

TOWARDS A STRONGER AND MORE INCLUSIVE MEXICO

AN ASSESSMENT OF RECENT POLICY REFORMS

Better Policies Series

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BETTER POLICIES FOR BETTER LIVES

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FOREWORD

Under President Enrique Peña Nieto's leadership, Mexico has put together the most ambitious reform package of any OECD country in recent times, forged the political consensus necessary to approve it through the unprecedented *Pacto por México*, promoted these and other reforms in Congress and has started implementing them. The battery of reforms has addressed challenges in policy areas that had been waiting for deep changes for decades, including education, labour, tax, health, telecommunication, and energy and justice, among many others.

It is still early to fully assess the impact of these changes, but some are already starting to bear fruit. The education reform has led to the first evaluations of teachers and a new education model based on global competencies. Labour, tax and social security reforms have helped reduce informality, with more than 3 million formal jobs created since 2012. Thanks to reforms to the health care sector, insurers are co-operating more and households' out-of-pocket spending has fallen. Public awareness campaigns and the introduction of a sugar tax have led to a slowing in the growth of obesity. Reforms to the telecommunication sector have boosted competition. The number of mobile broadband subscriptions more than tripled between 2012 and 2016, while prices declined by up to 75%. The energy reform opened Mexico's energy sector to private investment and competition, securing private investments of almost USD 80 billion. Changes to constitutional rights, the criminal justice system and everyday justice are helping to better meet the needs of citizens and firms.

The OECD has accompanied and supported the Mexican government in the design, development and implementation of many of these reforms. Since 2013, more than 40 publications on Mexico have been launched, analysing the country's challenges and proposing policies to address them. In many cases, these analyses were complemented by hands-on support to implement legislative and institutional changes and make reform happen. This was not only to the benefit of Mexico, but also to the OECD. Through this constant interaction the OECD learned a great deal and improved its capacity to support countries in their reform efforts.

Mexico still faces important challenges. At close to 17%, Mexico's poverty rate is almost twice the OECD average and regional inequalities remain substantial. Productivity growth is low in many sectors and around 30 million people continue to work in informal jobs without access to stable incomes, training opportunities, financial services, health care or pension coverage. And while the share of low-performing students has fallen, Mexico's 15-year-old students still score below the OECD average measured by the OECD's Programme for International Student Assessment. Enforcement of the rule of law remains weak, especially at state and municipal levels, contributing to high levels of crime and insecurity. Mexico has the highest homicide rate in the OECD and only 46% of people feel safe walking alone at night, well below the OECD average of 68%. Corruption is still an important issue, with more than 60% of people believing that government corruption is widespread.

This is why it is crucial for Mexico to continue its reform agenda. It is imperative to strengthen some of the recent reforms, and to keep updating and promoting them to ensure their effective implementation. The OECD stands ready to further accompany Mexico on this path. Together, let us continue to design, promote and implement better policies for better lives in Mexico and worldwide.



Angel Gurría
OECD Secretary-General

TABLE OF CONTENTS

Introduction 1
Fostering the well-being of Mexican people 3
Boosting growth and competitiveness 13
Protecting Mexico's environment 18
Strengthening Mexico's governance systems 21
Further reading 27

INTRODUCTION



MEXICO HAS BEEN A REFORM FRONTRUNNER

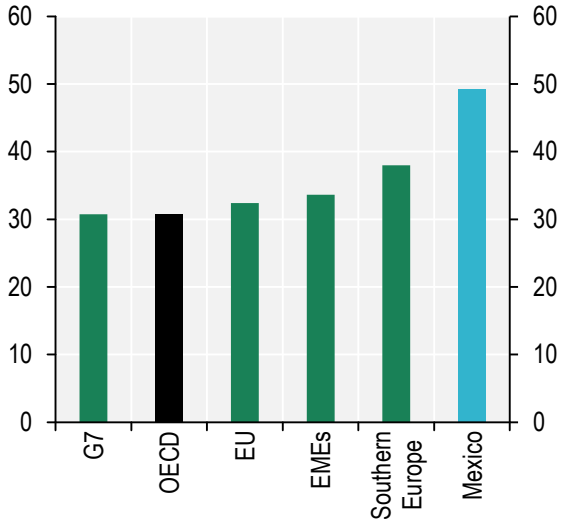
Structural reforms introduced during the administration of President Enrique Peña Nieto have been bold and comprehensive. Over the period 2013-16, Mexico showed one of the highest reform activities among OECD countries (Figure 1.1, panel A). Reform action was triggered by the *Pacto por México*, a historic agreement between the country's three major political parties to put the country back on a path of prosperity after three decades of low growth. Key laws and constitutional amendments were approved. Secondary laws or regulations were passed involving changes in product and labour market regulation and competition policy, as well as measures to improve the efficiency of the tax system. The *Pacto por México* was complemented by reforms aimed at improving the quality of the education and health care systems, enhancing the efficiency of the judiciary system, liberalising the financial sector, strengthening innovation, reducing informality and boosting women's labour market participation.

Mexico's reform intensity over the recent past has been impressive. Each of the reforms has been wide-ranging in scope and is intended to address the main challenges in its respective sector. The OECD was strongly committed to Mexico's reform agenda and supported it in many ways.

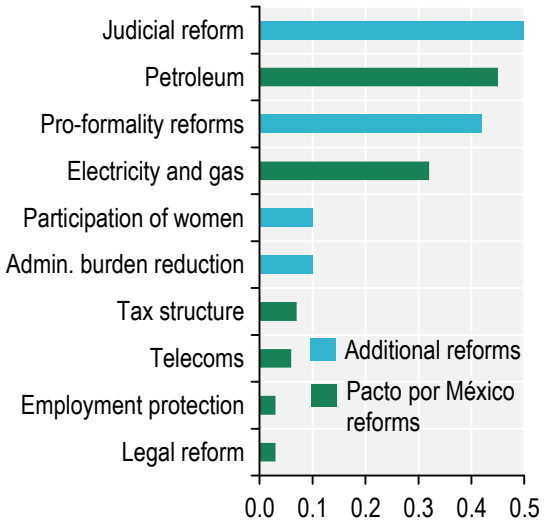
Mexico's ambitious structural reforms and sound macroeconomic policies have ensured the resilience of the highly open Mexican economy in the face of difficult global conditions. Productivity growth has picked up in sectors that have benefitted from reforms, notably energy, finance, and telecommunication. The OECD estimated that a subset of Mexico's reforms could add 2 percentage points to GDP growth after five years (Figure 1.1, panel B). Yet other sectors lag behind, suffering from overly stringent local regulations, weak legal institutions, corruption and insufficient financial development. Productivity growth is also constrained by longstanding social problems, in particular the poor skills level of the workforce and high rate of informality, which traps workers in precarious jobs.

Figure 1.1. Mexico's high reform activity is contributing to better economic performance

A. Share of OECD *Going for Growth* recommendations with significant action taken, 2013-16, in %



B. Expected boost to annual growth on average over the 5 years following reform, in %



Note: Panel A: EU includes OECD member countries that are also part of the EU. EMEs include Brazil, Chile, China, Colombia, Hungary, India, Indonesia, Mexico, Poland, South Africa and Turkey. Southern Europe includes Greece, Italy, Portugal and Spain.

Sources: OECD (2017), Economic Policy Reforms 2017: Going for Growth, http://dx.doi.org/10.1787/growth-2017-en; OECD (2015), OECD Economic Surveys: Mexico 2015, http://dx.doi.org/10.1787/eco_surveys-mex-2015-en.



INTRODUCTION

PROGRESS NEEDS TO BE MORE INCLUSIVE TO IMPROVE THE WELL-BEING OF ALL

Reforms launched over the past five years have laid the foundation for higher prosperity and well-being. Fully implementing these legislative and institutional changes is now crucial. Equipping Mexicans with relevant skills and improving access to good-quality jobs will allow them to fully benefit from productivity-enhancing reforms.

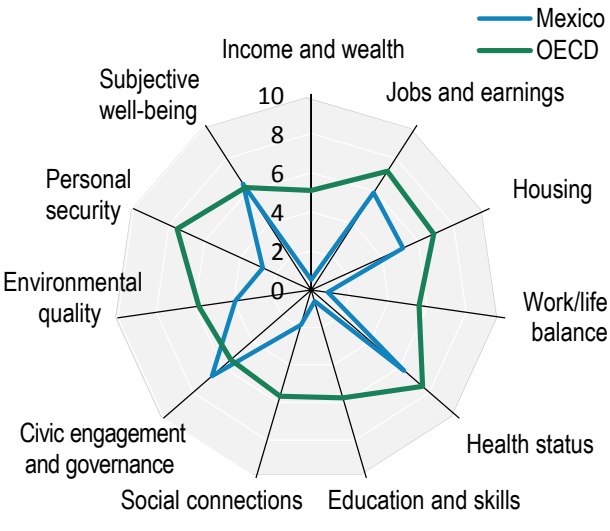
Helped by the reforms, well-being has improved over the last five years. The share of informal workers fell by 3 percentage points, giving more workers, particularly the most vulnerable, access to stable incomes, training opportunities, financial services, health care and pension coverage. Health care and education coverage have improved, as have education outcomes, including for low-performing students.

But inequalities persist, driven by the divergence of a highly productive modern economy in the North and Centre and a lower-productivity traditional economy with small-scale informal firms in the South. Income remains highly concentrated: the richest 20% earn ten times more than the poorest 20%, compared to 5.4 times in the OECD (Figure 1.2, panel A). Despite a fall in extreme poverty, many families remain poor, and the potential for children to do better than their parents lags behind other OECD countries. Mexico has a high share of people suffering from deprivation in many aspects of well-being including skills, social support and security (Figure 1.2, panel B). Regional disparities remain substantial. Living in one of the worst-faring states can mean being four times as likely to be at risk of poverty, seven times as likely to abandon school and seven times as likely to work longer hours for lower pay than people living in the best-faring states.

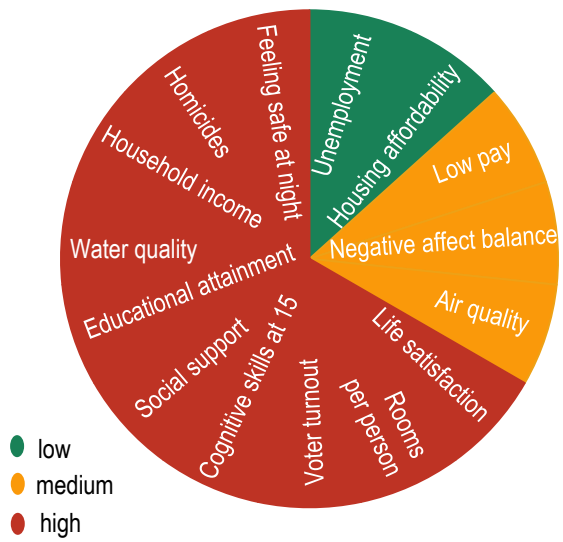
The structural reforms launched under President Peña Nieto were an important step towards a stronger, greener and more inclusive Mexico. Yet a lot of work still lies ahead. Most importantly, legislative and institutional changes now need to be fully implemented, including at the local level. The limited administrative capacity of many state and local governments calls for strong support and monitoring at the national level. Effective reform implementation also requires continued efforts to address institutional bottlenecks, including with respect to the rule of law and corruption. Moreover, for people to fully contribute to higher economic growth, equipping them with good and relevant skills as well as good health is crucial.

Figure 1.2. Efforts to improve the well-being of the Mexican population

A. OECD *Better Life Index*, from 0 (worst) to 10 (best)



B. Share of people living below a certain level of well-being



Sources: OECD (2017), OECD Better Life Index 2017, www.oecdbetterlifeindex.org; OECD (2017), How's Life? 2017: Measuring Well-being, http://dx.doi.org/10.1787/how_life-2017-en.



REFORMS HAVE HELPED REDUCE POVERTY, THOUGH IT REMAINS HIGH

Mexico's 2013-18 National Development Plan significantly increased social spending and improved the targeting of government transfers. The conditional cash transfer programme *Prospera* is now better linked to educational services, vocational training, formal employment opportunities and formal banking, promoting the self-sufficiency of beneficiaries. The minimum age of the social pension was lowered to include those aged 65 and above. While this guarantees a minimum income level, the benefit level is still below the extreme poverty line.

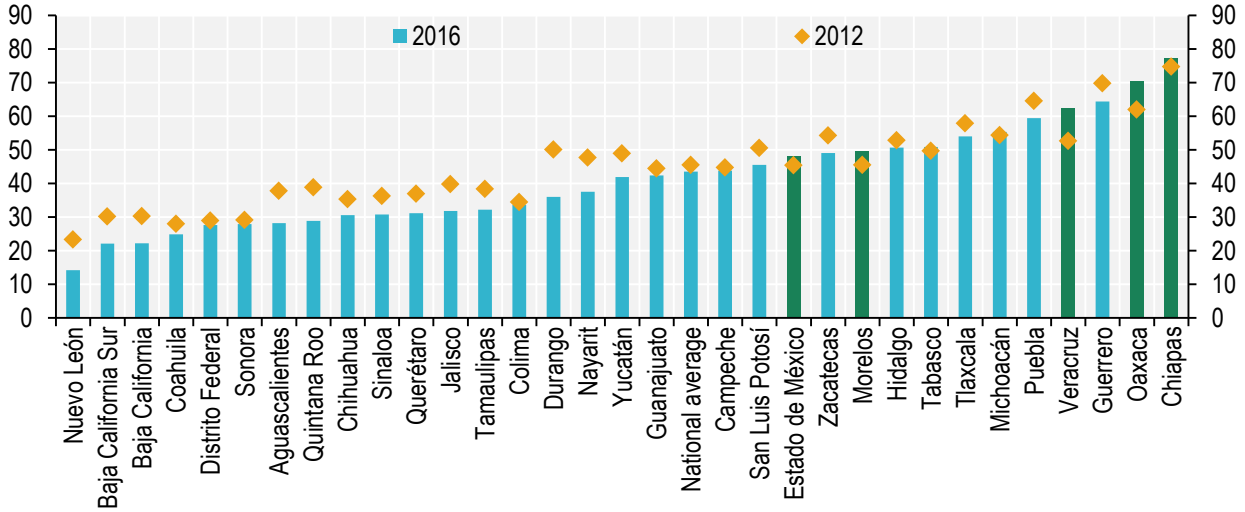
Working with SEDESOL, the OECD is supporting Mexico in assessing progress over the past 25 years along the various dimensions of poverty and identifying areas where further progress is needed.

