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**Indirect Effects of an Aid Program: How do Cash Transfers Affect  
Ineligibles' Consumption**

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# Indirect Effects of an Aid Program:

## How do Cash Transfers Affect Ineligibles' Consumption? \*

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### Abstract

We exploit the unique experimental design of a social program to understand how cash transfers to eligible households indirectly affect the consumption of ineligible households living in the same villages. This indirect effect on consumption is positive, and it operates through insurance and credit markets: ineligible households benefit from their neighbors' higher income by receiving more transfers, by borrowing more, and by reducing their precautionary savings. This exercise shows 1) how social programs may benefit the local economy at large, not only the treated; 2) how this beneficial effect is spread in the locality through informal credit and insurance arrangements; 3) how looking only at the effect on the treated results in an underestimation of the program impact. One should analyze the effects of this type of program on the entire local economy, rather than on the treated only, and use a village-level randomization, rather than selecting treatment and control subjects from the same community.

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# 1 Introduction

Policy interventions in developing countries are likely to affect all the residents of the areas where they are implemented. The program evaluation literature, however, is mainly focused on estimating the program effects on the treated, rather than the effects on the non-treated or locality-wide effects. These indirect effects may be large in communities where the lack of formal markets and institutions creates strong interactions between small groups of households. This paper estimates the indirect effects of the flagship Mexican welfare program, Progresa, on the consumption of ineligible households, and studies the mechanisms through which these indirect effects occur.

Started in 1997 and still ongoing, Progresa's aim is improving poor households' education, health, and nutrition through sizeable cash transfers. In our sample of rural villages, more than half of the households are treated. The targeted villages are small and agriculture is the main, and often sole economic activity. The exposure to natural disasters, the absence of formal credit and insurance institutions, and extensive within-village kinship relationships create incentives to engage in informal risk-sharing activities. If this is the case, treated households will share part of their higher income with members of their social network through gifts or loans. Therefore, the entire village will benefit from the program.

Understanding the program's indirect effects and their causes is important for three reasons: first, because this type of program has become very popular and therefore a careful evaluation is needed. Second, the study of indirect effects has implications for the design of policies and of the experiments to evaluate them. Third, and more broadly, this exercise enables us to see how a positive income shock is transmitted through the local economy.

We can estimate these effects under fairly weak identification assumptions because of the unique design of the experimental trial and evaluation data. There is a village-level randomization and we have a census of all households, irrespective of eligibility for the treatment.

Thus, we have information on four groups: eligible and ineligible households in treatment and control villages. Ineligible households in control villages provide a valid counterfactual for the ineligibles in treatment villages under the assumptions that assignment is truly random and control villages are not indirectly affected by the program. The identification relies on the fact that only a subgroup of households in the village is eligible for a particular policy (Moffitt, 2001). A comparison of ineligible households' consumption, loans, and transfers in treatment and control villages enables us to identify the indirect effect of the program on these outcomes.

If villagers share risk, Progresa will cause an increase in consumption, loans, and transfers for ineligible families. Consistent with those predictions, food consumption for the ineligibles in treated villages increases by about 10% per month per adult equivalent in May and November 1999. This effect is roughly 50% of the average increase in food consumption for eligible adults since November 1998; failure to consider this indirect effect results in a 12% underestimate of the treatment impact. Ineligible households in treatment villages consume more by borrowing more money (mainly from family and friends), by receiving more transfers, and, to a small extent, by reducing their stock of grains and animals at the beginning of the program.

We rule out alternative potential causes for the observed consumption increase, including changes in labor earnings and increases in both goods prices and income from higher sales caused by a higher demand. Therefore, we conclude that the indirect program effect on consumption is not generated by an increase in earnings.

A limitation of the program evaluation literature is that there is often a sizeable difference between the experimental estimates of treatment effects and the effect of the policy on the population. This normally occurs for two reasons. Usually one can only estimate the treatment effect on the treated or the eligibles, and not, as in our case, its indirect effect on the ineligibles. Second, the experiment normally involves a small fraction of the relevant population; when a program is rolled-out nationwide, it may have general equilibrium effects that offset the partial

equilibrium ones estimated from experimental data. Our analysis does not suffer from this limitation because we observe the treatment effect on the ineligible. Further, in our case this effect is not a function of the number of treated villages, but of the existence of informal risk-sharing networks. As long as informal networks are an important tool to insure against risk, we can predict positive indirect effects on consumption irrespective of the number of localities that receive Progresa assistance. Thus, contrary to many active labor market programs, in this class of policies the indirect treatment effects reinforce the direct effects.

We contribute to the program evaluation literature in several ways. First, we show that a class of widely implemented aid policies has large positive indirect effects on consumption. Second, we establish how these indirect effects operate, and that they are a feature of the nationwide program, rather than of the evaluation sample only. Third, we point out that the unit of analysis to evaluate this class of policies is the entire local economy, rather than only the treated. The implication for the design of policy evaluations is that the experimental data should be randomized at the village level, as done in the Progresa evaluation, rather than within a given locality, as is often the case.

We also add to the literature that studies consumption smoothing in low-income economies by showing how a cash injection into a group of households affects all families living in the same village. Consistent with the predictions of a simple risk sharing model, we find that ineligible households living in treated villages receive more informal loans (e.g., Rosenzweig, 1988; Townsend, 1995; Udry, 1994), more transfers from family and friends (e.g., Rosenzweig, 1988b; Rosenzweig and Stark, 1989; Fafchamps and Lund, 2003), and reduce their livestock and grains (e.g., Deaton, 1992; Rosenzweig and Wolpin, 1993; Udry, 1995; Lim and Townsend, 1998). In addition, unlike most of the empirical literature, we can identify to what extent a household's positive income shock benefits the other village members: for every 100 *pesos* transferred by Progresa to the eligibles households, the consumption of ineligible households

increases by approximately 11 *pesos*.

The paper is organized as follows: Section 2 describes the structure of the program, the data collected for its evaluation, and the village characteristics indicating there is scope for risk-sharing. In Section 3 we use the predictions from a simple risk-sharing model to derive a set of testable hypotheses; Section 4 discusses the identification of the parameters of interest, and Section 5 estimates and interprets these parameters, showing there is a positive indirect treatment effect on consumption that occurs through higher loans and transfers. Section 6 rules out alternative explanations for this indirect effect and Section 7 checks that the estimated effects are consistent with each other. Section 8 concludes.

## 2 The data and village characteristics

### 2.1 Program structure and data characteristics

Progresa (currently re-named Oportunidades) is an ongoing Mexican poverty alleviation program that targets poor households, providing grants to improve education, health, and nutrition. Started in 1997 and with transfers beginning around March 1998, this program had about 5 million recipient households in more than 92,000 localities by the end of 2006. The program provides grants in the form of nutritional subsidies, as well as scholarships for children attending third to ninth grade. The recipients of the transfers are women. The grants, paid bimonthly, are conditional upon family visits to health centers, women's participation in informal workshops on health and nutrition issues, and verification that children attended classes at least 85% of the time (Levy, 2006).

Scholarships are larger for higher school grades and for girls going to secondary school. The monthly amounts range between 70 *pesos* for all third graders to 225 *pesos* for males and

255 *pesos* for females in ninth grade.<sup>1,2</sup> These payments correspond to approximately one half to two thirds of the wage a child would earn by working full time (Schultz, 2004), and cannot exceed a monthly total of 625 *pesos* per household.<sup>3</sup> The actual monthly grants up to November 1999 are sizeable, averaging 200 *pesos* per household, or 32.5 *pesos* per adult equivalent. This is about 23% and 16% of the average food consumption per adult equivalent for the poor and non-poor in control villages (which are respectively 140 and 200 *pesos*).

The experimental data for the evaluation of Progresa contain information on households from 506 poor rural villages in seven different states. Because of the program's geographic phase-in, 186 villages are randomized out and receive the treatment only at the end of 1999. Program eligibility depends on poverty status, and households are classified as being eligible or ineligible according to an assessment of their permanent income from information collected in the September 1997 census of localities.<sup>4</sup> There were two rounds of selection of eligible households in Progresa. 52% of households were classified as eligible in 1997. A few months later, but before the beginning of the program, 54% of the households initially classified as ineligible were added to the beneficiary group. However, about 60% of these households did not receive the transfers because of administrative problems, irrespective of their compliance with the eligibility rules. Thus, this group of re-classified households is in practice a mix of treated households and eligible but non-treated households who may actually expect transfers and behave accordingly. Because their behavior and incentives are unclear, we drop them from our data and keep only households initially classified as poor and non-poor families whose status was not revised.<sup>5</sup> These re-classified households are both in treatment and control villages, in

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<sup>1</sup>These are the amounts of the scholarships in November 1998, the first post-program wave for which we have data. Unless otherwise specified, all our monetary data are in November 1998 prices.

<sup>2</sup>The exchange rate is approximately 10 *pesos* for 1 US dollar.

<sup>3</sup>The scholarships were smaller in 1998 and were later adjusted to keep their real value constant.

<sup>4</sup>We use the terms non-poor and ineligible, or poor and eligible, interchangeably, as each pair identifies the same group of households. For a detailed discussion of the selection criteria for both villages and households see Skoufias, Davis, and Behrman, 1999a, and Skoufias, Davis, and de la Vega, 1999b.

<sup>5</sup>For example, the re-classified households may initially change their children's school enrollment, expecting a transfer, or increase consumption by borrowing against their future transfers, which they know they will receive by the end of 1999 at the latest.

equal share because of the village randomization. Therefore the characteristics of the non-poor in treatment and control villages are not systematically different.

The households are informed that, after they are classified as eligible or ineligible, their status would not change until November 1999, irrespective of any income variation. Thus, households have no incentives to reduce their labor supply or lie about their income. Besides, the current income is not used to compute the poverty index that determines program eligibility. In practice there were hardly any status changes at the end of 1999.

After the start of the program, all residents of control and treatment villages are first interviewed in November 1998 - about a semester after the beginning of the payments - and then in May and November 1999. This provides information from three different points in time after the beginning of the program. We also have pre-program data, collected in September 1997 and March 1998, which we use in the empirical analysis whenever possible.

The data can be divided into four groups: poor and non-poor households in treatment and control villages. Only poor households in treatment areas receive the Progresa transfers. Poor households in control villages know they will be included in the program at the end of 1999, provided they are still eligible and the program is still in place.<sup>6</sup> Figure 1 shows the structure of the data and experimental design.

The sample size for the ineligibles varies across the three data waves: we observe 5280, 4443, and 4502 households in November 1998, May 1999, and November 1999. The sample size changes in the same way for the poor. These differences may be due to household dissolution or death, to temporary or permanent migration, or to household members being unavailable for interviews. To confirm there are no differential attrition rates by village type for the non-poor, we checked whether the ratio of ineligible residents in treatment and control villages is stable across the three waves, which it is: the share of non-poor living in treatment villages is 61% in

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<sup>6</sup>The existence of the program could not be guaranteed beyond 1999 because Progresa may have been discontinued by the new administration, after the 2000 general election. Each new administration in Mexico generally begins its own programs, rather than continuing their predecessor's (Levy, 2006).



the first two semesters and 60% in the third one.

## 2.2 The need for risk-sharing

Consumption smoothing is especially important in developing countries, since, when income is low, a negative shock might have catastrophic consequences. This section provides evidence on the need for informal insurance in the sampled villages, in which there is hardly any income diversification and formal insurance is absent.

The September 1997 data show that agriculture is the main activity in 97% of villages, and the sole activity in 56% of localities (out of the remaining 44% of villages with other activities, 50% engage in cattle farming, and 28% in trade). 88% of villages report corn as the main (and often sole) crop, while beans are the secondary crop in 60% of localities. Only 42% of villages cultivate 3 different crops. Thus, crop diversification does not play an important role in income smoothing.

These rural economies are subject to natural disasters: on average, 39, 57, and 30% of village residents suffered from at least one calamity in the 6 months prior to November 1998, May 1999, and November 1999. Water shortages, frost, and floods, all of which vary within village, are the most typical shocks, hitting a total of 30, 9, and 5% of households in the three periods. Other natural disasters such as earthquakes, hurricanes, fires, or pests are less frequent. Income also varies substantially both between households (the cross sectional coefficient of variation, CV, is 1.5 in 1998 for the control villages), as well as within household over time (the longitudinal income CV for the average household in control villages is 1).

