

Chapter 2

Combating Poverty and Inequality

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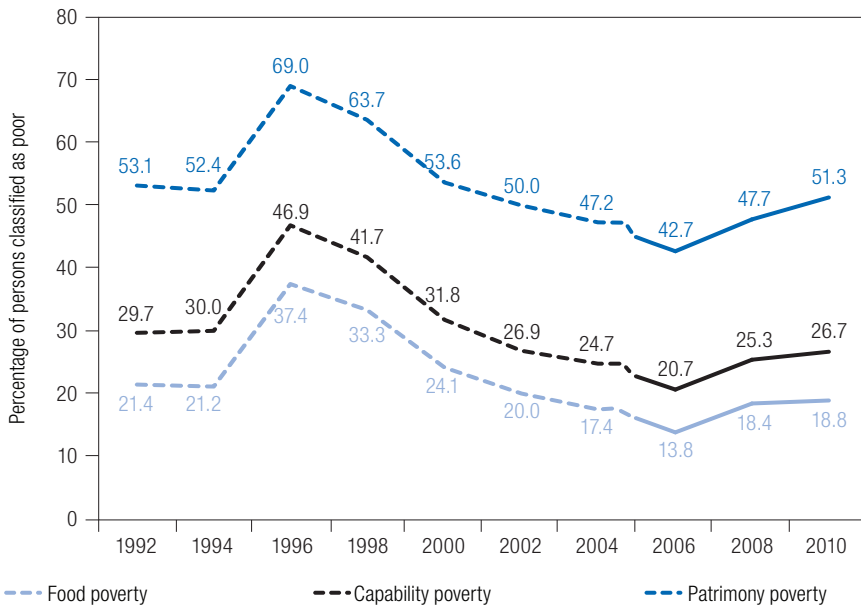
Major policy efforts have helped Mexico reduce extreme poverty and improve access of the poorest to basic services, including health and education. Poverty and inequality in Mexico remain high in international comparisons, not only with other OECD countries but also with emerging economies. They continue to be a challenge of utmost priority for Mexican policy makers. Meeting that challenge requires a comprehensive strategy that includes labour market reforms to facilitate the expansion of the formal sector, measures to improve productivity in the agricultural sector, and policies to improve the quality of education and health services. In addition, social spending needs to be expanded, but also be made more efficient and better targeted to the most vulnerable groups.

In recent decades, Mexico has implemented a number of major policies to tackle poverty. The capacity of social programmes to reach out to the poor has been extended, leading to significant progress in reducing poverty and inequality, especially over the period between the mid-1990s and the mid-2000s. In 2012 the coverage of *Oportunidades*, Mexico's main anti-poverty programme, reached 5.4 million families, more than 20% of all families (SEDESOL, 2012). The coverage of *Seguro Popular*, which provides basic medical health and preventive services and protection to people without health coverage (see chapter on addressing the health challenges), has also widened to provide universal coverage in 2012. These programmes have led to a reduction of extreme poverty, while at the same time supporting access of the poor to education and health services. Moreover, they have contributed to a reduction of longstanding wide regional disparities in access to basic services.

Despite these achievements, poverty and inequality in Mexico remain high in international comparisons, with both other OECD countries and several emerging economies. Estimates from the *Consejo Nacional de Evaluación de la Política de Desarrollo Social* (CONEVAL) indicate that in 2010, 51.3% of the total population (equivalent to 57.7 million individuals) were in patrimony poverty conditions, i.e. they did not have sufficient income to satisfy their food, health, education, housing, clothing and public transportation needs (Figure 2.1).¹ That count reached its highest point in 1996 after the 1994-95 tequila crisis, when 69% of the population was classified as poor. From this year until 2006, poverty decreased continuously, reaching 42.7% in 2006. However, with the global economic crisis,

¹ These estimates are drawn from the official methodology that Mexico has used to measure the evolution of poverty over the past two decades, based exclusively on household income. This measure is used to show poverty trends since the early 1990s. The current official multidimension methodology, though accounting for income and a number of other factors (access to food, education, health services, social security, housing quality and social cohesion), cannot be used to provide estimates before 2008. Estimates from the two methodologies are not comparable: they differ not only in the number of components used but also in the food baskets used to set a poverty line. While estimates of income poverty are drawn using the value of a food basket defined by INEGI and ECLAC in 1992 (see documents of the Technical Committee for the Measurement of Poverty 2002-04), estimates of the multidimensional approach use a basket developed by CONEVAL (http://web.coneval.gob.mx/Informes/Coordinacion/INFORMES_Y_PUBLICACIONES_PDF/Metodologia_Multidimensional_web.pdf). Using the multidimensional methodology, CONEVAL estimates that in 2010, 46.2% of Mexicans were poor (equivalent to 52 million persons).

Figure 2.1. **Income poverty trends, 1992-2010**
(Percentage of the total population)



Note: Figures here correspond to income poverty. The poverty line is set using the value of a food basket defined by INEGI and ECLAC in 1992. CONEVAL adjusted this poverty line to calculate three different levels of income poverty: food poverty, capability poverty and patrimony poverty. *Food poverty* is the lack of income needed to acquire a basic food basket, even if total household available income is only used to purchase the goods in such basket. *Capability poverty* is the lack of income needed to purchase a basic food basket and cover health and education expenses, even if total household income is only used for these purposes. *Patrimony poverty* is the lack of income needed to buy a basic food basket, as well as to cover expenses of health, education, housing, transportation and clothes, even if total household available income is exclusively used to purchase the goods in such basket.

Source: <http://www.coneval.gob.mx/>.

the downward trend was reversed. Poverty alleviation therefore continues to be a challenge of the highest priority for Mexican policy makers—especially in the current context of the weak global outlook that is exercising additional pressures on poverty reduction and the redistribution of income.

Tackling these high poverty levels and improving the distribution of income requires a comprehensive strategy based on a wide range of interdependent policies to promote the expansion of the formal labour market, infrastructure investment, regional policies, agricultural and rural policies, policies to improve the quality of education and give better opportunities to all Mexicans, and policies to improve the quality of and access to health services. As many of these challenges are covered in other parts of this publication, the present chapter

focuses on the key social policy programmes to strengthen the fight against poverty and achieve a more equitable income distribution; it also discusses options that could help strengthen the capacity of these programmes to support incentives to work and enable expansion of the formal economy.

