

## Notes on Mexico's Oportunidades (Progresa) Program

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### Introduction

In 1997, Mexico launched an incentive-based poverty alleviation program focused on enhancing the human capital of the poor. This program, initially known as PROGRESA, and now as OPORTUNIDADES, currently benefits five million families, almost one out of every four Mexicans, and evaluations indicate it is having a positive impact on the educational, health and nutritional status of the poor.

This program was part of a change in Mexico's poverty alleviation strategy, which also involved changes in other programs, to strengthen the redistributive impact of public spending.

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### Why Oportunidades may be of interest to others?

#### From a macroeconomic perspective

- Although initiated in the context of a short-run economic crisis (1994-95), Oportunidades was designed as a medium term response that would yield lasting improvements in the well being of the poor;
- a significant redistribution of income in favor of the poor was achieved under tight fiscal conditions, by gradually replacing generalized food subsidies with direct monetary transfers; and,
- Oportunidades transfers can mitigate short-run macroeconomic shocks and facilitate the phase-out of distributionally-motivated price or tax distortions (price ceilings, subsidies, consumption tax exemptions, etc), that are ineffective and generate substantial dead-weight losses, while maintaining or even increasing poor households' real income.

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#### From a microeconomic perspective:

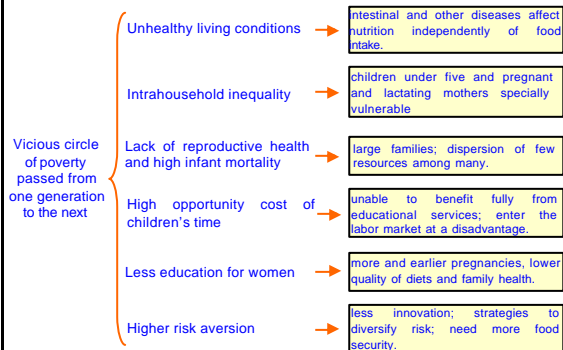
- The substitution of isolated income transfers for the poor through various means (in-kind delivery of good, price discounts, etc.) by an integrated approach that exploits the complementarities among health, education and nutrition;
- the association of income transfers with appropriate incentives that:
  - avoid long term welfare dependency, and,
  - empower the poor to play a central role in overcoming their difficult conditions;
- a focus on the combination of interventions that are most effective at each stage of an individual's life cycle; and,
- the link between program design and operation with impact and operational evaluations.

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**From a political economy and public policy perspectives:**

- The institutional setting and decision-making process that allowed to phase-out, decentralize, transform and coordinate various agencies and programs;
- how design and implementation considered the political sustainability of the program and the consistency and coherence of the overall effort;
- the process that allowed PROGRESA to carry on from president Zedillo's administration (1994-2000), into OPORTUNIDADES during president Fox's administration (2000-2006) within the context of Mexico's democratic transition; and,
- the importance of detailed analytical work to decide upon and substantiate the different characteristics of Oportunidades and changes to other programs.

**Motivation for Oportunidades**



**On the other hand:**

Until 1996 there were many food, health and education programs in Mexico, operated by different federal agencies, and characterized by:

- deficiencies in their conceptual design;
- uncoordinated operation and little transparency;
- duplication of efforts and excessive bureaucracy;
- urban/rural imbalance;
- increasing fiscal resources, most through generalized subsidies;
- little effectiveness; and,
- lack of evaluation.

For example:

- infant malnutrition rates for children under five in rural areas remained at around 50% from 1974 to 1996;
- 60% of poor rural families did not receive any support from the government.

**In consequence:**

To effectively enhance the human capital of the poor, it is essential to recognize the complementarities that exist among nutrition, health and education.

Programs that satisfy one of these needs in isolation may not reach the central objective of developing poor families' capabilities, even if they manage to target correctly their benefits (which was not the case).

It is necessary to transform food subsidies (generalized and targeted), and isolated health and educational programs into an integrated approach that: assures the simultaneous provision of a basic package of health, education and nutrition; takes advantage of their complementarities; and provides certainty to families of achieving a minimum of well-being.

