

MEXICO: DECENTRALIZATION OF RURAL DEVELOPMENT PROGRAMS

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EXECUTIVE SUMMARY

Poverty incidence is high in the rural areas of Mexico. The incidence, characteristics, and dynamics of Mexican rural poverty were examined in a study carried out by the World Bank in 2005 of which the present report can be considered an expansion. Particular attention is given in this report to the relation between decentralization and production-oriented rural development (RD) programs, in the understanding that further decentralization would result in better programs and these would in turn help revitalize the rural economy and reduce rural poverty.

Federal spending in rural areas in Mexico is very large, with a budget estimate for 2005 of the order of USD 14 billion or approximately USD 560 per head of rural population. Of this total, some USD 4.5 billion, equivalent to an annual investment of around USD 800 per rural family, corresponds to productive programs. Most of these programs are oriented to low income sectors but we do not know the proportion of resources that is actually targeted. The impact, however, on the rural economy of this massive expenditure effort is not evident. Contrary to the situation in other countries in Latin America, in Mexico the main problem is not the shortage of fiscal resources devoted to rural areas, but the efficiency in the use of those resources.

One element of inefficiency is the multiplicity of programs and the lack of coordination and harmonization among them. Thus, in the *Programa Especial Concurrente* for 2005 there are some 267 federal RD programs, many of which have their own subprograms. Many of these programs are duplicative. *Programa Especial Concurrente* was introduced in 2003 as an instrument for bringing more coordination and joint action (*concurrentencia*) to rural programs, and is a step forward in this direction. So far, however, it has only been used as a formal accounting tool, not to carry out effective

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coordination. Proliferation and lack of coordination of RD programs is a critical problem standing on the way of effective public spending in rural areas. Each federal program has its own regulations, timing, implementation unit and, often, *ad hoc* participation committees. Furthermore, there is no national RD strategy that would facilitate convergence. Lack of horizontal coordination at the federal level complicates vertical coordination between federal and state governments, and hence effective decentralization, because state governments must deal separately with each federal program authority. It is very difficult for state governments to design coherent RD strategies under these circumstances.

Important progress has been made over the last decade, particularly in the last five years, in the decentralization of RD productive programs. SAGARPA's *Alianza* program has been at the forefront of this process, being in fact the main vehicle for it. Decentralization was intended to cover not only program implementation and funds but also the transfer to the states of SAGARPA's staff, infrastructures, and other resources – the so-called *proceso de federalización*. This is, however, a protracted process ridden with difficulties, which has advanced partially only. Decentralization of RD programs of other federal *secretarías* has advanced little. Some progress, however, has been made in deconcentration, i.e. assigning larger roles to the *delegaciones* (the state offices of federal *secretarías*). The situation varies much across programs because of the different institutional arrangements under which they operate. Programs are multidimensional phenomena, and the degrees of decentralization can be very different along the dimensions involved.

The 2001 *Ley de Desarrollo Rural Sustentable* (LDRS) was a step forward in decentralization to the extent that it created institutional platforms, like state, district, and municipal rural development councils. LDRS also mandates the signing of *convenios* between federal *secretarías* and the states to implement sectoral programs. Furthermore, the operation rules of *Alianza* have strengthened the state and municipal councils by making active use of them for program management, and have added new decentralizations platforms such as the *fideicomisos*.

Progress has also taken place in transparency and the use of objective rules for program implementation. Thus, the use of objective allocation criteria is now the rule when program funds are distributed across states or municipalities. Also, the creation of RD councils at various levels is an advance in transparency since it allows representatives from civil society and sub-national governments to partake in decision-making in the implementation of some programs. This discourages arbitrary decision-making and makes decisions more transparent. Finally, detailed program operation rules have brought more transparency to the criteria for beneficiary eligibility, selection of investment proposals, and other aspects of program implementation. To some extent, however, this is achieved at the expense of operational and decentralization effectiveness, because the length and complexity of program norms introduces operational rigidities, makes it difficult for local agents to adapt program objectives to

local conditions, and hampers the understanding by potential beneficiaries of the characteristics of the programs. There is hence a trade-off between transparency, on the one hand, and effectiveness and local empowerment, on the other.

Altogether, notwithstanding the progress made in decentralization and transparency over the last decade, the degree of decentralization of rural programs is rather limited. The important point is that, as things stand today, it is not possible for state governments to have adequate control of the rural agenda in their states. The majority of public funds spent on rural areas come from federal sources, and the capacity of state governments to influence the allocation of these funds is small. Their ability to shape the regulations under which rural programs operate in their states is also very limited. State governments can in some occasions negotiate and agree with central authorities the distribution of resources among sub-programs of a certain program. They can also try to attract more funds from federal programs, mostly through the offering of counterpart funding or through sheer political negotiation. They may also participate in the decision-making process through which priorities are established and proposals approved in some demand-driven programs. Where state governments are powerless is (1) in the design of programs and their operation rules, and (2) in the transferring of resources across programs, even if they are from the same *secretaría*, although there may be more room for negotiation in this case.

The analysis of *Alianza* decentralized programs—the Agriculture, Livestock, and, especially, the Rural Development Programs—allows us to illustrate some of the issues and challenges found in the implementation of production-oriented RD programs. These can be summarized as follows:

- State and municipal authorities tend to contribute few counterpart funds to RD programs. Thus, on average in 1996-2004 state governments contributed 16 percent of the entire resources of *Alianza's* decentralized programs. Different factors seem to influence the decision of state governments to contribute counterpart funds, which explains the considerable dispersion of contributions that exists across time and space.
- State level platforms such as the *Consejos Estatales de Desarrollo Rural Sustentable* (CEDRS) and the *Comités Técnicos* of the *fideicomisos* have shown to be useful for government officers from the state and federal entities to interact and discuss issues related to RD in the states. The *Comités Técnicos* also play a valuable role in the concrete implementation of decentralized programs. The effectiveness of these platforms varies much across states. In general, technical committees of *fideicomisos*, which are smaller bodies with clearly defined functions, work reasonably well in most states. More variance exists in CEDRS, but on the whole they have not been able to ensure good coordination within the state of RD programs from different federal *secretarías* or the harmonization of funding.

- Notwithstanding the existence of an objective formula for the allocation of *Alianza* funds to the states, this allocation, when measured per capita of rural population and compared with the marginality index of the states, is regressive.
- Late approval and release of implementation norms and lengthy implementation procedures considerably delay the release of funds, which often occurs the following year. It would seem that the decentralized programs of *Alianza* (and other decentralized programs which benefit from a *fideicomiso*) tend to follow in practice a different fiscal year: one that goes from May to May or June to June, rather than from January to December.
- The measured impact of *Alianza* supports regarding the income, employment, assets and technology position of beneficiaries is noticeable. It is greater on income, technology and assets (averages from 13 to 21 percent) than on employment (average 3 percent), and larger for poorer than for better-off beneficiaries.
- Multiplicity and overlapping of programs, complexity of operation rules, and frequent changes in program characteristics and eligibility criteria, make it difficult for beneficiaries and even for program operators and sub-national authorities to be aware of the available government offer of RD support. Potential beneficiaries have to rely on information from intermediaries who may not understand well the norms and may have their own agendas. This reinforces clientelistic ties and discriminates against those with less access to information.
- Private providers of technical services are the main interface between programs and beneficiaries, and the main conveyors of information of program opportunities and rules. Their situation, as well as that of field level government operators who are normally recruited on short-term *ad hoc* contracts, is different from that of teachers or health workers. They are not unionized, have no entitlement to secure employment or social security benefits, and receive little economic or moral incentives to do a good job. Nor do they receive technical backstopping, systematic effective training or support to operate as networks. These “street level” operators are the weakest link in the implementation chain.
- Being *Alianza* decentralized programs demand-led, investment support proposals come from rural producers. In principle, in view of the shortage of funds, funding decisions must be made according to quality and cost-efficiency criteria. In practice, however, it is difficult to prioritize investment using these criteria when there are a myriad of small and often very similar proposals. Hence, the most frequent rationing mechanism used consists of first-come-first-served and completeness-of-documentation criteria. Priority

is given to producers who are first in presenting proposals duly completed and with all the attachments required, when the window opens.

- The *Consejos Municipales de Desarrollo Rural Sustentable* (CMDRS) are a step forward in the creation of decentralized participatory structures for the implementation of rural policies and programs, and to build public-private-civil society alliances. Unfortunately, most municipal councils do not have the capacity to become effective promoters of local economic development. The underlying problem seems to be that the municipal level is not the most appropriate one for this purpose. Small rural municipalities do not have the technical staff and sophistication required to carry out strategic planning and the design of innovative rural agendas. CMDRS find it difficult to articulate sound economic criteria to prioritize investment demands. When they have to exercise a rationing authority they tend to fall back into simplistic equalitarian rules of the type “one community one project”, independently of the objective merits of the proposals and of the needs of the communities. Also, CMDRS do not seem to have the capacity to formulate clustering strategies for investment proposals; the spontaneous tendency at this micro level is to promote atomized rather than clustered investments. The municipal rural space in Mexico is too small and municipal administrations are too weak and focused on other activities for municipal councils to be effective economic governance entities.
- The *Consejos Distritales de Desarrollo Rural Sustentable* (CDDRS), operating at a regional level, would be in a much better position to promote local economic development –a role in a way foreseen in the *Ley de Desarrollo Rural Sustentable*. Unfortunately, insufficient attention and powers have been given so far to these councils, much less than to the municipal ones. Although they have been created in most states, their existence is either little noticeable or they serve more to exchange information among government offices and municipal authorities of the region. This seems to be due to the lack of a technical body responsible to the CDDR and to the lack of command of these councils over investment resources.

Further decentralization of production-oriented RD programs is needed. A shortcoming of the present situation is that since state governments do not have effective control of the rural agenda, they do not interiorize the political and economic costs and benefits of rural development actions, successes and failures. There is an ambiguous state of affairs where neither the federal government nor state governments feel truly responsible for RD outcomes.

We believe that a decentralized system with a strong role of state governments, where they would be driving the rural agenda, would be the best way, probably the only one, to overcome the problems of lack of program coordination and no harmonization of funding. Also, by making state governments truly accountable of

rural development outcomes in their states, decentralization would move them to interiorize all costs and benefits, hence favoring efficiency and equity in resource use. Finally, devolution to the states of RD resources and regulatory functions would greatly facilitate the application of a territorial approach to rural development.

We propose a decentralization model of the type existing in various countries of Europe, like Spain, Italy, and Germany, where the equivalent to the Mexican states –the *autonomías*, *regioni* or *lander*—are the pivotal entities of RD authority and policy making. In order to achieve this type of devolution four things would be required:

1. Transferring to the states most of the funds of production-oriented RD programs of federal *secretarías*. This would be done in the form of block grants where the funds from different programs would be merged. The national government would still reserve for itself funds to carry out RD programs and regulatory activities considered to be strategic and to require national-level implementation. The distribution of funds to the states would be done according to an objective formula, based on demand considerations, which would not be regressive.
2. Dismantling the corresponding federal RD programs and letting state governments replace them with their own programs, so that they can be true masters of the RD agendas in their states. State programs would be instruments to carry out state RD strategies with verifiable objectives and outcomes.
3. Pushing ahead with *federalización*, so as to transfer to state governments the assets, staff and other operational resources of federal *secretarías* required for them to design and implement their own RD agendas.
4. Establishing (i) national minimum standards and benchmarks to be respected by the states; (ii) an agreed upon formula for the distribution of funds among the states; and (ii) a national monitoring and evaluation system.

It is clear that a transition period would be necessary to carry out the above, but this could in our view be reasonably short, circumscribed to a political administration.

Under this scheme, federal regulations in the RD productive area would consist of broad guidelines, in which national minimum standards could be set for the design and operation of RD programs by the states. In particular, federal norms could (i) promote geographical equity; (ii) prevent disproportionate disparities across regions in the type and amount of benefits received by program beneficiaries, and (iii) prevent the creation of situations where producers from different states are treated differently *vis-à-vis* international competitors. The federal government could also monitor and evaluate independently the RD strategies designed and implemented by the state governments. By focusing on strategic issues only, federal norms would allow states to create their

own regulatory instruments, thereby reflecting more accurately local needs and priorities.

State governments would have the initiative in policy making for rural development in the states. They would prepare a long-term RD strategy and monitor its implementation and outcomes, design and implement the RD programs that they consider most appropriate, and allocate resources to them. The objective of coordination and harmonization of funding would look very different under the decentralization system proposed, since all (or at least most) RD programs operating in a state would be designed within the state and subject to state authority. State governments or the CEDRS could decide to move resources across programs as well as to create and oversee the necessary coordination mechanisms.

The regional level could become much more important for productive RD than at present. Strengthening the institutional capacity of CDDRS could be a crucial part of the rural decentralization agenda. Ideally, CDDRS would combine participatory principles with sound technical and market criteria to design long-term development strategies for their regions. These strategies would be based on the potential offered by territorial assets and the identification of the main development axes around which investment support should cluster. CDDRS could design regional programs consistent with the development axes for the practical implementation of their long-term strategies. They could also have the function of linking up territorial programs with production chains.

To be able to fulfill the above functions, CDDRS should have a sufficient cadre of professional staff with good technical credentials. The participation of civil society should be strengthened so that CDDRS become an effective platform for *concertación* and economic governance of the territory where they operate.

The municipal level would continue to be involved, with CMDRS serving as a forum for social participation and discussion, and also as an arena to prioritize the allocation of resources, but within the framework of the long-term territorial strategy and the regional programs established by CDDRS and under their guidelines. CMDRS would be represented in CDDRS, of which they would be important members. There is need, however, to work towards ensuring that (i) more decision-making power within CMDRS is in the hands of local producers rather than municipal presidents or technical coordinators, (ii) they are better informed of programs and program opportunities, and (iii) the representation system is improved to ensure more continuity of representatives, and manageable numbers.

The above proposal is clearly a big departure from the current system, and implementing it would require considerable political courage. We do not think, however, that it requires constitutional or other major legal changes, and believe that the progress made in decentralization and transparency over the last years is a good basis for this drastic change. The proposal would have a positive impact on the efficiency of

RD public spending, improving its allocation, its supply or x-efficiency, and its dynamic impact. It is also expected to improve geographic redistribution and to be neutral with respect to macroeconomic stability.

We can anticipate several problems and risks in the implementation of our proposal. The first problem is to agree in the amount of resources to be transferred to the states and in the distribution formula to be used. The second problem is the political difficulty of stripping federal *secretarías*, especially some of them, of a good part of their resources and policy-making powers. Finally, in any decentralization reform there is always the risk of the local elite capturing a good part of the benefits, with the central authorities being left with few instruments to prevent this from happening.

INTRODUCTION

Poverty is widespread in the rural areas of Mexico. In 2004, 28 percent of rural dwellers were extremely poor and 57 moderately poor². Poverty is much more prevalent in rural than in urban areas. Thus, although only one fourth of Mexicans are rural residents, the rural poor account for 61 percent of Mexico's extreme poor and 46 percent of the moderate poor. Furthermore, poverty intensity and severity are more than double in rural than in urban areas³.

The "Study of Rural Poverty in Mexico" carried out by the World Bank in 2005⁴ examined the characteristics and evolution of rural poverty. It also proposed policy options to fight it, highlighting the importance of enlarging and improving production-oriented programs for rural areas (i.e. programs to generate farm and non-farm employment and income opportunities for rural dwellers). Possible actions were signaled to revitalize the rural economy in favor of the poor, and to deepen the territorial approach as a way to promote local economic development in the rural space. Options were also suggested to improve the entire system of design and implementation of rural development (RD) programs.

The present report builds on the analysis and conclusions of the rural poverty study and is in a way a logical extension of it. We examine here in more detail some of the design and implementation issues of RD programs outlined in the poverty study, concentrating on decentralization aspects. In particular, we investigate the degree of centralization or decentralization of RD programs, and the progress made in this respect over the last decade. We also draw attention to the need of strong action to further decentralize RD responsibilities and resources in order to improve the quality of RD expenditure and enhance political accountability of the RD agenda.

We concentrate our analysis on production-oriented programs, which are run by different federal *secretarías*, mostly SAGARPA (and related entities like FIRCO or ASERCA), SEDESOL, SRA, CDI, SE, and SEMARNAT (and related entities like CONAFOR). Most of these programs are demand-driven, with potential beneficiaries presenting applications and competing for the support from the respective funds. One important area of productive expenditure using federal funds not included in our analysis is the irrigation investments carried out by CNA. The reason for not including it here is that they are not demand-driven programs of the *Alianza* type, and that

² Extreme poverty refers to individuals below SEDESOL's food poverty line, and moderate poverty to those under SEDESOL's assets poverty line. For the definition of these lines and the use of different poverty measures see The World Bank: Poverty in Mexico: An Assessment of Conditions, Trends and Governments Strategy. The World Bank, Washington DC, 2004.

³ See World Bank: Income Generation and Social Protection for the Poor, A Study of Rural Poverty in Mexico, Chapter 2. The World Bank, Mexico, 2005

⁴ World Bank, 2005, *Op. Cit.*

decentralization in the field of irrigation raises specific issues and problems which merit separate attention and cannot be dealt with in this report.

Not all production-oriented RD programs are targeted to the poor. Some agricultural programs, like the price and marketing supports from ASERCA, mostly benefit middle and large commercial farmers. Others, like the agriculture and livestock programs of *Alianza*, jointly have roughly one half of better-off farmers among the beneficiaries. On the whole, however, most of these programs are oriented to small producers. Even those not specifically targeted have an indirect impact on poverty through employment and wage effects, the provision of services such as plant and animal health or the integration of production chains. Furthermore, the rural poverty study showed the strong impact of agricultural growth on poverty reduction in Mexico, as well as the importance for the rural poor of employment and income opportunities in non-farm rural activities. Programs supporting farm and non-farm investments are therefore generally favorable to the poor.

For these reasons we consider in this report production-oriented RD programs in general, without limiting ourselves to those targeted to low income producers. For the purpose, however, of understanding better the decentralization process and its implications for the implementation of RD programs, we give privileged attention to the decentralized programs of *Alianza*, which is where decentralization has advanced most, and in particular to *Alianza's* "Rural Development Program". This is a targeted program and the only production-oriented one to have been decentralized to the municipal level. The relevant conclusions arrived at in this report with respect to the need to further decentralize RD resources and decision-making refer, nonetheless, to production-oriented RD programs in general.

To prepare this report, we carried out interviews with officers responsible for various RD programs at the national level in different federal *secretarías*. We also carried out field work in three states, Guerrero, Jalisco and Veracruz. In these states, we visited several municipalities, discussed with municipal authorities, observed meetings of RD councils, interviewed federal and state officers responsible for the implementation of RD programs in the state, met with local farmers' associations and NGOs, and held separate focus group meetings with independent service providers, and with state and federal government staff directly involved in the implementation of RD programs at the field level.

PROGRAM AND PERFORMANCE OVERVIEW

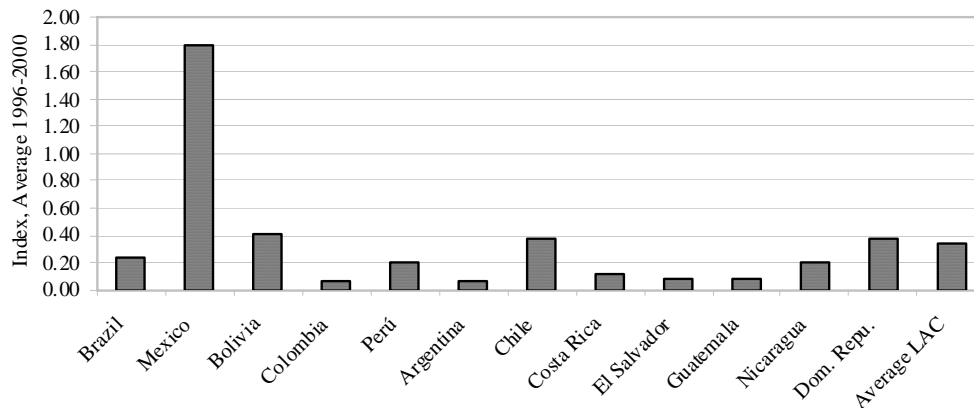
I. PUBLIC EXPENDITURE IN RURAL AREAS

1. Importance

The total amount spent by the federal government in rural areas is large. In 2005, the total federal rural budget was close to USD 14 billion or some USD 560 per head of rural population.

