misconduct**

The first step a community can take to evaluate police misconduct is to collect data on the local rate of occurrence. A simple strategy to estimate the local rate of police misconduct is to survey residents who have had interactions with police officers in their jurisdiction. Police departments maintain contact information for citizens who have had an interaction with officers through service calls, traffic stops, or interviews. A survey sample could be drawn from this database with surveys sent to citizens to measure rates of negative interactions and formal reporting of complaints. Repeat surveys would allow a department to track changes over time. The City of Oakland Survey is an example of this type of survey data collection.

In lieu of a survey strategy, data from formal complaints filed with city agencies, review boards, or police divisions responsible for investigating misconduct can be used to build estimates of local rates of misconduct, as in our analysis. This strategy should be used with caution, however, as the volume of formal complaints can fluctuate from year to year independently of the true rate of misconduct.

**Recommendation 2: Local Rates of Police Misconduct Should Steer Corrective Action**

Data collected on local police misconduct is valuable only in as much as it is used by decision-makers to steer corrective action. Much of the literature on police misconduct focuses on factors that should be used to screen potential police officers (education, personality, history of criminal activity, or employment disciplinary action).[18] or on organizational environments that discourage misconduct.[19] Equally as important is using a community metric of police misconduct to steer agency corrective action. In short, collecting misconduct data should push the agency to take control of misconduct. A focus on outcomes, as opposed to inputs or organizational factors, addresses what is most important to the public: how police misconduct impacts the community. Focusing on outcomes also follows from recent innovations in policing—such as CompStat—which create goal-oriented organizational environments focused on outcomes in the community.[20]

In cities that use the CompStat model, crime statistics are evaluated frequently in a forum which places pressure on police commanders to reduce crime rates. CompStat is instructive because it shows how disaggregating crime statistics to police “beats” in a city puts pressure on beat commanders to improve policing. The CompStat model holds police commanders accountable for crime rates in their service area. Beat commanders who have improving crime indices can take pride in
CONSTRUCTING A BETTER ESTIMATE OF POLICE MISCONDUCT

their work, while those that have worsening indices must answer to command staff.[21]

Police misconduct data could be evaluated in a system very similar to CompStat: the departments would collect data on police misconduct complaints and tag those complaints with officer serial number and incident location. Districts in which incidence of misconduct is large relative to the number of service calls could be flagged and discussed by executive staff. The threat of managerial rebuke might prompt commanders to be creative and diligent in curtailing officer misconduct. The CompStat model, while not the only way that misconduct data could be acted upon in a police department, is perhaps the way to make the response to the data the most immediate.

Another example of using police misconduct data to control incidents of misconduct is Oakland’s Internal Personnel Assessment System (iPAS). iPAS tracks all complaints of misconduct against an officer over a period of thirty months. If an officer receives three or more complaints in this time period, the officer is flagged for corrective action. This system also monitors outliers, or officers that receive a large share of complaints compared to fellow officers. A system like iPAS allows the city to find and take corrective action with problem officers.

CONCLUSION

Police departments must recognize that incidents of officer misconduct erode the trust between the police and the public that they serve. Though most public-police interactions are positive, data on the extent of misconduct is limited, making it difficult to estimate local rates of misconduct. This analysis creates an estimate of complaints of police misconduct in Oakland in order to compare against nationally collected data. In so doing, we have attempted to point out the shortfalls in data collection by other organizations. Within Oakland we found that the rate of misconduct published by one organization, NPMSRP, may be undercounting the true rate of complaints by between two and twenty times. Greater emphasis on collection of data on local police misconduct can help police departments evaluate and improve their interactions with the public.

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ENDNOTES


[5] For the purposes of this analysis, police misconduct complaints are limited largely to on-duty misconduct which has elicited a citizen complaint. A broader definition would include police corruption and violation of criminal statutes. Because of available data, this broader definition is excluded.

[6] In the Oakland Citizens’ Police Review Board Database (years 2000 to 2008), only 30 percent of misconduct complaints moved to an evidentiary hearing where evidence of misconduct was reviewed based on the preponderance standard. The overall misconduct sustained rate was 11 percent of cases presented at hearing; however, this is only about 3 percent of all complaints received by OCPRB. Therefore, using sustained cases of misconduct as a proxy for actual police misconduct would likely underestimate misconduct while using complaints would likely overestimate it.


[8] NPMSRP, 2009 Semi-Annual Report, http://www.injusticeeverywhere.com/?page_id=1076. This report includes rates of misconduct per 100,000 persons. In this paper, the rate was standardized to 10,000 persons for sake of comparison. Their more recent 2009 Annual Report uses a less useful metric of incidents per 100,000 police officers. The rest of this analysis will focus on rates based on population size affected, not on the number of officers in the jurisdiction.

[9] Census counts for adults are used here and throughout the rest of this paper; analysis of Oakland misconduct reports found that almost all reports were made by complainants eighteen and older.


[12] Missing data were imputed by using the known proportion of complaints in each city council district by race. Imputation was done to avoid creating a negative bias in the rate estimates of misconduct. For example, a white complainant
with a missing city council district code was assigned in share to multiple districts based on the known proportion of white complainants in each district (one complainant record was therefore split between districts). This was done similarly for missing complainant race. A complainant in District 1 with missing race code was assigned in share to multiple races in that district based on the racial makeup of the complainants in the district. Records missing both race and city council district were assigned purely on the proportion of complainants by race in each district.

[13] We obtained 2000 US Census data for Oakland City Council districts by race and ethnicity from the Institute of Governmental Studies (IGS) at the University of California, Berkeley. We used this data to standardize the counts of misconduct into rates per 10,000 adults.


[16] High-income districts are defined as having average household income greater than 90 percent of the average for the city as a whole. City average household income is about $57,000. Low income districts have average household income less than 90 percent of the citywide average. The percent of city average household income for the three poor districts is 69.0, 74.9 and 89.6 respectively. For the four wealthy districts it is 95.5, 98.2, 125.9 and 146.9.

[17] For example, Oakland paid over $2.5 million to settle an infamous misconduct case (the “Riders” case) plus an additional estimated $2 million per year over five years to implement the settlement agreement. Oakland City Attorney, “Riders’ case: Monetary settlement and cost to City of Oakland,” http://www.oaklandcity attorney.org/PDFS/Riders/Riders%20SS%20factsheet.pdf.


Youth aging out of foster care face unique challenges in their transition to adulthood. Research has shown consistently poor outcomes for foster youth despite previous attempts to improve outcomes through legislation. The 2008 Fostering Connections to Success and Increasing Adoptions Act offers new support for older foster youth by giving states the option to extend care until age twenty-one. Whether this legislation will improve outcomes for foster youth is unclear due to uncertainty of extended-care benefits and the range of implementation decisions to be made by states. The author recommends that states take full advantage of the care extension offered by the Act, experiment with new services for foster youth, and identify best practices.

INTRODUCTION

The transition to adulthood is challenging for any teenager, even if he or she has a loving and supportive family. For the twenty-six thousand young adults who “age out” of foster care every year, the challenges are far more complex.[1] Without a safety net, these young adults are at much higher risk for negative outcomes including low educational attainment, incarceration, homelessness, substance abuse, early pregnancy, unemployment, and poverty.[2]

New federal legislation, the 2008 Fostering Connections to Success and Increasing Adoptions Act (Fostering Connections Act), has given states the option to extend foster care for certain youth until age twenty-one.[3] As this legislation is implemented, many questions remain about its ability to improve outcomes for foster care youth:

• Will three extra years in foster care produce better outcomes for youth?

• Is improvement in outcomes a result of providing room and board, the teaching of independent living skills, or developing a connection with a supportive adult?