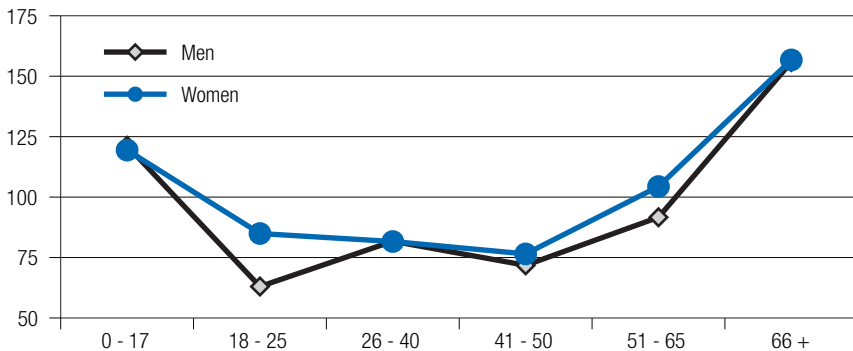
Poverty and inequality remain high

Poverty particularly affects children, women and the elderly

Children, women and the elderly are at high risk of falling into poverty in Mexico (Figure 2.2). Despite progress in the past decade, Mexico has one of the highest child poverty rates in the OECD area, the second highest after Israel. In 2008 more than 1 in 4 Mexican children (25.8%) grew up in households living in relative poverty, conventionally defined as the percentage of the population earning less than half the median income. With children accounting for almost half of all Mexican poor, prolonging their marginalisation is particularly damaging as it increases the risk of a permanent damage, on top of the direct social costs caused by the loss of self-esteem and motivation. The high level of child poverty is also reflected in other standard-of-living indicators, such as child mortality (three times higher than the OECD average), maternal mortality (five times higher), and teenage births (almost four times higher). Even though these indicators

Figure 2.2. Risk of relative poverty of men and women by age, Mexico

Poverty rate of the entire population = 100.



Note: Relative poverty risk is the age-specific poverty rate of men and women divided by the poverty rate for the entire population multiplied by 100. The poverty threshold is set at 50% of the median income of the entire population.

Source: OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD.

have shown real improvement during the past two decades, they continue to lag behind OECD standards. Maternal mortality rates have fallen between 2000 and 2010 from 72.6 deaths per 100 000 live births in 2000 to 51.5 in 2010, but at the current pace it will be difficult to achieve the Millennium Development Goal for 2015 (reduce the maternal mortality rate by three-quarters).

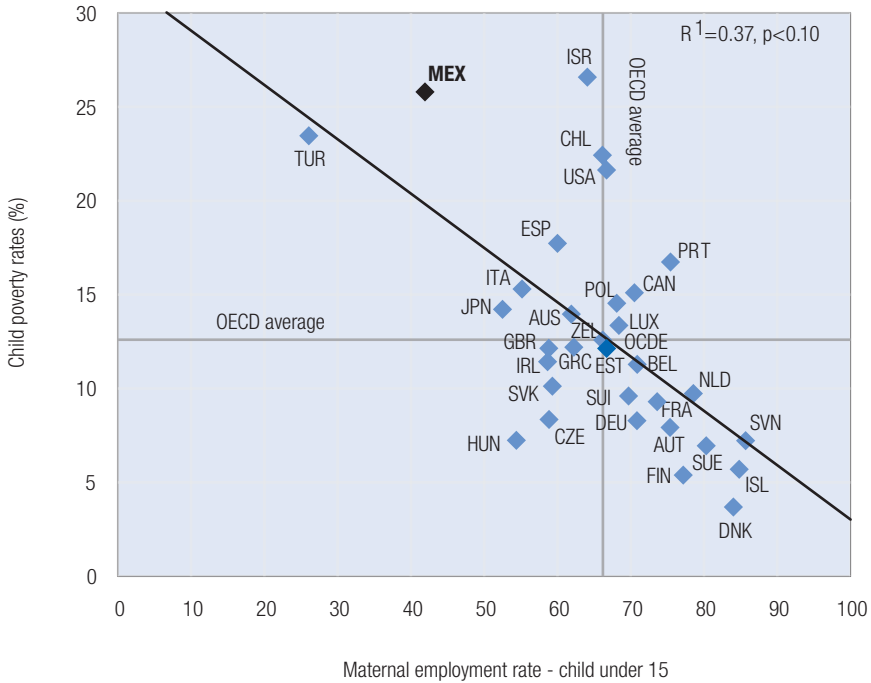
Women face higher poverty risks than men throughout the course of their lives, not only because their participation in the labour market is comparatively modest but also because when they work they earn significantly lower wages. Furthermore, women are more likely to be in the most vulnerable jobs, frequently in the informal sector. Indeed, young women are at particularly high risk of becoming disconnected from the labour market in Mexico. With 47% of women and 83% of men in paid work, Mexico had the second highest gender employment gap across the OECD area in 2010. Mexico's female employment rates, though having increased modestly more recently, are among the lowest in the OECD area (the OECD average is 60%) and below those of Chile (52%) for instance, as well as other Latin American countries such as Brazil (64%). New OECD analysis relating to the Gender Initiative (OECD, 2012a) underscores that greater female labour participation reduces poverty risks, not just for women directly but also for their children and the family as a whole (Figure 2.3). OECD estimates suggest that higher employment rates for women have acted as an important catalyst for diminishing household earnings inequality (OECD, 2011a).

In terms of education, women now do better than men in Mexico. At the secondary level, girls have higher enrolment rates than boys (90% compared to 84%) and higher graduation rates from tertiary education (university) than their male peers (21% compared to 18%). However, Mexican women continue to face obstacles to full participation in the labour market. Although some young women do not seek employment because they are engaged in child rearing, more than one-third of Mexican women aged 15-29 are classified as not in employment or education and training (NEET). This share compares with one in ten young men, a gender gap not observed elsewhere in other OECD countries. Facilitating women's labour force participation is needed to ensure that investments in education are not lost, and sustained economic growth is achieved.

