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Mexico's Oportunidades: Conditional Cash Transfers as the Solution to Global Poverty?

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Introduction

Like many other developing countries, Mexico has struggled to alleviate poverty and reduce income inequality. Despite decades of experience in development and social assistance policy, indicators of poverty remained alarmingly high and consistent through the mid-1990s, with nearly 30% of the general population, and in excess of 50% in rural areas, living in extreme poverty. Income levels as well as welfare indicators such as nutritional status, infant mortality, illiteracy rates, and access to and use of educational and health services disappointed.[1]

The antipoverty policy agenda in Mexico shifted significantly after the country endured a great political and economic crisis beginning in 1994. The Zapatista Army for National Liberation uprising in January precipitated in the March assassination of Presidential candidate Luis Donaldo Colosio of the ruling *Partido Revolucionario Institucional*.[2] Political uncertainty, combined with the devaluation of the peso that abruptly ended critical capital inflows, triggered a financial crisis in December that came to be known as *el error de diciembre*. [3] The aftermath resulted in economic hardship for all, with a 21% decline in real wages over 1994-96.[4] This decline, abetted by rising unemployment, disproportionately affected the poor. The poverty index with regard to a food-based poverty line almost doubled from 21.2% before the crisis to 37.4% by 1996.[5]

The incoming Zedillo administration faced two primary constraints in offsetting the impact of the crisis amongst the poorest: first, severe budgetary restrictions and austerity measures precluded an increase in social spending; second, existing antipoverty policies failed to reach the

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[1] Santiago Levy, *Progess Against Poverty: Sustaining Mexico's Progresa-Oportunidades Program* (Washington, DC: Brookings Institution Press, 2006), 4.
[2] Miguel Niño-Zarazúa, "Mexico's Progresa-Oportunidades and the Emergence of Social Assistance in Latin America," March 16, 2011, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1788074, accessed March 24, 2011.
[3] Francisco Gil-Díaz, "The Origin of Mexico's 1994 Financial Crisis," 1998, http://www.cato.org/pubs/journal/cj17n3-14.html, accessed March 25, 2011.
[4] David J. McKenzie, "How Do Households Cope with Aggregate Shocks? Evidence from the Mexican Peso Crisis," *World Development* 31 (2003), 1179.
[5] Miguel Niño-Zarazúa, "Mexico's Progresa-Oportunidades and the Emergence of Social Assistance in Latin America"

majority of the poor. Most of these policies consisted of ineffective generalized and targeted food and in-kind subsidies. [6] A critical fault rested in an imbalance in the distribution of budget funds between urban and rural areas. 75% of the total budget for subsidized food consumption was appropriated to urban areas despite the fact that over 60% of the poor called rural areas home. A large percentage of income transfer, in fact, was captured by non-target households. [7]

Given limited fiscal resources, substitution of social policies which avoided additional pressure on the federal budget emerged as the most feasible political option. Conditions were prime to make substantive adjustments to existing food subsidy and related poverty programs; the beginning of a new administration naturally facilitated change while the economic crisis created a necessary sense of urgency.[8] President Ernesto Zedillo and policymakers set to debating how best to protect the poor.

Several considerations created a dilemma in formulating an appropriate policy response. Increasing the scope and coverage of existing programs in the short run would demonstrate genuine efforts to protect the poor, but phasing out such programs after the crisis would present a political challenge and call into question the credibility of efforts to reform food subsidy policy. At the same time, failure to integrate a short-term response to the crisis would be seen as insensitive to the needs of the poor. Despite the need for a short-term response to protect the poor from the effects of the crisis, failure to set the basis for a medium-term response that could foster a sustained increase in standards of living would represent a missed opportunity. [9]

In 1997, Mexico launched a revolutionary, incentive-based poverty alleviation program known as Progresa (later renamed and henceforth referred to as Oportunidades) in response to

[6] Ibid.
[7] Santiago Levy, *Progess Against Poverty: Sustaining Mexico's Progresa-Oportunidades Program*, 5.
[8] Ibid, 14.
[9] Ibid, 14.