Considering exclusively the expenditure going to the agricultural sector and taking the average of 1996-2000, whichever way this expenditure is measured, per hectare, per agricultural worker or per unit of national GDP, it is bigger in Mexico than in other countries of Latin America. **Figure 1.1** compares LAC countries according to an “agricultural orientation index”, built by dividing the share of agricultural public spending in total public spending by the share of agriculture in GDP, which indicates the intensity of the fiscal effort in agriculture relative to the economic importance of the sector. A value of less than one means expenditure “discrimination” against agriculture, and the opposite for more than one. Mexico is the only country included in the study with an index of more than one, which is in fact more than four times larger than those of the next countries, Bolivia, Chile, and Dominican Republic. Mexico, hence, practices public expenditure discrimination in favor of its agriculture⁵.

Figure 1.1. Agriculture Orientation Index in LAC Countries, Average 1996-2000



Source: Based on data from Kerrigan (2001).

Furthermore, high levels of rural public expending have been kept for many years. The impact, however, on the rural economy of this massive expenditure effort is

⁵ See World Bank, 2005, *Op. Cit.* Chapter 4. The index refers to agriculture, not to all rural expenditure.

not evident. In Mexico, the main problem is not the shortage of fiscal resources devoted to rural areas, as is the case in other Latin American countries, but the efficiency in the use of the resources.

In June 2002, as a corollary of the *Ley de Desarrollo Rural Sustentable* (LDRS), legislation was issued mandating the preparation of a *Programa Especial Concurrente* (PEC) under the responsibility of the *Comisión Intersecretarial para el Desarrollo Rural Sustentable*⁶ (CIDRS) on which more is said later on in this document. The aim of *Programa Especial Concurrente* is to coordinate the rural development (RD) actions of the relevant *secretarías*. As a result, a document has been published with the objectives and goals of all main federal RD programs⁷, and the amounts of federal budgetary resources going to rural areas of the various *secretarías* have been estimated and added up for years 2003, 2004 and 2005. **Table 1.1** shows these amounts broken down by the categories in which public expenditure in rural areas is organized in *Programa Especial Concurrente*. **Table 1.2** shows the same amounts broken down by federal *secretarías*, and compares them with their total budgets. **Table 1.3** shows the amount budgeted in 2005 for the largest programs (those of more than MxP 5 thousand million). **Annex Table 1** shows the main programs by *secretaría* included in the *Programa Especial Concurrente*, according to Annex 17 of the *Presupuesto de Egresos de la Federación*.

Table 1.1: Programa Especial Concurrente by Expenditure Categories

Expenditure Category	Programa Especial Concurrente, million MxP					
	2003		2004		2005	
	Total	%	Total	%	Total	%
Social Conditions	45,343	38.7	61,704	51.9	75,301	51.3
Labor Conditions	2,874	2.5	976	0.8	485	0.3
Land Policies	3,257	2.8	3,071	2.6	4,191	2.9
Production Support	50,687	43.3	45,705	38.4	47,715	32.5
Basic & Productive						
Infrastructure	10,032	8.6	5,978	5.0	13,145	9.0
Environment	4,905	4.2	1,457	1.2	5,928	4.0
Total	117,097	100.0	118,892	100.0	146,765	100.0

Source: SAGARPA for 2003 and Federal Budget for 2004 and 2005.

Some considerations are in order to interpret these figures. First, all kind of programs are included, ranging from infrastructure and direct cash transfers to farm

⁶ This committee is formed by the secretaries of all federal *secretarías* directly involved in the development of rural areas. Included are SAGARPA, SE, SEMARNAT, SHCP, SCT, *Salud*, SEDESOL, SRA, and SEP. It is chaired by the Secretary of SAGARPA (art. 21 of the LDRS).

⁷ SAGARPA: *Programa Especial Concurrente para el Desarrollo Rural Sustentable, 2002-2006*. México DF, 2002.

subsidies and official credit programs. Municipal infrastructure under *Ramo 33* is included, and so are the relevant operating expenditures of *secretarías* and programs. Second, the categories in which figures are broken down in **Table 1** are rather hazy and must be taken as an approximation only. Most programs do not fall comfortably into one single category, either because activities may fit into more than one category or because programs may have different activities belonging to separate categories.

Table 1.2: Programa Especial Concurrente by Secretarías

<i>SECRETARIA</i>	<i>Programa Especial Concurrente, Million MxP</i>						<i>Administrative Budget Million MxP</i>		
	2003		2004		2005		2003	2004	2005
	Amount	%	Amount	%	Amount	%			
SE	576	0.5	965	0.8	1,016	0.7	5,404	5,380	7,018
SAGARPA	40,583	34.7	43,814	36.9	49,221	33.5	41,783	36,373	48,396
SALUD	6,829	5.8	6,827	5.7	14,206	9.7	20,867	20,973	34,024
SCT	1,092	0.9	2,948	2.5	2,151	1.5	23,124	22,746	36,694
SEDESOL	15,574	13.3	13,449	11.3	17,448	11.9	18,978	21,099	23,744
SEMARNAT	8,977	7.7	8,004	6.7	11,305	7.7	17,404	16,008	24,483
SEP	17,554	15.0	17,443	14.7	23,830	16.2	106,355	113,414	127,668
SHCP	10,310	8.8	4,539	3.8	6,918	4.7	21,785	23,620	26,916
SRA	3,566	3.0	3,505	2.9	4,856	3.3	2,759	2,806	4,856
STPS	866	0.7	126	0.1	75	0.1	3,151	3,328	3,185
TURISMO	16	0.0	75	0.1	4	0.0	1,459	1,230	1,147
Others	11,153	9.5	17,196	14.5	15,735	10.7			
<i>Total</i>	<i>117,097</i>	<i>100.0</i>	<i>118,892</i>	<i>100.0</i>	<i>146,765</i>	<i>100.0</i>	<i>263,068</i>	<i>266,978</i>	<i>338,133</i>
<i>% of Adm. Bdgt.</i>	<i>44.5</i>		<i>44.5</i>		<i>43.4</i>		<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: SAGARPA for 2003 and Federal Budget for 2004 and 2005.

The importance of federal rural spending is highlighted by the fact that in 2005 it amounted to 43 percent of the sum of the administrative budgets of the *secretarías* active in rural areas, one half of agricultural GDP, and close to 2 percent of national GDP⁸.

⁸ According to GDP estimates available on-line from INEGI, 2005 GDP was MxP 288,513 million for agriculture and MxP 8,374,349 million for the entire economy.

Table 1.3: 2005 Budget for Main Rural Programs in Mexico

<i>Major Program (above MxP 5 bn)</i>	<i>Million MxP</i>	<i>Responsible Government Unit</i>
<i>Oportunidades</i>	27,924	SEP, Salud, SEDESOL
<i>Procampo</i>	14,885	SAGARPA
<i>FISM</i>	12,045	Federal Contribution
<i>Desarrollo Capacidades</i>	9,976	SEP, Salud
<i>Alianza</i>	8,164	SAGARPA
<i>Aserca</i>	6,755	SAGARPA
<i>SPSS</i>	5,395	Salud
<i>Hidroagrarian Infrastructure</i>	5,105	SEMARNAT
<i>Total</i>	90,249	

Source: Federal Budget 2005

According to **Table 1.1**, the amount going to production support programs, which are the ones that concern us most here, oscillated between MxP 46 to 51 billion. Because of the problems mentioned to unambiguously classify the programs, it is difficult to know the true figure. The presumption is that it is bigger than stated because some programs included under environment and land policies are at least partially production-oriented.

No systematic data exist on the targeting of RD programs. There is information broken down by type of beneficiary for *Alianza* decentralized programs (examined later in this document), but not for other programs. This is an area where more research is urgently needed. As observed in the introduction, most of the productive programs (from SEDESOL, CONAFOR, CDI, SRA, SE, and many of those from SAGARPA) are oriented to small producers, but the targeted part of the total amount of federal expenditure going to production-oriented RD programs is not known.

2. Multiplicity of Programs and Coordination Issues

An outstanding feature of *Programa Especial Concurrente* is the large number of programs encompassed. There are some 267 RD programs in the 2005 *Programa Especial Concurrente*, of which 111 from SAGARPA and 156 from other federal government entities. Many of these programs have their own subprograms. If subprograms are considered and the states' own programs are added, a guess of the order of magnitude of the current number of rural programs in Mexico can be of five hundred. Many of these programs are duplicative. Credit programs, programs to support women groups, and programs to support group processing enterprises are typical examples of this.

"Special programs" are envisaged in the Mexican planning system (Art. 26 of the *Ley de Planeación*) as an instrument to carry out integrated actions involving more than

one *secretaría*. *Programa Especial Concurrente* is one of these “special programs”. It is meant to be a coordination tool for this collection of RD programs. Ideally, RD programs should be jointly planned and budgeted and their implementation tightly coordinated. In practice, however, *Programa Especial Concurrente* has not managed to become a RD strategy or plan or joint budgeting mechanism; it has not its own objectives, and simply collects the objectives, policies, strategies and lines of action of the relevant federal *secretarías*. Although a joint budget for *Programa Especial Concurrente* is presented to Congress by the *Comisión Intersecretarial*, no joint programming or budgeting takes place. SHCP prepares sectoral budgets in discussion with federal *secretarías*, and these budgets (or the parts relevant to rural areas) are then added together in the overall *Programa Especial Concurrente* budget⁹.

Programa Especial Concurrente, hence, is an instrument for bringing more coordination and joint action (*conurrencia*) to rural programs, but so far it has only been used as a formal accounting tool, not to carry out effective coordination. There are various reasons for this, the most important probably being the reluctance of federal *secretarías* to relinquish design and budgetary authority to a joint RD planning and budgetary body like the *Comisión Intersecretarial* (CIDRS), which is responsible for *Programa Especial Concurrente*. Other reason is that CIDRS has no operational tools to carry out its function, for it has no budget and no technical staff. Also, it is difficult for SAGARPA, which chairs the CIDRS, to compel other *secretarías* to carry out joint programming and budgeting exercises. Different would probably be the case if CIDRS were chaired by SHCP or *Presidencia*.

Proliferation and lack of coordination of RD programs is a critical problem standing on the way of effective public spending in rural areas. Each federal program has its own regulations, timing, implementation units and, often, *ad hoc* participation committees. Furthermore, there is no national RD strategy that would facilitate convergence. Lack of horizontal coordination at the federal level complicates vertical coordination between federal and state governments, because the latter must deal separately with each federal program authority. It is very difficult for state governments to design coherent RD strategies under these circumstances.

II. THE STATE OF DECENTRALIZATION OF RURAL DEVELOPMENT PROGRAMS

1. Advances in Decentralization

Steps towards decentralization of rural programs started in the mid-90s and accelerated from 2001 onwards. SAGARPA's *Alianza* program has been at the forefront of decentralization; it has in fact been the main vehicle for it. The three main decentralized programs, the so-called *programas federalizados* of *Alianza*, which are the Agriculture, Livestock, and Rural Development programs, represented on average 61

⁹ *Programa Especial Concurrente* figures appear as Annex 17 of the federal expenditures budget.

percent of all *Alianza* public resources (i.e. contributed by the federal and state governments) in 1999-2004¹⁰. The Rural Development Program of *Alianza* is the only production-oriented rural program in the country that has been decentralized (partly) to the municipal level.

The rural decentralization process started in the mid-90s and was intended to cover not only program implementation and program funds but also the transfer to state governments of SAGARPA's staff, infrastructures and other resources, usually referred to as *proceso de federalización*. This is logical because transferring program responsibilities to state governments required additional resources to discharge those responsibilities.

Federalización, however, is a protracted process ridden with difficulties, which has advanced partially only. The main problems are: (i) differences in salary and other labor conditions between SAGARPA and state administrations, which create problems with the unions; (ii) reluctance of state governments to take on SAGARPA staff many of whom are aged; (iv) administrative difficulties to pass on to the states the budgetary resources to cover the operational costs of the staff and infrastructures transferred; and (iv) the cost of the entire operation (compensation for staff laid off, salary increases to level off staff, revamping of infrastructures, and others). The strength, nevertheless, of state *secretarías* in charge of agriculture and rural development (ARD) is higher now than it was a decade ago. Also, SAGARPA interacts and shares decision making with these *secretarías* much more than it used to be the case. There are three pilot states (Jalisco, Michocán and Nuevo León) where SAGARPA staff are in principle equally accountable to SAGARPA and to state governments.

Decentralization of programs of other federal *secretarías* active in ARD has advanced little. Some progress, however, has been made in deconcentration, i.e. assigning larger roles to the *delegaciones* (state offices of the federal *secretarías*). SAGARPA itself runs in a centralized way more than one third of the funds of *Alianza* (the so-called programs of *ejecución nacional*), as well as most programs other than *Alianza*. The situation, however, varies much across RD programs because of the different institutional arrangements under which they operate. Programs are multidimensional phenomena, and the degrees of decentralization can be very different along the dimensions involved. This is examined in **Box 1**.

Box 1: Dimensions in the Decentralization of Rural Development Programs in Mexico

The many rural sector programs that exist in Mexico operate under different institutional arrangements. Some devolve decision-making power to sub-

¹⁰ See Table 3.3. of Chapter 3. Other *Alianza* programs have also been decentralized but to a lesser extent. The above three programs are the main ones, and account for an overwhelming proportion of decentralized funds. The precise meaning of decentralization of *Alianza* programs is explained further down.

national governments to various extents, while others keep most or all aspects under the control of central authorities. A simple centralization/decentralization dichotomy is insufficient to describe how rural programs work, for program processes move along several dimensions, some of which may be under the control of central authorities, while others are under that of sub-national governments. We review below these dimensions and offer some examples.

a) Funding source. Funding of rural programs may come from one, two, or all three levels of government. For most programs the federal level provides all or most of the resources. The programs, for instance, of SRA (PROMUSAG and FAPPA) and SE (FONAES) do not have as a rule state or municipal counterpart funding. When two government levels contribute, they are usually the federal and state governments. This is the case with the Agriculture and Livestock programs of *Alianza* or the PRODEFOR program of CONAFOR. A combination of federal and municipal funding, like in FIRCO's *Microcuencas* program, is possible but uncommon. In hardly any program do all three levels of government contribute funds, with the mayor exception of *Alianza's* Rural Development Program (RDP). Only in the case of states' own programs, like the fertilizer program of the *Secretaría de Desarrollo Rural* in Guerrero or the *Núcleos de Desarrollo Comunitario* program of the *Secretaría de Desarrollo Humano* in Jalisco, does funding come exclusively from state sources. Rural Development programs financed entirely by municipalities are rare.

b) Regulatory authority. Program operation rules serve to design program objectives and decide on implementation issues, ranging from the eligibility criteria to the amount and type of benefits. Except for states' own programs, rules are issued by the federal government. All RD programs from federal *secretarías* operate under centralized rules. When states and municipalities are involved in program funding, additional criteria may be agreed between the government levels involved, formalized as *convenios* and *anexos técnicos*, which usually include budgetary and programmatic provisions. *Alianza's* decentralized programs are an example of this.

c) Allocation of funds to States. Most RD programs operate on a demand basis, i.e. producers have to apply and compete for funding. In the case of centralized programs, competition may be at the national level, in which case no allocation or indicative disbursement figure is given to the states. This is for instance the case with CONAFOR's PRODEPLAN. In other cases, like in SEDESOL's *Oportunidades Productivas* and in FONAES, annual expenditure ceilings are established for each state, and proposals compete at the state-level within those ceilings. Funds, however, are kept at the federal level. In the case of decentralized programs, not only funds are allocated to the states but they are actually transferred to *fideicomisos* located in the states where they are mixed with local funds.

d) Spending authority. Even when funds come from federal sources, prioritization and selection of proposals may involve sub-national governments. The most centralized scenario is when the selection process is carried out centrally by federal *secretarías*. This can be done with the previous advice of a state-level joint committee, like in the SRA's programs, or without it, like in the

Integración Productiva, Agencias de Desarrollo Local and Fondo de Financiamiento Social programs of SEDESOL's *Oportunidades Productivas*. In other cases, like in FONAES, proposals under certain amount are decided upon by the state offices of the corresponding *secretaría*. In more decentralized scenarios, joint state-federal committees may preliminarily select proposals with the final decision being left to the federal level. A more decentralized process is when, like in *Alianza's* decentralized programs or in CONAFOR's PRODEFOR program, state-level joint committees or even municipal-level committees have the last word. Total decentralization occurs when the use of resources is decided by sub-national authorities alone, but this only happens with state's own programs.

e) Operational tasks. RD programs entail a number of operational tasks, such as promotion and dissemination, reception and processing of applications, technical formulation of proposals, and supervision of activities. Once more, different government levels may take part in these tasks, which are usually supported by private providers of services.

The advance of deconcentration has been modest because it requires the deployment of central staff to the states and, possibly, recruiting additional staff to beef up state offices. Both things are difficult to do. Local staff has mixed feelings *vis-à-vis* deconcentration: they like it because it gives them more power and they feel it allows them to do a better job, but they also resent it because it increases their work load.

The 2001 *Ley de Desarrollo Rural Sustentable* (LDRS) was a step forward in decentralization to the extent that it created institutional platforms, like state, district, and municipal rural development councils (Art. 24), analyzed further down in this document, which help giving sub-national authorities more stake in the decision-making process in rural programs. Also, LDRS mandates the signing of *convenios* (legal agreements) between federal *secretarías* and the states to implement sectoral programs (Art. 27).

The operation rules of *Alianza* have strengthened state and municipal councils by making active use of them for program management, and have added new decentralization platforms such as the *fideicomisos*¹¹. A positive function of the RD councils is to facilitate discussion and the reaching of *ad hoc* cooperation agreements between sub-national authorities and staff from federal *secretarías*. Little by little, programs other than *Alianza* are making use of these platforms, but this is only starting.

¹¹ These are trust funds created in financial institutions where the incumbent federal *secretaría* and the state government deposit the funds required to implement an agreed program. *Fideicomisos* have two advantages: (i) once they enter the *fideicomiso*, funds become mixed and indistinguishable, independently of their source; and (ii) they are not subjected to ordinary budgetary procedures, and hence funds need not be returned to the national treasury if they are not spent within the fiscal year. The use of *fideicomiso* funds is authorized by a joint committee known as *Comité Técnico*, and can be audited by the *Secretaría de la Función Pública*, under Mexico's transparency legislation.

Altogether, notwithstanding the progress made during the last decade, the degree of decentralization of rural programs can be considered rather limited¹². The important point is that, as things stand today, it is not possible for state governments to have adequate control of the rural agenda in their states. The majority of public funds spent on rural areas come from federal sources, and the capacity of state governments to influence the allocation of these funds is small. Their ability to shape the objectives and rules under which rural programs operate in their states is also very limited. State governments can in some occasions negotiate and agree with central authorities the distribution of resources among sub-programs of a certain program. That is, for instance, the case with the decentralized programs of *Alianza*, but not with most other programs from SAGARPA or other *secretarías*. They can also try to attract more funds for the state from federal programs, mostly through the offering of counterpart funding or through sheer political negotiation. State governments may also participate in the decision-making process through which priorities are established and proposals approved in some demand-driven programs. This is the case with the decentralized programs of *Alianza*, and is slowly starting to occur in programs from other *secretarías*. Where state governments are powerless is (1) in the design of the programs and their operation rules, and (2) in the transferring of resources across programs, even across programs of the same *secretaría*, although there may be more room for negotiation in this case.

