

21.

SOCIAL PROTECTION

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I. INTRODUCTION—MANAGING SOCIAL RISK IN MEXICO

The purpose of this Social Protection (SP) Chapter is to (a) identify key social risks faced by the Mexican population, and estimate the size of current at-risk populations; (b) examine and assess the effectiveness of Mexico's current SP strategy in addressing these risks, drawing on a detailed review of existing social insurance and social assistance programs; and, (c) identify best practice options for improving the coverage and effectiveness of social protection policies to address the needs of the population at-risk. The Chapter draws on national household survey data and poverty studies to estimate the size of at-risk groups, and detailed information on the universe of federal social protection programs (beneficiaries, budget, targeting mechanisms, etc.) compiled by the *Secretaria de Hacienda y Crédito Público (SHCP)*.

Table 1 (over) draws together basic findings from the chapter, including the main indicators of social risk by age group, the estimated size of the population at risk (number of poor in risk category uncovered by social protection programs), and best practice strategies for addressing the needs of these at-risk groups, setting social protection policies (shaded area of the table) apart from the broader context of macroeconomic policies and sectoral programs, which are discussed in detail in other chapters.

Section II provides a detailed assessment of risk categories, analyzing leading indicators of risk by decile groupings in rural and urban areas. This section also examines the incidence and coverage of current SP programs targeted to these risks where such data are available. Section III provides an overview of Mexico's current Social Protection strategy, assessing social insurance (contributory) and targeted social assistance (non-contributory) programs according to costs, coverage of the at-risk population, and type of service or benefit provided. Section IV discusses best practice options, based on both Mexican and international experience, along with cost estimates, for enhancing SP interventions in each major category of risk; Section V concludes by discussing costs and trade-offs, policy priorities, as well as design, institutional and implementation issues, and analytical next steps.

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

Age Group/ Main Risk Indicator	Size of Population at Risk* (Number of Poor Uncovered)		Role for Other Programs/Policies	Role for Social Protection (SP) Policy	
	Urban	Rural		Social Insurance	Social Assistance
0-5 -Malnutrition (0-4) -Access to ECD (0-4) -Preschool enrollment (age 5)	820,000 2,200,000 200,000	990,000 3,000,000 300,000	- Nutrition and educational programs - Publicly provided and/or regulated ECD programs and preschool services	--	- Behavior-conditioned income transfers (PROGRESA) - Targeted ECD and community based pre-schools
6-14 -Primary enrollment -Lower second. enrollment -Child labor -Inactivity	Not at risk 625,000 180,000 160,000	430,000 1,300,000 515,000 Not at risk	- Improve primary school access /quality - Improve secondary school access/quality - Distance learning programs	--	- Behavior-conditioned income transfers PROGRESA) - Targeted, community-based schooling services
15-24 - Upper second. enrollment -Unemployment - Inactivity	1,000,000 1,100,000 2,000,000	1,200,000 Not at risk 1,600,000	- Improve secondary school access/quality - Improve university access/quality - Community colleges (terminal degrees, professional/semi-skilled qualifications)	--	- Targeted (need based) scholarships, credit facilities, return-to-school (high-school equivalency) incentive programs
25-64 - Unemployment - Full-time employment, below poverty wages - Underemployment (hrs)	460,000 2,800,000 1,300,000	Not at risk 1,600,000 1,400,000	- Labor-intensive growth - Financial services development - Training, remedial education	- Unemployment insurance - Income-risk pooling (crop insurance)	- Workfare (PET) - Targeted income transfers and/or negative income tax
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 - Infrastructure investment		- Targeted housing subsidies
Special Groups - Isolated villages - Indigenous people	Not at risk No data	2,600,000 11,500,000	- Community driven and managed development programs		- Targeted investment in basic infrastructure services

* 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 (Annex I) and risk indicator values by decile group (Table 2).

II. IDENTIFICATION AND CHARACTERISTICS OF MEXICO'S KEY AT-RISK GROUPS

Table 2a (pages 4 and 5) presents an analysis of social risk in Mexico by age group, presenting risk indicator values by geographic region and income level (decile groupings). The analysis draws on social risk theory to identify the main risks across the life cycle, then draws on the available household survey information for Mexico (INEGI 1996) to calculate leading indicators of risk for the poorest 10 percent, poorest 30 percent, and poorest 60 percent (rural only) of the population compared to the population average ("all"). The life-cycle approach is supplemented by the identification of other key groups at risk, where that risk stems from characteristics (geographic, ethnic, etc.) that cut across the life cycle. These special groups and their risk indicators are presented in the follow-on Table 2b (page 5). Highlighted areas in the table signal prominent at-risk groups. Summarizing this analysis, the main at-risk groups identified are as follows¹:

- *0 to 5 year olds*: poor Early Child Development (ECD), including malnutrition (30 percent of all children in rural areas) and low/delayed cognitive development, and low pre-school attendance among the poor (71 percent in urban areas, 62 percent in rural areas).
- *6 to 14 year olds*: a pocket of low primary school enrollment rates (85 percent) among rural (largely indigenous) children in the poorest decile; widespread low enrollment rates for lower secondary school (37 percent among the general population).
- *15 to 24 year olds*: low rates of upper secondary school enrollment, particularly among the rural poor (7 percent); relatively high unemployment (29 percent) and high inactivity rates (over 30 percent) among the urban poor.
- *25 to 64 year olds*: full-time employment at below poverty wages (68 percent of the poor urban workforce), part-time employment (46 percent of the rural poor), and urban unemployment which is highest among males in the poorest decile (6.5 percent).
- *Over 65*: low pension coverage of the elderly poor (7 percent in urban areas, 0.2 percent in rural areas).
- *General population*: poor quality housing, particularly lack of basic infrastructure services (48 percent of the rural poor without piped water, and 89 percent without sewerage access).
- *Other special at-risk groups* include isolated rural villages and the indigenous, for whom the above indicators are systematically worse (see table 2b).

1. For details on statistics cited above, see table 2a which provides risk indicator values by decile groupings and urban-rural breakdowns. For the purposes of this chapter, deciles 1-3 (poorest 30 percent of the population) in urban areas and deciles 1-6 (poorest 60 percent of the population) in rural areas are categorized as "poor".

