

Linking Social Protection and Agricultural Production: The Case of Mexico

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I. Introduction

The current discussions about how to tackle hunger in developing countries highlight the adoption of a two-track approach as an effective framework (FAO, 2011). This strategy uses a combination of providing immediate emergency access to food for the poor people while and supporting a sustainable rural development path as a long-term solution. Immediate assistance for access to food is being sought through social protection policies such as cash transfer schemes and in-kind subsidies. Likewise, support for agricultural prices and transfers aim to increase the availability and production of domestic agricultural products. However, the long-term approach to promoting sustainable development has yet to be realised or well defined. A sustainable development path should link social protection with support for smallholder production that has a two-fold effect in alleviating rural poverty and promoting stable food security.

This article presents the Mexican approach to fighting food insecurity and promoting sustainable rural development through the two-track framework. Like most developing countries, Mexico is characterised by a higher incidence of rural poverty than urban poverty, with over 3 million rural Mexicans living in poverty. In this context, policies should target the rural poor to provide social protection that addresses access to food and targeted inputs for agricultural production.

To conceptualise the Mexican experience of supporting rural livelihoods, we put government policy initiatives into three categories: food subsidies, cash transfers, and agricultural support. The first two categories relate to current social protection policies in Mexico. In the social protection scheme the government has outlined two broad objectives: to provide universal access for social services (i.e. health, education, social security, housing) and to provide cash for immediate consumption needs aimed at covering the most marginalised populations (Yañez et al., 2000). Finally, Mexico's agricultural support has the objective of supporting rural livelihoods by offering payment subsidies as a direct transfer for agricultural support.

Mexico's food subsidy programmes are implemented by the *Secretaría de Desarrollo Social* (SEDESOL) and covers all of the federal government's social protection policies. The current trajectory of Mexican social protection is transitioning away from in-kind transfer schemes once supported by the *Compañía Nacional de Subsistencias Populares* (CONASUPO). Under the direction of Mexico's former Undersecretary in the Ministry of Finance, Santiago Levy, the adoption and expansion of a Conditional Cash Transfer (CCT) programme known as *Oportunidades* has been the focus of the government's poverty alleviation strategy since 1997.

Nevertheless, to provide social protection for the marginalised rural population that does not have access to *Oportunidades* due to supply-side barriers, Mexico utilises in-kind transfers (i.e. food, personal goods). The subsidised goods are available at thousands of *Distribuidora Compañía Nacional de Subsistencias Populares* (DICONSA) stores throughout the country. Through DICONSA stores, the *Programa de Apoyo Alimentario* (PAL) programme provides the rural poor with either a monthly monetary allowance to purchase food from a DICONSA store or a food basket of the same value. For the less marginalised population, access to DICONSA stores is available through the *Programa de Abasto Rural*, although the programme does not subsidise purchases and only offers access to the store's cheaper goods. However, these programmes are being slowly phased out as the coverage of *Oportunidades* is continually expanding and now reaches over 5 million families (Federal Government of Mexico, 2011).

Indeed, the current policies offering assistance to poor people in rural areas in Mexico focus on two primary clusters: social protection through *Oportunidades* and credit for agricultural production (PROCAMPO). However, although it is used by poor people, PROCAMPO is not classified or designed as social protection or even a social programme (it is not targeted at poor people), but as a production subsidy, and it is a direct transfer based on crop acreage. Nevertheless, both policies have been shown to minimise smallholder farmers' liquidity constraints and have an income multiplier effect (Todd et al., 2010; Sadoulet et al., 2001). While each programme has particular objectives, the rural poor can also use them in tandem. Linking the two programmes offers the rural poor a social protection scheme with cash transfers through *Oportunidades*, while maintaining a support mechanism for production under PROCAMPO.

II. Historical Background to *Oportunidades* and PROCAMPO

The signing of the North American Free Trade Agreement (NAFTA) signalled a transition for social protection and production support in rural Mexico. The dismantling of the CONASUPO structure proved to be a distinctly new environment for Mexican producers that were heavily reliant on domestic supports provided through the previous support mechanisms.¹ The new post-NAFTA strategy targets surplus-producing, larger farmers oriented with growing higher-value cash crops. Transitioning smallholders and medium-sized family farmers are too large to benefit from targeted social transfers such as *Oportunidades*, while their minimal amount of land receives limited benefits from PROCAMPO, due to its basis on a payment by acreage. The objective is not to transform the existing agrarian structure but to strengthen the already productive farmers participating in the market and to align production with comparative advantage in export crops that, in effect, squeezes out small and medium-sized producers. Additionally, the government's actions leading up to NAFTA led to significant privatisation schemes from the traditional *Ejido*² land tenure system to TELMEX and a majority of the financial and banking sector (Vargas-Hernández, 2005: 226–230).

