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Poverty and Inequality

This Thematic Chapter was written by Quentin T. Wodon and Eduardo Velez with the valuable input of Marcelo Giugale and Adolfo Brizzi.

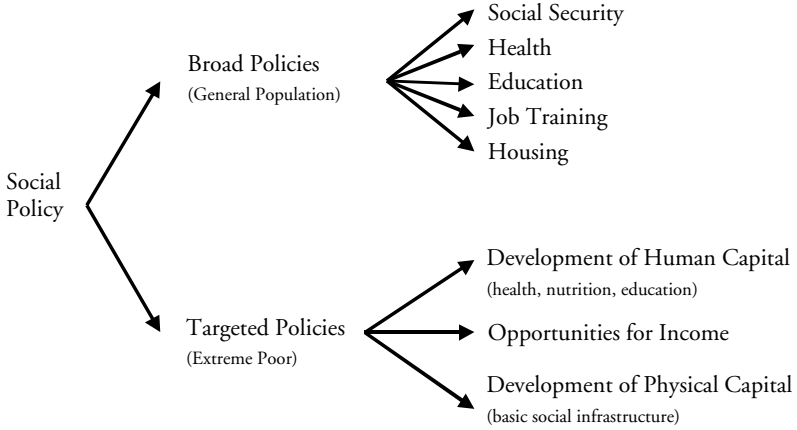
I. Introduction

While there are different estimates of poverty in Mexico, there is general agreement that poverty is widespread, and that the reduction of poverty should be a key area of focus for the new Administration. Beyond lack of income, poverty is a complex and multidimensional phenomena which affects many areas of the life of the poor. As a result, a wide range of public policies have been implemented in Mexico, as elsewhere, to reduce poverty and improve the well-being of the population.

It is difficult to organize into a coherent overall strategy the many policies necessary for the reduction of poverty. Substantial progress has been achieved over the last six years in this respect, with the Zedillo Administration relying on both broad-based social policies and targeted programs for the reduction of poverty. In the framework of that Administration (Figure 1), broad-based social expenditures are devoted to social security and healthcare, education, job training, and housing. Targeted programs focus on investing in the human capital of the poor, promoting income and employment opportunities for the poor, and improving the physical infrastructure of poor areas. Importantly, funding for basic education, healthcare for the population without formal coverage, and targeted poverty programs was increased in recent years, despite the fiscal discipline maintained for the budget as a whole.

This Thematic Chapter has two objectives. First, it briefly presents an alternative framework that could be used by the new Administration to prepare its own coherent strategy for poverty reduction. Second, it provides a synthesis of eight background chapters devoted to government programs, social protection, education, health, urban labor markets, rural development, indigenous peoples, and gender.

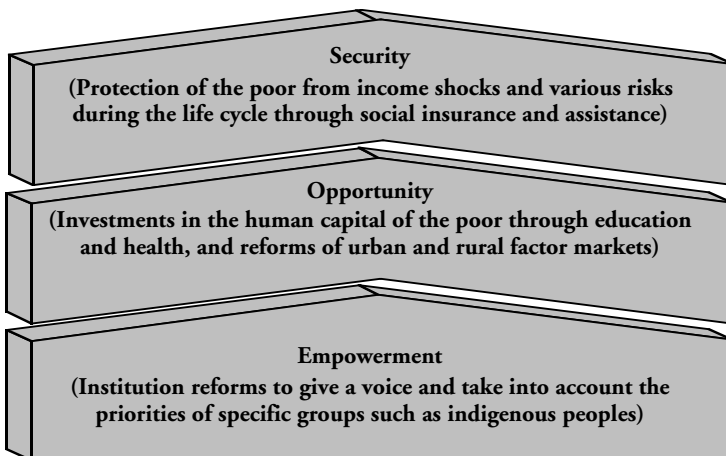
Figure 1. Broad-based and Targeted Policies



To classify the policies which are necessary for reducing poverty, this Chapter uses the security, opportunity, and empowerment trilogy from the World Bank’s *World Development Report 2000* on poverty (Figure 2).

- *Providing security.* The poor suffer from shocks induced by microeconomic events, macroeconomic events, and natural disasters. More broadly, the poor face a number of risks, from malnutrition in the first few years of life to a

Figure 2. An Alternative Framework for Poverty Reduction



lack of resources at an older age. Public policies can help in providing security for the poor in order to help them deal with shocks and risks. These policies are discussed in the chapters devoted to government programs and social protection.

- *Building opportunity.* Creating better opportunities for the poor requires economic growth and policies designed to ensure that the poor participate in the growth process. The policies necessary to promote economic growth in Mexico are discussed in other chapters. Here, we focus on the policies that can help in ensuring that the poor and the nonpoor benefit from growth.
- *Human capital (health, education, and nutrition).* The level and quality of public social expenditures for health, education, and nutrition are essential elements for the government to invest in the human capital of all its people, but especially the poor, who cannot afford privately provided services.
- *Factor markets (urban labor markets and rural development).* Pro-growth reforms in urban and rural factor markets can help in improving earnings and employment opportunities for those who are less skilled, thereby resulting in poverty reduction.
- *Promoting empowerment.* Finally, institutional reforms and special attention to disadvantaged groups such as indigenous peoples are important to give a voice to the poor and take into account their own priorities. Another cross-sectoral area where reforms could be implemented relates to gender issues.

There is an implicit hierarchy in Figure 2 that is worth commenting on. Because policies designed to provide security to the poor tend to be targeted, they immediately come to mind as being essential for a poverty reduction strategy. Yet, while these policies are important, they do not suffice. They represent the tip of the iceberg, because they often help when something has gone wrong—when individuals and families are already in poverty and at serious risk. Moreover, targeted policies tend to rely on redistribution mechanisms, so that they are not the primary engine for growth, without which long-term poverty reduction cannot be achieved. To promote broad-based growth, and to prevent individuals and families from falling into poverty, investments in the human capital of the poor and in reforms to enhance the functioning of factor markets are the key. While investments in human capital tend to have an impact on poverty only in the long run (for example, when healthy and better-educated children reach adulthood), factor market policies may have more immediate beneficial impacts. Finally, empowerment is necessary for enacting policies for opportunity and security. Without empowerment, the poor tend to have little voice in the political economy process, and this often implies that they are not well served. Empowerment also helps in reducing discrimination, which is one cause of exclusion.

Striking a balance between the various policies that must be part of a poverty-reduction strategy is not easy. What is clear, however, is that the success of the next Administration in reducing poverty and improving the well-being of Mexico's pop-

ulation should be monitored over time using a battery of indicators, rather than poverty measures alone. Reducing the share of the population living in poverty or extreme poverty by, say, one-fifth, should be high on the list of targets of the new Administration. Beyond a reduction in poverty and extreme poverty, a reduction in inequality should also be a key objective, simply because people tend to assess their level of well-being not only in comparison to absolute thresholds (as measured by poverty), but also in comparison with others (as measured by inequality).

Beyond monetary indicators of well-being such as poverty and inequality, non-monetary indicators in health (malnutrition, infant mortality, etc.), education (enrollment, assistance, repetition, dropout, etc.), and basic infrastructure services (sewerage, sanitary installation, access to safe water, etc.) matter as well. In some cases, it is feasible to put a monetary value on non-monetary indicators, and this can be useful for the analysis of trade-offs between policies. For example, one can assess the income gains from education and employment, or the value of having access to basic infrastructure services such as electricity, water, and sanitary installations. Yet this will never capture the full cost or benefit of non-monetary indicators. There is an intrinsic value in being well educated or in having a good job that goes beyond the monetary income provided by education and employment. To give a less obvious and more controversial example, there is an intrinsic merit in having public policies that promote better access to culture and art for the poor, even if this does not bring monetary benefits. The poor are not only hungry for food—they are also hungry for creativity, expression, and full participation in the life of society.

Although it is difficult to define what quality services are, it is necessary to focus on delivering quality inputs and programs, and adequate definitions must include outcomes and the value added of the intervention (for example, learning gain, and increased probability of income-earning activities), and that the value added needs to be compared with the cost of the intervention. At this stage it is important for the new Administration to consider cost-effectiveness criteria as a key element to identify programs. An orientation toward outcomes means that priorities in poverty programs and interventions are determined through economic analysis, standard setting, and measurement of the attainment of standards.

