CHAPTER 5

From Food Subsidies to Targeted Transfers in Mexico

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INTRODUCTION

Mexico has a long history of food-oriented social assistance (FOSA) programs going back to the 1930s. Over the past two decades, the country has undertaken a deep and broad process of reforming those interventions. As discussed in chapter 1 of this volume, Mexico famously streamlined a complex system of in-kind assistance and price subsidies by introducing a targeted conditional cash transfer (CCT) program, originally named Progresa.

In particular, reforms centered on reallocating benefits from urban beneficiaries (especially concentrated in Mexico City) to the extreme poor in rural areas; they also shifted instruments from mostly generalized subsidies to targeted cash transfers combined with services designed to address basic nutrition, education, and health. Noteworthy, the government used evidence from a range of robust impact evaluations to design the CCT and inform its scale-up. The program was sustained over four federal political administrations, with gradual expansion in coverage and scope. Its name was changed, becoming Oportunidades in 2002 and Prospera in 2014. For simplicity, this chapter mostly
refers to the program as *Prospera*. Throughout those reforms, the program incorporated new components, while maintaining its original objectives, intervention model, and target population. While much has been documented about Prospera and its predecessors, this chapter discusses the universe of FOSA interventions that preceded Prospera, their reform, and the reasons why some interventions still coexist alongside the flagship cash-based program. In this context, we examine one particular intervention, *Programa de Apoyo Alimentario* (PAL, Food Support Program), which itself evolved in various ways and was implemented in areas where Prospera could not be implemented. Indeed, Prospera benefits were provided only where basic health and education services were available, excluding some of the poorest and most vulnerable households living in remote rural areas. PAL was introduced in 2003 as a complement to Prospera, with the aim of reaching those unattended populations.

Until 2008, the resources allocated to PAL were minimal compared with those allocated to Prospera (1 percent on average between 2003 and 2008), but over the following seven years, PAL grew significantly, representing 7 percent of Prospera’s budget in 2015. In 2009 PAL coverage expanded to include cash transfers alongside food commodities, in 2010 its institutional home moved to the *Coordinación Nacional de Prospera* (NCP, National Coordination of Prospera), and in 2013 the *Cruzada Nacional contra el Hambre* (CNCH, National Crusade against Hunger) was created. In addition to maintaining unconditional cash transfers (UCTs), called PAL-Monetary, the in-kind food component was replaced by a voucher, called PAL–Sin Hambre (PAL–Without Hunger). By early 2016, PAL was fully fused with Prospera as an “unconditional scheme of benefits.” However, its two modalities, PAL-Monetary and PAL–Sin Hambre, coexist with the conditional scheme of Prospera benefits.1

Mexico’s subsidy reforms are interesting within the context of the country’s social policy and as a case study of the political economy of food subsidy reform. As this chapter shows, the reforms improved the efficiency and equity of public resources allocated to food-related support, despite formidable institutional and political constraints. The overall decline in public spending on FOSAs was more than compensated by the improved targeting and operational efficiency of the new programs, and the benefits reaching the poor increased fivefold between 1997 and 2015.

What made the reforms possible? Why did highly inefficient food subsidies and transfers persist over many decades? Why do some of the older targeted food transfers persist despite their limitations? Why does Mexico still sustain a generalized food subsidy of 1 percent of gross domestic product (GDP) that exempts food from the value added tax (VAT)? Why have those exemptions proved politically challenging to eliminate despite multiple fiscal reforms? Finally, why are generalized food subsidies and transfers in the style of the *Compañía Nacional de Subsistencias Populares* (CONASUPO, National Company of Popular Subsistence) still the norm in many of the countries
represented in this volume—even at a much larger scale than in Mexico and in countries with even older histories—for example, India and Indonesia?

The remainder of this chapter is structured as follows. First, it presents the economic, social, and broader policy context of the reforms, followed by a discussion of the evolution of food subsidies in Mexico over the 20th and 21st centuries, focusing on the transition to targeted transfers through both Prospera and PAL. The chapter then discusses the introduction and expansion of cash transfers, recent developments, and distribution and efficiency. It concludes with lessons learned and policy implications.

**ECONOMIC, SOCIAL, AND POLICY CONTEXT**

Since the 1930s and up to the early 1990s, the core public policies pursuing FOSA-related objectives were land redistribution and agrarian reform, investments in irrigation and storage infrastructure, market price support policies, and generalized consumer subsidies (Scott, forthcoming). On the supply side, those policies led to rapid agricultural growth in the first half of the 20th century, but gains were concentrated in large-scale agricultural producers, mainly in the northern states, which also received most of the public investments. By contrast, subsistence and small-scale farmers—the great majority of agricultural producers to this day—had minimal land assets and little access to markets (land sales or rents were prohibited under the *ejido* system of communal landownership, before it was reformed in 1992) and were excluded from market price and most input supports. This led to both persistent regional and household inequalities in the rural sector and stagnant agricultural growth and productivity after the 1960s.

Agricultural policy was radically adjusted and reformed in the 1980s and 1990s. First, in response to the 1982–83 debt crisis, public spending on agricultural support fell from more than 2.0 percent of GDP in the early 1980s to 0.5 percent by 1992, remaining close to that level ever since. Second, in anticipation of the gradual opening up of the agriculture sector under the North American Free Trade Agreement after 1994, an ambitious constitutional reform of the *ejido* land tenure system was implemented in 1992. Mexico's second agrarian reform, as this broad reform effort has been described (Gordillo, De Janvry, and Sadulet 1999), was accompanied by reforms in agricultural support instruments. The most relevant of these reforms was creation of the *Programa de Apoyos Directos al Campo* (Procampo, Direct Support for Farmers Program), a per-hectare cash transfer program decoupled from production and commercialization, which was introduced in 1994. Procampo was revolutionary in its efficiency as well as equity. By decoupling transfers from the amount produced or marketed—in contrast to traditional market price support and input and output support policies—the program aimed both to minimize distortions in productive decisions and to reach subsistence farmers. Although it had a regressive element, Procampo was the least regressive
of the larger agricultural support programs, and it was certainly the first major agricultural program with wide coverage of small producers, transferring significant resources to poor rural households.

More than two decades after the introduction of these agrarian land and support policy reforms, rural poverty remains persistently high and agriculture constitutes a smaller source of income for rural households, suggesting that the reforms failed to achieve the expected improvements in the integration, productivity, and equity of the agriculture sector. This failure was similar to that of the first agrarian reform: both programs failed to improve the access of small producers to productive inputs and markets, which would have allowed them to benefit from the pro-market reforms, and both concentrated their support on larger producers. This failure was aggravated by a drastic decline in spending on agricultural investment and public goods. Public goods accounted for the bulk of public spending in agriculture over most of the 20th century up to the 1970s, but the decline in overall agricultural support spending in the 1980s and 1990s was characterized by a shift from investment in public goods to the provision of market price support and cash and in-kind transfers.