Hence, at present, with exceptions, state governments are mainly observers of the RD programs that federal *secretarías* carry out in their states. To have some say in these programs, they have to contribute counterpart funds. This would in principle be reasonable, if only state governments had enough funds to contribute to all the many programs. In other cases, state contributions are simply not envisaged, the programs being by design strictly national. In no case do state governments decide on the operation rules of federal programs or decide on the allocation among different RD activities of the sum total of funds spent in the state by federal *secretarías*. As mentioned before, the situation is slowly improving, with *Alianza* being the main break through. The creation of new institutional platforms and *fideicomisos* is an important step forward, but their true empowerment and their generalized use in many different programs is only starting.

2. Transparency and Objectiveness

Progress has been made in the use of transparent and objective criteria for the allocation of program funds, more perhaps than in other areas. When program funds

¹² Unfortunately, figures do not exist of public expenditure in rural programs broken down by their degree of centralization/decentralization. Building a typology of program situations according to decentralization dimensions like those indicated in Box 1, and calculating the public expenditure going to each type of program would be an extremely useful line of research to provide better knowledge of the advance of decentralization of RD programs in the country.

are distributed across states, the use of objective criteria is now the rule. Thus, for instance, *Alianza* funds, which used to be allocated according to bilateral negotiations between SAGARPA and the states, started being apportioned according to an objective formula in 2001. The formula has changed somewhat over the years. That used in 2005 is explained in Box 2.

The creation of RD councils at the state, district and municipal level, mandated by the LDRS, is also an advance in transparency because it allows representatives from civil society and sub-national governments to partake in decision-making in the implementation of some ARD programs. Such participation discourages arbitrary decision-making and makes decisions more transparent. The weakness, however, of these councils, examined further down in this document, impairs their operation as a strong system of check and balances.

Program operation rules have brought more transparency to the eligibility criteria of beneficiaries, the selection of proposals, and the various processes involved in program implementation. To some extent, however, this is achieved at the expense of operational effectiveness and of the devolution to sub-national governments and government-society decision-making platforms of the ability to locally decide on priorities and the use of funds. The extreme length and complexity of the operation rules of most programs¹³, designed to keep off any discretionary powers on the part of project operators, make the process more transparent to those capable of reading and understanding the rules, but introduces many operational rigidities and makes it difficult for local agents to adapt program objectives to local conditions.

Complexity of the rules makes it also difficult for potential beneficiaries to understand the characteristics of the programs. Hence, they tend to rely on information from intermediaries, like municipal authorities, government agents, officials from unions or other rural organizations, and service providers, who may themselves not understand well the rules and may have their own agendas. Complexity, thus, by militating against dissemination, reinforces clientelistic ties and discriminates against those who, because of educational level, time constraints, or remote location, have less access to information.

Box 2: Formula used in 2005 for the Allocation to the States of *Alianza* Funds

From the total *Alianza* budget, only the part executed jointly with the states or *federalizada* is distributed to them to be placed in the *fideicomisos*. In 2005 this part was MxP 5,114 million, 62.6% of the total MxP 8,164 million *Alianza* budget. Not all this amount is distributed according to a formula. To smooth the passage

¹³ Thus, for instance, the 2003 operation norms of *Alianza*, currently in use (with a few amendments), have 124 articles many of which are one or more than one pages long,

from the previous negotiated allocation system to the new formula-based one, it was decided to apply the formula to increasing proportions of the funds annually allocated to the states. Each year the formula is applied to a quantity equal to a certain proportion of the funds allocated to the states in the previous year. That proportion has been increasing steadily over time. Thus, in 2001, the first year when the formula was used, the proportion was 20% of the funds distributed to the states in 2000. In 2005 it was 60% of the funds distributed in 2004.

The part of *Alianza* funds allocated to the states using the formula is calculated as the weighted sum of two components. Component 1 (75% weight) is related to objective indicators of the needs of the states for support for agriculture and rural development. Component 2 (25% weight) is related to performance indicators of the states *vis-à-vis* the *Alianza* program. The amounts allocated under each component are calculated as a weighted sum of various indicators. The way in which the funds allocated are used in the states is independent of the way in which the allocations are calculated.

Component 1: 75% of the total amount of funds allocated using the formula go to this component. These funds are allocated to the states according to indicators relevant to (1) agricultural development needs (31.31% weight), (2) livestock development needs (19.17% weight), and rural development needs (49.52% weight). The agricultural indicators are (i) percentage of irrigated land in the state in 2003 in all irrigated lands in the country (25% weight); (ii) percentage of rain-fed lands in the state in 2003 in all rain-fed lands in the country (25% weight); and (iii) percentage of the gross value of crop output of the state in 2003 in the country's gross value of crop output (50% weight). The livestock indicators are: (i) percentage of the state's animal stock in 2001 in the country's animal stock, measured in animal units (65% weight); and (ii) percentage of the gross value of livestock output of the state in 2003 in the country's gross value of livestock output (35% weight). The rural development indicators are: (i) percentage of the state's rural population (settlements < 2,500 residents) in the country's total rural population, according to the 2000 population census plus natural growth (40% weight); (ii) percentage of state farms in all farms in the country, according to the 1991 agricultural census (30% weight); and (iii) percentage of indigenous population in the state in all indigenous population in the country, based on the 2000 population census plus natural growth (30% weight).

Component 2: 25% of the total amount of funds allocated using the formula go to this component. These funds are allocated to the states according to three performance indicators: (i) percentage of state contribution to *Alianza* in 2004 in the overall contribution of states to *Alianza* that year (25% weight); (ii) percentage of *Alianza* funds available to the state in 2004 disbursed by December 31 of that year relative to the corresponding national average (25% weight); and (iii) percentage of the contribution committed by the state to *Alianza* in 2005 in the total amount allocated by formula to the states by *Alianza* in 2004 relative to the corresponding national average (50% weight).

Source: SAGARPA: "Fórmula de distribución de recursos a las entidades financieras para los programas federalizados de *Alianza para el Campo* 2005". DOF January 31, 2005, and interview with Ricardo Boisson from SAGARPA.

How to handle this trade off between transparency, on the one hand, and effectiveness and local empowerment, on the other, to avoid the excessive microregulation of all possible program aspects, is a difficult matter which warrants more attention than it has received so far.

Program evaluation is an area related to transparency where progress has also been made in the last years. There is a requirement from Congress that all programs be annually evaluated by external evaluators, usually university departments or consulting firms. Evaluations are of unequal quality, but some have good professional standards, like those, for instance, of *Alianza*, *Oportunidades*, and *Opciones Productivas*. The good practice should be noted of evaluation documents being made available to the public, usually in the Internet page of the corresponding program or *secretaría*. Evaluations have proved useful to give feedback to program designers and operators, and to disseminate information to the public of program characteristics and performance.

The main limitation of the current system is that there is no follow up mechanism for evaluation results. To make evaluations truly relevant, an agenda of program improvements based on the results of the evaluation exercise should be agreed among the incumbent *secretaría*, the evaluators, and a third party (from Congress, SHCP or *Presidencia*), and action on this agenda should be monitored¹⁴. For the evaluation system to operate efficiently, annual evaluations seem excessive; it would be better to concentrate resources on carrying out good biannual evaluations.

III. ALIANZA CONTIGO

1. Why *Alianza*?

To give a sense of the aspects involved in the design and operation of RD programs in relation to decentralization, we have chosen to examine the *Alianza Contigo* (or simply *Alianza*) program¹⁵ and, more in particular, its Rural Development Program (RDP). There are several reasons for this. First, *Alianza* is the flagship program of SAGARPA, and one which has been operating since 1996, across presidential administrations. Second, most program funds have been decentralized to the states, and part of them (the majority of RDP funding) to the municipalities¹⁶. Third, RDP is a

¹⁴ See World Bank 2005 *Op. Cit.* Chapter 6, on this and other aspects of the evaluation of rural programs in Mexico.

¹⁵ The program used to be called *Alianza para el Campo* before the *Contigo* strategy was introduced.

¹⁶ We use the term "decentralized" here in the sense in which the term *federalizado* is commonly used in Mexico, i.e. important aspects of program implementation have been devolved to the state or municipal levels, and sub-national governments contribute to funding.

targeted program meant to favor small producers and low income rural dwellers in general, with special attention to marginal areas and vulnerable groups (women, youth, the old, indigenous families, and handicapped rural dwellers). RDP has, hence, the double advantage as object of study of being decentralized to municipalities and targeted to the poor. Four, *Alianza* is a production-oriented program. This gives it the design and operational complexity typical of programs aimed at promoting independent entrepreneurial activity, which *per force* mostly deal with private goods. For success, these programs require numerous and committed staff and plenty expenditure in organization, training and technical assistance, which makes them difficult to operate and costly in terms of recurrent costs¹⁷. *Alianza* is a good case to examine the design and implementation issues associated with this type of programs. Finally, FAO has been carrying out quality evaluations of *Alianza* for a number of years, which contain relevant analyses and statistical material¹⁸.

2. General Characteristics and Trends

Alianza was started in 1996 to help Mexican farmers face the new competitiveness conditions created by NAFTA. It has evolved substantially over the years. In general, during the 1990s the program tended to increase in complexity and number of sub-programs, a situation that was reversed in the following decade. *Alianza* consists of a collection of separate and rather independent programs, which cover the majority of ARD promotion activity carried out by SAGARPA. Most of the programs consist of subsidies for farm improvements or for the establishment of transformation or marketing facilities, and are demand-driven, with funds being allocated to beneficiaries upon the presentation of a request with the corresponding technical backing, through a competitive process of selection of proposals which acts as a fund rationing mechanism.

From the point of view of decentralization, there are two basic types of programs: the decentralized (*federalizados*) and the national (*de ejecución nacional*) ones¹⁹. As already indicated, the main decentralized programs are the Agriculture, Livestock and Rural Development ones.

Federal resources going into *Alianza* more than tripled between 1996 and 2004, while the total amount of resources (i.e. public resources from the federal and state governments, plus those contributed by beneficiaries) almost doubled. Those supplied by the states remained rather constant, at an average level of MxP 1.7 billion. On

¹⁷ More on the importance of this type of programs and the requirements and difficulties to implement them can be read in World Bank 2005, *op. cit.* Rural Poverty Study, Chapters 6 and 8.

¹⁸ For the purpose of the evaluations, FAO has carried out quantitative surveys of beneficiaries and systematic interviews with relevant actors in various years, in cooperation with the evaluation teams of the different states, and has compiled a large data base. With the agreement of SAGARPA, FAO kindly agreed to make this data base available to us, keeping the anonymity of the interviewees. We are grateful for this.

¹⁹ It is possible that part of the funds of a decentralized program be reserved for national execution. This is indeed the case with RDP.

average, for the entire period, 41 percent of resources were supplied by producers, 43 percent by the federal government, and 16 percent by state governments (**Table 3.1**). In the case of RDP (**Table 3.2**), the proportion financed by producers was smaller (27 percent), and that financed by the federal government larger (56 percent). Smaller contributions from producers are consistent with the targeted character of RDP and the higher levels of subsidy provided by this program compared to others in *Alianza*.

Table 3.1: *Alianza* Resources by Sources of Funding, million MxP of 2004

<i>All Alianza Resources</i>				
<i>Year</i>	<i>Federal</i>	<i>States</i>	<i>Producers</i>	<i>Total</i>
1996	2,439.5	1,372.5	3,820.8	7,632.8
1997	2,759.4	1,917.6	3,742.7	8,419.8
1998	2,826.9	1,619.7	4,438.3	8,884.9
1999	3,284.3	1,923.4	4,240.0	9,447.7
2000	3,249.9	1,720.4	4,244.2	9,214.5
2001	4,678.0	1,955.2	4,872.9	11,506.1
2002	7,592.1	1,678.5	3,422.0	12,692.6
2003	6,895.7	1,660.0	5,466.9	14,022.6
2004	7,735.1	1,629.5	5,197.1	14,561.6
<i>All</i>	<i>41,460.9</i>	<i>15,476.8</i>	<i>39,444.9</i>	<i>96,382.6</i>
<i>%</i>	<i>43.0</i>	<i>16.1</i>	<i>40.9</i>	<i>100.0</i>

Source: Presidential Reports.

Federal funds allocated to RDP grew rapidly between 1996 and 2001 and more slowly thereafter. Altogether, they increased nearly fivefold between 1996 and 2004 (**Table 3.2**). On average, for the entire period, RDP accounted for 31 percent of all *Alianza* funds²⁰ (**Table 3.3**).

RDP is the most important of the three main decentralized programs. It absorbed, on average, slightly above 50 percent of the resources allocated to all three programs in 1999-04. These three programs absorbed, in turn, 61 percent of the public resources going into *Alianza* in that period (**Table 3.3**).

²⁰ There is some discrepancy between the *Alianza* data reported in the Presidential Reports, used in Tables 3.1 and 3.2, and those provided by SAGARPA, used in Table 3.3. For that reason the figures for RDP resources in Table 3.3 do not equal the sum of federal and state contributions to RDP in Table 3.2.

Table 3.2: RDP Resources by Sources of Funding, million MxP of 2004

<i>Resources of Rural Development Program</i>				
<i>Year</i>	<i>Federal</i>	<i>States</i>	<i>Producers</i>	<i>Total</i>
1996	616.9	373.9	452.1	1,442.9
1997	814.8	596.8	505.4	1,917.0
1998	954.8	479.2	828.6	2,262.6
1999	1,342.7	565.8	681.7	2,590.2
2000	1,787.1	520.6	926.1	3,233.8
2001	2,344.3	648.0	870.7	3,863.0
2002	2,512.8	599.2	838.6	3,950.6
2003	2,427.9	563.0	1,202.0	4,192.9
2004	2,955.1	473.1	1,142.7	4,570.9
<i>All</i>	<i>15,756.4</i>	<i>4,819.6</i>	<i>7,447.9</i>	<i>28,023.9</i>
<i>%</i>	<i>56.2</i>	<i>17.2</i>	<i>26.6</i>	<i>100.0</i>

Source: Presidential Reports.

Table 3.3: Public Resources of Decentralized Programs, million 2004 MxP

<i>Year</i>	<i>Decentralized Programs</i>				<i>%</i>	
	<i>Agriculture</i>	<i>Livestock</i>	<i>Rural Dev.</i>	<i>All</i>	<i>All Alianza</i>	<i>Decentral.</i>
1999	1,305.0	657.0	1,770.0	3,732.0	5,207.6	71.7
2000	897.2	650.6	2,574.3	4,122.1	4,970.3	82.9
2001	1,152.3	732.2	1,932.0	3,816.5	6,633.2	57.5
2002	1,481.8	789.5	2,288.3	4,559.6	9,270.6	49.2
2003	1,757.8	894.7	2,305.7	4,958.2	8,555.7	58.0
2004	1,920.4	1,056.9	2,710.4	5,687.7	9,364.6	60.7
<i>Total/average</i>	<i>8,514.5.</i>	<i>4,780.9</i>	<i>13,580.7</i>	<i>26,876.1</i>	<i>44,002.0</i>	<i>61.1</i>

Note: Only federal and state contributions included. SOURCE: Based on SAGARPA figures

3. Contribution of State Governments to *Alianza*

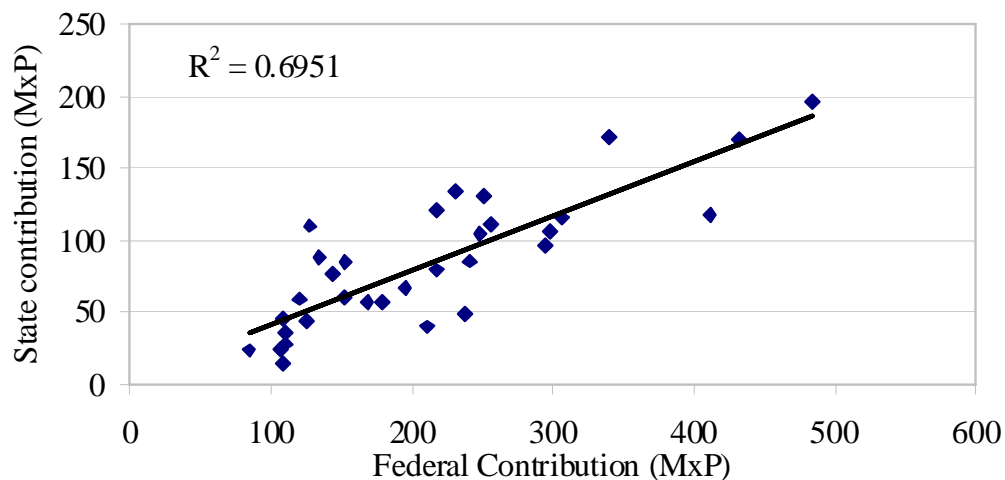
We investigated in our national interviews and during field work in the states the incentives for states to contribute to *Alianza*, in order to understand why their contribution is small –only around one sixth of the total. We notice, first, that state contributions are voluntary, not a fixed proportion of federal funding as is the case in other programs where a state *pari passu* is demanded. Before 2001, state contributions were part of the negotiation with SAGARPA for the allocation of federal funds. As explained before, after 2001 a formula was applied which included state counterpart funding as part of the criteria for allocating funds to the states (see **Box 2**). The formula is seen by SAGARPA as an incentive to increase state contributions. Whether it is a sufficient incentive is doubtful, however. We do not know what the contribution would have been in the absence of it, but we know that (1) according to the formula, the part of funds allocated in relation to counterpart state funding in the current year (compared with the average contribution from all states) was only 7.5 percent in 2005, and less in

the years before²¹, and (2) the total funding from all states decreased from 2001 onwards (Table 3.1).

During field work we have come across three points of view with respect to the incentives for state governments to contribute counterpart funds. One is that the federal contribution stimulates counterpart funding because of the formula. The second is that federal funding crowds out state funding; i.e. states do not invest much in certain programs because there is already a substantial investment from the federal level. A third reason is that states do not contribute more because either the funds available for ARD activities are already committed in on-going programs (this is for instance the case with the fertilizer program in Guerrero) or they prefer to apply them to programs of their own design (like with the *Núcleos de Desarrollo Comunitario* program in Jalisco).

Looking at state and federal contributions per capita of rural population in Figure 3.1, we see that (1) there is significant dispersion in the size of state contributions, and (2) the amount of funding from both sources moves in the same direction. The coefficient of variation of state contributions and the squared correlation coefficient of state and federal contributions are in fact large, 1.85 and 0.70 respectively. Two explanations are possible for the high correlation. One is that the two sources of funding are complementary, one calling for the other. The second is that, presumably, better off states have more resources available to invest in *Alianza*, and hence contribute more funds, but they also receive larger federal allocations (see below).

Figure 3.1: Distribution of States According to their Contributions to Decentralized *Alianza* Funds per Head of Rural Population. Average 2001-05



Source: Calculated from SAGARPA figures

²¹ Thus, only 25% of the 60% distributed according to the formula is allocated according to performance indicators, of which one, with 50% weight, refers to the contribution of the state in the current year compared to the contribution from all states (see Box 2).

We may conclude from the above review that a number of circumstances affect the decision of state governments to allocate funds to *Alianza*. Thus, federal and state unding can be seen as either complementary or rival, and indeed they may be seen differently in different states, this being a possible reason for the large dispersion in state contributions. The limitation of state funds to invest in ARD and the possible commitment of these funds to long-standing programs or to preferred programs, also seem to be a major determinant of the small average size and large dispersion of state contributions.

4. The Rural development Program (RDP)

The RDP consists of three programs. The first one is the *Programa de Apoyo a los Proyectos de Inversión* (PAPIR), an investment fund which supports income and employment generation investments by small producers and other rural dwellers. PAPIR gives subsidies to low income rural residents to improve their farms or carry out other productive investments. Until 2005, there were two modalities: (1) support to productive projects, restricted to producer groups of six or more members, and (2) support to individual producers. A maximum of 30 percent of PAPIR resources in each state could be allocated to individual producers. In the case of groups, the subsidy for ordinary beneficiaries ranges between 50 and 70 percent, decreasing with the amount of the subsidy, and between 50 and 90 percent for priority groups²². For individual producers, it ranged between 50 and 53 percent. In 2005 PAPIR accounted for 72 percent of the MxP 2,184 millions of federal funds allocated to RDP.