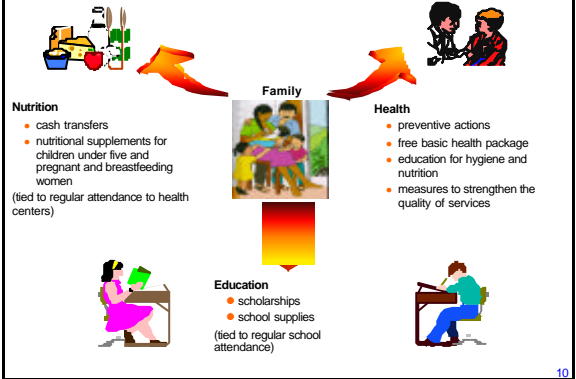
Oportunidades marks the transition towards a new integrated approach; it constitutes a far-reaching effort of the Federal Government, in recognition that previous isolated programs had had a limited impact.

## Oportunidades' objectives:

- Improve the education, health and nutritional status of families in extreme poverty;
- integrate education, health and nutrition interventions;
- encourage the responsibility and active participation of the family; and,
- redistribute income to those in extreme poverty.

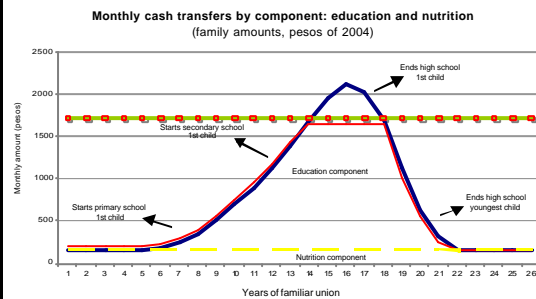
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## Three closely related and complementary components:



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## Oportunidades' transfers follow families' life cycle



Average family cash transfer is approximately 31 US dollars per month. There is a lower limit of 15 US dollars, and an upper limit of 153 US dollars.

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## Beneficiaries co-responsibility

Participation of parents is essential for the education, health and nutrition of children. It is critical:

- to induce more family responsibility tying benefits to specific actions;
- to fully respect poor families' decisions on the use of their cash transfers, school attendance of their children, and their health care; thus they assume responsibility for results; and,
- to provide enough information so they can make informed and responsible decisions.

Oportunidades promotes a more respectful relationship between the government and beneficiaries.

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## Oportunidades targets efforts on the most needy

This has two implications:

- 1) Reorienting public spending towards rural areas, recognizing that needs are greater and deeper in these communities, without neglecting poor urban zones.
- 2) Establishing effective and transparent targeting mechanisms that insure the proper use of resources for extreme poverty alleviation.

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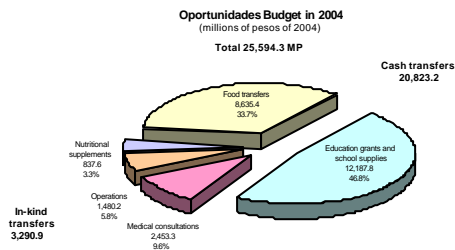
## Program operation

- Cash transfers are individually delivered to the mother, and vary depending on the number of children enrolled in school, their attendance and the progress made in different grade levels, and their attendance to health centers;
- all mothers participating in the program are informed with individually delivered pamphlets that the benefits of Oportunidades are not conditioned on participating in any political event or voting for any political party; and,
- operation is transparent, and Operation Rules of the Program are available in internet ([www.oportunidades.gob.mx](http://www.oportunidades.gob.mx)) and in the Federal Register. A list of the number of beneficiary families by locality, municipality and state is also published. All of Oportunidades' information is auditable.

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## Oportunidades' budget

In year 2004, 25,594.3 MP was spent in this Program, about 0.3% of Mexico's GDP.



Operational expenses represent less than 6% of the total cost of the Program. Cash transfers to families increase their monthly income by 25% on average.