**EVOLUTION OF FOOD SUBSIDIES**

The principal FOSA policy implemented during the 20th century consisted of generalized subsidies on basic food staples. Such subsidies can be traced back to the Lázaro Cárdenas government, which created the Regulatory Committee for the Basic Goods Market in 1938 and began regulating the price of basic staples. CONASUPO was the core agency implementing those policies between 1965 and 1999, with the dual objective of protecting producers through minimum guaranteed prices and shielding consumers through low food prices. The largest of those subsidies was the subsidy on tortillas (maize), followed by a subsidy on bread (wheat); other subsidized commodities included oil, rice, sorghum, soybeans, sugar, and milk.

Figure 5.1 presents the evolution of the principal FOSA instruments in Mexico from 1970 to 2015. In addition to budgetary (tax-financed) transfers, the figure also shows the ratio of transfers to consumers and producers through market price support policies for 1986–2014 (light green line). Public spending on FOSAs expanded to 1.2 percent of GDP in 1984, its highest level (of the period and of the century), although this estimate also includes subsidies to producers through CONASUPO.

As the gap between international prices and domestic producer and consumer prices widened in the 1980s, the CONASUPO subsidies became increasingly unsustainable and were gradually reduced and eventually eliminated in 1999. By 1991, with the producer price of corn 70 percent above international prices, the subsidy was insufficient to compensate consumers for the difference (Levy and van Wijnbergen 1993).
FIGURE 5.1
Evolution of Resources and Instruments for Food Assistance in Mexico, 1970–2015

Sources: Based on the statistical annex in Poder Ejecutivo Federal, various years; OECD, various years.
Note: PASL = Social Milk Supply Program; PAR = Rural Food Supply Program; DIF = National System for Integral Family Development; CONASUPO = National Company of Popular Subsistence; MPS = market price supports.
The CONASUPO subsidies were notoriously opaque, making an evaluation of the program challenging; the program’s design and implementation also made it a highly inefficient and inequitable instrument for FOSA-related objectives. For example, 20 percent of CONASUPO’s food stock had an unknown destiny, and another 30 percent was used for animal consumption. If one adds irregularities in the distribution from mills to tortillerías (tortilla bakeries), the number of beneficiary families was just half of what the distributed resources implied (Martín del Campo and Calderón Tinoco 1992). The location of CONASUPO warehouses was often determined by political rather than economic factors and was correlated not with prevalence of poverty but with the density of private stores. For instance, Hill (1984) estimates that the poorest 50 percent of the population received just 16 percent of the subsidies.

Rural households—the population with the highest poverty rates and highest incidence of undernutrition—were excluded almost by design. Because they consume maize directly by making their own tortillas, they did not benefit from the tortillería-channeled subsidy. The subsidy to agricultural producers through a price floor on maize, therefore, represented a significant tax on poor rural households and even on subsistence farmers, who were net consumers of maize. Subsidized maize was provided in rural areas through the Programa de Abasto Rural (PAR, Rural Food Supply Program), which was implemented by the Sistema Social de Abasto de Distribuidoras CONASUPO (Diconsa, Social Supply Distribution System of CONASUPO).

In addition to CONASUPO, fiscal expenditures—another form of generalized subsidies—are associated with tax exemptions on food. The VAT, which was introduced in Mexico in 1980, exempts most food items. The fiscal expenditure associated with this measure was an estimated 1.3 percent of GDP in the past decade. Although not generalized, other (targeted) subsidy programs have older origins, such as the Programa de Abasto Social de Leche (PASL, Social Milk Supply Program). PASL was established in 1972 and implemented by Liconsa, a parastatal subsidized by the federal government and under the Ministry of Social Development (Sedesol). However, earlier versions date back to 1944, making it the oldest targeted food (and antipoverty) program in Mexico. PASL began as an urban program, in principle targeted to poorer neighborhoods and to households with income below two minimum wages and with at least one child under age 12. Currently, the program covers urban and rural areas, where beneficiary families have the right to buy fortified milk at approximately 50 percent of the domestic market price (in some areas, the price is even lower).

PAR of Diconsa is another targeted food subsidy program with a history spanning 40 decades. It consists of a network of stores (mainly rural) that sell basic commodities at subsidized prices. Diconsa was created in 1972 and is still operating under an expanded network of Diconsa community stores. The number of stores increased from 1,500 in 1976 to more than 27,000 in 2015.
Although Levy and Rodríguez (2005) classify PAR as a generalized food intervention because it does not restrict access to its stores, we classify it as a targeted program because it applies geographic targeting in two ways. First, it locates its stores in rural and (recently) periurban areas (between 200 and 14,999 inhabitants), and, second, it targets poor and isolated localities within rural areas. Evidence shows that at least until the 1990s, the latter type of targeting was not effective, with 40 percent of stores located in nonpoor localities and only 30 percent located in very poor localities (Levy and Dávila 1999; Levy and Rodríguez 2005). More recent data show that Diconsa’s capacity to reach the poorest population has improved in the past decade, and PAR has become one of the most effectively targeted programs operating in Mexico today. However, an important concern is whether PAR undermines local production and commercial activities (box 5.1).

A third targeted FOSA program is the Sistema Nacional para el Desarrollo Integral de la Familia (DIF, National System for Integral Family Development), which operates a large program of school breakfasts, food baskets, and community kitchens. DIF was established in 1977, but its school breakfast program originated with creation of the Instituto Nacional de Protección a la Infancia (National Institute for the Protection of Children) in 1961. The program has a large presence in rural as well as urban areas. In 1998, it was decentralized through the Fondo de Aportaciones Múltiples (FAM, Multiple

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**BOX 5.1 Diconsa and the Rural Food Supply Program**

Diconsa was established to extend CONASUPO’s distribution network throughout the country by regulating the urban market of basic foodstuffs and by creating an institutional distribution channel. In 1979, the Coordinación General del Plan Nacional de Zonas Deprimidas y Grupos Marginados (COPLAMAR, General Coordination of the National Plan of Depressed Zones and Marginal Groups) was created to reduce inequalities between agriculture and industry and to combat the loss of food self-sufficiency in rural areas. Four years later, this program was transferred to Diconsa, becoming the CONASUPO Rural Program and later named the Rural Food Supply Program; in the 1980s, it was inserted into Sedesol.

After CONASUPO disappeared in 1999, Diconsa adopted a more entrepreneurial vision, consolidating itself as a competitive company. Moreover, under the Vicente Fox administration (2000–06), the Diconsa stores gradually began to offer additional products and services (at present, 90 percent of stores have become “community service units”). In 2013, Diconsa strengthened its social approach, taking action to reduce the purchase of products from trading companies and to increase the purchase of products directly from (local) producers. During the Enrique Peña Nieto administration, Diconsa has also reinforced its links with other social programs, assuming a strategic role as the operational arm for the distribution of beneficiary support; PAR is still Diconsa’s main program, with a budget for 2016 of US$108.3 million, representing 2.4 percent of the social development sector budget (0.01 percent of GDP).

