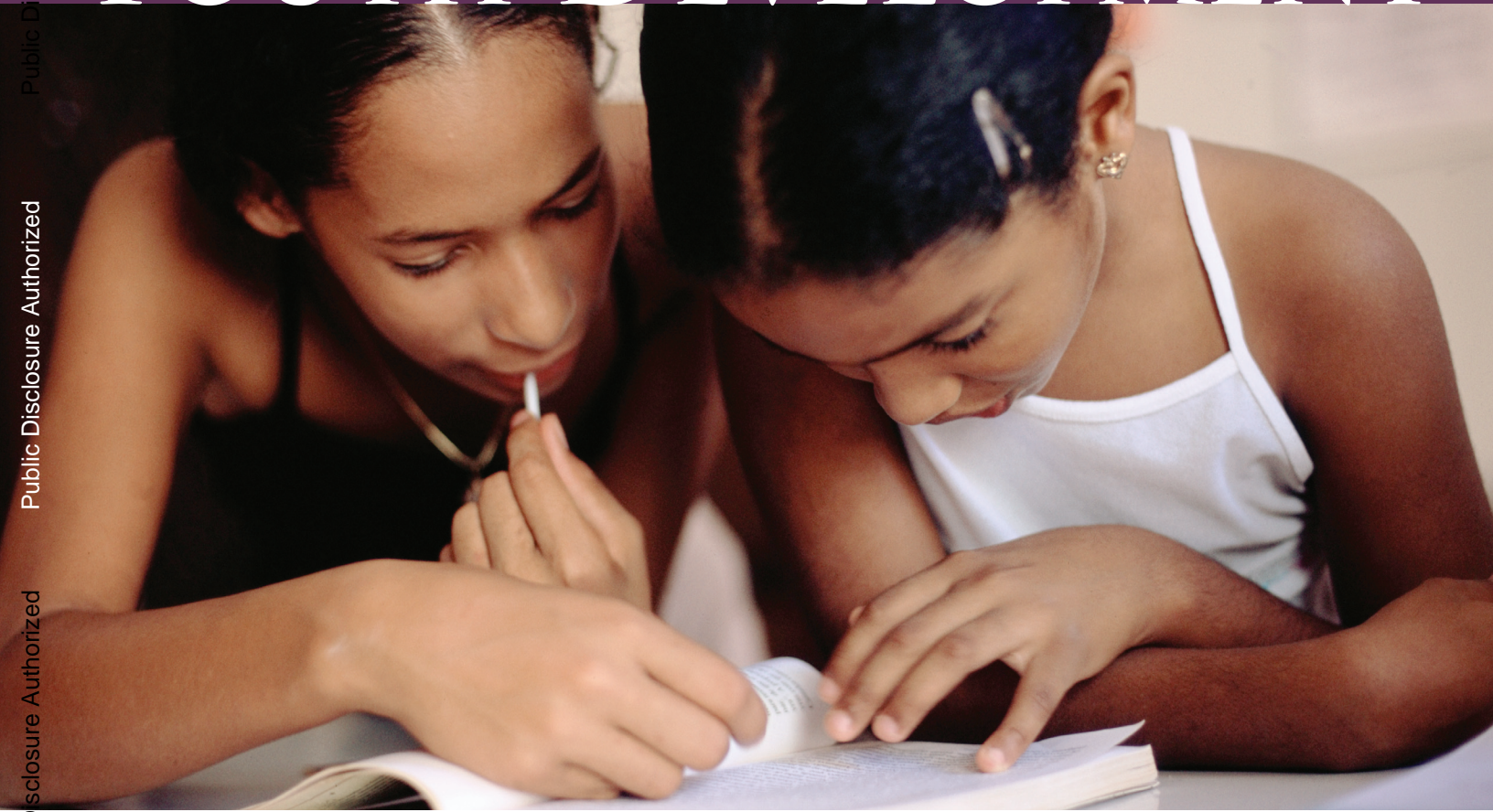


# NOTES

## YOUTH DEVELOPMENT



### Conditional Cash Transfers: The Next Generation

*A case study of Mexico's Oportunidades Program*

Conditional Cash Transfer (CCT) programs have become a preferred tool for investing in human development in many countries. The first generation of these programs focused on helping poor families invest in the education and well-being of their children. **The next generation of CCTs is moving up the lifecycle to ensure successful completion of upper secondary school, while simultaneously evaluating their impact on reducing risky behavior among youth.** Initial results indicate that CCTs may have even stronger effects on youth (ages 12–21), all the while preserving the investments made at the younger ages. This Note highlights one of the largest CCT programs focusing on youth—*Mexico's Oportunidades*—and offers some considerations for designing future youth-focused CCTs.