Despite the need for insurance, formal credit and insurance institutions are virtually absent. In November 1998, fewer than 1% of villages have credit or consumption cooperatives, and fewer than 3% have NGO's or production associations. On the other hand, informal institutions abound: 89% of villages engage in communal activities or chores; 85% of villages have a community assembly, 87% a parent association, and 38% a religious organization. Further,

these villages are small: the average number of households per locality is 51 and the median 46. In addition, mobility is low. In November 1998 and 1999 only 5% of the total number of individuals had left the household in the previous 5 years, 20% of whom lives in the same village as the household of origin. A consequence of this low mobility is that most families are related. Angelucci *et al.* (2007) report that 80% of the households have at least one related family member in the village, that the average size of this extended family network is 7.7 households, and that 52% of its members are eligible for the program, so extended families are composed of both poor and non-poor households.<sup>7</sup>

Altogether, the high income risk, the absence of formal risk-sharing institutions, and the abundance of long-lasting relationships between village members strongly suggest that villagers engage in risk-sharing activities.

### **3 The effect of Progresa in the presence of risk-sharing**

In this section we discuss the potential effect of Progresa for ineligible households if village members share risk. Consider a risk-sharing model in which agents fully insure against idiosyncratic risk by pooling resources and consuming a fixed share of total income, so that, conditional on aggregate resources, their consumption is independent of their individual income.<sup>8</sup> One of the implications of this model is that, given a pair of agents 1 and 2, an increase in agent 1's income will increase aggregate resources, resulting in higher consumption for both agents. This efficient resource allocation is achieved through a series of informal loans and transfers. Therefore, the higher income for agent 1 will also result in an increase in net transfers to agent 2.

Suppose agents 1 and 2 represent eligible and ineligible households in Progresa villages. As

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<sup>7</sup>Repeated interactions between a small number of households are important to address information and enforcement problems (see, e.g., Fafchamps and Lund, 2003; Bloch, Genicot, and Ray, 2005; Mobius and Szeidl, 2007).

<sup>8</sup>We sketch this model in the Appendix, available online; see also, e.g., Mace (1991) or Townsend (1994).

the program increases eligible households' income while leaving ineligible households' income unchanged, the consumption of both eligible and ineligible families will increase, and so will the net transfers to the ineligibles. These results generate our testable hypotheses:

Hp 1: Progresa increases the consumption of ineligible households in treatment villages.

Hp 2: Progresa increases net transfers to ineligible households in treatment villages.

One could object to our stylized model for a number of reasons. First, Progresa may represent an unprecedented event for the recipients, altering their income process. This, in turn, may reduce the amount of risk-sharing between villagers. As an extreme case, the treated may decide to stop insuring the ineligibles now that their income is higher, since these informal agreements cannot be legally enforced.<sup>9</sup> We believe this is not happening in our data for the following reasons. To begin with, Progresa is not an unprecedented event in our villages, as their residents are used to receiving social assistance in many different forms.<sup>10</sup> Therefore, from the villagers' perspective Progresa is just one of the many existing social assistance programs. Further, it is unlikely that Progresa changes the income process substantially because the program transfer is initially guaranteed only for less than two years and it is mainly in the form of scholarships, which stop as soon as the eligible children complete the subsidized school grades. On the other hand, the cost of not reciprocating may be the exclusion from future mutual insurance or other punitive sanctions, especially since the receipt of this transfer is publicly observed. For these reasons, we expect the cost of future exclusion from the insurance network to more than offset the benefit of not sharing the transfers. Consistent with this conclusion, we find no difference in the longitudinal variation of consumption in treatment and

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<sup>9</sup>See, e.g., Coate and Ravallion (1993), Kehoe and Levine (1993), Kocherlakota (1996), and Ligon *et al.*, 2002 for a more formal treatment of limited commitment models.

<sup>10</sup>For example, at the time Progresa is implemented, qualifying households receive basic consumer goods at subsidized prices (DICONSA), free tortillas (TORTIBONO), free breakfast for children (DIF), food packages (PASAF), free school supplies (CONAFE), lodging and education grants for indigenous students (INI), other school grants for all poor children (Ninos de Solidaridad), financing of productive projects (FONAES), temporary employment (PET), training scholarships for the unemployed (PROBECAT), and cash transfers to farmers producing specific crops (PROCAMPO) (Skoufias, 2005).

control villages, which would be the case if Progresa changed the amount of risk-sharing. The difference in the coefficients of variation is -0.002, with a standard error of 0.004. We also compared their distributions, which are almost identical.

Second, the above discussion abstracts from the conditionality of the program. The design of Progresa requires the recipients to have health checks and send children to school to receive the income transfers. Since complying with these requirements may be costly for the treated, the net value of the Progresa transfer may be small and the change in aggregate resources negligible. However, the transfers are in practice unconditional for most of the recipients. This is because most eligible children were already going to school before the program started (in 1997, primary and secondary school enrollment rates for the eligibles were 90% and 60%). Moreover, compliance with the health requirements is not very time consuming. For example, adults are asked to have only annual health checks.<sup>11</sup> In addition, most households would have had health checks even in the absence of the program (e.g. in November 1998 72% of households in control villages had at least one health check during the previous 6 months). In sum, complying with the program rules is likely not very costly for most recipients.

Third, while we consider insurance within the village, risk-sharing may cross village boundaries. However, if risk sharing occurs both within and between villages, the net financial transfers towards treatment villages should decrease, as Progresa may crowd out private transfers (Albarran and Attanasio, 2004). If this were the case, our estimates would be lower bounds of the true program effects on ineligibles' consumption and transfers.

## 4 Identification and estimation

Our data consist of a partial-population experiment (Moffitt, 2001): the program is offered only to poor households living in a set of randomly chosen villages and the data provide information

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<sup>11</sup>The checks are more frequent for infants, young children, and pregnant and lactating women.

on all village residents, eligible and ineligible, living in both treatment and control villages. This experimental design enables us to identify how offering Progresa to the poor affects the behavior of the non-poor under fairly weak assumptions.

Define  $Y_{1i}$  as the potential outcome for non-poor ( $NP_i = 1$ ) in treatment villages ( $T_i = 1$ ) *in the presence of the treatment*.  $Y_{0i}$  is the potential outcome for non-poor ( $NP_i = 1$ ) in treatment villages ( $T_i = 1$ ) *in the absence of the treatment*. The observed outcome is:  $Y_i = Y_{0i} + T_i(Y_{1i} - Y_{0i})$ . The treatment is the availability of Progresa for poor households ( $NP_i = 0$ ) in treatment villages ( $T_i = 1$ ). The average effect of the program on non-poor households living in treatment villages, which we call the Indirect Treatment Effect (ITE), is then:

$$ITE = E(Y_{1i}|T_i = 1, NP_i = 1) - E(Y_{0i}|T_i = 1, NP_i = 1).$$

Under the assumptions of random assignment, the expected value of  $Y_0$ , the potential outcome in the absence of the treatment, is the same in both treatment and control villages, i.e.  $E(Y_{0i}|T_i = 1, NP_i = 1) = E(Y_{0i}|T_i = 0, NP_i = 1)$ . If there are no program spillover effects to control villages, the difference

$$E(Y_i|T_i = 1, NP_i = 1) - E(Y_i|T_i = 0, NP_i = 1) \tag{1}$$

identifies the ITE. Despite the randomization, equation (1) does not identify an average *ITE* if non-poor households in control villages are indirectly affected by the program. However, if there are indirect program effects for non-poor households in both treatment and control villages, the sign of these effects is likely the same for the two groups. In this case, the above parameter identifies a lower bound to the *ITE*. For example, suppose that the increase in school enrollment of treated children reduces child labor. This decrease in labor supply may result in higher employment and earnings for ineligible households in *both* treatment and control villages.

We obtain estimates of the *ITEs* comparing mean observed outcomes for the non-poor in treatment and control villages. If we do the same for poor households, we estimate the average treatment effect (ATE) on the eligibles under the assumption that  $E(Y_{0i}|T_i = 1, NP_i = 0) = E(Y_{0i}|T_i = 0, NP_i = 0)$ . In practice the difference between the ATE and the average treatment on the treated effect is negligible, because about 97% of eligible households participate to the program.<sup>12</sup>

## 5 Indirect Treatment Effect on consumption: estimates and causes

Now we can express our two testable hypotheses in terms of treatment effects:

Hp 1: Progesa increases the consumption ( $C$ ) of ineligible households in treatment villages, i.e.

$$ITE^C > 0.$$

Hp 2: Progesa increases net transfers ( $L$ ) to the ineligible in treatment villages, i.e.  $ITE^L > 0$ .

### 5.1 Effect on consumption

Table 1 shows food consumption averages, as well as estimates of treatment effects for both ineligible and eligible households. We compute monthly food consumption per adult equivalent to ease the comparison between poor and non-poor households, since their sizes differ (for example, in November 1999 the average household sizes are 5.8 and 5 adult equivalents for the poor and the non-poor). We use an equivalence scale estimated from these data in Di Maro (2004) and November 1998 prices. The Appendix provides further details on the creation of these variables.

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<sup>12</sup>Bobonis and Finan (2006) and Lalive and Cattaneo (2006) use the same data to estimate peer effects on schooling. Our approaches are similar because we all exploit the partial-population experiment to identify indirect treatment effects. However, unlike these other papers, we do not attempt to separately identify contextual and endogenous social interactions.

Table 1 shows that, as expected, the ineligible consume about 40% more than the eligibles in control villages. However, non-poor households are not very well off; their average food consumption in control areas is only 200 *pesos*, that is 20 U.S. dollars, per adult equivalent per month. Consumption is higher in treated areas for both sets of households: while the program has no indirect effect in November 1998, a few months after the program transfers began, the *ITE* on food consumption is significantly higher by 19.3 and 17.3 *pesos* per adult equivalent in May and November 1999. The estimated effects are 20.7 and 18.8 when we add conditioning variables. This is approximately a 10% increase over the average consumption in control villages.

The program effect on food consumption for the poor is positive and significant in all three periods and grows over time, consistent with the existing evidence (Hoddinott *et al.*, 2000, and Gertler *et al.*, 2006); it amounts to 15.8, 25.7, and 30.6 *pesos* per adult equivalent in the three waves we observe.

The estimated *ITEs* are robust to a variety of checks. First, we verify that the non-poor are not erroneously receiving the program transfers by checking the administrative records. Second, we find that the estimated effects are not caused by a disproportionate increase in the consumption of few families. To test this hypothesis, we estimate average consumption for treatment and control households, grouping them according to their poverty level. Figure 2 provides kernel estimates of these averages, and shows that consumption is higher in treatment villages for all poverty levels. We also regress consumption on the welfare index interacted with the treatment dummy and found the interaction term is positive and significant. We further compare the densities of consumption for the non-poor in treatment and control villages. We find that low consumption is less frequent and high consumption more frequent in treatment villages.

Third, in Table 2 we estimate treatment effects on the caloric content of food consumed,

rather than on its monetary value. This exercise is a useful robustness check because, to compute the value of home-produced food, we had to impute prices from purchased goods. If the imputed prices were inaccurate, this would provide imprecise consumption data. We find a significant increase in daily caloric intake of 178 kcal per adult equivalent for the ineligible and 340 for the eligibles. The estimates are obtained by pooling consumption data for May and November 1999 and are both significant at the 99% level. We also compute the quantity of food consumed in 1999 for several types of aliments, and find significant increases in the consumption of tomatoes, carrots, meat, eggs, corn, and rice for ineligible households, as shown in the rest of Table 2.<sup>13</sup>

The parameters we estimated so far exploit only the cross-sectional variation in our data. We also use pre-program food expenditure (observed in March 1998) to estimate the *ITE* either using difference-in-difference estimators, or adding pre-program expenditure as a conditioning variable. We do not present difference-in-difference estimates as our key results because the March 1998 data provide information on expenditures only, so we do not observe pre-program consumption quantities. Expenditure and consumption may differ considerably if consumption of home-produced goods is a sizeable fraction of total food consumption, which is likely among indigent families. Moreover, rather than asking detailed item-by-item questions, as in the later data waves, the March 1998 data report only expenditures by food group, probably understating true expenditures. In any case, the difference in pre-program food expenditure between the non-poor in treatment and control villages is either 0.57 *pesos* (with a standard error of 10.37), or -2.86 (and a standard error of 9.00), according to which of two available measures we use.<sup>14</sup> We report a subset of the estimated effects in Table A2 of the Appendix, where we also experiment with different ways to deal with outliers and with adding a set of covariates at baseline values:

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<sup>13</sup>We also estimate positive and significant ITEs on the log monetary value of food consumption for different food categories, i.e. fruits and vegetables, grains, meat and fish in Table A1 of the Appendix.

