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Study on *Income Generation and Social Protection for the Poor*

URBAN POVERTY

- The poor are a heterogeneous group and their geographic location is an important factor in the design of appropriate poverty-alleviation interventions and policies.
- The urban poor are confined to low-productivity or informal jobs and limited chances of having any social security.
- The urban poor spend relatively more on housing, transport, and education; while the rural poor spend relatively more on food and clothing.
- The urban poor are more dependent on the labor market. The urban poor's income is more responsive to growth, which implies that they have the capacity to take advantage of job growth in boom times but are more sensitive to macroeconomic shocks in terms of structural employment. The rural poor benefit from safety nets such as subsistence farming and other income of the kind, transfers, access to forestry resources, and local community ties that are beyond the reach of the urban poor.
- Rather than seek work in the informal sector out of convenience, the poor find themselves forced to join the informal sector for lack of opportunities in other areas. Until the early 1990s, there was a negative correlation between unemployment and informality rates in Mexico, suggesting that most of the workers chose voluntarily to join the ranks of the informal sector.

RURAL POVERTY

- Since the 1990s, agriculture has lost its pride of place in the Mexican rural economy along with its significance as a source of income for rural families. Between 1995 and 2003, the proportion of the rural labor force employed in agriculture fell from 63 to 56 percent, while the share of income that rural families derive from agriculture was

halved when it dropped from 51 to 24 percent between 1992 and 2002, owing to the considerable reduction in income from independent farming.

- Agriculture needs to continue playing an important role in poverty reduction. International evidence suggests that high productivity agriculture goes hand in hand with an increase in non-agricultural rural activities that are also high in productivity.
- There is a need to increase the efficiency of resources spent on improving and supporting the agricultural sector. Yet, public spending on agricultural production is the highest in Latin America.

SOCIAL PROTECTION

- The considerably high rates of poverty among the elderly coexist with a very heavy fiscal burden on the public pension systems, pointing to a serious disconnect between programs and needs. In Mexico, poverty levels have been higher among the elderly than among the general population. At a rate of 38 percent, the poverty level among the elderly is much higher than the national average and close to those observed in countries less economically developed than Mexico. Besides, it is much higher than in countries such as Brazil, Chile, or Colombia and considerably higher than the national average.
- Although significant progress has been made in preparing certain groups to better tackle the risks they have to face, there are still vulnerable groups with limited access to safety nets, such as low-income groups faced with unemployment or serious health risks.
- Low-wage earners in Mexico – most of whom have no social security – face very high health costs. More than 5 million Mexicans have to contend with catastrophic health costs each year (which absorb more than 30 percent of the net income families would spend on basic food consumption). The result is that two million of them fall below the poverty line.
- The poor are subject to high levels of out-of-pocket spending and 10 percent of poorer Mexicans use around 12 percent of their income on out-of-pocket spending on health care (compared with a little less than three percent in the highest decile), suggesting therefore that they do not have access to sufficient risk-management mechanisms.

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