## Providing ‘Oportunidades’ through CCTs

Mexico’s *Oportunidades* program (previously called *Progresa*) is one of the largest in the new genre of social programs termed conditional cash transfers (CCTs). It provides benefits to nearly one fourth of the Mexican population (over 5 million families) in both rural and urban areas. CCT programs are typically designed with two objectives: poverty reduction and human capital accumulation. They now represent a major instrument for combating poverty in several regions. In the short-term, CCTs seek to reduce poverty at the household level through cash transfers, generally to female heads of households. The transfers are made conditional upon the school attendance and/or clinic visits of the children in the household, thereby achieving the second objective of long-term human capital accumulation.

Until recently, most CCT impact evaluations have focused on the multisectoral benefits for younger children, and on the educational impact for youth (ages 12 and above). A new set of evaluations has begun to assess the impact of these programs on a broader range of youth indicators including employment and risk behaviors. Initial findings show that effects are significant on youth, perhaps even greater than those for younger ages. As CCT programs move into more innovative approaches for ensuring upper secondary school completion, the expected additional effects of increased employment opportunities and reduced risky behaviors will provide valuable information for future program design.

### What’s Different about the New Design?

Since the program began in 1997, there have been several changes in program design particularly affecting youth. In 2001, grants were extended to upper secondary school (previously ending in 9th grade), and a year later, the program moved to urban areas. Specific design elements worth highlighting include:

- A higher grant amount for upper secondary relative to lower levels of schooling, reflecting higher direct costs as well as opportunity costs of education (Table 1).
- Higher transfer amounts (by about 13%) for girls than boys (similar to the original lower secondary grants) (Table 1).
- Upper secondary students required to attend *platicas*, (informal discussions about health) once a month, in addition to regular school in order to receive the monthly transfer.
- Grants for upper secondary school can now be received by the youth themselves, if authorized by the mother.
- Students may fail each grade once. After failing a grade twice education benefits are discontinued permanently for the youth.
- The impact evaluation now includes specific modules measuring impact of the high school grants and the health *platicas* on reducing risky behavior (alcohol, smoking and risky sexual activity)

In 2003, a new component called *Jovenes con Oportunidades* was added to extend the program benefits beyond graduation in order to provide additional incentives for completing secondary education. It consists of opening an account for each youth in the last year of lower secondary school (9th grade) and depositing points (equal to pesos) for each subsequent year through completion of 12th grade. Upon graduation, (which must be done prior to age 22), the student can choose between waiting two years to obtain the accumulated account balances (with interest) as he/she wishes, or having immediate access to the funds if they are used to participate in one of the following initiatives: i) attend college; ii) purchase health insurance; iii)

Table 1. Cash Benefits of Oportunidades (USD/month, 2006) By Education Level and Gender

| Education Level   | Boys       | Girls      |
|---|------------|------------|
| Primary School (grades 3–6)                                 | \$16 (avg) | \$16 (avg) |
| Middle School (grades 7–9)                                  | \$34 (avg) | \$37 (avg) |
| High School (grades 10–12)                                  | \$57 (avg) | \$65 (avg) |
| Fixed Monthly Nutrition Grant/household                     |            | \$16       |
| Maximum HH monthly transfer with no children in High School |            | \$100      |
| Maximum HH Transfer with children in High School            |            | \$169      |

Exchange rate: 11 pesos = \$1. Note: Oportunidades also provides in kind benefits including school supplies, medical consultations and nutritional supplements

get a loan to start a business; or iv) apply for public housing. This new component is currently being evaluated by Center for Research and Teaching Economics (CIDE) and the Institute for Fiscal Studies in London.

### Demonstrated Impacts on Youth

*Oportunidades* has become noteworthy in part because it included from the start a large scale evaluation design using randomly assigned treatment and control groups.<sup>1</sup> It has thus stimulated a large number of studies on its impacts. The results of these studies have provided policy makers in Mexico and elsewhere invaluable information on how to improve program design and implementation as they move forward.

The main impact results of *Oportunidades* on youth fall into three categories: education, work, and changes in risky behavior (Table 2).