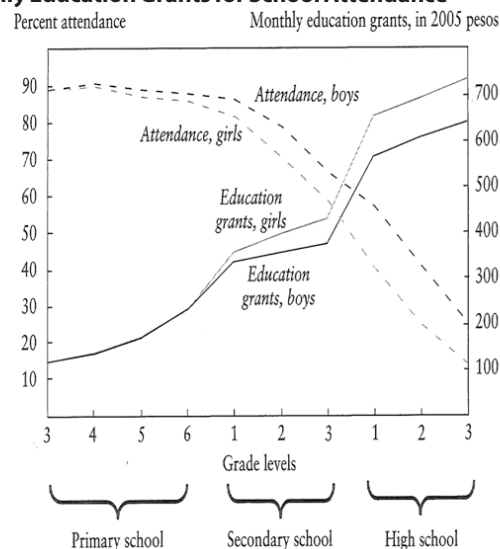
As a result, the strategy shifted away from state intervention and towards privatisation coupled with trade liberalisation. However, the government maintains and is expanding social safety nets along with agricultural credit support to offset the disproportionate effects of agricultural prices under the new macroeconomic policies. In 1997, the government implemented one of the first CCT programmes, then named *Programa de Educación, Salud y Alimentación* (PROGRESA). The programme ushered in a new philosophy of providing cash transfers to the poor under the condition that their children stay in school and receive regular health check-ups.

Mexico's *Oportunidades* is one of the largest CCTs in the world, extending cash assistance to 5.8 million households (over 20 per cent of the country's population). Its budget is currently around US\$ 5 billion, which constitutes a little over 0.4 per cent of the country's GDP (Federal Government of Mexico, 2011). The programme's main objectives are to provide immediate relief from poverty through the cash transfers while promoting investment in human capital by attaching conditionalities to the transfer. A highlight of its early success was the proactive outreach to poor rural households by identifying beneficiaries before beginning the programme, which led to a take-up rate of around 97 per cent (Angelucci et al., 2009). When the programme was extended to urban areas and renamed *Oportunidades* in 2003, the targeting shifted from direct outreach to the establishment of registration offices (*módulos*), which had a much lower take-up rate of around 50 per cent (ibid.). This example highlights the programme's early successes in design; however, it also acknowledges the importance of identifying those successes and adapting them for expanded coverage.

Oportunidades maintains that poor people are either unwilling or unable to invest in human capital. Both lost income from a child's inability to work while attending school as well as the opportunity costs associated with

physically getting to school are obstacles that the programme directly addresses (Parker, 2003: 8). Beneficiaries' children are required to achieve at least 85 per cent school attendance, and the amount of transfer increases with the age of the children, since they are less likely to attend school as they get older and become an important source of working income for the household (see Figure 1). The monthly cash assistance provides a grant for each child dependent on age and sex, with a cap of MX\$ 1515 irrespective of the number of children (Federal Government of Mexico, 2011).

Figure 1
Monthly Education Grants for School Attendance



Source: Author's update of Levy and Rodriguez (2004) with data from the National Coordinating Agency for the Human Development Program *Oportunidades*.

Within the sphere of supporting agricultural production, the Mexican government implemented a programme in 1994 that offers direct transfers to farmers to remain competitive against increased US agricultural imports after the signing of NAFTA. The decoupled Programme for Direct Assistance in Agriculture (PROCAMPO) offers agriculturalists a payment per hectare. Under trade liberalisation with NAFTA, the Mexican government envisaged that producers would participate in PROCAMPO as a means to increase inputs to allow a transition to growing cash crop exports. Given the nature of cheap US agricultural imports of food staples (maize, wheat, cotton, barley), the Mexican government's support through PROCAMPO continues to be a necessary component in securing rural livelihoods, but is it enough?

