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Cash Transfers’ Effects on Food Consumption in Mexico

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Sector(s): Finance

Sample: 3,534 households

Target group: Families and households

Outcome of interest: Consumption smoothing Food security

Intervention type: Conditional cash transfers

AEA RCT registration number: AEARCTR-0000368

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Research Papers: Transitory income changes and consumption smoothing: Evidence from Mexico

Partner organization(s): University of Michigan Population Studies Center (PSC), Institute for Money, Technology, and Financial Inclusion, Gates Foundation, Inter-American Development Bank (IDB)

Cash transfers, even temporary, expected, and regular ones, can affect people’s spending and mental health. When people’s incomes fluctuate, they may not spend enough on long-term investments, they may sell valuable resources, or they might be overly risk averse. Researchers conducted a randomized evaluation to test the impact of the anti-poverty cash transfer program, PROSPERA, on food consumption for families living in poverty in Mexico. Households consumed enough food both before and after receiving the cash transfer. Household members also did not sell valuables, their mental health and analytical skills did not suffer, and they did not work much longer hours.

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Theoretically and in practice, temporary and expected changes in cash on hand should not affect what people buy. Yet impulsive purchases and a less than perfect financial market may impact people’s consumption choices when they experience a change in income.

Changes in income can be costly to households. Households want to meet their current needs, which could mean foregoing long-term investments, like paying for children’s schooling, keeping instead of selling productive resources, or avoiding risky but rewarding investments.

Unsteady income and the decisions made to stabilize it can be stressful, both psychologically and cognitively. This stress might change the actions of those experiencing financial poverty and affect their mental health, partially preventing them recovering or adjusting. The stress and mental health issues that come with experiencing periods of financial uncertainty could lead to risky situations and choices, or not protecting assets and health.

Did Mexico’s cash transfer program, PROSPERA, help households living in poverty maintain food consumption, especially near the time the transfers were deposited?

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Mexico’s PROSPERA (1998-2019) was a well-known and extensive cash transfer project. Families living near or below Mexico’s poverty line (*Línea de Bienestar Mínimo*) were eligible for transfers if they sent their children (i.e., those younger than 12 years old) to schools and health clinics. Mexico’s poverty line is defined as the amount of money needed to buy basic foodstuffs. The Mexican government did not want people’s circumstances to hurt their nutrition, health, and education needs. [1] The program benefited 28 million people and 6.8 million households, about a quarter of Mexico’s families. Cash transfer recipients received the deposit once every two months and they knew when the cash would be deposited. The deposit dates were different for various participants. PROSPERA sent funds to beneficiaries’ savings accounts, which came with debit cards. On average, participants in this study received US$79 per PROSPERA deposit, or MX$1,604 in 2022. The money from PROSPERA was, on average, 13 percent of participants’ yearly income.

In 2020, Mexico’s level of financial inclusion, or the 36.9 percent of Mexicans who have bank accounts, was much lower than other countries in Latin America. Inconsistent or low income is a reason people do not open bank accounts in Mexico. [2], Debit card purchases and withdrawals among PROSPERA participants was low: 67 percent of participants made just one withdrawal every two months.[3]

Participants in the study were about 43 years old with just over six and a half years of schooling, on average. The majority of participants were women. Not including PROSPERA transfers, households’ average weekly income was MXN$1460 (US$72 in 2022). PROSPERA recipients lived about 6.2 kilometers from the closest bank.

A woman vendor hands green beans to a customer at a market in Oaxaca, Mexico

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Researchers conducted a randomized evaluation to test the impact of PROSPERA on the food consumption of Mexican households living in poverty. Interviews took place in early 2016. The researchers conducted the study in Distrito Federal, Hidalgo, Estado de México, Michoacán, Morelos, and Veracruz. They looked at the effects of PROSPERA in 52 localities on the outskirts of urban centers. A sample of 3,534 households were randomly divided into four groups that were interviewed either before or after the PROSPERA deposit:

1. *Eight to five days before* (888 of participants from sample): 25.13 percent of households were interviewed eight to five days prior to the transfer.
2. *Four to one days before* (887 of participants from sample): 25.1 percent of households were interviewed four to one days prior to the transfer.
3. *Day of to three days after* (885 of participants from sample): 25.04 percent of households were interviewed the day of or three days after the transfer.
4. *Four to seven days after* (874 of participants from sample): 24.73 percent of households were interviewed four to seven days post-transfer.

Randomly interviewing households either before or after the PROSPERA deposit showed the change in how much food they bought based on when they were paid. The random interviews and the various pay dates ensured that households in the four groups were similar.

In the survey, to measure food consumption, the interviewers asked households about what they ate yesterday and the quantity and value of that food. The interviewers also gathered information about the households' jobs, wages, financial state, sale of assets, emotional wellbeing, healthy practices, cognitive status, and tolerance for risk.

Food consumption did not change before or after the PROSPERA transfer, as households did not run out of money for food.

Food consumption: Households did not change how much food they ate either before or after receiving the PROSPERA deposit. Households that were more dependent on PROSPERA (i.e., if the transfer made up more than 20 percent of their annual income) did not show different results than families that were less dependent on PROSPERA.

Savings, sales of assets, and income from work: Households about to receive their PROSPERA transfer did not use savings, sell property, or work a lot of extra hours, as they may have seen the money as extra but not essential income.

Mental, cognitive, and physical health: Households that did not receive a transfer for about two months did not see a reduction in their cognitive abilities, healthy behavior, or physical and mental soundness. Healthy habits and risk intolerance increased by 0.06 and 0.07 standard deviations, which is significant at the 10 percent level, and there was a boost in mental health. Researchers suggest that because households were looking forward to the transfer, they also saw a small boost in their mental health and healthy habits.

Lack of available cash: Along with some households' distance from banks, newness to debit cards, and the charges for making multiple withdrawals, PROSPERA deposits into bank accounts made the money harder to access as opposed to cash, which may have helped households practice restraint.

In certain contexts, households may better balance their spending if their deposits are less accessible (i.e., in a bank account that takes a bit of a commute to get to). The way transfers are delivered, specifically in the form of deposits into bank accounts, can help people who both have changing preferences and who are new to formal financial tools.

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