• Will states implement the extension, and will youth take advantage of it?

In this paper, I highlight the questions facing state lawmakers as they determine how to implement this new legislation. After presenting a brief history of foster care legislation as it relates to older youth, I will focus on the anticipated impact of the Fostering Connections Act by looking at arguments for and against extending foster care beyond age eighteen. I will also review the effectiveness of programs to promote better outcomes after youth leave the foster care setting. The paper will conclude with recommended steps to be taken by states to maximize the potential gains from this legislation.

HISTORY OF FEDERAL FOSTER CARE LEGISLATION

Prior to the passage of the Fostering Connections Act, there were two major pieces of legislation intended to provide youth aging out of foster care with the tools to live independently: the Independent Living Initiative and the John H. Chafee Foster Care Independence Program. The Independent Living Initiative was created in 1986 as part of Title IV-E of the Social Security Act. Title IV-E, the largest source of federal funding for child welfare programs, reimburses states for most of the cost of providing foster care to eligible youth.[4] A child is Title IV-E eligible if he or she was removed from a low-income family prior to being placed in foster care.[5]

The Independent Living Initiative provided additional Title IV-E funding to states to assist foster youth aged sixteen and older in their transition to living independently. This was accomplished through the state provision of Independent Living (IL) services that focus on aiding foster youth pursuing education and employment and maintaining a household.[6] IL services can range from one-on-one mentoring to job skills classes, and states have discretion in determining which services to provide to meet legislative goals. Initially federal fund-
ing only supported these services for Title IV-E eligible youth, but in 1988 the legislation was expanded to include all youth sixteen or older and still in care.[7]

The John H. Chafee Foster Care Independence Program (1999) replaced the Independent Living Initiative and further expanded IL services to foster youth younger than sixteen and all youth who had aged out of care but were not yet twenty-one.[8] In addition to the expansion of IL services, this program provided $5,000 worth of education and training vouchers for each Title IV-E eligible foster youth per year and allowed states to use a portion of funding to provide room and board for eighteen- to twenty-one-year-olds.[9] The overall funding available for IL services doubled from $70 million to $140 million under this program.[9]

THE FOSTERING CONNECTIONS ACT: NEW SUPPORT FOR OLDER FOSTER YOUTH

The Fostering Connections Act, a watershed reform in child welfare policy, further expands federal provision of IL services for foster youth.[10] Two key reforms of the Act specifically address foster youth transitioning to adulthood. The first is an extension of federal funding for foster care maintenance, adoption assistance, and guardianship assistance for some foster youth until age twenty-one. This funding applies to Title IV-E eligible youth who reached age eighteen while still in care (or reached age sixteen before being adopted or exited to guardianship) and are in school, employed, or have a medical condition prohibiting them from engaging in school or work.[3] The second key reform extends education, training, and other IL services available through the Foster Care Independence Program to youth who exit foster care to adoption or guardianship before age sixteen (youth who age out directly from foster care were already eligible for these services).[3]

The general response to this new legislation among youth advocates is cautiously optimistic. Youth advocates generally support the Act as a response to research demonstrating consistently negative outcomes for this population.[2] They also applaud the potential gains for youth who remain in care beyond age eighteen.[5] The impact of this legislation, however, depends mainly on the outcome of the complicated set of choices states face in implementing the Act. These choices include: (1) which of the eligible groups (guardianship, adoption, and foster care) to extend care for Title IV-E youth to; (2) whether to use state funds to extend care to non-TTle IV-E eligible youth; (3) whether to set the extension limit to age nineteen, twenty, or twenty-one; (4) whether to impose state eligibility restrictions in addition to federal requirements; and (5) whether to allow youth under age twenty-one to return to care once they have left.[3]

States have been given great flexibility in implementing these various dimensions of the Act. Therefore, reform is likely to look very different on a state-by-state basis.

STATE IMPLEMENTATION: ARGUMENTS FOR AND AGAINST EXTENDING CARE TO TWENTY-ONE

The provision that allows states to extend care up to age twenty-one does not go into effect until October 2010. As states begin to grapple with these decisions, it is important to identify the research in support of and in opposition to care extension.

One argument in favor of extending care to age twenty-one is the direct benefit to youth. A University of Chicago longitudinal study surveyed 603 former foster youth from Wisconsin, Iowa, and Illinois at ages seventeen, nineteen, and twenty-one.[2] Comparing the outcomes of Iowa and Wisconsin youth, who in those states typically leave care at age eighteen, with Illinois youth, who routinely stay until age twenty-one, the study found that youth who remain in care beyond age eighteen are more likely to pursue higher education, earn more, and delay pregnancy.[11] A cost-benefit analysis of this data estimated that every dollar spent on extending foster care to age twenty-one returns two dollars in societal benefits. The benefits from decreased use of public assistance and higher wage earnings more than offset the cost to government of an extra three years in care.[5] This cost-benefit analysis has some substantial limitations; the study directly compared groups of foster youth from different states, made assumptions on their future educational trajectories, and used data from the general population to estimate future increases in earnings.[5]

The question on whether to extend foster care services reflects a larger debate about the changing social conception of when independent adulthood begins.[12] Researcher Jeffrey Arnett coined the term “emerging adulthood” to describe the new life phase experienced by eighteen- to twenty-five-year-olds as they explore their options for employment, marriage, and personal identity, while receiving emotional and material support from their parents.[13] Yet current child welfare policy expects former foster youth to emerge as capable and self-sufficient adults at age eighteen. A counterargument to the theory of emerging adulthood is that extending care to age twenty-one may only delay the period of adjustment to the real world for these young people and prolong the “learned helplessness” they have acquired during years in foster care.[14] Some analysts worry that this might make these youth more dependent on social welfare programs in the future.

The question of whether to restrict extended funding to Title IV-E eligible youth presents additional challenges. The Act explicitly restricts extended funding to Title IV-E eligible youth, but states that disagree with that policy may decline to implement the legislation. Some argue that maintaining the link to Title IV-E eligibility sends the message that “the federal government only has a financial stake in the care of foster children from poor families.”[10] Foster youth face many of the same challenges when they age out regardless of the income level of their pre-foster-care household. By maintaining Title IV-E eligibility guidelines, only about half of children who
enter foster care will be eligible for this funding.[5] States can, however, make up for this gap by extending care to ineligible youth using state funds.

INDEPENDENT LIVING PROGRAMS: HOW TO PREPARE OLDER YOUTH FOR ADULTHOOD

Beyond the question of whether to extend care to age twenty-one, states must also decide which services will best prepare foster youth to live on their own once they age out of care. Although IL services have been provided to older foster youth since the mid-1980s, very few comprehensive evaluations of their success have been conducted. Barriers to evaluating IL programs include a lack of standardized data collection and reporting, difficulty in following up with youth after they have left care, and a lack of prioritization of program review by the Department of Health and Human Services (HHS).[15,16,17]

The studies that have been conducted are mostly small-scale and their findings have been mixed.[15,16,17] In 2001, HHS funded the first experimental evaluation of IL programs (a 10-week life skills course and a tutoring/mentoring program) and found no impact on the outcomes measured.[18,19] Researchers have proposed several possible explanations for their lack of success. One explanation is that life skills cannot be successfully taught in a classroom. Instead, they argue, these skills are best taught by adult mentors and role models. The best chance of success is achieved when youth are provided with an opportunity to practice these skills in an environment without fear of failure.[20]

A second reason offered by researchers for IL programs’ lack of success is that foster youth may be more likely to avoid depending on others in interpersonal relationships. Research clearly identifies the critical role of healthy relationships in youth development, yet foster youth who have been placed in many different foster homes become accustomed to relying only on themselves and may come to view dependence on others as a personal weakness or indication of failure.[21] In order to overcome this adaptation, some researchers are calling for a shift from teaching independent to teaching interdependent living skills. A focus on interdependent skills places an emphasis on teaching foster youth not only how to take care of themselves but also how to interact with others, ask for assistance when needed, and accept assistance when offered.[14]

Some researchers suggest that IL programs as stand-alone solutions fail for a variety of other reasons. For example, these programs do not solve the problem of finding stable housing for foster youth. Learning to find and maintain stable housing is crucially important for older foster youth and allows them to be successful in other aspects of life.[22] Practitioners also recognize that the experiences of these youth vary greatly; therefore, the same programs cannot be expected to be successful with all youth but must be adapted to each individual.[23]

CONCLUSION AND RECOMMENDATIONS

The Fostering Connections Act, by expanding federal support to foster care youth in transition, represents a significant step in the right direction. It is clear that current policies are not providing adequate support to foster youth amid growing evidence of the benefits of extending care to age twenty-one.[5] This legislation provides a critical opportunity for a large-scale evaluation of the benefits of extending foster care services beyond age eighteen. What next steps can states take to take full advantage of this opportunity?