these dilemmas. The idea is simple: small amounts of money are dispensed bimonthly to poor families based on the strict conditions that children regularly attend school and family members obtain preventive medical care through regular clinic visits and attendance of educational talks. In this way, Oportunidades aimed to provide short-term income poverty relief from the impacts of the crisis and afterwards by increasing immediate consumption possibilities, while promoting the formation of human capital as a means to break the intergenerational transmission of poverty as part of a long-term development strategy.[10] Families are free to spend cash transfers as they wish and continue to receive them so long as they adhere to the prescribed conditions. Oportunidades is one of the first examples of conditional cash transfers (CCTs).

Oportunidades, and in a more general sense conditional cash transfers, represents a departure from traditional forms of social policy. The program moves beyond conventional approaches such as food and in-kind subsidies to embrace a multidimensional approach, one which redefines poverty beyond consideration of income to encompass welfare indicators such as health, education, and nutrition.[11] Such market-based approaches which stress household agency insofar as consumption and the role of the labor market in enabling access to stable livelihoods have been a crucial shift in thinking about how to address poverty, particularly in Latin America.[12] The economic rationale underpinning conditional cash transfers will later be expanded upon.

Oportunidades gradually replaced food subsidies to become the largest single poverty alleviation program in Mexico's history. By the end of 2005, 24 million people, or 23.8% of Mexico's population, benefitted from the program. This figure is slightly higher than the number living in extreme poverty in the previous year. Gradually expanding from small and marginalized rural localities to larger and less marginalized urban areas, it has expanded in line with the geographical

[10] Peter Lloyd-Sherlock, "Doing a Bit More for the Poor? Social Assistance in Latin America," *Journal of Social Policy* 37 (2008), 623-624.
[11] Miguel Niño-Zarazúa, "Mexico's Progresa-Oportunidades and the Emergence of Social Assistance in Latin America"
[12] Peter Lloyd-Sherlock, "Doing a Bit More for the Poor? Social Assistance in Latin America," 622.

distribution of poverty. The six states (Chiapas, Mexico State, Puebla, Veracruz, Oaxaca, and Guerrero) accounting for 48.2% of total poverty are home to 53.6% of beneficiary households.[13]

As part of the nature of conditionality, Oportunidades incorporated a rigorous emphasis on continual monitoring and results evaluation into its operational design to ensure that beneficiaries adhered to conditions. This facilitated extensive academic research and independent evaluations which overwhelmingly viewed the program in a positive light, in particular emphasizing relative efficiency and effectiveness in improving educational outcomes.[14] Oportunidades garnered the enthusiastic support of international financial institutions such as the World Bank and Inter-American Development Bank, who played critical supporting roles in exporting the conditional cash transfer model abroad. By 2007, 29 developing countries, primarily in Latin America, had implemented a CCT, with many others in the planning phases.[15] The Inter-American Development Bank supports conditional cash transfers to much so that in 2001 it approved the largest loan in its history to facilitate the expansion of Oportunidades from rural into urban areas.[16]

In a little more than a decade, a remarkable consensus had been achieved among evaluators, consultants, and academics close to international financial institutions regarding the strengths of conditional cash transfers: they target the poorest with minimal exclusion and inclusion errors, promote investments in human capital that break the intergenerational transmission of poverty, reduce poverty in the short term and the long term, lower income inequality, and are cost effective.[17] A range of evidence supports these conclusions, but there exists an imbalance in analyses of conditional cash transfers that has produced an alarming tendency to