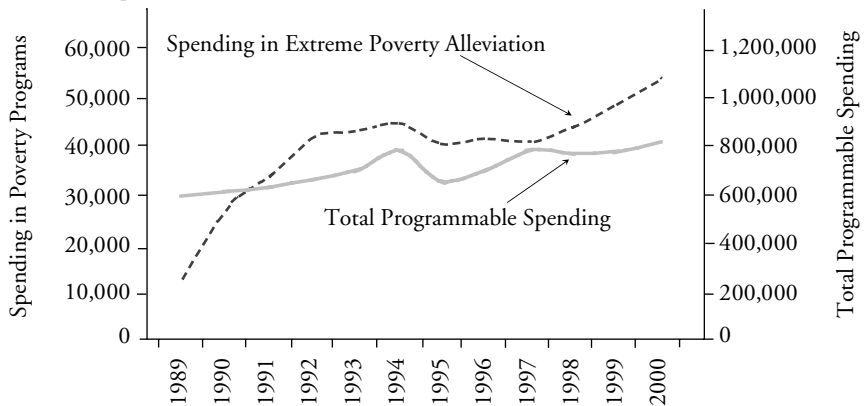
Finally, it is necessary to work for maximum efficiency in the allocation and use of resources so as to improve the quality and increase the quantity of inputs to fight poverty. For this it is important to pay attention to policy environment and to institutional strengthening. It is necessary to focus on the federalization process to consolidate it and give local authorities (state, municipal, and community) the incentives to contribute to autonomy and accountability. This does not happen automatically, and it is necessary for the central government to help improve the local capacity by setting standards, supporting inputs known to decrease poverty, adopting flexible strategies for the acquisition and use of inputs, and monitoring performance. The possibility of increasing local and private resources for the expansion of some programs should also be considered, together with more involvement of civil society as part of the monitoring process at the local level.

II. Providing Security

Evaluating Government Programs

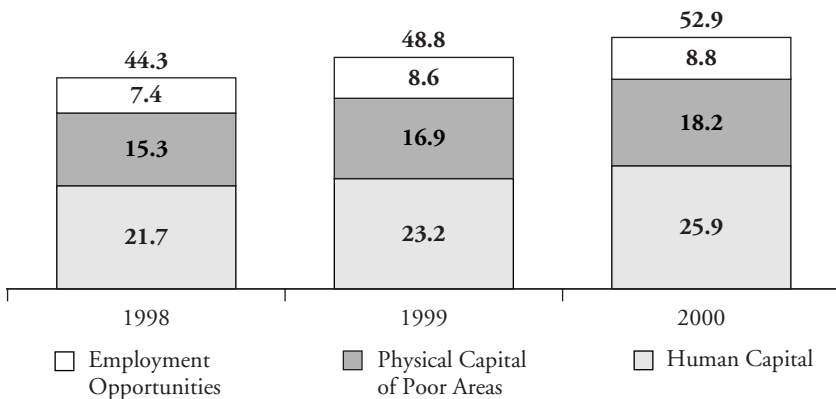
Funding for poverty programs has increased (Figures 3 and 4). In 2000, the expenditures for targeted programs will reach MXP\$53 billion, an increase in real terms of 20 percent since 1994. Among the MXP\$53 billion devoted to targeted poverty

Figure 3. Resources Channeled to Poverty Alleviation Programs
(millions of pesos of 2000)



Source: Government of Mexico.

Figure 4. Government Spending for Poverty Alleviation
(2000 pesos in billions)



programs, MXP\$26 billion are for investments in the human capital of the poor, MXP\$9 billion are for income opportunities for the poor, and MXP\$18 billion are for investments in the physical capital of poor areas. Together these programs represent 11 percent of social spending, 6 percent of programmable spending, and 1 percent of GDP. Apart from targeted programs, the government is also running large job training programs (discussed below) and agricultural programs (discussed in the section on rural development), which have an impact on the poor.

Investing in Human Capital for the Poor

Human capital programs for the poor include PROGRESA, food subsidies and other programs, compensatory education programs, and basic healthcare programs.

PROGRESA. Begun in 1997, PROGRESA (MXP\$9.6 billion) provides integrated support for education, health, and nutrition to poor households living in poor rural areas. Conditional on good attendance, the program provides upper primary and lower secondary school stipends and subsidies for school supplies. It also provides free basic healthcare, health education, a cash transfer for nutrition, and nutritional supplements for pregnant and breast-feeding women and for children under age 5. The program reaches 2.6 million families. Evaluations suggest a 22 percent decrease in morbidity for children below age 2, a 21 percent increase in female enrollment in lower secondary schools, an 18 percent increase in attendance at health clinics, and an increase in schooling of one year among the target population. PROGRESA is a good program with some areas for improvement as follows.

- *Supply-side.* By raising the demand for schooling and healthcare, PROGRESA is generating tensions on the supply side. To avoid these tensions, close coordination with SEP and SSA is needed, and efforts have been made in that direction (for example, the teacher-student ratio in telesecondary, a program for which the demand has increased substantially thanks to PROGRESA, has been kept constant). Still, more generally, there remains an uncertainty as to the relative impact of demand and supply-side programs on improving education and health outcomes among the rural poor.
- *Transfers, targeting, and community participation.* PROGRESA's average income transfer is 253 pesos per month, which represents 22 percent of the beneficiaries' average total income. However, families with many children in school can receive up to 600 pesos per month (less than five percent of beneficiaries fall in that category). The question is whether the program is achieving its objectives at a relatively high cost. The argument for the relatively high stipends is that apart from promoting human development, PROGRESA also provides immediate income support for the alleviation of poverty. The argument is correct, but it could still be valuable to rethink the level of the stipends. The program's targeting is well done overall, but in villages where

most of the population is poor and where the population is highly marginalized, it may be better not to use means-testing to avoid tensions between beneficiaries and nonbeneficiaries. In some areas, the individual-based logic of PROGRESA may not mesh well with traditional communal values. At the same time, not implementing the targeting of the program in small and highly marginalized communities would imply that two families living in different areas but otherwise identical might not be treated in the same way by the program, which could generate fairness issues.

FOOD PROGRAMS. The resources allocated to food subsidies remain twice as large as those allocated to PROGRESA (MXP\$16 billion). Two positive changes have been made by the Zedillo Administration. First, the share of targeted (as opposed to universal) food subsidies has increased from 39 percent in 1994 to 95 percent in 2000. Second, the share of subsidies devoted to rural areas has increased from 31 percent to 76 percent, which better corresponds to the country's distribution of poverty. Issues remain however:

- *Food subsidies.* Because they are means-tested, LICONSA (subsidized milk) and TORTIBONO (subsidized tortilla) have larger impacts on poverty and inequality than the former universal subsidy for tortilla. Still, leakage remains high. As for DICONSA (subsidized stores in poor rural areas), few evaluation results are available, but one issue is that the stores tend not to reach the poorest areas.
- *DIF programs.* DIF provides school breakfasts, food support for families with small children, and community kitchens (the agency has a number of other programs, but these are not discussed here). DIF's school breakfasts tend to be better targeted than means-tested food subsidies, and they appear to increase schooling among children aged 8 to 14. Since DIF functions in a more decentralized and community-based way than PROGRESA, with lower-cost interventions, it would be interesting to conduct a comparative cost-benefit-impact analysis of the two programs (while this would not be easy given the fact that the programs are different, it is important to try to establish comparable cost-benefit figures for alternative programs in order to facilitate the establishment of priorities for funding).

COMPENSATORY EDUCATION. Programs such as PROGRESA and DIF's school breakfasts are demand-driven. By contrast, compensatory education programs from CONAFE improve the supply of schooling. A number of programs have been implemented over the years, including PARE and its successors, which provides resources for schools and training for teachers. Preliminary evaluations suggest that while PARE's impact has been positive, the program may have had less impact on indigenous and very poor children than on the rural poor as a whole. Compensatory programs and the role of CONAFE are discussed in more detail in the section of this Chapter devoted to education.

PAC AND IMSS-SOLIDARIDAD. The *Programa de Ampliación de Cobertura* provides a basic healthcare package of 13 interventions for those who do not have other health-care coverage in rural areas. Two-thirds of PAC beneficiaries are indigenous. The program is discussed in the health section of this chapter, as is IMSS-Solidaridad.

Promoting Income Opportunities for the Poor

Half the funds for income generation are devoted to the *Programa de Empleo Temporal* (PET). The rest are devoted to a large number of smaller programs. In addition, PROBECAT is functioning as a safety net, even though it is not officially part of targeted programs.

PET. The program provides off-season temporary employment in poor rural areas. It is self-targeted through below-minimum-wage pay. Household data indicate that program participants do need PET more than nonparticipants in that they do not have as much access to occupations providing work all year long. Within participating communities, PET participants are also poorer than nonparticipants. Yet PET does not reach the smallest and most isolated communities of the countryside.

