

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA8034

Project Name	MX Social Protection System (P147212)
Region	LATIN AMERICA AND CARIBBEAN
Country	Mexico
Sector(s)	Other social services (100%)
Theme(s)	Social safety nets (60%), Other social protection and risk management (20%), Other human development (20%)
Lending Instrument	Investment Project Financing
Project ID	P147212
Borrower(s)	United Mexican States
Implementing Agency	SEDESOL/OPORTUNIDADES, SEDESOL
Environmental Category	C-Not Required
Date PID Prepared/Updated	15-Aug-2014
Date PID Approved/Disclosed	18-Aug-2014
Estimated Date of Appraisal Completion	20-Aug-2014
Estimated Date of Board Approval	18-Nov-2014
Decision	

I. Project Context

Country Context

1. Prudent economic policies in Mexico over the past two decades contributed to the progressive attainment of macroeconomic stability and a synchronization of the business cycle with the country's main trading partners. After the 2008-2009 global financial crisis, Mexico's economy rebounded quickly, reaching an average growth rate of 4.4 percent between 2010 and 2012. More recently, a global economic slowdown contributed to a deceleration of economic growth to 1.1 percent in 2013. While the weakness in economic activity extended well into the first half of 2014, growth is expected to rebound during the second half of the year leading to a growth projection for 2014 of 2.3 percent and a further cyclical recovery over the next couple of years.

2. Mexico's long-term economic growth has been somewhat disappointing, limiting a rise in average living standards and more rapid progress on poverty reduction. Mexico is an upper middle-income country, and a member of the OECD and the G20. In 2013, its GNI per capita was approximately 39 percent of the level observed in high income OECD countries, the same proportion observed two decades ago, signaling a lack of progress in economic convergence. Over the past three decades annual GDP growth averaged 2.4 percent, and only 0.8 percent per capita. Growth decomposition exercises point to insufficient average productivity growth as the main cause

of this growth performance.

3. Implementation of an ambitious structural reform agenda introduced by the current administration has the potential to raise productivity and unleash growth in the medium term. Over the past two years major progress has been achieved on the enactment of legislative changes in the areas of labor market regulation, education, telecommunication and competition policy, financial sector regulation, energy, and fiscal policy. The Government currently faces significant challenges to implement the reforms in these different areas with numerous new regulatory agencies being created. There is a clear potential for these reforms to enhance potential output growth, which is currently estimated in a range of 2.5-3.0 percent. However, estimating the timing and magnitude of the growth impact of structural reforms has proven very difficult as unexpected domestic or external developments and responses of economic agents to the reforms will often require adjustments in implementation strategies.

4. Multi-dimensional poverty and extreme poverty declined in recent years, although opportunities to earn an income remain limited for the poor. Mexico is the first country in Latin America to adopt a multi-dimensional Poverty Index as its official poverty measure. The multidimensional poverty measure was defined by the National Evaluation Council (CONEVAL) in 2008 as a combination of income poverty and a set of deprivations (nutrition, education, social security, basic services, access to health services, and quality and space of the dwelling). According to this multidimensional measure, which allows a more nuanced view of poverty, poverty and extreme poverty declined from 46.1 percent to 45.5 percent and from 11.3 percent to 9.8 percent respectively between 2010 and 2012 (53.3 million poor and 11.5 million extremely poor in 2012). This decline is largely due to an increased access to social services, particularly health care. During the same period monetary poverty declined slightly from 52.0 percent to 51.6 percent indicating that opportunities to earn income for the poor are still limited.

5. Poverty and inequality in Mexico are associated with gender, ethnicity, age and locality. Over 300,000 more women than men live in extreme poverty. Poverty among the indigenous population has fallen faster, but their poverty levels (72.3 percent) remain significantly higher than among non-indigenous. Prevalence of poverty is also higher for children aged 0-17 years (53.8 percent) with respect to overall poverty. Rural areas have a higher concentration of extreme poverty, 21.6 percent, as opposed to urban areas, where the rate is 6.3 percent. Moreover, there are wide disparities among states: for example, 74.7 percent of Chiapas' inhabitants are poor, while only 23.2 percent of Nuevo León's population lives in this condition.

6. Breaking the vicious circle of poverty, inequality and low productivity requires an integrated reform agenda focused on mutually reinforcing economic and social objectives. The country recognizes the multi-dimensional nature of poverty and the fact that any effective poverty reduction strategy must be based on coordinated interventions addressing the different dimensions of poverty and improving the risk mitigation capacity of households. This recognition provided the foundations for the "New Generation Social Policy", one of the key elements of the Government's social policy which seeks to reduce poverty and inequality by expanding opportunities for all, including through greater access to employment and productivity-generating opportunities, and promoting citizens participation at the local level.

