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# Opening Up Pandora's Box: The Effect of Gender Targeting and Conditionality on Household Spending Behavior in Mexico's *Progresa* Program

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**Summary.** — This paper evaluates the behavioral impact of conditionality and gender targeting on spending behavior in the *Progresa* conditional cash transfer (CCT) program from rural Mexico. Results indicate that transfer income is not spent differently from general income, suggesting that transfers exert only an income effect. In addition, women who have increased control over their extra cash are not significantly more likely to spend it in a "family-friendly" way than they do household earned income. Both features entail significant costs to beneficiaries and program budgets; our results indicate that further evidence is needed to confidently advocate for their inclusion in cash transfer (CT) programs.


*Key words* — Latin America, Mexico, cash transfer, conditionality, gender targeting

## 1. INTRODUCTION

In late 1997, the Mexican government launched *Progresa* (now *Oportunidades*), a conditional cash transfer (CCT) program, designed to alleviate short-term poverty and to increase long-term human capital among the extreme poor in the rural areas.[1] *Progresa* differed from a typical poverty alleviation program in Latin America in at least four ways: (1) it provided benefits in cash instead of in-kind as was typically done in developing countries at the time; (2) benefits were made conditional on a set of human capital enhancing conditions including attendance at monthly health seminars, school enrollment for children aged 8–16, and routine preventive health check-ups for all family members; (3) beneficiaries were selected according to a rigorous and transparent targeting mechanism; and (4) the program was externally evaluated through a social experiment.[2] Each of these characteristics represented a major change in the design and approach to poverty alleviation in the region, and the positive and credible results of the external impact evaluation have made *Progresa* a widely cited success story among the international development agencies and arguably the most influential poverty alleviation program in the developing world at this time. In the last decade, *Progresa* type programs have spread rapidly through the region and beyond (see Bouillion and Tejerina (2006) for comparative review of cash transfer (CT) programs and evaluations). Similar programs currently operate in Honduras, Nicaragua, Jamaica, Colombia, Argentina, Brazil, Ecuador, the Dominican Republic, and Kenya, and discussions are underway in several other countries including Ghana, Peru, Panama, and Tanzania.[3]

Two design features of *Progresa* are presumed to be critical to its success, and have formed the core of the programs adopted in the other countries. The first is the conditioning of transfers on beneficiary "co-responsibilities" such as mentioned above. These responsibilities typically include school enrollment, health check-ups, or attendance at seminars that teach about health, nutrition, and sanitation. The second design feature is the delivery of the cash benefit directly to women. The motivation for the first design feature is to ensure that families invest in their children's human capital development and have the money to support such investments; the motivation for the second design feature is the presumption that money in the hands of a responsible female household member will more likely be spent in a "family-friendly" way and thus be consistent with the objectives of the program. Each of these design features makes assumptions about the economic behavior of households, and each has important implications for administrative and take-up costs of the program. For example, the notion that resources delivered to women will lead to different spending outcomes contradicts the standard neoclassical model of household behavior that assumes income pooling. The conditioning of benefits on schooling and health assumes that households will otherwise under-invest, or demand less of these goods than is socially desirable. However, both conditionality and the strict requirement that only one designated person in the household can receive the cash payment adds significantly to the administrative

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costs of the program, as well as the time cost of participation for beneficiaries (Caldes, Coady, & Maluccio, 2006). Although there may be political motivation for these design features, and there is clear evidence of increases in school enrollment and health facility attendance among the participant households, there is no hard evidence that these increases are due to conditionality *per se*, versus the income effect of receiving the cash grant. Indeed, in the context of developing countries that have weak institutional and monitoring structures, questions have been raised about whether these requirements are really the best method to increase human capital (see, e.g., Das, Do, & Özler, 2005; de Janvry & Sadoulet, 2005; Handa & Davis, 2006; Regalia, 2006; Samson, 2006; Szekely, 2006). Similarly, the targeting of transfers to mothers has raised questions about whether this effectively makes them responsible for fulfilling the program conditionality requirements, further burdening women while perpetuating traditional notions of gender roles within the family (Molyneux, 2006).

