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*For consistency, as part of the Capital Project activities, we asked five young consultants in the countries where the program is implemented (Peru, Ecuador, Colombia, Chile and Mexico) to carry out assessments of four areas: poverty and social policies; conditioned transfer programs; the relationship between conditioned transfer programs and the financial system; and characteristics of the financial system in relation to the savings of the poor.*

## COUNTRY ASSESSMENT: MEXICO\*

**DAMARIS FLORES ORTIZ**  
(WITH REVIEW AND COMMENTS BY PILAR CAMPOS)

### CURRENT STATE OF POVERTY IN MEXICO

Mexico has maintained macroeconomic stability over the past decade. Nevertheless, the country has large pockets of poverty, associated with difficult access to services of all kinds, especially health care and quality education, as well as a lack of resources for satisfying basic needs. Because poverty has complex, multidimensional causes, a method was designed in 2002 to define the minimum required to cover basic household needs. The result is three poverty lines:

i) **Nutritional poverty:** people whose per-capita income is below the level to satisfy basic dietary needs.

- ii) **Skills capabilities:** people whose per-capita income is below the level to satisfy basic food, health and education needs.
- iii) **Asset poverty:** people whose per-capita income is below the level to satisfy basic needs for food, health education, clothing, shoes, housing and public transportation.

The National Council for Evaluation of Social Development Policy (*Consejo Nacional de Evaluación de la Política de Desarrollo*

\* The complete document is available at The Capital Project web page: [http://proyectocapital.org/index.php?fp\\_verpub=true&idpub=115](http://proyectocapital.org/index.php?fp_verpub=true&idpub=115)

*Social*, CONEVAL) is responsible for defining these poverty lines.

National poverty showed a downward trend from 1992 to 2006, except between 1994 and 1996.

During that period, nutritional poverty decreased from 21,4 percent to 13,8 percent; skills poverty decreased from 29,7 percent to 20,7 percent; and asset poverty decreased from 53,1 percent to 42,6 percent.

Nevertheless, most Mexicans live in poverty, with the highest levels in rural areas. There is also a persistent problem of unequal income distribution.

### CONDITIONED CASH TRANSFER PROGRAMS IN MEXICO

In the Federal Government, similar social programs are commonly carried out by different ministries, creating overlaps, duplication, confusion among beneficiaries, and distortion of well-designed programs.

Although there are intentions of coordinating these programs, changes have not been completely effective. Therefore, the Inter-Agency Social Development Commission was created to coordinate social development programs. Its goal is to coordinate federal government actions to ensure a comprehensive approach to the design and implementation of national social development policy. While progress has been made, there is still a need for organization and elimination of duplication.

The following are the main federal conditioned cash transfer programs. In the discussion below, we will focus on the main program, called "Opportunities" (*Oportunidades*).

- i) PROCAMPO: This program is a mechanism for transferring resources to compensate domestic producers for subsidies received by their foreign competitors, replacing the model of guaranteed prices for grains and oils. It reaches 2,4 million people and provides a cash transfer.
- ii) People's Insurance (*Seguro Popular*): This program provides protection to uninsured people through public, voluntary health insurance designed to reduce out-of-pocket medical expenses and encourage timely health care. It reaches 23,5 million people and provides a cash transfer.
- iii) Assistance to adults age 70 and over in rural areas: This program helps older adults take part in family and community life by encouraging a culture of health and enabling them to participate in occupational activities. It reaches 1 692 509 older adults and provides a cash transfer.
- iv) Nutrition program for marginalized areas: The purpose of this program is to improve diet and nutrition in remote areas not served by other federal government nutrition programs. It reaches 92 845 households and provides a cash transfer.
- v) "Opportunities": This program assists families living in extreme poverty to increase their ability to improve their standard of living through better education, health care and nutrition. It covers 5 million households, about 25 million Mexicans, of whom 697 838 live in urban areas and the rest in rural households. It provides a cash transfer.