Expanding job opportunities for young people and disadvantaged groups in Mexico requires not only measures to sustain the increase in the level of education and training but also to facilitate the transition from school to the labour market, as well as initiatives that strengthen local development in those areas where poverty is highest (see Chapter 4).

Poverty is also especially acute among the very old: about 30% of Mexicans above the age of 65 are exposed to poverty. Overall poverty among the older population is one-and-a-half times higher than among the population as a whole. The problem reflects the fact that the Mexican pension system provides

Figure 2.3. **Maternal employment rate is associated with lower child poverty rates**



Note: Proportion of children aged 0-17 years living in poor households, mid-late 2000s, and employment rate of mothers with a child aged less than 15, 2008.

Source: Secretariat’s estimates using the OECD Family database (2012), www.oecd.org/els/social/family/database.

benefits to higher-income groups in the public and formal private sectors, while leaving vulnerable workers, generally from the informal sector, unprotected. The lack of old age income security means that many must work even at a very old age – a phenomenon particularly frequent in the countryside. Recent long-term projections by the Consejo Nacional de Población (CONAPO) indicate that the population aged 65 or over will more than double during the next 20 years, from 7 million in 2010 to around 16 million in 2030. With the population ageing so rapidly, there is a serious risk that the proportion of elderly poor will increase even further.

Lastly, populations speaking indigenous languages represent around 6% of the overall Mexican population (i.e. almost 7 million people). These groups lag behind their non-indigenous peers in all development indicators, including maternal mortality (3 times those prevailing in non-indigenous localities), child mortality (1.5 times the national average) and child malnutrition (twice the

national average). They also have the lowest educational attainment and highest illiteracy rates (UNDP, 2010; CONEVAL, 2012).

Poverty increased as a result of the crisis

There are clear signs that the problems of the most vulnerable groups in Mexico have been accentuated by the global economic crisis. OECD data show that in 2010, nearly half of all Mexicans declared that they were finding it difficult or very difficult to live on their income (Figure 2.4). This percentage was much higher (16 percentage points more) than the levels observed in 2007, just ahead of the crisis.

Although poverty fell between 1996 and 2006, it has increased again since 2006. That reflects a combination of soaring food prices and the effects of the global crisis, which entailed a contraction in formal employment, a reduction in real income and poor economic growth. Recent figures from CONEVAL show that between 2006 and 2010, the proportion of people in patrimony poverty increased from 42.7% to 51.3% of the total population (equivalent to 57.7 million poor individuals in 2010), reflecting the vulnerability of Mexican households to global economic crisis.

Mexico is the second most unequal country in the OECD area

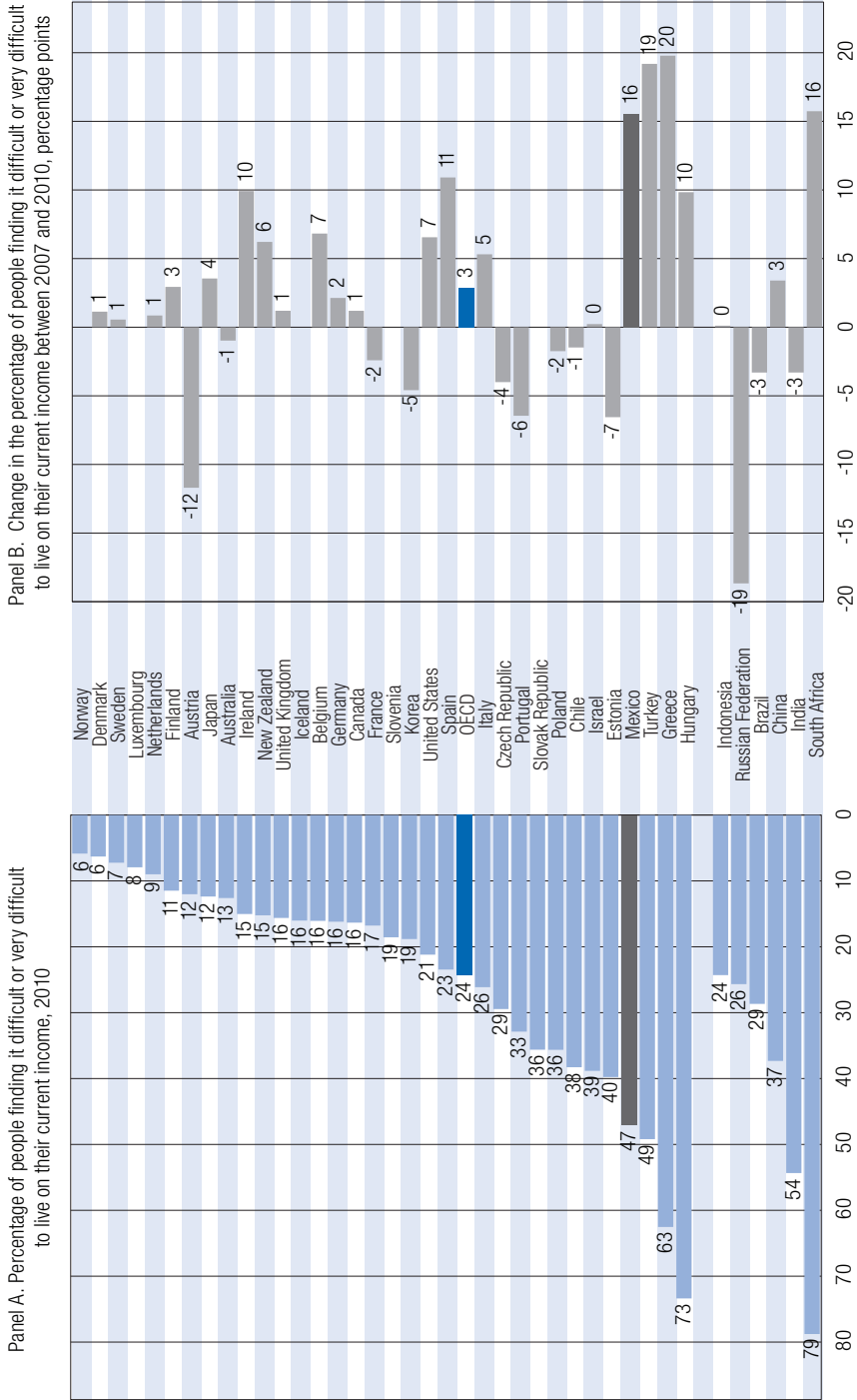
Even though Mexico is one of the few OECD countries to have experienced a decline in income inequality over time, the absolute level of inequality remains very high (Figures 2.5). Indeed, Mexico is the second most unequal country in the OECD area after Chile. OECD data, published in *Divided We Stand: Why Inequality Keeps Rising* (December, 2011), show that the annual average income of the top 10% of Mexicans in 2010 was 27 times higher than that of the bottom 10% who had an average annual income of MXN 7 800.² This ratio compares with a ratio of 9 to 1 for the OECD average.