**Education:** Not surprisingly, the largest impacts thus far are on education, with positive impacts on enrollment, total years of schooling, dropouts and progressing on time. Importantly, many of the effects seem to be strongest for older children.<sup>(1)</sup> Some of the most significant *enrollment impacts* occur at the transition between primary and middle school, where many children prior to the program tended to drop out. Short-term results in urban areas found the impact on school enrollment to increase range between 9–12 %-points for boys ages 12–17, and 12.6–14.4 %-points for girls the same age.<sup>(2)</sup>

The medium-term impact on increasing years of *schooling* has been equally important. After nearly six years of program benefits in rural areas, schooling increased by nearly a year for those participating relative to non-participating. This reflects important increases in *progressing on time* through school, with an increase of 13.5 %-points for girls aged 15–21, compared to 16 %-points for boys the same age. While impact on reducing *repetition* appears to be higher for younger children (ages 6–10), the impact on reducing *dropout* rates and encouraging re-entry among those who have dropped out is higher at the lower secondary school level.<sup>(3)(4)</sup>

<sup>1</sup>The rural evaluation design includes a randomized component and experimental design. Rural evaluation data surveys (ENCEL) have been relatively extensive and now include seven rounds. The urban evaluation design is not experimental, but rather uses the method of matching to choose comparison groups. The survey (ENCELURB) began in 2002, with follow ups in 2003 and 2004. More information is available at <<http://evaluacion.oportunidades.gob.mx/evaluacion>>



Table 2. Summary of Impacts on Youth of *Oportunidades* (Selected Indicators)

| Area of Impact  | Rural Medium Term (1997–2003) <sup>b</sup><br>Compared to controls  | Urban Short Term Impact(2002–2004) <sup>a</sup><br>Compared to controls  |
|---|---|--|
| <b>Education</b>  |   |  |
| • Schooling   | ↑ about one year (boys 15–18 post-program, slightly less for girls) | ↑ 0.25 years (boys 12–14);<br>↑ 0.15 to 0.17 years (girls 12–14);<br>↑ 0.28 years (boys 15–18)<br>↑ 0.15 to 0.19 years (girls 15–18) |
| • Progression   | ↑ 13.5 %-points (girls 15–21)<br>↑ 16 %-points (boys 15–21)         | ↑ 0.1 to 0.15 grades completed (boys 6–17)<br>↑ 0.08 to 0.1 grades completed (girls 6–17)  |
| • Enrollment  |   | ↑ 8 %-points after 1 year (boys 15–18)<br>↑ 9 to 12 %-points (boys 6–17)<br>↑ 12.6 to 14.4 %-points (girls 6–17)                     |
| <b>Work</b>   |   |  |
| • Premature Entry to Labor Market                       | ↓ 10 %-points (boys 15–16)  | ↓ 7 %-points after 1 year (boys 12–14)<br>↓ 13 %-points after 2 years (boys 12–14)<br>↓ 10 %-points in first year (girls 15–18)      |
| • Employment (excluding domestic)                       | ↑ 6 %-points (boys 19–21)<br>↑ 5 %-points (girls 19–21)             | NA<br>NA   |
| <b>Health</b>   | <b>Male &amp; Female (ages 6–15)</b>                                | <b>Male &amp; Female (ages 6–15)</b>   |
| • Days ill past 30 days                                 | NA  | ↓ 0.269 days   |
| • # of hospitalizations                                 | NA  | ↓ 0.094  |
| • Days unable to perform normal activities past 30 days | ↓ 0.058 days  | ↓ 0.250 days   |
| <b>Risky Behavior</b>                                   | <b>Male &amp; Female (age 15–21)</b>                                |  |
| • Ever smoked   | ↓ 15.4 %-points   | ↓ 4.4 %-points (M/F 15–21)<br>↓ 1.6 %-points (M/F 10–14)   |
| • Ever drank  | ↓ 11.4 %-points   | ↓ 0.7 %-points (M/F 10–14), no impact (M/F 15–21)  |
| • # alcoholic drinks previous week                      | ↓ 0.155 drinks  | ↓ 0.147 drinks (M/F 15–21)   |
| • # of sexual partners                                  | ↓ 1.0   | NA   |
| • Age first sexual activity                             | No impact on age  | ↓ 0.055 years (M/F 15–21)  |
| • Pregnancy/STDs  | No impact on age  | NA   |

Sources: **a.** Behrman, J.R., Gallardo-García, J., Parker, S.W., Todd, P.E., Vèlez, V. 2006. Parker, S.W., Todd, P.E., Wolpin, K.I. 2006. Gutiérrez, J. P., Gertler, P., Hernández, M., Bertozzi, S. 2004. **b.** Behrman, J.R., Parker, S.W., Todd, P.E. 2005. 2006. Gutiérrez, J.P., Gertler, P., Hernández, M., Bertozzi, S. 2004.