The other programs are the *Programa de Desarrollo de Capacidades* (PRODESCA), and the *Programa de Fortalecimiento de Empresas y Organizaciones Rurales* (PROFEMOR). The former is mostly used to provide training and technical assistance to producer groups to formulate and implement projects financed by PAPIR. Some 14 percent of the RDP 2005 budget went to PRODESCA. The second subprogram serves to support producers' organizations and is being used, in particular, to provide technical backstopping to the rural development councils through *coordinadores técnicos*. The proportion of the RDP budget allocated to this subprogram in 2005 was 13 percent.

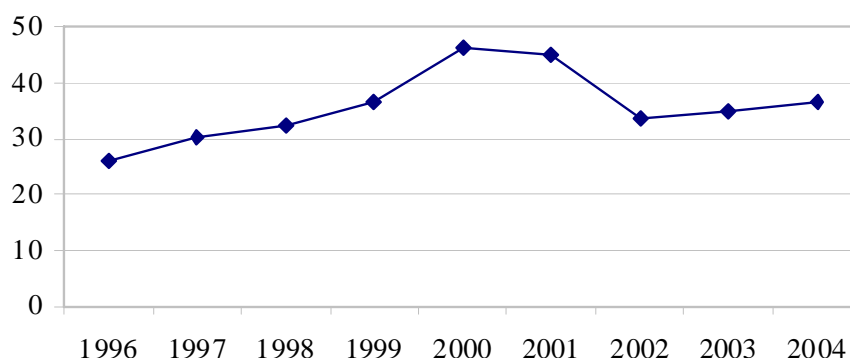
From 1996 to 2000 the participation of RDP in the sum of federal and state funds allocated to *Alianza* increased sharply (**Figure 3.2**). The period 1999-01 was the best. Thus, in 1996-98 the participation was 39 percent, in 1999-01 it increased to 43 percent, and in 2002-04 fell to 35 percent²³. Because the contribution of farmers to the funding of RDP is less than in other subprograms, the participation of RDP in all *Alianza* is smaller when it is calculated for all sources of funding rather than for public funding alone.

²² The priority groups are youth, women, indigenous peoples, old age producers, and handicapped people.

²³ Calculated from Tables 3.1 and 3.2.

The participation of RDP in all public resources for decentralized programs varies much across states (**Annex Table 2**). In general, poorer states, where the weight of peasant and indigenous populations is large, tend to allocate more funds to RDP, whereas richer states prefer to allocate more funding to the Agriculture and Livestock programs, which are not targeted to small producers and mostly support commercial farmers. Thus, for instance, Guerrero allocates 73 percent of decentralized program resources to RDP, Oaxaca 66 percent, and Veracruz 57 percent, whereas Baja California and Nuevo León allocate only 16 percent, Sonora 21 percent, and Sinaloa 24 percent.

Figure 3.2: Participation of RDP in *Alianza's* Public Funding



Source: Calculated from SAGARPA figures

5. *Alianza* Targeting

Alianza is not a targeted program; only RDP is targeted. Hence, the increased participation of RDP in *Alianza* between 1996 and 2000-01 shown above was good news for the low income sectors. We examine first the targeting across states of *Alianza* decentralized programs, and the targeting by RDP of municipalities according to their degree of marginality, moving then to the targeting of beneficiaries according to poverty criteria.

Geographic Targeting

Figure 3.3, where states have been arranged in order of decreasing degree of marginality from left to right²⁴, shows the value in MxP of public *Alianza* funding per capita of rural population for decentralized programs. More marginal states tend to receive fewer funds per capita than less marginal ones. In fact, the order correlation coefficient between well being (i.e. low marginality) and average amount per capita of decentralized *Alianza* funding received in 2001-05 is 0.74, i.e. positive and large²⁵. Furthermore, the coefficient increased steadily from a value of 0.64 in 2001 to one of 0.78

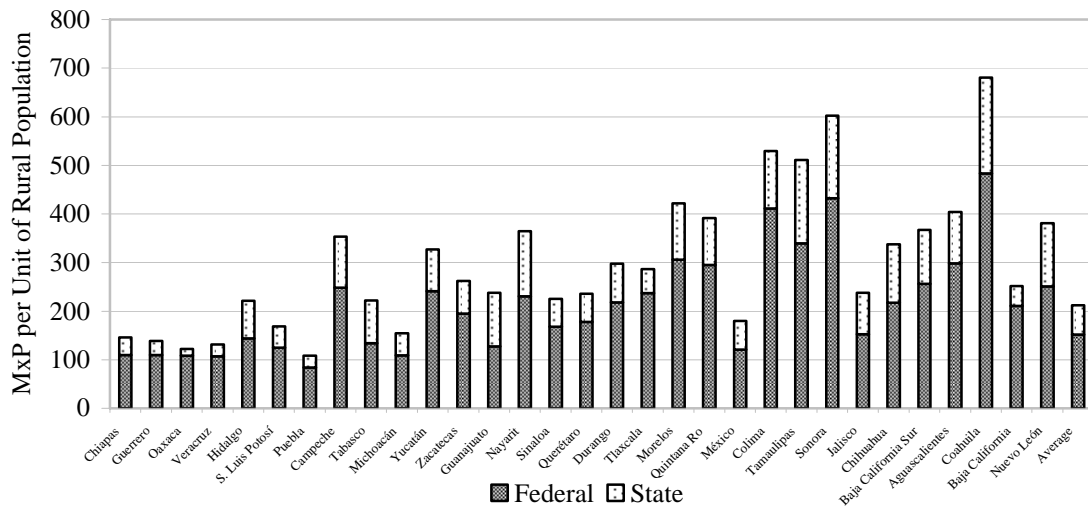
²⁴ According to CONAPO's 2000 marginality index.

²⁵ Spearman's rank order correlation coefficient.

in 2005 (**Annex Table 3**). On the whole, hence, according to a targeting criteria based on state marginality, the decentralized funding of *Alianza* is regressive, and increasingly so.

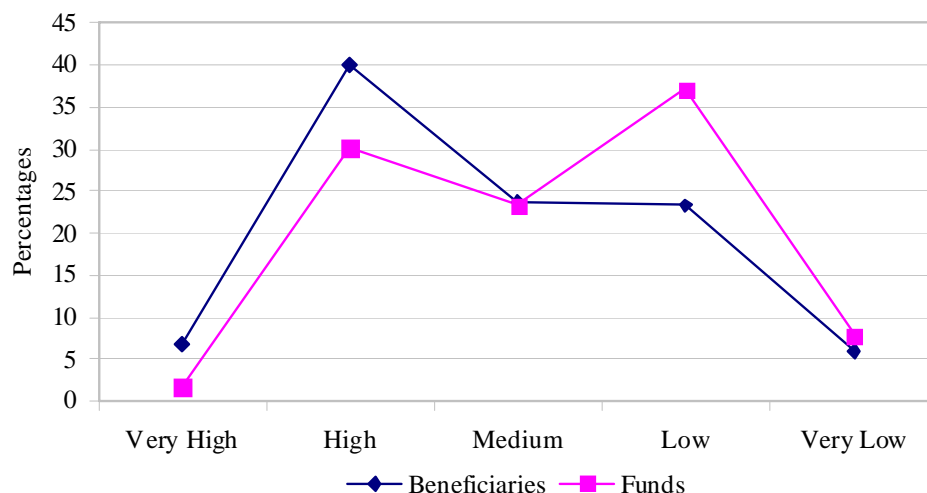
We turn the attention now to RDP and look at the level of marginality of the municipality of residence of beneficiaries. Of all 2004 beneficiaries, 47 percent lived in very high or high marginality areas (where 49 percent of the rural population lives), and a similar proportion of beneficiaries live in municipalities of medium or low marginality, compared to 39 percent of the rural population (**Figure 3.4**). This is in spite of the fact that the operation rules of the Program indicate that 70 percent of the Program funds managed by the states should go to localities of high or very high marginality. As shown in **Figure 3.4**, the distribution of funds is more regressive than that of beneficiaries.

Figure 3.3: Decentralized *Alianza* Funds per Head of Rural Population. Federal and State Contributions. Average 2001-05 in MxP



Source: Calculated from SAGARPA figures

Figure 3.4: Distribution of Beneficiaries and Funds of the RDP According to the Marginality of their Area of Residence



Source: FAO: *Informe de Evaluación de la Alianza para el Campo*, 2004

In **Table 3.4** we compare the distribution of (1) RDP beneficiaries, (2) RDP funds accruing to these beneficiaries, and (3) the rural population, according to the marginality index of the municipality of residence. There are not big differences in the distribution by the marginality index of RDP beneficiaries and the rural population. The main ones are in the extremes: RDP has difficulty in reaching municipalities of very high marginality but tends to stay away from municipalities of very low marginality. On the whole, the distribution of RDP according to the marginality of the municipality of residence seems to be neutral. The picture is different when we look at the distribution of funds, which is biased in favor of residents in municipalities with low marginality. Thus, 44.9 percent of the funds are allocated to residents in municipalities of low and very low marginality, and 31.9 percent to residents in municipalities of high and very high marginality index. Beneficiaries in the first two types of municipalities receive subsidies that are 53% higher than the average, whereas those in the latter two receive subsidies that are 32% lower than the average.

Table 3.4: Distribution of the Beneficiaries and Funds of RDP and of the Rural Population by Marginality of the Area of Residence

Shares of	Marginality level				
	Very high	High	Medium	Low	Very low
Rural population	13.9	35.5	22.7	16.7	11.2
Beneficiaries	6.7	40.1	23.8	23.3	6.0
Funds	1.7	30.2	23.3	37.1	7.8

Note: Rural population is defined as those living in localities of less than 5,000 inhabitants.

Source: FAO, *Informe de Evaluación de la Alianza*, 2004 and World Bank staff estimates based on CONAPO 2000 and Székely and others 2005.

Personal Targeting

FAO evaluations of *Alianza* distinguish five types of beneficiaries. The classification is designed to capture the poverty/wealth situation of beneficiaries, and is based on a composite index calculated from five variables: education, value of assets, livestock, land, and (an index indicator of) technology²⁶. The average level of these characteristics for the 2004 sample of RDP beneficiaries is shown in **Table 3.5**. Roughly, Types I and II can be considered small producers, Type III middle producers, and Types IV and V large and very large producers.

Table 3.5: Characteristics of RDP Beneficiaries by Type, 2004

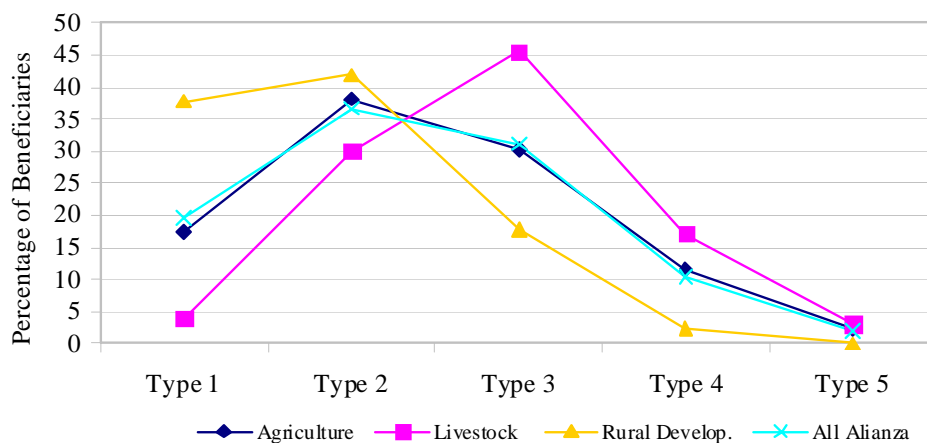
<i>Average Characteristics</i>	<i>Type of Beneficiary</i>					<i>Total</i>
	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	
Beneficiaries (%)	37.8	41.9	17.8	2.5	0.0	100.0
Age (years)	45.2	45.3	45.9	53.9	43.0	45.3
Education (Years)	4.8	6.3	8.9	14.3	19.0	6.5
Value of Assets (MxP)	1,799	56,557	208,853	662,765	512,000	83,503
Number of Equivalent Cattle Units	5.6	8.3	13.8	28.6	71.0	8.9
Irrigated land Equivalent (hectare)	0.8	3.0	11.1	33.1	10.0	4.6
Technological Level	0.2	0.3	0.5	0.6	0.8	0.3

Source: FAO: *Informe de Evaluación de la Alianza para el Campo*, 2004

From **Figure 3.5** it is apparent that RDP is the best targeted program of *Alianza*. Some 80 percent of RDP beneficiaries belong to Types I and II, compared with 56 percent of the beneficiaries of the Agriculture program and 34 percent of the Livestock program. The distribution of beneficiaries by type for the entire *Alianza* program is very similar to that of the Agriculture program.

²⁶ The FAO evaluation of *Alianza* for 2004 was based on a sample of beneficiaries of 30 states with two sampling frameworks, one for beneficiaries of *Alianza* in 2002, which included 15,898 producers, and the other for beneficiaries of *Alianza* in 2004, which included 12,109 producers. The first sampling framework was used to estimate the impact of the 2002 *Alianza* program. Both samples included beneficiaries from the Agriculture, Livestock and Rural Development programs. Interviews were carried out in April-June 2005.

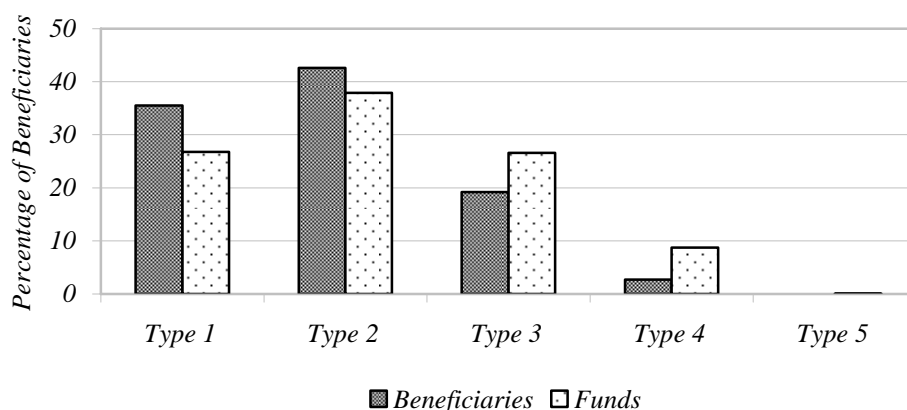
Figure 3.5: Distribution of 2004 *Alianza* Beneficiaries by Program and Type



Source: FAO: *Informe de Evaluación de la Alianza para el Campo*, 2004

The difference between the distribution of beneficiaries and funds is clear in **Figure 3.6**. The percentage of funds accruing to beneficiaries of Types I and II is smaller than that of the number of beneficiaries of these types, while the opposite is true for Types III and IV. There are hardly any Type V beneficiaries of RDP.

Figure 3.6: RDP 2004: Beneficiary and Fund Distribution by Type



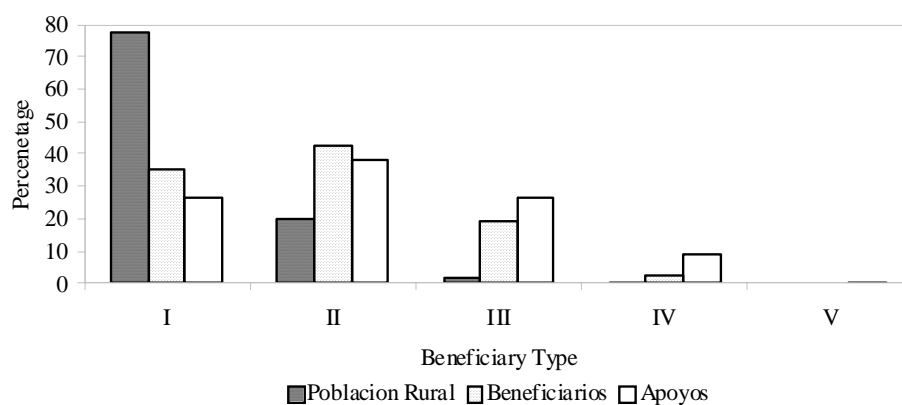
Source: FAO: *Informe de Evaluación de la Alianza para el Campo*, 2004

We do not have systematic information on the distribution of beneficiaries by state, and hence we do not know how consistent is the pattern shown in **Figure 3.5** across states. From our field work and national interviews, there is the impression that the better off the state the more biased the distribution in favor of higher type beneficiaries. Thus, for instance, we observed that leakage of benefits to producers not in the target group of RDP was a concern of program operators in Jalisco, because they

thought it to be large, but not in Guerrero and Veracruz, because they did not think it was important.

A limitation of the FAO database is that it only contains data of *Alianza* beneficiaries, without a control group. It is not possible, therefore, to compare the distribution of beneficiaries with that of the control group. We have tried to overcome this by comparing the distribution of RDP beneficiaries with that of the rural population captured by ENHRUM²⁷. To do this, we classify the overall rural population (as surveyed by ENHRUM) in the same 5 types of the FAO evaluation, and compare the distribution by types of RDP beneficiaries with that of the rural population²⁸. Results are shown in **Figure 3.7**.

Figure 3.7: Comparison of the Distribution by Type of the Rural Population (families) and the Population of RDP Beneficiaries



Source: Calculated on the basis of *Alianza* RDP evaluation report and ENHRUM data

The two distributions are different. The poorest households (those in Type I) are under-represented in the population of RDP beneficiaries, while those in Types III and IV are over-represented, both in terms of families and of funds.

Based on the ENHRUM sample, we have estimated the average household expenditure and its standard deviation for families in the first three beneficiary types²⁹. On the basis of this and of the poverty lines, and assuming that household expenditure is normally distributed, we have estimated the percentage of RDP beneficiaries under the poverty lines, i.e. who are extreme or moderate poor. The results are shown in **Table 3.6**.

²⁷ The *Encuesta Nacional de Hogares Rurales de México* (ENHRUM), taken in 2002 in collaboration between INEGI and *El Colegio de México*, covers some 1,800 rural households and is representative at the national and large regional levels.

²⁸ Unfortunately, the variables used to construct the technology level indicator included in the FAO typology were not available in the ENHRUM database. The ENHRUM-based typology was thus constructed without this indicator.

²⁹ The number of observations for families in types IV and V in the ENHRUM sample was too small for meaningful analysis.

Table 3.6: Average Annual Household Expenditure in 2002 (in 2002 Pesos) and Percentage of Poor Households in Types I to III of RDP and *Alianza* Beneficiaries

<i>Region</i>	<i>Type I</i>	<i>Type II</i>	<i>Type III</i>	<i>Avg. I to III RDP</i>	<i>Avg. I to III Alianza</i>
<i>National</i>					
Average HH Expenditure	29,132	51,997	183,604	69,620	93,170
% Extreme Poor	45.9	29.6	13.4	32.4	27.6
% Moderate Poor	64.2	42.8	16.3	45.4	38.3
<i>South East</i>					
Average HH Expenditure	17,326	35,762	nd	nd	nd
% Extreme Poor	63.8	38.3	nd	nd	nd
% Moderate Poor	87.4	58.0	nd	nd	nd
<i>Center-West</i>					
Average HH Expenditure	38,080	62,925	nd	nd	nd
% Extreme Poor	34.6	22.7	nd	nd	nd
% Moderate Poor	56.0	34.6	nd	nd	nd

Notes: (1) 2002 annual household poverty lines: Extreme = MxP 25,244; Moderate = MxP 42,942

(2) nd indicates that the number of cases in the sample were too few for meaningful estimates

(3) Percentage of poor estimated from poverty lines and household distribution parameters assuming normality in the distribution.

Source: ENHRUM for household expenditure and World Bank 2004 for expenditure poverty lines.

