

ECONOMIC SCENE

A model for evaluating the use of development dollars, south of the border.

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THE Bush administration is casting about for new ideas on how to use \$5 billion of aid a year for poor countries to achieve accountability and results in economic development. It would do well to look south, to the Progresa program in Mexico, for a successful model that has reduced child labor, increased educational levels and improved health and nutrition for the poor.

The idea is simple: pay poor families to send their children to school and visit health care providers. Careful evaluations suggest the strategy is working.

In 1997, Mexico began Progresa, long advocated by economists like Santiago Levy, Mexico's director general of social security. Families are sent a check every other month if their children regularly attend school in grades 3 through 9; the amount varies from about \$10 a month in the third grade to \$35 for girls in the ninth grade. Girls in secondary school are paid 15 percent more than are boys because girls have a higher dropout rate in Mexico.

Families are also given grants to buy school supplies and monthly food subsidies if they get medical checkups, immunizations and health education lectures. The money goes directly from the central government to the mothers of the children.

The education grants are substantial, about two-thirds of what secondary-school students would receive for full-time work. In 2000, some 2.5 million rural families received benefits, about a ninth of all families in Mexico. The total cost was around \$1 billion, or 0.2 percent of gross domestic product.

Argentina, Brazil, Honduras, Nicaragua and other countries have started similar programs or are in the process of doing so.

The Mexican government did something unusual: it phased in Progresa in a way that made it easier to evaluate its impact. Specifically, 320 villages were randomly assigned to a treatment group that received benefits beginning in May 1998, and 186 more to a control group that did not receive benefits until 20 months later. The experiences of the control group provide a natural benchmark against which to judge how the treatment group would have fared without Progresa.

The International Food Policy Research Institute in Washington has coordinated an extensive evaluation of Progresa. Some 24,000 households from the villages were surveyed on five occasions from 1997 to 1999. Several studies are available from www.ifpri.org. The effect on school enrollment is examined in studies by T. Paul Schultz of Yale and Jere Behrman and Petra Todd of the University of Pennsylvania.

While more than 90 percent of rural Mexican children attend primary school, 45 percent drop out after the sixth grade, when students advance to secondary school. Enrollment also falls steeply after the ninth grade, when 42 percent of students leave. Increasing secondary-school enrollment is a priority.

Progresa increased transitions to secondary school by nearly 20 percent. Educational attainment is estimated to increase by two-thirds of a year eventually because of Progresa. Larger effects would probably arise if benefits were extended beyond the ninth grade.

Child labor decreased as enrollment increased. Eligibility for Progresa benefits led child employment to decline about 15 percent, according to research by Susan Parker of the Center for Research and Teaching of Economics in Mexico City and Emmanuel Skoufias, the Progresa project director for the food policy research institute.

Paul Gertler, an economist at the University of California at Berkeley, has found that Progresa has a positive impact on the health of participants, both young children and adults.

There have been few reports of corruption in Progresa, probably because benefits are centrally distributed without involvement of local officials. Administrative costs are around 9 percent of total costs.

Professors Behrman and Todd estimated that by raising future earning power, the educational benefits of Progresa alone exceed the costs by 40 to 110 percent. The effects on health and nutrition raise the benefits even further.

The fact that Progresa's benefits were delayed for the control group localities -- the feature that makes the evaluation results so persuasive -- has generated criticism in Mexico. Given limited budgets and administrative capacity, however, the program could not possibly have been phased in everywhere at once. Random assignment of localities was arguably the fairest way to run the program. It also provided a compelling method to measure results and ensure accountability.

Moreover, the evaluation has provided powerful ammunition for advocates of the program to press for its continuation under the new government of Vicente Fox, and in other countries. Indeed, the Fox government recently changed Progresa's name to Oportunidades but retained the program's main elements. The government plans to extend it to urban areas, with the help of a \$1 billion loan -- the largest ever -- from the Inter-American Development Bank.

Progresa is effective because it addresses a root cause of low school attendance and child labor: low family income. The main determinant of whether children work or attend school -- both across countries and across families -- is family income. Most families in poor countries would prefer to send children to school instead of to work, but they cannot afford to forgo the income their children bring home. Progresa raises family income and reduces the cost of attending school.

Although Progresa is not a panacea, it appears to increase education and reduce child labor more effectively than popular alternatives. A study by Professor Parker and David Coady of the food policy research institute suggests that at least in rural sections of Mexico, Progresa is a more cost-effective way to increase enrollment than is building more schools.

Worldwide, some 120 million children age 5 to 14 work full time, according to the International Labor Organization. Virtually all live in poor countries. Nearly three billion people live on less than \$2 a day.

The \$5 billion in development aid the Bush administration has requested will not have much impact given the size of the problems, especially if it is spread over more than a handful of countries. But if the aid could be used to develop and rigorously test programs like Progresa, the knowledge garnered could stimulate more development aid and encourage poor countries to pursue more effective policies.