<sup>14</sup>We obtain the first measure from total weekly food expenditure data, and the second one aggregating weekly expenditures for the following food categories: vegetables and fruits; grains and cereal; meat, fish, and dairy products; industrial products.



the significance of the effects is largely unchanged.

In unreported regressions, we estimate the *ITE* on total non-food consumption, but find no set of consistently significant effects across different specifications: the point estimates are positive, especially in May 1999, but not always significant. This is probably not surprising, because our non-food consumption data are not as accurately measured as food consumption (e.g. the recall period is much longer) and non-food consumption is lumpier. However, in 1999 the treatment effect on non-food consumption is positive and significant for the poor and it amounts to 6.1 and 5.3 *pesos* per adult equivalent per month in May and November.

## 5.2 Effect on loans and transfers

We now proceed to test the hypothesis of positive *ITEs* on loans and transfers. Unfortunately we have no direct information on the identity and location of network members, so it is not clear how to define a social network. However, the data presented above suggest that neighbors, relatives, and friends who live in the village may be an important part of it. Moreover, the evidence from the existing literature confirms that village-level networks are important. For example, Townsend (1994) and many others find a very high level of risk-sharing between villagers in various developing countries; Udry (1994) reports that almost no loan in his sample of northern Nigerian villages crosses the village boundary, and he argues geographic proximity generates informational advantages.

We have information on the receipt of loans in the previous six months, and of monetary and in kind transfers from family and friends during the previous month. Credit is informal: 70% of loans occur among friends or relatives (and a further 9% through local moneylenders).

Our data suffer from the following limitations: first, we do not observe the identity of lenders and donors, nor whether they belong to poor or non-poor households. Second, while in principle we also have data on transfers given, this variable is unreliable, hence we cannot build a good net transfers variable. For example, in the November 1999 data 319 households

report they *received* transfers from families living in the same village, while only 41 households appear to have *made* a transfer to a family in the same village, implying that on average each donor makes transfers to 8 different families. We think this unlikely, and rather suspect that the poor may be afraid to admit they are sharing the Progresa grants with the non-poor. Third, we observe both loans and transfers only in November 1998, when very little money had been transferred to treated households. In the remaining waves, we observe loans in May 1999, and transfers in November 1999.

We report means, standard deviations, and proportion of households receiving loans or transfers in Table 3. About 12% of the ineligible and 8% of the eligible receive either loans, transfers and remittances (which we call “total credit resources”) in November 1998. The average monthly receipt amounts to some 400 *pesos* for the ineligible, and to 220 *pesos* for the eligible. Interestingly, this pattern is common for all variables and semesters: a higher proportion of the ineligible receives transfers or loans, compared to the eligible, and their average receipt is larger, both in treatment and in control villages. This could be a scale effect: the ineligible are wealthier than the eligible, therefore they earn, consume, and get higher transfers. Further, loans are larger in size than monetary transfers. This is consistent with the evidence for the Philippines in Fafchamps and Lund (2003), i.e. that risk is shared through informal loans, rather than through transfers. On the other hand, however, the respondents are likely to under-report the true extent of in-kind gifts they received. For example, they may not consider a meal consumed at a friend’s place as a transfer. Irrespective of this potential under-reporting, both the proportion of recipients and the size of the receipt are larger in treatment than in control areas for the non-poor (with a couple of exceptions for monetary and in-kind transfers), while the pattern is more mixed for the poor.

To test our prediction that the program results in more loans and transfers for the ineligible, we estimate treatment effects on the probability of receipt and on the size of loans and transfers.

These results are in Table 4. We report both OLS and tobit estimates of the effects on the levels, since tobit is inconsistent in the presence of heteroskedasticity (although the estimator performs well under moderate departures from the homoskedasticity assumption). Since only a small share of households receives loans or transfers, the estimated effects on loan and transfer size are very sensitive to outliers. For this reason, we consider the probit estimates as the most reliable of the set.<sup>15</sup>

The ineligible in treatment villages may receive more net resources from both the treated, whose income has increased, and other ineligible, who may shift resources away from the treated to the ineligible within their network, as the former group has become less needy. Some ineligible households will also have good income shocks. However, because of the randomization, the distribution of these shocks does not differ between treatment and control villages, and is differenced out in the computation of treatment effects.

The main conclusion from this exercise is that the non-poor receive more transfers and loans: the estimated *ITEs* are positive in all waves and significant especially in 1999, when the poor have received more Progresa money. The effects are sizeable: for example, in May 1999 the likelihood of receiving loans increases by 1.4 percentage points, or 38%, and its size by roughly 10 *pesos*, that is 50% of the observed consumption increase in the same month. In November 1999 the likelihood of receiving monetary transfers increase by 1.4 percentage points, or roughly 50%, and its level grows by about 4 *pesos* or 23% of the observed consumption increase in the same period. Thus, the magnitude of the estimated effects is consistent with the size of the consumption increase, and suggests that the effect on the credit market is an important determinant of the estimated consumption increase.

As a minor point, the *ITE* for in-kind transfers is significant both in 1998 and 1999, but positive first and then negative. This may suggest that households transfer more food or

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<sup>15</sup>Note that the non-response rates, which vary between 0 and 5.4% for non-poor households, do not differ between treatment and control areas. This may have been an important issue, owing to the relatively small number of households reporting loans or transfers.

clothes when there is little extra cash in the treated localities, while they shift the composition of transfers towards money when there is more currency in the local economy.

In-kind transfers to the poor decrease in 1999, but we find no other significant decrease in loans and transfers to eligible households. This is counterintuitive, as the treated should receive fewer transfer, since the program makes them better off (Albarran and Attanasio, 2004). Probably this effect is offset by eligible households' increased ability to borrow using their Progresa entitlement as a collateral. The public transfers do crowd out private transfers to the poor, but not from other villagers: migrant remittances to eligible households decrease by about 144 *pesos* per month in November 1999 (with a standard error of 78), a 30% decrease compared to the level in control villages. The likelihood of receiving remittances does not change, nor is there any significant effect for the ineligible.

In unreported robustness checks, we estimate the *ITE* on net transfers. The results are broadly unchanged, although the estimates are less precise, consistent with our suspicion that we are mainly adding noise to our dependent variable because the donation data are unreliable. For example, the OLS estimates are 3 pesos in 1998 and 3.3 in November 1999 (the standard errors are 1.86 and 3.2).

## 6 Alternative channels

There are alternative mechanisms that might cause a consumption increase for the ineligible. The estimated consumption increase ( $C$ ) may be caused by higher labor ( $Y^l$ ) and goods market ( $Y^g$ ) incomes, lower savings ( $S$ ) and investment ( $I$ ), besides higher loans and transfers ( $L$ ), as summarized in the following household accounting identity:

$$\Delta Y^l + \Delta Y^g + \Delta L = \Delta C + \Delta S + \Delta I \quad (2)$$

The symbol  $\Delta$  represents the indirect program effect for each variable.<sup>16</sup>

## 6.1 Labor market

Labor earnings for the non-poor may increase if the program affects the poor labor supply. In theory Progresa may have the following effects on the treated: it may decrease child labor, as some treated children switch from employment to schooling, and reduce adult labor supply through an income effect. This may result in higher labor income for the non-poor through higher wages and increases in their labor supply. In practice we do not expect to find any sizeable effect for the following reasons. First, Parker and Skoufias (2000) estimate a 2.5 to 3 percentage point reduction in child labor for boys and 1.2 percentage points for girls. Since child labor is only a small fraction of total labor, the overall reduction in labor supply is probably not large enough to generate sizeable general equilibrium effects. Second, the program income effect is likely small, given the extreme poverty of treated households and the limited duration of guaranteed existence of the program.

We investigate whether Progresa changes labor income for the ineligibles by testing whether their labor earnings differ in treatment and control villages. We compute monthly labor earnings per adult equivalent as the sum of income from primary and secondary occupations, using reported wages and hours worked, and earnings from informal work activities (provision of transportation, cooking, sewing, repairs, carpentry, and various other paid services). Table 5 reports estimates of the treatment effects for both the non-poor and the poor. These effects are never statistically different from zero. In unreported regressions, we tested for differences in hours of work, which never change for the non-poor. Thus, we find no evidence that the ineligibles' increase in consumption is caused by higher labor income.

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<sup>16</sup>We also test whether the ineligibles start receiving more transfers through alternative welfare program, or nutrition supplement for malnourished children initially intended only for eligible households, but we find negligible effects.

## 6.2 Goods market

Progresa may affect the goods market through at least two channels. First, poor households' higher expenditure may increase goods prices in treatment villages. Second, the non-poor may increase sales to the poor (e.g. if the non-poor are land owners who sell produce and meat to the poor). In practice we do not expect sizeable effects, since this market is fairly integrated. Chicken, meat, and medicines are sold in less than 10% of the villages, and even staples such as corn, flour, and milk are not sold in 53% of the sampled villages.<sup>17</sup> If one store serves a cluster of treated and control villages, which is the case if, e.g., the stores and farmers markets are located in the municipal capital, any potential effect on prices and earnings caused by the program will equally affect all villages in the cluster, with no differential effect in treatment villages.

To test for effects on the goods market, we first compare prices in treatment and control localities. To do so, we consider village prices by good over time. We provide details on the creation of the price variables in the Appendix, as well as estimates of the price differences between treatment and control villages (Tables A3 and A4). While we find a small positive effect on 5 out of 36 food prices in November 1998, prices of staples such as rice, beans, corn, and chicken do not change. Therefore, we do not expect any substantial increase in the cost of the food basket. Moreover, we find no food price change in the later waves, nor evidence of changes for non-food prices. The evidence presented here is consistent with earlier work by Hoddinott *et al.* (2000).

We further test whether there is a program effect on net sales of agricultural products and animals for poor and non-poor households.<sup>18</sup> Table 6 shows estimates of the *ITEs* and *ATEs* for these variables. The main result for the ineligibles is that their income from net sales is not increasing: in fact, in 1998 their agricultural sales fall slightly, while livestock net sales do not

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<sup>17</sup>The Progresa demand shock may not affect prices of tradeable goods, but increases prices of non-tradeables. However, we showed above that labor earnings, which include earnings from services, do not increase.

<sup>18</sup>We can only perform this exercise for the first two data waves, as no data are available in November 1999.

change. Agricultural net sales drop by 0.6 *pesos* for treated poor in 1998. From those results we conclude that changes in the goods market are very unlikely to cause the observed increase in consumption for the ineligible.

### 6.3 Savings and Investment

The households in our sample hold livestock and grains, which they might use as a buffer against income fluctuations. We investigate whether Progresa affects the stock of animals and grains. In Table 7 we compare the changes in the stock of horses, donkeys, oxen, cows, poultry, pigs, goats, and rabbits, in treatment and control villages. For the ineligible, the stocks of oxen, goats, and poultry decreases between September 1997 and November 1998, and is stable in later waves (with the exception of the stock of cows, which grows between May and November 1999).

We check for similar patterns in the stock of corn and beans, the two most commonly produced crops. While we do not observe the stock of grains, we know how much was produced and sold, as well as the amount of home-produced grains that the household consumed. Therefore, we can infer the change in the stock by comparing the difference between net sales and consumption of home-produced grains. This comparison hinges on the assumption that the pre-program stock does not differ between households in treatment and control villages because of the randomization. Table 8 shows that, while net sales do not change, in May 1999 the ineligible in treatment villages increase consumption of own corn by about one kilo per month per adult equivalent, worth approximately 1.7 *pesos*. This suggests the non-poor are depleting their stock of corn. We find no significant changes in the stock of beans.

These results suggest that the program relaxes borrowing constraints for the non-poor, who can now receive extra resources from the poor if they are hit by a negative income shock (Deaton, 1991). Further, the size of the stock may be smaller because the program's beneficial effect on health may reduce both the likelihood and the size of future income drops (Carroll 1997).