Using actual returns to education on wages in Mexico and the initial program effects on education, the gain in earnings associated with additional schooling compared to the cost of the grants indicates a strong internal rate of return of about 8%.<sup>(5)</sup> This return would likely be much higher if it also took into account the positive externalities associated with reduction of child labor and risk behaviors (see next sections).

**Work:** *Oportunidades* has also had an important impact on work in two ways. First, as time in school has increased, the program has helped reduce the time spent in work for younger ages (12–16 year olds), thereby reducing premature entry into the labor market (and child labor). Second, the program has helped increase the probability of finding employment for older youth (ages 19–21). For example, short-term results in urban areas show that the program reduces the probability of working for boys ages 12–14 by 7%-points after one year when compared to non-participants, and by 13%-points after two years in the program.<sup>(6)</sup>

Older youth (ages 19–21), by contrast, were able to find work more readily as a result of the program. After 5 1/2 years of program benefits in rural areas, young men experienced an overall increase in employment of 6 %-points and young women of 5 %-points, compared to non-participating counterparts.<sup>(7)</sup> The effect is particularly important for girls, who tend to have lower labor force participation in the traditional rural communities.

**Risky behaviors:** Whereas the design of *Oportunidades* was only minimally oriented towards the health of adolescents, scientific literature on risky behaviors, such as alcohol consumption, smoking, and unprotected sex, underscores the correlation of increases in education with reduction of certain risky behaviors. Moreover, research shows that these activities are linked to other risky behaviors and outcomes such as alcohol abuse, violence, adolescent pregnancy and increased probability of sexually transmitted diseases, among others. At the same time, there is the possible risk that additional income might actually provide greater opportunities to buy such harmful items as alcohol and cigarettes. With the evolution of the program to extending education grants to high school as well as implementing the health *platicas* for adolescents, significant interest has been generated toward these potential impacts.

Recent evaluations demonstrate varying effects. Regarding **alcohol consumption and smoking**, the results showed a strikingly strong impact. After nearly 6 years of program participation in rural areas, studies show a 15 %-points reduction in both alcohol and cigarette use for those aged 15–21, compared with control groups. With respect to **sexual behavior**, there was a significant impact on reducing the number of sexual partners (from an average of two to one partner), but no impact on the age of first sexual experience or on the probability of using contraceptives. There is also no significant impact on the prevalence of STDs, or on pregnancies.<sup>(8)</sup>



## Areas for additional research

While these evaluations provide important new information for policymakers on improving CCT design as well as on addressing overall challenges facing youth, they also serve to underscore gaps in knowledge that need to be addressed to further improve policy and program choices:

- **Rural/Urban differences:** As the urban and rural benefit packages are identical it is important to understand whether differences in measured impacts reflect higher opportunity costs in urban areas.
- **Gender:** Short run impacts on school enrollment showed notably higher impacts for girls than boys.<sup>(9)</sup> However, other studies have shown that longer term program impacts seem to be slightly larger for boys.<sup>(10)</sup> Given that grant levels are currently higher for girls than boys, this is an important policy question.
- **Quality of Schooling:** It is critical to measure if the enrollments induced by *Oportunidades* lower the quality of the targeted schools (through congestion or by adding marginal students). Related to this, to what extent are labor market impacts linked to the quality of schooling?
- **Cost Effectiveness and Benefit/Cost Analyses:** Although some studies have indicated favorable benefit/costs of program implementation of the *Oportunidades* model, more such research is needed in order to discern whether other alternative programs might be more cost-effective.<sup>(11)</sup>
- **Cash Transfer Recipient/Use of Cash Transfer:** Are transfers more effective if provided directly to youth rather than parents? At what ages and in which proportion?
- **Conditionality:** Which “C” is more important—the Condition or the Cash? Would income effect alone be strong enough to encourage school attendance?
- **Risky behaviors:** While the results of evaluations seem to indicate reductions in smoking, the consumption of alcohol, and the number of sexual partners, the changes could be attributed to self-reporting. Further empirical evidence needs to be developed to substantiate these preliminary findings as well as expanding findings to other related areas such as impact on fertility, marriage, crime and violence.
- **Migration:** The possible impact of the program on migration is a topic which needs further research.

## References and Recommended Reading

This note was largely based on the research of Susan W. Parker and her 2006 report, “Impacts of *Oportunidades* on Youth in Mexico.” Center for Research and Teaching in Economics (CIDE), Mexico. More information on all the evaluations of the *Oportunidades* program is available at <http://evaluacion.opportunidades.gob.mx/evaluacion>

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