Table 2a. Mexico: Leading Indicators of Social Risk by Age, Region, and Income Group, 1996
(Highlighted areas signal prominent at-risk groups)

Population Group/ Main Risk	Leading Risk Indicators	Indicator Value, Urban Area			Indicator Value, Rural Area			
		Poorest 10 percent	Poorest 30 percent	All	Poorest 10 percent	Poorest 30 percent	Poorest 60 percent	All
Ages 0-5:								
Stunted development	• Chronic Malnutrition (stunting)			11%				30%
	• ECD coverage			n.a.				n.a.
	• Preschool attendance (age 5 only)	53%	71%	82%	44%	52%	62%	66%
Ages 6-14								
Low human capital development	• Primary school enrollment (ages 6-11)	92%	94%	95%	86%	91%	93%	94%
	• Age-for-grade* (ages 6-11)	1.07	1.04	1.01	1.13	1.12	1.10	1.08
	• Lower secondary school enrollment (ages 12-14)	41%	55%	68%	24%	24%	29%	37%
	• Age-for-grade (ages 12-14)	1.19	1.13	1.07	1.36	1.37	1.31	1.24
	• Child employment (ages 12-14)	16%	13%	9%	40%	30%	28%	26%
Violence/crime	• Inactivity—neither work nor attend school (ages 12-14)	21%	12%	7%	9%	14%	14%	13%
Ages 15-24								
Low human capital development	• Upper secondary enrollment (ages 15-17)	19%	29%	46%	6%	6%	7%	13%
	• University enrollment (ages 18-24)	2%	4%	15%	0.7%	0.2%	0.9%	2%
Low income	• Unemployment (ages 15-24) male	24%	23%	13%	4.4%	3.2%	5.2%	4.9%
	female	12%	12%	10%	0%	6.9%	5.3%	5.2%
Violence/crime	• Inactivity (ages 15-17)	37%	28%	18%	31%	30%	29%	27%
	• Inactivity (ages 18-24)	49%	43%	28%	29%	36%	36%	35%
Ages 25-64								
Low income	• Unemployment: male	6.5%	4.9%	3.2%	0.6%	0.9%	1.5%	1.5%
	female	3.5%	2.8%	1.8%	0.0%	1.5%	0.8%	0.6%
	• Part-time job (as % of all employed)	37%	32%	26%	52%	50%	46%	42%
	• No education or incomplete primary (low skills) (ages 25-40)	49%	36%	17%	70%	68%	61%	49%
	• No education or incomplete primary (low skills) (ages 41-64)	78%	69%	42%	93%	90%	90%	85%
Ages 65+								
Low income	• Receives pension	2%	7%	22%	0%	0.1%	0.2%	7%

Population Group/ Main Risk	Leading Risk Indicators	Indicator Value, Urban Area			Indicator Value, Rural Area			
		Poorest 10 percent	Poorest 30 percent	All	Poorest 10 percent	Poorest 30 percent	Poorest 60 percent	All
General population								
Low-quality housing	<ul style="list-style-type: none"> No piped water No piped sewerage No electricity 	18%	15%	7%	55%	53%	48%	38%
		50%	37%	18%	96%	93%	89%	79%
		5%	3%	0.9%	29%	24%	20%	14%

* Age-for-grade is calculated as $[\text{age} - \text{grade} + 1]/6$, such that an individual in the appropriate grade for age will have an age-for-grade equal to 1, whereas an individual in a lower grade than appropriate for his or her age will have an age-for-grade greater than 1.

Sources: INEGI household survey, 1996; Encuesta Nacional de Nutrición, 1999.

Table 2b. Mexico: Leading Indicators of Social Risk, Specific Population Groups

Population Group	Leading Risk Indicators	Indicator Value, Urban Area	Indicator Value, Rural Area
Isolated rural villages (population 100 or less, total 2.6 million people)	<ul style="list-style-type: none"> Lack of access to basic infrastructure, social services High dependency ratio (large proportion of children and elderly relative to working-age population) 	Not applicable	<ul style="list-style-type: none"> Without access to: electricity (59 percent), sewerage (90 percent), primary school (40 percent), secondary school (100 percent), health mobile unit (30 percent), access to temporary employment program (94 percent), free tortilla (99 percent), etc. These villages represent 2.9 percent of total population, but 3.3 percent of youth (0–14) and 3.4 percent of elderly (over 65), vs. 2.6 percent of working age population (25–64).
Indigenous (total population 11,500,000 people, of which 80 percent (9,200,000) among the extreme poor, and 1 million monolingual)	<ul style="list-style-type: none"> Systematically higher poverty rates and lower social development indicators 	(all indicators for indigenous are given in next column—data do not allow rural/urban breakdown)	<ul style="list-style-type: none"> Illiteracy rates, age 15 and over: 49 percent (women), 27.8 percent (men). In communities with over 70 percent indigenous populations (total pop. 4,000,000), 28 percent of children do not attend school, most living in communities with 100 or fewer inhabitants. Over 1 million school-age children speak indigenous language, 250,000 of which are monolingual. Only 38 percent of schools in indigenous communities offer all 6 grades of primary education.

Sources: Psacharopoulos and Patrinos (1994), INI (1997), World Bank (1999), Government of Mexico/World Bank (2000).

Table 3. Coverage and Incidence of Social Programs Targeted to Key Social Risks, by Region and Income Decile Groups, Mexico, 1996
(Highlighted areas indicate regressive program incidence pattern)

Population Group/ Main risk	Program Coverage	Indicator Value, Urban Area			Indicator Value, Rural Area			
		Poorest 10 percent	Poorest 30 percent	All	Poorest 10 percent	Poorest 30 percent	Poorest 60 percent	All
Ages 0-5:								
Stunted development	<ul style="list-style-type: none"> Family receives Progresa transfers ECD coverage 	n.a.	n.a.					
Ages 6-14								
Low human capital development	<ul style="list-style-type: none"> Receives scholarship to attend school (6-11) 	2.8%	2.0%	2.0%	3.1%	3.4%	3.9%	4.1%
Violence/crime	<ul style="list-style-type: none"> Receives scholarship to attend school (12-14) 	1.6%	1.7%	2.2%	3.4%	5.6%	5.0%	4.5%
Ages 15-24								
Low human capital development	<ul style="list-style-type: none"> Receives scholarship to attend school (ages 15-17) 	3.6%	1.5%	3.6%	1.9%	1.3%	1.3%	1.3%
Low income	<ul style="list-style-type: none"> Receives scholarship to attend school (ages 18-24) 	0%	5.6%	5.0%	0%	0%	3.3%	2.8%
Ages 25-64								
Low income	<ul style="list-style-type: none"> Has attended training program Has access to social security system Receives 'ayuda alimentaria o dispensa' 	0%	2%	12%	0%	0%	0.2%	2%
		9%	19%	43%	0.2%	0.9%	3%	11%
		1.6%	4%	12%	0%	0.1%	0.7%	3%
Ages 65+								
Low income	<ul style="list-style-type: none"> Receives pension 	2%	7%	22%	0%	0.1%	0.2%	7%
General population								
Low-quality housing	<ul style="list-style-type: none"> Access to housing credit 	0.7%	4%	16%	0%	0.1%	0.4%	
Low access to savings/credit facilities								

Source: INEGI household survey, 1996. Subject to revision.

Table 3 (page 6) looks at risk from an alternative perspective, assessing the coverage and incidence of programs targeted to key social risks by geographic region and income decile groups, where such data exist (INEGI 1996).² Results, though preliminary, indicate low coverage of certain targeted programs (such as scholarships for lower and upper secondary school) relative to the proportion of the population at risk (as indicated in Table 3a). Further, some social assistance programs display a regressive incidence pattern (training programs, food programs and housing credit) along with access to social insurance which is also regressive (pensions, social security), as indicated by the highlighted sections of the table. Finally, while some programs have higher coverage rates among the urban poor, such as training, and food programs, other programs have surprisingly higher incidence in rural areas, such as scholarships. Given the number of new initiatives and changes to programs after 1996, it is important to revise these coverage and incidence estimates as soon as updated survey data (ENIGH 1998) become available for analysis, before drawing specific policy implications from these estimates.

