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An Evaluation of the Distributional Power of PROGRESA's Cash Transfers in Mexico

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In August 1997, the Mexican government introduced its Programa Nacional de Educacion, Salud y Alimentacion (PROGRESA) program with the dual objectives of alleviating current poverty through targeted cash transfers, and generating a sustained decrease in poverty by conditioning these transfers on the beneficiaries improving their education and health status. Through targeting, PROGRESA hopes to increase the effectiveness of the program by ensuring that a large fraction of the budget gets to the poorest households, while the conditionality is meant to introduce incentives for beneficial household responses.

Evaluating PROGRESA*'s Distributional Power*

This paper evaluates the distributional power of the program as reflected in its ability to get a relatively large proportion of the budget to the poorest households. The program is targeted in two respects. First, it is targeted to the poorest (or most marginal) rural localities. Second, it is targeted at "poor" households within these localities. The conditioning of transfers in order to achieve the human capital objectives may also have important implications for its distributional power. First, the linking of transfer levels to households with children of school-going age will, in general, affect its distributional power. Second, the conditioning of transfers to the accumulation of human capital involves households incurring the private costs associated with schooling and health visits. This will affect the pattern of program take-up and thus also affect its distributional power.

The objectives of this paper are to determine how the existing structure of the transfers compares to a range of alternatives, understand how the different components of the transfer system contribute to or detract from the distributional power of the program, and understand any trade-offs that exist between the poverty alleviation and human capital accumulation objectives of the program.

In only the most marginal localities, the gains from both geographic and demographic targeting are more important than those from household targeting.

Methodology

The study begins by setting out a simple model of an economy, which is used to motivate the use of the distributional characteristic of a program as a useful indicator of its distributional power. This indicator has the attraction that one's value judgments regarding the distribution of income are made explicit and alternative indicators commonly used in the literature can be seen as special and restrictive cases. In addition, sensitivity analysis to alternative value judgments is straightforward. The paper further shows how the distributional characteristic can be decomposed in a variety of ways in order to

- compare the relative welfare impacts of alternative programs with a common budget or of reallocations of a budget between different programs;
- quantify the proportional difference in the impact between two programs with differing budgets;
- disaggregate the distributional characteristics of each component of programs with multiple components;
- disaggregate the targeting versus redistributive efficiency of programs;
- evaluate how the gains from targeting households are distributed across different localities;
- account for the fact that different programs involve different levels of administrative costs.

Using these measures, the study uses (1) household survey data to analyze the relative welfare gains from geographic and household-level targeting, and (2) program data to further analyze the welfare gains from household-level targeting as well as the implications of the demographic structure of transfers and of take-up for the distributional power of the program.

Conclusions

The results suggest that gains from geographic targeting are substantially larger than those from household targeting. In fact, the gains from the demographic structure of transfers are also substantially larger than the gains from household targeting.

In spite of substantial leakage during the expansion of the program within localities (the densification phase of the program), the distributional power of the program is still very high relative to alternatives explored. This reflects its effectiveness at identifying poor households, but particularly its effectiveness at getting a relatively high proportion of total transfers to the poorest of the poor. The latter, in turn, operates through the demographic structure of education transfers.

Restructuring education transfers toward higher grants for secondary schooling in order to try to enhance the educational impact of the program has little effect on the distributional power of the program. Any adverse effect it has can be reversed through simultaneously adjusting the cap on transfers, which is relatively more binding for the poorest of the poor.

Although the average gains from household targeting are modest, these vary inversely with locality marginality. But to reap the gains from targeting as the program expands to include less marginal rural and urban localities, it is important that the targeting errors that occurred during the densification process be avoided.

The impact of program take-up is to increase the distributional efficiency of the program, reflecting the relative higher take-up rates among the poorest households. In other words, relatively more moderately poor households select themselves out of the program. But these gains are small because of the very high take-up of the program. However, conditional on take-up, the poorest households take up a relatively lower percentage of the full transfers, e.g., due to lower enrollment rates. This aspect of the program is particularly important, given that it affects both the distributional power of the transfers and the human capital impacts for the poorest households. It therefore warrants further analysis.

Keywords: welfare, redistribution, targeting, conditioning, benefit take-up

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