Table 3.6 confirms the connection between beneficiary type according to the FAO classification and household welfare measured by the level of household expenditure³⁰. It also confirms that RDP is better targeted than the entire *Alianza* (i.e. including also the Agriculture and Livestock programs). RDP itself, however, is not well targeted. At the national level, an estimate of only 32 percent of ARD beneficiaries are extreme poor and 45 percent moderate poor.

There are various reasons for the inadequate targeting of RDP. The main ones seem to be three. First, because of its core design as a farm subsidy program, RDP mostly benefits farmers, even if mainly small ones. Farmers who apply to the program have already some level of productive assets; the nearly assetless at the bottom of the income pyramid have little to obtain from the program and would not normally apply. Second, *Alianza* operates on a matching grant basis. The poorest potential beneficiaries may not have counterpart matching resources to offer. Finally, the way RDP is implemented may also contribute to the targeting bias. Thus, dissemination is often inappropriate, harming poor rural dwellers that tend to have less access to information.

³⁰ We use expenditure rather than income because of higher measurement reliability in the ENHRUM survey and because it is a better welfare indicator of household welfare.

Also, private service providers who play a key role in the dissemination of the program and the preparation of proposals do usually find it easier to work with comparatively larger farmers.

We can observe, however, big regional differences in **Table 3.6**. Thus, in the poor South East region income levels for the same type of beneficiaries are much smaller, approximately half the levels registered in the rich Centre-West region. Accordingly, the percentage of poor in Types I and II is much higher in the former than in the latter region. RDP seems hence to be better targeted in poorer regions.

From the evidence here presented it would seem that the RDP has been good at reaching beneficiaries of Type II, but has found difficulties in reaching those of Type I, and has benefited more than a fair share of the population in Types III and IV.

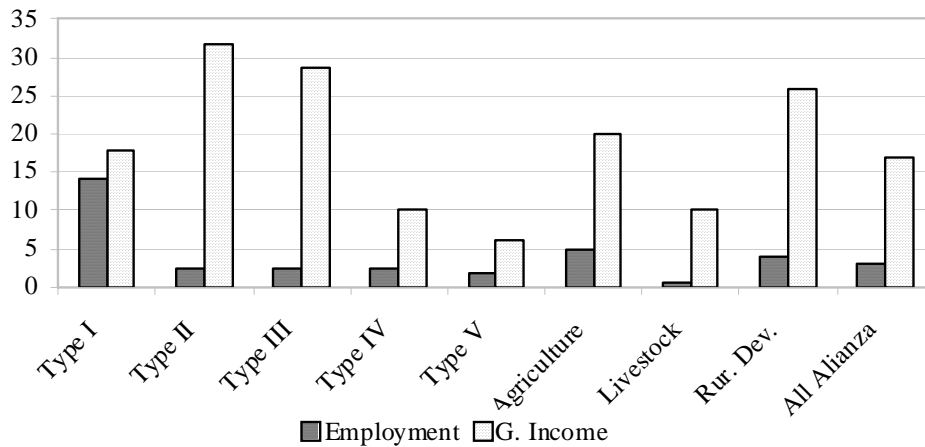
6. Economic Impact

Alianza subsidies had a significant measurable impact on the economy of beneficiaries. Based on data from the 2004 FAO evaluation, we show in **Figures 3.8 and 3.9** the impact of *Alianza* subsidies on gross income, employment, assets, and technology of beneficiaries of the 2002 Agriculture, Livestock and Rural Development programs. Impact relates to the period expanding between when the beneficiary received *Alianza's* support in the second part of 2002 and when he/she was interviewed in the first part of 2005. Figures are based on beneficiaries' perceptions (stated during the evaluation interviews) of how *Alianza* impacted the above variables.

On average, *Alianza* helped expand beneficiaries' gross income by close to 17 percent, much more than employment, which increased 3 percent only³¹. The impact on income was particularly noticeable in Type II and III beneficiaries, and was bigger in rural development than in other programs. The impact on employment was bigger for Type I beneficiaries, and small for all other beneficiary categories.

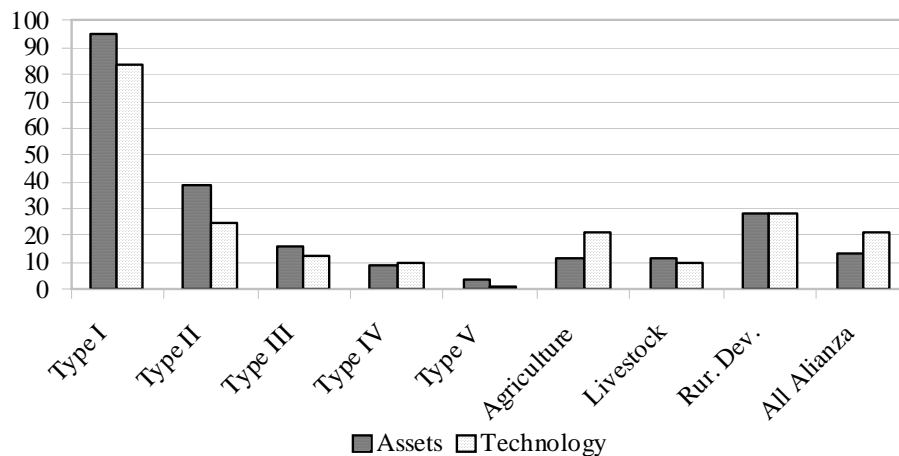
³¹ Most of the impact on gross income (76%) was due to output growth, following increases in scale (73%) and yields (37%). The remaining 24% was due to improvement in prices due to marketing and quality enhancing investments.

Figure 3.8: Percentage Increase in Employment and Gross Income of *Alianza* 2002 Beneficiaries between 2002 and 2005



Source: FAO: *Informe de Evaluación de la Alianza para el Campo*, 2004

Figure 3.9: Percentage Increase in Assets and Technology Level of *Alianza* 2002 Beneficiaries between 2002 and 2005



Source: FAO: *Informe de Evaluación de la Alianza para el Campo*, 2004

As a consequence of *Alianza* support, the value of beneficiaries' assets increased 13 percent³², and the impact on a technology index³³ was 21 percent. Not surprisingly, *Alianza's* impact on assets and technology is largest for Type I beneficiaries, decreasing

³² This includes the value of the assets supplied with *Alianza* support and an additional increase of 43 percent in the value of beneficiaries' assets that they ascribe to the effect of *Alianza*.

³³ In the case of agriculture, the index of technology level includes indicators of quality of planting material, use of machinery, availability and type of irrigation, and use of fertilizer. In the case of livestock, the elements included are quality of the stock, type of feeding used, and type of infrastructure. The indices move between 0 and 1. We have calculated the technology impact as the percentage change in the value of the index between 2002, before *Alianza* support, and 2005.

rapidly as the beneficiary category increases, and is larger for RDP than for the other programs.

There is no information on the aggregate impact of *Alianza* on national employment and output, but it is expected to be small in view of the limited number of beneficiaries compared to the total number of producers. Thus, the annual number of direct beneficiaries with investment subsidies of the three main decentralized programs of *Alianza* in 2002 was 165 thousand individuals³⁴, compared to a rural labor force of the order of ten million and an agricultural labor force of the order of six million. Since the number of direct beneficiaries and that of workers in the rural labor force have not changed much over the last years, we can conclude that, each year, some 1.7 percent of the labor force in rural areas and some 2.7 percent of those employed in agriculture received direct investment support from decentralized *Alianza* programs.

IV. MUNICIPAL DECENTRALIZATION

Since 2002, an increasing proportion of RDP funds was decentralized to municipalities. Municipal decentralization or *municipalización* was promoted by SAGARPA in order to involve municipalities in ARD undertakings and strengthen the *Consejos Municipales de Desarrollo Rural Sustentable* (CMDRS) –the municipal RD councils- - created by LDRS. Not all states entered municipal decentralization in 2002, but by 2005 state governments had all decentralized *Alianza* RDP funds to their municipalities to a greater or lesser extent. Municipal decentralization is formalized through a document signed by the corresponding state authorities, municipal authorities and SAGARPA authorities in the state, where the respective obligations are stated. Municipal governments are supposed to contribute counterpart funds, but this is not compulsory. In some cases, like in Guerrero, which was one of the first states to decentralize, *municipalización* was seen as a way to increase the counterpart contribution from the state to federal *Alianza* funding, since funds from state governments and municipalities were added together as “state counterpart”.

1. *Alianza* Funding of Municipalities

In the 2005 budget, the municipally decentralized funds amounted to MxP 1,817 million. This is equivalent to two thirds of the public funding of RDP, and one fourth of that of the entire *Alianza* (see **Annex Table 4**).

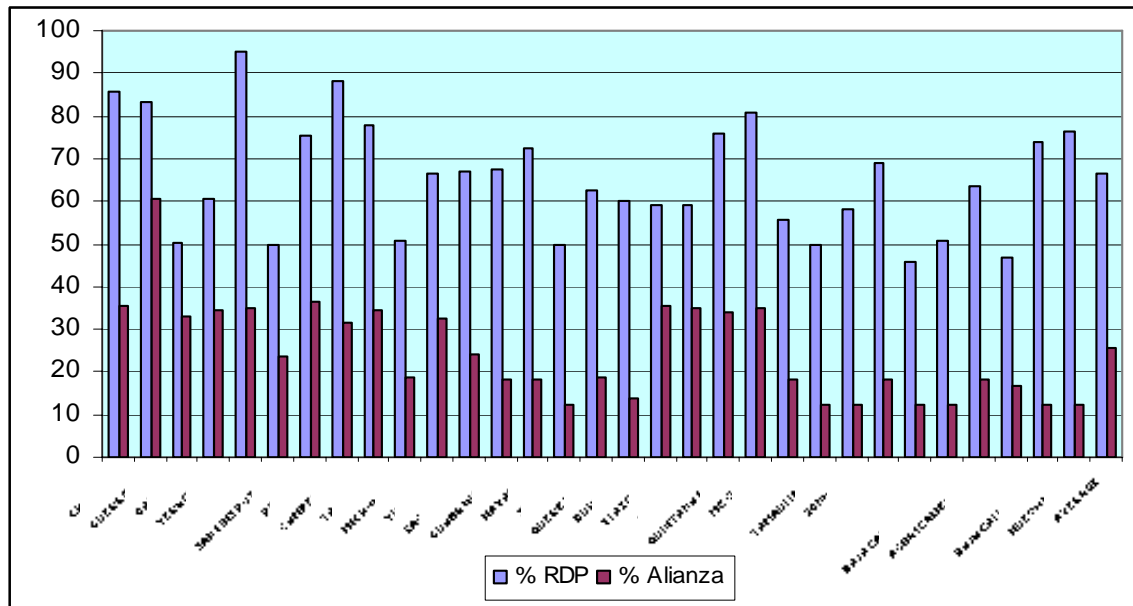
The percentage of public funding of *Alianza* and RDP going to municipalities varies much across states (**Figure 4.1**). There seems to be some association between state

³⁴ Calculated by dividing the total amount of resources going into the three main decentralized programs of *Alianza* in 2002, which was MxP 8,278 million, into the average value per beneficiary of *Alianza* resources for these programs in that year, which was MxP 50 thousand (both figures include the contribution from SAGARPA, state governments, and beneficiaries).

marginality and the percentage of *Alianza* funds in the state decentralized to municipalities. The association, however, is not that clear if the percentage is calculated on the resources of RDP alone. Differences across states seem to depend on two circumstances. First, as examined above, there are disparities across states in the importance of RDP. Second, states are constrained by *Alianza* rules to decentralize to their municipalities a fixed proportion (50 percent in 2005) of the amount of funds that, according to *Alianza* operation rules, must be allocated to “low income” and “transition” farmers³⁵.

The allocation of funds to municipalities is carried out according to a formula consisting of two equal parts. The first one, established by SAGARPA, covers half of the funds to be transferred, is equal across states and depends on the degree of marginality of the municipalities and the size of their rural populations. The second part, covering another half of the funds, responds to criteria set by the states’ Rural Development Councils, and thus varies across states.

Figure 4.1: RDP Funds Decentralized to Municipalities in 2005 as a Percentage of All RDP and of All *Alianza* Funds in the States



Source: Calculated from SAGARPA data.

³⁵ According to Art 18 of the Operation Rules of *Alianza*, states must allocate fixed percentages of all decentralized funds to the “low income” and “transition” farmer categories, defined in Art. 8 of the Rules. The percentages depend on the region where the state is located, and are 24.3% in the North, 36.7% in the Center-West, 70.0% in the Center, and 67.6 in the South-Southeast.

2. Municipal Decentralization Systems

There are two systems of municipal decentralization, of which only the first can be properly considered decentralized. In both systems, the approval of funding requests from producers resident in a municipality is constrained by the resources allocated to that municipality by the decentralization formula. Under the first system, however, (i) funds are transferred to a municipal account, and (ii) the entire cycle of reception, screening, prioritization and selection of requests, and disbursement of funds, is carried out at the municipal level. In the second system, no separate account is opened. Requests are received and preliminarily screened and prioritized in the municipality, but the final selection is performed at state level by the technical committee of *Alianza's fideicomiso*, which also disburses the funds.

The first system is restricted to municipalities satisfying certain conditions. These conditions are: (1) the existence and functioning of a CMDRS, (2) the existence of a rural development plan of the municipality, validated by the CMDRS, (3) the existence of a rural development department within the municipal administration, and (4) the existence of a programmed budget for the current year. This system relies heavily on CMDRS and also on the strength of municipal administrations, which, as explained below, incur into many obligations.

3. The Role of RD Councils and Municipal Authorities

CMDRS are part of the complex architecture for economic governance and the execution of public policy in rural areas set up by LDRS. This architecture has a sectoral or product-based axis consisting of product chains and their governance organizations (the *Comités de Sistema Producto*), and a territorial-based axis formed by a three-level system of rural development councils: the municipal, district and state RD councils. At the top of the system are (1) the inter-secretarial committee chaired by SAGARPA, the CIDRS, integrated by federal secretaries related to rural development, as explained above, which has strong policy functions, and (2) the national-level rural development council, the *Consejo Mexicano para el Desarrollo Rural Sustentable*, with consultative functions, where national producer organizations, academic and research entities, product chain representatives, and the private sector are represented alongside the federal *secretarías* included in CIDRS. This governance structure is complemented by a collection of national systems governing the provision of rural services (such as rural finance, agricultural research and innovation, sanitary and phytosanitary services, technical assistance and training, information, social wellbeing, and others), usually chaired by SAGARPA, which include members from other federal entities and civil society.

Since the approval of LDRS in December 2001, SAGARPA has been busy helping create the RD councils indicated in the law. State-level councils are now in operation in all states, and municipal councils have been created in most rural municipalities.

District-level councils have also been created in most states, but more attention is being given by SAGARPA to the creation or strengthening of municipal than of district councils³⁶.

Functions and Weaknesses of Municipal RD Councils

CMDRS are integrated by (i) the municipal president and other representatives from the municipality, usually the person responsible for the municipal rural development office, (ii) representatives of state government offices and of the federal offices related to rural development operating in the municipality, and (iii) representatives of social and private associations active in ARD in the municipality. They are usually –but not necessarily–chaired by the *presidente municipal*, and are generally assisted by a technical coordinator (normally an agronomist or veterinarian), appointed by de council from among technicians suggested by SAGARPA, the state government or both, who are generally paid with funds from *Alianza's* RDP (from the PROFEMOR program).

Although the functions of CMDRS are not explicitly stated in LDRS, from the operation rules of *Alianza*, and from their statutes we can infer that municipal councils are supposed to: (i) be a locus for rural development planning in the municipality, (ii) facilitate the operation of state or federal ARD programs in the municipality, (iii) run demand-driven programs such as RDP, receiving, prioritizing and approving funding proposals from producers, and disbursing the funds, (iv) be a locus for the local coordination of different rural programs and the local harmonization of funding, and (v) be an instance of representation of local rural interests. These are important functions which would make CMDRS a formidable instrument of decentralized rural economic governance if they were able to fulfill them well.

There is no doubt that CMDRS are a step forward in the creation of decentralized participatory structures for the implementation of ARD policies and programs, and to build public-private-civil society alliances. Unfortunately, most municipal councils are not able to discharge the above functions in an effective manner, although, of course, local situations vary considerably in this respect.

From our field work and national interviews there appear to be some recurrent weaknesses of CMDRS. First, they do not have the technical capacity to perform an effective planning role and establish a medium or long term rural development agenda for the municipality. They are, thus, mostly confined to act as passive recipients of atomized requests from local producers, and as disseminators to their communities and other constituencies of government rules and instructions. Second, more often than not councils are dominated by *presidentes municipales*, technical coordinators or members

³⁶ This is surprising because the Law places more emphasis on district councils, to which a whole chapter (Chapter IV) is devoted.

representing SAGARPA or the state's rural administration. We have seen this in municipal council meetings in Guerrero, Jalisco and Veracruz, and it was confirmed to us by local actors during focus group meetings. Councils, thus, often behave as arms of government (municipal, state or federal) rather than as constructions of rural society. Third, members from *ejidos* and communities, who are the majority of civil society participants in most councils, rotate frequently, usually every year. This makes it very difficult for them to understand the purpose and workings of the councils, assimilate the basic rules of the programs, and participate effectively. Forth, asymmetry of information dominates municipal councils. Thus, federal and state government participants, who are responsible for the implementation of programs and the application of program rules, know these rules better than municipal authorities, although some authorities may also be informed, and much better than civil society participants. The play field is, hence, not leveled.

Finally, state and federal government entities different from SAGARPA and the states' rural administrations are not normally interested in CMDRS, and do not usually participate in them. The councils, and to a large extent the entire governance structure delineated by LDRS, is commonly seen as something alien by other government entities. This is part of the long-standing segmentation of government in Mexico, explained by a long tradition of strong sectoral authorities responding to a strong presidency. In the *imaginario colectivo* of the Mexican public administration class, LDRS is perceived as pertaining to SAGARPA and, to some extent also, to state rural administrations, in the same way in which other laws are seen as pertaining to other *secretarías*, like the *Ley de Desarrollo Social* to SEDESOL. This is in spite of the fact that the top RD government body, CIDRS, includes all relevant *secretarías*, and so does the *Consejo Mexicano para el Desarrollo Rural Sustentable*. As a result, municipal councils cannot exercise the functions of program coordination and funding harmonization that would be so useful. In practice, they are normally limited to the implementation of one program only: *Alianza's* RDP.

In view of these weaknesses, there are legitimate grounds to suspect that most municipal councils will never be able to properly fulfill the desired functions, unless there are dramatic changes. The underlying problem seems to be that the municipal level is not the most appropriate one for the discharge of these functions. Thus, it is difficult to imagine that small rural municipalities will ever have the technical staff and sophistication required to carry out strategic planning and the design of an innovative rural agenda. Or that they will be able to organize in a structured manner the joint budgeting exercises required for a true harmonization of funding. The municipal rural space in Mexico is far too small, and the municipal administration far too weak and committed to other activities for municipal councils to be effective economic governance entities in the above sense. CMDRS are useful public-private platforms, which can play important roles in RD, and they certainly are a step forward in decentralization and civil society participation, but their functions need to be adjusted. District councils, operating

in larger rural spaces, seem a more appropriate territorial entity for broad economic governance. We explore more this theme later in this document.

Issues in the Involvement of Municipal Authorities

Municipal authorities are given many more responsibilities in rural development, in the implementation of *Alianza* in particular, than is usually acknowledged. They do not just participate in and often chair and animate CMDRS, but they must also perform a long series of activities indicated in LDRS, in the operation norms of *Alianza* and in the *convenios de ejecución* of different rural programs. Two issues may be highlighted in this respect.

First, municipal authorities are not in a strong position to carry out rural development activities. In the tradition of municipal government in Mexico, as in that of most countries, service provision and the development of urban centers are the focus of municipal activity. Supporting economic development in rural areas is not a field where municipal governments have experience or feel comfortable³⁷. Rural development, or economic development for that matter, is not an area explicitly included among the many municipal functions listed in Art. 115 of the Mexican Constitution. Also, the Mexican system of three year municipal administrations with no reelection is inimical to the long term perspective required by rural development.