Helped by these reforms and Mexico's National Inclusion Strategy, the share of people living on less than 50% of the median income fell by 2 percentage points during 2012-14. The poverty rate is still almost twice the OECD average, however, with children and the elderly most affected. Poverty rates differ markedly across states. The share of people living on less than 50% of median income ranges from 6.8% in Nuevo León to 50% in Chiapas. A broader measure of poverty that considers non-income dimensions of well-being confirms these regional differences (Figure 2.1). While multidimensional poverty decreased in 25 out of 31 Mexican states and Mexico City between 2012 and 2016, it increased further in states that already had the highest prevalence of poverty. To address regional disparities, the Federal Law on Special Economic Zones was passed in 2016 to foster economic development in Mexico's poorest states. Mexico is one of the few OECD countries to have experienced a decline in income inequality during the 1990s until the mid-2000s, although the level of inequality has since stagnated and remains one of the highest in the OECD.

To further reduce poverty and inequality, social programmes and financing must be strengthened, consolidating recent achievements. Policy strategies must be comprehensive and targeted at specific states. A common database on a single technological platform may help improve co-ordination between levels of government and enhance the targeting of social programmes. In addition, efforts must ensure the equal participation of disadvantaged groups, including indigenous people.

Figure 2.1. Poverty has fallen in most Mexican states

Poverty rate in %, measured along eight dimensions of well-being



Note: States with a fall (rise) in poverty are marked in blue (green). The eight well-being dimensions are household income, education, housing quality, social cohesion, access to health services, security, housing services and food. For details, see http://www.coneval.org.mx/SalaPrensa/Comunicadosprensa/Documents/Comunicado-09-medicion-pobreza-2016.pdf.

Sources: National Council for the Evaluation of Social Development Policy (CONEVAL) based on MCS-ENIGH 2010-14 and Modelo Estadístico 2016 para la continuidad del MCS-ENIGH (MEC 2016).



MEXICO HAS MANAGED TO REDUCE THE SHARE OF LOW PERFORMERS IN ITS EDUCATION SYSTEM

Mexico's education reform is well-aligned with previous OECD policy recommendations. They include putting students and schools at the centre of the education system, implementing a new curriculum and raising the quality of the teaching profession.

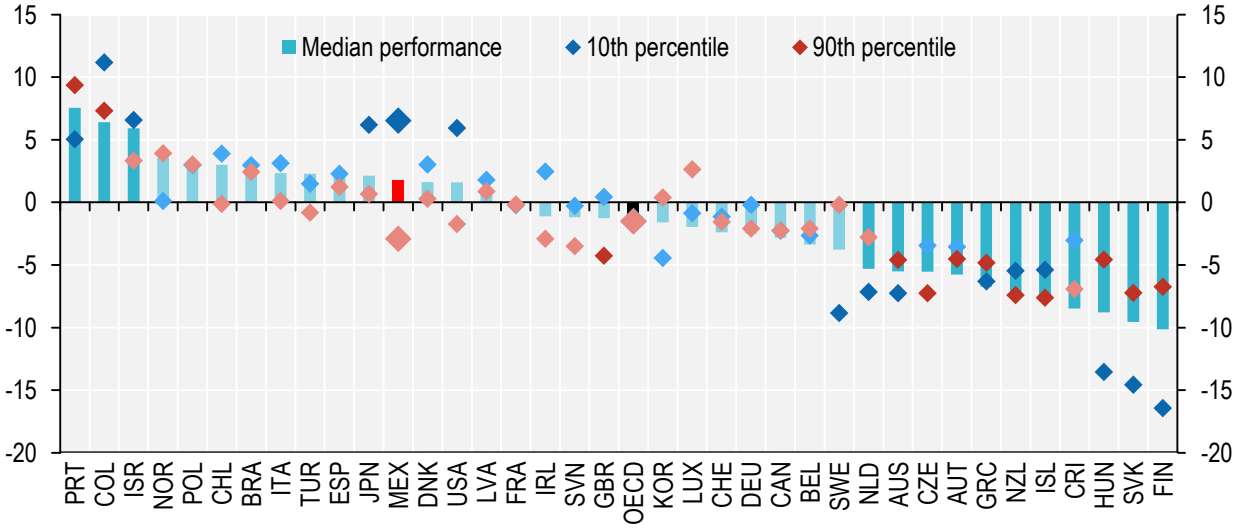
Mexico has made significant progress in improving the coverage and quality of its education system. Today, nearly all children between the ages of 4 and 14 are in school. President Peña Nieto's ground-breaking constitutional reform improved the education system by advancing an agenda with a common basic goal: putting students and schools at the centre of the system to improve learning outcomes. Mexico has been working towards this goal by improving school environments, investing in more and better infrastructure, refining evaluation and assessment practices, fostering equity and inclusion, and raising the quality of the teaching profession. Mexico's new education model was introduced in 2017 with the aim of ensuring that children receive a quality education that prepares them for 21st-century challenges.

While some 48% of students in Mexico are low performers in science (meaning they did not achieve Level 2 in the OECD's Programme for International Student Assessment [PISA]), this group showed an average improvement of 7 score points every three years between 2006 and 2015 (Figure 2.2). It is noteworthy that Mexico was able to make this progress while increasing access to education: the total population of 15-year-olds enrolled in grade 7 or above since 2003 has increased by 300 000, of which 60 000 have been added just since 2012.

Mexico should continue improving access to education, reducing its share of low-performing students and working to raise the number of high-performing students, as this also remains behind the OECD average. Mexico's 15-year-old students still consistently score below the OECD average across all domains measured by PISA. Large performance and completion gaps persist, especially for students with indigenous and low socio-economic backgrounds.

Figure 2.2. Mexico has seen improvements among its lowest performers

Average three-year trends in PISA scores in science



Note: Statistically significant differences are marked in a darker tone. The average three-year trend is the average rate of change per three-year period between the earliest available measurement in PISA and PISA 2015. For countries and economies with more than one available measurement, the average three-year trend is calculated with a linear regression model.

Source: OECD, PISA 2015 Database, www.oecd.org/pisa/data/.



EDUCATION AND TRAINING HAVE BECOME MORE RELEVANT TO THE WORLD OF WORK

While Mexico has made progress at the educational level, young people also need the right mix of skills to keep abreast of changing labour market needs and succeed in adult life. To raise the skills of its youth population, Mexico made upper secondary education compulsory in 2012 with the goal of attaining universal coverage by 2021. Enrolment rates in upper secondary and tertiary education have seen impressive increases, but this progress has not been equitable. The share of Mexican adults with upper secondary and tertiary education remains below the OECD average (Figure 2.3). Moreover, upper-secondary drop-out rates are very high. This leaves the country with a comparatively low-skilled workforce.

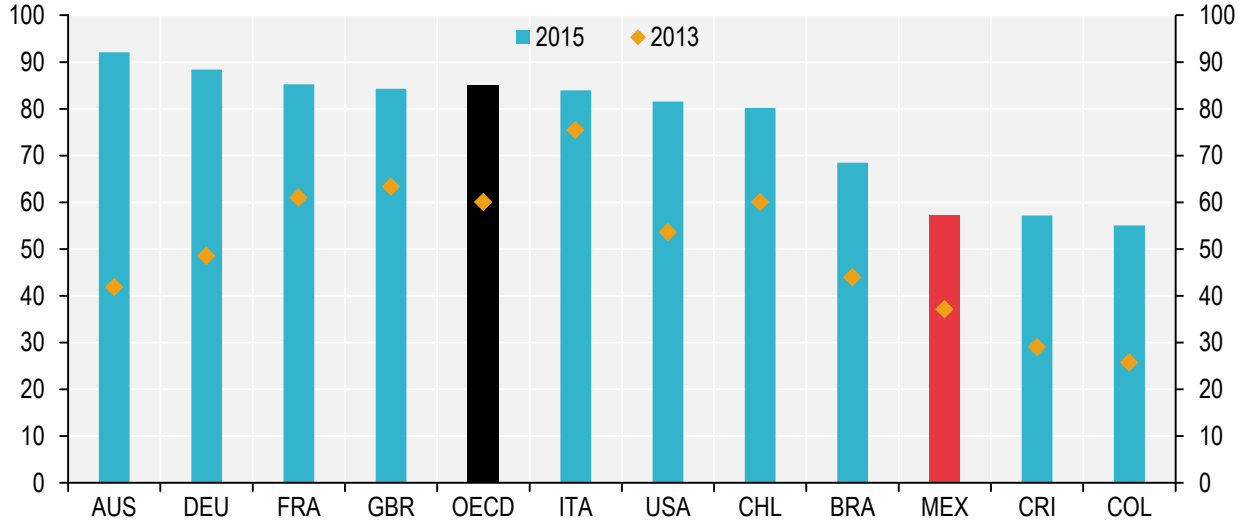
The OECD Skills Strategy project provided an extensive diagnosis and 11 specific recommendations as inputs to Mexico's long-term skills development strategy.

Raising educational attainment alone will not be enough. Skills must also be relevant to the needs of the labour market. To improve the labour market relevance of its education and training system, Mexico has expanded private sector involvement, increased the number of apprenticeships, and raised the supply of training and vocational programmes. The labour reform enhanced the certification of skills and led to the creation of commissions to promote training. Mexico has also been encouraging young people to pursue careers and research in science, technology, engineering, and mathematics (STEM) fields, in line with labour market developments. In 2016, one quarter of adults with tertiary education had a degree in one of these fields, on par with the OECD average.

Closing the gap between the supply and demand of skills requires co-ordinated efforts among different ministries and various stakeholders. In particular, strong commitment by businesses to invest in their workers is needed. The National Productivity Committee (NPC) was created to help facilitate this co-ordination by aligning skills policies with industry needs. The NPC's mandate includes co-operation with subnational authorities. In addition, tackling skills imbalances requires up-to-date and high-quality information on skills needs to guide training provision and career choices.

Figure 2.3. Participation in upper secondary education is rising, but is still below the OECD average

Enrolment rates of 15-19 year-olds, 2015



Source: OECD, Education at a Glance 2017 Database, http://stats.oecd.org.



INFORMAL EMPLOYMENT IN MEXICO IS DECREASING

The OECD supported Mexico in its endeavour to address informality through various editions of its *Economic Surveys on Mexico*, published every two years. The 2011 edition included a special chapter on informality. Moreover, the topic was also discussed in the 2013 *Getting it Right* report.

While informality remains high, Mexico has made progress over the past five years, reducing the proportion of informal workers from 59.6% in the last quarter of 2012 to 56.5% by the end of the first half of 2017 (Figure 2.4, panel A). Over 3 million formal jobs were created, with almost a quarter of them going to young people. Informality is concentrated in very small informal firms (which employ more than half of Mexico's informal workers) and in the South. It is associated with low productivity, as resources remain trapped in informal activities and are not used in more productive ones (Figure 2.4, panel B). Furthermore, workers in informal firms tend to receive less training and are less likely to accumulate human capital. They also suffer from lower job quality along several dimensions, including pay, labour market security and quality of the working environment.

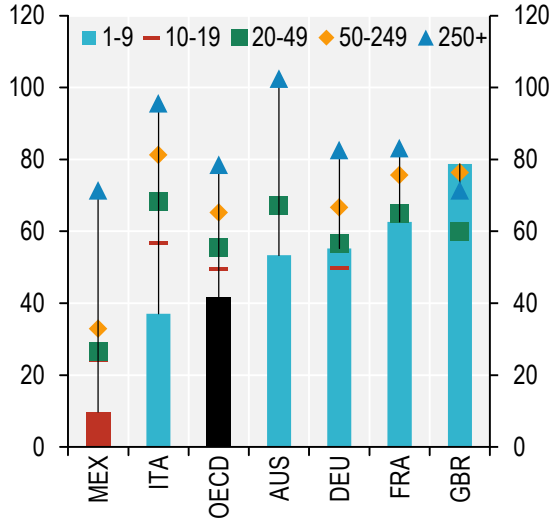
The decline in informality was helped by a number of reforms. The government stepped up supervision for firms with 50 or fewer employees. It introduced labour, tax and social security reforms, simplifying tax compliance and substantially reducing personal, social security, value added and excise tax obligations for the first decade of firms' operation. These reforms, which include incentives to help new firms expand (including access to government-backed financing and training and a series of electronic tools to simplify tax compliance), have induced 1.5 million informal firms to join the tax system since 2014. There are still many efforts to be taken to help achieve the goals of these reforms, for instance by increasing awareness and information about how to make the best out of the social security regime for incorporation. Going forward, Mexico could also consider extending and further enhancing regulation and supervision to reduce state-level informality.

Figure 2.4. Informality remains high, constraining productivity

A. Incidence of informal employment, % of total employment



B. Productivity of micro-enterprises, in thousand USD, current PPP, 2014 or latest available year



Note: Panel A: The informality rate is the percentage of employed people not covered by social security or working in unregistered economic units. Panel B: Value added per person employed. MEX data refer to establishments.

Sources: Encuesta Nacional de Ocupación y Empleo Informalidad Laboral; Tasas de informalidad trimestral; OECD SDBS Database, http://stats.oecd.org.