- *Evaluating impacts and assessing needs.* Rough appraisal methods suggest that the cost of generating one peso in additional income for the poor through PET is 3.5 pesos, which is in line with estimates for other countries (this does not take into account the benefits from PET's investments). A more in-depth evaluation, however, is needed to measure PET's impact, assess the demand for the program, and evaluate the role of the various ministries involved.
- *Improving design.* In Argentina's *Trabajar*, among the projects passing a technical feasibility test, funding is allocated according to a points system, rewarding projects which are located in poorer areas, yield larger public benefits, are sponsored by well-regarded groups (local community groups, NGOs, and municipalities), and reduce labor costs further below the minimum wage.

PROBECAT. The access of the poor to training remains both limited (less than 2 percent of those in the poorest decile get training, versus 32 percent among the richest decile) and costly (49 percent of those who get training in the poorest decile pay for their training, versus 25 percent of the rich). PROBECAT's objective has been to provide training and income support to the urban unemployed. But a new evaluation of data gathered in 1994 suggests that the program increases neither wages nor the probability of employment. The program functions (rather well) more as a self-targeted safety net. Some areas still need reviewing:

- *Collecting new data for an evaluation.* New data should be collected for a thorough assessment of the program, in order to evaluate the impact of both its traditional and new modules.

- *A double vocation.* There may be a tension between the dual objectives of training and income supplementation. While the program need not be strong on both at the same time, it could focus on training during periods of expansion, and income supplementation during recessions.

OTHER PROGRAMS. Some programs for the rural poor focus on providing various forms of employment, credit, and other support (for example, *Credito a la Palabra*, FONAES, *Apoyos Productivas* of INI, and *Alianza Para el Campo*). Other programs provide infrastructure and amenities for communities or for selected rural groups, such as migrants (for example, *Jornaleros Agricolas* and CONAZA). All these programs should be evaluated.

Improving the Physical and Social Infrastructure of Poor Areas

Most of the funds in this category (at least 80 percent) are distributed through the decentralized FAIS, but there are some broader issues as well.

FAIS. Funds for new social infrastructure (for example, in education and health) are now distributed through FAIS according to a needs-based formula. This has helped the poorest states increase their share of transfers. The FAIS allocation formula could be improved at the margin, but this would not make a large difference because the various indicators on which the formula is based are highly correlated.

FAEB AND FASSA. More problematic are the decentralized allocations for basic education (FAEB) and health (FASSA), both of which account for three-fourths of *Ramo 33's* budget. These allocations are not based on need, but on past expenditures and existing costs. Hence, states that are already well endowed continue to receive more funds. Without putting in jeopardy the maintenance and operation of existing infrastructure, alternative ways to disburse these funds should be examined.

MANAGEMENT ISSUES. Mexico's decentralization has taken place so rapidly that local governments have not had time to fully adapt. Management issues remain outstanding. International experience suggests that there may be a risk with devolution, in that local levels of government may feel less favorable toward social spending than federal governments. Federal and civil society controls may help in protecting the poor, but these controls should not prevent innovation at the local level.

DISPERSION AND MIGRATION. Despite valuable initiatives to experiment with programs adapted to small communities (for example, telesecondary for schooling and mobile units for healthcare), access to services and government programs is still lacking in many small villages. Due to the high cost of reaching these villages, difficult choices must be made as to who should be served with which services and programs. A cost-benefit analysis of the existing trade-off is still lacking in Mexico. A good

analysis of the costs and benefits of migration for the poor, and of its policy implications, is also lacking.

A priority for the next Administration should be to evaluate government interventions fully, fairly, and publicly. There are two recent examples of progress toward a culture of evaluation and transparency in Mexico. The first example is PROGRESA, which has been evaluated thoroughly and for the most part publicly, with the support of international experts. The second example is the use of transparent poverty formulas for the allocation of FAIS decentralized funds. Beyond these two salient examples, however, other efforts at evaluating programs have been rare, and when available, have not been made public, thereby weakening the democratic debate about what a poverty reduction strategy in Mexico should consist of.

Identifying Key Risks and Gaps in Coverage

In the previous section, the policy framework of the current Administration was used to classify targeted programs for the poor. A number of alternative frameworks could be used, and one of these frameworks relies on the concepts of life cycle, social protection, and risks. The idea is to identify the key risks faced by various age groups, and to recommend best practice policies to deal with these risks. Social protection interventions can then be designed to broaden access to existing social insurance mechanisms and to improve the impact and efficiency of social assistance interventions in favor of the poor. In the case of Mexico, the analysis yields the following risk exposure and policy options (see Table 1):

- *0-to-5-year-olds.* The key risks for the poor are infant (and maternal) mortality, malnutrition, and a lack of access to preschools and Early Child Development (ECD) programs. Best practice interventions include behavior-conditioned transfers and support for ECD services in order to expand supply and ensure affordability.
- *6-to-14-year-olds.* The key risk is the pocket of low primary school attendance among the rural poor. The issue is complex since many of the children not attending school are indigenous and live in isolated communities. Programs focusing on preschools and primary schools, with a bilingual component for indigenous populations, and working through community-based education, can help. In Honduras' PROHECO, the state transfers the funding for the program directly to the community, which is in charge of hiring the teacher. The use of houses, churches, and other buildings greatly reduces infrastructure costs. In Mexico, CONAFE's *Escuelas Comunitarias* is another example.
- *15-to-24-year-olds.* The main risks are low secondary school enrollment among the younger group, high unemployment and inactivity rates (which may lead to violence and crime in urban areas) among the older group, and early pregnancies and deliveries for girls. The best practice policy options include scholarship programs, other return-to-school incentives, and targeted

youth-at-risk programs, complemented by sectoral policies to raise education access and quality. Norms-based training to match industry needs is also an option.

- *25-to-64-year-olds.* The main risks are full-time employment at below-poverty wages, underemployment (as measured by the number of hours worked), and unemployment. Best practice policy options includes social insurance (for example, unemployment insurance) and social assistance (for example, workfare through public works such as Mexico's PET and other targeted income-support mechanisms), combined with macro, labor market, and financial sector policies promoting labor-intensive growth.
- *Over 65.* The main risk is low pension coverage of the elderly poor. Best practice policy options include broadening social security access to include informal sector workers, and combining the contributory pension system with means-tested, noncontributory income transfer for the elderly.
- *General Population.* The main risks are poor quality of housing and lack of access to basic infrastructure services, such as water and sewerage. Best practice policy options (discussed in the chapters devoted to infrastructure) include targeted housing subsidies and programs facilitating access to credit.
- *Special groups.* Special at-risk groups include households living in remote rural villages (many programs do not reach these households) and indigenous peoples, in both urban and rural areas. One of the chapters reviewed in this Thematic Chapter is devoted to indigenous peoples.

According to data provided by the Government, a large number of programs, many of which were introduced in the past 5 years, deal with social protection issues. While the merits of each particular program warrant closer examination, an area of concern is the possible proliferation of programs of varied effectiveness and with overlapping target groups, complex administrative procedures, and cumbersome institutional arrangements. This may signal a dispersion of efforts and a reduced effectiveness of each peso spent on interventions in favor of vulnerable groups. Again, as mentioned previously, a priority for the next Administration should be to evaluate these interventions not only fully and fairly, but also publicly.