III. MEXICO'S SOCIAL PROTECTION STRATEGY

Mexico's SP strategy is nested within a broader framework of macroeconomic policy aiming to achieve broad-based economic growth and fiscal sustainability, combined with sectoral reforms to improve access to and quality of basic social services. Within this context, SP programs are designed to complement the above policies with (a) *social insurance* (contributory) mechanisms which pool social risks across population groups (i.e. public pensions, health insurance), and (b) targeted *social assistance* interventions (non-contributory) which transfer resources (in-kind, cash, or services) to particular at-risk groups. Total federal SP spending in 2000 is 223.9 billion pesos (US\$24 billion), of which social insurance represents 76 percent and targeted social assistance 24 percent (Table 4, p. 8). Total SP spending amounts to 44 percent of all federal social development expenditures, 27 percent of total federal expenditures, and 4.3 percent of GDP (social insurance represents 3.2 percent of GDP while targeted social assistance represents 1.1 percent). In terms of international comparisons, SP spending in Mexico is relatively low—in the LAC region SP spending ranges from 0.7 percent of GDP in Haiti to 8.7 percent in Chile; for North America and Western Europe these figures are 11.2 percent and 12.4 percent of GDP respectively³.

2. While INEGI provides the only nationally representative data set allowing program coverage and incidence to be analyzed across deciles of the entire population, the validity of these results is likely to be less precise than that drawn from individual program assessments. Data are also old (1996) and thus do not reflect any changes in coverage rates that result from new initiatives.

3. World Bank, Social Protection Tool Kit, preliminary draft, 2000. Figures are for central government spending on "social security and welfare", defined as social insurance and social assistance or safety-net programs. Expenditure levels may not be exactly comparable across countries due to differing definitions of 'social welfare' and the composition of programs included therein.

Table 4. Federal Social Protection Programs in Mexico

Type of Program	Number of Programs	Budget 2000 (million pesos)	Percent of total Budget	Major Beneficiaries
1. Social Insurance	4	170,539.0	76.1	
—Social Security	3	158,687.0	70.8%	- Formal sector employees
—Negative Income Tax	1	11,760.0	5.2%	- Formal sector employees
2. Sectoral Social Assistance	29	15,861.9	7.1%	
—Education	18	6,622.8	3.0%	- Poor, low educated
—Health	5	4,740.7	2.1%	- Rural poor
—Housing credit	2	3,779.6	1.7%	- Public sector employees
—Other	4	718.8	0.3%	- Various vulnerable groups
3. Income Transfers and Subsidies	7	14,765.2	6.6%	
—Progresa (conditioned income T)	1	9,635.0	4.3%	- Rural poor
—Food Programs	6	5,130.2	2.3%	- Poor
4. Income Generation	54	15,531.8	6.9%	
—Temporary Employment	1	3,997.7	1.8%	- Poor unemployed
—Labor Training	2	1,683.9	0.7%	- Low income
—Rural Development	51	9,850.2	4.4%	- Rural communities
5. Social Infrastructure	5	2,250.1	1.0%	
				-- Communities with low access to basic infrastructure
				-- Communities hit by natural disasters
6. Natural Disaster Protection	1	4,839.9	2.2%	
				-- Poor communities
7. Other	5	202.8	.09%	
TOTAL	105	223,990.7	100%	

Source: SHCP. Category “Other” includes institutional strengthening, community development, etc.

Social Insurance

Mexico’s social insurance strategy includes two main types of interventions: social security (Instituto Mexicano de Seguro Social—IMSS, and Instituto de Seguridad Social al Servicio de los Trabajadores del Estado—ISSSTE), and a negative income tax (Impuesto Sobre la Renta Negativo). **Social security** (IMSS and ISSSTE) absorbs the bulk of total federal SP expenditures (71.4 percent in 2000). The main weakness of social security in Mexico, historically, has been the fact that eligibility is restricted to formal sector employees. ‘*Derecho habientes*’, or those who have access to the social security system through their own employment or that of a family member, represent less than half of the Mexican population (42 percent), and are largely middle and upper income families. Coverage among the poor is low (just 5 percent of those in the poorest income decile are *derecho habientes*), and is well under half even among the middle class (30 percent of those in decile 5 are *derecho habientes*) according to SChP estimates. The social security system is also very costly to operate; programs are not fully funded by contributions, and thus require substantial subsidies from general federal revenues—IMSS alone requires federal transfers of \$66.3 billion pesos annually (30 percent of *total* federal SP spending, and 1.3 percent of GDP—more than the total spent on all targeted social assistance)⁴.

Reforms initiated in the past administration are positive, in that they have begun to broaden coverage of the social insurance system (both pensions and health insurance), including allowing informal sector workers to participate⁵. However, these initiatives appear to be expanding coverage

4. SHCP, 2000. A significant proportion of this transfer represents liabilities assumed by the federal government as a result of pension reform (see the Pension Reform Chapter)

5. Details on the implementation of these reforms are discussed in the Pension and Health Sector Chapters, respectively.

of the system only slowly. Of the total 16.2 million informal sector workers, only 8,724 have subscribed voluntarily under the expanded options of the pension program since their inception in 1997 (about 25 percent of whom are in Mexico D.F.). Coverage under voluntary inscription to the public health insurance system has expanded more rapidly, with 211,798 individuals (representing 618,680 total family members) subscribing. And the IMSS program for agricultural workers (*Seguridad Social para Jornaleros Agrícolas*) has expanded its coverage from 184,500 people in 1994 to over 2 million in 2000.

The **negative income tax program** is intended as a transfer to low income workers, but in its current form operates as a tax subsidy to employers. For formal sector employees earning 1-3 minimum wages, the federal government provides a sliding-scale transfer to the employer (an offset to tax liabilities), which is then passed on to the employee, as a ‘negative tax’ of between 0 (3 minimum wages) and 285 (1 minimum wage) pesos per month. Since eligibility is again restricted to formal sector employees, though intended to reduce low-income risk, this program currently has negligible impact among the poorest deciles. And since one must be employed to obtain the benefit, the program does not address income risk arising from unemployment. There are also questions regarding the degree of compliance—lack of appropriate controls such that employers might apply for the tax reduction without passing the rebate on to employees. The program costs an estimated 11.8 billion pesos per year to operate (5.3 percent of total SP spending, and equal in value to 23 percent of all targeted social assistance spending), more than the total budget for Progresiva—one of the government’s flagship programs (see below). The program is thus a prime candidate for reform, as it absorbs a sizeable amount of resources without reaching intended beneficiaries or addressing key-risks.

Social Assistance

Mexico’s other social protection interventions, broadly classified as targeted social assistance in that they are not contributory but involve unilateral transfers of resources to at-risk groups, have a total budget of 52 billion pesos (24 percent of total SP spending, 1.2 percent of GDP). Program categories include sectoral social assistance programs (education, health, housing), income transfers and subsidies (Progresiva and food programs), income generation programs (temporary employment, labor training, and rural development), social infrastructure, natural disaster protection, and a small category of other programs targeted to individual vulnerable groups.

