Since the late 1990s, Mexico has substantially increased the resources it devotes to reducing poverty. Some of this progress was due to a change from providing general inefficient subsidies to effectively targeting social programs such as Oportunidades, whose strong design and robust evaluation has been well documented. Oportunidades is centrally managed, which has allowed an even execution of the program. As states get more resources for poverty reduction and play a greater role in cofinancing major social and poverty programs, it has become critical for them to enhance their capacity to plan programs and apply resources effectively. This note discusses the challenges related to financing, transparency, and accountability that face state-executed funds for poverty reduction and centers the discussion on how to increase the quality of public expenditures in a decentralized context.

**Introduction**

Over the last dozen years, Mexico has reorganized many of its government programs by decentralizing them to states and municipalities. Simultaneously, Mexico has achieved major expansion in the coverage of these social programs, especially for poor people. The biggest challenge now is to improve program quality and accountability, which remain low by the standards of the Organization for Economic Cooperation and Development (OECD) and about average for Latin America.

The elements of the government’s strategy considered here—basic education, health care for those who do not have social security coverage, local social infrastructure, and local rural development—all aim directly or indirectly to reduce poverty. Both social and economic services shape the opportunities of poor people. Social services contribute to human capital formation and risk management, while economic services shape access to markets.

**Decentralization and Performance**

In all sectors, coverage, equity, and targeting of services have improved, especially for poor people. Although quality generally remains low by OECD standards and remains roughly on par with Latin America, there is evidence of quality improvements in some cases. Service performance varies widely across the country, even after accounting for state per capita income, indicating that other important factors also influence performance. However, the paucity of state- and municipal-level information on the performance of the programs analyzed here makes it difficult to establish a link with decentralization.

In education, the gap in primary education coverage between the poor and the rich states has narrowed since decentralization. Equity has improved, perhaps because of the cumulative effects of compensatory programs. However, efforts...
to increase lower-secondary schooling for poor people face significant challenges. The quality of education is low by international standards, even after controlling for Mexico’s income level. The rapid expansion of the telesecundaria system is worrisome; although it has helped to improve rural poor people’s access to school and accounts for 20 percent of total lower-secondary enrollment (and a much higher share in rural areas), students in the telesecundaria have recorded low levels of achievement. Despite important institutional limitations in the decentralization process, local innovations have helped both rich and less wealthy states improve their basic education systems. For example, the states of Aguascalientes, Colima, Nuevo León, and Quintana Roo are working to improve learning achievement on several fronts, taking initiatives such as improving pedagogy practices, evaluation, and the hiring of teachers. In addition, some federal educational programs are stimulating discussion about how to improve school management and learning achievement.

In the area of health, performance in outcome indicators such as life expectancy and infant mortality have improved in the last decade, partly because of the success of centralized programs, such as the vaccination program. However, maternal mortality has remained very high according to international standards. The Millennium Development Goal on maternal health proposed to reduce maternal mortality by two-thirds from 1990 to 2015. However, with a reduction of only 30 percent in the last 15 years, it is unlikely that Mexico will be able to achieve this target. There are a lot of data about the overall population, but the existence of several different public systems of provision (IMSS, SSA, ISSSTE, IMSS-Oportunidades, and state health systems) makes it difficult to establish a relationship between systems and outcomes. The following results are from a health analysis based on a sample of six states. First, across states, there seem to be important differences in health outcomes and indicators, and the differentiation is not necessarily between the poor and the rich states. Second, in high- to medium-income states such as Baja California Sur, Jalisco, and Tabasco, the evolution of health performance has been neither even nor significantly better than in the rest of the country. Third, the states that seem to be far advanced in the decentralization process are investing considerable resources in their health systems, and have been able to reallocate resources relatively effectively (preventive versus curative expenditures). More data and analysis are necessary to assess the progress of decentralization and its effects in these states and in others. A new federal program—Seguro Popular—distributes funds to states according to the location of patients who choose to affiliate and is helping to expand coverage among the population without social security coverage and to reduce catastrophic health expenditures.

Coverage of social infrastructure has improved, although it continues to be low for poor people. The Social Infrastructure Fund (FAIS) is an important source of financing for local social infrastructure investment in the poorest municipalities, and it is, in general, well targeted according to the level of marginality. However, the significance of FAIS in the overall availability of municipal financial resources varies by sector and size of municipality. The sectoral allocation of the FAIS investment (water versus roads versus housing upgrading and so forth) is not generally correlated with lack of coverage in that sector, although this finding varies by state and sector. A potential explanation is that municipalities have several sources of funds for investment in social infrastructure in addition to FAIS; another is that FAIS institutional arrangements vary from state to state.

In production-oriented programs in rural areas, investment is high but not notably effective. This is due to the proliferation of segmented federal programs with no coordination, the lack of clear political accountability for rural development because responsibilities are diffused among various federal Secretarías and state governments, and a host of problems in program design and implementation. Additionally, the affect of these programs on poverty and on rural development is difficult to assess because much of it is indirect, depending on its effect on employment and wages.