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[13] Santiago Levy, *Progess Against Poverty: Sustaining Mexico's Progresa-Oportunidades Program*, 27-28.
[14] Enrique Valencia Lomelí, "Conditional Cash Transfers as Social Policy in Latin America: An Assessment of their Contributions and Limitations," *Annual Review of Sociology* 34 (2008), 478.
[15] Ariel Fiszbein, Norbert Schady, Francisco H. G. Ferreira, Margaret Grosh, Nial Kelleher, Pedro Olinto, and Emmanuel Skoufias, *Conditional Cash Transfers: Reducing Present and Future Poverty*, (Washington, DC: World Bank, 2009), 31.
[16] Sudhanshu Handa and Benjamin Davis, "The Experience of Conditional Cash Transfers in Latin America and the Caribbean," *Development Policy Review* 24 (2006).
[17] Enrique Valencia Lomelí, "Conditional Cash Transfers as Social Policy in Latin America: An Assessment of their Contributions and Limitations," 478.

regard them as *the* solution for poverty reduction and sustained development. Nancy Birdsall, president of the Center for Global Development, once remarked, ''I think these programs are as close as you can come to a magic bullet in development... Every decade or so, we see something that can really make a difference, and this is one of those things.''[18] While conditional cash transfers improve upon the experiences of previous social assistance practices, they are not the panacea for poverty they are often hailed to be.

The purpose of this research is to disseminate the economic rationale underlying Oportunidades and, in a more general sense, conditional cash transfers. Emphasis is given to the experiences of Oportunidades, widely considered the most developed of conditional cash transfer programs, in terms of achieving explicit objectives. Though scholarly evaluations have been overwhelmingly positive for many valid reasons, the enthusiasm with which many speak about CCTs may be misguided. Significant constraints and limitations exist in their use as a comprehensive poverty alleviation tool. The tendency to view such programs as the solution to poverty requires deeper levels of analysis. Suggestions are given as to the proper place of CCT's as social assistance policy in the developing world.

The Economic Rationale for CCTs

This section departs from an analysis of the political and economic conditions leading to the creation of Oportunidades to disseminate the economic rationale more broadly governing conditional cash transfers. In other words, what are the theoretical advantages of conditional cash transfers with regards to other social assistance policy options? Why cash transfers? And why

[18] Celia W. Dugger, "To Help Poor Be Pupils, Not Wage Earners, Brazil Pays Parents," *The New York Times*, January 3, 2004, http://www.nytimes.com/2004/01/03/world/to-help-poor-be-pupils-not-wage-earners-brazil-pays-parents.html?scp=1&sq=%22magic+bullet+in+development%22&st=nyt, accessed March 28, 2011.

attach conditionality? For purposes of clarity, any scheme requiring a specified course of action in order to receive a benefit is viewed as a conditional cash transfer.[19]

At the heart of any debate concerning social protection are tradeoffs between equity and efficiency. Traditional social assistance policies such as generalized and targeted subsidies often come under criticism for favoring short-term equity objectives rather than long-term objectives of efficiency and economic growth, widely considered crucial to rapid and sustained poverty reduction.[20] In fact, short-term equity objectives may actively undermine long-term efficiency objectives; leakage of benefits to non-target groups, perverse work and savings incentives, and 'dead' investment nature associated with traditional assistance policies possibly decrease economic growth prospects. [21] This tradeoff has long defined discourse on the role of social assistance in providing poverty relief and developing economies.

However, the presumption of an equity-efficiency tradeoff has come under question. Social assistance may enable liquidity constrained poor people to become productive workers if appropriate incentives are provided for long-term investment in human capital. Safety nets are increasingly seen as having the potential to compensate for market failures that perpetuate poverty, notably in settings with high inequality. [22] Conditional cash transfers are a clear manifestation of this shift in thinking: short-term equity objectives are addressed in the form of income support to immediately increase consumption possibilities, while properly aligned incentives foster the human capital accumulation widely considered necessary for long-term efficiency gains.

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[19] Jishnu Das, Quy-Toan Do, and Berk Özler, "Conditional Cash Transfers and the Equity-Efficiency Debate," April 21, 2004, http://papers.ssrn.com/sol3ers.c/papfm?abstract_id=610325, accessed March 28, 2011.
[20] Martin Ravallion, "Targeted Transfers in Poor Countries: Revisiting the Trade-Offs and Policy Options," May 2003, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=412803 , accessed March 26, 2011.
[21] Ibid.
[22] Laura B. Rawlings and Gloria M. Rubio, "Evaluating the Impact of Conditional Cash Transfer Programs," *The World Bank Research Observer* 20 (2005), 33.