• Implement the extension for all eligible youth. Without the participation of the majority of states, we will lose the chance to learn lessons that can be replicated nationwide.

• Provide caseworkers with training in communicating the options and potential benefits to foster youth of choosing to remain in care. Youth need to be encouraged to take advantage of the care extension where it is available and appropriate for them.

• Re-examine existing IL programs and experiment with new practices. If we continue blindly with traditional IL programs, this legislation will only serve to extend failed approaches from the past.

• Track all IL services and participant information through the National Youth in Transition Database. This database, which goes into effect in October 2010, will allow for comparison of IL programs across states.[24]

When a state makes the decision to remove a child from his or her home, it assumes responsibility for providing a better life for that child. As the custodial “parent” for 26,000 youth approaching adulthood, the government has a responsibility for their future.[25] Many of these youth do succeed as adults, but there is great potential to improve outcomes. We have an obligation to continuously try new approaches, carefully measure results, and improve the services available to youth aging out of foster care.

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NEW SUPPORT FOR OLDER YOUTH: 
STATE OPTIONS FOR IMPLEMENTING THE FOSTERING CONNECTIONS ACT OF 2008

ENDNOTES


Childhood obesity, which raises the risk for conditions such as heart disease, has become increasingly prevalent in the United States. The foods children eat in schools can play a vital role in their nutrition and weight. However, foods and beverages sold outside of the National School Lunch Program are largely unregulated at the federal or state level, leaving it up to schools to create their own policies. This paper examines how traditional economic and behavioral economic principles can be used by schools to improve the food and beverage consumption choices of children.

Today’s children and adolescents have a higher likelihood of developing life-threatening diseases, such as Type 2 diabetes, heart disease, and blood pressure, than any generation of children before them.\(^1\) Obesity increases risk for such diseases, and obesity rates have drastically risen in the United States. The prevalence of obesity among twelve-to-nineteen-year-olds more than tripled between 1980 and 2006, from 5 percent to 17.6 percent.\(^2\) The food eaten in schools, while not the only factor determining rates of childhood obesity, can play an important role in promoting or hindering positive health outcomes, as children consume at least one and often two meals per day in schools and spend about half of their waking hours on school campuses.\(^3\) In order to combat the youth obesity epidemic, public health officials, school administrators, and even First Lady Michelle Obama are examining the foods offered in American schools and asking how we can improve the diets of children in those schools.

School breakfasts and lunches provided through the federal government’s National Breakfast and School Lunch Programs must meet certain nutritional guidelines, but other foods and beverages sold on school campuses are only minimally regulated at the federal level. The term “competitive foods” is used to describe any foods sold in competition with federally reimbursable school meal programs, such as items sold a la carte in cafeterias and in vending machines.\(^4\) Many states have enacted regulations restricting the types of competitive foods available to students, but schools and school districts remain responsible for implementing these regulations and may choose to enforce stricter policies than those promulgated by states.

Some states and school districts have adopted what behavioral economists call “paternalistic policies,” wholly removing calorie-dense and nutrient-poor items from students’ reach while on campus. Paternalistic policies include those that limit choices in situations where, in the absence of the policy, individuals may not behave in their own best interests.\(^5\) Other states and school districts have opted for more indirect policies, such as lowering the prices of healthy items in relation to less healthy ones, or by making it more difficult for students to purchase unhealthy foods on campus.

After providing an overview of the role competitive foods play in child nutrition and the types of competitive foods available to students, this article describes how students make food purchasing decisions. This article then discusses how schools and school districts have responded to the obesity epidemic by enacting policies that apply either traditional economic or behavioral economic theories to altering student food choice. This article argues that to improve student nutrition, schools and districts must apply both economic and behavioral economic theory. Whereas traditional economics assumes that individuals have stable preferences and act to maximize those preferences, behavioral economics recognizes that preferences are unstable and often misperceived by individuals. In other words, people do not always act with their own best interests in mind.\(^6\) Finally, this article presents recommendations on improving student nutrition.

THE CURRENT LANDSCAPE OF FOOD REGULATION IN SCHOOLS

The regulation of food sold in United States schools can be divided into two categories: the regulation of meals sold through the National School Lunch Program (NSLP) and School Breakfast Program, and regulation of all other foods and beverages sold on campus.

NSLP, a federally-assisted meal program operating in public schools, provides free or low-cost lunches to children across the country. School districts participating in NSLP receive cash subsidies and donated commodities from the US Department
31.6% of U.S. Children Were Overweight or Obese in 2007
Statewide Percentages Ranged from 23.1% in Minnesota and Utah
to 44.5% in Mississippi

Note: Data are for children ages 10 to 17.

of Agriculture (USDA) for each meal they serve. In return, 
schools must serve lunches that meet federal requirements. 
School lunches must not contain more than 10 percent of 
calories from saturated fat or 30 percent of calories from total 
fat, and must provide one-third of the federal Recommended 
Dietary Allowances of protein, certain vitamins, and calories. 
Schools are free to determine the preparation of foods, as well 
as the specific types of foods served. The School Breakfast 
Program operates in the same manner as NSLP and has similar 
nutritional requirements.

Federal law imposes only one requirement on competitive 
foods: “foods of minimal nutritional value” cannot be sold 
in food service areas during lunch periods.[7] “Foods of 
minimal nutritional value” are narrowly defined, and include only 
soda, water ices that do not include fruit or fruit juice, chewing gum, hard candy, jellied candy such as gum drops, marshmallow candies, fondant, licorice, spun candy, and candy-coated popcorn.[8]

Other than this restriction, federal law leaves it up to states 
and school districts to regulate competitive foods and 
beverages in schools. Twenty-sevent states have such laws,[9] but states vary in the extent to which junk foods and beverages are made available to students. Some states completely eliminate calorie-dense, nutrient-poor foods, while others minimize access to such items.

