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What Are the Effects of Adding Credit and Insurance To a Conditional Cash Transfers Program in Mexico?

Manuela Angelucci, Carlos Chiapa and Silvia Prina

Recent research suggests that chronic complexity and stress inherent in the lives of the poor can impede and hamper financial decision-making. Due to pressing short-term needs of the here and now, forward-looking behaviors, such as investing in education and health, may not get prioritized by the poor. Even with the knowledge and means, making changes in behavior (such as more time parenting or other healthy activities that could have far-reaching consequences) is challenging due to the lack of adequate resources.

Since a major source of anxiety in the life of the poor is related to financial complexity and uncertainty, for our project we assumed that simplifying the financial lives of the poor would create favorable circumstances for them to recognize the longer-term benefits of and willingly invest in their children's education (through parenting and schooling) and adopt healthy behaviors. In addition, we anticipated that making the financial lives of the poor more straightforward would have a positive effect on their welfare.

Our focus group interviews with poor households in Mexico corroborated past research in showing that financial instability and emergencies are a major source of stress and anxiety. Therefore, for our target population we hypothesized that access to credit and insurance would improve the ability to cope with immediate shocks and that, in turn, these gains might promote the psychological well being of the poor and favor investing resources in education and health. We also had two more specific hypotheses: (1) recipients of the conditional cash transfer *plus* credit and insurance would have better parenting and higher adherence to healthy habits than recipients of only the basic conditional cash transfer; (2) experiencing unexpected income shocks reduces healthy habits and quality of parenting by adversely affecting psychological health, but this is less so for recipients of the conditional cash transfer *plus* credit and insurance.

We tested these hypotheses using as our target population the recipients of **PROSPERA** (formerly known as *Oportunidades*), Mexico's flagship conditional cash transfer anti-poverty program, which covers approximately 25% of the Mexican population. This is a policy-relevant target population for two reasons. First, because conditional cash transfer programs targeting the poor are implemented in at least 33 countries worldwide and serve 90 million people in Latin America alone. Second, because the typical conditional cash transfer program requires its recipients to have regular health checks and provides them with health and nutrition education, both of them free of charge. Therefore, we target a population that has neither knowledge nor financial constraints to the adoption of health behaviors, but rather those whose mental wellbeing may be hurt by the stress and complexity of their lives.

The recipients, almost all women, received cash transfers in a bank account every other month. In addition, a subset of participants received additional benefits from a financial inclusion module called "*Programa Integral de Inclusión Financiera 'Prospera más con BANSEFI'*" (PROIIF), a supplemental program that provides beneficiaries with additional benefits at below-market prices. In particular, the main objective of PROIIF is to improve PROSPERA's beneficiaries' formal financial inclusion. Through PROIIF beneficiaries have access to the following products: an additional savings account (*Ahorro Más con BANSEFI*); two lines of credit at an interest rate substantially below market levels (*Crédito Básico Más con BANSEFI* and *Crédito Más con Ahorro*); a life insurance policy at a discounted price (*Seguro Más con BANSEFI*); and additional benefits (*Paquete de Beneficios Adicionales BANSEFI*).

To test hypothesis (1), we compared healthy habits, parenting, children's schooling,

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- 2013 (49)
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- 2011 (26)

mental health, cognition, stress and total household income of PROIIF and non-PROIIF households. The difference in outcomes for PROIIF and non-PROIIF recipients identified the average treatment effect of PROIIF under the assumptions that (i) PROIIF affects only its recipients and not other subjects (e.g., it rules out spillover effects of PROIIF) and (ii) there are no systematic differences between PROIIF and non-PROIIF recipients.

The first assumption is likely to hold because PROIIF and non-PROIIF recipients were geographically distant from each other. Therefore, spillover effects are unlikely. To check the validity of the second assumption, we compared the predetermined socio-economic characteristics of PROIIF and non-PROIIF recipients and their households. We find that these two groups of recipients and their households are fairly similar.

Figure 1. shows that healthy habits, parenting, children's schooling, mental health, and cognition do not differ between PROIIF and non-PROIIF beneficiaries, thus rejecting our first hypothesis.