Better nutrition and an increased knowledge of basic health facts for all villagers, coupled with more frequent health checks for the poor improve the health conditions of the entire village, both directly and through a lower probability of contagion from infectious diseases (as shown by Miguel and Kremer, 2004). Gertler (2000) and Skoufias (2005), among others, find sizeable beneficial health effects of the program on recipients. We found positive effects also for the non-poor: when asked about the health effects on their jobs, the ineligible in treatment villages had fewer days out of work due to health reasons. More specifically, during the previous four weeks, there is a significant reduction of 0.17, 0.13, and 0.12 in the number of days their health 1) interfered with daily activities such as household chores, employment, schooling, 2) prevented them from undertaking such activities, and 3) caused them to stay in bed. These changes amount to a 22, 20, and 25% reduction from the levels in control villages.

The poor's stock of poultry increases between September 1997 and November 1998, and is stable later on. This suggests that the poor are transferring part of their current higher income to the future. Their consumption out of their stock of corn increases by 70 grams per adult per month, for a value of 0.38 *pesos*.

We also investigate whether poor and non-poor villagers are changing their investment behavior, although it is difficult to empirically distinguish savings from investment. For example, the poor's purchase of livestock may be for investment purposes, as animals are productive assets both for the sale of meat, cheese, and eggs, or for farming.

Table 9 tests for differences in the likelihood and the value of agricultural-related expenditures (e.g. to purchase seeds, fertilizers, and machinery) and purchases of animals. The evidence for the ineligible is not conclusive. While we find an increase in the purchase of animals in November 1998, worth 0.22 *pesos*, we know their stock of animals is decreasing. Therefore probably they are both buying and selling more animals, as well as consuming part of their livestock, since Table 6 showed no change in net sales.



For the eligibles, we find evidence of increased investment, consistent with Gertler *et al* (2006). The likelihood of having agricultural-related expenditures increases by 5 percentage points in November 1998, i.e. by about 9%, and the overall level of these costs rises by 0.6 *pesos* per adult equivalent, or 15%. Their purchase of animals also increases in May 1999: its likelihood is 1.5 percentage points, or 62% higher, while its overall level rises by 0.04 *pesos* per adult equivalent, i.e. by approximately 46%. This is consistent with our previous findings that the program may be increasing the stock of animals for eligible households.

## 7 Results: internal consistency and implications

The magnitudes of the estimated effects are consistent with each other: in May 1999 the *ITE* on monthly consumption per adult equivalent is 19 *pesos*, financed through a 10 *pesos* increase in loans, a likely increase in transfers, and through the consumption of part of the stock of grains. In November 1999 the *ITE* on consumption is 17 *pesos*, financed through a 4 *pesos* increase in monetary transfers, and a change in loans of unknown size. If the increase in loans and transfers is roughly constant in 1999, then ineligible households in treatment villages receive 14 extra *pesos* overall.

As a further check, we compare the magnitude of the indirect effects on loans and transfers with the Progresa grant size. While the villages are not closed economies, we expect the bulk of the effect to operate through changes at the village level. The average monthly transfer for the poor is 200 *pesos* per household, of which 88% is consumed (Gertler *et al.*, 2006).<sup>19</sup> Therefore, the average Progresa cash available to each poor household for savings, transfers, and loans to the non-poor is about 24 *pesos* per month. Given that there are 2.5 times as many poor as non-poor, this amounts to 60 *pesos* for each non-poor household. This magnitude is consistent with the estimated 50 *pesos* and 20 *pesos* that each non-poor household receives in May and

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<sup>19</sup>Total income of eligible households including Progresa transfers significantly increases by approximately 230 *pesos* per month per households.

November 1999.<sup>20,21</sup>

Our findings imply that failing to consider these indirect effects would underestimate the true average treatment effect on consumption for the treated villages. Consider the following back-of-the-envelope calculation of the benefit of the program for its first 20 months of implementation, i.e. between March 1998 and November 1999, using November 1998 prices. Assume that the estimated effects are stable in months preceding the observation (e.g. what we estimate for November 1998 holds for the previous 8 months, May 1999, and November 1999 holds for the previous 6 months). For every 200 *pesos* transferred each month, the recipient consumes 176 *pesos* (Gertler *et al.*, 2006). The 20-month *ATE* on consumption for the eligibles is, therefore,  $176 * 20 = 3520$  *pesos*. Consumption for the ineligibles increases by 95 and 85 *pesos* per household per month in May and November 1999 (19 and 17 *pesos* multiplied by 5, the number of adult equivalents per household). Given that there are 2.5 times as many poor as non-poor, this amounts to 38 and 34 *pesos* for every 200 *pesos* transferred, resulting in an extra increase in consumption of  $(38 + 34) * 6 = 432$  *pesos*. This is the 20-month *ITE*. Thus, for every 100 *pesos* transferred by Progresa, non-poor consumption increases by about 11 *peso*. Considering eligible households only, there is an average treatment effect of 3520 *pesos* out of a transfer of 4000 *pesos*. Including the ineligibles increases the average treatment effect by 432 additional *pesos*. Therefore, failure to consider the effect on the ineligibles would result in a 12% underestimate of the average treatment effect on consumption.<sup>22</sup>

The finding that the non-poor in treated villages are affected by the program has implications for the design of future experiments: since the entire village is affected, directly or indirectly, by the treatment, it is essential to randomize at the village level, as occurred for the evaluation of Progresa. The common practice of selecting the treatment and control groups

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<sup>20</sup>We obtained household-level estimates of loans and transfers by multiplying the estimated *ITEs* from Table 4 by 5, the average number of adult equivalents in non-poor households.

<sup>21</sup>50 and 20 *pesos* may actually be a lower bound to what each household likely receives on average, as we do not observe loans and transfers at the same time.

<sup>22</sup>This back-of-the-envelope calculation does not consider the treatment effect on re-classified households.

from the same community would have two shortcomings. First, it would bias the estimates of the treatment on the treated effect, if the control group indirectly benefits from the program. Second, by not estimating these indirect treatment effects it would fail to capture the full policy impact. In a similar setting to the one considered here, this would result in a double underestimation of the treatment effect.

## 8 Conclusions

Using the unique design of the experimental data for the evaluation of Progresa, we show that the program benefits ineligible households who live in treatment villages by increasing their food consumption level by about 10%, approximately half the size of the increase in food consumption for eligible households. This consumption increase is financed through higher loans and transfers from family and friends, and through a reduction in savings. These results show how a positive income shock for a group of households benefits the entire village, consistent with our knowledge of informal credit and insurance markets in developing countries.

This type of program has positive indirect effects for the entire set of villages in which it is implemented, rather than for treated households only. These effects are large, and, if neglected, result in a 12% underestimate of the average treatment effect of consumption for the treated villages. This finding has implications for the design of experiments: if the treatment affects the entire village, it is essential to randomize at the village level, as occurred for the evaluation of Progresa.

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Table 1: Average monthly food consumption per adult equivalent - levels and differences.

|                    | Ineligibles                   |                                  |                                 | Eligibles          |                                  |                                  |
|--------------------|-------------------------------|----------------------------------|---------------------------------|--------------------|----------------------------------|----------------------------------|
|                    | Nov. 1998                     | May. 1999                        | Nov. 1999                       | Nov. 1998          | May. 1999                        | Nov. 1999                        |
| Control            | 222.61<br>[179.76]            | 213.69<br>[212.19]               | 206.71<br>[232.56]              | 159.96<br>[112.19] | 159.92<br>[158.33]               | 153.7<br>[126.72]                |
| Treatment          | 216.38<br>[166.82]            | 233.06<br>[303.79]               | 224.08<br>[285.61]              | 175.80<br>[136.59] | 185.66<br>[193.81]               | 184.31<br>[172.25]               |
| <b>No controls</b> |                               |                                  |                                 |                    |                                  |                                  |
| <b>ITE</b>         | <b>-6.24</b><br><b>[7.58]</b> | <b>19.37</b><br><b>[10.50]*</b>  | <b>17.36</b><br><b>[9.70]*</b>  | <b>ATE</b>         | <b>15.84</b><br><b>[4.86]***</b> | <b>25.74</b><br><b>[5.80]***</b> |
|                    |                               |                                  |                                 |                    |                                  | <b>30.61</b><br><b>[5.15]***</b> |
| Obs.               | 4643                          | 3855                             | 4285                            | 10973              | 9659                             | 10554                            |
| <b>Controls</b>    |                               |                                  |                                 |                    |                                  |                                  |
| <b>ITE</b>         | <b>-5.20</b><br><b>[7.47]</b> | <b>20.72</b><br><b>[10.19]**</b> | <b>18.84</b><br><b>[9.42]**</b> | <b>ATE</b>         | <b>15.49</b><br><b>[4.75]***</b> | <b>24.42</b><br><b>[5.64]***</b> |
|                    |                               |                                  |                                 |                    |                                  | <b>29.86</b><br><b>[4.79]***</b> |
| Obs.               | 4624                          | 3838                             | 4266                            | 10936              | 9630                             | 10518                            |

Monthly pesos per adult equivalent at Nov. 1998 prices; the exchange rate is roughly 10 pesos per USD.

We report the standard deviations of the means and the standard errors, in brackets, of the treatment effects. The latter are clustered at the village level.

\*\*\*, \*\*, \* indicates significance at the 1, 5, 10 % level respectively.

The set of conditioning variables we add to the regressions in the left panel are: household poverty index, land size, head of household gender, age, whether speak indigenous language, literacy; at the locality level poverty index and number of households. All variables are at 1997 values.

Table 2: ITEs on 1999 caloric intake and food quantities

|      | Kcals                | Tomatoes         | Carrots         | Greens          | Oranges         | Chicken         |
|------|----------------------|------------------|-----------------|-----------------|-----------------|-----------------|
| ITE  | 178.36<br>[50.68]*** | 0.08<br>[0.03]** | 0.11<br>[0.07]* | 0.3<br>[0.18]*  | -0.04<br>[0.41] | 0.07<br>[0.04]* |
| Obs. | 8746                 | 8125             | 811             | 707             | 2454            | 4402            |
|      | Meat                 | Eggs             | Milk            | Corn            | Rice            | Beans           |
| ITE  | 0.14<br>[0.05]***    | 0.02<br>[0.08]   | 0.43<br>[0.27]* | 1.15<br>[0.59]* | 0.04<br>[0.04]  | 0.06<br>[0.05]  |
| Obs. | 5177                 | 7182             | 2403            | 3558            | 5564            | 8217            |

Monthly quantity consumed (in kilos, liters, or pieces depending on food type) or Kcalories per adult equivalent.

Standard errors in brackets clustered at the village level.

\*\*\*, \*\*, \* indicates significance at the 1, 5, 10 % level respectively.

We add the same set of conditioning variables described in Table 1.