TAX REFORM HAS CONTRIBUTED TO BETTER EQUALITY

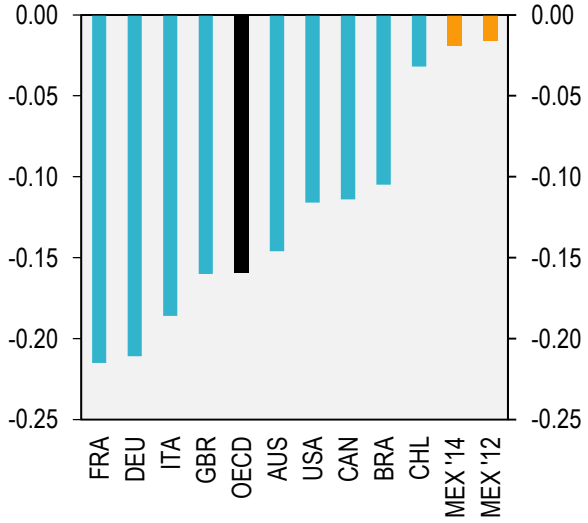
In October 2013, Mexico introduced an ambitious tax reform which took effect the following year. Many of the changes were aligned with OECD tax policy recommendations. The top personal income tax rate was raised to 35%, and limits were imposed on tax deductions. A capital gains and dividend tax of 10% was also introduced. In terms of corporate taxation, limits on depreciation allowances were imposed and an alternative tax regime was eliminated. A number of loopholes and exemptions that allowed for accelerated deduction of investment expenses were removed or reformed. The preferential tax treatment of *maquiladoras* was revised to make it more neutral. Consumption taxation was broadened by abolishing reduced VAT rates in the border regions, and special exemptions for *maquiladoras* were removed. Mexico also introduced a tax on high-caloric foods and sweetened beverages.

The OECD provided the Mexican government with various assessments of the strengths and weaknesses of the country's tax system. The OECD also contributed with tax-related technical advice.

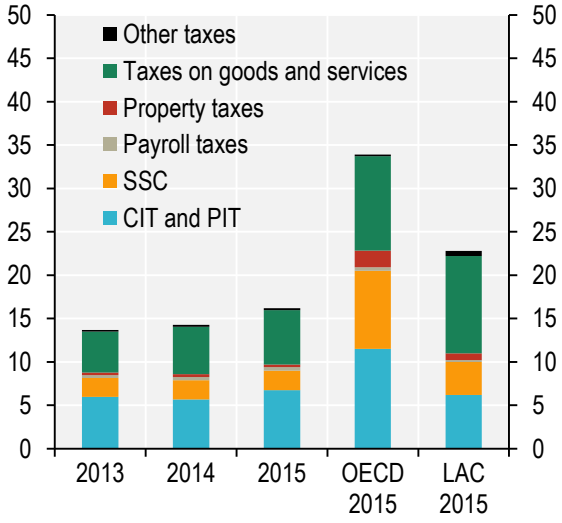
The tax reform helped increase the redistributive effect of the tax and transfer system (Figure 2.5, panel A). Before the reform, Mexico's tax and transfer system was least effective among OECD countries in reducing income inequality. Even after the reform, income inequality remains above the OECD average, suggesting that further reforms will be needed. The tax reform also contributed to higher tax revenues. Total tax revenues increased by more than 2.5 percentage points between 2013 and 2015 (Figure 2.5, panel B), with taxes on goods and services (+ about 1.5 percentage points) and corporate and personal income taxes (+ about 0.8 percentage points) recording the largest increases. Nevertheless, tax revenues remain low when compared to OECD countries and other countries from Latin America and the Caribbean.

Figure 2.5. The 2013 tax reform has made the tax system slightly more redistributive and contributed to higher tax revenues

A. Change in Gini coefficient before and after taxes and transfers, 2014



B. Tax revenues as a percentage of GDP



Note: In panel B, SSC denotes social security contributions, CIT corporate income taxes and PIT personal income taxes. The numbers do not include oil royalties, which are classified as non-tax revenues and amounted to 4.6% of GDP in Mexico in 2015.

Sources: OECD et al. (2017), Revenue Statistics in Latin America and the Caribbean 2017, http://dx.doi.org/10.1787/rev_lat_car-2017-en-fr; OECD (2017), Revenue Statistics 2017: Tax revenue trends in the OECD, http://www.oecd.org/tax/tax-policy/revenue-statistics-highlights-brochure.pdf; OECD Income Distribution and Poverty Database, www.stats.oecd.org; Mexican Ministry of Finance (SHPC); Commitment to Equity Institute data for Mexico and Brazil, www.commitmentoequity.org.



MEXICO MUST KEEP WORKING TO REACH GENDER EQUALITY

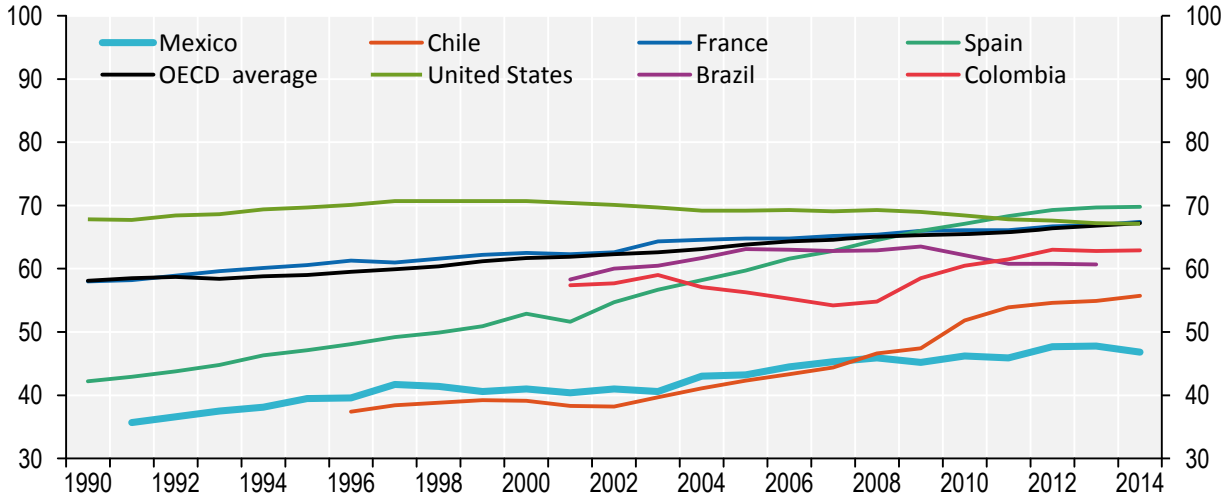
To help Mexico promote gender equality and the empowerment of women in economic and public life, the OECD prepared the 2017 review *Building an Inclusive Mexico: Policies and Good Governance for Gender Equality* in collaboration with the National Women's Institute(INMUJERES).

In recent years Mexico has enacted good policies to close gender gaps in labour market outcomes. Gender equality budgets are being increased, with major resources dedicated to advancing women's economic autonomy. In the framework of the new educational model, public scholarships are keeping more girls in upper secondary school, and the Ministry of Education has made it a priority to inspire girls and young women to study science, technology, engineering, and mathematics (STEM) fields, as evidenced by the *NiñaSTEM Pueden* initiative. The increase in the quantity and quality of childcare centres, such as the Ministry of Social Development's *Estancias Infantiles,* are giving mothers more childcare options – a key tool for improving women's labour force participation. Programme changes to *Prospera* are helping to better link recipient mothers to the labour market. In 2017, financial sector regulation was changed to enhance women's participation in boards and decision-making positions in companies listed on the Mexican Stock Exchange. Moreover, women's access to financial services was improved by strengthening the National Development Banking programmes, especially for women living in poverty and in vulnerable conditions.

While these are steps in the right direction, Mexico still has a long way to go on the road to gender equality. At 16.5%, the gender gap in earnings for full-time employees was still substantial in 2016. Women make up a majority of all graduates with bachelor degrees (54%), and a very slight minority of doctoral graduates (48%). Although the labour force participation of women keeps rising (Figure 2.6), Mexico continues to have the second-largest gender employment gap in the OECD. Among women who work, more than half hold informal jobs and women perform over 75% of all unpaid housework and childcare. Mothers, in particular, have a difficult time engaging in paid work due to insufficient good-quality and affordable childcare options (even if availability has improved in recent years). Violence against women is also a major problem. In 2016, 34% of women aged over 15 years had experienced physical violence at least once in their lifetime according to Mexico's National Institute of Statistics and Geography, and 41% of women over 15 years had experienced sexual violence at least once in their lifetime.

Figure 2.6. Mexican women's labour force participation rate is improving, but still lags behind most of the OECD

Labour force participation rates for women aged 15 to 64



Source: OECD (2017), Building an Inclusive Mexico: Policies and Good Governance for Gender Equality, http://dx.doi.org/10.1787/9789264265493-en.



WOMEN'S PARTICIPATION IN PUBLIC BODIES IS RISING

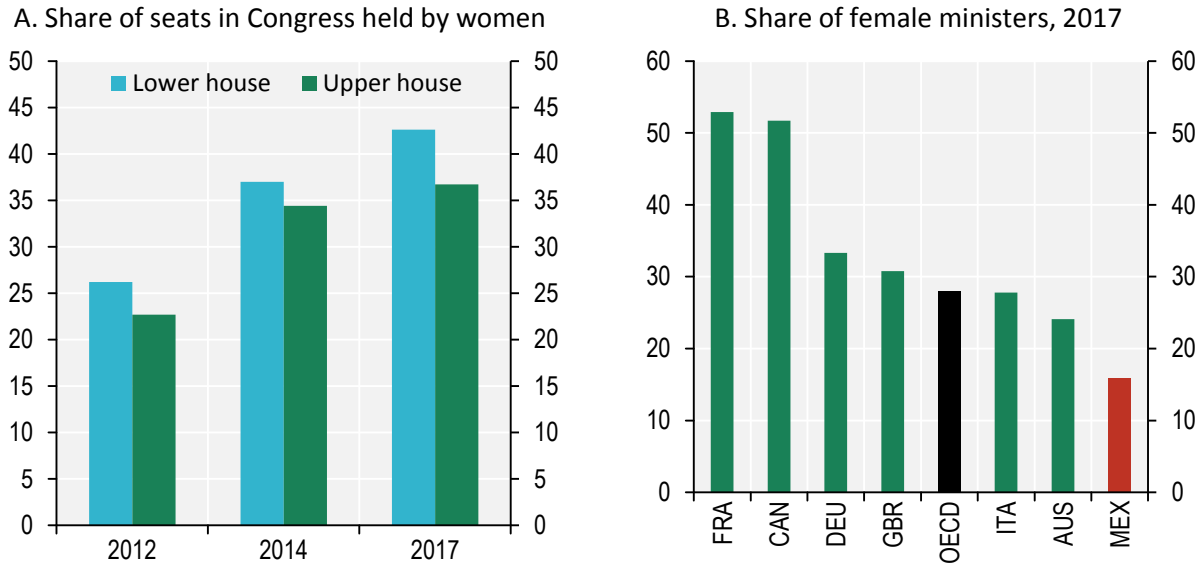
Since 2013, important reforms have been initiated – notably by the Presidency and INMUJERES – to advance gender equality in public institutions. Major steps include the incorporation of a gender perspective in the National Development Plan 2013-18, the 2013-18 National Programme for Equal Opportunities and Non-Discrimination against Women, and a 2014 electoral reform introducing gender parity. Thanks to these reforms, Mexico has made significant progress in increasing women's representation in Congress (Figure 2.7, panel A), placing itself among the top OECD countries in terms of women's representation in the national legislature. Women made up 42.6% of seats in Mexico's Chamber of Deputies in 2017, up from 26.2% in 2012 (Figure 2.7, panel A) and well above the OECD average of 28.8%.

The OECD supported Mexico's quest for greater gender equality through the *2015 OECD Recommendation on Gender Equality in Public Life* and the *2013 OECD Recommendation on Gender Equality in Education, Employment and Entrepreneurship*.

But Mexico still falls short of meeting its constitutional commitment to parity. Only 16 of 56 ordinary commissions in the Chamber of Deputies were presided over by women in 2016. Women still hold far fewer political decision-making positions in the executive branch than their male counterparts. At the federal level , only three of 19 (15.8%) ministerial positions were held by women in 2017, lower than in 2012 (21.1%) and lower than the OECD average (27.9%; Figure 2.7, panel B). While Mexican women are well represented in the Mexican Federal Public Administration (accounting for 51% of public employees in 2016), they fill only one-third of managerial positions. The same applies to the judiciary branch, where women occupied only 2 out of 11 seats in the Supreme Court in 2015.

To tackle the barriers faced by women in public decision-making positions, including political harassment and violence against women, sexual harassment and difficulties in balancing professional and personal life, Mexico created the Mexican Standard on Labour Equality and Non-Discrimination. This certifies public and private workplaces, including with respect to women's representation in decision-making. Mexico needs to continue embedding gender equality considerations in all government actions, including policies, budgets, services and internal working processes.

Figure 2.7. Women's participation in public life has increased, but further efforts are needed



Sources: OECD (2017), Building an Inclusive Mexico: Policies and Good Governance for Gender Equality, http://dx.doi.org/10.1787/9789264265493-en; Inter-Parliamentary Union (IPU) PARLINE Database; IPU and UN Women, Women in Politics Map, 2017.



MEXICO IS ADVANCING TOWARDS A HIGH-PERFORMING HEALTH SYSTEM

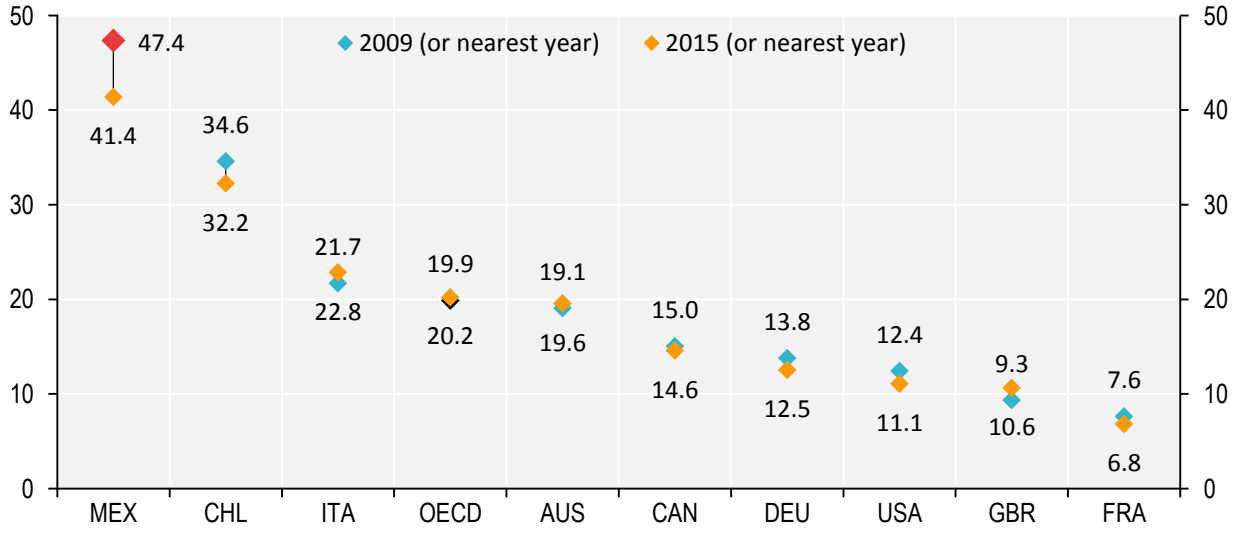
The OECD's 2016 *Health System Review of Mexico* identified steps that Mexico can take in the short and medium term to build a more equitable, efficient and sustainable health system.