For example, until the close of the last instructional period, Kentucky restricted all beverages sold through vending machines, school stores, and canteens, or sold as a la carte items, to low- and non-fat milk, 100-percent fruit and vegetable juices, and beverages containing no more than ten grams of sugar per serving.[10] In contrast, high schools in Florida may sell carbonated beverages at all times, so long as 100-percent fruit juices are sold in the same location, and so long as carbonated beverages are not sold where breakfast or lunch is being served or consumed.[11]

Some school districts enact even more stringent policies than those required by state law: Although Virginia law does not require it, Fairfax County Public Schools disallow any item from being sold in competition with the school food service program during the school day.[12]

Competitive foods offered and consumed in US middle 
schools and high schools, when left unregulated by the state 
or school district, consist of mostly high-calorie and low-nutrient foods and beverages.[13] Using data from the third School Nutrition Dietary Assessment Study (SNDA-III), a cross-sectional 2004-2005 study that included a national sample of public schools, researchers found that approximately 40 percent of children nationwide consume one competitive food item or more per school day. In another study of a nationwide sample of schools, researchers found that 34 percent of schools offered potato chips, but only 6 percent of those schools offered potato chips that were low in fat. Similarly, 23 percent of high schools offered cake-type baked goods, but only 9 percent of those schools offered low-fat cakes.[14]

Independent research shows that the availability of competitive foods affects children’s health. Consumption of calorie-dense and nutrient-poor competitive food items at school has been shown to lead to weight gain.[15] Recent research found that the availability of low-nutrient calorie-dense foods in vending machines in or near food service areas was associated with a higher body mass index (BMI) score among middle-school children.[16] Other researchers have confirmed that school policies relating to the availability of competitive foods have a direct correlation to student BMI.[17]
THE ECONOMICS OF MAKING FOOD PURCHASING DECISIONS

In order to improve child and adolescent nutrition in schools, policymakers must know what students actually eat in schools and understand how students, like other consumers, make food-purchasing decisions. As the above studies and other research demonstrate, children are eating poorly in US schools, and the availability of unhealthy items within schools plays a role in children’s food-purchasing decisions. What explains food purchase and consumption decisions, and what can schools do to change such behavior? Both economics and behavioral economics explain student decision-making.

Traditional Economics

Economics assumes that individuals make rational choices, or choices that reflect their best interests. It assumes that individuals, given a set of stable and coherent preferences, make decisions that maximize their utility. As such, traditional economics instructs that the prices of different foods and imperfect information about the effects of eating a nutrient-poor diet likely contribute to a child’s consumption decisions. Indeed, healthy snacks, such as granola bars, nuts and water tend to be more expensive than candy bars and soda. Moreover, students may not necessarily be aware of the nutrients they need in order to be healthy.

Some schools have attempted to change the competitive food-purchasing habits of students using traditional economic tools, such as by altering prices or educating students on the health impacts of their choices. Both strategies are useful in changing student behavior. For example, several schools across the country have instituted competitive pricing of unhealthy foods by either lowering the price of healthy items, increasing the price of junk foods, or both.[18] However, pricing is only one factor considered by consumers in making decisions, as convenience and taste also contribute to a person’s consumption decisions.[19]

Schools and school districts also focus on educating students about the foods sold on campus. Several schools incorporate nutritional education into the school curriculum, and others post nutritional information for foods sold in the cafeteria.[20] Educational programs and nutritional information inform children about the foods they eat but may not necessarily prevent irrational purchases of competitive foods. Children understand that some foods are healthier, but like other consumers, they do not necessarily understand their own purchasing and consumption behavior.

Behavioral Economics

Behavioral economics recognizes that people act irrationally: individuals often do not have stable and consistent preferences, and actions are not always undertaken to maximize one outcome. For example, people tend to value losses more than gains, and individuals can exhibit loss of self-control and engage in altruism or even revenge. None of these emotions or motivations are strictly rational, but they can all alter our preferences and change the decisions we make.

Behavioral economists would agree with classical economists that price and information both contribute to a person’s food purchasing and consumption decisions. However, they would argue that other factors also play a significant role in choosing foods. To further analyze how individuals make food decisions, researchers conducted a study incorporating findings from behavioral economics, food marketing, and psychology. They found that people have problems with self-control when choosing food, either because they prefer immediate gratification or because they are under the influence of a visceral factor, such as feeling hungry. Method of payment also significantly affects purchasing decisions.[21] Consumption choices are further affected by the moral codes surrounding the consumer. In other words, peer pressure and the desire to conform to others’ behavior play a role in purchasing and consumption decisions.

In making purchasing decisions, individuals tend to place extra value on immediate rewards than on long-term rewards.[22] Moreover, people underestimate the degree to which their future behavior will not match their current preferences.[23] For example, children may consume potato chips over apples because they are easier to eat while playing sports or in between classes. Chips sold in a vending machine outside of a classroom may also be more accessible to students than apples, which may only be sold in the cafeteria. The students may wish to consume apples instead of chips in the long term, but every day they choose the chips over the apple.

Individuals also tend to exhibit a “flat-rate bias,” where they undervalue fixed costs relative to variable costs.[24] For example, individuals tend to pay for health club membership on a monthly or annual basis, rather than on a per-use basis, even though many individuals would likely spend less money if they paid a fee every time they used the gym.[25] This flat-rate bias leads people to choose items with greater frequency if they prepay for the item than if they purchase the item with cash.

Finally, people seek social validation by trying to fit in and tend to be influenced by individuals they like.[26] In a study of fourth through sixth graders, researchers found that students cited peer influence as a reason for not eating fruits, juices, vegetables, and other low-fat foods. In focus groups, the children noted that they would receive negative comments from friends when eating vegetables and low-fat foods.[27]

In sum, behavioral economics informs us that students, like other consumers, often make food decisions that do not reflect the healthy choices that would be taken by rational economic actors, but instead incorporate details such as convenience, payment method, and peer pressure.
USING BEHAVIORAL ECONOMICS IN COMPETITIVE FOOD POLICIES

Given the many factors that influence consumers’ food decisions, schools and districts should utilize these findings in constructing their own competitive food policies. As described below, several schools currently use behavioral economics to alter food purchases of students, and such policies can improve student nutrition.

Policies Should Exploit Present-Biased Preferences

To offset present-biased preferences, policymakers and schools offer several solutions. Researchers recommend that schools exploit this bias by serving healthy foods in convenient containers, such as apple slices in a disposable container, allowing healthy items to be obtained and consumed quickly and easily. Schools can also place less healthy items in locations more difficult for students to access and place healthier items in more prominent locations.[28] For example, healthy items in vending machines can be placed at eye level, and vending machines with unhealthy items can be moved to less prominent locations in the school. Schools can also offset present-biased preferences by offering students more immediate rewards for making healthier decisions.

In Iowa and Illinois, seventeen middle and high schools implemented two of these recommendations. They installed dairy vending machines in their campuses, moving milk from a la carte lines to vending machines. Products were promoted by placing a sticker on the bottom of select milk bottles. When a student chose a bottle with a sticker, he or she received a prize. In addition, machines were set up to dispense a free milk or dairy product at every twenty-fifth sale. As a result of making milk more accessible by placing it in vending machines and offering rewards to students, total milk sales increased 5.1 percent by volume.[29]

Another experiment provided raffle tickets to students who purchased healthy snacks and beverages or who brought in snack items from home that met specific nutritional standards. Raffle winners received prizes such as bicycles, indoor basketball hoops, jump ropes, and calculators. The intervention also included providing nutrition education to students, altering the foods sold in schools so that they met specified nutritional standards, and engaging in family outreach. The experiment found that significantly fewer children in the intervention schools than in the control schools became overweight after two years.[30]

In sum, behavioral economics informs us that students, like other consumers, make food decisions that often do not reflect the healthy choices that would be taken by rational economic actors, but instead incorporate details such as convenience, payment method, and peer pressure.

By providing students with more immediate gratification for eating healthy foods, making such foods more accessible, and offering incentives, schools can improve student food purchasing choices.