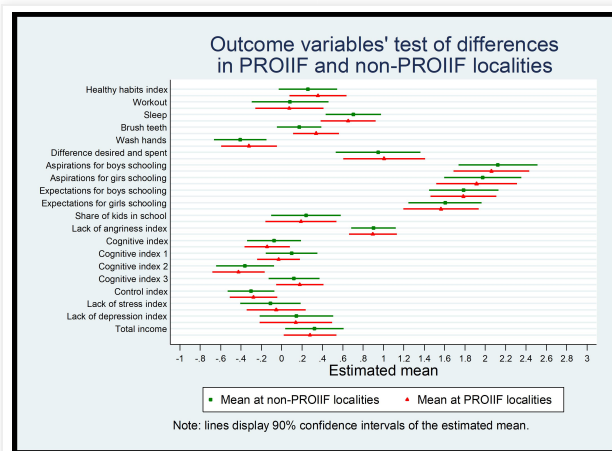


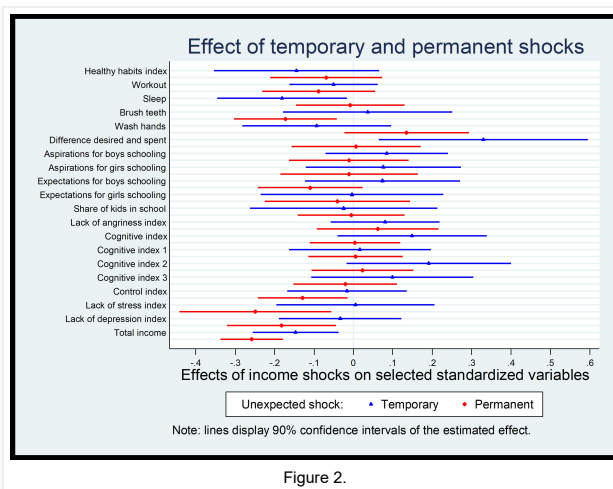
Figure 1.

To test hypothesis (2), we compared the healthy habits, parenting, children's schooling, mental health, and cognition of households that have and have not suffered from unexpected shocks in the previous 14 days prior to the interview date. Since the experience of unexpected shocks may not be random, as poorer and more vulnerable households are more prone to suffer these shocks, we restricted the sample to households who had experienced at least one unexpected shock in the previous 12 months. Therefore, the variation that we exploited was in the timing, and not the experience, of these shocks.

The difference in outcomes for households that were hit by an unexpected shock in the previous 14 days and households that experienced these shocks in the previous 12 months (but earlier than two weeks before the interview date), identified the effect of unexpected shocks under the assumptions that (i) the shocks affect only their recipients and not other subjects and (ii) there are no systematic differences between households that experienced the shocks sooner and later.

Spillover effects of these shocks are unlikely, as only 7.16 percent of the sample experienced shocks in the previous 14 days prior to the interview date and these households were geographically spread out, so the data supports the first assumption. Moreover, the socio-economic characteristics of the two groups of households were similar, and consistent with the second hypothesis.

Figure 2. shows that transitory and more permanent shocks reduced the income of PROSPERA's beneficiary households by similar magnitude as the effects on income were not statistically different from each other. Permanent shocks did not consistently or overall significantly reduce adherence to healthy financial habits. Similarly, we see no effects on schooling or parenting, or on parental aspirations and expectations for their children's schooling.



Further analysis shows that the magnitudes of the shocks of more permanent and transitory shocks on the outcomes of interest are not statistically different for PROIIF beneficiaries. There are two exceptions. First, receiving PROIIF attenuates the negative effects of experiencing transitory income shocks on household income. Second, while receiving PROIIF does not attenuate the negative effects of experiencing more permanent income shocks on income, it increases the amount of time desired to spend with children.

Overall, findings from our data indicate that recipients of the conditional cash transfer plus credit and insurance do not seem to have better parenting and higher adherence to healthy habits than recipients of only the basic conditional cash transfer. In addition, while it is the case that experiencing unexpected transitory income shocks reduces income, the magnitude of the effect is lower for recipients of the conditional cash transfer plus credit and insurance. Finally, when experiencing more permanent income shocks, the quality of parenting by increases for recipients of the conditional cash transfer plus credit and insurance.

Read more in Angelucci, Chiapa and Prina's [Final Report](#)

Posted by Anonymous at 7:00 AM



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