The food subsidies in place prior to Oportunidades, in addition to failing to address long-term structural poverty, were considered inefficient transfer mechanisms of income for reasons inherent in their design. Even if the subsidy is complete (in other words the subsidized item is free), the finite quantity of consumption limits the potential extent and scope of income transfers. On the other hand, even if the subsidy is not complete, poor households still face income constraints and consumption choices that limit the size of the subsidy received. In fact, higher-income households may capture a greater share of the benefits provided by a subsidy.[23] Thus, it may follow to reason that direct cash transfers to the poor could ameliorate these problems characteristic of subsidies.

In theory, cash transfers facilitate less errors of inclusion than subsidies, since the transfer mechanism *directly* grants income to those who are targeted. In addition, cash transfers avoid the creation of secondary markets and price distortions resulting from subsidies. Information asymmetries are addressed by giving households discretion over how best to allocate the assistance, empowering households to exercise agency in choosing which expenditures most improve living standards given unique circumstances.[24] A liquidity constrained family with limited access to capital, for example, may utilize a cash transfer to invest in their children's education, an investment decision which otherwise would not have been possible. Such a decision enabled by a cash transfer is both equitable and efficient, not only improving a household's living standards but better allocating capital within an economy.[25]

Of course, private behavior is not necessarily consistent with the social optimum. A serious concern is the disincentive effect of a cash transfer. With a level of basic necessities provided for by government, individuals may be discouraged from entering or staying in the labor force, or neglect

[23] Santiago Levy, *Progess Against Poverty: Sustaining Mexico's Progresa-Oportunidades Program*, 7-8.
[24] Laura B. Rawlings, "A New Approach to Social Assistance: Latin America's Experience with Conditional Cash Transfer Programmes," *International Social Security Review* 58 (2004).
[25] Ariel Fiszbein, Norbert Schady, Francisco H. G. Ferreira, Margaret Grosh, Nial Kelleher, Pedro Olinto, and Emmanuel Skoufias, *Conditional Cash Transfers: Reducing Present and Future Poverty*, 48.

to invest in human capital for future gainful employment.[26] Well-functioning unrestricted cash transfers also assume informed, rational agents act in ways largely consistent with the social optimum, though this view is discouragingly idealistic. Private information about the expected return of investments is often imperfect and persistent. Even assuming perfect information, recent behavioral economics research suggests that people tend to act in ways inconsistent with future goals. A bias toward short-term gains may cause a household's level of human capital investment to deviate from the "true" private and collective social optimum.[27] A similarly liquidity constrained family, for example, may choose not to invest a cash transfer in a child's education, but rather squander those resources on fruitless goods which bear no impact on human capital accumulation. In this instance, equity of some form is achieved but efficiency is not.

Herein lays the essential rationalization for attaching conditionality to cash transfers: given the inevitable presence of market failures, conditionality aligns incentives for individuals and households to adjust their behavior closer to the social optimum. In any conditional cash transfer, the conditioned-on good is considered to support actions in the greater public interest. Conditionality helps to increase overall welfare when individual and societal preferences differ.[28] In this way, equity is not necessarily achieved at the cost of efficiency. Income is transferred to the poor under the condition that investments be made in the formation of human capital which serve longer-term efficiency objectives. The two may complement each other.

Several advantages follow with the imposition of conditionalities. Conditionalities serve as screening mechanisms insofar as only members of the target group self-select into the program. If the conditioned-on good is an inferior good (as is the case with public educational and health services), rich households which consume less of the good to begin with would find the marginal

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[26] Ibid, 47.
[27] Ibid, 50.
[28] Jishnu Das, Quy-Toan Do, and Berk Özler, "Reassessing Conditional Cash Transfer Programs," *The World Bank Research Observer* 20 (2005), 64.

costs of complying with conditions higher than the marginal benefit and opt out of the program. Conditionalities may also resolve work disincentive effects by equating the direct costs and opportunity costs associated with the conditioned-on good with the size of the cash transfer. However, considering that conditional cash transfers are also meant as a way to increase immediate consumption possibilities, the actual size of the transfer is slightly higher than those costs.