Mexico has made progress in creating a healthier society and building a more efficient and equitable health system. Public health campaigns have been very successful. The growth in obesity is slowing, and the share of heavy drinkers and smokers is substantially lower than in most other OECD countries. A campaign to vaccinate against influenza reached 82% of Mexicans aged over 65, far exceeding the OECD average of 43%. A fundamental challenge is that Mexican health care is provided through a cluster of disconnected subsystems. Efforts to restructure the public health system around patients' needs are slowly bearing fruit. Health care insurers are co-operating more, developing shared standards and indicators of the quality of care. More service-exchange agreements among public institutions are being signed, allowing patients from one insurer to use the clinics of another. In 2016, the National Agreement towards the Universalisation of Health Care Services was adopted, seeking universal coverage, exchange of services and joint planning of infrastructure among public health care service providers. Most importantly, out-of-pocket spending is falling, meaning that insurance is improving (Figure 2.8).

Much remains to be done, however. Health outcomes in Mexico are, in general, worse than in other OECD countries. The gap in life expectancy between Mexico (75.0 years at birth) and other OECD countries (80.6 years on average) remains wide. The chances of surviving a heart attack or stroke are the lowest in the OECD. Children with leukaemia are also much less likely to survive in Mexico than in other OECD countries. More investment is needed to bring health care spending (per capita and as a percentage of GDP) closer to OECD averages. In 2016, Mexico spent just 5.8% of GDP on health care, compared to the 9.0% OECD average. Despite improvements, access to services remains far from equal, with different levels of service between subsystems and individuals' out-of-pocket spending on health care among the highest in the OECD, signalling a failure of current arrangements to provide effective insurance or deliver high-quality services that people want to use. Further structural reform can help reduce differences across the various subsystems and improve equity. Most urgently, concerted effort to improve the quality of care is needed.

Figure 2.8. Out-of-pocket health spending has fallen, but is still very high by international comparison

Change in out-of-pocket expenditure as a share of total expenditure on health



Source: OECD Health Statistics 2017, OECD National Accounts Database, http://stats.oecd.org.



A MULTISECTORAL STRATEGY HOLDS PROMISE TO REDUCE OBESITY

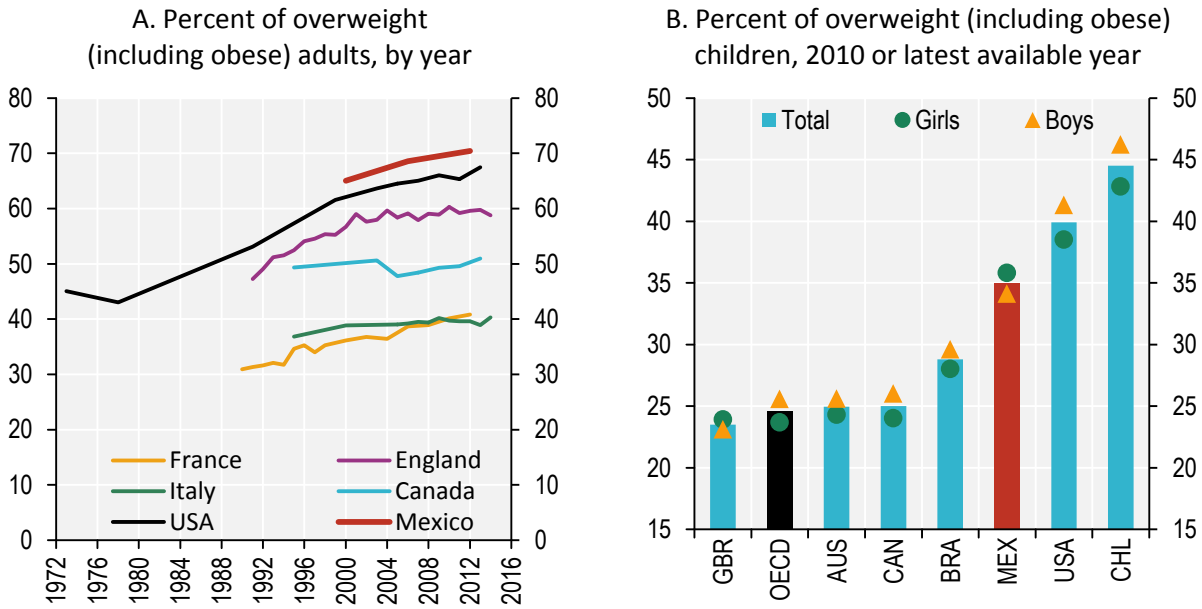
Mexico's low life expectancy relative to other OECD countries is in part due to harmful health-related behaviours such as poor nutrition and high obesity rates (Figure 2.9). Mexico has the second highest obesity prevalence worldwide, with more than one person in three considered obese. Mexico ranks fourth in adolescent obesity among OECD countries.

Mexico's multisectoral strategy to address obesity rates is based on three pillars: public health, medical care, and sector regulation. In particular, the country has introduced measures to increase public and individual awareness of obesity and associated non-communicable diseases. A national programme on healthy eating and physical activity focusses on health promotion and communication. It updated nutritional criteria and guidelines for food and beverages in schools at the national level and enforced strict norms in advertisements targeted at children. It also established specialised obesity and diabetes management units, and addressed legal and fiscal aspects of overweight and obesity. Most famously, in January 2014, Mexico implemented a new tax of 8% on non-essential food with an energy density equal or exceeding 275 Kcal per 100 grams, and 1 peso (EUR 0.06) per litre on sugar-sweetened beverages. The tax was fully incorporated into the final consumer price.

Recent evaluations revealed that purchases of taxed beverages decreased at annual rates between 5.5% and 12% in the first two years after implementation, and taxed food between 5.1% and 10.2% in the first year after implementation. Households at the lowest socio-economic level, which have the highest overweight and obesity rates, reduced their purchases of taxed beverages the most in both years. This suggests that in addition to the effect on purchasing behaviour among households sensitive to price increases, the tax may, together with other measures, contribute to positive health outcomes in the long run.

Mexico is committed to fighting obesity across generations. The OECD's 2010 *Fit not Fat* publication and regular *Obesity Updates* provide comparative statistics and analyses of the impacts of different health interventions.

Figure 2.9. Obesity remains an important issue in Mexico



Source: OECD (2017), Obesity Update 2017, www.oecd.org/health/health-systems/Obesity-Update-2017.pdf.



FINANCIAL REFORM IS CONTRIBUTING TO A MORE INCLUSIVE MEXICO

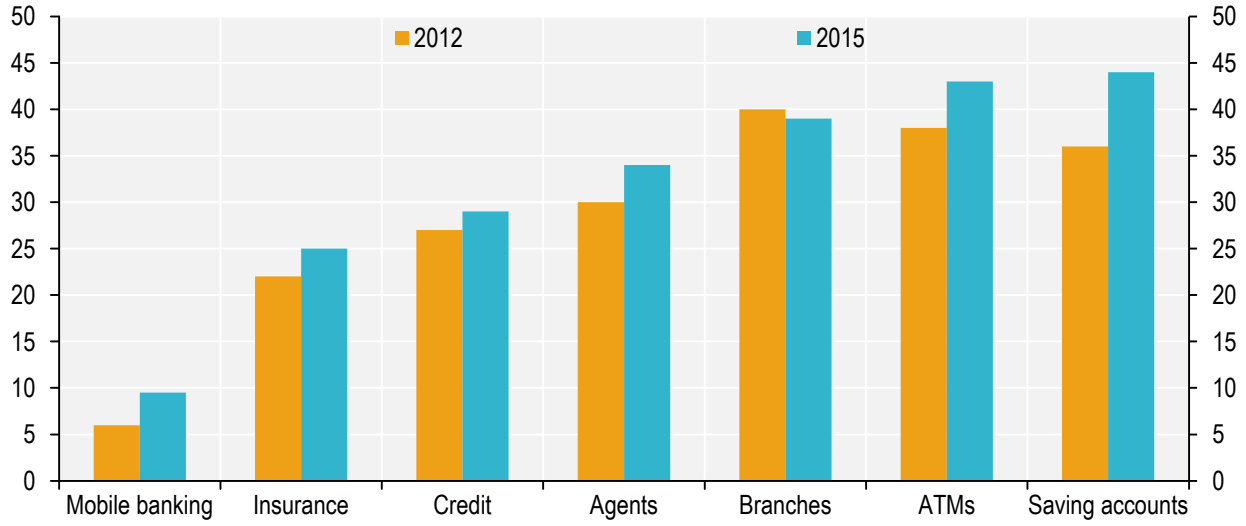
Mexico's financial sector reform was supported by assessments contained in various editions of OECD *Economic Surveys*. The 2017 edition included a dedicated section on financial inclusion. The 2016 *Pension Review of Mexico* examined, amongst other measures, policy options to increase financial literacy.

A financial sector that lacks scope and breadth not only constrains productivity but also limits the role that consumption and investment smoothing can have in tempering macroeconomic volatility. In 2014, Mexico initiated financial sector reforms aimed at strengthening the regulatory environment, increasing competition, and lowering the costs of borrowing for small and medium-sized enterprises. Reforms also set out to improve Mexico's financial inclusion. Financial inclusion is not only causally related to growth but is also associated with increased levels of self-employment and entrepreneurship, household consumption, and the empowerment of women. Launched in 2014, the Integral Programme for Financial Inclusion provides financial education, credit, programmed savings, insurance and other products and services to beneficiaries of social programmes. In 2016, Mexico's National Financial Inclusion Strategy was finalised.

Thanks to these reforms, the level of credit formalisation has improved, household and corporate sector credit has increased, and the share of people using financial services and financial access points has risen (Figure 2.10). There is still a long way to go, however, as there are still important differences in the accessibility of financial services and access points across Mexican municipalities.

Figure 2.10. Use of financial services and access points has increased

Percentage of adults using a particular financial service or access point



Source: OECD (2017), OECD Economic Surveys: Mexico 2017, http://dx.doi.org/10.1787/eco_surveys-mex-2017-en.



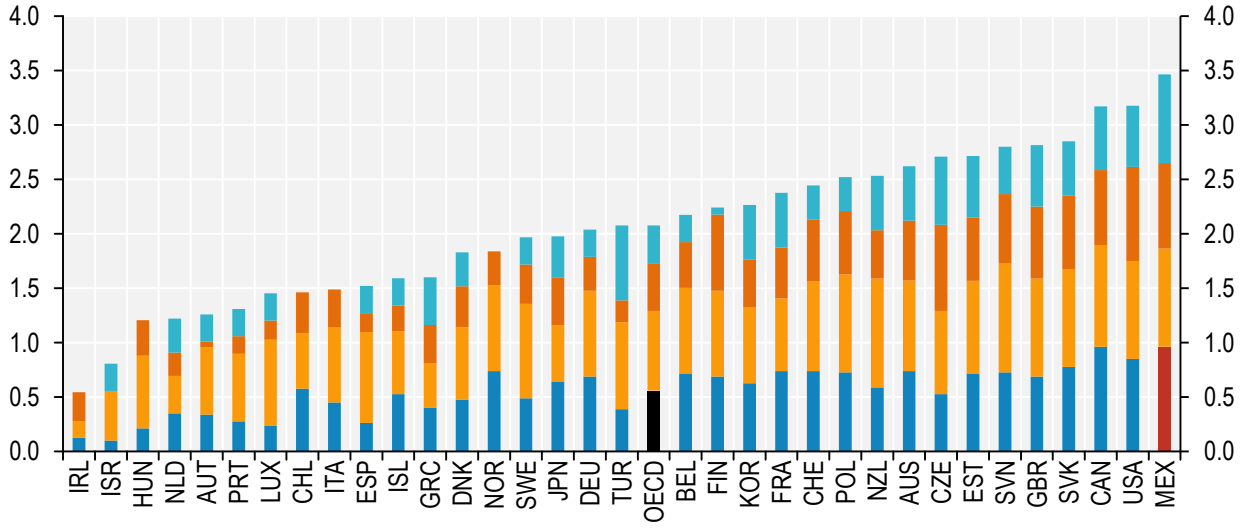
MEXICO HAS STRENGTHENED ITS REGULATORY FRAMEWORK

Mexico's actions to strengthen regulatory management are consistent with the recommendations made by the OECD in its 2014 *report on Regulatory Policy in Mexico*. The OECD is also supporting regulatory reform by analysing regulatory barriers to competition in several sectors of Mexico's economy and by working directly with subnational governments to strengthen their regulatory frameworks.

To boost economic growth, Mexico embarked on an aggressive programme to reduce administrative burdens (i.e. the time in monetary terms necessary for citizens and businesses to comply with formalities) by 36%, which was finalised by the end of 2016. The government also launched an ambitious initiative to promote regulatory quality at the subnational level. The *Justicia Cotidiana* programme directly engages the federal government with state and municipal governments to simplify business licenses and construction permits, implement commercial oral trials, reduce local administrative burdens and diagnose regulatory reforms in key sectors. A constitutional reform to establish a national policy on better regulation was approved in February 2017. In addition, the system of *ex ante* impact assessment of draft regulations and public consultation in Mexico is performing at a high standard, ensuring that regulations are aligned with their public policy objectives and promote economic activity. Public consultation in this process ensures that stakeholder views are taken into account and helps to gather evidence for effective policy-making. According to the *OECD Regulatory Policy Outlook 2015*, Mexico's stakeholder engagement in the rule-making process is one of the most sophisticated in the OECD (Figure 3.1).