Sectoral social assistance in health, education and housing programs (15.8 billion pesos) absorbs 6.8 percent of total SP spending, and 30 percent of targeted social assistance spending. Benefits are by and large directed to key at-risk groups; there are 18 education programs directed to poor and low-education individuals in various age categories, and 5 health programs (including the PAC, award-winning project that extends health care to isolated rural areas). The housing subsidy program, FOVISSTE (3.8 billion pesos), is a notable exception, as only public sector employees are eligible for benefits (18,300 loans in 2000); this program is hence a prime candidate for reform of eligibility criteria and targeting in order to improve the risk-reducing impact of these resources. The creation in 1998 of the *Programa de Ahorro y Subsidios para la Vivienda Progresiva*, providing housing credit to urban families in extreme poverty, is a highly positive initiative, however the budget (695 million pesos) and number of families served (32,400 in 2000) remain small relative to the size of the urban population with low housing quality (1.6 million households). Further, the program does not currently serve rural areas, where the size of the at-risk population is far greater (3.2 million households).

Income transfers and subsidies (14.8 billion pesos) absorb 28 percent of targeted social assistance spending. The largest program in this category is Progresa (9.6 billion pesos), a conditioned income-transfer program targeted to rural areas, and one of the government's most notable initiatives. In 2000 the program served 2.6 million families, implying coverage of over half of all families in rural areas, with income transfers conditioned on school attendance and/or use of health care facilities, and for purchase of basic foods. In addition, 6 food programs (5.1 billion pesos) are in operation. These food programs seem to have overlapping target groups (the extreme poor) and objectives, both with Progresa (meeting basic nutritional needs) and among the food programs themselves (3 programs provide a basic food basket and others provide basic commodities such as milk and tortillas), such that there are likely to be significant opportunities for reform by streamlining objectives and consolidating programs.

Employment and income generation programs (15.5 billion pesos) absorb another 28 percent of targeted social assistance spending. These programs include the *Programa de Empleo Temporal—PET*, a temporary employment program (4 billion) which generated 1 million short-term jobs in 2000; 2 labor training programs (1.7 billion), providing training to approximately 600,000 workers⁶, and 51 rural development programs (9.8 billion). It is programs in this last category which seem to present the most potential and need for reform—the budget is spread thinly across a multitude of programs, providing differing and at times competing services (training, agricultural assistance, etc.). Further, one program, *Apoyo a la Comercialización*, absorbs one third of all resources in this category (over 3 billion pesos) yet seems to be directed to mid-size farmers as opposed to the poorest, small farmers⁷. A systematic review of these programs vis-à-vis the needs of target groups (particularly for credit, micro-financing, and savings facilities), followed by development of a coherent strategy by a single coordinating body, is likely to produce significant gains in impact and efficiency in this area of intervention.

Social infrastructure programs targeted to at-risk groups (2.2 billion pesos) absorb just 4 percent of targeted social assistance resources. This category includes 5 programs, the largest of which are the rural roads program (901 million pesos), and the potable water program (867 million pesos) which extended water services to an estimated 80,000 families in marginalized urban and rural areas in 2000. Two additional programs target resources for investment in basic infrastructure specifically to indigenous communities, but have relatively few resources allocated to them (142 million pesos) relative to the size of the at-risk population (2.6 million people living in rural villages of 100 or less inhabitants), and the level of need for water, basic sanitation, etc. (see Table 3.b) The one new initiative in this area, the rural telephone program (337 million pesos), does not adequately address the lack of basic infrastructure services, and in any event targets resources to communities of over 100 inhabitants.

Finally, the **natural disaster fund** (4.8 billion pesos) is a very positive new initiative, setting aside a pool of resources for disaster relief which enhances the nation's safety-net with improved capacity for crisis management. The fund appears to be well-coordinated with existing programs, for example, it is designed to operate in coordinated fashion with the PET, so that reconstruction and disaster relief will also generate temporary employment. Thus, the fund is designed to both

6. Excluding CIMO, for which the number of beneficiaries was unavailable at the time of writing this report.

7. Note that **Apoyo a la Comercialización** is not always considered a social program, nor always included in calculations of total social expenditures; therefore there is some debate as to whether it should be considered in this discussion of social protection programs.

provide emergency employment (through PET) as well as reconstruction of infrastructure and housing in disaster areas.

Social Protection in Mexico: Issues, Options and costs

Best Practice Policy Options for Addressing Key Risks

Addressing the main areas of social risk in Mexico depends on a broad context of policies including a macroeconomic framework which facilitates labor-intensive growth, and sectoral policies which broaden access to basic services (health, education, financial services, etc.) to currently underserved and hence vulnerable groups. Within this context, best practice SP interventions by the government can complement this framework with appropriate social insurance and social assistance programs designed to reduce key social risks where insurance markets fail, and where self-protection mechanisms are out of reach of the most vulnerable sectors of the population. This section highlights identifies best practice options for addressing 7 key areas of risk currently prevailing in Mexico, and where possible provides costs estimates for implementing these options. It identifies both existing programs in Mexico which demonstrate best practice characteristics yet fail to cover the at-risk population, and are thus candidates for expansion, and supplements these findings with further best practice options from international experience. Cost estimates draw on: (a) 1996 ENIGH survey data for estimating the size of the at-risk population; (b) data from SHCP on coverage of current programs, used where possible to adjust 1996 estimates of the size of the uncovered population downwards to account for increased coverage of the at-risk population due to SP initiatives undertaken by the government after 1996⁸; (c) current SP program costs, per beneficiary (including administrative costs) in Mexico (various sources including SHCP and World Bank).

8. Estimates of the size of the current at-risk (uncovered) population can be made with greater precision by drawing on the 1998 ENIGH survey data, once these become available for analysis.

Table 5. SP Strategy & Major Social Risks: Seven Key Problems and Best Practice Options