One of PROCAMPO's shortfalls is that there is no specified target population beyond those who own land, and they are not necessarily poor. Moreover, PROCAMPO's lack of a pro-poor bias results in disproportionate benefits towards farmers with more capital and land (Davis et al., 2005). In contrast, *Oportunidades* is a programme strictly targeted at alleviating poverty. Numerous studies have indicated that *Oportunidades* has resulted in an increase in food consumption and increased human capital investments; however, a clear link between poor producers (perhaps through PROCAMPO) and the rural poor consumers has yet to be established (Todd et al., 2010; Winters et al., 2009; Davis et al., 2005). Thus, a clear challenge in ensuring food security is to

promote a clear link between small producers and poor people. A discriminatory policy aimed specifically at the *ejido* sector and farmers with limited land has the potential to not only assist vulnerable producers but also to revitalise smallholder production and local markets. *Oportunidades* has been shown to assist the rural poor (landless or smallholders) to boost subsistence production and increase the probability of agricultural production and access to livestock. However, Winters et al. (2009) conclude that despite increased inputs from *Oportunidades*, the landless and smallholder producers do not have a sufficient transfer based on productive investment to alleviate adult poverty.

III. Supporting Smallholder Agriculture: Why Cash and Land-based Transfers are not Enough

Advocates of abolishing food subsidy programmes argue that regional markets develop with the influx of capital that goes to purchase agricultural goods through cash transfers (demand-side). The cash transfer programme's designers anticipate that rural producers will acquire economic gains from having additional consumers through participation in *Oportunidades*. In contrast to subsidies, targeted cash transfers result in more consumption and thus a larger market for producers. In-kind subsidies such as food baskets only create inequalities between producers, as some may have to compete without receiving government assistance (Levy, 2006: 69).

Nevertheless, smallholders also have to contend with large-scale commercial producers selling goods at a lower production cost. In the case of Mexico, smallholder agriculture goes beyond providing an income to the rural poor. Not only is it a public good providing identity to the country's rich agrarian history, but it also provides the country with increased natural resources and sustained biodiversity. Smallholder producers develop and maintain efficient, productive agricultural practices with more labour intensity and crop diversity. Lastly, smallholder agriculture is often a source of food security in an era of food price volatility (Winters et al., 2009). Without a discriminatory policy in favour of smallholders, consumption in the market provides an unfair advantage to already capitalised and surplus-oriented, large-scale producers.

Not only are the smallholder producers at a disadvantage on the supply side of the domestic agricultural market in Mexico, as will be covered here later, but also demand-side forces increase the consumption and market of the large-scale producers. Furthermore, consumers with capital constraints tend to be inversely affected by food price volatility. It has been found the poor in Mexico to be disproportionately affected by food price increases. Food represented 44 per cent of all purchases for the three lowest consumption brackets in Mexico (3528 pesos to 10,128 pesos per quarter), compared to 27 per cent for all other non-poor income levels (Valero et al., 2008).

Specifically targeting the small farmer as the primary producer for domestic food consumption promotes a diversified and sustainable approach to ensuring food security. The idea that large-scale industrial agriculture is a more productive model is only true in terms of producing monocultures such as soy, corn or similar export crops.

Smallholders are some 200 to 1000 times more productive when providing for the overall nutritional needs of a population (Rosset, 2000).³ Their labour input per hectare results in more attentive farming practices and less reliance on chemicals and artificial fertilisers, which results in significantly higher yields in a sustainable manner than industrial agriculture. Lastly, their knowledge of the soil, climate and local farming techniques allows them to more efficiently use the best farming practices based on individual circumstances and including a diverse group of crop types.

Recent changes in PROCAMPO have indicated the government's awareness that strengthening the smallholder sector is essential to an effective long-term food security strategy. Notably, the programme adopted PROCAMPO *Capitaliza*, which offers small farmers the option of receiving their payments before the growing season and using the capital as collateral in accessing additional sources of credit.

However, only 13 per cent of the farms in the country are larger than 5 hectares but receive 43 per cent of the programme's total payments. Since the size of the payment is linked to the amount of land, PROCAMPO is still unequal in terms of the percentage of total transfers (Winters et al., 2009). Furthermore, the income multiplier effect was greater for producers with middle to larger land holdings (multipliers of 2.77 and 2.04 compared with 0.24 for smaller farms) (Sadoulet et al., 2001).