Use Flat-Rate Biases to Encourage Consumption of Healthy Items

To account for the fact that consumers undervalue fixed costs relative to variable costs, and to help students make healthier food choices, schools could allow students to purchase healthy items with a prepaid card and require that less healthy items be paid for with cash.[31] Indeed, some schools already use debit cards to purchase foods.[32] In many schools utilizing prepaid cards, parents can limit the use of these cards to the purchase of NSLP meals, prohibiting children from using prepaid cards to purchase a la carte items. In these schools, students still have the option to pay for competitive foods in cash.[33]

In an experiment on college students, researchers found that students using an unrestricted food debit card were significantly more likely to purchase unhealthy food items than students who had a restricted card and supplemental cash for unhealthy items disallowed by the card. Those with restricted cards were also significantly more likely to purchase healthier food items than those with unrestricted cards.[34] Altering the means by which students pay for healthy and unhealthy items can improve student nutrition.

Use Peer Influence to Change Consumption Choices

To exploit the fact that social surroundings impact student food choice, several schools use peer pressure as a means of altering student consumption by engaging students in the promotion of eating healthier foods.[35]

One study measured the impact of using student promotion to alter nutrition. Researchers conducted a multi-component intervention that included peer nutritional education and the promotion of foods through taste tests and displaying healthy foods more prominently in a la carte lines. Some schools received only the promotional intervention and did not receive peer education. For schools receiving peer nutritional education, students were asked to nominate their peers to teach the class; researchers trained chosen students, who then led ten sessions on healthy foods. Students receiving peer education in addition to the promotional intervention reported almost a quarter-serving increase in daily fruit consumption.
Further, students exposed to both interventions had a greater tendency to choose lower-fat foods.

In the study, the students who showed the greatest change in eating behavior were those chosen as peer leaders, who received extra training and were used to pass nutritional messages on to their peers. The researcher hypothesizes that the “cognitive dissonance” of spreading the nutritional messages without following them led to this effect.[36] By engaging students in promoting healthy eating, schools can also alter student food consumption.

CONCLUSION

The regulation of competitive foods is largely left to the discretion of schools and school districts. Traditional and behavioral economic theory each explain aspects of student food purchasing and consumption decisions, and schools should adopt policies that incorporate the teachings of both theories. In addition to altering the price of healthy foods and beverages relative to unhealthy items and educating students about the benefits of eating healthy foods, schools can place healthy foods in more accessible locations throughout the school and reward students for purchasing healthy items. Schools able to utilize prepayment systems for competitive foods can disallow the purchase of certain foods on prepaid cards. Schools can also use peer influence to change consumption decisions by engaging students in the process of promoting nutrition.

Schools may, in the long run, consider enacting more paternalistic policies, such as complete removal of all junk foods from campuses. While eliminating all competitive junk foods and beverages from school campuses can improve student nutrition, it often requires renegotiation of vending contracts and may require that schools enter into agreements with completely new vendors. Moreover, the definition of what constitutes “junk foods” may vary, and even with the removal of candy bars and soda, schools will likely still stock a range of competitive foods to students, with some considered to be healthier choices than others. Even if a school removes all carbonated soft drinks, schools may still wish to encourage greater consumption of water relative to 100-percent fruit juices and encourage greater consumption of fresh fruit in comparison to trail mixes. The recommendations above can be used by school districts that may face political or legal challenges to completely removing unhealthy competitive foods from the school environment, and also complement more paternalistic competitive food policies.

Whatever policies schools and districts choose to adopt, school administrators must take into consideration how the competitive food policies they employ impact the food consumption decisions, and ultimately the well-being, of their students. Though altering competitive food policies may be a difficult task, such efforts can help combat rising rates of childhood obesity and the health-related diseases that have become so prevalent among today’s youth.

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ENDNOTES

[10] “Minimum nutritional standards for foods and beverages available on public school campuses during the school day; required nutrition and physical activity reports,” Kentucky Administrative Regulations, Title 702, Pt. 6.090.

[16] Fox et al. 2009a. However, they did not find that school food environments significantly affected BMI scores of high school students.


[18] USDA, Table 8.


[20] USDA.


[23] Rabin.


[28] Loewenstein et al.

[29] USDA.


[34] Ibid.

[35] USDA.

MOBILE MONEY: CELL PHONE BANKING IN DEVELOPING COUNTRIES
BRITNI MUST AND KATHLEEN LUEDEWIG
JOHN ERIKSON, EDITOR

Mobile money allows users to pay for goods and services by using short message service (SMS) to transfer either local currency or mobile minutes. Mobile money can increase access to financial services. Microfinance institutions in particular can benefit from the use of mobile money. Unfortunately, regulatory and initial investment barriers currently prevent widespread adoption of mobile money. In this paper, we demonstrate that mobile money can serve as a poverty reduction tool by increasing savings rates, creating jobs, and increasing access to financial products offered by microfinance institutions. Based on the potential benefits of mobile money, we recommend that governments subsidize the development of local mobile money infrastructure and adopt policies that enable the formation of a decentralized network of trusted mobile money agents.

INTRODUCTION

According to development economist Jeffrey Sachs, the mobile phone has become “the single most transformative tool for development.”[1] Seventy-five percent of the 4 billion mobile phones currently in use worldwide are in developing countries, and within the next decade there will be more mobile phone subscriptions in the world than people.[2] A recent econometric study by the World Bank shows that, on average, an additional ten phones per one hundred people in a developing country boosts GDP growth by 0.8 percent.[3]

Though mobile phones make communication easier, resulting in economic growth, they can also be useful for things other than simple communication. One such innovation is mobile money: using mobile phones to electronically store currency and pay for goods and services via short message service (SMS).[4] Consumers, vendors, and financial institutions can transfer mobile money, denominated in either local currency or mobile minutes, easily and with low transaction costs. Because mobile money is a cheaper, safer, and more convenient way to transfer funds, and reduces the costs associated with saving and lending, consumers in developing countries are recognizing its benefits.[5] Like the microfinance institution (MFI) model pioneered by Grameen Bank in the 1970s, mobile money has increased access to financial services. Working together, mobile money and MFIs can expand access to financial services in developing countries.

This paper will explore mobile banking, specifically as it relates to poverty reduction strategies in developing countries, by discussing (1) a brief history of the rise of mobile phones, (2) how mobile money works, (3) use of mobile money as a poverty reduction strategy, (4) the various uses of mobile money, and (5) overcoming challenges for mobile money. Based on the potential benefits of mobile money, we recommend that governments subsidize the formation of local mobile money infrastructure and adopt policies that encourage the formation of mobile money networks and the use of these networks by MFIs.

THE RISE OF MOBILE PHONES

Though mobile phones were once viewed as a luxury item, their recent rise and worldwide penetration has been remarkable.[6] In 1999, only 8 percent of the world population had mobile phone subscriptions.[7] By 2007, 49 percent were mobile phone subscribers.[8] Today more than 80 percent of the world’s population is within mobile coverage.[9] We can attribute the rapid adoption of mobile phone technology in developing countries to a combination of low infrastructure costs, the rise of pre-paid service, the decrease in handset prices, and the privatization of mobile phone service.

Developing countries lack the physical and technical infrastructure present in more developed nations. Due to the high cost of connecting individual houses to phone lines, many developing countries simply bypassed full landline phone service and leapfrogged to a wide cellular phone network.[10, 11] Once the mobile telecommunications network was installed, the introduction of prepaid mobile service made flat-rate monthly contracts unnecessary, allowing many more users to enter the market. Telecommunications providers relied on a network of micro-entrepreneurs who could sell pre-paid mo-
Mobile cards in denominations as small as $0.50 in shops, village markets, and along streets for a small commission.[12]

The final two obstacles preventing widespread adoption of mobile phones were the cost of handsets and government monopolies on telecommunications service in developing countries. As mobile phones became more common worldwide, the price of basic models steadily fell, from around $250 in 1997 to around $20 today.[13] This partly the result of phone manufacturers realizing that there was unmet consumer demand for low-cost, basic phones. The next catalyst for mobile phone penetration was the privatization of telecommunications services. There is clear evidence that privatization drives adoption.[14] Ethiopia, for example, is one of the few remaining countries where mobile phone service remains a government-run monopoly. At the end of 2008 the country had a “mobile teledensity” of 3.5 percent (3.5 million phones per 100 people), compared with 40 percent for Africa as a whole.[15]

Mobile phone connectivity in otherwise marginalized communities facilitates social and economic development through increased access to people, information, and services such as health care, education, employment opportunities, and market information.[16] In Niger, for example, mobile phone coverage reduced variation in grain prices between markets, increasing profits for farmers and reducing prices for consumers. Mobile phones also make it easier for small business owners to order products and interact with customers. In these instances, mobile phones facilitate development by making it easier to exchange information. With mobile money, phones can promote economic development by making it easier to exchange money.