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THE 1.5 BILLION PEOPLE QUESTION

Contributions Fund), which is part of a set of large decentralized funds that forms part of the federal budget. The funds generally ensure stable financing as well as transparent rules for the distribution of resources at the state level. However, the decentralization process has limited the transparency and accountability of the DIF program, because it is administered separately in the 32 states, and reporting and accountability responsibilities between the states and federal government tend to be ill defined. This may explain why, in contrast to the other long-standing food programs, the DIF programs have survived and expanded despite limited information about their actual impacts.

Another targeted food subsidy program that replaced generalized subsidies was the Programa Maíz-Tortilla (Maize-Tortilla Program), which was introduced in 1984. This program became the Programa de Subsidio al

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**BOX 5.1 Diconsa and the Rural Food Supply Program (continued)**

PAR’s main objective is to guarantee the social right of access to food by facilitating physical and economic access to foodstuffs for the population living in localities of high or very high rates of marginalization. The program provides Diconsa stores with a supply of basic commodities (17 food items and 5 products like soap, toilet paper, and toothpaste) and complementary commodities (health, hygiene, and other products), at preferential prices that are at least 15 percent lower than prices in the local market. At present, savings offered by Diconsa stores range between 20.5 and 28.8 percent. Diconsa sells commodities to its network of stores at subsidized prices, so these savings are not the result of marketing efficiencies.

This program was highly innovative because it established a scheme of mutual responsibility between the government and the community, with the community a key factor in the operation and sustainability of PAR. Access to PAR support is driven by community demand (once the eligibility requirements are met). Once approved, the community owns and operates the Diconsa store (including the store premises). A store manager is democratically elected by a community assembly, and Diconsa repays him or her with 5 percent of total sales of products in the store. For a store to begin operations, Diconsa first assigns it with “working capital” (an initial credit) sufficient to cover at least 21 days of sales. Once the store has capitalized, the manager submits a request to the Diconsa warehouse for the items needed to restock the store. Therefore, the quality of the service provided to PAR beneficiary communities depends on the manager’s management and service capabilities.

A Diconsa store represents the only option for food provision in 10 percent of rural localities, and the stores generally have wide acceptance, as beneficiaries associate them with social value. However, recent evaluations and monitoring studies have found that Diconsa needs to (a) ensure the optimum supply at the stores, (b) guarantee that prices are lower than those in the local market, and (c) inform the mechanisms through which beneficiaries can submit suggestions, requests regarding poor-quality products, or complaints about the manager’s service. There is no evidence regarding the impacts of this program on food and nutrition.

Sources: CONEVAL 2012; Diconsa 2015; Flores, Muñoz, and Colorado 2015; Shamah and others 2014; Soto 2014.
Consumo de la Tortilla (Tortilla sin Costo, Tortilla Subsidy Program) in 1990 and was replaced in 1992 with the Fideicomiso para la Liquidación del Subsidio a la Tortilla (Fidelist, Trust to Eliminate the Tortilla Subsidy). The targeted subsidy was first implemented through the direct distribution of subsidized tortillas in the Diconsa community stores, with tortillas sold at 50 percent below the generalized price ceiling (1984–86). In 1986–90, the program was implemented through food vouchers (tortibonos), which were replaced in 1990 by vouchers that allowed consumers to obtain 1 kilo of free tortillas per day. In 1991, an electronic card was introduced to implement the program, which was better designed to monitor compensation to tortillerías. The program was gradually reduced in the late 1990s and eventually eliminated in 2003.

In practice, compared with generalized subsidies, both the Fidelist and PASL programs were not effective in reaching the poor. Although programs were targeted to households with an income below two minimum wages, no credible means test was available to identify household income directly for targeting purposes (and none is available to date in Mexico, which explains why Prospera introduced a proxy means test), except through self-reporting and house visits. The application of the targeting mechanisms is opaque and subject to manipulation (Martín del Campo and Calderón Tinoco 1992). Also, the concentration of PASL and Fidelist in Mexico City did not reduce, and probably aggravated, the urban bias of food subsidies. Finally, in the case of the PASL implemented by Liconsa, operational costs were extremely high, on the order of 28.5 percent (Grosh 1994) to 36.0 percent (World Bank 1991).

Spending on targeted FOSA increased significantly over the 1980s and 1990s as food subsidies partially replaced declining generalized subsidies. The substitution was only partial, however, as total FOSA spending fell significantly during the period, before recuperating with the introduction of the Prospera CCT in 1997 and its rapid expansion over the following decade. As discussed later in this chapter, the decline in public spending on FOSAs was more than compensated by the increase in the targeting and operational efficiency of the instruments, so the benefits reaching the poor actually increased fivefold between 1997 and 2015.

Figure 5.2 presents the evolution of key FOSA and Prospera transfers as a percentage of GDP. For Liconsa and Fidelist, the value reported in the figure does not represent public spending; rather, it is the estimated value of the transfer to beneficiaries. For Fidelist, this is a good approximation of public spending (minus operational costs), but for Liconsa, for which public spending data are also reported for comparison, the two series are very different (official estimates of the value of Liconsa transfers stopped in 2000, so the series after that year reports public spending). The difference is largely due to Liconsa’s access to heavily subsidized milk imported from abroad. As a result, despite high operational costs—for distributing through a network of stores
FIGURE 5.2
Evolution of the Value of Targeted Food and Cash Transfers in Mexico, 1980–2015

Sources: Based on Poder Ejecutivo Federal, various years; SHCP, various years; OECD, various years.
Note: Liconsa (value of subsidy) refers to the estimated value of the benefit received by beneficiaries, calculated as the price paid for Liconsa milk minus the commercial price of milk times the amount of milk; Liconsa (public spending) refers to the budgetary cost of the Liconsa transfers. PAL = Food Support Program; CCT = conditional cash transfer; DIF = National System for Integral Family Development; MoSD = Ministry of Social Development (Sedesol).
and for transforming powdered into liquid milk—the program could still offer milk at half the domestic commercial price, with marginal or even zero fiscal costs (1989–90, 2000–02).

Even at their historical maximum (1989–96), the combined targeted FOSAs represented only 0.2 percent of GDP. Except for DIF, targeted subsidy programs declined significantly with the expansion of the Prospera cash transfers. Two new FOSA programs have been introduced since 2003: PAL in 2003 and Comedores Comunitarios (Community Kitchens) in 2014.