III. Building Opportunities

Broad-based social expenditures are allocated chiefly to health, social security, and education. Between 1994 and 2000, the share of programmable spending devoted to the social sectors increased from 52 percent to 62 percent. In education, spending for basic levels (primary and lower secondary) has increased faster than spending for higher levels. In health, spending for the uninsured population has also increased faster than for other categories. All this is good news for the poor, but

Table 1. Managing Social Risk in Mexico: Main Risk Indicators, Size of At-Risk Groups, and Best Practice Policy Responses

<i>Age Group/Main Risk Indicator</i>	<i>Size of Population at Risk* (Number of Poor Uncovered)</i>		<i>Role for Other Programs/Policies</i>	<i>Role for Social Protection (SP) Policy</i>	
	<i>Urban</i>	<i>Rural</i>		<i>Social Insurance</i>	<i>Social Assistance</i>
0–5					
–Malnutrition (0–4)	820,000	990,000	–Nutrition and educational programs	—	–Behavior-conditioned income transfers (PROGRESA)
–Access to ECD (0–4)	2,200,000	3,000,000	–Publicly provided and/or regulated ECD programs and preschool services	—	–Targeted ECD and community based pre-schools
–Preschool enrollment (age 5)	200,000	300,000			
6–14					
–Primary enrollment	Not at risk	430,000	–Improve primary school access/quality	—	–Behavior-conditioned income transfers (PROGRESA)
–Lower second. enrollment	625,000	1,300,000	–Improve secondary school access/quality	—	–Targeted, community-based schooling services
–Child labor	180,000	515,000	–Distance learning programs		
–Inactivity	160,000	Not at risk			
15–24					
–Upper second. enrollment	1,000,000	1,200,000	–Improve secondary school access/quality	—	–Targeted (need based) scholarships, credit facilities, return-to-school (high-school equivalency) incentive programs
–Unemployment	1,100,000	Not at risk	–Improve university access/quality		
–Inactivity	2,000,000	1,600,000	–Community colleges (terminal degrees, professional/semi-skilled qualifications)		

Table 1. (Continued)

<i>Age Group/Main Risk Indicator</i>	<i>Size of Population at Risk* (Number of Poor Uncovered)</i>		<i>Role for Other Programs/Policies</i>	<i>Role for Social Protection (SP) Policy Social Assistance</i>	
	<i>Urban</i>	<i>Rural</i>		<i>Social Insurance</i>	<i>Social Assistance</i>
25–64					
–Unemployment	460,000	Not at risk	–Labor-intensive growth	–Unemployment	–Workfare (PET)
–Full-time employment, below poverty wages	2,800,000	1,600,000	–Financial services development	–Insurance	–Targeted income transfers and/or negative income tax
–Underemployment (hrs)	1,300,000	1,400,000	–Training, remedial education	–Income-risk pooling (crop insurance)	
65 and Over					
–Low pension coverage	1,000,000	1,250,000	–Financial services development	Social security system	–Targeted income transfers
•General Population					
–Low housing quality	1,600,000 hds.	3,200,000 hds.	–Mortgage facilities		–Targeted housing subsidies
–Infrastructure investment			–Infrastructure investment		
•Special Groups					
–Isolated villages	Not at risk	2,600,000	–Community driven and managed development programs		–Targeted investment in basic infrastructure services
–Indigenous people	No data	11,500,000			

Note: * Preliminary figures for population at risk calculated as the proportion of poor (deciles 1–3 in urban areas, deciles 1–6 in rural areas) in each age category uncovered (subject to revision), based on population estimates by age and risk indicator values by decile group.
Source: Social Protection Policy Chapter.

beyond funding, the next administration will have to address issues of overall coherence and sustainability in health, and issues of quality in education, in order to raise the level of human capital and contribute to poverty reduction.

Poverty reduction cannot be achieved only through targeted and social spending. Poverty reduction results first and foremost from earnings opportunities through the private use of labor and other production factors. The role of the government in labor, credit, and other markets is to ensure that they function adequately (that is, with appropriate incentives) to foster growth and help those who are less well endowed.

Health

Mexico's past progress in health (for example, lower maternal and infant mortality, higher vaccination rates, and higher life expectancy) was achieved through the use of centralized institutions and vertical programs to control infectious diseases and increase prevention and education. Today, however, as in other middle-income countries, the epidemiological profile is changing. Chronic diseases and injuries are becoming the main causes of death and disability, and the country is facing emerging problems such as AIDS and the health effects of pollution. These trends will result in an increase in the demand for specialized healthcare. A better-informed population will also be requesting higher quality services, especially in urban areas. The command-and-control approach that succeeded in reducing infectious diseases is not adapted to the new epidemiological profile. Substantive reforms are therefore needed.

Moving from Fragmentation to Integration

The pillar of Mexico's healthcare system is a mandatory social insurance program funded out of contributions from formal sector employees, employers, and the government. The main institutions are IMSS and ISSSTE, but PEMEX, the *Distrito Federal* government, the police, the metro, and the armed forces also have their own systems. In total, these social insurance organizations cover just over half of the population. Healthcare services for the rest of the population are provided by SSA and IMSS-Solidaridad. In theory, each institution assumes responsibility for a specific population group. In practice, the system leads to duplication among providers and excess capacity. The fragmentation drains resources and prevents improvements in efficiency and quality. Multiple public and private institutions are operating independently, and the creation of the National Health Council has not filled the leadership vacuum. There is a need for competition and at the same time better integration.

HELPING SSA ESTABLISH A NATIONAL POLICY. SSA should lead in setting national health policy, including: (a) establishing a unified system for reporting and statistics; (b) ensuring uniform technological policy with regard to pharmaceutical and medical equipment; (c) certifying and licensing medicines, drugs, equipment, and technology; (d) developing uniform criteria and federal programs for training medical professionals; (e) establishing and enforcing quality standards of medical care; (f) establishing

licensing procedures for medical and pharmaceutical activities; (g) financing and coordinating medical research; (h) organizing state sanitary and epidemiological services; and (i) implementing disaster relief. With states now assuming responsibility for implementing health and disease prevention, technical assistance should be provided to the states by the federal government. In addition, while SSA services have been decentralized to states, little progress has been made at the hospital level to improve efficiency, responsiveness to consumers, and quality. Hospital inefficiencies and duplicity between SSA and other public sector institutions will need to be addressed.

REFORMING IMSS AND CREATING A NATIONAL HEALTH FUND (NHF). Traditionally, the government has both financed and operated the health system using its own facilities and physicians, instead of identifying areas of market or public failure and finding ways to address them. The vertical segmentation of health sector institutions and financing creates an inefficient risk-pooling mechanism that inhibits the development of a strong purchasing organization to provide universal access. Separating the provision of services from financing should help resource allocation be responsive to needs as determined by epidemiological and demographic characteristics, rather than ability to pay. To promote the participation of the private sector, the government could increase the pooling of resources under a universal national health fund, which would purchase services from public and private managed care organizations. This new framework would promote greater transparency and competition between public and private providers. In the first two to five years, the NHF would operate as a virtual fund, establishing the overarching framework for financing and purchasing without consolidating financial resources for healthcare services. In the long term, the NHF could merge all mandatory health financing contributions and evolve into a national health insurance fund.

DEALING WITH THE RISKS OF REFORM. Managed care could rapidly attract 10 million people without severe financial implications for IMSS, but two issues would have to be considered with the new system:

- *Cream-skimming.* Financing and regulations should be designed to avoid the incentives under a capitation-based provider reimbursement system or private managed care market to “cream-skim” and offer low-quality care. Payment mechanisms should allow providers to be paid on the basis of output and population covered, and stop-gap loss provisions should help guard providers against catastrophic risks, thereby reducing incentives to avoid high-risk individuals.
- *Sequencing.* In the short term, efforts should focus on developing consistent regulations across all public sector institutions for the purchasing of services from managed care organizations and private providers. This applies to the development of regulations within IMSS to provide the opting-out (*reversión de cuotas*), which allows the insured to leave IMSS and join managed care.

Ensuring Equity

Issues of coverage, capitated payment, and funding priorities must be considered.

COVERAGE IN RURAL AREAS. For the rural poor, PAC and the *Programa de Consolidación de la Cobertura* (PCC) use mobile healthcare units to provide a basic health-care package of 13 cost-effective interventions. While PCC is a pilot project which does not operate in rural areas, PAC is now a large program. More than 65 percent of PAC beneficiaries are indigenous. PAC also promotes coordination and integration at the local level of other rural programs with a health component, such as PROGRESA, Health Care for Indigenous Zones, Intersectoral Program for Peasant Workers, and Ambulatory Surgery Program. PAC and other programs have reduced the rural uncovered population from over 10 million to 0.5 million, but efforts will have to be made to take care of the remaining gap in coverage within the next few years at a cost of up to US\$600 million per year.

COVERAGE IN URBAN AREAS. The IMSS reform to create new publicly subsidized insurance schemes for the informal sector (that is, the Family Insurance and the Voluntary Insurance programs) was designed to allow those employed in the informal sector in urban areas to obtain social security coverage. Efforts to implement the program should continue, within the context of a sustainable financing framework.

CAPITATED PAYMENT. In IMSS, budget decentralization introduced the implementation of a capitated budget system, dividing the country into 139 Medical Area Units. Similar efforts have been made by SSA for the allocation of resources to states under Ramo 33. The capitated budget is adjusted for risk defined by age and sex, making it necessary to improve the capitation formula to incorporate additional variables and provide a greater degree of equity in the allocation of resources based on need and cost of care. The implementation of a capitated payment in IMSS and SSA is an important step in smoothing differences in financing between regions and public institutions. The extension of the capitated financing to other public providers should provide the basis to establish the NHF, which would use homogeneous allocation criteria to transfer funds to managed care organizations.