At the same time, challenges such as continuing and deepening efforts to improve regulatory quality at all levels of government remain. A recent assessment by Mexico's Coordinating Council of Businesses rates the average performance of states on regulatory improvement policy at 1.77 and that of municipalities at 1.05 on a maximum scale of 5. The general law derived from the constitutional reform on regulatory improvement remains to be discussed and approved by Congress. In addition, Mexico could further strengthen its consultation system by systematically consulting stakeholders early on to gather opinions on the nature of problems and potential solutions, including through the use of "green papers". Thresholds should be used to trigger *ex post* evaluations of all major regulations and not only technical ones, as is currently the case.

Figure 3.1. Mexico excels in stakeholder engagement practices
Stakeholder engagement in developing subordinate regulations



Note: The vertical axis represents the total aggregate score across the four separate categories of the composite indicators. The maximum score for each category is 1, and the maximum aggregate score for the composite indicator is 4.

Source: OECD Regulatory Indicators Survey 2014, www.oecd.org/gov/regulatory-policy/measuring-regulatory-performance.htm.



REFORMS HAVE STRENGTHENED COMPETITION LAW ENFORCEMENT

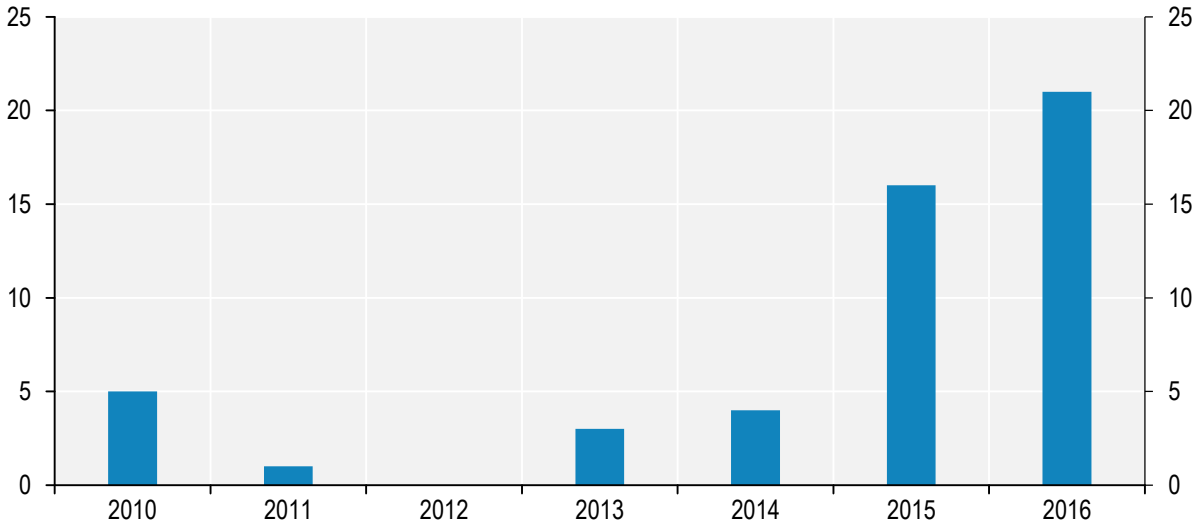
The OECD helped the Mexican government strengthen competition law enforcement through an in-depth analysis of the strengths and weaknesses of the country's competition policy framework presented in its 2012 *Better Policies Series* report. An ongoing OECD project with COFECE aims at further increasing the effectiveness of the agency's actions.

In 2013, Mexico's Federal Economic Competition Commission (COFECE, in charge of all sectors except telecommunications) was strengthened and transformed into a constitutionally autonomous body with the power to regulate access to essential facilities and remove barriers to competition through broad market investigation powers. The independence, reformed judicial oversight and increased budget followed OECD recommendations and enabled the authority to enhance implementation of recently acquired powers to make "dawn raids", unannounced site inspections to search for documents. The 2013 reforms also established the Federal Institute of Telecommunications, an independent entity for the regulation of telecommunications, including competition law enforcement.

Absolute monopolistic practices are often considered as the highest crime under competition law. They encompass a broad spectrum of wrongdoing stemming from companies agreeing with each other in order to restrict competition. Agreements can focus on price, quantity, market allocation and other key facets of competition. Preventing such conduct is important, as such practices have been shown to increase average prices between 20% and 30%. The successful prosecution of economic cartel cases is time-consuming and depends on clear and convincing evidence. While the number of cases leading to charges has not increased substantially in the last few years (which is understandable, as cases often take three or more years to investigate), the number of dawn raids has increased substantially (Figure 3.2). The 2013 reforms have therefore yielded substantial benefits for competition law enforcement in Mexico.

Figure 3.2. The number of dawn raids increased significantly following the 2013 reforms

Unannounced site inspections conducted by COFECE, by year



Source: Mexican Federal Economic Competition Commission (COFECE).



MEXICO HAS RECOGNIZED THE IMPORTANT ROLE OF SMALL AND MEDIUM-SIZED ENTERPRISES FOR INCLUSIVE GROWTH

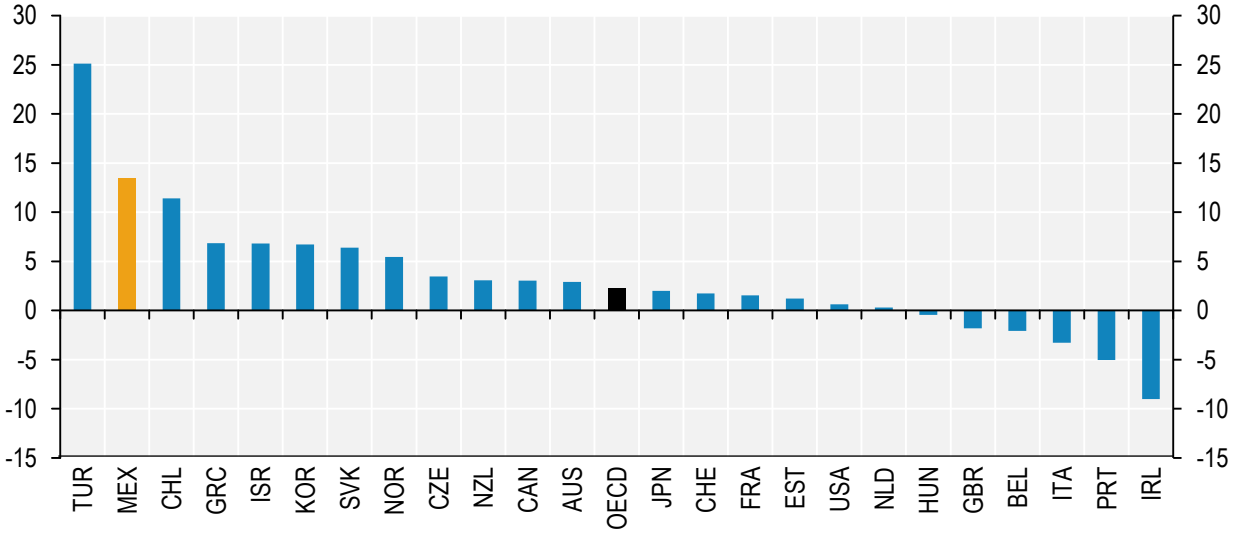
The OECD advised the Mexican government on its strategic approach to SME policy and provided comparative analyses of good practices for enhancing productivity in small enterprises in traditional sectors.

Small and medium-sized enterprises (SMEs) are at the centre of Mexico's Programme to Democratise Productivity, a range of reforms which have contributed to a better business environment (Figure 3.3). Early in its mandate, the Peña Nieto administration established the National Institute of the Entrepreneur (INADEM), responsible for the design, co-ordination and implementation of federal SME and entrepreneurship policies. The creation of INADEM has helped to improve the coherence of SME policies and increase government attention to new and small business development. Moreover, Mexico's efforts to increase transparency in its Entrepreneur Fund – the main source of programme funding for SMEs – constitute a best practice and are in line with the recommendations of the OECD's 2013 review of SME and entrepreneurship policies in Mexico. For example, project proposals are selected by an independent evaluation panel according to clear and publicly available selection criteria, and the names of government-supported enterprises are published online. In 2017, the Entrepreneur Fund was ranked at the top of Mexico's Index of Performance of Federal Public Programmes.

Mexico's SME policy has focused both on boosting productivity in very small enterprises in traditional industries (e.g. retail trade), and on fostering high impact entrepreneurship. In the first case, policy support has taken the form of business incubators for basic enterprises, a micro-franchise support programme, and a large-scale programme encouraging both the upgrading of managerial skills and ICT adoption. In addition, the 2013 reform of the corporate fiscal regime aims at fostering small business formalisation by offering discounted rates, over a 10-year period, on the personal income tax rate of small business owners whose annual revenues are less than MXN 2 million. As part of efforts to foster high-growth SMEs, Mexico has provided support to a network of business incubators and accelerators working with promising start-ups and growth-oriented SMEs and set up 40 public-private venture capital funds.

Figure 3.3. Loans to SMEs have grown at a sustained pace

Average annual growth rate in outstanding SME loans, 2012-15



Note: Average annual growth rate of outstanding SME loans (adjusted for inflation) in the period 2012-2015.

Source: OECD (2017), Financing SMEs and Entrepreneurs 2017: An OECD Scoreboard, http://dx.doi.org/10.1787/fin_sme_ent-2017-en.



TELECOMMUNICATION AND BROADCASTING REFORM HAS INCREASED ECONOMIC COMPETITIVENESS AND SOCIAL WELL-BEING

The OECD's *2012 Review of Telecommunication Policy and Regulation in Mexico* made 31 recommendations to improve Mexico's legal and regulatory framework, 28 of which have been fully implemented. The other three have either been partially implemented or are in the course of being implemented. In 2016, Mexico hosted the OECD Ministerial Meeting "Digital Economy: Innovation, Growth and Social Prosperity", which put forward directions for public policies to foster the development of the digital economy.

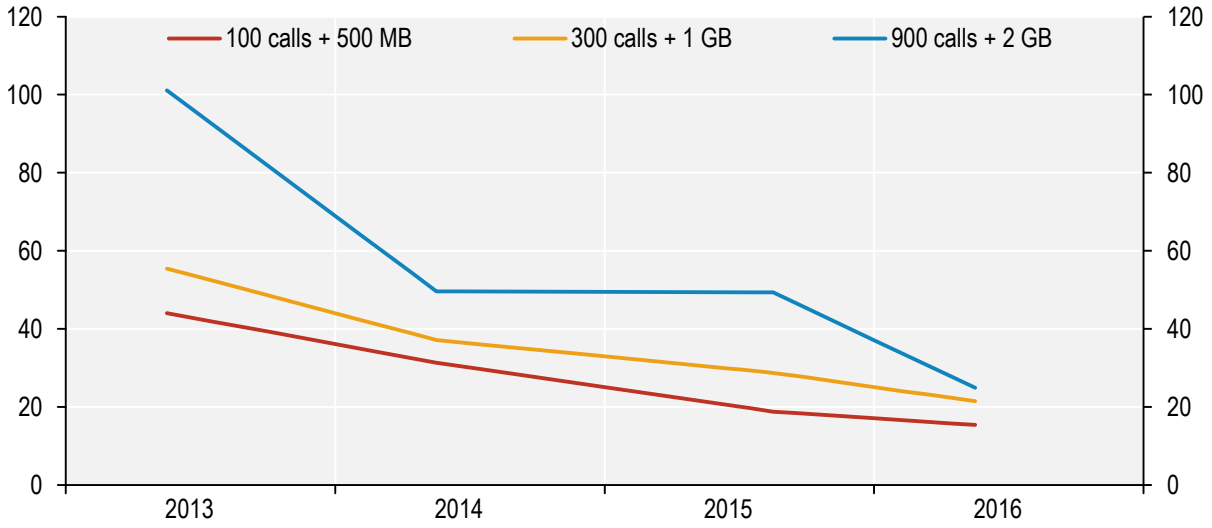
The 2013 telecommunication and broadcasting reform triggered an important modernisation of both sectors. The results, illustrated in the 2017 *OECD Telecommunication and Broadcasting Review of Mexico*, have been remarkable. The number of mobile broadband subscriptions rose from 24 million in 2012 to over 74 million in 2016. Prices for mobile telecommunication services declined by 61% for the OECD medium-usage basket and by 75% for the OECD high-usage basket (Figure 3.4). Both the telecommunication and broadcasting sectors experienced significant growth and foreign competitors have entered the telecommunication and satellite markets. Investment in telecommunication has increased. The *Red Compartida* – a shared wholesale wireless network – will likely further spur investment. Mexico completed the switchover from analogue to digital television, freeing up spectrum for mobile communication services, and licensed a third national free-to-air television network.

To further promote competition, following the regulator's 2017 preponderance review, the Federal Telecommunications Institute imposed new remedies to the preponderant agent, including mandatory functional separation between the wholesale and retail operations of the fixed-service provider (Telmex-Telnor). These measures have opened networks to other firms, which will stimulate the development of both fixed and mobile communication services.

It is now crucial for Mexico to maintain reform momentum and further encourage competition, including by reducing the regulatory burden for Telmex-Telnor to address the high market concentration in pay-TV and broadcasting. Market conditions could be further enhanced by abolishing the special tax on telecommunication services. Mexico would also benefit from a better alignment of the roles of different authorities in formulating and implementing digital economy policies.

Figure 3.4. Prices for mobile broadband services fell sharply after the reform

Mobile broadband prices in Mexico, USD PPP



Source: OECD (2017), OECD Telecommunication and Broadcasting Review of Mexico, http://dx.doi.org/10.1787/9789264278011-en.