THE INTRODUCTION AND EXPANSION OF CASH TRANSFERS

The transition from generalized subsidies to targeted food transfers over the mid-1980s to mid-1990s was followed by a transition to targeted cash transfers. The introduction of Prospera in 1997 coincided with the elimination of CONASUPO in 1999, the phasing out of Fidelist in 2003, and the reduction of the other major targeted food transfers, except DIF (which was instead decentralized in 1998). Prospera was originally financed with the resources made available from reallocated food subsidies—in particular, from CONASUPO.

Prospera was intended to reduce the intergenerational transmission of poverty through basic human capital investments using CCTs. Prospera's target population consists of extremely poor households, originally in the poorest rural areas, although coverage has expanded into urban areas and higher education levels. The most recent reforms aimed to connect Prospera beneficiaries to financial services and productive activities.

The educational component of Prospera consists of scholarships designed to cover the opportunity cost of every child's participation in basic education, lower-secondary education, and upper-secondary education in lieu of their participation in the workforce. The scholarships have risen progressively and are slightly higher for girls than for boys after basic education. In addition, an economic incentive is provided to every child who completes high school before age 22. The food component of the program is a fixed per-household monetary transfer, which, during the 2009 financial crisis, was complemented with an additional per-household food transfer. Two life-cycle transfers were added during the federal administrations of 2000–06 and 2006–12: a basic old-age pension and a child support transfer for every child from birth to age 9, respectively. Finally, the health component includes basic preventive health services (including educational health sessions) and in-kind food transfers: nutritional supplements for pregnant or lactating mothers and for children under age 5.

PAL was introduced in 2003 as a complement to Prospera. Although introduced as a separate program, PAL can be considered an extension of the Prospera food component for three reasons. First, and most important, PAL was introduced to reach the extreme poor who live in small and remote rural localities where the conditional design of Prospera cannot operate because

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these communities lack the required education and health services. PAL offered the food component to eligible households in such localities as a UCT. Later, this objective was broadened to include any eligible beneficiaries who could not be incorporated into Prospera for lack of access to the required services, regardless of whether lack of access was due to overstretched clinics in urban areas or scarcity of services in remote areas. Second, though PAL was initially operated by Diconsa, Prospera’s coordination entity (NCP) assumed responsibility for PAL’s operation in 2010. Third, in 2016 the program was formally integrated within Prospera as an unconditional scheme of benefits that coexists with the original conditional scheme of benefits.

Figure 5.3 shows the distribution of Prospera transfers between its three main components—and the ministries to which relevant resources are budgeted—including PAL. A large fraction of resources in the health component finance the food supplements, but that component also includes costs associated with health talks. (Neither the health nor the education component includes the actual cost of services, which is budgeted as part of the overall supply of these services by the relevant ministries.) The in-kind food transfers of Prospera currently represent about 7 percent of total Prospera transfers. The share of the education component increased slightly in 2000–03, reflecting the program’s expansion to upper-secondary education, but in 2006–11 the participation of the transfer component (Prospera cash transfers and PAL)

**FIGURE 5.3**

Spending on Prospera Components and PAL as a Share of Total Prospera and PAL Spending in Mexico, 2000–15

![Bar chart showing the distribution of Prospera transfers between its three main components and the ministries to which relevant resources are budgeted, including PAL.](chart)

*Sources:* Based on Poder Ejecutivo Federal, various years; SHCP, various years.

*Note:* MoSD = Ministry of Social Development (Sedesol); PAL = Food Support Program; nutr. suppl. = nutritional supplements.
increased from 40 to 60 percent, reflecting the introduction of old-age and child support transfers as well as the expansion of PAL (box 5.2 summarizes the evolution of the latter).

A large body of literature is available on the impacts of Prospera, probably one of the largest impact evaluation literatures available for any program in the world. Parker and Todd (2015) present a comprehensive survey of this literature. This section focuses on the role that the program has played in transforming food transfers in Mexico. The introduction of Progresa in 1997 and its expansion since then radically redefined food support and antipoverty policy in Mexico, with innovations in four main areas: conception and design, instruments, targeting, and institutional design.

**BOX 5.2 Evolution of PAL**

PAL emerged in 2003 as part of the Programa Microregiones (Microregions Program) formerly called Te Nutre (Feeds You), which was implemented by Sedesol. PAL provided households with a food basket (beans, rice, maize flour, vegetable oil, powdered milk, pasta soup, canned tuna or sardines, tomato puree, lentils, and canned or dried chilies) every two weeks. The food basket was valued at US$3.75 and reached households that Prospera could not reach because the health and education ministries lacked institutional capacity in rural areas.

In 2004, Te Nutre was formally renamed PAL, and implementation was transferred to Diconsa. PAL’s support was granted monthly in two forms: either in-kind support or cash transfers. The former consisted of a food basket valued at US$7.50; the latter consisted of the delivery of a cash transfer of US$7.50 per household.

In 2009, PAL began to provide two basic types of benefits: cash transfers per household and in-kind support in the form of nutritional supplements targeted to children under age 5 and to pregnant or lactating women within the beneficiary households. PAL coverage also expanded to urban areas.

In 2010, the institutional management and operation of PAL moved from Diconsa to Prospera (the NCP entity), while still providing both cash and in-kind (food) transfers. The shift was intended to address challenges in institutional and implementation coordination (for example, the synchronization of processes and the delivery of nutritional supplements without the intervention of the Ministry of Health), as well as to improve the alignment of targeting criteria and methodology, benefit size, and others.

In 2013, two major changes occurred: first, in-kind transfers were discontinued, and vouchers were added (PAL–Sin Hambre), representing an extra benefit of US$4.60 per household (that is, in addition to the original cash component valued at US$25 per household plus US$6.30, which is provided for each child under age 9). The vouchers can be used to access 19 nonperishable commodities (except eggs) available at Diconsa stores.

In 2016, PAL was fully integrated into Prospera, offering three types of benefits: conditional cash transfers, currently reaching 6.1 million beneficiary households (90 percent of the program), unconditional cash transfers (137,000 households), and vouchers (579,000 households).
Conception and Design
The design of Prospera reflects the recognition that effective investment in human capital cannot be achieved by providing food to poor households that lack basic education and health services. Rather, it occurs only through the simultaneous, coordinated provision of early nutritional support, basic education, basic health services, and sufficient household income to support adequate food consumption. Such transfers are targeted at the critical stages in the child’s life cycle to ensure the necessary accumulation of human capital: maternal and early infant health and nutrition as well as education at the elementary, lower-secondary, and (after 2000) upper-secondary levels. CCTs were designed to finance current food consumption, to cover educational opportunity costs, and to provide incentives to access preventive health services. Furthermore, concentrating these resources in small poor communities ensures that the resources contribute to local economic development (for a review of the evidence, see Parker and Todd 2015).