SUSTAINABILITY AND FUNDING PRIORITIES. The 1995 Social Security Law is expected to help IMSS address the recurrent deficits that existed in healthcare financing by increasing revenues to an estimated 35 percent in 2010. But improving coverage will require additional funding. More generally, Mexico allocates much fewer resources to health than other OECD and Latin American countries. Future increases in healthcare spending should be carefully targeted to increase equality among regions and institutions, and to address the priority health problems of the population. Furthermore, the increasing size of the allocations from general revenues will require contractual relationships in order to establish a direct relationship between public

financing and efforts to extend access, increase efficiency, and improve the quality of healthcare services and user satisfaction.

The result of the reform process should be a model in which (a) an essential health package is accessible to all; (b) the role of government is redirected to ensure that the health sector as a whole is structured to provide cost-effective care and to guarantee the provision of public goods; (c) a universal health insurance fund receiving funding from all sources (government contributions, employers and employees, social security institutions) transfers these resources to regulated managed care organizations and health plans on a capitated basis, which is adjusted for risk; (d) the regulated institutions bear the risk of delivering the services, and rules are defined to resolve market failures; (e) the regulated institutions purchase services from public and private providers, which comply with minimum accreditation criteria and standards for service delivery; (f) there is supervisory capacity to ensure that the services are delivered adequately and that the regulations are being complied with; (g) mechanisms are set up to ensure access to services (secondary and tertiary) beyond those defined in the essential health package; and (h) there is a voluntary market for improved quality and service through supplementary, mostly private health insurance.

Education

Except for selected poor rural areas, enrollment in primary education is nearly universal, and progress is being made in ensuring that the children pursue their education through lower secondary school. The challenges facing Mexico in using education policy as a key element for poverty reduction and social equality are to (a) selectively expand at the initial and preschool and higher education levels; (b) improve the quality of education throughout the system; and (c) invest in the skills and education of the labor force to adapt to the rapid economic and technical changes, which demand a human resource policy that aims to create a qualified and flexible labor force that will reinforce the country's economic competitiveness. Training issues for the labor force are discussed separately. Below we focus on quality and equity.

Improving Quality

To improve quality, it will be necessary to deal with (a) teacher training; (b) the curriculum; (c) pedagogical supervision; (d) the school environment; and (e) time spent on task.

TEACHER TRAINING. Teaching qualifications in the classroom are progressively increasing, thanks to a higher proportion of teachers obtaining the *Licenciatura* and benefiting from SEP training programs (for example, *Programa Nacional para la Actualización Permanente de Maestros de Educación Básica*, and *Programa de Actualización del Magisterio*). However, teaching practices are still based on a teacher-

centered model emphasizing memorization, to the detriment of comprehension. Mexico's frontal model cannot respond well to diversity of age, interest, ability, and prior experience. Designed for the average student, it has not proved effective in promoting achievement. One exception to the standard model is the child-oriented, participation-based informal method developed by CONAFE.

CURRICULUM. To increase relevance and flexibility, and to take into account people's views on priorities, SEP has introduced topics such as sexual education in primary school, and the study of values, civic life, and ethics (*Formación Cívica y Ética*) in lower secondary school. Improvements in materials and textbooks for mathematics, geography, and Spanish in primary, and Spanish, biology, and physics in lower secondary, have been made. Other efforts designed to improve learning achievement are the reading corner (*Rincones de Lectura*) and the program for writing and reading (*Programa Nacional para el Fortalecimiento de la Lectura y la Escritura en la Educación Básica*). Still, more needs to be done to introduce active learning into the curriculum and to change the role of teachers from that of a source of knowledge and custodial controller of students to that of a facilitator. In this new role, the teacher must ensure that the students understand the instructions and do extra work. The teacher must also counsel students with problems and help all students learn through cooperative learning interaction (group work), using peer teaching to foster a spirit of self-reliance.

PEDAGOGICAL SUPERVISION. The lack of good teacher supervision and administrative oversight result in a lack of feedback for teachers, in teacher absenteeism, and in a chasm between what the curriculum defines and what is actually taught. CONAFE's compensatory programs have tested with some success ways to improve supervision by providing training and incentives to supervisors with the involvement of parents and communities. It is also necessary to use multicultural approaches in order to attend to indigenous groups, and to use the now standard education assessment being applied in most states for quality assurance. Establishing clearer standards (that is, standards of what students should learn at the end of various levels and modalities of education, and standards for teachers and teacher development) will be beneficial not only to monitor quality, but also to facilitate effective decentralization.

QUALITY OF THE SCHOOL ENVIRONMENT. The school environment includes, among other things, the textbooks, the school infrastructure, the teaching material, and the experimental science facilities. Despite a good distribution system (160 million free textbooks for preschool, primary, and lower secondary education in 1999), the quality of the textbooks could be improved, especially in science. Some textbooks have been revised and published in indigenous languages. But the government has kept an important role in textbook production. More competition could have a positive impact on quality.

TIME ON TASK. The actual number of days and hours per day spent by teachers in the classroom is well below the norm in rural and poor urban areas. Out of the 810 hours a teacher is supposed to be in the classroom, less than half may actually be spent teaching in rural areas. Another issue is that too much time is spent on classroom organization and mechanical repetition with little pedagogical value.

Ensuring Equity

A number of programs are being implemented by the government to promote the access to and quality of education for the poor. The main ones are:

EARLY CHILDHOOD DEVELOPMENT. The Initial Education Program (PRODEI), with a per capita cost of about US\$50 a year, is a home-based program delivered by community educators who train parents to stimulate their children. The parents' education is developed through periodic group meetings supplemented by home visits. The program promotes the physical, emotional, intellectual, and social development of infants and toddlers, and improves the school-readiness skills of children. There is empirical evidence that the program is effective in increasing returns on primary education. The program also creates job opportunities for young graduates (of primary education) in poor areas. The program also increases women's self-esteem, and provides opportunities for parents to socialize, thereby fostering community development. PRODEI coverage is limited and should be extended.

COMPENSATORY EDUCATION. These programs, operated by CONAFE, a special agency within SEP, reach more than 4 million poor and indigenous children. The first such program was PARE. It focused on physical facilities, books and materials, teacher performance incentives, school management and supervision, and teacher training in the four poorest states. Another program, the CONAFE community schools, relies on specially trained lower secondary graduate volunteers to teach in schools built and maintained by the communities themselves, in return for scholarships to continue their own education. The community schools have been designed to overcome the problem of maintaining and staffing schools in remote areas where it is difficult to attract and retain teachers and where, given the small size of the community, it would not be cost effective to establish regular schools. CONAFE recently launched PAREIB to support a gradual decentralization in the operation of compensatory programs, through a strengthening of the states' institutional capacity and an increased participation of communities and school associations in school management. PAREIB also promotes a better quality of education and increased learning through teacher training, provision of standards for targeted schools, and national evaluation, as a tool to increase accountability at all levels.

CARRERA MAGISTERIAL. This is an innovative program promoting a voluntary "merit pay" system that rewards teacher professional development. The program aims to raise the quality of basic education through teacher professionalization, presence in

schools, and better working conditions. The initiative recognizes the important contribution not only of teachers, but also of parents, in providing a good education to children. One component of the program is the training of teachers; another is a merit pay system in which professional staff on a voluntary basis are evaluated and rewarded with salary increases for their performance as classroom teachers, school directors, and supervisors. Although the program's effectiveness and adequacy have yet to be assessed, some preliminary results are good. More training in active pedagogy could be provided as part of the program.

TELESECUNDARIA. The program was created 30 years ago to respond to the needs of rural communities where a regular lower secondary school would not be feasible. It has a single teacher who teaches all disciplines for all three grades. In the 1990s, with the introduction of satellite transmission, enrollment increased to about 1 million students in about 14,000 schools today. Lessons are delivered by means of television programs broadcast on EDUSAT, Mexico's educational broadcast system. Research in the 1970s and more recently in the 1990s shows the cost-effectiveness of the program. Students graduating from *Telesecundaria* get scores in language similar to those of general lower secondary graduating students, in spite of having a more rural background. But the program is still not accessible in the smallest and most remote areas.

TRAINING AND TECHNICAL EDUCATION. The *Sistema Normalizado de Competencias Laborales* (SNC) has provided an objective set of standards, similar to some that already existed in OECD countries, by which to evaluate worker skills and set curriculum for training programs. The *Consejo de Normalización y Certificación de Competencia Laborales*, which was created to oversee the process of establishing the SNC, has also ensured coherence and consistency across competency standards of different occupations by certifying agencies whose main function is to certify that workers have mastered competencies in the standards for occupational clusters.