A social protection system limited and not generous

In Mexico, very much like in the BRICS, the coverage and generosity of social protection, excluding education, is very low. At 8.2% in 2009, Mexico's public social spending was the lowest in the OECD area, and corresponded to only about one-third of the OECD average (Figure 2.6). Mexico's spending on

² The mean income is reported on an annual basis and in nominal prices. The income components include: wage and salary income of all household members, excluding employers' contributions to social security; capital income, including occupational pensions and all kinds of private transfers; self-employment incomes; and social security transfers from public sources.

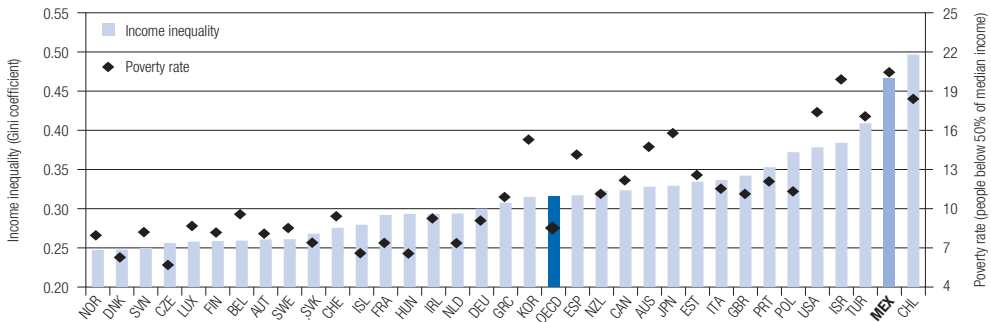
Figure 2.4. **Nearly half of Mexicans have income difficulties and this is rising because of the crisis**



Note: Data for change are not available for Norway, Luxembourg, Slovenia or Slovak Republic. 2006/10 for France; 2007/09 for Estonia, Israel and South Africa; 2008/10 for Finland, Austria, Ireland, Iceland and Portugal.

Source: OECD (2011b), *Society at a Glance*, OECD.

Figure 2.5. **Income inequality (Gini coefficient) and relative poverty rates, late-2000s**



Note: Data refer to 2008 for all countries except Australia, Chile, Hungary, Korea and New Zealand, for which they refer to 2009; and Mexico, for which they refer to 2010.

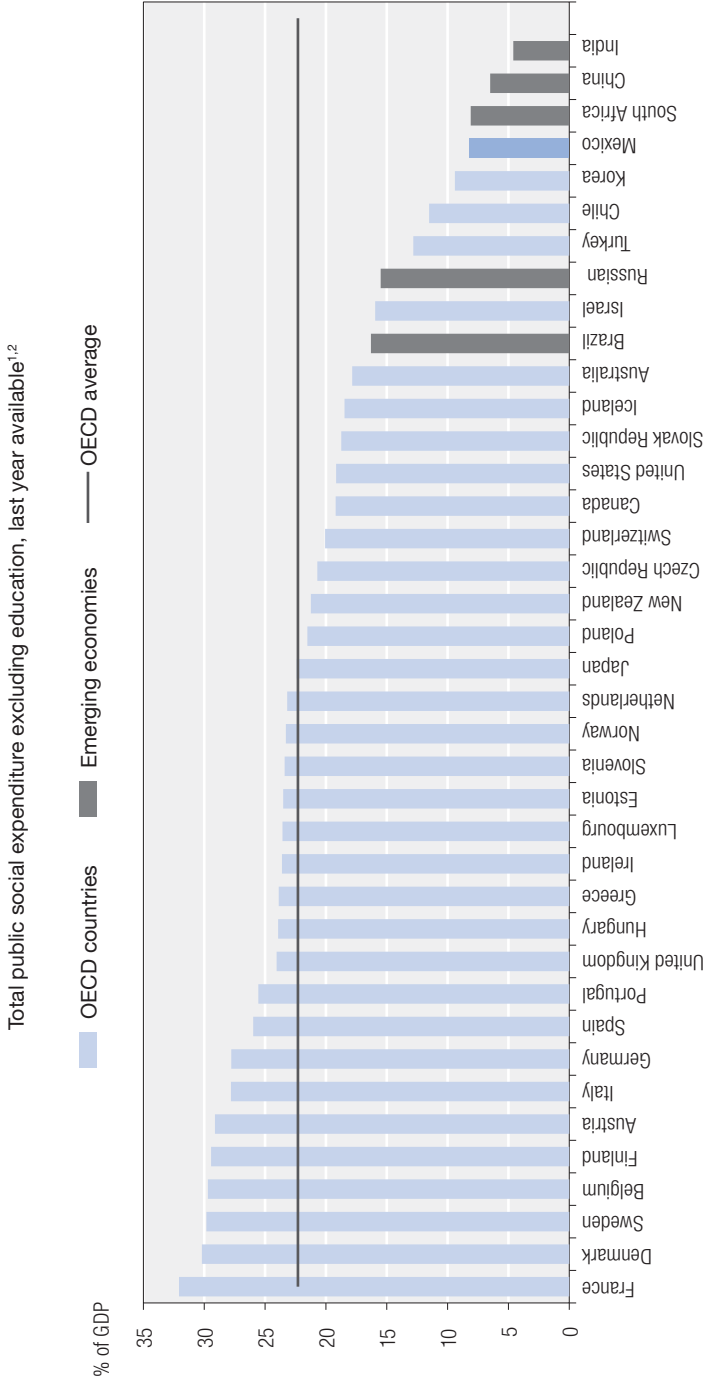
Source: OECD database on Household Income Distribution and Poverty (www.oecd.org/els/social/inequality).

social programmes (as a percentage of GDP) is also considerably lower than that of emerging countries such as Brazil and the Russian Federation. However, this static comparison paints only part of the picture. As already underscored, in recent years, Mexico devoted tremendous efforts to the fight against poverty over the past years: in the mid-1990s, social spending as a percentage of GDP was only 4.3%, against an average of 19.5% in the OECD area.