Table 3: Credit resources: mean, share of recipients, and average amount obtained per adult equivalent by household type and semester

|   | 1998 November |      |              | 1999 May |      |              | 1999 November |      |              |
|---|---------------|------|--------------|----------|------|--------------|---------------|------|--------------|
|   | Mean          | %    | Avg. receipt | Mean     | %    | Avg. receipt | Mean          | %    | Avg. receipt |
| <b>Total credit resources</b>                     |               |      |              |          |      |              |               |      |              |
| NP Control  | 40.78         | 0.11 | 371.04       |          |      |              |               |      |              |
|   | [216.45]      |      | [552.14]     |          |      |              |               |      |              |
| NP treatment                                      | 50.05         | 0.12 | 422.24       |          |      |              |               |      |              |
|   | [249.97]      |      | [608.91]     |          |      |              |               |      |              |
| P control   | 17.69         | 0.08 | 222.02       |          |      |              |               |      |              |
|   | [121.72]      |      | [375.42]     |          |      |              |               |      |              |
| P treatment                                       | 17.74         | 0.08 | 219.64       |          |      |              |               |      |              |
|   | [107.51]      |      | [314.47]     |          |      |              |               |      |              |
| <b>Loans</b>                                      |               |      |              |          |      |              |               |      |              |
| NP Control  | 11.95         | 0.03 | 405.18       | 16.52    | 0.04 | 428.50       |               |      |              |
|   | [111.81]      |      | [518.81]     | [150.62] |      | [646.5]      |               |      |              |
| NP treatment                                      | 19.56         | 0.03 | 607.62       | 27.69    | 0.05 | 530.15       |               |      |              |
|   | [254.99]      |      | [1295.77]    | [233.33] |      | [883.85]     |               |      |              |
| P control   | 5.33          | 0.03 | 190.03       | 9.66     | 0.05 | 197.65       |               |      |              |
|   | [58.82]       |      | [298.2]      | [97.8]   |      | [398.99]     |               |      |              |
| P treatment                                       | 5.72          | 0.03 | 205.18       | 11.35    | 0.05 | 242.74       |               |      |              |
|   | [57.16]       |      | [276.7]      | [133.05] |      | [568.62]     |               |      |              |
| <b>Monetary transfers from family and friends</b> |               |      |              |          |      |              |               |      |              |
| NP Control  | 5.95          | 0.04 | 164.01       |          |      |              | 5.48          | 0.02 | 225.09       |
|   | [42.95]       |      | [159.]       |          |      |              | [68.8]        |      | [384.97]     |
| NP treatment                                      | 11.02         | 0.04 | 247.04       |          |      |              | 9.31          | 0.04 | 244.77       |
|   | [79.81]       |      | [291.75]     |          |      |              | [81.44]       |      | [343.29]     |
| P control   | 2.83          | 0.03 | 108.24       |          |      |              | 1.68          | 0.01 | 125.46       |
|   | [26.48]       |      | [124.52]     |          |      |              | [35.06]       |      | [279.14]     |
| P treatment                                       | 3.20          | 0.03 | 124.56       |          |      |              | 1.98          | 0.02 | 119.77       |
|   | [32.81]       |      | [164.04]     |          |      |              | [22.85]       |      | [132.66]     |
| <b>In-kind transfers from family and friends</b>  |               |      |              |          |      |              |               |      |              |
| NP Control  |               | 0.01 |              |          |      |              |               | 0.02 |              |
| NP treatment                                      |               | 0.02 |              |          |      |              |               | 0.01 |              |
| P control   |               | 0.01 |              |          |      |              |               | 0.02 |              |
| P treatment                                       |               | 0.01 |              |          |      |              |               | 0.01 |              |

Monthly pesos per adult equivalent at Nov. 1998 prices; the exchange rate is roughly 10 pesos per USD. Standard deviations in brackets. Top 1% trimmed in the computation of the quantities but not for the proportions. Total credit resources computed as the sum of loans, transfers, and remittances.

Table 4: Program effects on credit resources

|      | 1998 November                              |                  |                  | 1999 May          |                    |                   | 1999 November       |                  |                    |
|------|--|------------------|------------------|-------------------|--------------------|-------------------|---------------------|------------------|--------------------|
|      | <b>Ineligibles</b>                         |                  |                  |                   |                    |                   |                     |                  |                    |
|      | Loans                                      |                  |                  |                   |                    |                   |                     |                  |                    |
|      | Probit                                     | OLS              | Tobit            | Probit            | OLS                | Tobit             | Probit              | OLS              | Tobit              |
| ITE  | 0.003<br>[0.01]                            | 7.613<br>[5.362] | 3.123<br>[3.948] | 0.014<br>[0.01]*  | 11.168<br>[6.621]* | 9.723<br>[4.51]** |                     |                  |                    |
| Obs. | 4913                                       | 4912             | 4912             | 4432              | 4431               | 4431              |                     |                  |                    |
|      | Monetary transfers from family and friends |                  |                  |                   |                    |                   |                     |                  |                    |
|      | Probit                                     | OLS              | Tobit            | Probit            | OLS                | Tobit             | Probit              | OLS              | Tobit              |
| ITE  | 0.007<br>[0.009]                           | 3.739<br>[3.289] | 2.562<br>[1.716] |                   |                    |                   | 0.014<br>[0.008]*   | 3.825<br>[3.005] | 4.137<br>[1.727]** |
| Obs. | 4837                                       | 4836             | 4836             |                   |                    |                   | 4447                | 4447             | 4447               |
|      | In-kind transfers from family and friends  |                  |                  |                   |                    |                   |                     |                  |                    |
|      | Probit                                     | OLS              | Tobit            | Probit            | OLS                | Tobit             | Probit              | OLS              | Tobit              |
| ITE  | 0.008<br>[0.004]**                         |                  |                  |                   |                    |                   | -0.007<br>[0.004]*  |                  |                    |
| Obs. | 5280                                       |                  |                  |                   |                    |                   | 4502                |                  |                    |
|      | <b>Eligibles</b>                           |                  |                  |                   |                    |                   |                     |                  |                    |
|      | Loans                                      |                  |                  |                   |                    |                   |                     |                  |                    |
|      | Probit                                     | OLS              | Tobit            | Probit            | OLS                | Tobit             | Probit              | OLS              | Tobit              |
| ATE  | 0.000<br>[0.005]                           | 0.394<br>[1.431] | 0.039<br>[0.785] | -0.002<br>[0.008] | 1.686<br>[2.794]   | -0.272<br>[1.482] |                     |                  |                    |
| Obs. | 11805                                      | 11805            | 11805            | 11019             | 11019              | 11019             |                     |                  |                    |
|      | Monetary transfers from family and friends |                  |                  |                   |                    |                   |                     |                  |                    |
|      | Probit                                     | OLS              | Tobit            | Probit            | OLS                | Tobit             | Probit              | OLS              | Tobit              |
| ATE  | 0.000<br>[0.004]                           | 0.367<br>[0.651] | 0.006<br>[0.436] |                   |                    |                   | 0.003<br>[0.003]    | 0.307<br>[0.628] | 0.469<br>[0.382]   |
| Obs. | 11630                                      | 11630            | 11630            |                   |                    |                   | 10823               | 10823            | 10823              |
|      | In-kind transfers from family and friends  |                  |                  |                   |                    |                   |                     |                  |                    |
|      | Probit                                     | OLS              | Tobit            | Probit            | OLS                | Tobit             | Probit              | OLS              | Tobit              |
| ATE  | -0.001<br>[0.003]                          |                  |                  |                   |                    |                   | -0.006<br>[0.003]** |                  |                    |
| Obs. | 12519                                      |                  |                  |                   |                    |                   | 10967               |                  |                    |

Monthly pesos per adult equivalent at Nov. 1998 prices; the exchange rate is roughly 10 pesos per USD. Standard errors in brackets clustered at the village level in OLS and Probit. \*\*\*, \*\*, \* indicates significance at the 1, 5, 10 % level respectively. Top 1% trimmed in the OLS and Tobit regressions. The results are qualitatively unchanged adding conditioning variables.

Table 5: Program effect on monthly adult equivalent labor earnings

|              | Nov. 1998 | May 1999 | Nov. 1999 |
|--------------|-----------|----------|-----------|
| ITE          | -4.66     | -1.18    | 3.1       |
|              | [14.56]   | [13.57]  | [14.84]   |
| Observations |           | 18537    |           |
| ATE          | 8.15      | 4.26     | 10.22     |
|              | [5.49]    | [5.38]   | [6.46]    |
| Observations |           | 45101    |           |

Monthly pesos per adult equivalent at Nov. 1998 prices;

The exchange rate is roughly 10 pesos per USD.

Standard errors in brackets clustered at the village level.

\*\*\*, \*\*, \* indicates significance at the 1, 5, 10 % level.

Difference-in-difference estimates. The sample size is from pooling the Sept. 1997 data with the Nov. 1998, May 1999, and Nov. 1999 data.

The results are unchanged if we add conditioning variables, with the exception of the ATE estimate for November 1999, which is now significant at the 10% level.

Table 6: Net sales of agricultural products and animals

| <b>Agricultural sales</b> |               |           |
|---------------------------|---------------|-----------|
|                           | November 1998 | May 1999  |
|                           | Net sales     | Net sales |
|                           | Level         | Level     |
| ITE                       | -4.953        | -5.37     |
|                           | [3.25]        | [4.52]    |
| Obs.                      | 4287          | 4026      |
| ATE                       | -0.639        | -0.741    |
|                           | [0.33]*       | [0.61]    |
| Obs.                      | 10249         | 9973      |
| <b>Animals</b>            |               |           |
|                           | November 1998 | May 1999  |
|                           | Net sales     | Net sales |
|                           | Level         | Level     |
| ITE                       | 0.429         | 0.249     |
|                           | [0.33]        | [0.21]    |
| Obs.                      | 4803          | 4338      |
| ATE                       | 0.008         | -0.03     |
|                           | [0.05]        | [0.03]    |
| Obs.                      | 11546         | 10797     |

Monthly pesos per adult equivalent at Nov. 1998 prices.

Standard errors in brackets clustered at the village level.

\*\*\*, \*\*, \* indicates significance at 1, 5, 10 % levels.

Treatment effects on the levels estimated by OLS.

The results are unchanged if we add conditioning variables.

Table 7: Treatment effects on the average monthly change in animal stock

|         | Ineligibles      |         |                   | Eligibles        |                 |                   |
|---------|------------------|---------|-------------------|------------------|-----------------|-------------------|
|         | Nov. 98          | May. 99 | Nov. 99           | Nov. 98          | May. 99         | Nov. 99           |
| Horse   | -0.001           | 0.001   | 0.001             | 0.001            | 0.001           | <b>0.001</b>      |
|         | [0.001]          | [0.001] | [0.001]           | [0.001]          | [0.001]         | <b>[0.0004]**</b> |
| Obs.    | 5219             | 4410    | 3979              | 12484            | 11019           | 10176             |
| Donkey  | -0.001           | -0.001  | 0.001             | 0.001            | 0.001           | 0.001             |
|         | [0.001]          | [0.001] | [0.001]           | [0.001]          | [0.001]         | [0.001]           |
| Obs.    | 5233             | 4410    | 3990              | 12429            | 10981           | 10181             |
| Ox      | <b>-0.001</b>    | 0.001   | 0.001             | 0.001            | 0.001           | 0.000             |
|         | <b>[0.001]**</b> | [0.001] | [0.001]           | [0.001]          | [0.001]         | [0.001]           |
| Obs.    | 5264             | 4439    | 4002              | 12491            | 11032           | 10203             |
| Goat    | <b>-0.010</b>    | 0.005   | 0.002             | <b>-0.004</b>    | <b>0.004</b>    | 0.002             |
|         | <b>[0.005]**</b> | [0.006] | [0.006]           | <b>[0.002]*</b>  | <b>[0.002]*</b> | [0.002]           |
| Obs.    | 5255             | 4427    | 3986              | 12491            | 11024           | 10185             |
| Cow     | -0.002           | -0.003  | <b>0.011</b>      | 0.001            | 0.001           | 0.002             |
|         | [0.004]          | [0.004] | <b>[0.004]***</b> | [0.001]          | [0.001]         | [0.001]           |
| Obs.    | 5204             | 4402    | 3974              | 12493            | 11034           | 10196             |
| Poultry | <b>-0.024</b>    | 0.007   | 0.017             | <b>0.010</b>     | 0.002           | 0.002             |
|         | <b>[0.012]**</b> | [0.011] | [0.010]           | <b>[0.005]**</b> | [0.006]         | [0.006]           |
| Obs.    | 5109             | 4323    | 3897              | 12389            | 10892           | 10061             |
| Pig     | -0.001           | -0.003  | 0.001             | 0.002            | 0.001           | -0.001            |
|         | [0.002]          | [0.002] | [0.003]           | [0.002]          | [0.001]         | [0.002]           |
| Obs.    | 5215             | 4411    | 3959              | 12452            | 10975           | 10140             |
| Rabbit  | 0.001            | -0.001  | 0.001             | 0.001            | 0.001           | 0.001             |
|         | [0.002]          | [0.001] | [0.001]           | [0.001]          | [0.001]         | [0.001]           |
| Obs.    | 5274             | 4438    | 4000              | 12506            | 11042           | 10206             |

Number of animals per adult equivalent. Monthly averages computed dividing the change in stock between two data waves by the number of months between them.

Standard errors in brackets clustered at the village level.

\*\*\*, \*\*, \* indicates significance at the 1, 5, 10 % level respectively.

First difference estimation.

The results are unchanged if we add conditioning variables.