Sectoral and institutional Context

7. Over the last two decades Mexico has made significant progress in the coverage and effectiveness of its social protection system. A critical step was the establishment of the Conditional Cash Transfer (CCT) Program Programa de Desarrollo Humano Oportunidades (PDHO – hereafter referred to as Oportunidades) in 1997. As of 2014, Oportunidades reaches approximately 6 million poor households or about 26 million people (23 percent of the total population), and because of its demonstrated impacts on health, nutrition, and education, it has served as a model for numerous countries in the region and beyond. The creation of Seguro Popular in 2003 for people not covered by other public health schemes has reduced inequality in the provision of health services. Seguro Popular now covers over 50 million people and has expanded health services and insurance to Oportunidades populations that were previously uncovered. Finally, the country developed several legal, institutional, and operational elements required for an integrated social protection system, including the 2004 Social Development Law that established a legal framework for social protection and set up the CONEVAL to evaluate the impact of social programs and policies in the country.

8. Despite this progress, the social protection system is not achieving its full potential because it remains fragmented and is not integrated. One of the biggest problems is the duplication of programs and the lack of information to identify gaps in demand and supply of social services. According to CONEVAL data, in 2011 there were as many as 273 federal programs directed at improving socio-economic welfare- all using different targeting and delivery mechanisms- co-existing with as many as 2,391 state programs. While 60 percent of federal spending is concentrated in only ten federal programs, the cumulative budget of the smallest one hundred programs accounted for as little as 1 percent of spending. The situation is even more complicated at the local level where an unknown number of social programs are operating, funded by multiple sources, and covering diverse social needs. At all levels of government, there is no mechanism to identify duplications or gaps in the provision of social services and benefits at the individual and household levels.

9. In order to strengthen the social protection system and support the poor in an integrated manner, the Government of Mexico (GoM) has started to redefine its Social Policy and has made “Inclusion” one of the five pillars of the 2013-2018 National Development Plan (NDP). The Mexico Inclusion pillar aims to achieve social cohesion and equality of opportunities by improving access to basic social services for the poorest and most marginalized people and by guaranteeing human and social rights for all. The Ministry of Social Development (SEDESOL), in collaboration with key ministries, is leading the effort with a special emphasis on helping to organize and integrate interventions at the local level. As part of this, the GoM launched in January 2013 a strategy to reduce extreme poverty: the National Crusade against Hunger (CNCH), an inter-sectorial and inter-governmental strategy that prioritizes resources for key social programs in the municipalities with the highest rates of food poverty.

10. Modern management tools are a necessary element for the implementation of this government vision. Until now each program in SEDESOL administered a separate socioeconomic and demographic questionnaire to potential beneficiaries. The information collected was managed independently by each program through their own management information system for targeting, delivery and monitoring purposes. To enable better planning, coordination and targeting of social policy, SEDESOL plans to develop an integrated Social Information System (SIS), a technological platform that will integrate existing databases that capture socioeconomic data of beneficiaries

(demand for social services), information on who accesses which social programs (Unique Registry of Beneficiaries), and information on the supply of social programs. At the local level, where there is much less information about what exists and what is needed, SEDESOL is planning to also develop and implement a Regional Social Development Strategy that would define its role in the planning, coordination and oversight of municipal level investments in social programs.

11. The Oportunidades Program, with its broad coverage of the poor and strong territorial presence, is also looking into further integrating its beneficiaries into the social protection system. The Program's goal - to break the inter-generational cycle of poverty - is not being sufficiently reached through the current cash-transfer scheme, pointing to the need to also connect these families to employment or productive opportunities that can enhance their social mobility and their ability to generate income. With this goal in mind, the Government is launching a new phase of Oportunidades, building on some of its key strengths which, evidence shows, can be important factors for the successful integration of social program beneficiaries into the larger social protection system: (i) a well-defined target population, (ii) strong territorial presence with a close relationship to beneficiaries, and (iii) a cash payment that facilitates and encourages family engagement with the processes to connect them to additional programs and services. As part of this new coordination effort, twenty-nine social and productive federal programs have modified their operating rules and formally agreed to provide preferential access to Oportunidades beneficiaries. The new phase of Oportunidades will require specific institutional changes, including, among other things, redefining staffing profiles and responsibilities, capacity building, an updated program communication strategy and testing modalities to link the Program with social, productive and income generating programs.

II. Proposed Development Objectives

The proposed Project Development Objective is to support the Government's effort to: (i) increase access of Oportunidades beneficiaries to social and productive programs, and (ii) develop instruments for an integrated social protection system.

III. Project Description

Component Name

Component 1 - Support to Oportunidades and its linkage with social and productive programs (US \$270.9 million)

Comments (optional)

The objective of the first Component is to continue supporting Oportunidades' efforts to improve beneficiaries' social and economic wellbeing by promoting investment in human capital and strengthening the Program's linkage with other social and productive programs while ensuring continued improvements in service delivery to its beneficiaries.

