



# Discussion Paper BRIEFS

Food Consumption and Nutrition Division of the International Food Policy Research Institute

*Discussion Paper 199*

## **Evaluating the Cost of Poverty Alleviation Transfer Programs: An Illustration Based on PROGRESA in Mexico**

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**W**hile poverty alleviation programs play an important role in developing countries, critics question their cost-effectiveness. They hold that the costs of administering such programs often take too large a share of the budget, sharply reducing transfers of food or money to beneficiaries. Yet actual data on costs and structures of poverty alleviation programs are scarce. One study found data on costs for only 32 out of 111 poverty alleviation programs in developing countries. For much of the data that does exist, what costs are included or how they were calculated is unclear, which makes it difficult to compare the effectiveness of different programs. Therefore, any credible analysis of a program's cost-effectiveness must involve a detailed analysis of its cost structure and not just an aggregation of cost information.

### **PROGRESA's Dual Purpose**

The aim of this paper is to help close the knowledge gap regarding the cost structure of poverty alleviation programs. It shows how available cost data can be used to evaluate the cost efficiency of a program. To provide a concrete example of the level of detail that must be considered, the authors present an in-depth analysis of the cost components of the *Programa Nacional de Educacion, Salud y Alimentacion* (PROGRESA), a poverty alleviation program initiated by the federal government of Mexico in 1996. The program is more complex than most because it attempts to meet twin objectives of decreasing both current and future poverty. To reduce current poverty, PROGRESA is targeted to poor families with children in Mexico's poorest localities. And to help these families achieve a brighter future, the program imposes conditions aimed at improving

the education, nutrition, and health status of household members. To remain eligible for the program, participants must make regular trips to health clinics for checkups and attend monthly lectures on nutrition and hygiene. Children in the family must attend school regularly.

Once a family qualifies for the program, they first must attend a meeting where they are told how the program works and what their responsibilities and rights are. Each family receives a fixed cash transfer of 125 pesos a month for food. They receive additional cash transfers for fulfilling the health requirements. Another stipend is given for each child over the age of seven who attends school regularly, with cash transfers increasing as children progress to higher grades. The ceiling for education and health transfers is 750 pesos. On average, the transfers constitute about 20 percent of total household consumption.

### **Methodology**

To undertake a comprehensive cost analysis, one must go beyond the total budgetary costs to examine in detail the cost items that make up the aggregate cost, finding out, for instance, whether costs were incurred in cash or in kind, who incurred the cost, whether the cost is fixed or recurring, and whether it is a set-up cost or a capital cost for equipment. Then costs are assigned to key program activities.

Once costs are broken down by accounting activities, the cost-transfer ratio (CTR) for PROGRESA can be calculated. Four years into the program, the CTR for the actual targeted program with conditions is found to be 0.111, implying that it costs 11.10 pesos to transfer 100 pesos to households. Given the complexity of the program, this cost level is quite

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acceptable—lower than many similar programs.

Since many fixed costs are incurred at the start of a program, the CTR decreases as the program matures. The cost of a program can be grossly overestimated if the CTR is based on a snapshot of costs taken in the early stages of the program. Eventually the share of the total budget absorbed by administrative costs will fall from about 10 percent to only 4 percent. By focusing on activities that recur throughout the life of the program, one can better estimate the CTR for the mature program, reducing the impact of the fixed costs. Attaching costs to certain activities can also make it easier to compare programs. Activities include selecting localities, identifying beneficiaries, incorporating beneficiaries into the program, certifying compliance with conditions, delivering transfers, and other activities related to monitoring and evaluating the program. For example, the cost share for identifying beneficiaries *decreases* from a high of 61 percent in 1997 to a low of 3 percent in 2000, while the cost share of certification of responsibilities *increases* from a low of 8 percent in 1997 to a high of 24 percent in 2000. Cost shares shift toward recurring cost items as the program matures. Tying cost analysis to activities also enables one to compare the effectiveness of programs that are targeted or untargeted and those with and without conditions.

### **Inclusion of Private Costs**

The government pays the administrative costs of the program. For the CTR to be accurate, it is also

important to calculate the private costs that households incur while meeting the conditions of the program. For example, beneficiaries may have to pay travel costs to and from the health clinic, the place where they pick up the monthly transfer, and for older children, to and from school. This paper shows how to calculate the financial cost of travel for each household, carefully subtracting travel costs if household members would be making the trip even if the program did not exist. Private costs are found to be substantial, accounting for 18 percent of total (public plus private) costs and reaching 36 percent in the long run. Ignoring private costs can lead to a pronounced underestimate of the costs associated with such programs.

**Keywords: cost efficiency, poverty alleviation, human capital, Mexico**

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