

# Tackling the Economic Downturn: Mexican Strategy & Lessons Learned

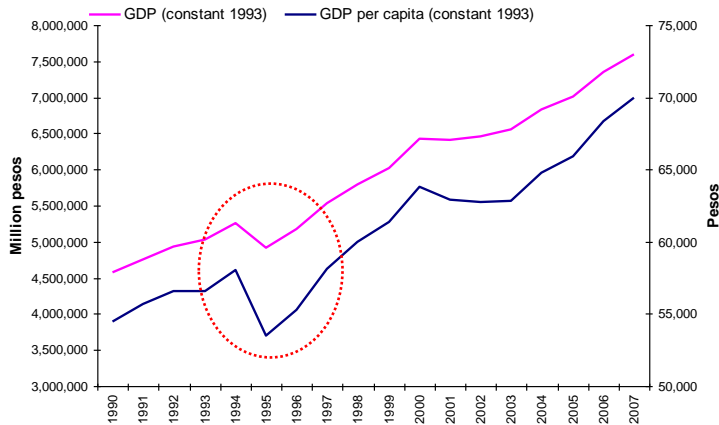
Planning and International Relations Unit  
Social Development Ministry, Mexico

Seminar on Employment and Inequality Outcomes  
Organisation for Economic Cooperation and Development  
April, 2009

## 1. The 1994-1996 crisis

### Magnitude of crisis

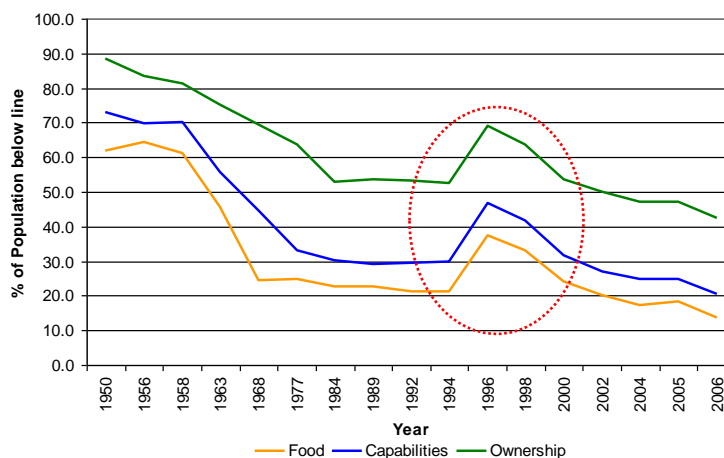
GDP and GDP per capita, 1990-2007



## 1. The 1994-1996 crisis (2)

### Evolution of Poverty

Incidence of Poverty in Mexico



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## 1. The 1994-1996 crisis (3)

### Government's response

- a. Employment
  - Creation of *Temporary Employment Program*
  - Increase of Minimum Wages (+10%)
  - Reduction of tax burden for lowest-income workers
  - Increase in health coverage for unemployed workers (from 2 to 6 months)
- b. Families' economy
  - Support for mortgage debtors
  - Increase in food subsidies (non-focalized, e.g. tortilla)
  - Creation of *Program for Families' Food and Nutrition*: Distribution of essential food items for rural and indigenous families; free breakfast for children at public schools; subsidies for tortilla and milk at marginalized urban areas.
- c. Support for businesses
  - Debt restructuring for small and medium enterprises
  - Deregulation and reduction of red tape
- d. Public-sector expenditures
  - Reduction on government's expenditures (-9.8%, real vs previous year)
  - Increase in prices of publicly-provided products
  - Increase in VAT (from 10 to 15%)

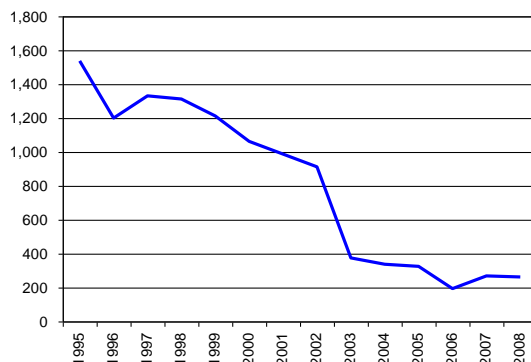
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## 1. The 1994-1996 crisis (4)

**Important issue:** Government's response to protect the poor limited by unavailability of programs specifically focalized on poor households (as opposed to marginalized geographic areas)

*Most important social-policy instruments: Temporary Employment Program and Program for Families' Food and Nutrition*

**Budget of Temporary Employment Program**  
(Constant 1993 million pesos)



**Important lesson:**  
Need to build programs focused on poor households

1997: *Progresa born*  
(CCT, 300,000 families)



2009: *Oportunidades*  
(5.2 million families)

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## 2. Strategy for the current crisis