MEXICO'S 2013 ENERGY REFORM IS A LANDMARK IN THE ENRIQUE PEÑA NIETO PRESIDENCY

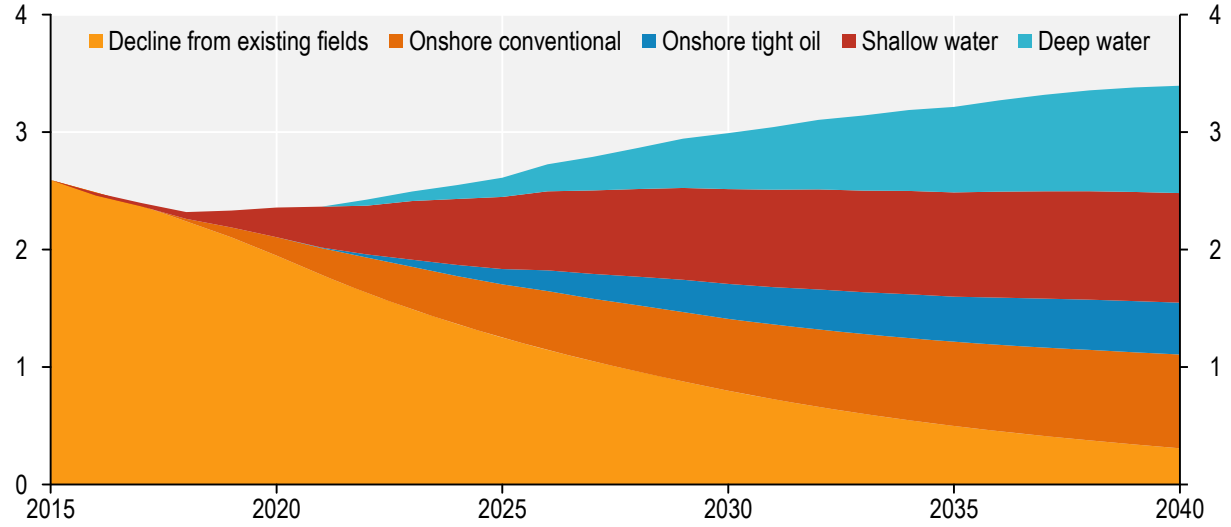
After years of declining oil production, high electricity production costs and a lack of funding and technology to exploit new energy resources, Mexico has opened up its long-closed oil, gas and electricity sectors to private operators. Oil production prices have been liberalised, allowing market entry by both domestic and foreign investors in the exploration, production and transportation of oil by-products and gas, as well as the refining and marketing of hydrocarbons. Governance of the state-owned petroleum company PEMEX has been strengthened with the appointment of independent directors responsible for establishing its strategic vision. Existing sector regulators have been granted new powers and status, including legal independence and budgetary autonomy, and new ones have been created. Deep reforms have also reorganised the electricity sector. Competition from new entrants is now allowed. The state-owned power enterprise CFE has been completely unbundled, effectively ending its monopoly. The auction system for renewables is a world reference and has attracted some of the lowest price projects globally.

The reform has been a great success, boosting private investment, energy production (Figure 3.5), technological know-how, tax revenue, and business confidence. Improved access to US shale gas has allowed Mexico to rapidly move from costly and polluting oil-fired electricity generation to gas. The transition to a different energy mix will also contribute to improving Mexico's environmental performance. Continued success of the energy reform hinges on consolidating the independence of sector regulators and more focus on long-term planning to support stable regulatory activity.

Mexico's energy reform is in line with recommendations made in the OECD's *Economic Surveys*. The OECD has supported the government in the area of energy policy through its 2017 *Performance Reviews of Mexico's three energy regulators*, the 2017 *Public Procurement Review of PEMEX*, and the IEA report *Energy Policies Beyond IEA Countries: Mexico 2017.*

Figure 3.5. Thanks to the energy reform, oil production is expected to increase again

Oil production in Mexico in the New Policies Scenario, in millions of barrels per day, 2015-40



Source: IEA (2016), Mexico Energy Outlook, http://dx.doi.org/10.1787/9789264266896-en.



MEXICO HAS MADE IMPORTANT PROGRESS ON FIGHTING CLIMATE CHANGE

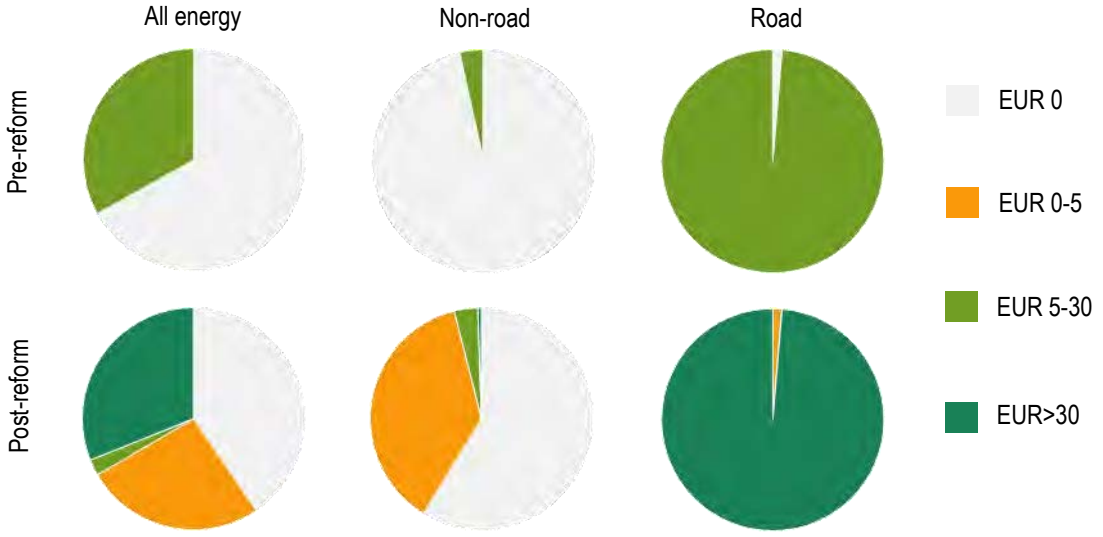
Mexico's environmental reforms are in line with OECD recommendations. The OECD's 2013 *Environmental Performance Review of Mexico* recommended the introduction of an excise tax on transport fuels and energy products reflecting the environmental costs associated with their use, and providing targeted cash transfers to those adversely affected.

Mexico was the first emerging country to submit its nationally determined contribution (NDC) ahead of the UNFCCC COP21. It ratified the Paris Agreement on 16 September 2016. The government committed unconditionally to reducing greenhouse gas emissions (GHGs) and short-lived climate pollutants, implying a 22% reduction of GHGs and a 51% reduction of black carbon, relative to business-as-usual levels, by 2030. Further reductions of up to 36% and 70%, respectively, could take place under certain conditions. Furthermore, Mexico is one of only six countries to have submitted a long-term low-GHG development strategy. In its 2015 Energy Transition Law, Mexico confirmed its 2024 clean energy target of 35% and introduced intermediate targets. Changes to the climate change law now mandate the creation of a cap-and-trade system. Mexico has also strengthened the recognition of resilient ecosystems as a means to reduce adverse impacts of climate change.

However, efforts are still needed to achieve these targets, given rapidly growing emissions from the energy and transport sectors (the latter being an important source of air pollution). Significant steps were taken in 2014, when Mexico moved away from transport fuel subsidies and increased excise tax rates on transport fuels. A new carbon tax was simultaneously introduced (including on fuels outside of the road sector), improving the extent to which the external costs of energy use are reflected in prices (Figure 4.1), but rates are very low. Progressively increasing carbon taxes and ensuring that rates more uniformly reflect the carbon content of fuels would send a strong price signal of the external costs of carbon emissions. The gradual implementation of the reforms had initially increased their political acceptability, but increasing tax rates further may necessitate social transfers for those affected by the increase in energy prices. Mexico should develop estimates of the cost effectiveness of the various mitigation instruments on a cost-per-tonne of CO_2 basis, both in terms of short-term reductions and in delivering the 2030 target. Falling costs of renewable technologies provide an opportunity to accelerate decarbonisation of the electricity supply.

Figure 4.1. Mexico increased the share of emissions covered by a carbon price, but at low rates

Percentage of carbon emissions priced at different levels



Source: Arlinghaus, J. and K. van Dender (2017), "The environmental tax and subsidy reform in Mexico", http://dx.doi.org/10.1787/a9204f40-en.



ACCESS TO DRINKING WATER AND SANITATION HAS IMPROVED

Mexico has made considerable progress in improving access to drinking water (Figure 4.2) and sanitation and in reducing water-related diseases. The government has also taken steps to raise the efficiency of water use. Water use tariffs have been significantly increased since 2014, and incentives to better use and treat water have been introduced. The 2013 energy reform facilitated investment in water-efficient practices in the electricity sector. The National Water Reserves Programme was established to help ensure future water availability. The Rain Harvest and Ecotechnics National Programme aims at strengthening water management in Mexico's poorest rural areas. Internationally, Mexico has played a key role in promoting a new approach to water management, including in the High-level Panel on Water.

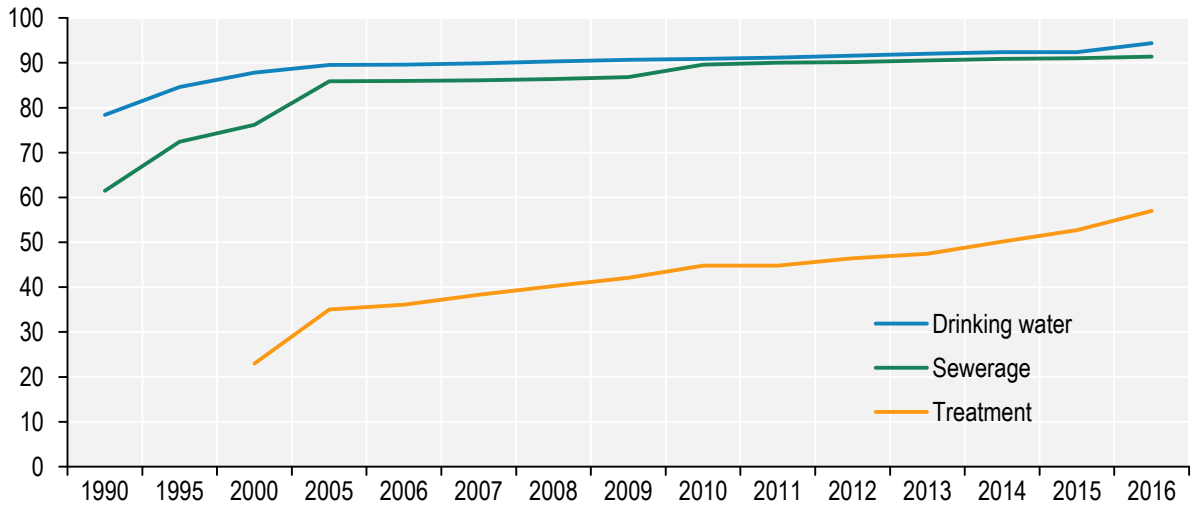
The 2013 OECD report *Making Water Reform Happen in Mexico* provided evaluations and recommendations in support of Mexico's water policy reforms. The related *Policy Dialogue* consulted over 100 stakeholders at federal, state and basin level.

Due to population growth, water management remains an ongoing challenge. Over the next two decades, Mexico will have to provide an additional 36 million people with drinking water and 40 million people with sanitation services. In addition, Mexico still has the lowest rate of connection to public wastewater treatment plants in the OECD. The government has put in place instruments to tackle these issues. The Social Infrastructure Fund supports local and state governments in developing basic social infrastructure, including drinking water and sanitation.

Building on recent progress, Mexico needs to promote water use efficiency across sectors, allocate water where it creates most value and encourage investment in water infrastructure. This requires addressing multi-level and river basin governance challenges to reduce inconsistencies between federal and basin priorities, strengthening the role, capacity, prerogatives and autonomy of river basin councils and establishing platforms to share good practices. Removing overlaps and gaps in regulatory functions is also key. Mexico needs to better ensure consistencies across water, agriculture and energy policies and phase out subsidies for water pumping and fuel used to pump groundwater, instead considering direct income support where needed. Adjusting water allocation regimes can also help promote water use efficiency within and across sectors. Water service tariffs need to be raised further to reflect operation and maintenance costs and improve water bill collection.

Figure 4.2. Access to drinking water continues to improve

Evolution of drinking water, sewerage and treatment, in % of coverage, 2005-15



Sources: National Institute of Statistics and Geography (INEGI), Population and Housing Census 2010, Population and Housing Count 2005; National Water Commission (CONAGUA), Survey between official censuses 2015.



MEXICO HAS MADE CONSIDERABLE PROGRESS IN PROTECTING ITS BIODIVERSITY

The OECD helped the Mexican government in its endeavour to protect the country's biodiversity through the 2013 *Environmental Performance Review*, which examined Mexico's institutional and policy framework for the conservation and sustainable use of biodiversity resources and provided recommendations for a more co-ordinated, coherent and strategic approach.

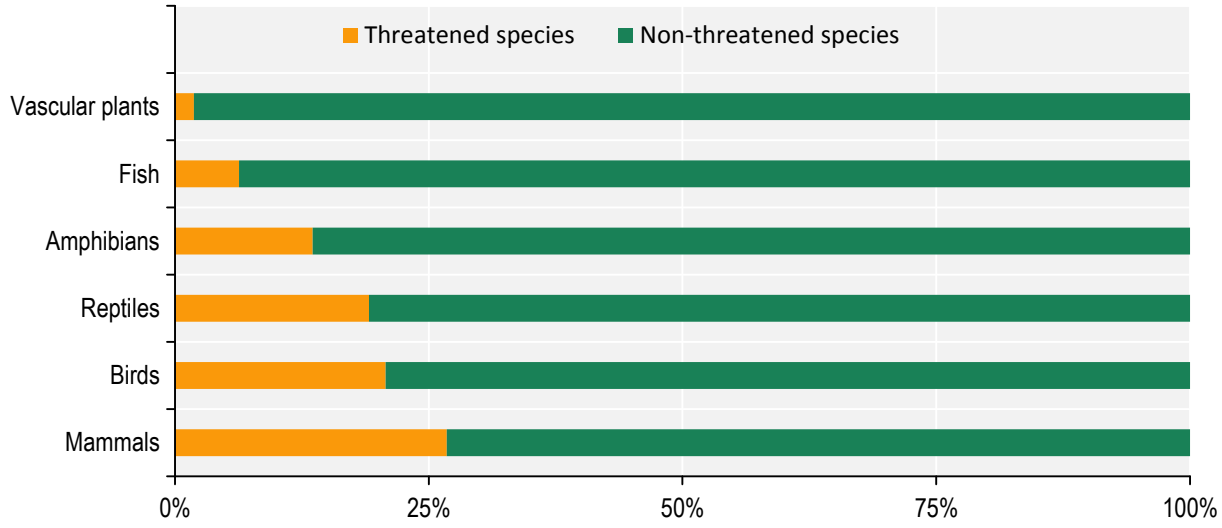
Mexico is a mega-diverse country, home to 10-12% of the world's biodiversity and a large number of threatened species (Figure 4.3). Biodiversity has been under pressure from land use change and deforestation, overexploitation, invasive alien species, pollution and climate change. As these pressures are linked to policies in other sectors, mainstreaming biodiversity is crucial to conservation and sustainable use.