Component Name

Component 2 - Strengthening the Social Protection System (US\$29.1 million)

Comments (optional)

The objective of the second Component is to support SEDESOL to develop new technologies and policies that will allow for better planning of social and productive interventions based on the needs of the population, improving efficiency and effectiveness of spending.

IV. Financing (*in USD Million*)

Total Project Cost:	12170.00	Total Bank Financing:	300.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			11870.00
International Bank for Reconstruction and Development			300.00
Total			12170.00

V. Implementation

A. Institutional and Implementation Arrangements

12. The implementation of the Project would be carried out by two co-implementing agencies: a) the National Coordination Agency of Oportunidades; and b) the Secretaria de Desarrollo Social (SEDESOL). While the National Coordination Agency of Oportunidades reports directly to SEDESOL, who is in charge of social development policy in Mexico, it has technical and operational autonomy. The National Coordination Agency of Oportunidades will be responsible for the implementation and day-to-day oversight of Component 1. SEDESOL will be responsible for Component 2. The disbursements to support non-reimbursable contributions to Oportunidades families under Component 1.1 will be disbursed to the Ministry of Finance. Funds to carry out all other activities under the Project will be disbursed to the National Coordination Agency and to SEDESOL directly.

13. Over the past five years, the National Coordination Agency of Oportunidades has built considerable expertise in implementing World Bank financed projects, while for SEDESOL this is the first Bank Project. The National Coordination Agency of Oportunidades with the operation Support to Oportunidades which started in 2009 and its Additional Financing (Report No. 46821-MX55859-MX/P115067) has consolidated and strengthened its systems for overall management, and monitoring and evaluation. However, SEDESOL has not been involved in a Bank financed operation before. This is likely to pose some implementation challenges while SEDESOL familiarizes itself with World Bank procedures given the somewhat complex implementation arrangements with two co-implementing agencies and NAFIN (Nacional Financiera) as financial agent. The Project will fully rely on established and well-functioning national systems and the World Bank fiduciary team will provide ad hoc operational support to mitigate this potential risk.

14. The Operations Manual for the Project will specify the arrangements for the implementation and coordination of the Project, with specific information regarding roles and responsibilities for each implementing agency (including preparation of periodic progress reports, and updating of implementation plans) as well as details regarding the performance of fiduciary functions (financial management and reporting, procurement). Overall Project Coordinator and Component Coordinators in each implementing agency will be appointed for the Project. The Component Coordinators will be responsible for ensuring the provision of timely inputs for the Project. They will have responsibility for coordinating with the technical teams the following activities: (i) drafting of terms of reference for consultancies, (ii) definition of technical specifications for investment goods to be procured, (iii) organization of workshops, (iv) preparation of periodic implementation progress reports, (v) co-organization of World Bank meetings and missions, and (vi) preparation of annual operation plans and budgets. In addition, suitably qualified financial management and procurement personnel in both implementing agencies will be supporting Project

implementation on the fiduciary side.

15. The National Coordination Agency of Oportunidades, through its Financial Affairs Directorate will act as Project coordinator vis-a-vis the World Bank to channel submissions of required documentation in a timely manner. The overall Project Coordinator will be responsible for coordinating activities across implementing agencies, particularly to ensure that inputs are provided in a timely manner and that Progress Reports, the annual operational plan and budget for the Project, as well as the audit reports are submitted in a timely manner. The Operational Manual will detail the specific responsibilities.

B. Results Monitoring and Evaluation

16. The arrangements to monitor and evaluate this loan will be the joint responsibility of SEDESOL and the National Coordination of Oportunidades. Current arrangements for this operation are specified in the results framework of the Project Appraisal Document, which will serve as the basis for monitoring and evaluating progress throughout implementation, both for learning and accountability purposes. Additionally, Project monitoring will rely on sector information from line secretariats, channeled through SEDESOL and the National Coordination Agency of Oportunidades.

17. The Mexican Government has established a performance evaluations system for all social programs, based on a Matrix of Results Indicators (Matriz de Indicadores para Resultados, MIR) agreed for each program every year which includes Oportunidades and the social and productive programs to which Oportunidades beneficiaries will be linked. To the extent possible, the Project will build on this system. In fact several indicators chosen to monitor progress towards PDO of Oportunidades are based on the MIR and will be reported as part of the regular Program monitoring.

C. Sustainability

18. The Project is fully aligned with the Government's National Development Plan, current social strategy, and long-standing agenda on poverty reduction. The Project supports Government efforts to reduce poverty and increase shared prosperity. Support for Oportunidades, which has been the main vehicle to achieve this goal, has been consistent across administrations as demonstrated by increased coverage. The Project will now support the Government's commitment to a new generation of social policy to ensure more coordinated, and effective access to social and productive programs for the poor while reducing fragmentation and duplication of programs. It is expected that these efforts will improve support for the poor and increase efficiency in spending in the long-term.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		x
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x

Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)**VII. Contact point****World Bank**

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