Problem	Diagnosis	Best Practice Policy Options
1. Low preschool and ECD Program coverage	Public services not widely available, private services cost-prohibitive for the poor.	Mexico's exemplary ECD education services for parents (PRODEL) and community-based pre-school services (CONAFE) illustrate best-practice techniques, but offer insufficient coverage and should be expanded.
2. Pocket of low primary school attendance in rural areas	In rural areas, 15 percent of 6–14 year-olds in the poorest income decile (largely indigenous) do not attend school.	Community-based rural schooling (CONAFE), combined with scholarships and training for indigenous students to become teachers, bilingual education, distance learning and mobile education units.
3. Low secondary school enrollment rates	Opportunity cost of schooling, poor quality, and low access yield high youth employment in rural areas and “inactivity” in urban areas.	Expand demand-side subsidies (for example PROGRESA scholarships) complemented by increased access and quality of secondary schooling; special education programs to bring dropouts back into education system, and high-school equivalency programs.
4. Low earnings among the poor, working-age population	Low education/skill levels yield higher unemployment and underemployment among the poor; but majority of poor (over 60 percent) are employed full time at below poverty wages. Current negative income tax program excludes poorest (informal sector).	Self-targeted workfare program for the poor unemployed (Mexico's PET), complemented by targeted income-support (reformed negative income tax is an option) for poor working families, within macroeconomic and labor market framework promoting labor-intensive growth, along with financial services for the poor.
5. Low access to pension (income support) among the elderly poor	Pension system only recently open to informal sector; current access to pensions regressive with extremely low (0.2 percent) incidence among rural poor.	Expanded options for informal sector participation in public and/or private contributory pension plans, complemented by targeted noncontributory pension system for elderly poor.
6. Low housing quality among the poor	Restricted or access to savings and borrowing mechanisms for the poor, existing public subsidies largely targeted to middle class (public sector employees).	Targeted subsidies to finance small-scale home improvements, complemented by expanded financial services (mortgages) and basic infrastructure networks serving poor areas.
7. Concentration of indigenous people among the chronically poor, and in isolated rural villages	Geographic and social isolation, low access to basic infrastructure, few public interventions specifically designed to foster local control or driven by indigenous cultural norms.	Targeted investment to reduce basic infrastructural deficiencies of these communities (i.e. water), combined with specific, community-driven and managed development programs (see Indigenous Peoples Chapter).

Expanding Access to Early Child Development Programs

ECD services targeted to young children may be the most effective intervention for breaking the intergenerational transmission of vulnerability by enhancing learning ability, schooling, and hence earnings potential. Widespread international evidence shows that providing targeted nutrition support and preschool education services to children 0 to 5 consistently leads to improved child nutrition and health, higher school enrollment rates, and better performance on aptitude tests. Further, these results are most apparent in children from poor families as compared to the nonpoor.

By increasing early abilities, preschool programs increase both the prospective earnings potential from a given year of schooling and the prospective earnings benefits of additional schooling (Young 1996).

Survey data do not allow access to ECD services to be estimated in Mexico, however the limited number of existing programs clearly indicates low access, especially in rural areas. Best practice models for ECD service provision emphasize several features. First, parental involvement (in program design, in service provision, and providing parent training as part of ECD services) is an essential component of successful ECD interventions. Second, especially in countries where fiscal resources and local infrastructure are insufficient to support the universal provision of basic services, collaboration with local groups and NGOs (both national and international) as service providers has proven to be an effective approach to widening service provision, especially to poor and isolated communities. Third, most national governments share the cost of early child intervention programs with subnational governments and program beneficiaries (who either pay a user fee, pay caregivers' honoraria, or do volunteer work at the care center). Finally, television and radio programs have been used in innovative ways to enhance ECD services by offering training programs for care providers and supplementing the local curriculum with ingenious learning programs for children, and to extend these ECD support services to remote areas.⁹ Mexico's PRODEI (Programa de Educación Inicial) includes several of these features, focusing on teaching parents techniques for social and motor development among young children. This program is a clear target for expansion in order to raise ECD coverage. The program currently covers 580,000 children at a cost of 540 pesos per child per year. The total size of the target population (poor children ages 0-4) is roughly 5.2 million; thus, estimating the number of currently uncovered at 4.6 million, the cost of expanding PRODEI to cover the existing gap is 2.5 billion pesos.

For pre-school, the estimated coverage gap in 1996 was 500,000 poor children (age 5). The CONAFE program (see below), now provides coverage to 125,000 rural children at an estimated cost of 3,510 pesos per child. Assuming a similar cost structure in urban as well as rural areas, CONAFE could be expanded to cover the remaining estimated gap (375,000 children) at an annual cost of 1.3 billion pesos.

Eliminating the Pocket of Low Primary School Enrollment in Rural Areas

While access to primary education is close to universal in Mexico, a small but significant pocket of relatively low attendance rates (85 percent) prevails among the poorest 10 percent of the rural population. The total number of poor children age 6-14 in rural areas not attending primary school was estimated at 430,000 in 1996.¹⁰ The problem is concentrated among children in small, indigenous communities of 100 or fewer inhabitants, where 28 percent of primary-school-aged children do not attend school, and where one-quarter of school-age children are monolingual indigenous language speakers. Mexico's CONAFE program exhibits best-practice characteristics of community-based rural schooling: it is demand-driven, fosters high parental and community involvement, applies active pedagogical models, and allows for learning in students' own (indigenous) languages. The program currently covers 160,000 children, and has achieved systematically positive results as demonstrated by test-scores showing systematically higher

9. See Young (1996) for further information on the above options, including case studies of programs currently being implemented in a range of countries.

10. It should be noted that while access is nearly universal, primary school quality is a significant issue which is addressed in the Education Sector Chapter.

achievements scores for students as compared to a control group in traditional schools. Estimating the remaining coverage gap at 270,000 children, closing this gap, at current costs of 3,735 pesos per student per year, would cost 1 billion pesos. Scholarship programs, with a particular focus on top indigenous students graduating from primary and secondary school in order to continue their education and become teachers, would also help close existing gaps in completion rates and over time would help raise the supply of rural schooling and quality of teachers (only 38 percent of primary schools in indigenous communities offer all grades 1 through 6). Distance learning, such as educational radio programs created by indigenous teachers and offered in both Spanish and local indigenous languages, might also help bridge the educational gap in isolated areas. Reliable cost estimates for both of these programs are not currently available.

Improving Access to Secondary Schooling

Secondary school enrollment rates are low, on average, even in lower secondary school (68 percent in urban areas, 37 percent in rural areas), signaling a significant problem in transitioning students from primary to secondary schooling. The problem is markedly worse among the poor, with an enrollment rate of 41 percent among the urban poor, and 24 percent among the rural poor.

Raising secondary school access and quality, a sectoral responsibility, is the first step. In terms of social assistance programs, raising the demand for secondary schooling through scholarships targeted to poor students is a viable option. Coverage of existing scholarship programs was extremely low in 1996, especially among the poor (less than 3 percent in both rural and urban areas; see Table 3). Progresá, introduced in 1997, offers income-transfers for families conditioned on school attendance: 257.5 pesos per month for lower secondary and 300 pesos per month for upper secondary school. Estimating coverage gaps at 1.9 million for lower secondary and 2.2 million for upper secondary, and using Progresá per-child cost estimates, covering the existing gap would cost 5.9 billion pesos for lower secondary and 7.9 billion pesos for upper secondary¹¹.

Reducing the prevailing high rates of inactivity will likely require complementary sectoral programs that enhance secondary school curricula and teacher quality. To address over-age students who have dropped out of school, intensive education programs to bring students back into the secondary school system can be employed. In addition, community college systems, such as those operating successfully in the United States, offering high-school equivalency programs in the evenings along with 1-to-2-year terminal degrees in technical fields such as nursing and computing, can provide a successful model.