HOW MOBILE MONEY WORKS

Mobile money allows any mobile subscriber to add credit to his or her mobile account and store it for later use or send it to other mobile subscribers via SMS.[17] The receiver can inexpensively convert this credit back into cash. Mobile money allows users to send cash as quickly as a text message, avoiding inconvenient and costly transfer methods such as physical travel, the mail, or traditional wire transfer services like Western Union.[18]

Mobile money services allow small retailers such as local corner shops to act as bank branches by charging a small fee for each transaction.[19] For small transfers, these mobile money fees are significantly less than fees charged by traditional services such as Western Union.[20]

To deposit funds to their mobile money account, consumers go to participating local shops and hand over physical money to the shopkeeper. The shopkeeper subtracts a small fee from the deposit and then sends a coded text message to a mobile money provider, which then credits the customer’s mobile money account. Customers can then transfer money—again, via text message—to other registered users, who can withdraw it by visiting their own local corner shops. Some telecommunication providers and retailers also allow users to send money to people who are not registered mobile money users. Cell phone credit becomes a form of currency that people can trade and later exchange for traditional money through a network of informal banking outlets located in towns and villages.[21] Since mobile money services often include SMS and paper receipts, customers may be willing to trust the brand of the mobile money provider even if they don’t trust the local agents themselves.[22, 23] (see Figure 1, page 31)

MOBILE MONEY AND MICROFINANCE EXPAND ACCESS TO FINANCIAL SERVICES IN DEVELOPING COUNTRIES

Evidence shows that expanding access among the poor to financial services is effective in reducing poverty. Poor individuals without access to banking services are forced to rely on the informal cash economy, leaving them vulnerable to risks and lacking means to efficiently save or borrow money. A study in Ethiopia based on household surveys from 1994 to 2000 demonstrated that access to financial services caused a statistically significant reduction in five of seventeen determinants of poverty.[24] A similar multi-country study demonstrated how access to financial services encourages social mobility across generations, thereby leading to poverty reduction in the long run.[25]

Microfinance has proven to be a successful strategy to expand access to financial services in developing countries. In the 1970s, Muhammad Yunus of Grameen Bank pioneered the idea that microfinance—small loans to poor, high-risk individuals—could enable people to pursue activities that would not only sustain their livelihood but also bring their families out of poverty. Since then, the notion of microfinance has expanded beyond lending.[26] Many MFIs now offer additional services such as savings and insurance. In 2005, the World Bank estimated that less than 5 percent of world demand for microfinance loans was being met. With only 26 percent of the global population connected to formal banking institutions, MFIs, which penetrate rural areas where no conventional banks exist, are in a good position to meet the large demand for credit among the world’s poor.[27]

In the last five years, mobile money has proven to be another scalable method to expand the poor’s access to financial services in developing countries. According to a recent study by the Consultative Group to Assist the Poor (CGAP), many poor people who do not currently have access to financial services may first gain access to those services through electronic payment tools like mobile money.[28] In South Africa, a CGAP study estimates that 10 percent of current mobile banking customers fall below South Africa’s poverty line and did not previously hold a bank account.[29]

BENEFITS OF A MOBILE MONEY SYSTEM

In addition to providing an inexpensive way to transfer funds, mobile money can improve access to savings mecha-
nisms, facilitate the purchase of insurance, and help MFIs reduce transaction costs.

An Easier and More Affordable Way to Send Remittances

Mobile money is already being used by people working away from home to send remittances to family members. Traditional channels for sending remittances, which sum to $674 billion globally, make up about 30 percent of some countries’ GDPs. Traditional channels for sending remittances charge fees ranging from 10 to 25 percent. Reducing transfer fees by 10 percent could result in a $65 billion increase in remittances to people living in developing countries. Recipients of remittances are often low-income females without formal bank accounts.

Insurance Through Mobile Money

The poor can also use mobile money to purchase insurance for their businesses. In Kenya, Safaricom, UAP Insurance of Kenya, and the Syngenta Foundation for Sustainable Agriculture recently started a micro-insurance scheme that uses mobile phones and solar-powered weather stations to provide crop insurance to rural Kenyan farmers. Farmers pay an insurance premium of 5 percent of the price of a bag of seeds they purchase to insure their crops against failure due to drought or other weather problems. Local agents scan a bar code on each bag of seeds with a camera phone and send the photo to UAP in order to register the product with the client’s policy. The farmer then receives a confirmation via SMS. In addition to registering with UAP, the farmers register at their nearest weather station. If a client reports damaged crops due to poor weather conditions, a panel of UAP experts investigates the regularly indexed weather conditions in the client’s area and their impact on the crops. After verification, payouts are made directly to the client via the Kenya-based mobile money service M-PESA.

Decreasing the Costs of Savings

Mobile money allows users to make most of the same transactions that they would be able to make with a savings account from a traditional bank. Users can deposit funds in their mobile money accounts, save them for later use, and withdraw or transfer them via an agent or an ATM. Savings is the complement to credit; both enable people to accumulate capital and smooth their consumption during times of need such as unemployment or drought. With credit, people acquire a lump sum up front and then pay it off over time. With savings, they accumulate capital over time in order to build a lump sum. A mobile money account can serve as an inexpensive, risk-free means of storing wealth, an alternative to storing it in the form of livestock or as cash hidden in the home.

Increasing the Reach and Affordability of Microloans

One of the main obstacles to the expansion of microfinance, according to the CGAP, is the high interest rates that MFIs charge on loans: the industry average is 28 percent annually, with standard rates varying from 25 to 100 percent. MFIs are interested in expanding their activities. According to WorldBank research, mobile money’s ability to grow and ease of use could foster wider penetration of MFIs, decrease defaults on loans (by providing people with the flexibility to repay loans at any time), and decrease transaction costs associated with repaying loans. Mobile phones can also allow clients to easily send updates regarding their progress either to MFIs or to MFI donors. Mobile money will help MFI clients accumulate wealth from productive activities, purchase insurance to smooth income during a crisis, and make payments when necessary. While mobile money is a poverty reduction tool in itself, it is also a tool for MFIs to expand at a faster rate and attract a greater share of the world’s population into the formal banking sector.