Compared with most OECD countries, coverage of contributory social insurance programmes in Mexico is relatively low, as in all emerging economies (OECD, 2011a, c). Only one-third of the workforce contributes to a pension plan and/or health insurance – approximately the same level as in China but less than South Africa and Brazil, where between half and two-thirds of the workforce contributes to such schemes. (This share is only one-tenth in India and Indonesia.) The low coverage in part reflects the high incidence of informality and self-employment (see chapter covering Labour market issues).

Mexico has a severance payment (SP) system in place for workers in the formal sector who lose their jobs, but no unemployment insurance (UI). Thus, in several international comparisons, the country stands out as a special case. Indeed in most OECD countries, the value of unemployment benefits available to workers during the first year of unemployment exceeds that of severance pay. Moreover, most have universal UI systems in place, while many do not have any mandatory SP programmes. In both Chile and Turkey, which compare more closely with Mexico, SP for workers unemployed for one year exceeds UI, but there are also examples of emerging economies where the balance between UI

Figure 2.6. **Public social expenditure (excluding education) in OECD and emerging economies**



Notes: 1. Data refer to 2009 for OECD member countries; 2008 for China; 2007 for Russia and South Africa; 2006-07 for India; and 2005 for Brazil.
 2. Policy areas covered include old age; survivors incapacity-related benefits; family, health and active labour market policies; unemployment; and housing.

Source: Preliminary data, OECD (2012c), Social Expenditure (SOCX), www.oecd.org/eis/social/expenditure for OECD countries; OECD (2011a), OECD (2011c).

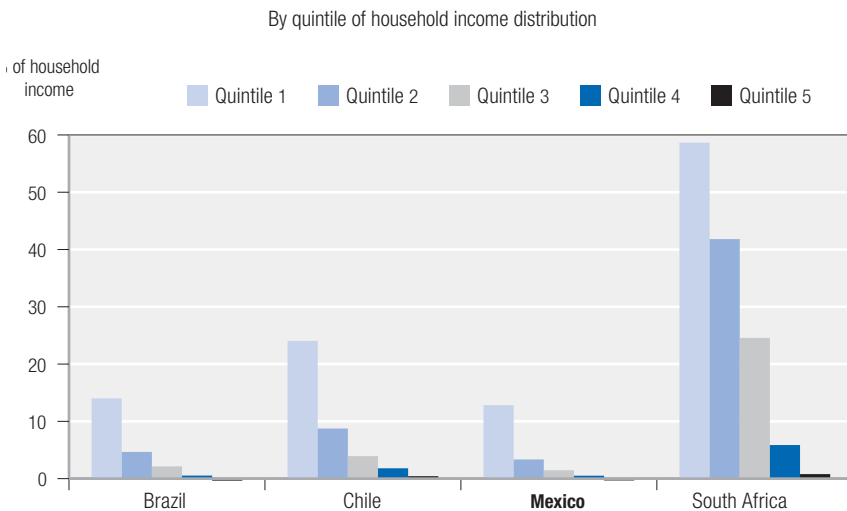
and SP is either even (Russian Federation), or has already tilted in favour of UI (South Africa).

The recently approved labour reform should be complemented with the creation of an effective unemployment insurance scheme. This could be implemented through an individual savings account system combined with a public component for job-losers who have insufficient savings, as in Chile. Clearly, fiscal and financial considerations have to be incorporated in any assessment about the establishment of UI in Mexico (see Chapter 3).

A key role for cash transfer programmes

The role played by non-contributory social assistance, aimed mainly at tackling poverty, has strengthened considerably over the past decade. Taken together, *Oportunidades* and *Programa Para Adultos Mayores*, amount to 13% of household incomes for the lowest quintile in Mexico (Figure 2.7). These transfers represent a modest support to families' budgets. The comparison with selected emerging economies suggests that Mexico's poorest households receive a share of their income from these programmes similar to their counterparts in Brazil

Figure 2.7. **Share of cash transfers in household incomes**



Note: The following cash transfer programmes are included in the calculations – Brazil: Bolsa Familia, Beneficio Assistencial de Prestação Continuada, PETI, Bolsa Escola, Bolsa Alimentação; Chile: Chile solidario, Pension Basica Solidaria, Aporte Solidario; Mexico: Progres/Oportunidades and Programa Para Adultos Mayores; South Africa: Child Support Grant, Care Dependency Grant, Disability Grants, Old Age Pension. The years considered are 2010 for Mexico; 2009 for Brazil and Chile; and 2008 for South Africa.

Source: OECD (2011c), *OECD Employment Outlook*, OECD.

but lower than in Chile (where it accounts for 24% of households income) or South Africa (58% of household income) (based on OECD, 2011c with updates for Mexico).

This reflects the expansion of conditional cash transfer (CCT) programmes and health assistance programmes. The conditionality attached to them implies that in addition to directly tackling poverty, they are also intended to improve school attendance and the health status of mothers and children.