Table 8: Difference between production and sales, value of consumption of own production of grains.

|              | 1998 Nov.         |                    |                     | 1999 May           |                  |                   |
|--------------|-------------------|--------------------|---------------------|--------------------|------------------|-------------------|
|              | I                 | II                 | III                 | I                  | II               | III               |
| <b>Corn</b>  |                   |                    |                     |                    |                  |                   |
|              | Ineligibles       |                    |                     |                    |                  |                   |
|              | Production-Sales  | Consumption        | Value Consumption   | Production-Sales   | Consumption      | Value Consumption |
| ITE          | 3.773<br>[17.201] | -0.177<br>[0.325]  | -0.367<br>[0.494]   | 9.264<br>[27.688]  | 0.947<br>[0.603] | 1.733<br>[1.036]* |
| Observations | 5280              |                    |                     | 4443               |                  |                   |
|              | Eligibles         |                    |                     |                    |                  |                   |
| ATE          | -2.169<br>[6.045] | 0.112<br>[0.223]   | 0.227<br>[0.385]    | 13.074<br>[15.678] | 0.508<br>[0.435] | 1.124<br>[0.725]  |
| Observations | 12519             |                    |                     | 11044              |                  |                   |
| <b>Beans</b> |                   |                    |                     |                    |                  |                   |
|              | Ineligibles       |                    |                     |                    |                  |                   |
|              | Production-Sales  | Consumption        | Value Consumption   | Production-Sales   | Consumption      | Value Consumption |
| ITE          | 3.361<br>[4.514]  | 0.039<br>[0.212]   | 0.159<br>[0.977]    | -1.914<br>[9.711]  | 0.065<br>[0.048] | 0.312<br>[0.252]  |
| Observations | 5280              |                    |                     | 4443               |                  |                   |
|              | Eligibles         |                    |                     |                    |                  |                   |
| ATE          | 1.482<br>[2.063]  | 0.070<br>[0.027]** | 0.384<br>[0.141]*** | 3.136<br>[1.906]   | 0.015<br>[0.034] | 0.183<br>[0.185]  |
| Observations | 12519             |                    |                     | 11044              |                  |                   |

Monthly adult equivalent in kilograms in columns I and II, pesos at Nov. 98 prices in column III.

Standard errors in brackets clustered at the village level.

\*\*\*, \*\*, \* indicates significance at the 1, 5, 10 % level respectively.

The results are unchanged if we add conditioning variables.

Table 9: Investments-costs of agricultural production and animals

|      | November 1998             |             | May 1999  |             |
|------|---------------------------|-------------|-----------|-------------|
|      | Agricultural expenditures |             |           |             |
|      | Costs                     |             | Costs     |             |
|      | Level                     | Probability | Level     | Probability |
| ITE  | -1.947                    | -0.0004     | -2.309    | 0.007       |
|      | [1.819]                   | [0.0275]    | [3.506]   | [0.029]     |
| Obs. | 4381                      | 4784        | 4080      | 4119        |
| ATE  | 0.618                     | 0.051       | 0.311     | 0.008       |
|      | [0.358]*                  | [0.028]*    | [0.526]   | [0.026]     |
| Obs. | 10408                     | 11223       | 10096     | 10197       |
|      | Animals                   |             |           |             |
|      | Purchases                 |             | Purchases |             |
|      | Level                     | Probability | Level     | Probability |
| ITE  | 0.215                     | 0.01        | 0.019     | 0.008       |
|      | [0.117]*                  | [0.008]     | [0.078]   | [0.008]     |
| Obs. | 4854                      | 5263        | 4387      | 4431        |
| ATE  | -0.021                    | 0.006       | 0.042     | 0.015       |
|      | [0.034]                   | [0.005]     | [0.022]*  | [0.005]***  |
| Obs. | 11671                     | 12499       | 10915     | 11025       |

Monthly pesos per adult equivalent at Nov. 1998 prices.

Standard errors in brackets clustered at the village level.

\*\*\*, \*\*, \* indicates significance at 1, 5, 10 % levels.

Treatment effects on the levels estimated by OLS.

Probit estimates for the probability.

The results are unchanged if we add conditioning variables.

Figure 1: The experimental design.

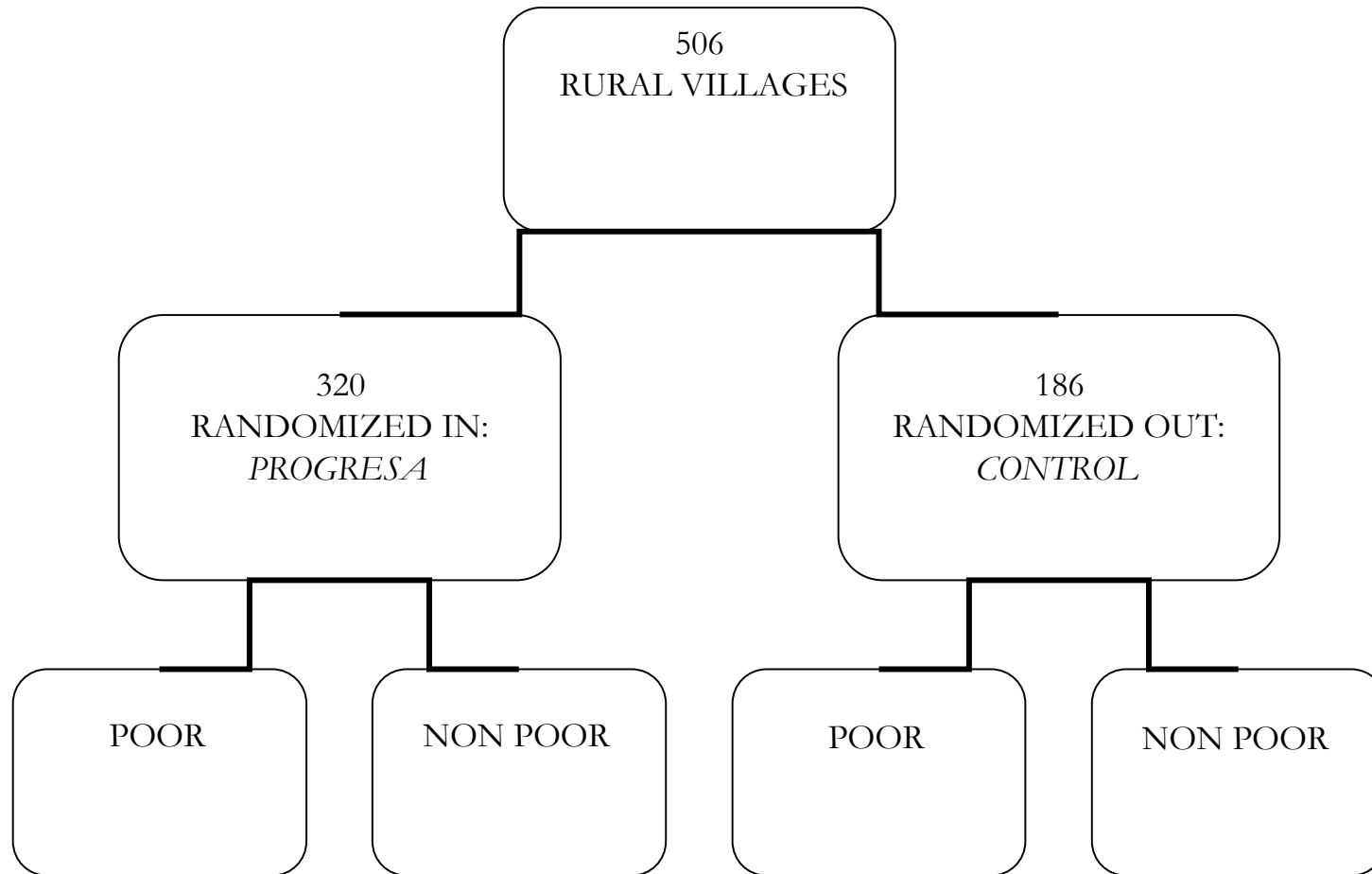
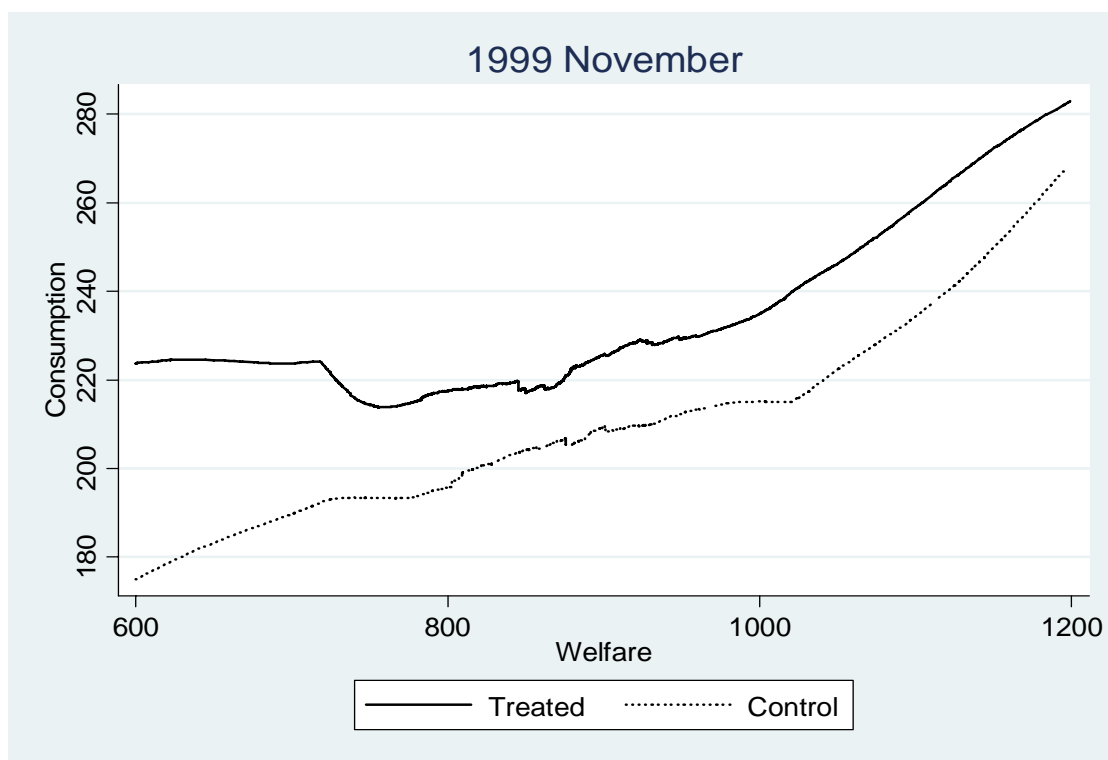
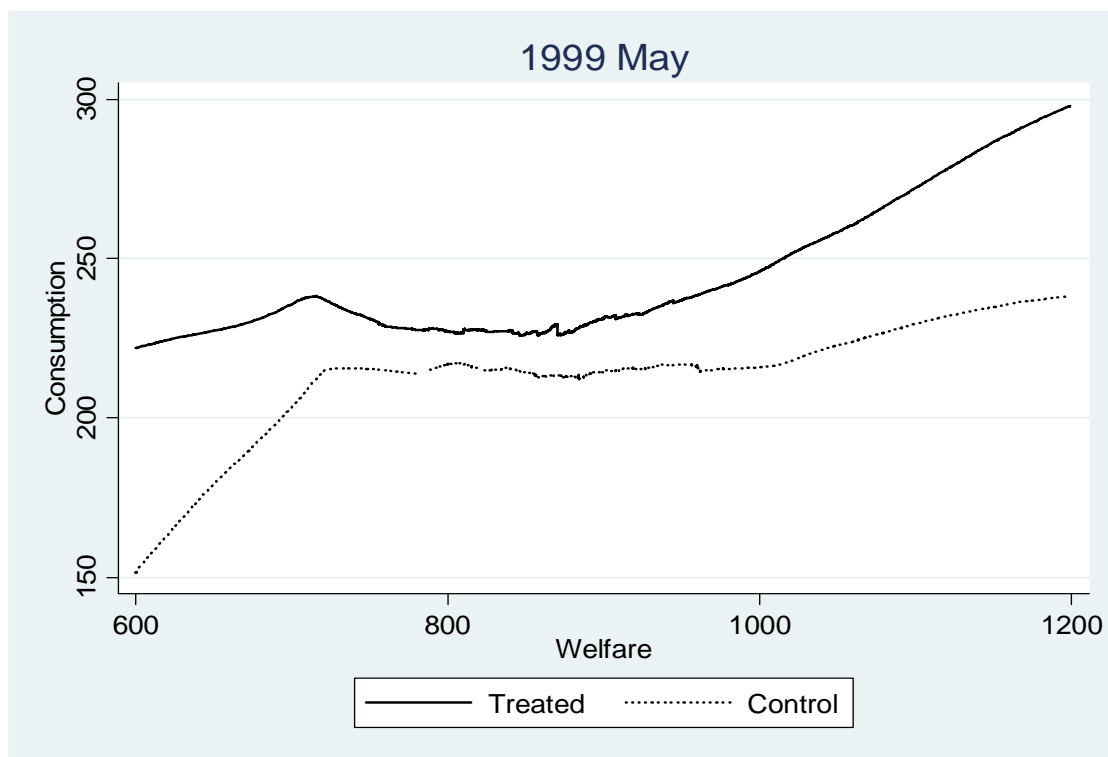




Figure 2: Monthly food consumption, per adult equivalent, for ineligible households by wealth level



Monthly peso value of food consumption per adult equivalent (at November 1998 prices)

## A A simple model of risk-sharing

In this section we sketch a simple risk-sharing model to show why the credit and insurance market is an important channel for the transmission of positive income shocks to the entire village. While the model we consider is not new (in fact, it draws heavily from Cochrane (1991), Mace (1991) and Townsend (1994), among others) we need it to formalize the intuitions and to derive the testable hypotheses.