Instruments: Cash and Food Transfers
Prospera replaced generalized and targeted food transfers with direct cash transfers (CTs) to households. Although the program includes in-kind food transfers, cash transfers are the principal instrument. Under a narrow, instrument-based definition of food subsidies, this transition could be interpreted as a shift from food support to income support, but, in reality, CTs were assumed to be more effective than food support (Levy and Rodríguez 2005).

This conclusion may be argued on multiple points. First, contrary to what is commonly assumed, the value of food transfers was below the food spending of beneficiary households (overall and in the specific foods subsidized, except milk), so the food transfers worked, in effect, as pure CTs, liberating resources for general purchases. Second, although a pure cash transfer is, by definition, not conditional on food spending, the program’s effective targeting to the extreme poor and its allocation to mothers or female caregivers in the household ensure that most of this transfer is spent on food, as has been confirmed in evaluations of the program (Parker and Todd 2015). Third, the operational costs of transferring cash are significantly lower than the costs of distributing food (for example, 5 percent for Prospera compared with 28 percent for Liconsa). Fourth, while the indirect flow of resources involved in food transfers creates many opportunities for diverting resources away from the intended beneficiaries, direct CTs do not allow such leakage and are more transparent (the household—and any accounting agency—knows exactly the value of the transfer received). These points present a strong argument for the comparative effectiveness of CTs versus food transfers as instruments for food support.

The survival of food transfers suggests that they still serve a purpose. Alderman (2016, 2) reviews the evidence on the effectiveness of CTs versus food transfers and concludes, “UCTs as well as CCTs virtually always augment household food consumption, diet diversity, and participation in preventive
health care . . . [but they] have not delivered improvements in nutrition commensurate with their success in addressing poverty.” In the case of Mexico, a review of the accumulated evidence suggests that Prospera “supports significant and positive health impacts for children” (Parker and Todd 2015, 36). Although disentangling the effects of Prospera’s components is difficult, two studies use the program’s variations in treatment to estimate the nutritional impacts of food supplements and CTs separately. The results are somewhat ambiguous. Behrman and Hoddinott (2005) find a positive effect of food supplements, but not of the program overall, whereas Fernald, Gertler, and Neufeld (2008, 2009) find a strong positive effect of income transfers on nutrition. The contrast between the success of CTs in delivering nutritional inputs and their failure in achieving nutritional outcomes is surprising and requires further analysis.

The comparison of interest regarding Mexico’s food support reforms is both between the in-kind and income components of Prospera, and between the older in-kind transfers and Prospera. An important test for the innovations in conception, design, and instruments was a large pilot program implemented in 1995 in three localities in the state of Campeche—the Programa de Canasta Básica Alimentaria para el Bienestar de la Familia (Basic Food Basket for Family Welfare Program; Levy and Rodríguez 2005). The program substituted the milk and tortilla subsidies for all beneficiaries in the three localities with a cash transfer of equivalent value in the form of a debit card acceptable in selected stores (including tortillerías). The pilot made these transfers conditional on attendance at health clinics by pregnant and lactating mothers and children under age 5, where they also received nutritional supplements. The evaluation confirmed that almost all beneficiaries preferred cash to in-kind transfers and that local economies gained positive effects, with no reduction in the sale in Fidelist tortillerías. It also revealed that the conditional design entailed institutional challenges in intersectoral coordination. Thus, the pilot was a way station on the path to Prospera.

Targeting
In addition to its concentration in rural areas (exclusively until 2001), Prospera applies a double targeting mechanism to identify and reach the poorest households. First, it identifies the poorer localities (or neighborhoods in urban settings) using census data, and second, it applies a proxy means test to identify poor households within those localities using the observable (and ideally nonmanipulable) household characteristics best correlated with income poverty. In rural settings, the program applies these tests as a census to the whole population in each eligible locality. In urban settings, that approach is not feasible, and the program sets up application modules (self-targeting of the eligible population).

Although geographic targeting has many antecedents in Mexico’s social policy, Prospera was the first program to implement an effective administrative
targeting mechanism at the household level. As discussed later in this section, survey evidence suggests that Prospera is among the most effectively targeted programs operating in Mexico, although it is not free from targeting errors. The exclusion error, in which the poor population that would be eligible (by the proxy means test) is left out of the program, falls into two main categories: (a) poor households in rural localities that lack the required health and educational services and (b) poor households in urban localities who either fail to identify themselves to the program or that cannot be included because of constraints associated with Prospera’s budget or with the locality’s lack of capacity to provide services to program beneficiaries. The second population is by far the largest, but the first involves the poorest of the poor. Although PAL was set up in 2003 initially to address the first challenge, it has also been leveraged in the context of the second challenge.

Institutional Arrangements

The institutional design of Prospera responded to two important failures of previous social programs: lack of effective interagency coordination and lack of accountability. Many social programs before and since Prospera began have been inspired by the idea that coordinating different ministries and programs within ministries can address a social problem more effectively than taking isolated actions, but these efforts have generally failed in the face of Mexico’s strongly vertical ministerial cultures and power structures. Prospera has been unique in the history of social policy in Mexico in that it has successfully integrated the actions of three major ministries: Sedesol, the Ministry of Education, and the Ministry of Health. That integration has been possible because Prospera was set up as part of a centralized coordinating entity, the NCP, within Sedesol. The responsibilities of each ministry were clearly defined and formalized in operational rules from the beginning (Prospera was a pioneer in publishing its rules). Sedesol operates the delivery of CTs, and the ministries of health and education oversee the provision of services and the certification of beneficiaries’ fulfillment of co-responsibilities. A specific category was created under each ministry’s budget to specify the budget allocated to Prospera’s implementation and to CTs. This coordination was facilitated by the fact that the program was introduced with strong political commitment from the president and the treasury.

The second institutional advantage of Prospera, ensuring accountability, was important in the aftermath of the Programa Nacional de Solidaridad (Pronasol, National Solidarity Program). This flagship antipoverty program of the Carlos Salinas administration (1988–94) was highly opaque in its allocation, ineffectively targeted, and widely suspected of being manipulated for electoral purposes. In that context, Prospera made its allocation criteria (except for the specific weights in the formula to avoid manipulation of the proxy means test), beneficiaries list, and actual allocations fully transparent. The program also incorporated—from its inception and for the
first time in Mexico—an ambitious external and fully public long-term impact evaluation project. That design has played an important role in the construction of evaluation practices and institutions in Mexico in the past two decades.

**RECENT DEVELOPMENTS**

The most recent change in Mexico’s food-oriented policy, introduced by the Enrique Peña Nieto administration, has been the adoption of a broad antipoverty strategy. The CNCH was originally inspired by the Zero Hunger Challenge promoted by the United Nations. Despite its origin and name, the CNCH is a broad coordination and targeting strategy involving a large set of programs from multiple ministries that is designed to reduce Mexico’s multidimensional poverty index. This index measures income poverty together with poverty gaps in six social dimensions: education, health, social security, housing quality, housing services, and food security. The population targeted by the CNCH is the subset of the extreme poor who suffer food insecurity, as measured by this poverty index.