Addressing the Problem of Low Earnings Among the Working-Age Population

The problem of low earnings among the working-age population (age 25 to 64) in Mexico is driven by a range of factors including unemployment, part-time work, and low pay (full-time work at below-poverty wages). Of the three determinants of low earnings, unemployment is the least common, as seen in Table 2a; average unemployment rates are strikingly low (1.5 percent), while the rural poor have even lower unemployment rates than average (0.6 percent). Urban rates among the poor are slightly higher than the average (6.5 percent), but are still very low. Part-time employment explains a far greater proportion of low earnings among the poor, with 37 percent of the urban poor and 52 percent of the rural poor working less than full time. And, with the

11. Progresá has probably reduced this gap, however at the time of writing precise coverage data by school level were not available.

remainder of the employed poor in full-time employment, low wages (i.e. wages that are insufficient so as to keep a fully-employed person and his/her dependents out of poverty) is obviously a substantial driving force behind poverty in Mexico.

The medium- to long-term solution for low earnings among the poor lies in a macroeconomic framework that promotes labor-intensive growth, so as to bring about wage increases among the working poor. A probable drag on the positive wage effects of such growth is the low human capital (in terms of level of formal education) of Mexico's workforce, particularly among the poor. Furthermore, in Mexico low human capital is not confined to older workers; in the poorest decile, 49 percent of those aged 25 to 40 have less-than-complete primary schooling in urban areas, and in rural areas this figure rises to 70 percent. Thus the problem plagues not only Mexico's current workers, but will persist as these young and relatively uneducated workers remain in the workforce for the next 25 to 40 years. Training and supplemental education programs are the one identified option for addressing this issue. However, international evidence shows that the impact of training programs on long-run employment and wage prospects is at best mixed (Dar and Tzannatos 1999). Recent evaluations of Mexico's training programs indicate that while some of them, such as PROBECAT, are well targeted and hence function well in providing income transfers to the poor, they do less well at providing successfully for future employment at higher wage levels (De Ferranti et al. 2000). Given ambivalent evaluation results, it is difficult to determine whether these programs should be considered for expansion without further assessment. However, for reference purposes, current costs of Mexico's training programs are approximately 2,300 pesos per person, and they cover a relatively small number of people (600,000) relative to the size of the at-risk population. Development of financial markets accessible to poor regions and neighborhoods is also an essential component of the medium-to long-term strategy for reducing the income vulnerability of the poorest. Financial markets can facilitate small business development and self-insurance mechanisms to help working families accumulate savings that can be used to smooth consumption during crises.

Short-term solutions include workfare programs for the unemployed, and targeted income transfers to poor families. Workfare programs, such as Mexico's *PET*, provide several advantages for crisis relief: (a) they are self-targeted (only those willing to work at low wages doing manual labor participate), and hence given sufficient funding can expand during crises yet contract naturally as conditions improve; and (b) they generate valuable social infrastructure (though this element raises program costs substantially). Program costs are currently substantial, at 3,800 pesos per temporary job created per year. *PET* currently creates about 1 million jobs per year, having expanded from 660,000 in 1995. The estimated size of total unemployed poor population in 1996 was 460,000, which suggests that the program (if well targeted and if the absolute size of the poor unemployed population has not risen significantly) has expanded to cover the prevailing gap (whether this is in fact so can be determined once 1998 survey data can be used to estimate a more current figure for the poor unemployed).

Transfer programs such as Mexico's *PROGRESA* can complement workfare by providing supplemental income for poor working families, as can a well-functioning negative income tax (i.e. one well targeted to the poorest income deciles)¹². Mexico's current negative income tax program, which reaches only the formal sector (thus excluding the bulk of families in the poorest deciles) and

12. A negative income tax relies on a well-functioning and broad-based tax system, but can efficiently provide an automatic subsidy to families whose income falls below a certain target level, with benefits tapering off as income rises.

operates as an implicit subsidy to employers while absorbing a substantial amount of SP spending (11 billion pesos) is a prime target for reform. Estimating the number of working poor (ages 25-64 and employed full time at below poverty wages) at 4.4 million, providing an income transfer valued at the median benefit under the current negative income tax program (142.5 pesos per month) would cost 7.5 billion pesos (less than the amount currently spent on the negative income tax program).¹³

Increasing Access to Old-age Pensions

There are two main objectives inherent in public efforts to reduce the vulnerability of the elderly poor: (a) to care for the current stock of elderly poor who did not have access in the past to contributory social insurance; and (b) to reduce the future flow of current workers into that category. Options for achieving the first objective are fairly limited and include income and in-kind transfers targeted to the elderly poor. Best practice options for achieving the second, more long-term objective include a combination of instruments to facilitate the acquisition of old-age insurance among the poor, including broadening access to both public insurance (public pension plans) and self-insurance (private savings) mechanisms.

Mexico has already taken several positive steps in pension reform which lay the groundwork for extending pension access to the previously excluded. These steps include moving to a system of individual accounts with broader access to the informal sector,¹⁴ and instituting a matching grant system (*cuota social*) in which the government supplements contributions made into the system to encourage workers to enroll and make regular contributions to the plan, and to subsidize benefit levels once retired¹⁵. A further initiative (SUF) is designed to facilitate small business participation in the plan, by providing small firms with an information package on enrolling employees in the plan, calculating contribution levels, etc. However, as noted above, progress in actually expanding coverage of social insurance to the previously uninsured (particularly the informal sector) has been slow. An important next step is to examine why take-up of these new initiatives has been so low, followed by adjustment to reforms in order to facilitate wider participation.

Financial sector development is perhaps the most fundamental requirement for enhanced coverage in the rural sector (and to marginalized urban populations). Augmenting access to local banks would provide a facility for making contributions to the public pension system, for receiving benefits (either from the pension plan or from a targeted income-support program for the elderly poor), and would enhance self-insurance options (savings). However extending coverage will require a commitment by the government to dedicate resources to this endeavor; offering the existing *cuota social* to the estimated 8.8 million workers currently working in the informal sector would imply an estimated cost of 6.9 billion pesos per year, for the old-age pension plan alone.¹⁶ Yet it would not provide an immediate solution to the current uncovered elderly poor, numbering 1 million in urban areas and over 1.25 million in rural areas. For these groups, as stated above, an

13. Note that this estimate excludes administrative costs, for which no estimates are currently available. Coverage could also include lower age groups among the working poor (18-24 year olds) or a higher benefit, all of which would imply higher costs.

14. The reform allows any informal sector worker whose employer complies with current labor tax legislation, and self-employed workers who meet the same criteria, to participate in the public pension scheme.

15. The government makes daily deposits of a flat-rate, inflation-indexed subsidy to the individual accounts of all workers participating in the national pension plan, which, together with returns earned from investment should ensure that lower income workers are able to qualify for the minimum pension guarantee.

16. *El Financiero*, 10-23-2000.

income transfer program (non-contributory pension) is the only known option. Recently developed targeting mechanisms (such as for PROGRESA) might facilitate delivery of these transfers without undue administrative costs. Covering the existing gap of elderly poor, totaling 2.2 million, with a transfer of 100 pesos per month (approximately one third of the value of the current extreme poverty line), would cost 2.7 billion pesos per year.