Unlike in most other OECD countries, access to cash transfer (CT) programmes in Mexico does not depend on labour market status. This particular feature, common in all emerging economies, is justified by the high incidence of in-work poverty (largely in the informal sector). CTs are mainly provided to the population in need, usually defined on the basis of geographic location, income and other household or family characteristics such as the presence of young children and older household members. Targeting is generally carried out through, first, selection of location (rural *versus* urban, poorest regions *versus* less poor ones) and subsequently, recourse to a means test in order to identify the neediest individuals and households. Usually, means tests are performed once to determine eligibility and are only repeated in rare cases. In most programmes, proxy means tests are used; these are based on a formula to estimate household income that considers a number of household characteristics and composition. Currently, CT programmes deliver cash benefits through electronic transfers to bank accounts. This has led to an increase in such accounts, especially among women.

Poor families

Oportunidades is one of the most innovative and advanced CCT programmes in the world. It is designed to target those living in extreme poverty or just above this threshold. The programme conditions reciprocity on actions from beneficiaries in terms of investment in education and medical check-ups for children and pregnant women. It was launched in 1997 with coverage limited to rural areas before extending to urban areas since 2001. Today, *Oportunidades* covers 5.4 million Mexican families, overall reaching more than 26 million individuals (SEDESOL, 2012). Over time, it has helped to increase enrolment rates for secondary school, with particularly beneficial impact for girls. In addition, by leading to an increase in health visits, *Oportunidades* has entailed a decline in both child morbidity and maternal mortality. Nonetheless, the programme still excludes many vulnerable and moderately poor households. This is particularly the case with residents in remote regions with little access to educational and health services, and with those families whose socio-economic conditions set them just above the poverty threshold of the means-testing classification system.

In 2003, the government implemented *Programa de Apoyo Alimentario* (Nutrition Support Programme) to support poor families not receiving aid from other federal programmes such as *Oportunidades*. The aim of this programme is to improve families' nutrition, particularly focusing on children as well as on pregnant or breastfeeding women. The programme provides cash or in-kind benefits, which are paid conditionally upon regular visits to the local health centres. By mid-2012, the programme provided cash benefits to around 650 000 families living in localities of less than 100 000 inhabitants (SEDESOL, 2012). The budget of this programme increased substantially between 2008 and 2011, as part of the federal government's strategies to support household consumption during the global crisis (CONEVAL, 2012).

In 2007, Mexico implemented a national child day-care programme – *Programa de Estancias Infantiles para Apoyar a Madres Trabajadoras* (PEIMT) – with the objective of subsidising community and home-based day care to encourage low-income mothers to work. The programme offers both supply- and demand-side incentives, by providing financial aid to individuals and civil society organisations interested in running nurseries, as well as a subsidy to low-income mothers wishing to enrol their children in a centre. Day-care service comes at a lower cost to users, although it is not entirely free. Parents are eligible to receive programme benefits if they have young children aged between 1 and 4, and provided their household income is below the official well-being line.³ Achievements have been considerable so far, with PEIMT supporting the expansion of female employment and the increase in the number of female-hours worked (CONEVAL, 2012). However, more could be done to expand coverage, while at the same time ensuring that quality and security requirements are met. Indeed, there were 9 500 registered day-care centres by 2012 (SEDESOL, 2012). These centres were able to serve 284 000 children, corresponding to roughly one-third of the total number of Mexican children between 1 and 4 years old who live in poverty.

Housing improvements

Public spending intended for housing improvements amounted to about 1% of GDP in 2009 (OECD, 2012c). The objective of these housing programmes is to allow poor families to ameliorate their living conditions by improving the quality of their houses. This includes, for example, by means of replacing dirt floors with cement floors (*Piso firme*), improving sanitary services (bathrooms, latrines, septic tanks or similar equipment), equipping cooking sites, and reinforcing walls and ceilings. These interventions are reported to have had positive impacts on the health and welfare of the population, especially on children (CONEVAL, 2012).

³ The well-being line is the minimum level of income (in rural areas, about MXN 1 500 and in urban areas MXN 2 300) needed to purchase the goods and services required to meet food and non-food needs.

However, they need to be better targeted, in terms of both final users and the types of needs that the interventions are intended to address.

Older people

Old age poverty has become an urgent policy concern. In 2007, the Mexican government introduced *70 y más*, a CT programme that aims to provide income support to those over 70 years old who are not eligible to receive an old age or retirement pension. Benefits were initially restricted to residents of rural areas and localities with fewer than 2 500 inhabitants. Since early 2012, however, coverage has been extended to urban areas. By mid-2012, 2.8 million elderly people (around 60% of all eligible individuals) were receiving a monthly flat-rate benefit (non-taxed MXN 500) payable every two months (SEDESOL, 2012). However, *70 y más* overlaps with other transfer programmes also intended to tackle old age poverty, including *Apoyo Para Adultos Mayores* (itself a component of *Oportunidades*), *Programa de Apoyo Alimentario*, *Liconsa*, *Procampo* and *Acuerdo Nacional para el Campo*.

Indigenous population

More needs to be done to alleviate the poverty risks of the indigenous population; support efforts include numerous federal and local initiatives. The most important among these are schemes to improve education and employability, often targeting women more specifically: *Programa de Infraestructura Básica para la Atención de los Pueblos Indígenas*; *Programa de Educación Inicial y Básica para la Población Rural e Indígena*; *Programas Albergues Escolares Indígenas* and *Programa Organización Productiva para Mujeres Indígenas*.

However, access to these programmes remains extremely limited, particularly in remote areas where their effectiveness is hindered by the low quality and scarcity of basic infrastructure and services, including transport.

Around one-quarter of Mexico's population lives in sparsely populated communities lacking access to a wide range of basic public services. The Strategy for micro regions, introduced in 2001, has improved ministerial co-ordination efforts to assist a selected number of rural regions characterised by high levels of marginalisation. The strategy involves a mix of measures that combine social emergency relief; improvement of the infrastructure of public and basic services such as health, education, electricity and water; housing improvements; and support to the competitiveness of local activities. Particular emphasis has been placed on the 125 poorest municipalities of the country, many of which have a high share of the indigenous population. The Programme for the Development of Priority Zones (*Programa para el Desarrollo de Zonas Prioritarias*) has been the main initiative of the micro region strategy. Estimates of the overall impact of

the Programme are not, however, very positive. Further investments are needed to improve the infrastructure of isolated populations.