The CNCH has introduced only one new program, Comedores Comunitarios, which is implemented by Sedesol. This initiative was first implemented as a response to the effects of natural disasters in Guerrero State and then adopted as a federal program under the CNCH, substantially increasing its coverage. This program has three components: one-time provision of equipment to set up a kitchen; monthly provision of nonperishable inputs; and, for eligible communities, one-time support for the installation of a backyard garden to produce vegetables and poultry. In 2015, 7,937 kitchens were operating, around three-quarters of them in rural localities. The program operates only in localities with more than 200 inhabitants, because the nonperishable inputs are provided by the distribution chain of Diconsa, which only operates in such communities.

The Peña Nieto administration also introduced PAL–Sin Hambre, in which households incorporated into PAL after 2013 received the food component as an in-kind transfer in the form of a prepaid card, which could only be used to buy from a predefined list of food items in Diconsa stores (box 5.3). The introduction of these two new food transfers—Comedores Comunitarios and PAL–Sin Hambre—suggests that the present administration has a renewed interest in in-kind food transfers, but such transfers represent only a marginal increase in existing food transfers in comparison with Prospera’s cash transfers (figure 5.2), an increase from 0.06 percent of GDP to 0.08 percent between 2012 and 2015. However, if one considers the conclusions obtained in evaluations of the CNCH (CONEVAL 2016), from a food security perspective, the strategy used by Prospera and PAL is still fragmented, and relevant long-term interventions are missing, notably those aimed at addressing urban poverty. Overall coverage of PAL is laid out in figure 5.4.
**BOX 5.3 Delivery of Voucher Benefits**

PAL–Sin Hambre entails two steps. First, beneficiaries are directed to the temporary transfers delivery centers of the Banco del Ahorro Nacional y Servicios Financieros (BANSEFI, National Bank of Financial Services), a public institution, in order to have their transfers deposited in their prepaid card, as determined in their transfers delivery schedule. In some cases, BANSEFI hires Diconsa stores to undertake this step. Afterwards, beneficiaries can freely decide when to go to the Diconsa store to redeem all of their benefits (although, in practice, beneficiaries attend the same day that their transfers are deposited). Diconsa stores may be either fixed or mobile stores or centers set up to provide services to PAL–Sin Hambre beneficiaries.

According to monitoring reports, beneficiaries often need to attend the Diconsa store two or three times because they cannot find all of the products they want or need to buy on the first visit. These extra trips impose higher costs on them in terms of time and cash spent (given that some beneficiaries have to pay a taxi or hire local transportation for the trip). They do not receive CTs, and so they need to cover this expenditure with their own resources.

To improve the consumption patterns of beneficiaries, Diconsa, jointly with Pospera, also provides nutritional information at the Diconsa stores (including printed materials, which have been developed by an expert institution). In Mexico State, beneficiaries of programs that promote family backyard gardens sell their surplus of perishables in a sort of farmer’s market set up outside the Diconsa stores during the payment days. This project benefits the local economy and encourages the consumption of healthy, nutritional products, since the food basket does not include perishable items other than eggs.

*Source: Based on fieldwork conducted by the authors in 2016.*

**FIGURE 5.4**

Coverage of PAL in Mexico, by Geographic Location, 2010–15

<table>
<thead>
<tr>
<th>Year</th>
<th>National</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>677,027</td>
<td>320,306</td>
<td>356,721</td>
</tr>
<tr>
<td>2011</td>
<td>673,547</td>
<td>280,509</td>
<td>393,038</td>
</tr>
<tr>
<td>2012</td>
<td>673,092</td>
<td>215,981</td>
<td>457,111</td>
</tr>
<tr>
<td>2013</td>
<td>732,715</td>
<td>248,849</td>
<td>483,866</td>
</tr>
<tr>
<td>2014</td>
<td>943,718</td>
<td>251,294</td>
<td>692,424</td>
</tr>
<tr>
<td>2015</td>
<td>715,293</td>
<td>187,677</td>
<td>527,616</td>
</tr>
</tbody>
</table>

*Source: Based on internal administrative information provided by Prospera staff in 2016.*
DISTRIBUTION AND EFFICIENCY

The revolutionary impact of these reforms is clear, considering the distribution of food support benefits in Mexico before and after the reforms. This section presents estimates of the distribution of benefits at the regional and household levels. The estimates are based on household nutrition and income surveys conducted by Mexico’s Instituto Nacional de Estadísticas y Geografía (National Institute of Statistics and Geography)—the National Nutrition Survey, National Health and Nutrition Survey, and National Household Income and Expenditure Survey—that report the number of beneficiaries and the amount of benefits received for the principal food programs.

As reported earlier in this chapter, the incidence of child undernutrition and extreme poverty has historically been higher in rural areas of Mexico than in urban areas and higher in the southern than in the northern states and Mexico City, although such regional inequalities are smaller than in previous decades. Examining the regional distribution of food support transfers and of undernourished children (children under age 5 who are stunted) reveals a strong antirural and antisouth bias in the allocation of food transfers that favors urban localities and Mexico City particularly. In 1994, the rural sector accounted for half of the nation’s chronically undernourished children, but rural areas received only 22 percent of all food transfers (including CONASUPO), and the south accounted for 51 percent of undernourished children, but received only 8.6 percent of targeted food transfers. At the other extreme, Mexico City accounted for 7.3 percent of undernourished children but received almost 70 percent of targeted food transfers. This distribution changed dramatically after the introduction and early expansion of Progresa beginning in 1993. By 2000, the rural sector received 63.6 percent of food support transfers, and the southern states received 54 percent. By 2000, the regional allocation of such transfers coincided with the distribution of chronic undernutrition. This reallocation of transfers was achieved mainly through the rural concentration and geographic targeting of Prospera (Progresa at the time), but also through the reallocation of other programs from urban and metropolitan areas to the rural sector and southern and central states of Mexico. By 2010–12, the rural share of transfers had declined slightly, to 59 percent, but the rural share of undernourished children had declined to 38 percent, so food support is now rurally biased by this measure.

A more detailed geographic analysis of food assistance can be performed using administrative records and poverty estimates at the state and municipal levels. As shown in figure 5.5, the allocation of DIF—Mexico’s largest in-kind food transfer today—is regressive at the state level in relation to the distribution of extreme poverty. The poorest states (Chiapas, Guerrero, Oaxaca) receive the lowest transfers per poor person, representing just one-sixth of the transfers received by the two states with the lowest poverty rates.
FIGURE 5.5
Geographic Distribution of DIF Spending on Food Assistance in Mexico, by Amount of Transfer per
Extreme Poor, 2015

Sources: Based on the 2015 distribution of FAM social assistance (Diario Oficial de la Federación, January 29, 2015) and poverty estimates from CONEVAL 2015.
Note: States are ranked by extreme poverty rate, with Chiapas being the poorest state. FAM = Multiple Contributions Fund; DIF = National System for Integral Family Development.
(Mexico City, Nuevo León). The southern region’s share of total program spending fell from 46 to 40 percent between 2000 and 2015.