OVERCOMING CHALLENGES FOR EXPANDING MOBILE MONEY

Though mobile money has the potential to improve savings rates and provide access to financial products such as microcredit and micro-insurance, MFIs and telecommunications providers who want to implement mobile money still face several challenges. These challenges include difficult regulatory
environments, high barriers to entry, and MFIs’ fears that with mobile money they will not be able to use social pressure to encourage loan repayment. [47]

**Difficult Regulatory Environments**

Mobile money agents are necessary for a convenient, scalable mobile money distribution network, yet only 40 percent of countries currently allow third-party agents, such as local merchants, to handle cash for mobile money deposits and withdrawals. Of those countries, only one-third allow third-party agents to create new accounts on a customer’s behalf. [48] Part of the concern over mobile money deposits stems from fears that mobile money transfers may be used in terrorism plots. Many countries’ regulations regarding who can accept deposits must become more flexible if financial institutions are to provide branchless banking via mobile phones. [49] Since phone providers control access to phones’ SIM cards, agreements between phone service providers and mobile money providers must be reached in order to secure SMS transactions. [50]

Though mobile money has successfully extended the reach of financial services to the poor in Kenya and other developing countries, regulatory frameworks vary substantially among different countries, suggesting that there is no single solution for regulating branchless banking. The regulation simply needs to be cost-effective and ensure that rural and urban consumers can trust agents to handle their cash and keep their bank accounts secure. [51] Regulation must be flexible enough to allow low-cost banking services to spread, but strict enough to prevent fraud and money laundering. [52] One approach used in Kenya is to regulate mobile stored-value accounts separately from traditional banking activity, which gives Safaricom the authority to certify its own agents. [53] Brazil, on the other hand, requires all agents to be approved by a central bank.

**Barriers to Entry**

Due to the high cost of integration with current mobile money programs, transaction costs often increase in the short run for institutions that adopt mobile money. These higher costs can result in micro-lenders having to charge higher interest rates. For example, while trying to penetrate the microcredit market, Safaricom in Kenya reported that the high fixed cost of mobile money infrastructure increased operating costs and led MFIs to increase interest rates by up to 10 percent. Given the positive externalities of microfinance and mobile money in particular, governments should intervene to subsidize the creation of mobile money infrastructure.

**Less Human Contact Could Increase Loan Defaults**

Some MFIs fear that mobile money will lead to a decrease in human contact between their employees and clients. MFIs rely on human contact and social pressure to encourage loan repayment and keep default rates low. Though human contact does likely decrease default rates, other innovative methods, such as sending repayment reminders, using mobile money agents as MFI collection agents, or fingerprinting borrowers, could also be used to encourage repayment. [54]

**CONCLUSION**

Mobile money has the potential to be a powerful tool for poverty alleviation. In developing countries where financial services are scarce, mobile money provides an inexpensive and secure way to transfer funds. It also offers improved access to savings accounts, insurance, and microcredit. CGAP’s preliminary research has shown that mobile banking extends formal financial services to poor individuals in developing countries who previously did not have them. Mobile money may reduce MFI transaction costs, which experts, such as the founders of Grameen Bank, believe will ultimately lower interest rates for customers. [55]

Still, there is room for mobile money to expand in both geographical coverage and service provision. In the future, mobile money could expand into the untapped territory of interest-bearing savings, international remittances, and money transfer services between individuals with different telecommunications providers. Mobile money agents are necessary for a convenient, scalable mobile money distribution network, yet they are severely restricted by many countries’ regulations. In order to take full advantage of the potential benefits of mobile money, governments must provide a supportive policy framework that matches the growth rates in demand for microfinance and adoption rates of mobile money.

Britni Must is currently working toward a Master of Public Policy and an MBA at the University of Michigan focusing on public-private partnerships, economic development and social entrepreneurship. She received her B.A. in English Literature from the University of California, Berkeley and plans to pursue a career focusing on the use of market-based solutions and pro-poor private enterprise to aid development efforts in the third world.

Kathleen Ludewig is a recent graduate of the University of Michigan with a Master of Public Policy and a Master of Science in Information. She has several years’ experience in information technology and policy with private, academic, and nonprofit organizations. Ludewig is interested in international development issues, particularly in the areas of information access and economic development.
Figure 1: Key Players in the Rise of Mobile Money

<table>
<thead>
<tr>
<th>Service</th>
<th>Scope</th>
<th>Description and impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>M-PESA[56]</td>
<td>Approximately 7 million users out of Kenya’s total population of 38 million [57]</td>
<td>• Originally gained popularity as a cheap way for urban migrants to transfer remittances to their families in the countryside.[60]</td>
</tr>
<tr>
<td>Location: Kenya Provider: Safaricom Kenya, a private company jointly owned by Vodafone and the Kenyan government</td>
<td>• Program started in 2007 and it is growing exponentially[58]</td>
<td>• Now being used to buy goods and services and pay bills to insurance brokers, corporate entities, microfinance lenders, and nearly one hundred utility companies.</td>
</tr>
<tr>
<td></td>
<td>• Over 11,000 M-PESA agents in Kenya, four times the number of Kenyan bank branches and ATMs combined[59]</td>
<td>• Ensures that customers can always access their money, specifically when unexpected expenses, such as medical costs, arise.[61]</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• M-PESA accounts do not pay interest, but are still used as savings accounts because they are safer and cheaper than saving through money collectors, cattle (which are at risk of dying), gold (which can be easily stolen), neighborhood savings schemes (based on human relationships), or storing cash in the home.[62, 63]</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• A recent study found that people using M-PESA experienced a 5 to 30 percent increase in household income.[64]</td>
</tr>
</tbody>
</table>

| Bolsa Familia [24] | • The main vehicle for government social welfare payments to 12 million recipients, affecting as many as 45 million people when considering family members[65] | • Bank-led payment model operated through debit cards and point-of-sale devices. |
| Location: Brazil Provider: National government | • Users include indigenous recipients in remote regions | • According to the Brazilian government, the transfers target the female head of the household and require that woman to meet a number of conditions, such as enrolling her children in school. |
|              |                                                                      | • The government finds that distributing social welfare through mobile phones has reduced program costs and increases the program’s efficiency by reducing mail delays.[66] |

| MoneyGram | • 180,000 locations worldwide | • Targets migrants and expatriate workers through a new mobile money service geared towards distributing remittances |
| Location: Available in over 190 countries and territories Provider: MoneyGram (private company) | • MoneyGram is exploring partnerships with mobile financial services companies such as Affinity Global Services.[67] | • According to Richard Meredith, MoneyGram’s regional director for the Middle East, “mobile money transfer services are an emerging part of our product offering and we are eager to bring these services to the Middle East. Overall, we expect mobile service to be in highest demand in developing economies where individuals are more likely to have mobile phones than bank accounts.”[68] |
EMPOWERING THE UNBANKED THROUGH MOBILE BANKING


[3] Ibid.


[9] Pickens et al.

[10] A telecommunications provider enjoys economies of scale when laying wire, cable, or fiber along the main route (e.g. along roads), but it is very costly to extend that fiber from the main route to individual houses and buildings. For this reason, universal landfill access is often not achieved.

[11] This explains why mobile phone penetration has spread much faster in developing countries than in many developed countries (see Figure 1).

[12] Unless otherwise noted, all denominations are in US dollars.


[14] Ibid.

[15] South Africa passed the 100 percent mobile phone penetration mark in January 2009 and Kenya and Tanzania are expected to reach it by 2013. Teledensity of 100 percent does not mean that every person has a phone because many people have two phones or multiple SIM cards.


[20] Western Union has expanded its services beyond wire transfers and now offers international transfers from the Internet to a receiver’s mobile wallet, but still at a fee of 20 percent for a $50 transfer from Kenya to the US.


[22] Ibid.


[28] Pickens et al., 1.


[32] Ibid.

[33] Ibid.


[35] Ibid.


[38] South African company Wizzit (http://www.wizzit.co.za/) is one example of a mobile money provider that offers transfers to other users as well as to bank accounts.


[40] Lecture by Professor Deborah Burand, Director of the International Transactions Clinic, University of Michigan Law School, December 14, 2009.

[41] Ibid.

[42] A recent study by the Clinton Foundation estimates that mobile money may reduce transaction costs for MFIs by up to 80 percent.


[44] Ibid.


[47] India and Tanzania are examples of countries with extremely strict regulations regarding mobile money. These strict regulations stem partly from fears that the autonomous nature of mobile money could make it a convenient way to fund terrorism.