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## Evaluation and initial results

At the outset of the Program, IFPRI (International Food Policy Research Institute) was hired to evaluate its impact. In turn, this institution hired the services of well-known academics. With these purposes, a sample scheme and a baseline survey were designed which allows an objective statistical evaluation of the results, through the continuous monitoring of 24 thousand families. Since then, various other researchers have evaluated various aspects of Oportunidades.

After eight years of operation, results so far are encouraging (although there still are operational problems). These results point to some trends, but do not capture Oportunidades' full impact, since this will only be fully observed over the long-term.

The evaluation was carried out by researchers that are independent of the Federal Government.

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## The decision making and implementation process

- **March 1995:** the first proposal to substitute in-kind for cash transfers linked to health care is presented, in the context of wage negotiations in the middle of an economic crisis.  
In 1995, no known experience of a targeted poverty program with a life cycle approach to the simultaneous provision of health care, education and nutrition.
- **October 1995:** pilot program begins.  
Coverage: 31,300 families in 3 localities.
- **March 1996:** decision to launch Progresa is taken.
- **August 1997:** Progresa starts operations in rural areas.  
Coverage: 300,000 families in 6,300 localities. Budget: 46 Million US\$.
- **January 2001:** Increase in education benefits, Progresa starts in urban areas.  
Coverage: 2.5 million families in 53,152 localities. Budget: 1,27 Million US\$.
- **May 2005:** Oportunidades reaches practically all in extreme poverty.  
Coverage: 5 million families in 82,856 localities. Budget: 2,932 Million US\$.

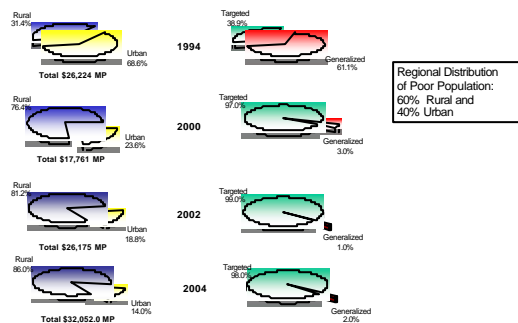
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## Some lessons from poverty policy change in Mexico

- ❖ Design a conceptual framework for poverty alleviation:
  - ✓ identify / give transparency to subsidies and income transfers;
  - ✓ role of individual programs; and,
  - ✓ consistency and coherence of the overall effort.
- ❖ Define the institutional arrangement:
  - ✓ few good programs; and,
  - ✓ Identify level of government responsible for each program.
- ❖ Strengthen the ability to carry out and maintain change:
  - ✓ need an agency with strong decision power over budget allocation and program design;
  - ✓ promote a "horizontal" view of what ministries and agencies do;
  - ✓ strong political support;
  - ✓ legitimize proposal on empirical evidence; and,
  - ✓ design and monitor implementation carefully.
- ❖ Insure financial sustainability:
  - ✓ no add-ons; and,
  - ✓ consistency with economic policy.

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## Composition and Regional Distribution of Federal Resources for Food Subsidies (millions of pesos of 2004)



Oportunidades has played a central role in redistributing income towards the poor, particularly in rural areas, mostly financed with other programs. Over a ten year period, the budget has only increased by 22%.

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- ❖ Continuity, consistency and coherence overtime:
  - ✓ transparency: public information on objectives, operation rules and results;
  - ✓ evaluation and monitoring;
  - ✓ no link to political activities or individual persons; and,
  - ✓ keep all the \*\*\* mentioned above.

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## Balance of poverty policy change and Oportunidades

### Oportunidades:

- now covers 5 million families, about 1 out of every 4 Mexicans, practically the entire universe of families in extreme poverty. Coverage of should not increase any more;
- effectively replaced price and in-kind subsidies with monetary transfers even in remote rural areas, without inflation pressures, family violence or increased alcoholism. The problem of the poor is lack of income, not access to food;
- was not a pressure on the Federal Budget. Targeting was successful in using resources more effectively;
- was built with a "horizontal" view of what ministries do, as opposed to the traditional "vertical" or self-contained view of each ministry; and,
- transited from president Zedillo's (PRI) administration into president Fox's (PAN) administration.