The purpose of this paper is to assess the behavioral impact of these two design features using the *Progresa* evaluation data. The empirical strategy uses multivariate regression to compare the marginal propensity to spend income from the program (transfer income) to the marginal propensity to spend household earned income (general income). We expect that if program conditions are binding, and transfer income is used to support investment in human capital, then transfer income will be spent at a higher rate on goods such as education and food relative to general income. We also test whether program participation affects women's decision-making within the household, and how differences in women's decision-making authority affect the marginal propensity to spend transfer income. If giving *Progresa* to women enhances their bargaining power, we expect their decision-making authority to increase. And if women indeed spend money in more "family-friendly" ways, then women who have greater decision-making authority will spend the transfer at a higher rate on "family-friendly" goods in comparison to general income.

This paper adds value to the existing research on the impact of CCTs in several ways. First, it is the first study to test whether the marginal propensity to consume out of CCT income is different from general income, a key piece of information to understand whether these programs have both income and substitution effects in consumption. It is also the first to test whether the increased decision-making authority that gender targeting attempts to increase has an impact on spending patterns. [4] This is especially relevant in low income rural environments where women's rate of paid employment is low and their main source of cash is from their husbands. In these circumstances, transfer income to women may crowd out intra-household transfers from husband to wife and essentially cancel out the effect of the transfer, leaving no net effect on bargaining power and influence over spending.

In general, our results show that conditioning requirements do not necessarily lead to significantly higher propensities to spend transfer income on education, food, and clothing. The school subsidy in particular does not have a substitution effect on school spending, which is consistent with the notion that the payments are regarded as simply a replacement for income foregone from sending the child to school and not necessarily to be spent to further support human capital development. Our results also establish that households where women have increased control over their extra cash are not significantly more likely to spend transfers in a more "family-friendly" way than they do regular earned income. This may be because of income pooling or common preferences, or because *Progresa* transfers crowd out intra-household transfers from men to women and leave no net impact. Overall, these results indicate that the "black box" evaluations of *Progresa* and other CCTs do not begin to tell the full story of the impact of conditionality and gender targeting on intra-household decision-making, women's bargaining power, and household preferences among recipient households.

## 2. *PROGRESA*

Mexico's *Progresa* was initiated in 1997 as a mechanism to develop the human capital of poor, rural households by improving education, health, and nutrition outcomes through a CT. The transfer comprised two parts, a flat food transfer and a schooling transfer (*beca escolar*), which varies by grade and sex of the child. [5] The food support is given in bi-monthly payments. To avoid perverse fertility incentives, the schooling transfer was available only to children over the age of seven and the entire transfer was capped at 695 pesos (Skoufias, 2005). [6] As mentioned previously, with rare exception, transfers are provided directly to mothers under the assumption that they are more likely to use funds in a manner that will be beneficial to the development of their children.

Because *Progresa* targets poor households, criteria were developed for determining eligibility based on household well-being. The selection of eligible households was done in three stages. First, potential recipient communities were identified as poor based on a marginality score developed from the national population census. The score used community variables including share of illiterate adults, access to water and drainage, availability of electricity and population working in the primary sector, among others. Those localities classified as "marginal" were considered potential target locations and subsequently evaluated based on the location and existence of health and school facilities. Secondly, scores or "*puntaje*" were produced for each household using a baseline census of each community, and households below a poverty threshold were included as beneficiaries. The third step was to present a list of potential beneficiary households to community assemblies for review and discussion (see Skoufias, Davis, & de la Vega (2001) for further discussion of targeting).

By the end of 1999, *Progresa* provided bi-monthly transfers to approximately 2.6 million households or about 40% of all rural families and 11% of all Mexican families (Skoufias, 2005). The program operated in almost 50,000 communities, and had a budget of US$777 million or nearly 20% of the Mexican government's budget allocation for poverty alleviation (Skoufias & McClafferty, 2001). The *Progresa* transfer accounted for an average of 19.5% of household expenditures within non-beneficiary households in control localities (Skoufias, 2005). [7,8] Evaluations of *Progresa* have shown significant positive impacts on a range of educational- and health-related outcomes (see, e.g., Dubois, de Janvry, & Sadoulet, 2002; Hoddinott & Skoufias, 2004; Shultz, 2004; Skoufias & McClafferty, 2001).

## 3. CONDITIONALITY IN CT PROGRAMS

In theory, conditions are set in an effort to induce a particular response by recipient households. Even if it is assumed that CCT programs alter recipient behavior in the desired manner, from a human rights perspective there is a question as to whether conditions should be placed on households, particularly when the purpose of the CT scheme is to reduce or mitigate the effects of extreme poverty. From an economic