The distribution of benefits can be estimated more precisely at the household level. This estimate confirms a similar transformation in the distribution of benefits after the introduction of Prospera. As shown in figure 5.6,

**FIGURE 5.6**
Public Spending on Food-Oriented Social Assistance (FOSA) in Mexico, by Population Decile, 1990s–2010

*a. Benefit incidence of FOSA, by income decile, 1994–2010*

*b. Benefit incidence of food subsidies, by program and income decile, 2010*

**Sources:** Based on data from the National Nutrition Survey for 1999, the National Health and Nutrition Survey for 2006, the National Household Income and Expenditure Survey for 2010, as well as from SHCP, various years, for 2010.

**Note:** FOSA = food-oriented social assistance; PAL = Food Support Program.
panel a, the global distribution of food support (including the generalized tortilla subsidy) was fairly flat in 1994, but became highly pro-poor by 1999–2000, when the share of food subsidies received by the poorest decile rose from 7 to 33 percent. The distribution of food subsidies was very similar for 2000 and 2010, and over that decade the level of undernutrition in the poorest half of the distribution fell significantly (from 48 to 31 percent in the first income decile and from 41 to 19 percent in the second income decile between 1999 and 2006). This decline implies that, as in the regional analysis, the current allocation of benefits corresponds closely with the distribution of undernutrition and poverty, as measured by this indicator.

Considering the principal FOSA programs in 2010, Prospera and Diconsa are highly pro-poor, PAL is less effective than Prospera in reaching households in the poorest decile, DIF programs are somewhat less effective in reaching the first quintile, and Liconsa has very low rates of participation among the poorest households and is concentrated in the middle of the income distribution (figure 5.6. panel b).

To compare the efficiency of various FOSA instruments, it is necessary to (a) measure the instruments’ capacity to reach the households in greatest need of such support; (b) assess the instruments’ targeting efficiency, measured as the share of transfers received by the target population divided by the share of that population in the total population; and (c) take into account the costs of the programs, including both operational costs incurred by the government and participation costs incurred by beneficiaries. Table 5.1 compares generalized and targeted milk and tortilla subsidies with the Prospera transfers and an average for targeted food programs in Latin America. Generalized subsidies are, in principle, cheap to operate, but, as in the case of tortillas, provide many opportunities for leakage in the distribution process before the food reaches the final consumers; by design, they are ineffectively targeted. The estimates show that, for every Mexican peso spent on food support, the poorest households (the lowest quintile) receive, net of costs, almost 60 percent of Prospera transfers, but only 17 percent of Fidelist and 8 percent of Liconsa transfers, and 11 and 4 percent of the generalized tortilla and milk subsidies, respectively. The cost of transferring Mex$1.00 to this population is Mex$1.70 for Prospera, but Mex$11.70 for Liconsa. The gains in targeting effectiveness achieved through the transition from targeted food transfers to Prospera have been much larger than the gains achieved through the transition from generalized to targeted food subsidies. Table 5.2 presents estimates of indicators of redistributive effectiveness for total food transfers implemented in 1990 and 2000. These estimates suggest that, in the 1990s, with the shift from generalized and targeted food subsidies to Prospera, the redistributive efficiency (percentage reduction in the Gini coefficient per transfer as a percentage of market income) doubled, and the share of the poorest quintile in the transfers tripled.
### TABLE 5.1 Comparisons of Redistributive Cost-Effectiveness of Various Subsidies in Mexico

<table>
<thead>
<tr>
<th>INDICATOR AND TARGET POPULATION (TP)</th>
<th>PROSPERA</th>
<th>MILK SUBSIDY</th>
<th>TORTILLA SUBSIDY</th>
<th>AVERAGE LATIN AMERICA*</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of transfers received by TP (F)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poorest 20%</td>
<td>64.9</td>
<td>12.2</td>
<td>4.3</td>
<td>20.0</td>
</tr>
<tr>
<td>Poorest 40%</td>
<td>89.0</td>
<td>35.4</td>
<td>15.7</td>
<td>62.4</td>
</tr>
<tr>
<td>Targeting efficiency (F/%TP in total population)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poorest 20%</td>
<td>3.24</td>
<td>0.61</td>
<td>0.22</td>
<td>1.00</td>
</tr>
<tr>
<td>Poorest 40%</td>
<td>2.23</td>
<td>0.89</td>
<td>0.39</td>
<td>1.56</td>
</tr>
<tr>
<td>% of transfers benefiting TP (B)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poorest 20%</td>
<td>58.3</td>
<td>8.5</td>
<td>4.1</td>
<td>17.3</td>
</tr>
<tr>
<td>Poorest 40%</td>
<td>80.1</td>
<td>24.8</td>
<td>14.9</td>
<td>53.8</td>
</tr>
<tr>
<td>Cost per amount transferred (Mex$)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poorest 20%</td>
<td>1.70</td>
<td>11.70</td>
<td>24.50</td>
<td>5.80</td>
</tr>
<tr>
<td>Poorest 40%</td>
<td>1.20</td>
<td>4.00</td>
<td>6.70</td>
<td>1.90</td>
</tr>
<tr>
<td>Operational costs (CO) (% of total)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poorest 20%</td>
<td>8.2^a</td>
<td>28.5^b</td>
<td>5.0</td>
<td>12.0^a</td>
</tr>
<tr>
<td>Participation costs (CP) (% of total)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poorest 20%</td>
<td>2.0^b</td>
<td>2.0</td>
<td>0.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Sources: Based on data from the Social Module of the National Household Income and Expenditure Survey for 2002.
Note: Numbers from variables in bold are imputed. Household deciles are ordered by per capita market income. PASL = Social Milk Supply Program; — = not available.

^a Cost data are from Grosh 1994.
^b Cost data are from Coady 2000.
Figure 5.7 shows the evolution of food support resources actually reaching the target population (defined as the poorest quintile), after costs and leakage to nonpoor food consumers. (The figure overestimates CONASUPO benefits to the poor because it does not show leakage to nonconsumers.) The evolution of food support in figure 5.7 looks very different from the evolution of public spending shown in figure 5.6. The food support resources effectively reaching the poor are a fraction of public spending on those programs (0.14 percent of GDP at the height of CONASUPO spending, when it reached 1.20 percent of GDP). Also, the drastic reduction in food support transfers between 1984 and 1999 was reversed through the Prospera transfers, resulting in a fivefold increase in food transfers reaching the poor, from an average of 0.05 percent of GDP over CONASUPO’s history to 0.23–0.25 percent of GDP in the present decade.