AFFORDABILITY ISSUES. The main program ensuring affordability for the poor in basic education is PROGRESA, as discussed earlier. Another important policy for affordability is the student loan programs for technical and especially higher education, such as the ones offered by the ICEE and by SOFE, which improve access to education, particularly for academically qualified but financially needy students. At the same time, these programs develop more effective and financially sustainable student loan institutions.

Urban Labor Markets

The urban Mexican labor market shows a great deal of dynamism and is not highly segmented. Unemployment is low and unions are primarily concerned with maintaining employment rather than increasing wages. The low rates of unemployment

observed even in periods of crisis reflect the relative ease of adjusting real wages. Downward wage adjustments are also facilitated by the fact that the minimum wage is not binding—in fact, it is so low today as to be irrelevant. From a policy point of view, progress was made over the last *sexenio* in the reforms of both the social security and health systems. Not only were the systems put on a more secure fiscal footing, but contributions were brought more in line with benefits. Still, there are long-term gains to be made by both workers and firms from increasing the flexibility of labor markets and making additional progress in aligning payroll taxes with worker benefits. This should in turn help in reducing the high level of informality.

Increasing Flexibility

While wage flexibility should remain over the medium term, numerous factors, including the fall in inflation, greater openness to trade, and the weakening of labor unions may lead in the future to more frequent labor market adjustments through unemployment. The objective of the next government should be to minimize labor market transaction costs and other barriers to more rapid quantity adjustments by firms, and to better job matches for workers. Three areas for reform stand out.

DISMANTLING EXISTING JOB SECURITY REGULATIONS AND REPLACING THE CURRENT SEVERANCE-PAY SCHEME WITH AN UNEMPLOYMENT SUPPORT SYSTEM. The absence of any system of unemployment insurance and the lack of portability in some pension funds (particularly in the public sector) have led to an excessive emphasis on job stability, very costly severance payments, a system prone to involved litigation, and inadequate protection of workers. This discourages job creation and better job matches, and it inhibits productivity growth. To avoid these problems, the government could institute a system of individualized accounts leading to a *pago a todo evento* that would allow for separations for economic reasons, reduce litigation costs, encourage better voluntary job matches, and maximize incentives to find work. Clearly defined reasons for termination should be established and monitored by independent dispute resolution authorities. However, in order to protect workers who do not have other means of subsistence from more flexibility at the microeconomic level and more openness at the macroeconomic level, workfare programs such as the PET, training programs such as Probecat, and human development programs such as Progresá should be reinforced.

MODERNIZING THE INDUSTRIAL RELATIONS AND COLLECTIVE BARGAINING FRAMEWORK. The current system for collective bargaining is not flexible, is poorly suited to the more competitive global environment, and is not conducive to the more cooperative relations between management and labor that are essential for greater productivity and job satisfaction. The government could eliminate the *contratos-ley*, which are agreements extended to all firms in an industry, regardless of unionization or economic situation (these agreements achieve neither the microeconomic efficiency of decentralized bargaining nor the macroeconomic benefits of central-

ized bargaining). The *clausula de exclusión*, which mandates union membership for new hires in unionized firms, and the *patrón indirecto* relationship, which raises transaction costs, weaken supplier linkages, and penalize small firms should both be reconsidered. Restrictions on the use of temporary or fixed-term contracts should be eliminated in favor of two-to-four-month *contratos a prueba*, and temporary *contrato por tiempo determinado*, in order to help firms cover increases in business demand. More generally, the government should encourage in the business community and in its own ranks the introduction of flexible job ladders and assignments, and the elimination of rigid provisions on seniority-based promotion, compensation, and training. These provisions inhibit the optimal matching of skills to job, and they impede individual performance and investment in training, since neither the employer nor the worker can fully recover the cost of those investments through higher pay and productivity, or other rewards. Finally, if the minimum wage is to have any relevance, its level should be raised, but not necessarily automatically indexed to inflation, in order to maintain some level of downward mobility in the event of a crisis.

IMPROVING TRAINING. Survey, anecdotal, and statistical evidence suggests that there is a growing demand for skilled labor that is not being met by the existing labor supply. To deal with this mismatch, the government could modify the *Ley de Capacitación* to relax the obligation of firms to register their training programs while maintaining the right to training. If programs such as *Probecat* are to contribute to a better-trained workforce, they should be thoroughly redesigned, given that the evidence suggests a lack of impact on wages and employment (even though the program works well as a safety net). Strictly from a poverty point of view, it is unclear whether programs such as CIMO have large benefits. The government could also consider using vouchers to allow trainees to choose among training modalities provided privately and outside of the firm. Such training could be broken down into part-time modules to enable workers to remain employed. Youth training programs could also be considered, and apprenticeship contracts could be reintroduced into the legislation to facilitate the school-to-work transition, as is done in Germany and Chile (for example, *Chilejoven*).

Aligning Payroll Taxes and Benefits

Informal sector workers are heterogeneous. They can be classified into those who are informal out of choice, and those who would prefer to work in the formal sector. The incidence of poverty is larger in the second group. Indeed, part of those who are informal by choice do so to avoid taxes, that is, they are relatively well-off in the informal sector.

INFORMAL WORKERS BY CHOICE. Workers who choose to be informal tend to be better off, even though some may be poor. The decision to be informal is made possible by the low opportunity cost of self-employment (due to the low productivity of

the formal sector), and it is motivated by the weak linkages between payroll contributions and subsequent benefits. When workers value a benefit less than they pay for it, they have the incentive to become informal and to remain uncovered by the social security system. To encourage these workers to join the formal sector, the payroll taxes must be reduced or, equivalently, the benefits for the workers from paying the taxes must be increased. In other words, the objective should be to bring explicit and implicit worker contributions in line with benefits by pursuing the reform of mandated social security contributions. On the tax side, mandated proportional contributions could be substituted with fixed-quota contributions that would entitle the employee to minimum benefits. The planned transition to *cuota única* in the health program could also be pursued, and a competitive rate of return should be ensured for individual accounts. On the benefits side, progress should be made in raising IMSS efficiency and service quality, and in reforming INFONAVIT, whose benefits for Mexican society remain to be demonstrated.

INFORMAL SECTOR WORKERS WHO WOULD PREFER TO BE FORMAL. Roughly 30 percent of informal workers enter the sector involuntarily, would prefer to be formal, and earn substantially less than those voluntarily in the sector. Facilitating the transition of this group to the formal sector would reduce the undesirable risks they face, and give them the protections they desire in terms of access to healthcare and other benefits. To this end, the cost of formality for firms should be reduced. Importantly, reducing informality among this group, which has high rates of poverty, would also facilitate the completion of the government's transition from old-style policies, such as food subsidies, to modern, better targeted, and more efficient OECD-type policies. Completely dismantling food subsidies in urban areas today would contribute to higher poverty in the absence of an alternative way to transfer resources to the informal poor. That is, the fact that many of the informal poor in urban areas are out of reach for the Government reduces the choices of policy instruments that can be used to help them.

Ensuring Equity

Aligning the implicit and explicit labor taxes is important to reduce informality and has partly been the justification for the government's promotion of individual retirement accounts, proposals for individual accounts to replace severance-pay and job security mechanisms that prevent firms from firing (the *pago a todo evento* enables the worker to tap into his or her retirement funds when laid off), as well as proposals to make some payroll contributions voluntary when the tax affects all and benefits few (as is the case for INFONAVIT). A possible risk of all these initiatives is that, by definition, they prohibit the use of a key source of government revenues for distributive purposes and for funding anti-poverty programs. As for the possibility of increasing efficiency in the provision of worker benefits, it would reduce the incentives to informality without reducing revenues, and it should therefore receive a high priority as a policy goal.

*Rural Development**

The era of government-led agriculture is over. CONASUPO has been dismantled. Land reform has been enacted and land titling promoted. Agricultural trade restrictions and regulations are being eliminated under NAFTA. The reforms implemented over the last 10 years have led to the emergence of a largely liberalized, market-oriented, and private-sector-driven rural economy. However, while the reforms were necessary to promote future growth, they have not yet reduced poverty. The reforms have neither resolved decades of structural and cultural limitations in the capacity of poor farmers to access production factors and markets, nor addressed the heterogeneity of the rural sector and its regional variations. While helping export-oriented commercial agriculture, the reforms have not prevented stagnation for small-scale producers of domestically consumed and subsistence commodities. As a result, poverty remains widespread, especially in the *ejido*, sector which accounts for three-quarters of Mexico's producers.