Despite PROCAMPO's objective of assisting farmers to transition towards the production of cash crops, numerous challenges abound for the Mexican producer in abandoning the cultivation of traditional crops. Henriques et al. (2004) identify lack of credit, increased labour inputs, cultural traditions (subsistence production and diet) and the high cost of inputs for new crops as obstacles facing Mexican producers. These barriers reveal another significant gap in the design of PROCAMPO. The programme's focus on providing a grant to those growing staple crops is important for farmers with capital constraints, but it also needs to support the production of cash crops to fulfill its objectives. To combat poverty by supporting agricultural production, a more comprehensive approach needs to be implemented that can facilitate inclusive growth.

Not surprisingly, rural residents constitute a majority of the country's population living in extreme poverty (over 60 per cent), and coincidentally both land and labour productivity have been sluggish at best, with levels of just over 2 per cent since the early 1990s (World Bank, 2005). To facilitate inclusive growth in rural Mexico, it is evident that effective targeting mechanisms and complementary policies need to be in place that specifically address extreme rural poverty and the importance of small producers. This has been the recommendation of numerous other studies and evaluations within the Mexican context of supporting smallholder agriculture and promoting food security (Winters et al., 2009; Todd et al., 2010). Furthermore, an integrated approach can combine existing structures and institutional capital to have more efficient service delivery and extended coverage as well as shared monitoring and evaluation. Currently, the two largest programmes for social protection and production (*Oportunidades* and PROCAMPO) are coordinated and

implemented within two different ministries and have little to no integration. Despite the institutional barriers and limited capacity, an integrated approach could be a major step to connect the prevalence of rural poverty with policy prescriptions of supporting smallholders.

Mexico's use of *Oportunidades* and a few smaller transfer programmes (*Programa de Apoyo Alimentario*, *Abasto Rural*) has eased liquidity constraints on the poor and has resulted in increased consumption of food items and total caloric intake.⁴ However, long-term goals of sustainable rural development have yet to be realised, and the current policy prescription continues to face numerous challenges to provide inclusive growth opportunities for the rural poor. As already indicated, PROCAMPO is an important programme that provides a crucial lifeline to rural producers, but its lack of a pro-poor focus opens it up to criticism in promoting an equitable and sustainable path for rural development. Such a discriminatory policy would also have a two-fold effect by not only alleviating rural poverty but also ensuring more sustainable development that couples local production of smallholders with local consumption.

If we use the two-track approach as discussed by the FAO and numerous multilateral organisations, the two programmes offer a policy with cash to provide immediate relief to purchase food (*Oportunidades*) and a credit programme designed to strengthen agricultural production and investment (PROCAMPO). *Oportunidades* has been shown to support subsistence production and alleviate food insecurity. Likewise, PROCAMPO transfers are a necessary component of increasing agricultural inputs for smallholders. However, under the current strategy it is important to consider which producers are the focal point

for a sustainable development solution. It is the deliberate link between production and the protection of the poor that is clearly absent in the case of Mexico to support an effective and stable food security framework. That link needs to be established through specific targeting mechanisms that strengthen the productive capacity of small farmers for a progressive and sustainable two-track approach to poverty alleviation.

1. The ratio of producer supports through CONASUPO to the total value of production was 47 per cent for barley, 66 per cent for corn, 20 per cent for rice, 43 per cent for sorghum and 110 per cent for soybean (Yunez-Naude, 2003).

2. The ejido land tenure system was based on traditional communal farming since pre-Columbian times and was written back into the constitution after the 1917 Mexican revolution. The ejido land reform system was implemented primarily starting in the 1930s to return lands to indigenous and marginalised populations. TELMEX is Mexico's largest telecommunications company and has a monopoly share of over 90 per cent of telephones and a major stake in all telecommunications industries (TELMEX corporate website, www.telmexinter.nacional.com).

3. The nutritional needs of the country's population can constitute a diverse group of agricultural products from different climates, regions and soil types, whether raw or processed. For example, fruits, nuts, processed grain oils, cereal grains, meat and fish are all products that require specialisation that can be met with labour-intensive small farms.

4. Hoddinott et al. (2000) showed a median increase of between 8 and 10 per cent in food consumption between *Oportunidades* beneficiaries and non-beneficiaries, with significant increases in the consumption of fruits and vegetables (around 20 per cent) and meats and animal products (around 30 per cent) and corresponding similarities regarding the increases in caloric intake.

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