Migrants to the United States

Scarce job opportunities in Mexico, together with social, economic and political factors, are responsible for the large flows of migrants to the United States. The recession and increased border controls have led, however, to a decline in migration. According to estimates based on the Mexican labour force survey, annual outflows from Mexico fell 44% in 2010, after falling 16% in 2009 and 22% in 2008 (OECD, 2012d). Decline continued in 2011. Remittance flows to Mexico are particularly important for alleviating poverty in marginal rural areas; they picked up in 2010 after a sharp decline in 2008 and 2009.

In 2001 the Mexican government launched the 3x1 Programme for Migrants, with the aim of encouraging remittance senders to invest in social projects in their home communities. For every peso that migrants send, federal, state and municipal authorities contribute 3 pesos – thus the name 3x1. External reviews highlight some weaknesses of this programme, including insufficient government budget, lack of transparency, conflict during project selection, insufficient involvement of beneficiaries, and public works concentrated in less marginal localities (González, 2011). Clearer operational rules and increased public investments are needed for the projects of the 3x1 Programme to contribute to regional development.

Measures to counter the adverse effects of the global economic crisis

Several measures have been introduced in response to the cyclical downturn induced by the recent global economic crisis. Such measures were primarily intended to prevent moderately poor families from falling into extreme poverty. This risk is pronounced in Mexico, where the average wage is skewed towards the bottom of the income distribution. The policy responses included programmes to provide temporary employment and prevent job losses (*Programa de Empleo Temporal*), as well as schemes providing a temporary extension of health coverage entitlements for the unemployed.

Policy challenges and the management of difficult trade-offs

Comprehensive anti-poverty initiatives have been instrumental in supporting the decline of poverty rates and income inequality. Yet, as illustrated above, with the widening of inequality and the rise in poverty since the crisis, there is no room for complacency. For poverty to be reduced significantly, social transfers to

the poorest must increase. Although in recent years there has been a reallocation of expenditure in favour of the most progressive policies, and a reduction in expenditure to the most regressive instruments (for example, subsidies for gasoline and diesel, which mainly benefit middle- and high-income groups), Many programmes are not targeted to the poor (CONEVAL, 2012). Total social expenditure on cash transfers (pensions, health, family, active labour market programmes) benefits people at the higher end of the distribution, so that only about 10% of the total funds are received by the poorest 20% (OECD, 2011a). In particular, the social assistance system could be further enhanced in order to better protect Mexican households and the economy against shocks (see Chapter 3 on fiscal issues). Inefficient subsidies for energy, agriculture and fisheries could be replaced by higher direct social spending with much greater benefits targeted for the poor (see Chapters 11 and 13 on green growth and Agricultural policy, respectively).

Policy options to increase the effectiveness of cash transfers

As *Oportunidades* expanded, more resources have been invested in means testing. In principle, means tests can be a useful tool insofar as it could lead to reinforcing the capacity of the administrators to assess the real welfare situation of households. In Mexico however, close targeting is also likely to entail several costs (OECD, 2010). First, there are the administrative constraints (both budgetary and in terms of capacity): gathering the information required for the means test is expensive. Second, accessing the programme is also costly for the applicants, in terms of time, information gathering, and commuting to reach the registration site. Third, social costs may arise if programme participation carries some sort of stigma. These considerations suggest that in practice, effectively targeting CCT programmes can be both complex and expensive. The trade-offs between the effort to reinforce means testing and the related possible economic and social costs merit scrutiny. Means testing involves a balancing act between efficiency and affordability in order to ensure that *Oportunidades* continues to stay focused on transferring income to the poor to enhance their human capital.

Certain requirements need to be satisfied for conditionality to work

International experience suggests that CCTs have strong potential to generate high payoffs in terms of the health and education gains of beneficiary children. However, for CCTs to work fully and be translated into longer-term improvements in human capital and labour market outcomes, certain conditions need to be met.

The effectiveness of conditionality depends on monitoring and enforcing sanctions in cases of non-compliance; the extent to which either takes place varies greatly across programmes and countries. International experience reveals

that the frequency of monitoring ranges from monthly (as was the case in the old *Social Risk Mitigation Project* in Turkey, which ended in 2007) to once a year (*Subsidio Familiar [SUF]* in Chile). The type of sanctions and their enforcement depend on the conditionality imposed, along with the extent of administrative and enforcement capacity at the local and/or central government levels. Under *Oportunidades* benefits can be withdrawn, either temporarily or definitely, in case of non-compliance, while in Chile *Solidario* imposes only light penalties and *SUF* no penalties. For example, in the case of *Oportunidades*, after four months of non-compliance with health co-responsibilities the benefit is withdrawn temporarily, and the withdrawal becomes permanent if the beneficiary sells or exchanges the in-kind benefits (nutritional supplements). However, this works in principle because sanctions are rarely enforced. Monitoring and enforcement of sanctions increase the cost of the programme and can have adverse effects on participation in the programmes for the poorest individuals – in particular, or those in poor remote areas, for whom transport costs can be high. Interestingly, there is evidence that mild verification and less-than-perfect enforcement could still work, since the announcement of conditionality in CCT programmes may be enough to induce participants to comply (Grosh *et al.*, 2008).

Effective supply of health and education services of adequate quality is a key factor determining the effectiveness of conditionality (Grosh *et al.*, 2008; Ribe, Robalino and Walker, 2010 on Latin America). Teacher absenteeism and poor infrastructure for schools and clinics are common in emerging economies, and in particular in remote rural areas. The experience of Mexico shows that distance to the nearest school matters for participation in *Oportunidades* (Grosh *et al.*, 2008; de Janvry and Sadoulet, 2005). This implies that transfer eligibility is not enough to ensure that the household can actually afford the transport cost to reach the nearest school and health centre. Some countries have taken important steps to improve the supply and quality of such services. Chile's *Solidario* offers an interesting example of interventions on the supply side in allowing for co-ordination among health providers, social workers and the municipalities. In the case of *Oportunidades*, the Mexican government took important initiatives to increase the supply of schools in specific areas of the country by rehabilitating old rural schools and constructing new secondary schools (Levy and Rodriguez, 2004). Further progress towards ensuring an appropriate supply of services could require strengthening collaborations with non-governmental organisations and community groups (see also Chapters 6 and 7 on education and health challenges, respectively).