There is evidence for Mexico, as for other Latin American and Caribbean countries, that agricultural growth has a strong effect in reducing rural poverty, and there is also evidence that compensatory education from basic education is carried over to lower-secondary schools and explains, in part, the high degree of equity observed in PISA results.

3 Colima is the best performer but ranks only 14th in GDP per capita.
the rural poor in Mexico derive a large part of their income from nonfarm sources. Therefore, programs oriented to increasing employment and income opportunities in the farm and rural nonfarm sectors are, in principle, pro-rural, but the targeting of these programs may be problematic. Thus, a problem with Alianza’s Rural Development Program is that it concentrates on small farmers—that is, on producers who already have access to at least some productive assets and thus are wealthier than the poorest people in rural Mexico. As a consequence, even if the targeting of the program is good in terms of “farmers” (80 percent of beneficiaries belong to the two smallest categories of the five types of farmers considered by the Food and Agriculture Organization), it is not designed to reach the poorest rural families.

Table 1 summarizes performance in these four sectors.

**Challenges**

Decentralization in Mexico has been haphazard. Fiscal decentralization of transfers and spending has gone quickly, for political reasons, while taxation has remained centralized. Although local governments write the check, they have insufficient authority to manage the sectors for results. However, a promising approach to foster improved performance is Mexico’s new Performance Evaluation System or Sistema de Evaluación al Desempeño (SED), which expects and demands the adoption of results-based management and performance-based budgeting. This framework could potentially improve the contract between the Federal Government and the states through clearer rules for the allocation of transfers. In education and health, most of the money goes to workers whose contracts are set at the national level. In rural development, complex national rules con-

<table>
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<tr>
<th>Table 1. Summary—Performance of the Sectors</th>
<th>Dimension of performance analysis</th>
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<tr>
<td>Sector/program</td>
<td>Coverage / targeting</td>
</tr>
<tr>
<td>Basic education</td>
<td>Coverage is almost universal in primary. Coverage in lower secondary is still low for poor people.</td>
</tr>
<tr>
<td>Health for the population without social security coverage</td>
<td>Much of the population, especially poor people, remains without access to social security coverage and faces high out-of-pocket expenditures.</td>
</tr>
<tr>
<td>FAIS—social infrastructure</td>
<td>FAIS is well targeted according to the level of marginality.</td>
</tr>
<tr>
<td>Desarrollo rural de Alianza para el Campo</td>
<td>The program is not well targeted to poor people.</td>
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</table>
strain local programming; and in both municipal infrastructure and rural development, the much larger direct federal programs often overshadow any results produced by the local programs. For these and other reasons, institutions and incentives for accountability have remained weak in all the program areas examined here. True accountability is not possible without adequate authority.

Decentralization has worked better in those services, states, and municipalities where there was effective (efficient, pro-poor) filling of the gaps in the federal programs. This implies a need both for systematic shifts to a more rational decentralization process and for a process of learning from successes and failures, in particular whether successes are products of good design or local context. Some well-developed states such as Aguascalientes do well in all services, but other states with comparable income levels do well in a few sectors, but not in others. The differences in their reactions to the decentralization challenge provide scope for learning from good and bad experiences.

While the variety of circumstances and results precludes a uniform conclusion about decentralization, part of the way forward towards improved service delivery seems to entail loosening the regulations about what the local governments do and giving the Federal Government a stronger role in setting outcome standards (for example, core curricula, engineering standards), undertaking monitoring and evaluation, and requiring that the local governments disclose to their citizens the financial arrangements and outcomes of the sectors and programs they manage. While looser regulation means less earmarking and direction within each sector, international experience in Canada and Europe shows that sectoral earmarking can be loosened (without leading to underfunding) as the citizens develop clear expectations that the local government has the responsibility for providing the service. This phenomenon is starting to happen in Mexico, most clearly with FAIS, which never had tight earmarking. It also has occurred in education and health, as when people complain to their governor about a rise in maternal mortality or a problem with schools.

Whatever the benefits of the individual programs discussed in this note, it is important also to consider the context of overall public spending and the pattern of earmarking so many resources for particular uses by subnational governments. As these commitments become politically, if not legally, inflexible, few resources are left for any government to use in implementing a broad economic development plan. The social programs that directly benefit poor people will work best to reduce poverty when they are in the context of overall strong economic growth.

Any wholesale reversal of decentralization in Mexico seems politically unlikely. The increased democracy of state and municipal levels has contributed to the decentralization and seems likely to sustain it politically. So trusting more in local democracy may help to improve the performance of decentralized service delivery. Ideas for reasserting central control run up against the evident failure of this strategy in rural development, where detailed rules for decentralized federal programs have made local implementation administratively difficult. Moreover, the federal authorities lack the information and political mandate to positively influence the substance of what the local governments are doing. Further improvements to decentralization in Mexico seem to be more about increasing the transparency of both resource allocation and intergovernmental division of responsibilities, along with the overall task of deepening democracy and strengthening government-society links.

Important areas for future research include (a) analysis of compliance with the law or with programs’ detailed regulations; (b) systematic comparisons of state interventions in the sectors; (c) analysis of the implications of requirements to implement per capita funding in health and education, and freedom to choose providers; and (d) systematic compilation of state- and municipal-level information on the programs’ performance.

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