### Objective 1: Supporting workers' employment

- a. Creation of *Job Preservation Program*
  - Subsidies to avoid lay-offs
  - Targeted at companies at hard-hit industries
  - >\$140 million USD, to protect 500 thousand posts for at least 6 months
- b. Scale-up of *Temporary Employment Program*
  - Budget increased by 46%
  - Payment increased to 2 Minimum Wages
- c. Increase in retirement savings withdrawal allowance
- d. Expansion of Government's contribution to retirement accounts
  - For workers earning < 15 MW
- e. Increase of health coverage under social security for unemployed workers
  - From 2 to 6 months
- f. Support of productive projects and scholarships
- g. Gradual shift of housing accounts to retirement savings accounts

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## 2. Strategy for the current crisis (2)

### Objective 2: Supporting families' economy

#### General:

- a. Freeze on gasoline prices
- b. Reduction on Liquefied Gas price (-10%)
- c. Increase in supply of low-cost housing loans
  - 28% by INFONAVIT (private sector employees) and FOVISSSTE (public-sector employees)
- d. Creation of *strategic corn reserve*
- e. Use of trade instruments:
  - Elimination of tariffs on wheat, rice, corn
  - Authorization of beans quotas (tariff-free)
  - Tariff reduction for milk (by 50%)

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## 2. Strategy for the current crisis (3)

### Objective 2: Supporting families' economy

#### Focused on the poor:

- a. Additional cash transfers (\$120/month/household) on 2 programs
  - *Oportunidades* (+23% on average transfer), *Food Support (Apoyo Alimentario)*, +49% on average transfer
  - Sufficient to cover increases in food prices
  - *Food Support* program expanded, to cover >150 thousand households at highly dispersed localities
  - Total coverage: 26 million people (25% of population)
  - Takes advantage of existing channel (speed, transparency, focalization)
- b. Continuance of two additional nutrition-focused programs
  - *Rural Supply (Abasto Rural)*: Network of public shops at rural localities; guarantees supply of food and basic items at discount prices (maintenance of discount at >5%). Freeze on corn and corn flour prices.
  - *Social Supply of Milk (Abasto Social de Leche)*, fortified milk at discount prices, 5.9 million beneficiaries, price frozen)

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## 2. Strategy for the current crisis (4)

### Objective 3: Supporting competitiveness and S&M businesses

- a. Reduction of industrial electricity rates (15% on average)
- b. Guarantee to acquire from S&MB (at least 20%)
- c. Increase in supply of credit by Federal Development Banks (by 26%)
- d. Increase in credit for rural sector (by 10%)
- e. Design of "Made in Mexico" brand

### Objective 4: Investing in infrastructure

- a. Public infrastructure investment (\$40 billion USD)
- b. Loans and warranties provided by Development Banks, to guarantee implementation of most important National Infrastructure Program projects

### Additional elements:

- a. Incentives for food and agricultural productivity: elimination of tariffs on agricultural production inputs; increase in financing for small producers; strengthening of social programs targeting agriculture.
- b. Decree to encourage repatriation of capital
- c. Reduction on tax-refund period
- d. Creation of new public jobs
- e. National Housing Pact
- f. Mexico Business program

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## 3. Evolution of Social Policy

Topic	Before 1994	1994-2000	After 2000
Focalization of social policy	<ul style="list-style-type: none"> <li>• Geographically at most (marginalization indices)</li> </ul>	<ul style="list-style-type: none"> <li>• Focalization at household level starts with <i>Progres-Oportunidades</i></li> </ul>	<ul style="list-style-type: none"> <li>• Focalized on poor households <i>and</i> areas with high concentration of poor households</li> <li>• Focalized programs imply a ready-to-respond protection net, in place</li> <li>• Poverty defined and measured by independent institution (CONEVAL)</li> </ul>
Mutual obligations approach	<ul style="list-style-type: none"> <li>• Non-existent</li> </ul>	<ul style="list-style-type: none"> <li>• Starts with <i>Progres-Oportunidades</i></li> </ul>	<ul style="list-style-type: none"> <li>• Key element in all programs</li> </ul>
Transparency and Evaluation	<ul style="list-style-type: none"> <li>• No program evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• Program evaluation starts with <i>Progres-Oportunidades</i></li> </ul>	<ul style="list-style-type: none"> <li>• All programs subject to independent evaluation, by Law</li> </ul>
	<ul style="list-style-type: none"> <li>• No clear Operational Rules</li> </ul>	<ul style="list-style-type: none"> <li>• Operational Rules starts as practice</li> </ul>	<ul style="list-style-type: none"> <li>• Operational Rules mandatory, by Law</li> </ul>
	<ul style="list-style-type: none"> <li>• No public information on beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• No public information on beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Public list of beneficiaries mandated by Law</li> <li>• Federal Transparency and Information Access Law</li> </ul>

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