Moving towards more integrated and complete programmes

A wide range of cash transfers programmes are available in Mexico, tailored to shaping the behaviours of particular groups. According to CONEVAL figures, Mexico currently has 273 fully operational federal social programmes, not

counting the social initiatives run by the local authorities (CONEVAL, 2012). One particular source of concern in this complex environment is that many public assistance programmes overlap in terms of objectives, benefits accrued and beneficiaries. There have been efforts to co-ordinate programmes through the creation of special oversight commissions (*Comisión Intersecretarial* and the *Comisión Nacional de Desarrollo Social*) and the introduction of a unified register of beneficiaries. While these measures are welcome, reducing duplications and redundancy could require a more ambitious effort to achieve coordination. Carefully reviewing existing federal and local programmes would represent a necessary preliminary step in this direction.

More generally, international experience suggests that countries have difficulty assessing whether a unique CT programme covering the vulnerable population is sufficient, or if separate programmes targeting specific groups such as children, the elderly, the sick and the disabled, and ethnic minorities are needed. Evidence shows that there is no single strategy that will suit all cases, and the decision depends on the incidence and severity of poverty, the types of vulnerable groups, the family and household structure in the country and – very importantly – the political economy of potential reforms in the country. Integrated programmes may effectively cover all the needy individuals while keeping administrative costs down. But there are other ways of exploring synergies across the different programmes, such as by means of common means tests and common administrative offices. Special attention should be paid to ensuring equity if the option of unified targeting across programmes is preferred. This could require making the level of the benefit paid a function of household characteristics and structure. Criteria could include, for instance, the actual number of children, the school grade or the gender of the children, with a higher benefit being envisaged for children in secondary school and for girls. A similar approach based on household composition could be followed when considering the integration of programmes targeting the elderly.

Dealing with specific groups

There are special cases in which targeting of a specific group may be needed. This is likely to be the case when the CT aims to empower certain particularly vulnerable members within the household or a certain community group, provided that the stigma associated with receipt of the transfer is lower than in the case of targeted interventions

Country experiences suggest that public support for targeted interventions in favour of vulnerable groups is usually stronger, as the need to focus on these groups is easier to explain and justify. Priority could accordingly be given to expanding coverage of the national child day-care programme (PEIMT) because of its multiple dividends: stimulating the participation of women in the labour

market; promoting continuation and completion of female studies; reducing poverty risks; and improving gender equity.

Poverty reduction commitments under the Pact for Mexico

President Peña Nieto inaugural Message to the Nation included decisions to alleviate poverty and improve the living conditions of the Mexican population. These decisions have been supported and further developed in the Pact for Mexico, a national agreement signed by the three main political parties. These new commitments are in line with OECD recommendations; if actually implemented, they may contribute to improving the living standards of Mexicans, especially those of the most vulnerable groups such as the elderly, children and the indigenous population.

The first set of actions concern the development of a Universal Social Security System, which will guarantee universal right to health and other social benefits irrespective of the employment status of the population. In this area, three commitments aim at reducing poverty risks:

- Extending the programme “70 y mas” to senior citizens aged 65 and over without a retirement pension. Furthermore, the federal government will make contributions to individual pension accounts for all Mexicans from the age of 18 to the age of 65 (commitment 3).
- Implementing an unemployment insurance system to protect workers in the formal sector in case of job loss (commitment 4).
- Introducing a life insurance system for single female-headed households to provide financial protection to dependent children in case of death. This insurance will also be granted to single male-headed households (commitment 5).

The commitments have agreed to combat hunger and eradicate extreme poverty through a National Programme to Combat Poverty (commitment 6). Public resources will be transferred directly and without conditionality to the extreme poor, ensuring that they have enough resources to meet their basic food requirements.

The indigenous population will receive budgetary priority in the fields of health, education, infrastructure and credit. Three commitments address the opportunities and living standards of the indigenous population, with the aim of ensuring that their rights in these respects are equal to those of the rest of the population (commitments 34, 35 and 6).

In addition, several commitments foresee actions to improve the quality of health and educational services, especially in areas with high marginalisation (commitments 1, 7-9, 11-14, 35). All these commitments will require additional spending, making the tax reform all the more essential.

A comprehensive strategy

In addition to stronger social and poverty reduction programmes, combating poverty and income inequality requires a comprehensive strategy, including in particular: i) labour market policies to facilitate expansion of job creation in the formal sector (see Chapter 5 on improving access to formal employment); ii) policies to broaden access to and strengthen the quality of education services (See Chapter 6 on education); iii) policies to improve the quality of and access to health services (See Chapter 7 on health policy); iv) policies to support the productivity of SMEs and improve incentives to incorporate to formality (see Chapter 10 on SMEs and entrepreneurship); and v) policies to support rural development (see Chapter 13 on agriculture and rural development).

OECD Key Recommendations

- Promote a fiscal reform to be able to *increase social spending*, giving priority to transfers targeted to the poorest population. It would be desirable to strengthen the impact of such transfers by making them more progressive, so as to ensure that they are more focused on support to the lowest-income families.
- *Increase efforts to evaluate the impact of social programmes*. To this end, review CT programmes with a view to identifying gaps that could give rise to loopholes, leakages, inefficient transfers and badly targeted spending.
- *Reduce existing duplications and redundancy* between CT programmes.
- *Consider the option of moving towards a more integrated system of CT programmes*. Special attention must be paid to ensuring equity if the option of unified targeting across programmes is preferred.
- *Evaluate the trade-offs* between the effort to reinforce means-testing and the related possible economic and social costs.
- *Increase efforts to ensure that CCT programmes are backed by an appropriate supply of supporting health and education services* of adequate quality, which is key to ensuring the effectiveness of CCTs.
- *Consider measures to better direct the focus of CT programmes towards the needs of the most vulnerable groups*: women, the elderly, children and indigenous groups. Priority could be given, in this context, to expanding coverage of the national child day-care programme (PEIMT).
- *Increase infrastructure investments* to connect and improve the living conditions of isolated populations.

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