The government has made notable progress in better protecting biodiversity through laws, strategies and programmes, together with strong institutions. Between 2009 and 2015, 11 new protected areas were established, increasing coverage to 91 million hectares (comprising 21 terrestrial and 70 marine protected areas). Mexico now protects 23% of its coastal and marine areas, exceeding the Aichi target of 10%. A commitment to further increase protection has been cemented in Mexico's National Biodiversity Strategy and Action Plan 2016-30. Under this plan, extensive action was taken to create new Marine Protected Areas (MPAs), increasing total coverage to over 700 thousand km^2. The Revillagigedo National Park is now the most extensive fully protected marine area in North America. Mexico also uses a range of other policy tools to conserve and sustainably use biodiversity, including subsidies (many of which aim at improving the conditions of local and indigenous communities) and payment for ecosystem services (PES). Mexico's PES programme covers 3.25 million hectares of forest and is one of the world's largest.

It is important for Mexico to strengthen its institutional framework for biodiversity management by establishing a high-level interministerial task force and to reform environmentally harmful government support in sectors such as agriculture and fisheries (e.g. agricultural subsidies that promote land-use change, VAT exemption on agrochemicals, electricity subsidies for agriculture, and fuel subsidies for fisheries). Mexico would also benefit from streamlining programmes to support indigenous people and the environment, increasing the focus on capacity building and achieving social and environmental objectives more efficiently.

Figure 4.3. Mexico is home to a large number of threatened species

Percentage of all species in a given category, 2016 or latest available year



Note: Threatened species are defined as IUCN Categories ''critically endangered", "endangered" and "vulnerable".

Source: OECD Environmental Statistics Database, http://stats.oecd.org.



IMPORTANT STEPS HAVE BEEN TAKEN TO IMPROVE THE JUDICIAL SYSTEM

To support Mexico's justice system reform, the OECD worked with Mexico's Institute for Competitiveness to assess the country's policy-making cycle.

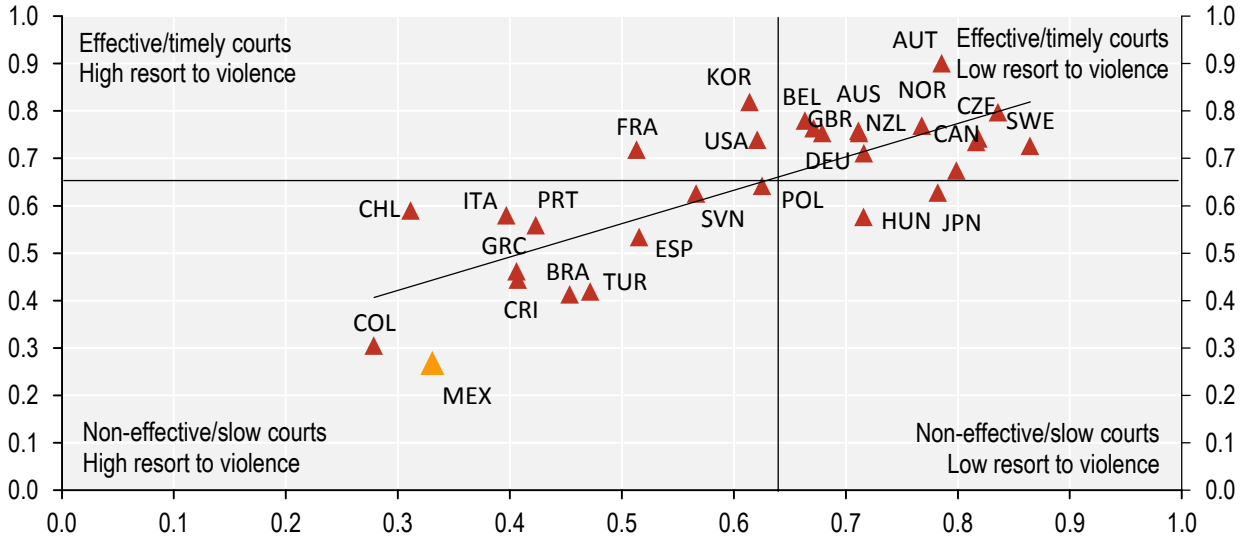
Mexico's justice system faces immense challenges in terms of credibility, effectiveness and timeliness. To better meet justice needs, Mexico has amended its constitution and other laws to facilitate the enforcement of constitutional rights. Laws now ensure that judges give priority to analysing the motives behind disputes rather than to the formalities of the proceedings. Moreover, citizens are now able to file claims online.

Mexico also profoundly changed its criminal justice system, which is key to improving personal safety and overall well-being and the rule of law (Figure 5.1). 2016 saw the launch of the new adversarial criminal justice system after eight years of implementation. A unified National Code of Criminal Procedure (now to be applied at federal and state levels) was passed to make sure the right of due process is well protected. Victims now have a formal and relevant role in their cases and the length and fairness of procedures has improved substantially.

To improve everyday justice, the *Justicia Cotidiana* initiative, an innovative and extensive consultation process to understand and address the daily legal needs of citizens and businesses, was launched in 2014. This led to reforms aimed at making rules simple to understand, encouraging the use of alternative dispute settlement mechanisms, automating procedures and reducing red tape. For example, to enhance court efficiency and contract enforcement, orality was introduced in commercial proceedings at the first instance. According to the Federal Commission for Regulatory Improvement, the reduction of the number of proceedings since 2011 in Mexico City (from 38 to 21) coincided with a drop in their length (from 400 to 270 days). In 2013, reform to economic and fiscal shelters and the establishment of nationwide specialised jurisdictions in competition, telecommunication and broadcasting aimed at raising the quality of judicial decisions, reducing the length of judicial review and giving effect to competition reforms more broadly. Addressing the lack of training of criminal justice stakeholders (police, lawyers, judges and staff) is now crucial.

Figure 5.1. Personal safety is strongly linked to the effectiveness of the justice system

Effectiveness/timeliness of criminal adjudication system (index from 0 = least effective to 1 = most effective) and use of violence to redress personal grievances (index from 0 = very likely to 1 = very unlikely), 2016



Note: The horizontal and vertical lines depict the OECD averages.

Sources: OECD (2017), Government at Glance, http://dx.doi.org/10.1787/gov_glance-2017-en; OECD (2015), Measuring Well-Being in Mexican States, http://dx.doi.org/10.1787/9789264246072-en.



THE ANTI-CORRUPTION AGENDA IS MOVING IN THE RIGHT DIRECTION

The *OECD Integrity Review of Mexico* provided over 60 proposals for action to improve the integrity of Mexico's public sector. In addition, the OECD has been working with several federal states, including Coahuila, Nuevo León, Sonora, and Mexico City, to strengthen their integrity frameworks and public procurement practices. Working with COFECE, the OECD has also carried out several projects to help fight bid rigging in public procurement, notably in the healthcare and energy sectors.

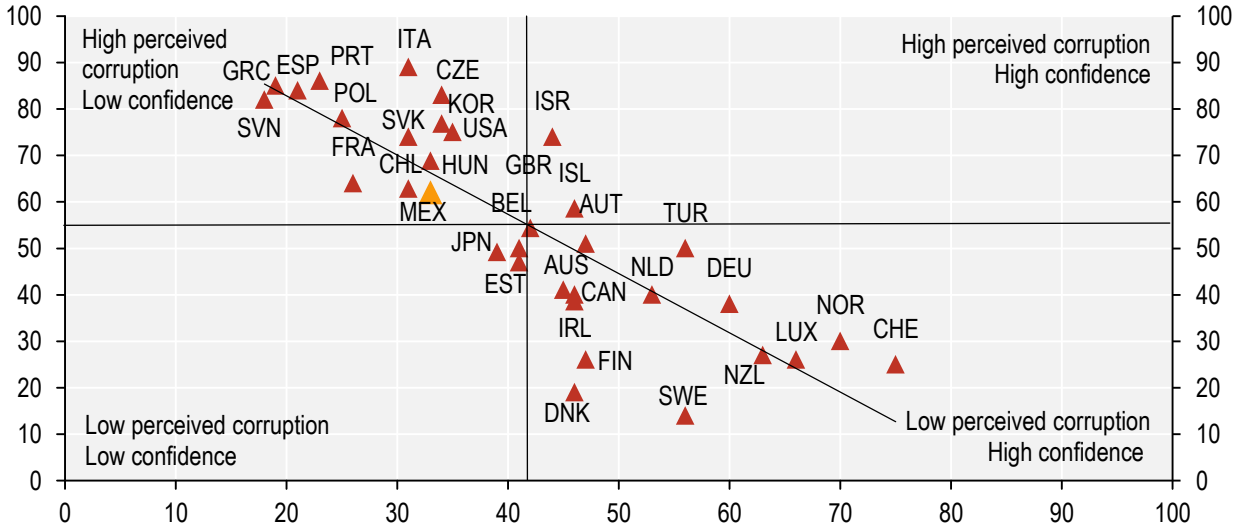
While fighting corruption has long been a priority of Mexico, its policymakers have, at times, come up short in passing effective long-term reform. Under the leadership of President Peña Nieto, Mexico has taken steps towards a major overhaul of its institutional and legal frameworks.

The National Anti-corruption System (SNA) was created to improve and facilitate co-ordination in the prevention, detection and sanctioning of corruption. The General Law of Administrative Responsibilities (GLAR) was published, heightening penalties for firms and individuals that engage in corruption or commit administrative violations. The GLAR promotes public transparency by obliging public servants to disclose their tax returns, submit asset declaration statements and declare conflicts of interest. It established a national auditing system to harmonise anti-corruption and integrity policies and capacities across Mexico. Guidelines for companies seeking to implement anti-corruption compliance programmes and codes of conduct were established. The Integral System of Citizen Complaints was launched, allowing citizens to submit complaints and allegations of corruption online and to follow cases until their conclusion. The Code of Ethics for federal public servants and the Rules of Integrity for the Exercise of Public Functions show that Mexico is committed to developing civil servants that comply with the principles of legality, honesty, loyalty, impartiality and efficiency.

While these reforms created a good foundation to fight corruption, implementation is still a work in progress. Mexico is in the midst of appointing several key positions, including the Anti-corruption Attorney, and states are developing the necessary legal reforms to implement local anti-corruption systems. In co-ordination with the OECD, the Ministry of Public Administration has designed an Action Plan which assigns responsibilities for implementing each of the recommendations made in the *OECD's Integrity Review of Mexico*, together with a calendar to monitor compliance.

Figure 5.2. Corruption and trust in government are strongly linked

Percentage of people having confidence in the national government and percentage of people believing that corruption is widespread in government, 2014



Note: The horizontal and vertical lines depict OECD averages.

Source: OECD (2015), Government at a Glance, 2015, http://dx.doi.org/10.1787/gov_glance-2015-en, based on data from the World Gallup Poll.



MEXICO HAS GREATLY INVESTED IN OPEN GOVERNMENT REFORMS

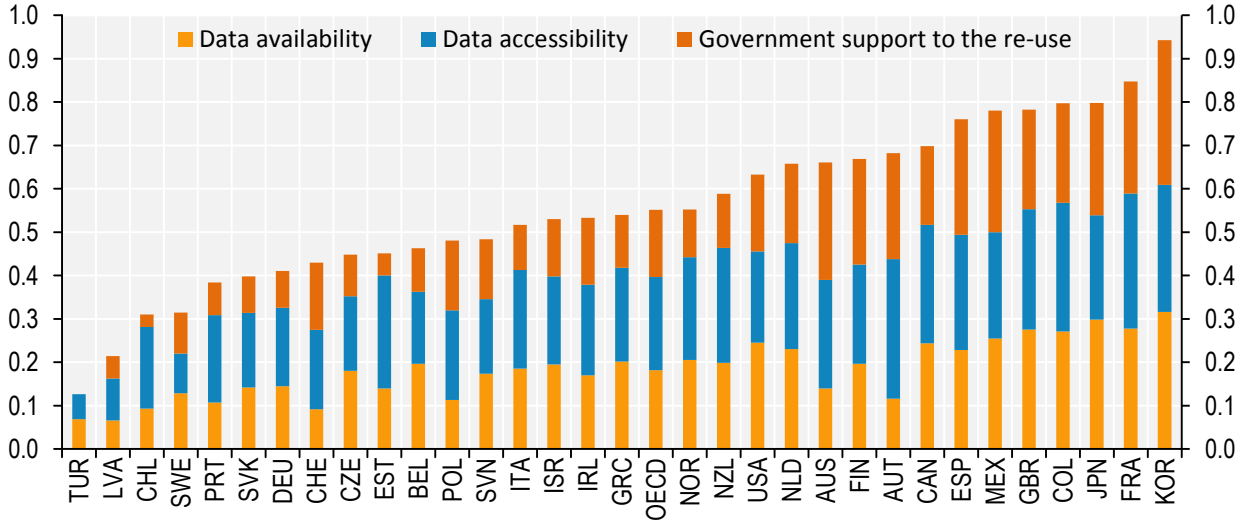
Mexico was one of the first countries to fully link its national development, public reform, open government and digital agendas. The National Development Plan 2013-18 includes open government as an objective and open data as a transversal enabler. Mexico has pioneered involving other branches of power, subnational governments and independent state institutions in open government processes, creating the Open Mexico Network and the Alliance for an Open Mexican Parliament in 2014. The country has further expanded its legal framework for open government. In 2015, the General Transparency Law was approved, requiring state authorities in all branches, autonomous organisations, trade unions and any other entities dealing with public funds to make all information generated public. The law also strengthened the role of the National Institute for Transparency, Access to Information and the Protection of Personal Data.