Accompanying the Reforms

To contribute to poverty reduction, the agricultural sector will need to generate employment in both the farm and the nonfarm sectors through productivity increases and better access to markets and technology. A number of initiatives from the government could facilitate this:

- *Pro-poor rural growth.* The objective should be to reduce the productivity gap between the agriculture sector and other sectors by investing in technology generation and development that is better tailored to the need of smallholder poor producers (for example, those involved in nontradable commodities and coffee). This touches on a large set of issues including rural roads programs, technical assistance to promote farmer organizations and marketing cooperative structures, better access to capital and land markets, and the provision of matching grants for investments as a temporary measure. Mexico should also strive to pursue better access to other countries' markets and the elimination of export subsidies in developed countries through bilateral and multilateral trade negotiations.
- *Efficient markets.* The objective should be to reduce the transaction costs of doing business. The government could (a) promote better-integrated price and market information systems that build on the mechanisms established by SNIM, CEA, and PROFECO; (b) develop appropriate regulatory frameworks and enforcement capacity aimed at increasing the perception by the private sector that the judicial system works (this is critical in securing transactions for inventory-based financing for agricultural crops, regional

* This topic receives parallel treatment under the Growth and Competitiveness Thematic Chapter, from a slightly different angle.

exchanges, weather and price insurance, nonbank financial institutions, contract farming, collateralization of assets, etc.); (c) facilitate the development of commodity quality standards based on industry participation and needs, and the development of food safety norms; and (d) establish clear rules with regard to the amount and timing of duty-free imports of maize and beans, including an open auction to allocate quotas efficiently.

- *Less distortion through subsidies.* Remaining subsidy mechanisms should be revisited with a view to their modernization to allow for an efficient and competitive intervention of the private sector and functioning markets. Income support subsidies are less distorting, and therefore should be preferred to price, input, or marketing support, an area where the government should refrain from intervening.
- *Regional development plans.* By associating urban centers and rural areas on a continuum of mutually reinforcing activities, regional development plans could help integrate agriculture with off-farm activities, production with marketing, productivity with welfare, and individual interest with ethnically cohesive populations. Regional plans could also help accompany the integration of labor markets through migration and the diversification of the rural sector. Natural resources and environmental issues, including competition for water, energy, and waste management, require that urban growth be addressed from a joint rural–urban perspective. The decentralization process should facilitate establishment of regional development plans rooted in the historic, cultural, economic, and agro-ecological characteristics of the various regions. The Regional Councils established as part of the Marginal Areas Rural Development program include public institutions, producer representatives, and municipalities, and they could serve as models for participation in regional plans.

Improving Rural Programs

Large sector interventions are implemented by SAGAR, including PROCAMPO and *Alianza para el campo*, and programs for irrigation, credit, and infrastructure also affect the poor.

PROCAMPO. The structural reforms adopted in the rural sector were accompanied by mitigation measures that helped the transition process. PROCAMPO is a large cash transfer program for producers of basic crops that was introduced in 1993–94 by SAGAR. The transfers are provided on a per-hectare basis and they will be phased out in 2008. Today, PROCAMPO is distributed to 3 million producers, covering 90 percent of Mexico's cultivated land. According to a World Bank evaluation using 1997 data, PROCAMPO contributed an average of 8 percent toward household income in ejidos, and up to 40 percent in the poorest decile. PROCAMPO also appears to have a multiplier effect, with a transfer of one peso leading to final benefits of two pesos. This multiplier may be Keynesian, whereby higher income leads to

higher local consumption, employment, and again income. It may also be due to the producers taking more risks with higher-yielding investments thanks to the security provided by the transfer. Several improvements could be brought to the program:

- Pay the transfer earlier in the crop cycle or announce the amount of payment prior to planting to facilitate the purchase of inputs and to encourage investments by providing a more secure expected income; and facilitate and promote the use by *ejidatarios* of the transfer as a collateral for loans. The possibility should be studied of letting farmers cash the totality (or part) of the income payment over the remaining period of entitlement (10 years) at a discounted rate through banks.
- Change the structure of payments to give higher payments per hectare to farmers cultivating smaller pieces of land (a large proportion of the transfers are captured by large land owners).
- Abandon the requirement to plant in order to transform PROCAMPO into a pure entitlement. This would lower the administrative cost of the annual requalification process, provide more certainty to the producers' income stream, facilitate collateralization, and ease shifts from one activity to another.

ALIANZA PARA EL CAMPO. *Alianza* was introduced in 1996 to foster agricultural productivity through investments and the provision of support services for a wide range of agricultural subprograms (for example, ferti-irrigation, mechanization, rural equipment, pasture improvement, and kilo for kilo, which provides growers with one kilo of certified seeds for the price of one kilo of normal seeds). *Alianza* is decentralized, with administration and decisionmaking delegated to the states. One million producers participated in *Alianza* in 1997. So far, there is no evidence that *Alianza* contributes significantly to poverty reduction, in part because poor farmers lack resources to provide the counterpart funding necessary for participation in many subprograms, which consist of matching grants. A greater emphasis must be placed on supporting and targeting the program to low-income farmers, thereby avoiding the subsidy being captured by a few providers, deterring entry into the market and establishing rents. Some steps toward improving the program would be to:

- Improve awareness of the program, with an active process of technology generation and diffusion and the program's professionalization (private service providers and counselors could accompany program beneficiaries to promote competitiveness and diversification to higher-value crops).
- Shift toward vouchers to facilitate consumer choice and support the development of private wholesale channels and retail markets for agricultural inputs and technology (allow participants to purchase inputs from local distributors rather than government-certified distributors).
- Improve the economic analysis of the actions being funded, so that the program does not support less risky but lower-value-added crops and behaviors.

- Reduce administrative complexity by having fewer, more encompassing subprograms, with an integrated regional approach limiting overlaps (and internal competition) among subprograms.

IRRIGATION PROGRAMS. The thrust of the next generation of irrigation programs should be to support an integrated approach that improves the efficiency of water resources and promotes their sustainable management. The government should (a) increase the attention given to agricultural competitiveness and promote more efficient cropping patterns; (b) improve institutional efficiency through better coordination among the government institutions responsible for water resources management, irrigation, and agriculture; (c) further development of water markets and decentralize water management to local users (Water Users Associations and River Basin Councils) in the context of hydrographic basins; and (d) help irrigation system improvements through matching grants with Water Users Associations defined according to a sustainable target of consumptive use.

SOCIAL AND RURAL INFRASTRUCTURE. With decentralization, municipalities are receiving substantial federal transfers for social and rural infrastructure, with wide autonomy in the use of the funds. There is a risk of atomization in funding which may limit economies of scale. The federal government also lacks the means to evaluate the use of the funds, and capacity is lacking in small municipalities to manage the funds. To improve the use of the funds, the federal government could provide matching grants to municipalities to reward good management, intermunicipal projects with economies of scale, and investments cofinanced by the private sector or public agencies. An institutional strengthening program should also be established with the participation of the states.

FINANCIAL SERVICES. The government should promote a level playing field among the different actors providing financial services (commercial banks, specialized institutions, NGOs, cooperatives, *cajas populares*, and savings and loans). Technical assistance could be developed for social groups and nonbank intermediaries. There is also a need for a revamped legal and regulatory framework to promote the enforcement of contracts and the use of nontraditional collateral, and to establish an effective supervision system that ensures compliance and promotes savings mobilization.

IV. Empowering Specific Groups

Indigenous Peoples

Despite the existence of a National Indigenous Institute, significant government investment in indigenous areas, advances in the legal recognition of *comunidades*

agrarias, and improvement in the enforcement of indigenous land rights, indigenous peoples continue to be overwhelmingly poor, and they perceive widespread and deeply rooted discrimination from mainstream society. To empower indigenous peoples, the government will need to help change perceptions about indigenous peoples in society at large by promoting multiculturalism and strengthening indigenous organizational structures, so that they have a stronger voice in the local and national political arena. The government will also need to find ways to better respect indigenous values when providing social services and programs for poverty reduction.