Assessment of Performance and Achievements of Oportunidades and CCTs

Conditionality theoretically improves upon numerous criticisms levied against cash transfers, but a balanced assessment of results to date is required to determine whether the enthusiasm with which conditional cash transfers are viewed is indeed justified. Targeting is generally considered effective and the work disincentive effect minimal. However, the focus will be on three principal, explicit objectives of Oportunidades: to contribute to children's and young people's attendance and completion of primary, secondary, and high school education; to improve the health and nutritional status of poor households; and to reduce present and future poverty.[29] Statistics and evidence in relation to the former two are positive, though the latter poses significant assessment challenges which serve to expose the constraints and limitations of conditional cash transfers.

Impacts on Schooling

Impacts on primary school enrollment have been either insignificant or nonexistent. This is partially explained by primary education enrollment rates of more than 90%, even in underprivileged rural areas, prior to the introduction of Oportunidades.[30] A 2000 International Food Policy Research Institute report estimates the increases in rural areas to be between .74 and 1.07 percentage points for boys, with slightly higher increases between .96 and 1.45 percentage

[29] Santiago Levy, *Progess Against Poverty: Sustaining Mexico's Progresa-Oportunidades Program*, 21.
[30] Ibid, 59.

points for girls.[31] In urban areas, Oportunidades was not found to impact overall enrollment but demonstrated positive effects on dropout rates.[32] Retention seems to be the primary benefit of Oportunidades at the primary school level, though this is not an explicit objective.

At the secondary level, increases in enrollment were more substantial, given a greater potential for gains with initially low baseline enrollment rates between 67 and 73%.[33] Comparing enrollment levels of 1996-97 with those of 2002-03, enrollment in rural areas was reported to have increased 15.7% for boys and 28.7% for girls. In urban areas, the report found an overall increase of 4% two years after the introduction of Oportunidades.[34] Despite lower effects in urban areas than rural areas, the overall impact at the secondary level is positive.

At the high school level, the positive trend continues on an overwhelming scale. From the 2000-01 to 2002-03 school years, overall enrollment in the first year of high school increased 85% in rural areas and 10% in urban areas.[35] Clearly, the majority of Oportunidades' positive enrollment effects occur at the high school level, though support of enrollment at the primary and secondary level are of course necessary to reach this level.

Impacts on Health and Nutrition

Oportunidades conditions the utilization of health services as a direct means of improving the health and nutritional status of beneficiaries. Therefore, it is no surprise that by most measures the results have been encouraging.

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[31] T. Paul Schultz, "Final Report: The Impact of Progresa on School Enrollments," April 20, 2000, http://www.ifpri.org/sites/default/files/publications/schultz_enroll.pdf, accessed March 30, 2011.
[32] Santiago Levy, *Progess Against Poverty: Sustaining Mexico's Progresa-Oportunidades Program*, 59.
[33] Laura B. Rawlings, "A New Approach to Social Assistance: Latin America's Experience with Conditional Cash Transfer Programmes"
[34] Susan W. Parker, "Evaluación del Impacto de Oportunidades Sobre La Inscripción, Reprobación, y Abandono Escolar," 2003, http://evaluacion.oportunidades.gob.mx:8010/441c7c1a3d30adf64e0e724174a9d527/impacto/2003/insp_ciesas_2003_evaluacion.pdf, accessed March 29, 2011.
[35] Ibid.

