

Country:

**Mexico**

Project name:

***Labour market, care economy  
and environmental taxation  
through the lens of inequality***

Partners:

Ministry of Finance  
(Hacienda)

Duration:

**2020-2025**



## The EU-AFD Research Facility on Inequalities

The Agence Française de Développement (AFD) and the European Union (EU) have made the fight against inequality one of their respective priorities. It is in this context that they began their collaboration to reduce inequalities, with the implementation of the first phase of the EU-AFD Research Facility on Inequalities in 2017,

and its Extension since 2020. The programme aims to contribute to the implementation of the 2030 Development Agenda, in particular the fight against inequality (Sustainable Development Goal 10).

In order to better understand socioeconomic inequalities, their determinants, effects and dynamics,

22 research projects were carried out in 32 countries between 2017 and 2020. More than 100 research papers and policy briefs were published during the first phase of the Facility, which have enriched the academic debate as well as initiated national exchanges on the theme of inequality in the countries concerned.

### Phase 2: the Extension

Following the success of the Facility's first phase, the AFD and the European Union have decided to continue the programme with a second phase: the Extension. This new phase, financed with €3 million by DG INTPA over the period 2020-2025, will focus on four middle-income countries: Colombia, Indonesia, Mexico and South Africa.

In the short and medium-term, this programme will enable partner countries to better understand the factors leading to inequality



and to identify possible solutions that could be implemented to better respond to the challenge of reducing inequalities through effective public policies. The policies supported under the Extension will be the result of close dialogue

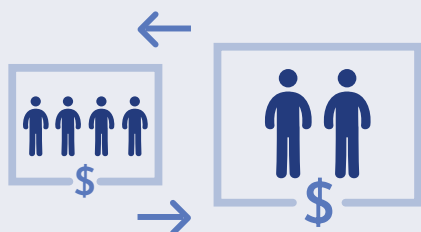
with the governments and will be based on research conducted with local research centres, building on the results achieved so far by the Facility, both in terms of methodologies developed and synergies established.

## Context

With a Gini coefficient of 0.46 (in 2018), Mexico is characterized by high levels of poverty, significant spatial inequality and very low social mobility, especially on the extreme ends

of socioeconomic distribution. More than 40% of the country's population is below the official poverty line, and 69% of the extremely poor live in 6 of Mexico's 32 states. Beyond socioeco-

nomie inequality, Mexico also faces urgent environmental challenges, such as air pollution, which causes 5.9% of the country's deaths, as well as the impacts of climate change.



Only  
**4 people out  
of a hundred**  
will move during their  
lifetime from the poorest  
quintile of the population  
to the richest

and only  
**2 out of  
a hundred**  
will take the  
opposite path.

## Extension initiatives

The first phase of the Facility demonstrated the social demand for reducing inequalities and the need for structural change to break the bottleneck in social mobility. The Extension will focus on the inequality-reduction potential of public policies in two specific areas: the labour market – particularly in the care economy – and the redistributive impact of environmental taxation.

A first pillar will focus on the design and creation of a national care system that will allow progress to be made in reducing inequalities and enhancing

social mobility. To achieve this, primary information is required that allows the effective demand on the care system to be estimated. The first two years of the Extension programme will thus focus on improving the information sources on the supply of care and its relationship with the labour market, particularly in terms of gender.

The second pillar will aim to quantify the distribution effect of green taxes in Mexico, using the fiscal incidence assessment methodology developed by the Commitment to Equity Institute. This topic is of particular interest

for Mexico, as the transition that has taken place over the last decade from subsidies for fossil fuels to taxes on their consumption represents the main recent fiscal reform implemented in the country. Gasoline taxes have widespread impacts on households, for example, through direct costs due to private transportation, but this impact is even more significant for low-income populations. Quantifying these impacts will allow compensatory instruments to be designed to protect the most vulnerable groups from the potential regressive effects of these indirect taxes.

**Identification of opportunities  
and policy initiatives with inequality-  
reducing impact: care economy  
and environmental taxation**



**The AFD and the EU provide technical  
and thematic support to the Mexican  
government**

**YEARS 1-2**

**YEARS 3-5**



**researchfacilityinequality@afd.fr  
#ResearchInequalities**