Raising Access to Basic Infrastructure Services and Housing Quality

Housing quality is still low in Mexico, particularly among the rural poor, where 55 percent have no piped water, 96 percent no piped sewerage, and 29 percent have no electricity. A significant proportion of the urban poor also live without access to water (18 percent) and sewerage (50 percent). Expanding basic infrastructure services to service poor areas is the starting point to addressing these gaps, complemented by financial sector instruments to facilitate mortgages and small-scale loans for home improvement. Housing subsidies well targeted to poor households can complement these lending facilities. While Mexico currently operates a well-funded housing credit program (FOVISSTE), it is not well-targeted to the poor and does not reach rural areas, and is thus a target for reform particularly in terms of facilitating access among the poor. Mexico's housing subsidy program (*PASVP*) is under-funded relative to housing needs among the poor, and could be expanded. At current costs of 2,383 pesos per family covered, covering the estimated 4.8 million poor at-risk households would cost approximately 11 billion pesos. Drawing on Chile's highly successful targeted subsidy for housing purchases, home improvements, and initial connections to water, sewerage, and electricity services for lessons learned and as input to designing the program's expansion is also an option to be considered for raising program effectiveness.

Water is perhaps the most basic infrastructural need that is currently unmet for one particular at-risk group: the isolated (largely indigenous) communities in rural areas. The uncovered population is estimated at roughly half of the population in these communities, such that there are approximately 1.3 million people currently without access to potable water. SHCP estimates costs ranging from 1,900 pesos per person to a maximum of 20,000 pesos per person to install water service in isolated rural areas¹⁷. Taking a mid-range estimate of water service installation at 10,000 per person, total costs to cover the remaining unserved population can be very roughly estimated at 13 billion pesos.¹⁸

Addressing Social Risk Among Indigenous People

Looking at the facts, it is clear that extreme vulnerability in Mexico is largely synonymous with being indigenous. For each age and type of risk, the indigenous population exhibits heightened degrees of social risk. Thus, successfully reducing social risk in Mexico depends in large part on developing risk-reduction techniques that successfully meet the needs of the indigenous population. Each of the programs above thus needs to be carefully considered as to whether special modifications, or indeed alternative programs, are needed to appropriately reduce risk among the

17. The upper bound cost of 20,000 pesos per person reflects costs in extremely remote areas (serving 1 or 2 households).

18. Note also that under current policy, the federal government provides only half of the financing of water installation, the other half being provided by the municipality. While in theory this would halve the above cost estimate, poor municipalities may not have sufficient resources to pay the counterpart funding, which may explain the lack of service extension into these areas to date. Therefore in order to provide service to these areas, the federal government may have to absorb the full cost of service provision.

indigenous population. More detailed evidence and experience on developing such programs is available in the Indigenous Peoples Chapter, but a general review of best practice evidence suggests that in some cases, it is possible to *adapt* existing best practice options under each risk category to suit indigenous communities, but in other cases *entirely different models* of programs and interventions are required (see Indigenous Peoples Chapter). Community-based programs, run by indigenous community members and supported with federal, state, and municipal funding, seem to exhibit higher rates of success. In addition, successful programs for indigenous peoples tend to cost more than those for the non-indigenous because of their relatively small scale, the higher cost of reaching isolated areas, and the fact that they require substantially greater training components (not only for indigenous people, but for those non-indigenous government or program representatives who must learn to work within the indigenous context). In terms of what to avoid, it seems clear that any program that creates parallel government structures alongside preexisting indigenous governance mechanisms is likely to fail; the key is to work with those existing governance structures (which in practice is difficult because they are not incorporated into “mainstream” elements of government, such as state and municipal organizations). With these generalities as a point of departure, further work has to be done on developing precise options for addressing indigenous social risk in each of the key risk categories.

Table 6: Cost of Implementing SP Initiatives in Seven Major Categories of Risk

Problem	Size of population at-risk (coverage gap)	SP policy initiative	Annual cost per person (pesos)	Estimated cost to cover gap (million pesos)
1. Low ECD and pre-school coverage	ECD: 4.6 million poor children ages 0-4; Pre-school: 375,000 poor children age 5	Expand ECD services (PRONEI) to all poor children 0-4;	540	2,500
		Expand <i>CONAFE</i> preschool coverage to all poor children age 5	3,510	1,300
2. Pocket of low primary school attendance in rural areas	270,000 rural poor children ages 6-12 not attending primary school	Expand <i>CONAFE</i> primary-school coverage to all poor	3,735	1,000
3. Low secondary school enrollment rates	1,900,000 poor youth ages 12-14 not attending lower secondary; 2,200,000 poor youth ages 15-18 not attending upper sec.	Offer secondary scholarships (<i>PROGRESA?</i>) to non-attending youth ages 12-14 (lower sec.), and to youth ages 15-18 (upper sec.)	3,090	5,900
			3,600	7,900
4. Low earnings among the working poor	4,400,000 poor ages 25-64, employed full time	Expand/reform negative income tax (<i>ISR negativo</i>) to cover all fully-employed working poor ages 25-64	1,710	7,500
5. Low access to pension (income support) among elderly poor	2,250,000 elderly poor (over age 64) 8,800,000 current workers w/o access to social security	Provide minimum old-age pension to all current elderly poor	1,200	2,600
		Expand access to social security pension system to all informal sector workers	780	6,900
6. Low housing quality among the poor	4,800,000 households	Offer subsidized housing credits to all poor households with low housing quality (<i>PASVP</i>)	2,383 per family	11,500
7. Remote villages with low access to basic infrastructure	1,300,000 people in remote villages without access to water	Install potable water service in all isolated communities currently without water	10,000 per person (avg.)	13,000
Total Annual Cost of Implementing the Above SP Interventions				60,100

IV. LOOKING AHEAD: ENHANCING SOCIAL PROTECTION POLICY IN MEXICO

Costs and Trade-offs

Summarizing the above analysis, implementing and/or expanding selected SP programs that address key risks in each of the 7 areas identified above would require, as a preliminary and rough estimate, 60 billion pesos in additional resources (table 6)¹⁹. This amount represents 27 percent of total SP spending (223.9 billion pesos), 7.4 percent of total federal expenditures (809 billion), and 1.1 percent of GDP (5,238 billion) in 2000. The results provide a broad-brush indication of the of the current level of resources dedicated to SP interventions vs. that which might be required to address key risks, as well as the costs, trade-offs and fiscal implications implicit in implementing policy initiatives in each category of risk²⁰. Identifying priorities among the options for reform is a major task facing the incoming government.

Defining Priorities

Among the range of at-risk groups identified in section I above, it is helpful to begin by establishing a set of priorities, both in terms of the groups to whom policies should be directed first (given limited resources), and the types of social insurance and social assistance interventions that are likely to be most effective at addressing the identified risks, based on both Mexican and international experience.

In terms of prioritizing at-risk groups, breaking the intergenerational transmission of risk suggests a primary focus on SP programs directed at children and youth, such that today's SP interventions not only transfer resources to poor sectors of the population, but reduce their future risk and therefore the need for government intervention in the long-run. Within other age categories, where it is harder to identify a risk group that merits attention over another, reforms might prioritize redesign of certain existing programs so that they better direct resources to the poorest segments of the population first. Focusing reform efforts on programs that meet this criteria while absorbing a relatively high share of SP resources (negative income tax, housing credits) is likely to have the greatest positive risk-reduction impact; reforms might entail improved targeting systems in some cases, while in others will require entire revamping of program design (particularly, eligibility criteria). Finally, there are some cases where it is possible to identify existing programs which address a high-priority risk group, and experience and evaluations indicate are successful, but which currently provide coverage to a narrow or incomplete segment of the poor at-risk population (i.e. PRODEI, CONAFE); focusing resources on expanding such programs is likely to yield high and immediate pay-offs in terms of social risk reduction.