The Opportunities program is Mexico's main anti-poverty strategy, both because of appropriate targeting and the number of people served, and because of positive outcomes that have been confirmed by evaluations. It is a sector-based program of the Social Development Secretariat (SEDESOL), and at the federal level it works in conjunction with the Public Education Secretariat (SEP) and Health Secretariat (SS). It serves people who live in extreme poverty (below both the nutritional poverty and skills poverty lines).

The program targets rural and urban families in extreme poverty, with a deficit of basic skills in education, health and nutrition, living in areas with inadequate health and education services.

The program's targeting begins with the selection of marginalized areas of the country, validating health and education services to ensure that conditionality is feasible. The next step is to identify eligible families through a survey of household socio-economic characteristics.

After participating in the program for a certain time, families are evaluated to determine if they should continue in the traditional model or be shifted to the Differentiated Assistance Model (*Esquema Diferenciado de Apoyos, EDA*), where they receive a smaller cash transfer.

The Opportunities model is one of shared responsibility. Families play an active role in their own development and carry out activities in exchange for economic assistance. The program is divided into several sections: i) educational component; ii) health component; and iii) dietary component, etc.

Shared responsibility consists, for example, of keeping scheduled appointments at health services, participating in personal health care workshops, and ensuring that children receiving scholarships attend school regularly.

Households receive cash transfers every two months.

MAXIMUM MONTHLY AMOUNT PER FAMILY  
JULY-DECEMBER 2007

|                            | With primary school students receiving scholarships | With secondary school students receiving scholarships |
|----------------------------|---|---|
| Food assistance            | \$ 185,00 (US\$ 13,4)                               | \$ 185,00   |
| Energy assistance          | \$ 50,00 (US\$ 3,6)                                 | \$ 50,00  |
| Maximum scholarship amount | \$ 955,00 (US\$ 69,3)                               | \$ 1 745,00 (US\$ 126,7)                              |
| Maximum assistance amount  | \$ 1 190,00 (US\$ 86,4)                             | \$ 1 980,00 (US\$ 143,7)                              |

RELATIONSHIP BETWEEN OPPORTUNITIES PROGRAM AND MEXICAN FINANCIAL SYSTEM

There is currently interest in channeling cash assistance provided by federal and state social programs through the banking system. Assistance provided by the Opportunities Program is provided through cash delivery services and financial institutions.

Cash assistance is provided directly to the mothers of the beneficiary households through these institutions: i) *Telégrafos de México (TELECOMM)*, with 3 500 delivery points, ii) *Banco de Ahorro Nacional y Servicios Financieros (BANSEFI)*, with 457 branches; and iii) 12 savings and loans; the latter two entities are members of the People's Network (*L@ Red de la Gente*).

TELECOMM sends cash to delivery points located as the closest possible to the bene-

ficiaries. Transaction costs, however, remain high.

BANSEFI operates in two ways: i) delivery of cash in envelopes, or ii) deposits in savings accounts.

#### OPPORTUNITIES FOR USE OF SAVINGS ACCOUNTS BY THE POOREST SEGMENTS OF THE POPULATION

Despite efforts to include this sector of the population in the banking system, there is still a lack of understanding of the use and benefits of savings accounts. They are generally viewed as a means for delivery of cash, and only a small percentage of users engage in long-term savings.

This is due to an insufficient supply of formal financial services for poor Mexicans. Despite

the expansion and creation of new financial institutions in recent years, most Mexicans, especially those with low incomes, still seek financing from informal sources and save through mechanisms such as *tandas* (ROSCA), physical assets, or hiding money in the home, at high risk and with no interest. The most significant problems include regulatory frameworks, persistent lack of penetration and real competition in the financial sector, inadequate products, and lack of financial information and education.

Some of these issues are currently being discussed officially to improve the Mexican financial system and increase financial inclusion.

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#### AUTHOR

Damaris Flores Ortiz

(with review and comments by Pilar Campos)



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