**LESSONS LEARNED**

The impact of cash transfer programs on human capital investments as well as their costs are well documented. The role of food within the larger social protection system is, arguably, less explored. As documented in this chapter, the transition from generalized food subsidies to targeted food transfers and then to targeted vouchers and cash led to a dramatic reallocation of food assistance in Mexico. This reallocation includes shifts from households in urban areas and richer regions, such as Mexico City, to households in rural settings and disadvantaged southern states. Those reforms have aligned resource allocations with the spatial and household distribution of needs—measured in

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>TARGET POPULATION</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational costs (% of total)</td>
<td>n.a.</td>
<td>13.1</td>
<td>10.5</td>
</tr>
<tr>
<td>Participation costs (% of total)</td>
<td>n.a.</td>
<td>1.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Redistributive efficiency* (after costs)</td>
<td>n.a.</td>
<td>-0.74</td>
<td>-1.50</td>
</tr>
<tr>
<td>% of beneficiaries in poverty</td>
<td>Bottom 20%</td>
<td>11.9</td>
<td>32.0</td>
</tr>
<tr>
<td>Beneficiaries in poverty as % of total beneficiaries</td>
<td>Bottom 40%</td>
<td>29.9</td>
<td>53.8</td>
</tr>
<tr>
<td>% of benefits received by poor</td>
<td>Bottom 20%</td>
<td>10.3</td>
<td>27.9</td>
</tr>
<tr>
<td>Benefits received by poor as % of spending</td>
<td>Bottom 40%</td>
<td>25.7</td>
<td>47.0</td>
</tr>
<tr>
<td>Cost per Mex$1 transferred</td>
<td>Bottom 40%</td>
<td>3.90</td>
<td>2.10</td>
</tr>
</tbody>
</table>

Sources: Based on data presented in table 5.1; figures 5.6 and 5.7.  
* % reduction in the Gini coefficient divided by the transfer as a % of market income.
terms of the incidence of child undernutrition, income poverty, or multidimensional poverty—while reducing operational costs and leakage and enhancing the efficiency and impact of domestic food-oriented assistance interventions.

The concentration of the older generation of generalized and targeted food subsidies in Mexico City and other urban areas may be explained largely by the limited institutional capacities of the state. Those capacities might have been sufficient to transfer resources to a relatively small number of urban mills and tortillerías and to produce and distribute perishable liquid milk through a network of stores mainly in Mexico City. They were not sufficient to support direct transfers to millions of dispersed rural households lacking access to the banking system. Similarly, VAT exemptions protect the poor’s food-purchasing capacity at very high cost in leakage to the nonpoor, but without requiring an administrative mechanism to identify and distribute transfers to those households.

**FIGURE 5.7**

Total Spending on Food Support and Benefits Reaching Households in the Poorest Quintile (Net of Operational Costs) in Mexico, 1970–2015

Sources: Based on data presented in figures 5.1, 5.2, and 5.6 and table 5.2.

Note: The share benefiting the poorest 20% of the population (the extreme poor) is based on the main programs (CONASUPO, Fidelist, Liconsa, Prospera), but does not include DIF and Diconsa. GDP = gross domestic product; FOSA = food-oriented social assistance.
In terms of political economy, the fact that Prospera implemented a radical reallocation of resources from Mexico City to remote rural households with such speed and permanence—despite a long history of urban food subsidies—appears to contradict the predictions of the political economy of targeting. Several circumstances made the Prospera reform possible. First, the reform was introduced in a narrow, but fortunate, window of opportunity in Mexico’s democratic transition following Carlos Salinas de Gortari’s contested 1988 election. The introduction occurred during the Ernesto Zedillo administration (1994–2000), which lacked strong loyalties to the corporatist groups and networks that had traditionally influenced the allocation of public resources. At the same time, the transition was not yet restricted by the electoral force of the median voter. Second, the program was exceptionally well researched, well thought out, and tested by a group with highly technical and academic expertise (led by Santiago Levy, at that time the vice minister for finance). Its first phase was implemented by a very committed team (led by José Gómez de León, the first director of Prospera’s national coordination entity), had unconditional backing from President Zedillo, and received continuous support from the treasury. Third, as documented in this chapter, the decline in urban food transfers was very gradual and took place in the context of a broader fiscal adjustment process. Fourth, unlike education or health reforms, the Prospera reform reallocated a relatively modest budget; unlike health and education services, in-kind food transfers are not labor intensive and do not affect Mexico’s powerful public sector unions. Finally, the long-term survival of the program was ensured by the rapid expansion of its coverage, along with a promise to beneficiaries of long-term support, a highly successful independent and rigorous evaluation process, and international dissemination of the program’s impacts.

With regard to the thorny question of why apparently suboptimal food transfers are still in place, the following factors play a role: institutional capacities geared to implementing those programs, political equilibrium, food insecurity coupled with market failures, information and behavioral constraints, accountability constraints and possible rent capture, and inertia. Under common economic circumstances, it is reasonable to assume that cash should be preferred to in-kind food transfers of equivalent monetary value: cash provides choice, but this might not be the case when markets fail to provide economic access to products. Such cases occur when inflation erodes the value of the transfer, or when provision of the desired food products to very remote and dispersed rural populations is too costly to be viable. But those are exceptional circumstances, which often can be easily resolved in more efficient forms than through in-kind food transfers. For example, in the first case, the problem could be resolved by simply indexing the transfers to inflation (something that Prospera used to do for its conditional cash arm).

The fact that in-kind transfers still represent a substantial share of national budgets worldwide shows that governments and societies value transfers in
certain merit goods and services—such as education, health, or food—much more than income transfers to promote income equality. Such preferences assume that households may not always spend in their best interests because of informational or behavioral constraints. The renewed interest in Sedesol’s in-kind food transfers may reflect a concern for the nutritional quality of food consumed in the context of Mexico’s obesity and diabetes epidemic. However, the nutritional contribution of the food basket that the government is able to provide (due to Diconsa’s operational constraints) requires further analysis. The complex and indirect flow of resources from the state to the target population, which inevitably results from in-kind food transfers, creates multiple opportunities for intermediaries to divert the program’s resources. Such opportunities can create stakeholders with strong interests in the continuity of those transfers.

NOTES

1. As of 2017, PAL–Sin Hambre was eliminated, and beneficiaries were transited (whenever possible) to either the conditional or the unconditional scheme of Prospera benefits.
2. For a detailed description of Prospera’s design and implementation, see Dávila (2016).
3. This holds, in particular, for Prospera because, after 2014, most PAL beneficiaries participated in the PAL–Sin Hambre scheme.
4. After 2010, PAL adopted the same targeting methodology and criteria as Prospera.

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