In pushing forward its open government agenda, Mexico has benefitted greatly from peer learning with other OECD countries.
For example, Mexico is the co-chair of the OECD Network on Open and Innovative Government in Latin America and the Caribbean. In 2016, Mexico led the initiative on 'what works and doesn't work' in digital service delivery of the Working Party of Senior Digital Government Officials.

The Office of the President's leadership since 2013 in co-ordinating the National Digital Strategy has been critical in fostering the development of open data initiatives both nationally and internationally. The 2015 Executive Decree on Open Data was an important sign of high-level political support. As a result of these efforts, Mexico now ranks among the top 5 OECD countries in the OECD's OURdata Index (Figure 5.3).

Despite this impressive progress, there is scope for more improvement, especially by further institutionalising the country's efforts. This includes consolidating the role of the national open government co-ordinator and elaborating a fully-fledged national open government policy to make open government a cross-cutting instrument to address socio-economic challenges. Potential also remains to further foster public sector efficiency and innovation and strengthen the economic and social impact of policy through open data related projects. To this end, it is necessary to further strengthen open data policies, develop data and digital literacy among citizens and businesses, and foster partnerships with the private and academic sectors. It is also crucial to further develop improve impact evaluation of open government initiatives and to use open data for evidence-based policy-making in broader sectoral policy goals such as civil protection and risk management.

Figure 5.3. Mexico has made great strides towards open government data
OECD Open, Useful and Reusable data (OURdata) Index, 2017



Source: OECD Survey on Open Government Database, https://qdd.oecd.org/subject.aspx?Subject=589A16C1-EADA-42A2-A6EF-C76B0CCF9519.



IMPROVING THE EFFECTIVENESS OF STATE AND LOCAL GOVERNMENTS REMAINS CHALLENGING

Mexico's ambition to strengthen the effectiveness of state and local governments will benefit from several OECD reviews, including *Territorial Reviews* of Morelos, Valle de México, Puebla-Tlaxcala and Chihuahua. The 2015 *Urban Policy Review of Mexico* includes an examination of subnational capacity issues for urban development.

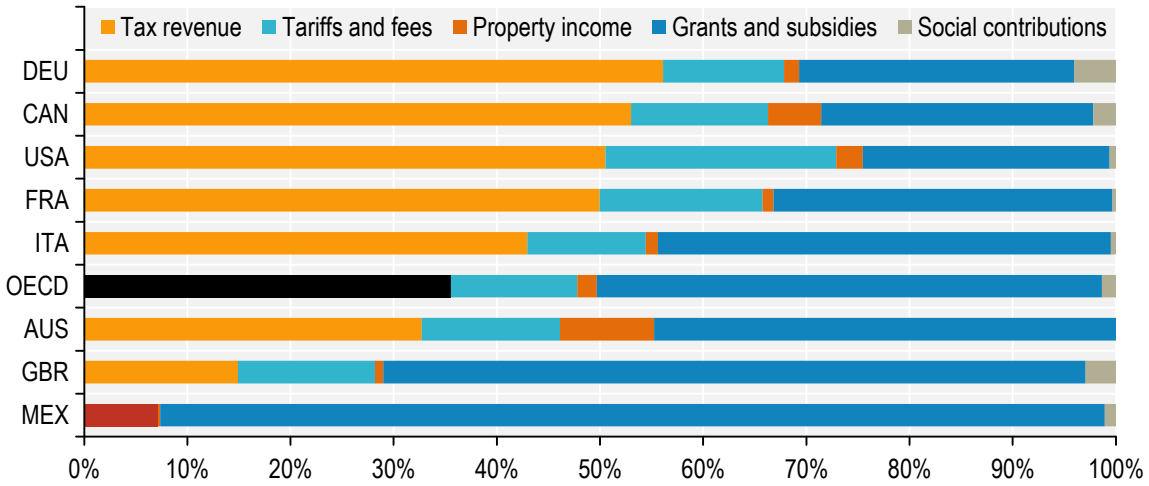
Mexico's National Development Plan 2013-18 stressed the importance of involving all sectors and levels of government in fostering national development and productivity. Subnational governments need clear competencies and responsibilities, together with adequate capacity, to fulfil this role. States and municipalities are responsible for 50% of total public expenditure, in line with the OECD average of federal countries. The difference between taxing power and spending responsibilities is significant compared to the rest of the OECD, however. Mexico's subnational governments have a low share of resources from tax revenue, among the lowest of OECD countries (Figure 5.4).

With the amendment of the Law of Fiscal Co-ordination, which included the creation of a Programme of Institutional Development, the government has steered Mexico towards improving fiscal federalism relations. Still, Mexico remains a centralised country. Large spending areas are controlled by the federal government. Local government expenditure and investment shares in GDP and public spending are among the lowest in the OECD. At the same time, the distribution of functional responsibilities across levels of government is complex, undermining the effectiveness of policy delivery and public investment. Federal powers are extensive and sometimes overlap with responsibilities of states and municipalities. The inability to re-elect municipal leaders for more than one term has caused frequent changes in priorities. During the Peña Nieto administration, re-election has become possible, which will help improve subnational government capacity and effectiveness.

Mexico needs to redefine responsibilities across levels of government to improve policy delivery, along with adequate resources. It would also benefit from improved subnational governance to raise the impact of public investment. Indeed, OECD evidence shows that the quality of subnational governance is directly connected to investment outcomes. The most efficient way to achieve greater economic and social cohesion is by improving the quality of government.

Figure 5.4. States and municipalities funded mostly through grants and subsidies instead of taxes

Subnational government revenue by source, % of total subnational government revenue, 2015



Source: OECD (2017), Subnational governments in OECD countries: key data, http://www.oecd.org/regional/regional-policy/Subnational-governments-in-OECD-Countries-Key-Data-2017.pdf.



DISASTER RISK MANAGEMENT CONTINUES TO IMPROVE

Mexico is acutely aware of its significant exposure to natural hazards (Figure 5.5). The National Civil Protection System was created in 1986 and gradually strengthened over time, putting greater focus on risk prevention. Several additional tools have been launched since 2013. The Digital National Risk Atlas and the National Atlas of Vulnerability to Climate Change inform citizens and firms about natural risks. The General Law of Human Settlements, Territorial Planning and Urban Development puts local governments in charge of administrating and approving the zoning of population centres in their territories. In September 2017, the operating rules of the National Fund for Natural Disasters were changed to better support private stakeholders in recovering from disasters. The Special Climate Change Programme 2014-18 sets out measures to raise resilience to climate change.

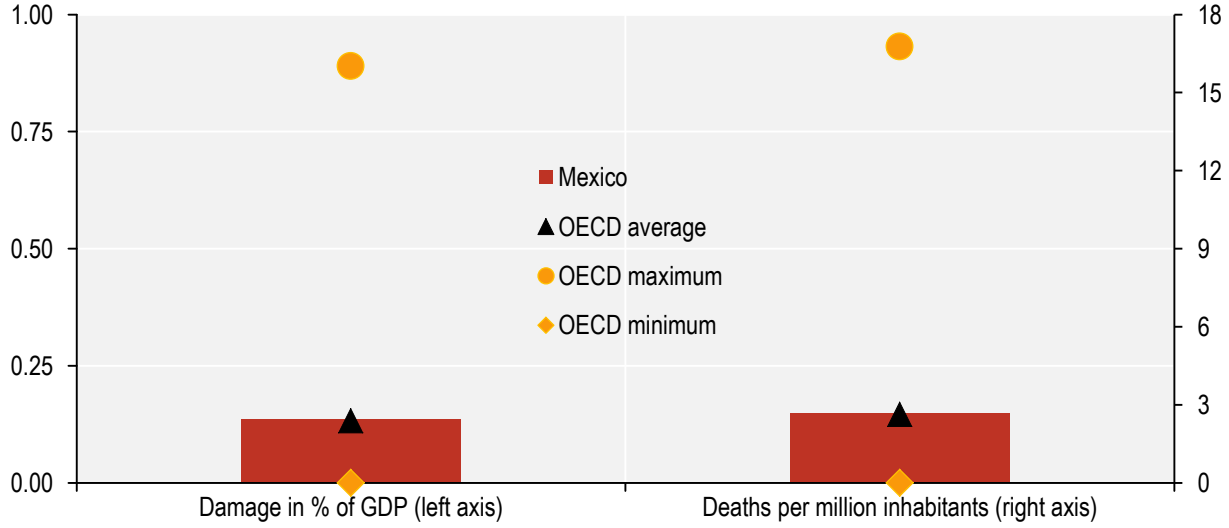
The OECD supported the Mexican government in strengthening its disaster risk management through the 2013 *Review of Disaster Risk Management Policies*, which provided an overview of the challenges faced by SINAPROC as well as an agenda for action.

Response to the earthquakes that struck the capital in 2017 demonstrated the remarkable resilience that Mexico has achieved through its reforms. The events proved the effectiveness of early warning systems, usefulness of hazard maps and availability of comprehensive building codes, in addition to efficient financial management, interinstitutional co-ordination between federal ministries and international emergency support. All these factors helped save lives and limit economic disruptions. The strong volunteer network that supported public response and recovery efforts illustrated Mexico's society-wide culture of risk.

Still, the recent earthquakes underlined persisting challenges. Co-ordination gaps between emergency response stakeholders and across levels of government and with civil society hampered a more effective response. Despite changes to construction regulation after the 1985 earthquake, breaches and shortcomings in building inspections and construction monitoring contributed to building collapse. The earthquakes also showed that land use and urban planning do not take risk information sufficiently into account. Improving the monitoring and evaluation system to assess progress on climate change adaptation and land use planning could also help to increase resilience.

Figure 5.5. Mexico is highly vulnerable to natural disasters

Average annual disaster impact, 1995-2015



Source: EM-DAT: The OFDA/CRED International Disaster Database, Université catholique de Louvain, Brussels, Belgium, 2016.



INFRASTRUCTURE GAPS ARE CLOSING AND GOVERNANCE HAS IMPROVED

Close co-operation with the OECD has improved transparency in public procurement, one of the most critical elements determining efficiency and quality in infrastructure delivery. The OECD also works with the Mexican government in the delivery of the New National Airport of Mexico City.

The Peña Nieto administration has taken important steps to strengthen public policies in various areas, from freight transport to housing, public procurement, risk management, ethics and conflict of interest, up to the effective development of mega-projects such as the New International Airport of Mexico City.

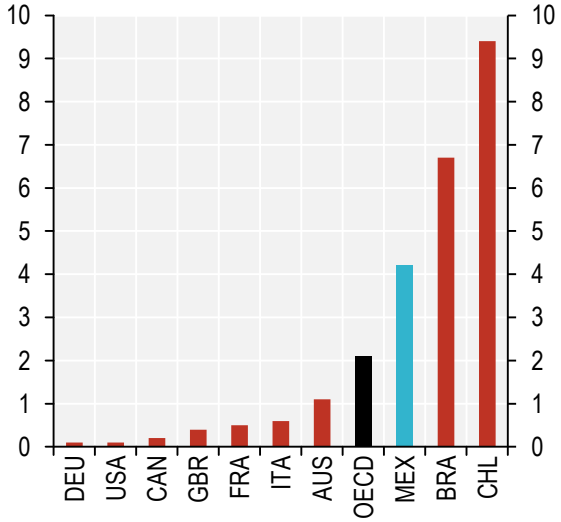
Past housing development often occurred in places lacking basic facilities, leaving many low and lower-middle income families with inadequate services (Figure 5.6, panel A) and poor access to good schools, hospitals and employment opportunities. Since 2013, the situation has improved, with 8 out of every 10 houses built within urban containment perimeters. The National Housing Programme 2014-18 intends to address geographical segregation by socioeconomic status by narrowing the gap in good quality housing, improving interinstitutional co-ordination in urban services delivery and moving to a more sustainable urban development mode, including by recycling more waste (Figure 5.6, panel B). Educational Infrastructure Certificates and National School Infrastructure Bonds are funding improvements to education infrastructure.

Mexico City's New International Airport was designed to the highest standards of sustainability. Infrastructure to access the airport needs to be future-proof and the airport needs to be part of broader efforts to improve strategic regional transport planning and interjurisdictional integration in the Valle de México. The airport authority (GAMC) has enhanced its control and accountability processes, stepped up its code of conduct, and set up an ethics committee. Procurement has become more transparent. The government negotiated an air service agreement with the United States and increased the FDI share to 49% in regular and non-regular national air transport, non-regular international air transport and specialised air transport.

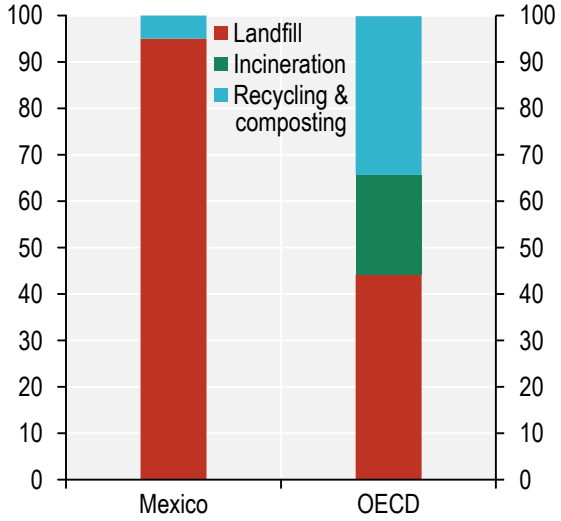
Despite these achievements, significant challenges remain. The corporate governance reform of GAMC needs to continue and a mechanism for a whole-of-government co-ordination around the New International Airport of Mexico City needs to be established. Procurement activities between different entities could be better co-ordinated and pre-tendering activities strengthened.

Figure 5.6. Urban planning and infrastructure need to improve

A. Percentage of dwellings without indoor flushing toilet, 2017



B. Municipal waste recycling, % of collected municipal waste by treatment, 2016



Sources: OECD (2017), OECD Better Life Index 2017, www.oecdbetterlifeindex.org; OECD Green growth Indicators 2016, http://stats.oecd.org/.

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