In the first two years of the program, aggregate demand for health services in rural areas increased 30-50%. A 2004 study observed a 67% difference in demand for health care services between program and nonprogram communities. Most importantly, the increase in demand was mainly for preventive care services by families that had not previously frequented neither public nor private health centers. As a result, incidence of severe disease and health-related issues decreased substantially. Hospitals saw a 58% drop in visits for rural children in the birth-to-age-two group as well as a decrease in the over-fifty age group.[36]

Increased utilization of preventive health services has translated into concrete results. A study researching rural households which had been beneficiaries of the program since 1998 observed that over a five-year period, sick days for individuals sixteen to forty-nine years of age decreased 18%. The positive effect extends to urban areas as well, with a 50% reduction in sick days among individuals aged sixteen to forty.[37] As a result of improved nutrition and preventive care, health gains for children range from improvements in motor skills to decreases in growth stunting. A 2004 study of children who had been participants since 1998 and 2000 found a 10-15% improvement in various motor skills than similarly aged, nonparticipant children.[38] In addition to enhanced motor development, participant children experience a lower probability of growth stunting. In relation to nonparticipant counterparts, these children grow an average of nearly one centimeter more per year, representing one-sixth of their annual average growth.[39]

Research conducted on the health outcomes of Oportunidades consistently support positive conclusions.[40]

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[36] Santiago Levy, *Progess Against Poverty: Sustaining Mexico's Progresa-Oportunidades Program*, 49.
[37] Ibid, 50.
[38] Ibid, 51.
[39] Ibid, 52.
[40] Enrique Valencia Lomel**í**, "Conditional Cash Transfers as Social Policy in Latin America: An Assessment of their Contributions and Limitations," 483.

Impacts on Present and Future Poverty

As noted, Oportunidades seeks to alleviate present poverty by expanding immediate consumption possibilities through the use of cash, while conditions that invest in the accumulation of human capital address future poverty.

With regard to present poverty, additional income clearly expands consumption possibilities. After just a year of program operation average consumption levels had increased by 13%. Participatory households chose to spend much of the additional income on fruits, vegetables, and animal products; this helps to explain the 7.8% increase in median caloric intake per person.[41] Positive impacts on consumption suggest that conditional cash transfers not only rapidly raise living standards, but guarantee a basic level of food security to reduce economic vulnerability and protect against crises.

These results are to be expected given the size of cash transfers in comparison to family income (In Mexico, 20-21% of family consumption).[42] However, in the aggregate the scale of poverty reduction effects varies. Arguments in support of a considerable poverty reduction effect of conditional cash transfers tend to stress shifts in the intensity rather than incidence of poverty. This distinction is a crucial one; intensity refers to the gap between a household's income and the poverty threshold, while incidence refers to the number of households able to rise above the threshold.

Certainly, Oportunidades has reduced the intensity of poverty. The size of the gap between household income and the poverty threshold decreased by 11.5%, 9.7%, and 12.1% during 2002,

[41] Laura B. Rawlings and Gloria M. Rubio, "Evaluating the Impact of Conditional Cash Transfer Programs," 48.
[42] Enrique Valencia Lomelí, "Conditional Cash Transfers as Social Policy in Latin America: An Assessment of their Contributions and Limitations," 484.

2004, and 2005, respectively.[43] Just two years after program implementation, a large reduction in the order of 30% was observed in the poverty gap.[44] On the other hand, impacts on the incidence of poverty are not quite as significant. Based on data from the National Survey of Household Income, the national poverty rate decreased by 3.6% in 2002, 3.6% in 2004, and 5.1% in 2005, respectively. Greater effects were seen in rural areas than urban areas. Earlier calculations based on data from 1997 to 2003 found that only 9% of the rural poor managed to rise above the poverty threshold.[45]

In terms of a food-based poverty line, Oportunidades contributed to a 1% reduction in the incidence of poverty on the national level from its introduction in 1997 to just prior to the recent global financial crisis. The impact is two to three times greater in rural areas.[46] However, it must be noted that this miniscule reduction in incidence of poverty can be attributed to systemic vulnerabilities to covariate shocks, such as the 43% increase in international food prices between March 2007 and March 2008.[47] In any conditional cash transfer, increased size of the transfer grants an additional degree of protection from such covariate shocks and would serve to reduce poverty intensity and incidence figures. Of course, these gains must be weighed against the work disincentive and targeting effects.