Consider two infinitely lived agents,  $i \in \{1, 2\}$ , with instantaneous utility function  $u_i = (1 - \delta)\ln(c_i)$ , a rate of inter-temporal preference  $\delta < 1$ , an endowment  $y_i$ , no storage technology, and no leisure. Each agent receives a random income  $y_i(s)$  that varies in different (finite) states of the world  $s \in S$ . Each state of the world occurs with a positive probability  $\pi(s)$ , with  $\sum_s \pi(s) = 1$ . In each state of the world the sum of the agents' consumption equals the total available resources,  $c_1(s) + c_2(s) = y_1(s) + y_2(s) > 0$ .

The social planner maximizes a weighted average of the agents' utility functions, where the weights  $\lambda \in (0; 1)$  and  $(1 - \lambda)$  represent the relative importance of the two agents. In the absence of commitment issues, the maximization problem is:

$$\max_{c_1} U = \sum_s \pi(s) [\lambda \ln(c_1(s)) + (1 - \lambda) \ln(y_1(s) + y_2(s) - c_1(s))]$$

We can derive the optimal consumption levels in each state from the first-order conditions.

These are:

$$c_1^*(s) = \lambda(y_1(s) + y_2(s)) \tag{1}$$

$$c_2^*(s) = (1 - \lambda)(y_1(s) + y_2(s)) \tag{2}$$

As well-known, with full risk-sharing consumption depends only on aggregate resources and on

the Pareto weights, and not on the individual endowments. The agents smooth consumption making transfers to each other. The optimal transfer in each state of the world is:

$$d^*(s) = y_1(s)(1 - \lambda) - y_2(s)\lambda \quad (3)$$

where  $d^*(s) > 0$  if  $y_1(s) > c_1^*(s)$ , in which case agent 1 transfers part of her income to agent 2, and vice versa. This implies that, when the less wealthy agent has a positive income shock, she may make positive transfers to the wealthier agent. For example, suppose the weights are  $\lambda = \frac{2}{5}$  and  $(1 - \lambda) = \frac{3}{5}$ . We choose the figures to roughly match the consumption ratios of poor and non-poor in the data. Consider a good state of the world for both agents, but especially for agent 1:  $y_1 = 14$  and  $y_2 = 16$ . Consumption is  $c_1^* = \frac{2}{5}(30) = 12$  and  $c_2^* = \frac{3}{5}(30) = 18$ , therefore agent 1 will transfer  $d^* = 2$  to agent 2, despite their negative income differential and the fact that also agent 2 had a good shock.

Suppose agents 1 and 2 represent eligible and ineligible households. Progresa represents a good state of the world for agent 1, increasing the total resources available in treatment villages with respect to the counterfactual state in which Progresa does not exist. The consumption of both agents is a positive function of  $y_1(s)$ , and agent 1's transfer to agent 2 is a positive function of her income, i.e.  $\frac{\partial d^*(s)}{\partial y_1(s)}$  (or, alternatively, the transfer from agent 2 to agent 1 is a negative function of agent 1's income). Therefore, the effect of this exogenous change in  $y_1(s)$  is an increase in both  $c_2^*(s)$  and  $d^*(s)$ , from equations (2) and (3). The model shows that, as Progresa increases the income of eligible households while leaving  $\lambda$  and  $y_2(s)$  unchanged, the consumption of both eligible and ineligible families will increase, and so will the net transfers to the ineligibles. These results generate our testable hypotheses:

Hp 1:  $\frac{\partial c_2^*(s)}{\partial y_1(s)} > 0$ . Progresa increases the consumption of ineligible households in treatment villages.

Hp 2:  $\frac{\partial d^*(s)}{\partial y_1(s)} > 0$ . Progresa increases net transfers to the ineligible in treatment villages.

## B Data creation

In this Appendix we describe how we created some of the relevant variables for our analysis: consumption, transfers and loans, school enrollment, hours of work, earnings, and prices.

### B.1 Food consumption

We consider the three data waves collected after the program begins, in November 1998, May 1999, and November 1999. For each of 36 food items, households report the quantity consumed the week before the interview, as well as the quantity purchased and its cost. If expenditure on a particular item is missing, but we know the amount purchased, we consider the village median price. We compute the village price in the following way: we create household-specific prices by dividing the expenditure in food purchased during the last week by the quantity bought. If we have at least 20 household-specific prices per village, we use this information to compute median prices at the village level. Otherwise, we use either median municipality or state price (we use the lowest level of aggregation with at least 20 price observations). Once we have household-specific prices, we multiply them by quantity consumed. We do this because households produce part of the consumed food. Considering only food expenditure would underestimate the amounts actually consumed.

We use November 1998 prices to compute consumption values in May and November 1999 also. Unlike in 1998, in 1999 we know both how much food is purchased and how much is consumed, but we have no direct information on home-produced food. Hence, in order to be consistent between the three waves, we assume that in 1999 all food purchased is consumed if total consumption is smaller or equal than food purchased. If total consumption is greater than purchased goods we apply median prices to the difference, this means that either home-

produced food, or food given as a present is evaluated at market prices. Since we could not convert different measurement units in a single one, we only consider those who have bought and consumed food in the same unit (Kilo, Liter or Units). We believe that the absence of measurement conversion does not pose any major problem, since only about 1% of the sample has different measurements for the same food. Lastly, we compute adult equivalents for both food and non-food data. For this purpose, we use the adult equivalence conversion estimated by Di Maro (2004) using Progres data. According to Di Maro, children consume on average 73% of adults. For example, to estimate individual consumption per adult for a household with one child and one adult, we divide household consumption by 1.73.

An additional issue is how to treat missing observations. We noted that some aliments, which are not staples for rural Mexicans, have a large number of missing observations. Thus, we create three different food expenditure variables, each time dropping all households with missing observations. The first variable is aggregate expenditure in food consumption for all available categories (hence the one with the highest number of missing observations). In this way, we drop about 5% of the sample. The second one excludes industrially produced food (*pastelillos en bolsa*, soft drinks, coffee, sugar, vegetable oil). The third food consumption variable excludes industrially produced food, sliced bread (*pan de caja*), breakfast cereals, fish, and seafood. The results we show in the paper use the first consumption variable. However, they are robust to the use of these alternative variables.

The food consumption variable we use in the paper has the following number of non-missing observations for non-poor: 5003 in November 1998, 3856 in May 1999, and 4286 in November 1999. 371 (i.e. about 7%) households have zero food consumption in November 1998. Only 14 and 3 households have zero food expenditure in the May and November 1999 data, respectively. We drop the households with a food consumption level larger than 10000 *pesos* per adult equivalent per month since they are likely outliers. We do the same for poor households, whose

final samples have 11684, 9659, and 10555 households for the three waves. There is a drop in the valid household size in May 1999, supposedly due to a higher proportion of non-responses (this drop is not limited to the consumption variables). However, the proportion of households in treated and control areas is roughly constant over time (for non-poor, this proportion ranges from 38.8% living in control areas in November 1998 to 39.9% in November 1999). Because of this, we believe that the smaller sample size in May 1999 does not pose attrition problems.

## **B.2 Non-food consumption**

For non-food consumption, we also consider the three waves used above. The variable on non-food consumption is only available as expenditure on particular categories of non-food items. Our measure of monthly non-food consumption is the sum of expenditures in: transportation both for adults and children; tobacco; personal and household hygiene; drugs and prescriptions; doctor visits; heating (ie. wood, gas, oil); electricity; clothing and shoes; school items (ie. pencils, books). As for food consumption, we trim the extreme values because of possible measurement error. The value of the expenditure is then converted in real terms by applying the monthly CPI (Bank of Mexico, 2005).

The pre-program difference in non-food consumption between non-poor households in treatment and control villages using March 1998 data is not statistically significant.

## **B.3 Labor earnings**

The 1998 and 1999 surveys report hours of work for the sole sub-set of individuals who have a paid job, unlike the 1997 pre-program one, which collects working hour information for all individuals. In 1997 there is no explicit distinction between paid and unpaid jobs. Thus, in order to create a consistent measure, we excluded self-employed, business owners and *ejidatarios* from the computation of hours of work. We considered as unemployed all individuals who reported not having a job in the previous week (unlike those who said that they have a job but could not

work). In case of disagreement (i.e. individuals reporting they do not have a job, but having a positive number of hours worked) we included the reported work time.

We also have data on remunerated informal activities, such as selling products, or preparing products for sale, cooking, cleaning, or ironing, or helping out in some business or in the field, etc. For these activities, we observe earnings, time spent working, as well as costs (with the exception of the 1997 data, for which we have no cost data). We add net earnings from informal activities to the formal jobs.

These variables are very noisy measures of work time and earnings, as at times we have to impute monthly earnings from daily, weekly or annual wages. To limit the number of outliers, we trim the top percentile of the positive values, and we also drop the few negative values.

## B.4 Prices

Prices refer to the food and non-food goods used to compute the value of consumption. There are 57 different goods, but only food prices are available before the program begins, in March 1998. Thus, we use the 36 food prices available both before and during the program implementation to provide double-difference (DD) estimates of the effect of Progresa. In November 1998 and May 1999 we have up to two prices for each good. When two different prices for the same good are available, we compute the mean village price. Table B1 provides a list of the goods used in the DD analysis of the program effect presented in Table B2.

We find a small positive effect on some food prices in November 1998. Prices of onions (p2), lemons (p8), eggs (p26), and coffee (p34) are significantly higher in treatment than in control areas. At the same time, though, the price of fish (p23) is significantly lower. Despite the fact that onions, eggs, and coffee are commonly consumed foods (Hoddinott *et al.*, (2000)), we do not expect these price changes to increase the cost of the food basket substantially, because prices of staples such as rice, beans, corn, and chicken do not change. Second, there is no price change in the later waves. Third, if we consider the pooled waves, the prices of 6 items

increase, while the prices of 3 goods decrease in the observed time, out of a total of 36 items by 3 waves. This amounts to roughly 8% of good prices changing. We believe that, perhaps with the exception of a minor price increase for some goods in the end of 1998, Progresa does not significantly change prices in treatment areas.<sup>1</sup>

As a further robustness check, we considered all 57 different (food and non-food) goods available in the 3 waves collected after the beginning of the program. We pooled prices, creating a price basket that gives equal weight of one to each good. We then regressed this synthetic price indicator on a dummy for treatment and control villages, obtaining cross sectional estimates of the effect of Progresa on prices. Also in this case we reject the hypothesis that prices differ significantly between the two village groups.<sup>2</sup>

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<sup>1</sup>There is a large number of missing observations. Since there are 506 villages observed in 4 different points in time, each price should have about 2000 observations. Instead, the non-missing observations range between 313 and 1375.

<sup>2</sup>Results available upon request.