CHANGING PERCEPTIONS IN SOCIETY. A strategy of promoting indigenous development cannot rely only on the promotion of better access to resources and opportunities to earn a reasonable livelihood. It must also build a political space for indigenous peoples to ensure their cultural survival and economic improvement, thereby building a multiethnic society in which “success” can be measured in more diverse ways than at present. Government intervention could be improved in a number of areas:

- *Promoting a multiethnic society.* Developing a healthy society and economy in which 10 percent of the population have different aspirations and values requires a broad view of indigenous peoples issues. Focusing on the problems of indigenous peoples does not help in assessing why solutions to poverty among indigenous groups are so difficult to identify and implement. What is required is an analysis of both the “indigenous” and “non-indigenous” sides of the equation, and initiatives involving both “indigenous” and “non-indigenous” actors in the solution. Experience in other multiethnic countries has shown that discrimination is not necessarily solved when the economic status of the discriminated group improves. To fight persistent discrimination, multiculturalism must be promoted, for example in the education system, as was done in Canada. Strong institutions are needed to do this, and it is unclear whether the National Indigenous Institute has the clout necessary to do more than just promote the integration and acculturation of indigenous peoples into the Mexican mainstream.
- *Building capacity for indigenous governance.* While indigenous institutions have the potential to play a strong development role, their current capacity for mobilizing change is weak. In rural settlements where land continues to underlie indigenous identity, and where traditional systems of governance persist, there is a continuing demand for capacity building on the part of local government and intercommunity organizations. Because many communities have been isolated historically, capacity building is a precondition for the absorption of development resources, and it should be a main focus of government and non-governmental programs. Local leaders need training in fields ranging from accounting and administration to negotiation skills and computer-based information systems. Youths could also be trained as indigenous professionals to

ensure that sectoral interventions (for example, in education and health) are better adapted to indigenous needs (CIESAS and other similar institutes could help in developing culturally sensitive curriculums). When building capacity for joint action among different indigenous communities, it is also important to recognize the long-term process required for collaboration among historically isolated communities to develop in an organic manner.

ADAPTING GOVERNMENT INTERVENTIONS. Many government programs and services do not have the desired impact among indigenous peoples because they are not adapted to their needs and preferences. This can be illustrated with education, health, poverty programs, agricultural programs, and land issues.

- *Education.* The government has been experimenting with a variety of bilingual and mobile education programs to target indigenous populations, including agricultural migrant laborers. Unfortunately, the evidence so far is that many of these programs are not adapted to indigenous needs and are much too centralized in philosophy, control of resources, and staffing. Parents and local governments should have a larger say in how schools are run. Bilingual teachers should be recruited with community oversight to ensure that they are truly committed and understand the local language. Nationally, as already mentioned, the curriculum is still geared to an ideal Mexican mainstream cultural type. It does not routinely include multicultural material that would make education a source of societal evolution for urban and rural residents of varied backgrounds.
- *Health.* Medical services tend not to be tailored to indigenous customs and preferences, with negative results as to the demand for modern healthcare among indigenous peoples. For example, many women deliver their children at home to avoid the culturally inappropriate rules imposed in clinics and hospitals. Moreover, while there are health programs that support indigenous medical systems and the use of medicinal plants, there has been little systematic effort to find ways to integrate the Western and indigenous systems into effective health services delivery systems. Some traditional practitioners are excellent (and there exists a directory of traditional practitioners by ethnic group), but there is little integration of these practitioners into the formal medical network.
- *Poverty programs.* Poverty programs often do not rely on the extended family and community relationships which continue to shape decisionmaking among indigenous groups. The programs tend to promote individualistic exit strategies from poverty at the risk of causing social disruption. The programs also tend to be implemented locally through the creation of parallel committee or delivery structures that compete with traditional organization for influence and human resources while not building long-term capacity. In the case of PROGRESA, for example, a case study of 12 randomly selected commu-

nities suggested that the program has improved the use of schools and clinics and increased disposable income in poor families for food and other necessities. But on the downside, these subsidies have not been spent in the local economy (most cash is spent for goods purchased in the municipal seat, and they have undermined or distorted local governance structures (for example, when targeting is deficient, when no local capacity for service delivery is created, or when communal labor-sharing systems break down because nonbeneficiaries will no longer contribute free labor). A more recent and more representative survey suggests however that 40 percent of the households benefiting from PROGRESA buy their food in their own locality, and one objective of providing cash transfers through PROGRESA has precisely been the development of the local economy.

- *Agricultural programs.* The policy framework within which PROCAMPO was designed included the national fund for productive rural investments from SAGAR. But few indigenous communities have accessed the SAGAR program or have been able to provide the capital match for significant investments, such as expanding access to irrigation, community storage or processing facilities, or creating a significant source of revolving funds. PROCAMPO absorbs a large share of the resources allocated to the rural sector by the government with insufficient leverage of SAGAR and SEDESOL funds, the (sometimes considerable) flow of remittances, or other capital sources. While the program has helped farmers, the individual payments have been used in some cases to maintain unprofitable subsistence production, without opening farm households to fundamental change. For example, when the vocation of communities under subsidy is forestry instead of agriculture, there is a need for incentives that foster alternative livelihood models. Given the nature of common natural resources, most enterprises would require collective action and investment and, therefore, support for organizational capacity building at the community and regional level. Programs based on individual decision-making are ill-equipped for such tasks. There is a need for programs to better promote opportunities that are community based, such as coffee associations, forestry enterprises, organic agriculture, tourism enterprises, marketing of *artesanía*, and cultural-heritage-based employment generation.
- *Land issues.* There are outstanding land tenure issues that have not yet been addressed for indigenous communities and *ejidos*. Successful communities are engaged in active campaigns to buy back lands that were previously sold off to outsiders and rebuild their consolidated identity or expand the land pool to members. But there are no market-assisted land reform schemes to finance any purchases. Indigenous communities have extensive common lands that are not apt for agriculture, but land regularization programs have provided no support for guaranteeing the status of these lands and protecting them from outside encroachment or illegal extraction (hunting, timber, seasonal agriculture). Indigenous communities also need legal assistance to resolve long-

standing boundary conflicts. There is a need to recognize the importance of land and resource rights for indigenous community survival and to promote better natural resource management with indigenous peoples as key actors.

Gender Issues

Different opportunities and obstacles exist for men and women in their pursuit of health, education, livelihood and old-age security. Many women must choose between either working or entering into marriage and caring for children and other household members. This choice is often determined early on. Girls who drop out of school in order to help cook, clean and care for younger siblings are ill-prepared for anything other than domestic work as adults. Girls who stay in school have a better chance of entering the paid labor market, but later in life they will still often have to choose between the labor or marriage market. In contrast, men do not appear to face this dichotomy. However, the fact that men have only one main role, that of provider, means that if they are unable to fulfill that role, they have no other way to affirm their identity and sense of self, which can then lead to destructive behavior such as alcohol abuse and violence, with the latter a growing problem in Mexico.

Institutions, both governmental and market-based, influence gender outcomes. With regard to education, girls in rural areas are more likely to go to high school where the supply of such schools is greater. In the case of child labor, official statistics which ignore girls' work may bias the response of governmental and non-governmental institutions away from addressing the detrimental effects of domestic work for children. With regard to rural labor markets, some evidence, although not conclusive, suggests that employers may discriminate against female workers. With regard to old-age security, elderly women rely critically on benefits obtained through their status as widows or as dependents from social security institutions with a family orientation. In terms of reproductive roles, health services that focus on maternal and child health tend to exclude men and reinforce traditional female roles.

In 1995, the Zedillo Administration established the National Program for Women (PRONAM) to expand women's participation in development processes and provide equal opportunities for men and women. In 1998, the Government created the National Women's Commission (CONMUJER) to advance legislation, regulations and sectoral programs to benefit women. However, while programs such as PRONAM help in redistributing resources toward women, the root causes of socially ascribed gender roles and other gender issues have received less attention. In some areas, progress has been slow for a number of reasons. First, public sector employees often lack awareness of the importance of gender issues or the knowledge and techniques to address gender in sectoral government programs. Second, organizational weaknesses of public sector agencies limit their capacity to deliver anything beyond the most basic services. Third, CONMUJER and other groups working on gender issues have been unable to provide the required technical support to government agencies.

The challenge of creating greater equality for men and women in Mexico is thus twofold. First, an even playing field needs to be created through legal and institutional reforms. Public sector institutions can play a critical role in creating the opportunities for both women and men to benefit from government programs and reducing discrimination and access constraints. Second, public policies need to address the gender socialization processes that inhibit women and men from taking advantage of those opportunities made available through legal and institutional reforms. Creating equal opportunities for men and women is not enough. Socialization processes affect the roles and identities men and women assume and influence their behavior and choices, which in turn, affect their welfare. Gender roles and identities influence the acquisition of human capital, the opportunities and decisions to participate and advance in the workforce, the negotiating power in the household, and the acquisition and control of assets and economic security in old age. Socialization takes place in the public and private sphere and is influenced by, *inter alia*, the education system, the media and peer groups. Policy and program interventions should therefore focus on these three domains. Interventions should not be limited to women only. Helping to redefine roles, images, and expectations for men is also necessary to achieve long-term gender equality.