Unlike present poverty indicators, future poverty reductions resulting from human capital accumulation cannot yet be concretely measured. Children from households who have participated in Oportunidades since introduction in 1997 are only now leaving school and entering the workforce. Even so, the sample size is small considering the program only significantly expanded in scope in subsequent years.

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[43] Ibid, 485.
[44] Miguel Niño-Zarazúa, "Mexico's Progresa-Oportunidades and the Emergence of Social Assistance in Latin America"
[45] Enrique Valencia Lomelí, "Conditional Cash Transfers as Social Policy in Latin America: An Assessment of their Contributions and Limitations," 484.
[46] Miguel Niño-Zarazúa, "Mexico's Progresa-Oportunidades and the Emergence of Social Assistance in Latin America"
[47] Ibid.

The only conclusions that can be drawn, therefore, rely on simulations of possible future incomes. Initial evaluations suggested an increase of .66 years in schooling would yield 8% higher future wages, with improved nutrition further increasing future earnings by 2.9%.[48] Whether these income gains are sufficient to enable participants to cross the poverty threshold remains unanswered.

Furthermore, an implicit assumption of such simulations is that better educated workers will find sufficient demand in the labor market for their services. This assumption is a pervasive one infrequently called into question. Realistically, productive work opportunities do not inherently follow increases in educational attainment. Between the years 1980 and 2000 in Mexico, relative returns to tertiary education were in fact lower than returns to secondary education, oversaturation of an educated labor supply having led to wage depressions.[49] Santiago Levy, former deputy minister of finance in Mexico and principal architect of Oportunidades, originally defined the program as "transfers of income linked to investment in human capital today, and higher personal income tomorrow." In 2007, he revised his definition to admit, "Without businesses that have more capital and are larger, the 'higher personal income tomorrow' will not happen. Where are the companies that are going to hire, and register with the social security institute, the millions of workers from Oportunidades?"[50] In order for investments in a healthier and more educated labor force to translate into increased earnings and sustained poverty reduction, the socioeconomic context must be one in which abilities and skills can be realized.

There is also the question of whether Oportunidades contributes to the development of human capital in the first place. Conditional cash transfers tend to be purely demand-side

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[48] Emmanuel Skoufias and Benjamin Davis, "Targeting the Poor in Mexico: An Evaluation of the Selection of Households for Progresa," *World Development* 29 (2001)

[49] Marco Manacorda, Carolina Sánchez-Páramo, and Norbert Schady, "Changes in Returns to Education in Latin America: The Role of Demand and Supply Skills," *Industrial & Labor Relations Review* 63 (2007), 309.

[50] Enrique Valencia Lomelí, "Conditional Cash Transfers as Social Policy in Latin America: An Assessment of their Contributions and Limitations," 486.

interventions with the objective of increasing utilization of educational and health services. As documented, school enrollment rates generally increased as a result of Oportunidades, with the majority of gains mainly seen at the secondary and especially high school levels. Those already in school also stayed in school: dropout rates across the primary, secondary, and high school level decreased by 24% according to a 2005 Institute of International Food Policy Research report.[51] These numbers are encouraging and good reason for enthusiasm, but little thought has been given as to the quality of the actual learning taking place. Utilization does not necessarily translate into human capital gains. Schools unprepared for enrollment increases may experience a decline in quality without appropriate supply-side responses. In the case of Oportunidades, there is no evidence of improved learning outcomes.[52] Standardized test scores continue to lag significantly in comparison to other countries.[53] Learning and quality of education are often ignored in evaluations, though these are the crucial factors for human capital gains. Efforts to boost school enrollment without necessary investments in education undermine any real welfare gain.[54]

Achievements in health and nutrition indicators attest to the importance of supply-side intervention as a supplement to demand-side intervention. Basic primary health care services were extended and resources set aside to ensure an adequate supply of equipment, medicines, and material to meet the increased demand created by Oportunidades.[55] Conditional cash transfers were designed in response to the perceived failures of traditional supply-side interventions, but supply-side investment is essential.

