The Role of Conditional Cash Transfers in Mitigating Income Shocks in Mexico

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Sector(s): Education, Social Protection

Location: Mexico

Sample: 52,719 children in 506 rural localities

Target group: Rural population

Outcome of interest: Enrollment and attendance

Intervention type: Cash transfers Conditional cash transfers

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Partner organization(s): Prospera

Income shocks may induce parents to remove their children from school and increase child labor. In rural Mexico, researchers examined whether conditional cash transfers (CCTs) protect families against income shocks and promote investment in children's education. They found that the program reduced the likelihood that families would withdraw children from school in response to negative income shocks but did not prevent increases in child labor.

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Poor households are typically vulnerable to a broad array of risks, such as crop failure, illness, natural disasters, and unemployment. They have limited opportunities to prevent or insure against such shocks, which can lead them to sell assets, take on debt, or withdraw children from school so that they may work and earn money for the family. However, children who leave school may not return to school, which may have negative long-term impacts on human capital and future earnings.

Many governments have implemented conditional cash transfer (CCT) programs to provide poor parents with incentives to invest in their children' s education. These programs have generally been shown to be effective in raising school achievements. In this study, researchers examined whether conditional cash transfers (CCTs) also act as a safety net, protecting families against income shocks and helping them invest in their children's education.

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In 1997, Mexico introduced a national CCT program, called PROGRESA (renamed Oportunidades in 2000 and Prospera in 2014) with the objective of offering cash transfers to poor mothers to improve children's education, health, and nutritional status. PROGRESA is one of the largest CCT interventions in the world - in 2010, the program served 5.8 million households, including both rural and urban areas.[1]

The conditional cash transfer benefits come in two forms. The first is a monthly stipend conditional on family members obtaining preventative healthcare and sending their children to school. The second is an educational benefit conditional on children not missing more than three days of school per month. The size of the cash transfer increases with grade level and in 1998, varied from $70/year to $225/year.

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Researchers partnered with the Mexican government to examine whether the PROGRESA CCT program helped families keep children in school and out of the labor market when exposed to an income shock. Of the 506 rural localities deemed eligible for the program, two thirds were randomly selected to receive the CCT program in May 1998, while the other third served as a comparison group and received the program 18 months later. Households received the cash transfer every month, conditional on meeting the health and education requirements.

The total sample includes 52,719 children that were between the ages of 5 and 17 in November 1997. Analysis is based on four survey rounds conducted between November 1998 and May 2000 which include information on health, schooling, employment, child labor, and potential income and other shocks.

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Researchers showed that shocks are important in pushing children out of school and into work and that conditional transfers help mitigate these responses to shocks.

The role of shocks: An unemployment or illness shock for the household head reduces the child' s probability of enrollment by an average 1.7 percentage points. Moreover, natural disasters affecting the whole community have a large effect on schooling, reducing enrollment by 3.2 percentage points. In communities that didn' t receive PROGRESA, temporary disasters had both an immediate effect in taking some children out of school, as well as a long-term impact on schooling: children that leave school in response to a shock are 11 percentage points less likely to be in school the following semester, a large effect relative to the average enrollment of 81.4 percent.

Impact on enrollment patterns: The PROGRESA CCT program largely mitigated the negative effect of unemployment on enrollment, meaning that, on average, children in communities receiving PROGRESA stay in school even when the head of household is unemployed. PROGRESA completely mitigated the decrease in enrollment caused by natural disasters.

Impact on child labor patterns: In both treatment and comparison groups, child labor increased in response to illness of the head of household or of young siblings and to severe natural disasters, meaning that PROGRESA did not prevent children from working in response to shocks. The income effect of the transfers was not sufficiently large to affect household behavior with respect to the use of child work in response to shocks.

These findings indicate that CCTs can play an important role in providing poor, rural families a safety net in the face of shocks. CCTs can effectively protect beneficiaries from the risk of shocks that would induce them to take their children out of school. In the case of PROGRESA, transfers were however not large enough to prevent them from entering their children into the labor market in response to shocks.

de Janvry, Alain, Frederico Finan, Elisabeth Sadoulet, and Renos Vakis. 2006. "Can conditional cash transfer programs serve as safety nets in keeping children at school and from working when exposed to shocks?" Journal of Development Economics 79(2006): 349-373.

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1. Ministry of Social Development (SEDESOL), 2010.