Table A1: ITEs on 1999 food log-consumption by category per adult equivalent

|          | Fruits and<br>vegetables | Grains and<br>cereals | Meat, fish, and<br>dairy products | Industrial<br>products |
|----------|--------------------------|-----------------------|-----------------------------------|------------------------|
| ITE May  | 0.108<br>[0.043]**       | 0.073<br>[0.035]**    | -0.030<br>[0.055]                 | 0.031<br>[0.046]       |
| Obs.     | 3791                     | 3829                  | 3560                              | 3797                   |
| ITE Nov. | 0.065<br>[0.038]*        | 0.051<br>[0.029]*     | 0.108<br>[0.050]**                | 0.033<br>[0.043]       |
| Obs.     | 4254                     | 4277                  | 4064                              | 4267                   |

Log of monthly pesos per adult equivalent.

Standard errors in brackets clustered at the village level.

\*\*\*, \*\*, \* indicates significance at the 1, 5, 10 % level respectively.

The results are unchanged if we add conditioning variables.

Table A2: 1999 ITEs on food consumption: robustness checks

|   | With covariates |               |                  | Without covariates |               |                  |
|---|-----------------|---------------|------------------|--------------------|---------------|------------------|
|   | All data        | Drop outliers | Drop percentiles | All data           | Drop outliers | Drop percentiles |
| Cross section   |                 |               |                  |                    |               |                  |
| ITE May   | 32.57           | 20.72         | 9.65             | 29.37              | 19.37         | 8.78             |
|   | [15.88]**       | [10.19]**     | [5.59]*          | [14.61]**          | [10.50]*      | [5.71]           |
| ITE Nov.  | 29.63           | 18.84         | 14.41            | 26.34              | 17.36         | 13.50            |
|   | [15.02]**       | [9.42]**      | [4.72]***        | [13.79]*           | [9.70]*       | [4.93]***        |
| Cross section conditioning on pre-program expenditure |                 |               |                  |                    |               |                  |
| ITE May   | 35.19           | 21.7          | 10.15            | 32.71              | 21.68         | 9.93             |
|   | [17.43]**       | [11.01]**     | [5.50]*          | [15.59]**          | [11.07]*      | [5.57]*          |
| ITE Nov.  | 30.42           | 18.46         | 13.36            | 28.04              | 18.18         | 13.11            |
|   | [16.27]*        | [10.09]*      | [4.47]***        | [14.69]*           | [10.14]*      | [4.60]***        |
| Difference-in-difference                              |                 |               |                  |                    |               |                  |
| ITE May   | 29.92           | 19.95         | 7.28             | 29.17              | 19.17         | 7.44             |
|   | [14.95]**       | [11.48]*      | [6.95]           | [14.78]**          | [11.23]*      | [6.87]           |
| ITE Nov.  | 27.26           | 18.35         | 11.97            | 26.15              | 17.17         | 12.17            |
|   | [14.20]*        | [10.77]*      | [6.48]*          | [13.97]*           | [10.44]       | [6.32]*          |

Monthly pesos per adult equivalent at Nov. 1998 prices. Standard errors in brackets clustered at the village level.

\*\*\*, \*\*, \* indicates significance at the 1, 5, 10 % level respectively.

The pre-program expenditure variable uses total weekly expenditure data;

the results are robust to using the sum of separate expenditure data on fruits and vegetables, grains and cereals, fish, meat and dairies, and industrial products. The "drop outliers" columns drop consumption levels bigger than 10000 pesos, while the "drop percentiles" columns drop the first and last percentile.

See Table 1 for a list of conditioning variables.

Table A3: Food prices used to compute difference-in-difference estimates of program effect on prices

| Prices legend |                         |     |   |
|---------------|-------------------------|-----|---|
| p1            | tomatoes (kilo)         | p19 | chicken (kilo)                            |
| p2            | onions (kilo)           | p20 | pork (kilo)                               |
| p3            | potatoes (kilo)         | p21 | beef (kilo)                               |
| p4            | carrots (kilo)          | p22 | goat (kilo)                               |
| p5            | oranges (kilo)          | p23 | fish (kilo)                               |
| p6            | bananas (kilo)          | p24 | biscuits (kilo)                           |
| p7            | apples (kilo)           | p25 | beans (kilo)                              |
| p8            | lemons (kilo)           | p26 | eggs (kilo)                               |
| p9            | lettuce (unit)          | p27 | milk (liter)                              |
| p10           | nixtamal masa (kilo)    | p28 | lard (kilo)                               |
| p11           | corn grains (kilo)      | p29 | pastry (bag)                              |
| p12           | Bread (unit)            | p30 | soft drink (bottle)                       |
| p13           | Bread ``de caja" (unit) | p31 | Sardines (150 grs. in 98m, 400grs. after) |
| p14           | wheat flour (kilo)      | p32 | Tuna can (175 grs.)                       |
| p15           | soup (200 grs.)         | p33 | aguardiente (liter)                       |
| p16           | rice (kilo)             | p34 | coffee (small pack)                       |
| p17           | Tortillas (kilo)        | p35 | sugar (kilo)                              |
| p18           | corn ``hojuelas" (unit) | p36 | vegetable oil (liter)                     |

Table A4: Difference-in-differences estimates of the effect of Progresa on village prices

|       | p1                    | p2                     | p3                  | p4                  | p5                    | p6                  | p7                  | p8                  | p9                  |
|-------|-----------------------|------------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|
| T     | 0.0826<br>[0.2582]    | -1.1782<br>[0.4387]*** | -0.0435<br>[0.2357] | -0.5462<br>[0.4391] | 0.1246<br>[0.2012]    | -0.0443<br>[0.1677] | -0.0414<br>[0.3895] | -1.3424<br>[0.9675] | -1.6077<br>[1.2532] |
| T*98o | 0.095<br>[0.3840]     | 1.2498<br>[0.4985]**   | 0.0609<br>[0.3974]  | 0.877<br>[0.6473]   | -0.5583<br>[0.3953]   | 0.2174<br>[0.2851]  | -0.2832<br>[0.6732] | 1.8117<br>[1.0401]* | 1.6452<br>[1.2807]  |
| T*99m | 0.0804<br>[0.7453]    | 0.781<br>[0.5417]      | -0.3818<br>[0.3099] | 0.1531<br>[0.5599]  | 0.0866<br>[0.2987]    | -0.3466<br>[0.2831] | -0.1483<br>[0.7589] | 1.1914<br>[1.0111]  | 1.2465<br>[1.2876]  |
| T*99n | -0.8173<br>[0.3489]** | 1.3505<br>[0.8422]     | -1.3779<br>[0.8913] | 1.5488<br>[2.5669]  | -1.6462<br>[0.6641]** | -1.1732<br>[1.4749] | -0.325<br>[0.5746]  | 3.2171<br>[2.2543]  | 2.0641<br>[1.3830]  |
| Obs.  | 1034                  | 990                    | 948                 | 369                 | 678                   | 698                 | 426                 | 548                 | 413                 |

|       | p10                 | p11                | p12                 | p13                | p14                 | p15                 | p16                 | p17                 | p18                 |
|-------|---------------------|--------------------|---------------------|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| T     | -0.5039<br>[0.3412] | 0.0057<br>[0.2665] | -0.3148<br>[0.3250] | -1.69<br>[1.3105]  | 0.0501<br>[0.1785]  | -0.3291<br>[0.4101] | -0.1483<br>[0.1409] | 0.0265<br>[0.1299]  | 0.8105<br>[0.9233]  |
| T*98o | 0.4998<br>[0.4262]  | 0.2034<br>[0.3482] | 0.3913<br>[0.3511]  | 1.4979<br>[1.3912] | -0.0945<br>[0.2497] | 0.2555<br>[0.4202]  | -0.1047<br>[0.1859] | 0.0531<br>[0.1758]  | 0.1171<br>[1.3075]  |
| T*99m | 0.2958<br>[0.4109]  | -0.428<br>[0.3291] | 0.0864<br>[0.6539]  | 2.0122<br>[1.3717] | -0.2671<br>[0.3055] | 0.264<br>[0.4162]   | 0.1945<br>[0.2806]  | 0.3573<br>[0.3769]  | 0.694<br>[1.5655]   |
| T*99n | 0.8789<br>[4.4228]  | 2.5907<br>[1.7468] | 4.0232<br>[9.9232]  | 0.4852<br>[1.4638] | 9.1043<br>[9.2109]  | -0.3298<br>[0.5394] | -0.569<br>[0.5809]  | -0.4817<br>[0.4022] | -1.6231<br>[1.1575] |
| Obs.  | 365                 | 640                | 750                 | 390                | 678                 | 1233                | 1375                | 424                 | 565                 |

|       | p19                 | p20                 | p21                 | p22                   | p23                  | p24                | p25                   | p26                    | p27                 |
|-------|---------------------|---------------------|---------------------|-----------------------|----------------------|--------------------|-----------------------|------------------------|---------------------|
| T     | -0.2255<br>[0.6422] | -0.5765<br>[0.9607] | -0.1634<br>[1.2435] | -15.4505<br>[9.0361]* | -1.6939<br>[2.0772]  | -0.15<br>[0.2455]  | -0.3617<br>[0.1621]** | -0.9393<br>[0.3405]*** | -0.34<br>[0.2410]   |
| T*98o | -1.8291<br>[1.3035] | -1.8317<br>[1.6762] | -1.3589<br>[3.2008] | 13.7839<br>[11.1087]  | -6.8775<br>[3.9947]* | 0.1938<br>[0.2641] | 0.0172<br>[0.3141]    | 1.1282<br>[0.4336]***  | 0.3435<br>[0.3052]  |
| T*99m | -0.5113<br>[0.8389] | 0.9343<br>[1.2960]  | 1.1377<br>[1.7734]  | 12.0755<br>[11.5156]  | 5.714<br>[5.6679]    | 0.129<br>[0.2637]  | 0.3623<br>[0.2650]    | 0.5862<br>[0.4429]     | 0.3434<br>[0.4402]  |
| T*99n | -1.2303<br>[2.2299] | 0.9294<br>[1.1187]  | -0.0991<br>[1.2644] | 15.3242<br>[9.0350]*  | 3.4506<br>[2.7004]   | 0.1216<br>[0.4785] | -0.2787<br>[0.4876]   | 0.4151<br>[0.7810]     | -2.3614<br>[3.3976] |
| Obs.  | 486                 | 566                 | 313                 | 334                   | 344                  | 1375               | 1194                  | 1206                   | 833                 |

|       | p28                 | p29                 | p30                 | p31                 | p32                  | p33                 | p34                    | p35                 | p36                 |
|-------|---------------------|---------------------|---------------------|---------------------|----------------------|---------------------|------------------------|---------------------|---------------------|
| T     | -0.0689<br>[0.3556] | -0.1552<br>[0.1894] | 0.0916<br>[0.2142]  | -0.0645<br>[0.1266] | -0.0312<br>[0.0939]  | -0.3793<br>[0.7805] | -1.5319<br>[0.5373]*** | -0.1483<br>[0.0950] | -0.1349<br>[0.1196] |
| T*98o | -0.0634<br>[0.5199] | 0.1684<br>[0.2163]  | -0.151<br>[0.2647]  | 0.1084<br>[0.1734]  | -0.0026<br>[0.1331]  | 1.2379<br>[1.1330]  | 2.2448<br>[0.7657]***  | 0.1084<br>[0.1324]  | 0.1579<br>[0.1828]  |
| T*99m | -0.3067<br>[0.5517] | -0.068<br>[0.3063]  | -0.3152<br>[0.3013] | 0.542<br>[0.2638]** | 0.2061<br>[0.1485]   | 1.5668<br>[1.5627]  | 0.3668<br>[0.7374]     | 0.1521<br>[0.2031]  | 0.1635<br>[0.1800]  |
| T*99n | 0.5788<br>[0.7721]  | 0.6931<br>[0.9239]  | 6.3978<br>[10.4329] | -0.4729<br>[0.5949] | -0.3143<br>[10.0995] | 0.3309<br>[0.8828]  | -0.0825<br>[6.4283]    | 0.6451<br>[0.7407]  | 2.5376<br>[2.2574]  |
| Obs.  | 634                 | 488                 | 922                 | 1272                | 1021                 | 757                 | 636                    | 1431                | 1219                |

Standard errors in brackets clustered at the village level.

\*\*\*, \*\*, \* indicates significance at the 1, 5, 10 % level respectively.