[48] Pickens et al., 13.

[50] Ibid.


[52] Ibid.

[53] Vodafone and the Kenyan government jointly own Safaricom, so the government may still influence Safaricom mobile money agent policies outside of official legislation.


[55] The Asian Banker, a financial industry research group, estimates that a typical financial transaction in the Philippines would cost 80 percent less if carried out on a mobile phone instead of in a bank.


[58] In Kenya, people wanting to sign up to M-PESA can go to any registered agent, fill in a short registration form, and show their national ID (which most people do have). Agents are permitted to process customer registrations online instantly, without having to return any paperwork back to Safaricom. Instantaneous account opening has been one of the success drivers of M-PESA. The customer experience is more cumbersome in Peru, where regulations do not permit agents to process account opening requests at all, meaning that customers must go to a bank branch. In Brazil and India, banks are able to open a class of low-balance accounts with reduced Know Your Customer standards through agents, but the banks must physically see the documents before an account can be opened. In Tanzania, where there is no national ID, there is a more cumbersome registration process and accounts often cannot be opened on the spot. Additionally, anti-money laundering (AML) requirements in Tanzania make registration procedures more complex for consumers wishing to transact above around $1,300. Amrik Heyer and Ignacio Mas, “Seeking fertile grounds for mobile money,” September 2009, http://www.gsmworld.com/documents/Fertile_Grounds_Mobile_Money.pdf (accessed December 20, 2009).

[59] Pickens et al.

[60] In Kenya and Tanzania, 17 and 28 percent of households respectively depend on remittances as their primary income source. FSD Kenya, Financial access in Kenya, results of the 2006 National Survey (Nairobi, 2007). FSD-Tanzania, Key findings of the FinScope survey in Tanzania in 2006 (2007). Of Africa’s 16 million international labor migrants, 63 percent are regional as opposed to trans-continental, with major corridors in West Africa. Leon Isaacs, “IAMNT Presentation” (presented at MNTA Conference, Johannesburg, May 2008). However, in places like the Philippines and Latin America, where urbanization ratios exceed 50 percent, remittances are more likely to be due to international rather than domestic migration.


[62] Due to regulatory reasons.

[63] Caroline Pulver, William Jack, and Tavneet Suri, The performance and impact of M-PESA: Preliminary evidence from a household survey (FSD Kenya, 2007, unpublished). In Kenya, banked users have been quicker to adopt mobile services than unbanked users. Seventy percent of M-PESA users are banked as opposed to 40 percent of nonusers.

[64] Pulver et al.


[68] Ibid.
AN INTERVIEW WITH DOMINICK CHILCOTT, DEPUTY HEAD OF MISSION OF THE BRITISH EMBASSY

INTERVIEW BY JAMES BAIRD

Mr. Chilcott came to UC Berkeley's Department of Political Science on March 18, 2010, to discuss US/UK policy relations. PolicyMatters joined him afterward for a one-on-one interview where he talked about the collaboration between the US and the UK in the war in Afghanistan. Chilcott gave his thoughts on the state of the current war effort, the long-term prospect for peace, and the UK's foreign policy goals in Afghanistan, Pakistan, and Yemen.

Dominick Chilcott assumed his post as Deputy Head of Mission at the British Embassy in Washington in January 2008. He previously held numerous civil service positions, including Private Secretary for European, Transatlantic and Middle Eastern affairs, Counselor for External Affairs (UK's permanent representation to the European Union in Brussels), and head of the Iraq Policy Unit for the Foreign and Commonwealth Office. His areas of specialty have included Africa, Ankara, Gibraltar, Lisbon, the European Union, the Middle East, Sri Lanka and Maldives.

Chilcott was born in 1959. After schooling at St Joseph's College, Ipswich, he served in the Royal Navy for one year. He studied philosophy and theology at Greyfriars Hall, Oxford University. He is married and has four children.

PolicyMatters Journal (PMJ): What is the British government's role in Afghanistan, broadly defined?

Dominick Chilcott (DC): Our role in Afghanistan is to keep Britain safe, essentially. We are there because we know that a very high proportion of the plots against UK interests have links back to the so-called badlands between the Pakistan and Afghan border, and we need to work with allies to tackle that very real threat that it represents to the UK. The way we want to tackle this is by helping the Afghan government itself, and indeed the Pakistan government, to confront those who want to destabilize these governments, to deal with them, defuse the problem, and stop those places from becoming safe havens for international terrorists.

PMJ: Recently, [US Defense] Secretary Gates alluded to the possibility of an early start to withdrawal in Afghanistan. Does your government, or you personally, share in his optimism?

DC: I think the answer is yes and yes, and the reason is that there do seem to be signs that al Qaeda has been severely disrupted in the region, and the recent operation in Helmand province seems to have gone well; there is real progress on the ground. So the aim of having enough progress to begin withdrawing troops by July 2011 seems to be very much on track. I think there are reasons to be optimistic that we have a strategy in place now that can deliver the result that we want.

PMJ: Are there any differences in the US and British foreign policy broadly in the Middle East, and specifically in Afghanistan and Pakistan?

DC: I think on Afghanistan and Pakistan we are shoulder to shoulder. There is a constant dialogue going on between us, but that's the sort of dialogue you would have within an administration as well as between countries that are working as very close allies. I don't think it means there is a difference of significance or difference of approach. So we're working on
all aspects: on the military operations, on the reintegation and reconciliation, on working to build up Afghan capacity in the army and the police, the rule of law, dealing with counter-narcotics together. I don’t think there are any significant differences.

PMJ: Can you elaborate on the London conferences that were held in January? Were there any real tangibles that came out of that?

DC: Well, the timing of the London conference was a few months after the Afghan election results; the Afghan election was obviously held sometime before. So the conference was the next moment at which the international community could come together and hear from the Afghan government; what their program was for their next period, the next presidential period, and for us in the international community to say what it is that we would do to support that program. And this pretty much went as planned. [Afghan President] Karzai and a number of his ministers talked about what they would do on the area of security and economic development, and various members of the international community said how we would support them. I think that worked very well. It was never going to be a pledging conference; it was more a conference of setting out a strategy for the Afghan government and for us to show how we would work in harmony with it. So I think to that extent it was a success. There was another element to the conference that was important: we feel, have felt for a while, that there needs to be more engagement from the countries in the region, together, collectively to try and find, or help support, a solution in Afghanistan. The conference was an opportunity for those voices to be heard as well. So I think that part of it is still relatively undeveloped, but it was at least a start.

PMJ: One last question regarding Afghanistan. Prime Minister Gordon Brown, off of the Number 10 Downing Street website, is quoted as saying, “These are aims that are clear and justified—and also realistic and achievable. It remains my judgment that a safer Britain requires a safer Afghanistan.” You echoed that, and so has Foreign Secretary David Miliband. Long-term, how realistic is it to establish any sort of lasting political stability or regional stability, and do you have any thoughts of anything we are not doing now, or any other ideas that have been brought to the table, of how we can try and obtain more long-term stability in the region?

DC: The aspirations of ordinary Pakistanis and ordinary Afghans and other people in the region are not so dissimilar from aspiration of ordinary people everywhere, which is, they want jobs, reasonable standard of welfare for their families, they want education for their children, they want decent medical services, and that sort of thing. The best way we can help stability, I think, is to have a global trading environment in which these people have the best chance of achieving those sorts of things.

So in the long term, I think that’s how we do it. We do it immediately now by providing this kind of unusual and urgent assistance to the government of Afghanistan and by providing other sources of assistance to the government of Pakistan. But when this stops becoming a sort of immediate existential security issue, then we should be looking for the kind of global cooperation, particularly on economic issues, that allows these countries to realize their potential.
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