Second, as argued by Merino and Macedo³⁸, the numerous additional activities required from municipalities by the new normative instruments³⁹ have been established with little regard to the administrative restrictions, procedures, and routines of municipal governments⁴⁰. As a consequence, these governments have “adapted the new policy to their own routines instead of modifying their behavior in relation to the new

³⁷ For an analysis of the lack of involvement and difficulties faced by municipal governments in Mexico, particularly in small municipalities, to promote local economic development, see Jesús Arroyo Alejandro and Antonio Sánchez Bernal: “Políticas municipales para la promoción del desarrollo económico regional”, in Enrique Cabrero Mendoza (ed.): *Políticas públicas municipales: una agenda en construcción*. CIDE, Mexico DF, 2003.

³⁸ Mauricio Merino and Ignacio Macedo: “La política autista. Crítica a la red de implementación municipal de la Ley de Desarrollo Rural Sustentable”. CIDE’s working paper series No. 168, CIDE, Mexico DF, August 2005.

³⁹ These instruments are: the *Ley de Desarrollo Rural Sustentable*, the *Programa Especial Concurrente*, the operation rules of *Alianza*, the *convenios* signed with the states, the statutes of the district councils, and the statutes of the municipal councils.

⁴⁰ Merino and Macedo identify ten new activities to be carried out by municipalities in connection with the new ARD normative instruments. To carry out these activities municipalities must implement five organizational tasks: “(1) establish a collective body of citizens and federal, state and municipal authorities to partake in the rural development strategy; (2) have a plan and a budget with resources exclusively devoted to the rural development strategy; (3) appoint a formal entity to take charge of the administrative demands deriving from the implementation of the rural strategy; (4) identify producers’ organizations and promote their participation in the rural development strategy; and (5) establish specific procedures to handle the requests from producers with an intensive use of information and registry systems” (page 25).

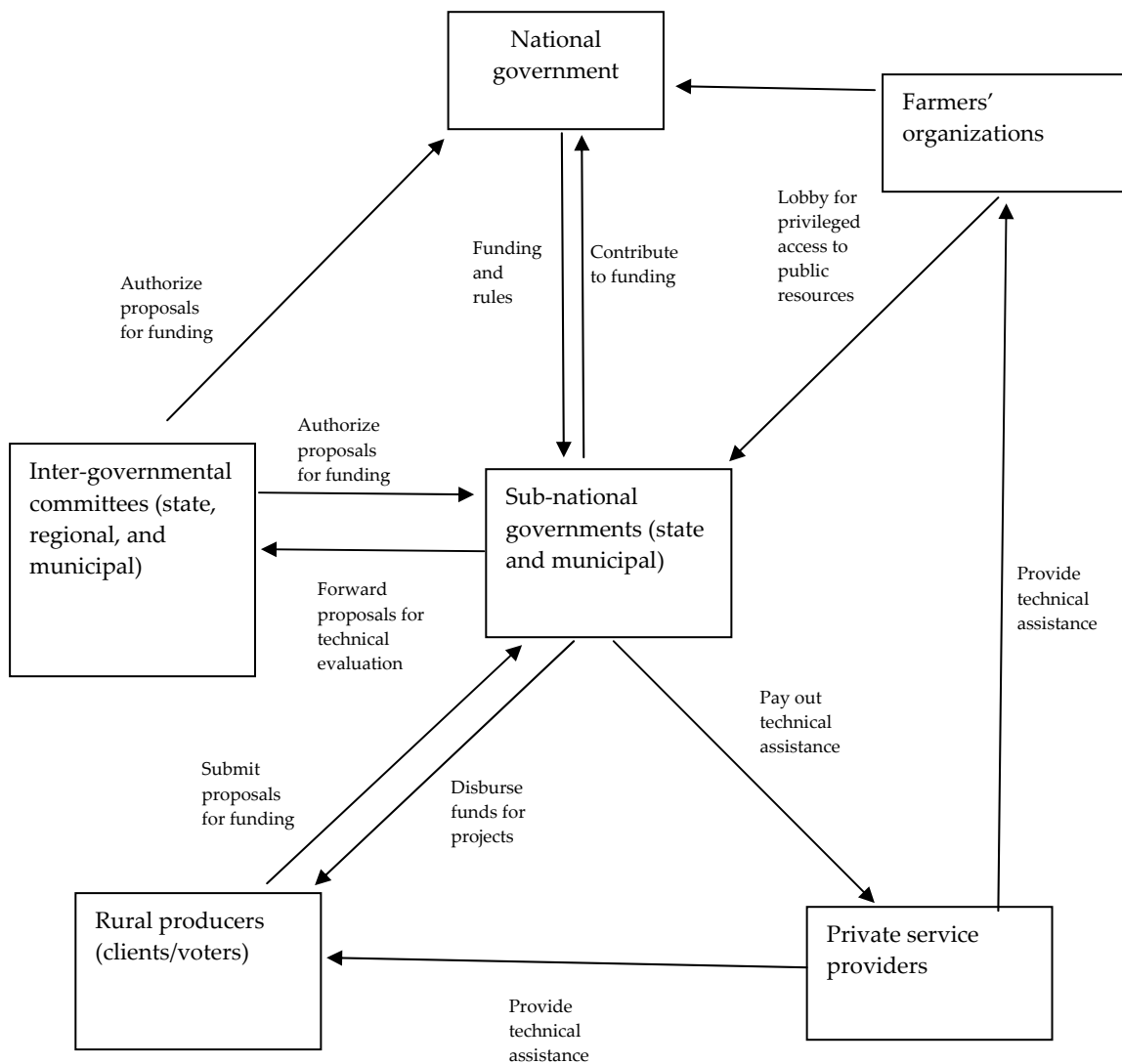
policy". In order not to be left out of the benefits deriving from the new policies –mainly that of being able to expand the range of services available to rural producers in the municipality—and facing many difficulties to follow the letter of the law of the new normative instruments, they decided to adapt the new policy to the old routines. The implementation of new rural policies tend thus to be “swallowed” by the machine of municipal administration rather than generate qualitative change.

INSTITUTIONAL ASPECTS

V. INSTITUTIONAL FRAMEWORK

The following chart illustrates the network of relations that take place in the decentralized operation of rural development programs in Mexico. Arrows indicate the inputs that each level conveys to the others.

Network of Relations in the Operation of Rural Development Programs in Mexico



Contrary to the situation in other social sectors, the most important trade unions affecting ARD policy making are not of providers but of clients (i.e. of farmers or *campesinos*). Farmers' unions apply pressure on both national and sub-national governments, lobbying for privileged access to public resources. They have traditionally enjoyed large political power, as they used to be critical to ensure political support for PRI from rural dwellers, and also because they helped stabilize political conditions in rural areas, keeping conflicts under control. Today, rural unions are connected not only to PRI but also to other political parties. Producers' unions make their influence be felt directly on government using negotiation and pressure instruments, and also through their capacity to have representatives of their corporate interests elected to Congress. Although there is currently a tendency in RD programs to make beneficiaries compete

for resources with demand-driven systems directly administrated by government or by joint committees, some rural programs, like many of the *Alianza* programs of *ejecución nacional*, set aside funds for farmers' organizations, and implement programs through them⁴¹.

Two are the main roles that the federal government always plays in RD programs: to provide the funding, and to establish the rules of operation. Federal *secretarías* also participate in program implementation, but this may be shared with sub-national authorities and civil society representatives. Program rules are mandatory for all players throughout the country. As explained before, in the case of decentralized programs, state and municipal governments are expected to contribute to funding, as well as to participate in decision-making on the allocation of program resources. This is carried out through joint committees, such as the state and municipal RD councils or the technical committees of the *fideicomisos*, which establish rural development priorities and evaluate the quality of investment proposals submitted by producers.

Technical assistance to producers for the preparation of investment proposals and their implementation is given by service providers, who constitute the main interface between program government officials and beneficiaries. Service providers are also the main conveyors of information to producers on program opportunities and rules. They are hired under short-term contracts by the federal or sub-national governments or by producers themselves (with funds provided by the programs). Their pay usually comes from programs' resources. In some cases, they may be employed on a more or less regular basis by farmer organizations, possibly unions, or associative enterprises. Service providers often use in their own advantage their position as intermediaries between government and producers and their superior information, but they are weak and disorganized as a corporate group, unable to act as one. Their situation is in this respect totally different from that of teachers or health workers. Thus, for instance, they are not unionized, are unprotected, and have no entitlement to secure employment or social security benefits. The position of service providers is thus extremely weak, and they receive little economic or moral incentives to do a good job. Nor do they receive technical backstopping, systematic and effective training, or support to operate as networks. These "street level" operators are probably the weakest link in the implementation chain.

VI. PROGRAM COMPACTS

We examine in this section the set of relations established in connection with ARD programs among different levels of government and between government and

⁴¹ Part also of the funding of RDP is not decentralized to states and municipalities but directly executed by SAGARPA's national offices, who allocate the resources to farmers' unions to carry out specific programs.

“street level” program operators⁴². Of particular importance are the system of incentives, and the issues related to transparency and client accountability. Some of the issues to be examined have already been anticipated in PART I of this documents. For completeness, we will mention them here again but only briefly to avoid repetition.

1. The Federal-State Compact

Three main aspects can be examined in this compact: the normative instruments; the funding and budgetary procedures; and the joint platforms.

Normative Instruments

As indicated before, operation rules are the basic normative instrument of programs. There is one set of rules per program issued annually by the responsible federal *secretaría*, after having been cleared by SHCP. They can change from year to year, and often do, but once issued they have legal force. Operation rules establish the objectives of programs, the eligibility conditions, the amount and type of benefits, and the implementation procedures, including the responsibilities of the various entities involved. All this is decided at the federal level, since, as already observed, state governments have no participation in the drafting of rules.

We came across three common complains during field work in connection to operation rules. The first one refers to their complexity. As observed in PART I, this makes rules difficult to understand by producers, especially low income ones who tend to be less educated and have less access to information. It strengthens, therefore, the dependency of beneficiaries on intermediaries, reinforcing clientelistic ties and increasing the effect of asymmetries of information in the working of councils.

The second complain refers to the difficulty often experienced by operators to adapt the rules to local circumstances, and the distortions that this introduces in the working of programs. One example repeatedly given to us is that of the need of producers to form groups of six persons or more and submit a joint investment proposal in order to qualify as beneficiaries of RDP. Since in many cases producers are not keen to form groups and carry out a collective investment, they form fake groups and disguise as a collective project what are in fact a set of individual investments. Service providers have become experts at preparing this type of projects, and government operators are inclined to turn a blind eye in order to facilitate program implementation and not to antagonize producers⁴³.

⁴² We use here the framework of the World Development Report 2004: *Making Services Work for the Poor*, The World Bank, Washington, 2004, and that in Chapter 6 of the Rural Poverty report in World Bank, 2005, *op. cit.*

⁴³ The rationale for the need to form groups is to concentrate investments. SAGARPA contrasts investment projects, which are sizable investments proposals technically prepared, to scattered support to small

Finally, a matter of concern is also the stability of rules. Frequent changes in program characteristics and eligibility criteria enhance information problems and introduce uncertainty among operators and potential beneficiaries. They also delay implementation, because program operators tend to abstain from action until they know if and what changes have been made in the rules.

Funding and Budgetary Aspects

As indicated in PART I, the allocation of federal funds to the states is decided at the federal level, often through a centrally designed formula, like the one used for *Alianza* funding explained in **Box 1**.

For the implementation of *Alianza*, SAGARPA signs *convenios* with state governments, which serve for several years. In addition, SAGARPA and state governments sign annual *anexos técnicos* establishing program goals and the respective funding contributions applicable to the particular year for the various programs included under the *Alianza* umbrella. *Anexos técnicos* are a good instrument because they favor transparency and accountability, but they suffer from the weakness that no sanctions are applied in case of contract breach.

An important funding issue in demand-driven programs, where demand for funds usually exceeds, is the rationing mechanism used. Two dimensions may be distinguished in rationing: global rationing and individual rationing.

Global rationing may operate on a geographic basis (as in the establishment of ceilings for states and municipalities) and also on the basis of beneficiary classes. Global rationing can be used as a mechanism to promote geographic equity and also as a targeting criterion. Thus, for instance, RDP establishes that for the part of the program directly implemented by the states at least 70 percent of funds should go to regions of high or very high marginality indexes, 20 percent to priority groups (youth, women, indigenous groups, old producers, and handicapped rural people), 35 percent to investments on priority production chains characterized by *alta inclusión social*, another 35 to projects proposed by CMDRS, and 25 percent to low income producers in non-marginal regions⁴⁴ (art. 74 of *Alianza's* operation rules).

requests from individual producers, and rightly argues that the latter do little to generate new sustainable income and employment opportunities. To concentrate investments, SAGARPA strongly promotes the formation of groups to carry out collective investments. Investment clustering is certainly needed to promote local economic development. The question is how to achieve it. Forced group formation is not necessarily the best way. An option would be to identify jointly with producers' representatives and other local actors relevant development/investment axes for the particular territory, prepare support programs for the production and marketing of the activities included in these investment axes, and offer individual producers support (and, most importantly, access to credit facilities) to carry out on- or off-farm investments consistent with those programs. Group formation would be welcomed, provided it is voluntary.

⁴⁴ Percentages add up to more than 100 because there is overlapping among the categories.

Individual rationing takes place within geographic or producer class ceilings. The ideal principle, and the one in theory favored in Mexico, is to ration according to the quality of the proposals, established according to criteria and evaluation procedures determined by appropriate bodies, such as the technical committees of the *fideicomisos*. In practice, however, it is very difficult and time consuming to discriminate among small and often similar proposals, and hence the quality principle breaks down. In actual fact, proper quality screening normally takes place only when programs admit large and complex investment proposals. In most other circumstances *ad hoc* rationing mechanisms are used. Principal among them is timeliness in the presentation of proposals. Priority is given to producers who are first in presenting proposals duly completed and with all the attachments required, when the window opens. Hence, good information on window opening and of the documents required, and the ability to get a project formally prepared on time for the opening of the window become determinant elements for producers to benefit from programs⁴⁵.

The main budgetary issue is the frequent delay in the disbursement of funds. This is partially explained by factors beyond the control of sub-national governments, and partly due to the lengthy processes involved and the protracted decision-making taking place within states to receive and evaluate proposals.

Many of our informants indicated as the main cause of the delays the fact that *Alianza's* rules are not published promptly. Operators have to wait until March, April or even May for rules to be issued and become known. Even if rules undergo only minor adjustments, operators cannot start their work before the new rules are known, especially since the forms to be used are generally part of the rules. The following paragraph illustrates the lengthy processes with the case of the operation of *Alianza* decentralized programs in Veracruz in 2005.

After the disclosure in March of the operation rules, the state had to sign with SAGARPA the *anexo técnico*, which took place in May. The program was then disseminated in the state and applications started being received (window opening) in June – a process that lasted between eight and 15 days. Once proposals were collected and checked for completeness, they were submitted to the *Unidad Técnica de Operación Estatal* (UTOE), which is the state's technical office in charge of *Alianza*, to check compliance with all technical requirements. Finally, proposals were submitted to the technical committee of *Alianza's fideicomiso* in the state. This committee started approving the projects around September and instructed the *fideicomiso* to disburse the funds. Disbursement started in December and went into the first part of the following year. Transferring disbursements to the next year was possible because funds were deposited in the *fideicomiso*.

⁴⁵ The usual practice is for windows to open during one to four weeks. It is common for producers to queue up, in occasions for several days, waiting for the window to open.

Hence, what happens in practice is that the decentralized programs of *Alianza* (and also other decentralized programs operating through a state *fideicomiso*) tend follow a different fiscal year from the official one: a fiscal year that goes from May to May or June to June.

Joint Platforms

An important aspect of the federal-state compact is the existence of consultation and decision-making platforms where state and federal officials participate, and often also civil society representatives. In the case of *Alianza*, there are two such relevant state-level platforms: the technical committee of the *fideicomiso*, and the *Consejo Estatal de Desarrollo Rural Sustentable* (CEDRS). The former platform is an exclusively *Alianza* body, which serves to decide the allocation of funding among individual proposals. It is chaired by a representative of the state's ARD office, with a representative from SAGARPA acting as technical secretary. It may or may not include civil society representatives, according to the state. The latter platform is an overall consultation and orientation body, created by the LDRS. It is meant to guide ARD policy in the state. CEDRS, which are chaired by SAGARPA, are integrated by representatives from all the *secretarías* included in the CIDRS, alongside representatives from relevant offices in the state government, and of civil society organizations involved in ARD in the state.

The effectiveness of these platforms varies much across states. In general, technical committees of *fideicomisos*, which are smaller bodies with clearly defined functions, work reasonably well in most states. More variance exists in CEDRS, but on the whole they have not been able to ensure coordination within the state of programs from different *secretarías* or the harmonization of funding.

2. The State-Municipal Compact

This compact works around the decentralization to municipalities of *Alianza's* RDP, started in 2002. *Municipalización*, has worked with important differences across states. Thus, for instance, Guerrero is a case of extreme municipal decentralization because it started in 2002 and all municipalities operate under the first of the two systems explained in PART I. Veracruz is an intermediate case since *municipalización* started in 2004 and only some municipalities have been authorized to operate under system one. Finally, *municipalización* only started in 2005 in Jalisco, with all municipalities operating under system 2.

Funding

The allocation of funds from states to municipalities —either through the direct transfer of funds, under system one, or through the establishment of a ceiling, under system two—may be made through a formula or through direct negotiation. As already mentioned, in the case of RDP, funds are allocated according to a centrally designed

formula, which establishes criteria for half of the funds and lets states establish other criteria for the remaining half.

From a formal perspective, *municipalización* requires that municipal governments sign an agreement with state governments similar to the *convenios* signed between the federal and state governments.

The contribution of municipal funds to RDP is the result of a negotiation process with state governments and is usually problematic. First, there is the problem that rural municipalities have little funds to contribute⁴⁶, and normally prefer to devote to public works, which are more visible, FISM and other funds not committed to current expenditures. Also, the operation rules of *Alianza* are often felt as a straitjacket by *presidentes municipales*, not allowing them to allocate funds the way they think is economically more suitable or politically more effective. Furthermore, they have to share decision-making on those funds with members of CMDRS. Hence, municipal governments generally try to get away with the smallest possible contribution. Second, *presidentes municipales* finishing their three year mandate do not like to contribute funds because *Alianza* subsidies will normally be disbursed the following year, when they will not be in office.

Joint Platforms

The core platform of the state-municipal compact are the *Consejos Municipales de Desarrollo Rural Sustentable* (CMDRS) analyzed in PART I. We examined there the composition, functions and weaknesses of these councils and will not repeat them here, but three consequences of those weaknesses, observed during our field work, are worth highlighting.

First, councils find it difficult to articulate criteria to prioritize investment demands. When they have to exercise a rationing authority and select proposals for funding, they often fall back into simplistic equalitarian rules of the type “one community one project”, independently of the objective merits of the projects and of the needs of the communities.

Second, CMDRS seem not to be capable in many cases of preventing biases in favor of residents of municipal capitals and neighboring communities, either because they have better access to information on the programs or because they have more

⁴⁶ Under Art. 115 of the Mexican Constitution, municipalities have three sources of fiscal resources: transfers from the federal government or *participaciones*, income from the provision of services, and a tax on landed property, the *impuesto predial*. Since this tax is only applied to urban property, which has little value in rural municipalities, and the income that they receive from the provision of services is also very small, *participaciones* are the main fiscal resource. Because of this, municipal contributions to RDP usually come from FISM resources, which according to LCF can be partly invested in productive projects.

means to influence council's decisions, including a better disposition from *presidentes municipales* to favor them.