Some general points can be made in terms of prioritizing types of social insurance and social assistance interventions, drawing on international evidence: (a) OECD experience shows that, in general, social insurance programs are more successful at reducing poverty than social assistance

19. These estimates are subject to revision, given incomplete data on current program coverage, use of 1996 risk indicators to assess size of at-risk groups, and in some cases very rough estimates of per-person program costs.

20. It is interesting to note, for example, that the current federal subsidy IMSS alone (66 billion pesos) exceeds the amount of additional resources required to implement major policy reforms in each of the 7 key areas.

programs;²¹ however, given that expanding social insurance coverage is a medium-term proposition, because such expansion requires financial sector development as well as mechanisms for incorporating the informal sector into the social insurance system, social assistance programs may play a temporarily larger role in developing countries; (b) innovative social assistance interventions such as Progresa, that combine short-term objectives (income support) with long-term objectives (human capital accumulation) are likely to be highly cost-effective, smoothing consumption in the current period while at the same time reducing future exposure to risk; (c) programs that exhibit ease of implementation, transparency of objectives and target groups, and simplicity in design are preferable over programs with complex implementation procedures; (d) programs that easily expand during crises and diminish operations as conditions improve are highly desirable (such as self-targeted workfare), because having such programs permanently in place implies permanent preparedness for crises; (e) programs that are desirable to have in place over the long run, or are easy to disband politically when no longer serving a socially desirable purpose, are preferable to programs that remain in place over the longer term largely because they are politically difficult to disband; and (f) programs that create as few disincentives to productive activity as possible are preferable to programs that alleviate poverty in the short run, but create dependence on public programs over the long run. Here the recent experience of the US in revamping existing welfare policies in order to reduce disincentives to productive activity, provides a recent and interesting case study.

Design, Institutional, and Implementation Issues

Successfully implementing SP policies that can effectively address the main social risks outlined above also depends on consideration of a broader range of design, institutional, and implementation issues. In terms of overall program design and implementation, the preceding analysis suggests that improving coverage and minimizing regressive targeting structures and leakage of intended benefits to the non-poor are important goals. Means-tested targeting in urban areas is particularly important, given the lower poverty rates in these areas, and thus the greater likelihood that benefits will reach unintended beneficiaries. Developing a definitive urban poverty reduction strategy is a challenge that faces the incoming Administration, with a particular focus on instituting effective targeting of benefits. Improving program impact evaluation for major interventions, along the lines of the recent independent evaluation of PROGRESA, and including measures of cost-effectiveness, are also important.

The major institutional issues that arise in the Mexican context are the many agencies involved in SP program implementation at all levels of government, and the uneven effects of decentralization given vastly differing state and municipal capacity for effective program implementation. A clearer definition of division of labor between federal, state, and local levels of government, and a focus on identifying areas of duplication and dispersion of efforts, would significantly enhance efficiency and hence reduce program costs. Training and more intensive support for state and municipal governments with lower capacity levels for implementation would be useful in supporting decentralization efforts.

21. An analysis of the anti-poverty effectiveness of safety nets in 8 rich nations (1967–present) shows that universal and social insurance transfers have by far the largest impact on poverty, resulting in between 75 to 80 percent of the total poverty reduction derived from SP interventions. Social assistance programs play a relatively small role, though they are important for certain target groups such as families with children and single-parent households (Smeeding and Ross 1999).

Other Emerging Issues—Next Analytical Steps

Several emerging issues in SP can be identified for further analytical work in the Mexican context. First, effective crisis management techniques need to be developed, along the lines of FONDEN, including building counter-cyclical funding patterns into social spending and, in particular, into social assistance programs targeted to the most vulnerable groups. Second, building exit strategies into existing programs is needed so that as vulnerability is reduced, beneficiaries automatically “graduate” from program eligibility. Third, forward vision will greatly enhance SP planning, with an emphasis on the dynamics of population change, such as the implications of the aging of the Mexican population, the growing urban workforce as a result of urbanization, and the persistence of small and isolated communities with high dependency ratios. Fourth, being watchful for the emergence of new at-risk groups, such as rising inactivity and crime rates among urban youth, and developing appropriate new interventions and approaches for risk reduction, will be an essential element of successful SP policy. Addressing each of the above issues merits further in-depth work, as does the search for local and international best practice options to guide the way in providing for a sound approach to SP in Mexico for current and future generations.

Finally, the analysis in this paper relies on 1996 survey data for estimates of the size of at-risk groups. The size of these groups is likely to have changed since that time given a) changing economic conditions, in particular poverty levels; b) population growth and/or changes in population structure; c) new program implementation. Some of these factors may have worked to increase the size of at-risk groups (population growth, rising poverty levels through 1998?), while other may have reduced their size (new programs introduced after 1996, for example PROGRESA). The analysis presented here can be strengthened by drawing on 1998 ENIGH household survey data as soon as it is available, as well as by conducting a more rigorous analysis of program costs, in order to generate updated and reliable cost estimates for alternative SP initiatives considered for implementation. This analytical work will vastly enhance the results presented here, and should be conducted as soon as possible in order to provide the most sound basis possible for upcoming SP policy decisions facing the incoming administration.

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ANNEX I - MEXICO: ESTIMATED POPULATION BY AGE GROUP AND GEOGRAPHIC AREA, 2000

Age Group	Urban	Rural	Total
0-4	<u>7.5%</u> 7,479,965	<u>3.3%</u> 3,298,083	<u>10.8%</u> 10,778,048
5-14	<u>15.5%</u> 15,461,958	<u>6.8%</u> 6,817,520	<u>22.4%</u> 22,279,478
15-24	<u>15.5%</u> 15,434,276	<u>4.8%</u> 4,820,680	<u>20.3%</u> 20,254,956
25-64	<u>31.8%</u> 31,622,094	<u>9.9%</u> 9,876,717	<u>41.7%</u> 41,498,811
Over 65	<u>3.4%</u> 3,373,067	<u>1.4%</u> 1,397,891	<u>4.8%</u> 4,770,958
All population	<u>73.7%</u> 73,371,361	<u>26.3%</u> 26,210,890	<u>100%</u> 99,582,251

Source: Author's calculations based on CONAPO, 1998. *Proyecciones de la poblacion de Mexico 1996-2050*. Consejo Nacional de la Población. Mexico, DF.

ANNEX II—SP PROGRAMS IN MEXICO: DESIGN, COVERAGE AND BUDGET DATA

THIS 50 PAGE ANNEX IS NOT INCLUDED AS AN ATTACHMENT TO THIS DOCUMENT, BUT IS AVAILABLE UPON REQUEST.