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[51] Emmanuel Skoufias, *Progresa and its Impacts on the Welfare of Rural Households in Mexico* (Washington, DC: International Food Policy Research Institute, 2005)
[52] Peter Lloyd-Sherlock, "Doing a Bit More for the Poor? Social Assistance in Latin America," 629.
[53]"Anti-poverty programmes: Quid Pro Quo," The Economist, February 12, 2009, http://www.economist.com/node/13109639, accessed April 1, 2011.
[54] Peter Lloyd-Sherlock, "Doing a Bit More for the Poor? Social Assistance in Latin America," 630.
[55] Laura B. Rawlings and Gloria M. Rubio, "Evaluating the Impact of Conditional Cash Transfer Programs," 36.

Conclusion

The zeal with which many academics, international financial institutions, and nonprofit organizations have embraced conditional cash transfers as a comprehensive social assistance and development strategy, largely based on the successes of Oportunidades, is astonishing. The financial support and speed with which these programs have spread throughout Latin America is unprecedented. On the positive side, this demonstrates that social policy innovations with compelling design features and promising evaluation results can be adopted and scaled up within a short period of time. Governments with the support of various domestic and international actors have the capacity to react remarkably quickly to poverty.

In many ways, the enthusiasm for conditional cash transfers is justified. School enrollment rates have increased dramatically, health and nutritional indicators are consistently positive, and the intensity of poverty has decreased by double-digit figures in the case of Oportunidades. Poor households overall are better off because of Oportunidades. Santiago Levy writes, "Compared with the dispersed set of generalized and target food subsidy programs and isolated health, nutrition, and education interventions that were in place up to mid-1990s, Progresa-Oportunidades is a better alternative. The effort put into this endeavor has been positive, and the change has been for the better. The program has played an important role in making the poor in Mexico better off today than a decade ago."[56] Following encouraging statistics, it is assumed that the theoretical human capital gains achieved will enable participants to break the intergenerational transmission of poverty in the long term.

However, effective conditional cash transfers are predicated on three assumptions of varying probability: first, that the supply of publicly-provided educational and health infrastructure is adequate or an increase in services will follow the increase in demand; second, that the use of

[56] Santiago Levy, *Progess Against Poverty: Sustaining Mexico's Progresa-Oportunidades Program*, 77.

educational and health services will result in human capital accumulation; and third, that labor markets will respond to increased human capital with gainful, productive employment opportunities that match demand. These assumptions do not always manifest themselves, leading to notable conclusions regarding the constraints, limitations, and proper role of conditional cash transfers in the context of social assistance.

Conditional cash transfers are not a substitute for high-quality supply-side investments. Conditionalities subsidize demand for the utilization of conditioned-on goods, in most instances in the form of educational and health services. However, increased demand must be anticipated for and complemented with high-quality, effective services. If not, human capital gains may not be achieved, undermining the potential for long-term poverty relief.

In a similar vein, human capital gains do not necessarily lead to long-term poverty relief. The supply of gainful employment opportunities does not intrinsically correspond with the demand created by a healthier, higher educated labor force. Thus, conditional cash transfers are effective as a component of a broad redesign of poverty policy, but not as the singular solution some suggest them to be. They do not directly increase growth and will not by themselves eradicate poverty. Conditional cash transfers must be reinforced by micro and macroeconomic policies that have a stronger and more direct bearing on a country's growth rate. Such policies include incentives for investment, innovation, and job creation and fiscal stability controls.

Avid supporters of conditional cash transfers are right to point to successes, but a critical rethink is required, one which better recognizes and addresses the constraints and limitations of the model. Viewing them as *the* panacea for poverty in a certain sense precludes the need for other policy interventions, which may undermine efforts to alleviate poverty both in the short-term and the long-term.

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