Finally, the spontaneous tendency at this micro level is to prioritize atomized rather than clustered investments. This is partly because municipal authorities find it politically more rewarding to benefit many producers with small amounts than to benefit fewer producers with larger amounts, forcing them to form groups. Also, CMDRS do not usually have the capacity to articulate a clustering strategy for investment proposals. The case of Guerrero is paradigmatic in this connection. From 2002 to 2004 municipalities in Guerrero operated RDP in a fully atomized way, in contravention to *Alianza* norms. This was the result of a negotiation between municipalities and the state government: a *quid pro quo* whereby the state government contributed very little or nothing at all to *Alianza* while municipalities co-financed the lion's share of overall state funding, in exchange for letting municipal governments run RDP their own way. When in 2005 a new state government decided to apply *Alianza* norms, this created confusion in CMDRS and was resented by municipal authorities.

Another platform to be mentioned here, one which falls between the municipal and state levels, is the district RD councils, the *Consejos Distritales de Desarrollo Rural Sustentable* (CDDRS). There is one council per each of the regions into which states are normally divided, comprising a variable number of municipalities. The geographich coverage of districts usually –but not always–coincides with the administrative divisions of SAGARPA. CDDRS have developed slowly and have not yet found their proper place in the rural economic governance system delineated by LDRS. There are differences, however, across states. Thus, for instance, in Guerrero and Veracruz CDDRS do not seem to play any particular role and their existence is little noticeable. In Jalisco, instead, they are much more active, meeting frequently, often once per month. But even in this case, CDDRS do not seem to serve to delineate a joint RD strategy for the district area to be jointly implemented by the concerned federal and state *secretarías*. They serve more as locus for the exchange of information, and hence to improve transparency, among different government offices and local municipal authorities, with little participation from producers. This is unfortunate because of the crucial role that CDDRS could play as territorial entities of economic governance –a role in a way foreseen by LDRS.

A problem with CDDRS is that they are very much associated in peoples' minds with SAGARPA, or with SAGARPA and the ADR administration of the states, of which they are considered a tool. Hence, other government entities do not feel truly committed towards them. Another problem is the difficulty to articulate a strong participation of producers and other non-government stake holders in CDDRS.

A POSSIBLE WAY TO DECENTRALIZE RURAL DEVELOPMENT PROGRAMS

VII. INTRODUCTION

We have seen in PARTS I and II that many advances have been made over the last decade, and particularly in the last five years, in the decentralization of ARD programs, although decentralization has affected more the power to expend than the power to regulate. In particular, programs have started to move funds to the states and to the municipalities, and to involve them in the implementation process. Perhaps more importantly, new platforms have been created that serve for joint decision making among different levels of government and for the participation of a variety of stake holders.

Notwithstanding these advances, program decentralization is only starting and much remains to be done. In particular, (i) the immense majority of funding for RD programs comes from federal *secretarías*, and it would be naïve to think that it could come without strings attached; (2) many programs are still not decentralized to any degree; and (3) operation rules are fully decided at the central level. Furthermore, issues related to decentralization are closely linked to issues of lack of coordination and harmonization of funding of different programs from different federal *secretarías*. Progress has also been made in this respect, for instance through the launching of *Programa Especial Concurrente*, but this is a tool not still properly used. Lack of sufficient decentralization of RD programs prevent state governments from being true masters of the rural agenda in their states. Even a progressive law such as LDRS, which insists much on federal-state coordination and creates instruments for such coordination, gives no participation to state governments in the top RD governance bodies, the CIDRS and the *Consejo Mexicano Para el Desarrollo Rural Sustentable*, and also locates at the federal level the initiative in the various aspects of RD policy.

A shortcoming of the present situation is that since state governments do not have control of the rural agenda, they do not interiorize the political and economic costs and benefits of rural development actions, successes and failures. There is an ambiguous state of affairs where neither the federal government nor state governments feel truly responsible for RD outcomes.

We believe that a decentralized system with a strong role of state governments, where they would be driving the rural agenda, would be the best way, probably the only one, to overcome the problem of lack of program coordination and harmonization of funding. Also, by making state governments truly accountable of rural development outcomes in their states, decentralization would force them to interiorize all costs and benefits, thus promoting efficiency and equity in resource use. Finally, devolution to the

states of RD resources and functions would greatly facilitate the application of a territorial approach to rural development.

There are in principle two ways to proceed. One would be incremental, similar to the one followed over the last years, and would be based on the use of existing instruments. The other would be more audacious and would try to achieve major devolution to the states of RD resources and functions in a reasonably short number of years, say within one political administration. We favor this second way.

We propose a decentralization model of the type existing in various countries of Europe, like Spain, Italy and Germany, where the equivalent to the Mexican states –the *autonomías, regioni* or *lander*—are the pivotal entities of RD authority and policy making. The difference, of course, is that in the case of Mexico there is not a European Union with a strong ARD policy to take up part of the policy and funding authority. We illustrate in **Box 3** the working of this model for the case of Spain.

Box 3: Decentralization of Rural Development Functions in Spain

Although not formally called a federation, Spain has a federal-type constitution. Each of the country's 17 regions or *autonomías* has its own government chaired by an elected president, and has an elected regional parliament. The degree of devolution of government functions to regional governments (*gobiernos autonómicos*) is large, and agriculture and rural development (ARD) is not an exception to this; on the contrary, it is one of the areas where devolution has advanced most.

All main ARD functions belong to regional governments. Constitutionally, the central government can only exercise ARD functions when they affect the fundamental ordering of the national economy. An example are the basic aspects of land rights, like the definition of public and communal lands or of the major reasons for expropriating agricultural lands, which does not preclude regions from having their own land programs, including agrarian reform laws. Another example are the basic aspects of irrigation policy, in attention to its relation to the national administration of water resources –a key issue in Spain. The preparation, however, by Madrid government in recent years of a broad national irrigation plan generated resentments in some regions. An important national function is representing Spanish ARD interests in the EU and at international negotiations. Yet, as a rule, central authorities consult with regional governments all negotiating positions relative to issues that especially concern the latter. There is also a conference of regional ARD authorities with which central governments regularly consult matters relative to national responsibilities.

ARD programs in the regions fall into two categories: those originating in the region, and those originating in the EU. There are no central government ARD programs. EU programs have tripartite funding, from Brussels, Madrid, and the regions, usually in proportions 50:25:25. Madrid's funding contribution is not

mandatory; the *gobiernos autonómicos* can provide the entire counterpart to EU funds, in which case the national government has no say in the program. Usually, programs come with 50% funding and overall objectives and guidelines from Brussels, Madrid adds 25% funding and some general adaptation of Brussels' norms to Spanish circumstances, and the regional government contributes the remaining 25% of funds, does the concrete design, and prepares the regional implementation plan. Programs originating in the regions are designed and financed by the *gobiernos autonómicos*. There are no fiscal transfers to sub-national governments in Spain earmarked for ARD activities outside the contribution to EU programs; other ARD activities carried out by regional governments are financed from their regular budgets.

Municipal authorities barely have ARD functions or programs in Spain. Rural municipalities are usually small and lack the resources and competence to invest in ARD. In general, their main participation is through their presence in and eventual financial contribution to the Local Action Group of the European Leader program –a territorially based rural development program to promote off-farm innovative employment and income sources in rural areas.

In order to achieve this type of devolution four things would be required:

1. Transferring to the states most of the funds of production-oriented RD programs of federal *secretarías*. This would be done in the form of block grants where the funds from different programs would be merged. The national government would still reserve for itself funds to carry out RD programs and regulatory activities considered to be strategic and to require national-level implementation. The distribution of funds to the states would be done according to an objective formula, based on demand considerations, which would not be regressive.
2. Dismantling the corresponding federal RD programs and letting state governments replace them with their own programs, so that they can be true masters of the RD agendas in their states. State programs would be instruments to carry out state RD strategies with verifiable objectives and outcomes.
3. Pushing ahead with *federalización*, so as to transfer to state governments the assets, staff and other operational resources of federal *secretarías* required for them to design and implement their own RD agendas.
4. Establishing (i) national minimum standards and benchmarks to be respected by the states. (ii) an agreed upon formula for the distribution of funds among the states, and (ii) a national monitoring and evaluation system.

It is clear that a transition period would be necessary to carry out the above, but this could in our view be reasonably short, circumscribed to a political administration.

VIII. THE PROPOSAL

We examine below the functions envisaged under the decentralized system proposed. We concentrate on functions related to the operation of RD programs oriented to the creation of income and employment opportunities. We leave aside areas such as land policy and the regulation of property rights, natural resources management, sanitary and phytosanitary systems, agricultural research, international trade, and other areas relative to national regulatory systems or the supply of national public goods. Each of these areas would require different levels and forms of decentralization (or centralization) which cannot be discussed in this document⁴⁷

1. The Federal Level

For an effective operation of the system, the federal government would have to modify its regulatory role in a way consistent with the devolution to lower levels of government of the design and operation of programs. The stringency characterizing the current regulatory framework does not guarantee the attainment of policy goals. As we have seen, the rules of operation have created a complex implementation system that is difficult to oversee. Under the current framework, policy responsibilities are often obscured because of the multiplicity of players involved in the implementation process.

Under the scheme proposed, federal regulations regarding RD productive activities would consist of broad guidelines, in which minimum standards could be set for the design and operation of RD programs by the states. In particular, federal norms could (i) promote geographic equity; (ii) prevent disproportionate disparities across regions in the type and amount of benefits received by program beneficiaries, and (iii) prevent the creation of situations where producers from different states are treated differently *vis-à-vis* international competitors. The federal government could also monitor and evaluate independently the RD strategies designed and implemented by the state governments. By focusing on strategic issues only, federal norms would allow states to create their own regulatory instruments, thereby reflecting more accurately local needs and priorities.

To the extent that the main sources of fiscal revenue continue to be federal, funding of RD programs would still be a federal responsibility. This brings with it the additional responsibility of ensuring that the allocation of funds across states is based on sound equity and efficiency criteria.

A drastic shift would need to be made from the current funding system to one that truly devolves decision-making power to sub-national levels of government. Under the prevailing system, each budget line is earmarked for certain purposes, precluding

⁴⁷ Thus, for instance, the optimal decentralization of natural resources management is a very complex issue which must be approached in a different way from the decentralization of productive RD programs.

sub-national governments from making adjustments. Federal funds for RD could, instead, be transferred as a block grant not linked to any particular program. Only in this way could sub-national governments have real influence on the allocation of resources and exploit the potential benefits of devolution. To ensure transparency, the allocation of funds could continue to be regulated by a federal formula. The formula could be stable over time and include mechanisms to sanction states that do not comply with their budgetary commitments.

The devolution to state governments of program design and implementation and the adoption of a block grant approach to RD funding would necessarily imply the transfer to state government of the relevant staff, facilities and other resources from the concerned *secretarías*, alongside with the recurrent costs to operate them, so that state governments have the means to design and implement their rural agendas.

The federal government could continue to have an important role in the evaluation of RD programs, independently of whether state governments choose or not to carry out their own evaluations. Since state RD programs would be largely funded by federal resources allocated by Congress through the budgetary process, SHCP and Congress would still have a duty to monitor the proper use of those resources and the quality of the investments. The evaluation process is part and parcel of this. Federal authorities could be involved in the discussion of the action agendas deriving from the evaluation exercises, and in monitoring the implementation of those agendas. The formulation by state governments of RD strategies and of the programs to implement them, with verifiable objectives and outcomes, as a condition for fund transfers, would facilitate M&E from the federal government. Auditing of the proper use of block grants would be a federal responsibility, independently of the auditing that state legislative bodies would like to impose.

There would still be room for the federal government to design and operate certain RD programs that are considered strategic and in need of nation-wide implementation, as well as to design and operate pilot programs.

2. The State Level

State governments would have the initiative in policy making for rural development in the states. They would prepare a long-term RD strategy and monitor its implementation and outcomes, design and implement the RD programs that they consider most appropriate for the state, and allocate resources to them.

Decision-making commissions at the state level could become focal entities in the design and coordination of rural development programs. Under a more flexible federal regulatory framework, the *Consejos Estatales de Desarrollo Rural Sustentable* (CEDRS) could generate more specific rules for the operation of rural programs within the states

and be in charge of their oversight. They could also be the platform where states' RD strategies are discussed and validated.

The objective of coordination and harmonization of funding would look very different under the decentralization system proposed, since most RD programs operating in a state would be designed within the state. State governments or the CEDRS could decide to move resources across programs as well as to create and oversee the necessary coordination mechanisms.

CEDRS could also play a more active role in establishing formal mechanisms for resource prioritization. For instance, the stratification of rural producers is an important planning instrument included in *Alianza* rules, which at the moment few states use. There would be a much greater incentive to use this or similar instruments under decentralization.

Another responsibility of the states would be the setting of quality standards to regulate the provision of technical assistance, and the promotion of an improved market of technical services. At the present time, as indicated before, private providers of services operate in an uncoordinated fashion, without or with little access to training, specialized technical advice, organized links to research outfits and research information, and with no networking. They also lack the incentives to improve their performance. If states are provided with the necessary decision-making authority and resources for the operation of rural programs, they could introduce innovative compensation schemes to reward good performance, and design coherent strategies for the transfer of technology to the rural sector.

3. The Regional Level

Meso-level economic coordination institutions of mixed public-private-civil society composition are required to implement a territorial approach to rural development. The collection of municipalities, usually called "regions", in which state governments divide their states for planning purposes generally seem of appropriate dimensions and sufficient identity to be adequate territorial areas for the purposes of a territorial approach to RD. Thus, they seem suitable for investment clustering and to implement strategic programs to promote rural economic development. The existence of strong regional economic coordination institutions is very important to that effect. Some states, for instance Michoacán, have already created regional development councils. If sufficiently strengthened with technical capabilities and provided with funds to co-finance productive programs for their rural areas, these councils could become the focal point for rural economic development in their territories.

In most states, however, the coordination entities that currently exist for rural development at the regional level are the *Consejos Distritales para el Desarrollo Rural Sustentable* (CDDRS). These councils could potentially become excellent meso-level

entities for economic coordination within a territorial approach to rural development⁴⁸. Unfortunately, at present, CDDRS are probably the weakest element in the RD system in Mexico, for more priority has been given to municipal than to district RD councils. Strengthening the institutional capacity of CDDRS could be an important part of the rural decentralization agenda. They could be equipped to design and implement rural development strategies within their territories. Ideally, CDDRS could combine participatory principles with sound technical and market criteria to design long-term territorial strategies. These strategies would be based on the potential offered by territorial assets and the identification of the main development axes around which investment support should cluster. CDDRS could also design regional programs for the practical implementation of their long term strategies in line with the development axes selected. The identification of priorities and the allocation of investment support at lower RD levels, basically by municipal RD councils, could be carried out within the framework of the long-term territorial strategy and the specific programs established by CDDRS.

CDDRS could also have the function of linking up territorial programs with production chains. They could, for instance, promote the development of regional production chains in their territories and their insertion in larger chains. Similarly, CDDRS could also design and help set in motion large projects which could become triggers of regional development. In a way, thus, CDDRS and in general the regional level would be the main vehicle to operationalize the RD strategies and policies of the states.

To be able to fulfill the above functions, CDDRS would need to have a sufficient cadre of professional staff with good technical credentials. The participation of civil society would need to be strengthened so that CDDRS become effective platforms for *concertación* and economic governance of their territories.

4. The Municipal Level

As indicated before, a number of institutional features of municipal governments in Mexico prevent them from effectively serving as the territorial coordinators of RD policies. The evidence collected during fieldwork revealed that CMDRS tend to atomize

⁴⁸ The area of operation of CDDRS roughly corresponds to that of state government “regions” in most states. This correspondence, however, is far from perfect and would need to be adjusted. Most state governments have tried over the last years, with varying degrees of determination and uneven success, to establish unique regionalization systems, negotiating with federal *secretarias* their division of the states for their own operational purposes in the same geographic regions as state governments. Advances in this respect are encouraging but much however remains to be done. Achieving a unique regionalization system is an important step towards promoting strong regional development and rural territorial development as part of it. Also important in this respect is the harmonization of the overlapping system of development councils created by the *Ley de Planificación* (which created the development planning councils, COPLADES), the *Ley de Desarrollo Rural Sustentable* (which created the rural development councils), and the *Ley de Desarrollo Social* (which created the social development councils).

RD resources to satisfy the demands from local producers, without creating enduring productive effects. This shortcoming is partly due to the absence of adequate mechanisms for resource prioritization at the municipal level, and to a marked bias among municipal governments in favor of urban development and service investments⁴⁹. Also, CMDRS tend to be undermined by “localism” (Cossio, 2006), and the prevailing institutional arrangements preclude the creation of policy partnerships between nearby municipalities, which would be required for RD projects to have a large-scale territorial effect. In consequence, it is preferable that the economic coordination of RD strategies be under the responsibility of an entity with broader jurisdiction, such as CDDRS.

The above does not imply that the municipal level should not participate in the formulation and implementation of RD policies. First of all, CMDRS would be represented in the CDDRS, of which they would be important members. Second, our evidence indicates that CMDRS are becoming a relevant site for policy dialogue and program dissemination, where local producers can participate expressing their needs and priorities. CMDRS would continue to serve as a forum for social participation and discussion, and also as an arena to prioritize the allocation of resources, but within the framework of the long-term territorial strategy and the regional programs established by CDDRS and under their guidelines. It is important, however, to work towards ensuring that (i) more decision-making power within CMDRS is in the hands of local producers rather than municipal presidents or technical coordinators, (ii) they are better informed of programs and program opportunities, and (iii) the representation system is improved to ensure more continuity of representatives, and manageable numbers.

IX. THE CASE FOR RD DECENTRALIZATION: FINAL REMARKS

The above proposal is clearly a big departure from the current system, and implementing it would require considerable political courage. We believe, however, that it does not require constitutional or other major legal changes, although some adjustments to LDRS could be needed. We also believe that the progress made in decentralization and transparency over the last years provides a good basis for such a drastic reform.

There are several grounds on which we can argue the merits of a decentralization proposal of RD programs like the one outlined above. Efficiency considerations are important. We believe that our proposal would improve **allocative efficiency** in the use

⁴⁹ "In a recent work, Moreno (2005) provides empirical evidence suggesting that the investment decisions of municipal governments in Mexico are not targeted to localities with higher poverty rates, and that the allocation of municipal budgets responds, in part, to electoral motivations". See Moreno, Carlos: "Decentralization, Electoral Competition, and Local Government Performance in Mexico". Ph.D. Dissertation, LBJ School of Public Affairs, The University of Texas at Austin, 2005.

of public funds in RD in Mexico because by letting state governments design and carry out their own programs, program design and implementation would be brought closer to the needs and preferences of beneficiaries, which vary considerably across states. Gains would also be made in **supply efficiency or x-efficiency** because the current overlapping and lack of coordination of federal programs could be overcome by letting state governments substitute the multiplicity of federal RD programs by a reduced number of state programs designed to implement a concrete RD strategy for the state. Finally, **dynamic efficiency** would also be improved because state programs would be at the service of a long-term RD strategy for the state, and because investment clustering and economic coordination would be enhanced through a territorial approach to RD based on strengthened CDDRS.

Other theoretical arguments have been advanced in favor of decentralization (for instance Tanzi, 1995). Important among them are that (1) “accountability brings responsibility”, and (2) decentralization allows experimentation and hence the introduction and dissemination of improvements in the supply of development services. These arguments apply well to our decentralization proposal. As indicated by Joumard (2005), experimentation by the states and the dissemination of good practices is already taking place in Mexico in areas where decentralization has advanced.

Redistribution and macroeconomic stability are matters that may be affected by decentralization (Prud'homme, 1994). In the present case, redistribution could be enhanced by our proposal of distributing RD funds to the states using an agreed formula if this formula is progressive and demand based, duly considering state needs. We have seen in Chapter 3 that the current geographic targeting of *Alianza's* decentralized funds is regressive. The type of decentralization here proposed could reverse this. With respect to macroeconomic stability, there is no reason to believe that it would be affected by our proposal, because we advocate distributing to the states funds that are currently spent by federal *secretarías*, without need to increase public expenditure either at the national or sub-national level.

Other concerns often raised about decentralization are the lack of sufficient **local level capabilities** to provide adequate development services, and the existence of **externalities and spillovers in public expenditure**. With respect to the former, the lack of sufficient capabilities to design and implement RD programs is not an important issue with state government administrations in Mexico. It is instead an issue with municipal administrations, but our proposal is to focus the RD mandate in the states not in the municipal governments. As indicated above, the municipal level would have a role in the decentralized system proposed through the CMDDS, but under the guidance and within the regional programs established by CDDRS. District Councils would play a crucial role in internalizing the externalities and spillovers that may exist at the municipal level, and in the clustering of investments around the most promising development axes identified for the states' regions.

It is true that by transferring additional funds to state governments the present proposal would increase the current imbalance between the taxing capacities of state governments and their spending levels (Joumard, 2005). However, the system proposed of transferring to the states block grants earmarked for RD could be seen as a transitory arrangement until a more decentralized fiscal system is established in Mexico capable of bringing more balance between the states' financial autonomy and their expending responsibilities.

We can anticipate several problems and risks in the implementation of our proposal. The first problem is to agree in the amount of resources to be transferred to the states, and in the distribution formula to be used. The second problem is the political difficulty of stripping federal *secretarías* of a good part of their resources, policy-making powers, and regulatory powers. We believe that a new government is better placed to overcome this difficulty, because if a decentralization reform of the type outlined above were included from the beginning in the new government's program, the new secretaries would come into office knowing that their powers would be trimmed. Finally, in any decentralization reform there is always the risk of the local elite capturing a good part of the benefits, with the central authorities being left with few instruments to prevent this happening. This will largely depend on the attitude of state governments, because, on the one hand, they could be part of the problem, but, on the other, they are in a much better position than the national government to prevent elite capturing. Sub-national governments cannot be considered *a priori* better or worst intentioned than central governments. All we know is that they are closer to citizens and, hence, on fundamentals, if we believe in the subsidiarity principle, we are bound to favor taking the risk.

ANNEX TABLES

Annex Table 1: Programa Especial Concurrente 2005

2005 Programa Especial Concurrente by Government Units and Programs – SAGARPA				
Programs	Million Pesos	% of Programs	% of SAGARPA	% of PEC
PROCAMPO	14.885	100,0	30,8	10,2
<i>Alianza para el Campo</i>	8.164	100,0	16,9	5,6
Desarrollo Rural	2.959	36,2		
Fomento Agrícola	1.534	18,8		
Pesca y acuicultura	1.413	17,3		
Integración de Cadenas	1.280	15,7		
Fomento ganadero	510	6,2		
Sanidad	282	3,5		
Atn. Factores Críticos	160	2,0		
Sistema Nal. Información	26	0,3		
Apoyos a la Comercialización	6.755	100,0	14,0	4,6
Ingreso Objetivo	4.281	63,4		
Coberturas	470	7,0		
Pignoración	267	4,0		
Conversión productiva	192	2,8		
Rastros	173	2,6		
Otros	1.372	20,3		
Apoyos Comptivdad. Ramas Ptvas.	2.496	100,0	5,2	1,7
Programa Ganadero	1.708	100,0	3,5	1,2
Sistema Financiero Rural	850	100,0	1,8	0,6
Apoyo Areas Siniestralidad Rcrte.	598	100,0	1,2	0,4
Extensión Agropecuaria y Rural	396	100,0	0,8	0,3
Contingencias Climatológicas	369	100,0	0,8	0,3
Apoyo Organizaciones Sociales	273	100,0	0,6	0,2
Promoción de Semillas	124	100,0	0,3	0,1
Programa Empleo Temporal	124	100,0	0,3	0,1
Fondos Regionales Combate Pobreza	99	100,0	0,2	0,1
Programa Apícola	50	100,0	0,1	0,0
Promoagro (Proexporta)	50	100,0	0,1	0,0
Propesca	50	100,0	0,1	0,0
Gastos Operativos Sagarpa	11.405	100,0	23,6	7,8
Universidades Agrarias	2.253	19,8		
Firco	1.656	14,5		
Inifap	1.076	9,4		
Compesca	960	8,4		
Senasica	841	7,4		
Aserca	336	2,9		
Inpesca	188	1,6		
Inca Rural	34	0,3		
Otros	4.061	35,6		
TOTAL SAGARPA	48.396		100,0	33,2

**Annex Table 1: Programa Especial Concurrente 2005
(Continuation)**

<i>2005 Programa Especial Concurrente by Government Units and Programs - Other Government Entities</i>					
Programs	Million Pesos	% of PEC	Programs	Million Pesos	% of PEC
SEP	23.829	16,3	Sectur	4	0,0
Oportunidades	14.622		Aportaciones Federales	15.117	10,4
Desarrollo Capacidades	5.250		FISM	12.045	
Educación Agropecuaria	3.903		FORTAMUN	3.037	
Programa Educación Rural	54		Ctro. Estu. Rurales Cam Dip.)	35	
Salud	14.206	9,7	SHCP	6.919	4,7
Oportunidades	3.209		CONADEPI	4.213	
Desarrollo Capacidades	4.726		Financiami. & Seguro Rurales	1.660	
SPSS	5.396		INEGI (Censo Ag y Procede)	1.046	
Otros Programas	875		SCT	2.151	
Secretaría Trabajo	75	0,1	PET	1.168	
Jornaleros Agrícolas	60		Caminos Rurales	962	
Migrantes Exterior	15		Telefonía Rural	21	
Secretaría Reforma Agraria	4.858	3,3	Secretaría de Economía	1.016	0,7
Conflictos Agrarios	990		FONAES	669	
Procuraduría Agraria	525		FOMMUR	124	
RAN y Catastro	518		Otros Programas	223	
Procede	501		SEDESOL	17.447	12,0
Promusag	495		Oportunidades	10.093	
Fondo Tierras y JER	445		Programas Alimentarios	4.514	
Fappa	396		Vivienda Rural	886	
Fomento Organizaci. Agrar.	223		Opciones Productivas	596	
Gastos Operación SRA	765		Adultos Mayores	592	
Tribunal Superios Agrario	574		Microrregiones	461	
SEMARNAT	11.305	7,7	PET	149	
Infraestructura Hidroagrícola	5.109		Jornaleros Agrícolas	139	
Programas Hidráulicos	2.731		Fonart	17	
Programas Forestales	1.875		Secretaría Rela. Exteriores	79	0,1
Areas Naturales Protegidas	471				
IMTA	218		TOTAL PEC	145.976	100,0
Profepa	139				
Dllo. Regional Sustentable	113				
PET	103				
Recuperación Suelos DF	99				
Programa Vida Silvícola	69				
SEMARNAT-CONACYT	50				
Otros Programas Ambianta.	328				

Annex Table 2

Resources of Decentralized *Alianza* Programs by Program and by State in 2005, Total and per Capita of Rural Population

State	Total Value of Resources						Rural Popul- ation (000)	Per capita of Rural Population		
	Total		RDP		Other Programs			Total MxP	RDP MxP	Other Progr. MxP
	Total MxP 000	%	Total MxP 000	%	Total MxP 000	%				
Aguascalientes	119,246	1.7	34,374	1.3	84,872	2.0	180.1	662.1	190.9	471.2
Baja California	98,322	1.4	16,164	0.6	82,158	1.9	369.4	266.2	43.8	222.4
Baja California Sur	61,551	0.9	14,802	0.5	46,749	1.1	183.3	335.8	80.8	255.0
Campeche	121,373	1.7	43,000	1.6	78,373	1.8	364.9	332.6	117.8	214.8
Coahuila	155,407	2.2	55,519	2.0	99,888	2.3	240.5	646.2	230.8	415.3
Colima	65,443	0.9	21,494	0.8	43,950	1.0	116.4	562.2	184.7	377.6
Chiapas	424,840	6.0	175,798	6.5	249,043	5.7	3003.5	141.4	58.5	82.9
Chihuahua	317,597	4.5	84,000	3.1	233,597	5.4	725.4	437.8	115.8	322.0
Durango	185,769	2.6	43,017	1.6	142,752	3.3	601	309.1	71.6	237.5
Guanajuato	387,558	5.5	105,364	3.9	282,194	6.5	1,659	233.6	63.5	170.1
Guerrero	256,868	3.6	186,971	6.9	69,897	1.6	1,789	143.6	104.5	39.1
Hidalgo	254,009	3.6	93,750	3.4	160,259	3.7	1,240	204.9	75.6	129.3
Jalisco	398,897	5.6	106,500	3.9	292,397	6.7	1,568	254.4	67.9	186.5
Mexico	329,849	4.7	143,114	5.3	186,735	4.3	1,767	186.7	81.0	105.7
Michoacan	330,895	4.7	124,023	4.6	206,872	4.8	2,073	159.6	59.8	99.8
Morelos	133,284	1.9	79,066	2.9	54,218	1.2	354	376.7	223.5	153.2
Nayarit	179,719	2.5	45,551	1.7	134,168	3.1	429	419.1	106.2	312.9
Nuevo Leon	165,806	2.3	26,414	1.0	139,391	3.2	329	503.8	80.3	423.6
Oaxaca	340,802	4.8	224,550	8.3	116,252	2.7	2,709	125.8	82.9	42.9
Puebla	290,390	4.1	140,000	5.2	150,390	3.5	2,653	109.4	52.8	56.7
Queretaro	143,218	2.0	42,300	1.6	100,918	2.3	537	266.9	78.8	188.1
Quintana Roo	80,705	1.1	36,009	1.3	44,696	1.0	232	347.9	155.2	192.7
San Luis Potosi	183,115	2.6	87,484	3.2	95,631	2.2	1,128	162.4	77.6	84.8
Sinaloa	288,303	4.1	70,058	2.6	218,246	5.0	1,305	221.0	53.7	167.3
Sonora	289,091	4.1	60,766	2.2	228,325	5.3	619	466.9	98.1	368.7
Tabasco	235,545	3.3	104,000	3.8	131,545	3.0	1,046	225.2	99.4	125.8
Tamaulipas	269,685	3.8	66,612	2.5	203,072	4.7	513	525.4	129.8	395.6
Tlaxcala	85,172	1.2	50,945	1.9	34,227	0.8	327	260.8	156.0	104.8
Veracruz	459,812	6.5	263,000	9.7	196,812	4.5	3,230	142.3	81.4	60.9
Yucatan	204,643	2.9	99,000	3.6	105,643	2.4	646	316.7	153.2	163.5
Zacatecas	205,385	2.9	74,500	2.7	130,885	3.0	869	236.3	85.7	150.6
<i>Total/Average</i>	<i>7,062,299</i>	<i>100.0</i>	<i>2,718,145</i>	<i>100.0</i>	<i>4,344,155</i>	<i>100.0</i>	<i>32,806</i>	<i>215.3</i>	<i>82.9</i>	<i>132.4</i>

Annex Table 3

Resources of <i>Alianza</i> Decentralized Programs, Total and Per Capita of Rural Population in 2001-05, at Constant 2005 Mexican Pesos																				
States	Margi. Index Order	Rural Popul. (000)	2005			2004			2003			2002			2001			Average 2001-2005		
			Total (000)	Per Capita	Order	Total (000)	Per Capita	Order	Total (000)	Per Capita	Order	Total (000)	Per Capita	Order	Total (000)	Per Capita	Order	Total (000)	Per Capita	Order
Aguascalientes	28	180.1	119,246	662.1	31	92,871	515.7	28	55,539	308.4	18	48,866	271.3	16	47,393	263.1	19	72,783	404.1	26
Baja California	30	369.4	98,322	266.2	16	96,579	261.4	14	83,395	225.8	11	86,742	234.8	15	99,141	268.4	21	92,836	251.3	15
Baja California Sur	27	183.3	61,551	335.8	21	62,094	338.8	21	66,240	361.4	22	80,356	438.4	27	66,341	361.9	25	67,316	367.2	23
Campeche	8	364.9	121,373	332.6	20	129,936	356.1	23	132,705	363.7	23	131,254	359.7	24	129,184	354.0	24	128,890	353.2	21
Coahuila	29	240.5	155,407	646.2	30	181,933	756.5	31	171,122	711.5	30	155,789	647.8	31	153,728	639.2	31	163,596	680.2	31
Colima	22	116.4	65,443	562.2	29	64,045	550.2	29	57,859	497.1	28	65,182	560.0	29	55,548	477.2	27	61,615	529.3	29
Chiapas	1	3003.5	424,840	141.4	3	404,907	134.8	3	448,981	149.5	5	447,315	148.9	6	468,407	156.0	7	438,890	146.1	5
Chihuahua	26	725.4	317,597	437.8	25	231,617	319.3	18	259,228	357.4	21	223,658	308.3	20	193,458	266.7	20	245,112	337.9	20
Durango	17	601	185,769	309.1	18	188,500	313.6	17	188,290	313.3	19	174,944	291.1	18	155,662	259.0	18	178,633	297.2	18
Guanajuato	13	1,659	387,558	233.6	12	422,505	254.6	12	408,756	246.4	14	351,101	211.6	10	401,120	241.8	16	394,208	237.6	14
Guerrero	2	1,789	256,868	143.6	5	324,441	181.3	5	244,865	136.9	3	225,299	125.9	3	187,648	104.9	2	247,824	138.5	4
Hidalgo	5	1,240	254,009	204.9	9	290,882	234.7	10	284,526	229.5	12	275,671	222.4	13	267,459	215.8	13	274,510	221.5	9
Jalisco	25	1,568	398,897	254.4	14	404,961	258.3	13	390,087	248.8	15	345,878	220.6	12	321,748	205.2	11	372,314	237.5	13
Mexico	21	1,767	327,349	185.2	8	347,415	196.6	8	352,723	199.6	8	294,913	166.9	7	270,110	152.9	6	318,502	180.2	8
Michoacan	10	2,073	334,930	161.6	6	403,632	194.7	6	325,279	156.9	7	284,829	137.4	5	250,196	120.7	4	319,773	154.3	6
Morelos	19	354	133,284	376.7	23	164,449	464.8	25	160,533	453.7	27	150,954	426.7	26	136,158	384.8	26	149,076	421.4	27
Nayarit	14	429	179,719	419.1	24	154,174	359.5	24	158,708	370.1	24	152,407	355.4	23	137,181	319.9	23	156,438	364.8	22
Nuevo Leon	31	329	165,806	503.8	27	158,021	480.2	26	123,903	376.5	26	101,795	309.3	22	77,714	236.1	15	125,448	381.2	24
Oaxaca	3	2,709	340,802	125.8	2	328,835	121.4	2	309,909	114.4	1	339,133	125.2	2	339,848	125.5	5	331,705	122.5	2
Puebla	7	2,653	290,390	109.4	1	303,646	114.4	1	307,733	116.0	2	281,133	106.0	1	253,696	95.6	1	287,320	108.3	1
Queretaro	16	537	144,218	268.8	17	131,950	245.9	11	126,928	236.5	13	116,968	218.0	11	113,037	210.7	12	126,620	236.0	12
Quintana Roo	20	232	80,705	347.9	22	79,667	343.4	22	81,139	349.7	20	97,600	420.7	25	114,830	495.0	28	90,788	391.3	25
San Luis Potosi	6	1,128	183,115	162.4	7	220,478	195.5	7	174,133	154.4	6	193,489	171.5	8	181,862	161.2	8	190,616	169.0	7
Sinaloa	15	1,305	288,303	221.0	10	298,913	229.1	9	292,664	224.3	10	292,721	224.4	14	297,944	228.4	14	294,109	225.4	11
Sonora	24	619	290,591	469.3	26	354,658	572.8	30	499,041	805.9	31	360,762	582.6	30	360,622	582.4	30	373,135	602.6	30
Tabasco	9	1,046	235,545	225.2	11	279,688	267.4	15	230,190	220.1	9	213,005	203.6	9	201,782	192.9	10	232,042	221.8	10
Tamaulipas	23	513	269,685	525.4	28	251,376	489.7	27	296,348	577.3	29	236,691	461.1	28	257,635	501.9	29	262,347	511.1	28
Tlaxcala	18	327	85,172	260.8	15	106,778	326.9	19	100,375	307.3	17	93,739	287.0	17	81,784	250.4	17	93,569	286.5	17
Veracruz	4	3,230	459,812	142.3	4	446,893	138.3	4	443,835	137.4	4	408,745	126.5	4	362,912	112.3	3	424,439	131.4	3
Yucatan	11	646	204,643	316.7	19	214,780	332.4	20	241,499	373.7	25	199,869	309.3	21	195,662	302.8	22	211,290	327.0	19
Zacatecas	12	869	205,385	236.3	13	261,540	301.0	16	241,906	278.4	16	265,873	306.0	19	163,604	188.3	9	227,662	262.0	16
Total/Average		32,806	7,066,333	215.4		7,402,167	225.6		7,258,443	225.6		6,696,681	221.3		6,343,414	204.1		6,953,408	212.0	

Rank Correlation 2005 = 0.782 Rank Correlation 2004 = 0.707 Rank Correlation 2003 = 0.663

Rank Correlation 2002 = 0.654 Rank Correlation 2001 = 0.643 Rank Correlation Avg 2001-05 = 0.741

**Annex Table 4: *Alianza* Funds Decentralized to Municipalities
in 2005**

STATE	<i>Alianza</i> 2005 Budget (000 MxP0)			% Municipal of	
	All <i>Alianza</i>	RDP	Municipal	<i>Alianza</i>	RDP
AGUASCALIENTES	119,246	34,374	21,882	63.7	18.4
BAJA CALIFORNIA	98,322	16,164	11,946	73.9	12.2
BAJA CALIFORNIA SUR	61,551	14,802	7,482	50.5	12.2
CAMPECHE	121,373	43,000	38,000	88.4	31.3
CHIAPAS	424,840	175,798	150,342	85.5	35.4
CHIHUAHUA	317,597	84,000	38,600	46.0	12.2
COAHUILA	155,407	55,519	25,845	46.6	16.6
COLIMA	65,443	21,494	12,009	55.9	18.3
DISTRITO FEDERAL	37,476	23,704	13,117	55.3	35.0
DURANGO	185,769	43,017	25,810	60.0	13.9
GUANAJUATO	387,558	105,364	71,164	67.5	18.4
GUERRERO	256,868	186,971	155,556	83.2	60.6
HIDALGO	254,009	93,750	88,903	94.8	35.0
JALISCO	398,897	106,500	73,198	68.7	18.3
MEXICO	329,849	143,114	115,459	80.7	35.0
MICHOACAN	330,895	124,023	62,732	50.6	19.0
MORELOS	133,284	79,066	46,686	59.0	35.0
NAYARIT	179,719	45,551	32,978	72.4	18.3
NUEVO LEON	165,806	26,414	20,145	76.3	12.2
OAXACA	340,802	224,550	112,887	50.3	33.1
PUEBLA	290,390	140,000	105,439	75.3	36.3
QUERETARO	143,218	42,300	26,500	62.6	18.5
QUINTANA ROO	80,705	36,009	27,278	75.8	33.8
SAN LUIS POTOSI	183,115	87,484	43,742	50.0	23.9
SINALOA	288,303	70,058	35,029	50.0	12.2
SONORA	289,091	60,766	35,225	58.0	12.2
TABASCO	235,545	104,000	81,103	78.0	34.4
TAMAULIPAS	269,685	66,612	33,306	50.0	12.3
TLAXCALA	85,172	50,945	30,140	59.2	35.4
VERACRUZ	459,812	263,000	158,950	60.4	34.6
YUCATAN	204,643	99,000	66,038	66.7	32.3
ZACATECAS	205,385	74,500	50,000	67.1	24.3
TOTAL / AVERAGE	7,099,773	2,741,848	1,817,489	66.3	25.6

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Decentralized Service Delivery for the Poor: Reports
Finished printing August, 2006 in IMPRIME TUS IDEAS, S.A. de C.V., Horacio 340,
Polanco, CP. 11560, México, D.F. imprimetusideas@prodigy.net.mx
Edition 200 copies