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## A Review of Social Protection in Latin America

June 2009

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# A Review of Social Protection in Latin America

Armando Barrientos and Leonith Hinojosa-Valencia

Brooks World Poverty Institute, University of Manchester

Prepared as part of a Social Protection Scoping Study funded by the Ford Foundation

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June 2009

# A Review of Social Protection in Latin America

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This paper reviews social protection trends and policy responses in Latin America as part of a global scoping study on social protection commissioned by Ford Foundation (See Appendix One for ToR for this paper).

The paper is organised as follows (following the paper contents as described in Appendix One). Section 1 identifies the main trends in poverty and vulnerability in the region, with particular references to rural-urban and life course poverty incidence. Section 2 provides a review of social protection trends. It discusses the two main areas of change and innovation in the last two decades: the reform of social insurance provision and the rapid expansion of social assistance schemes. Section 3 identifies some potential points of engagement between Ford Foundation work and the social protection policy agenda in the region.

## **1. Poverty and Vulnerability in Latin America**

### ***Regional trends***

An important driver for the spread of social protection in developing countries, and Latin America in particular has been the steep rise in poverty and vulnerability which followed crises and structural adjustment in the 1980s and 1990s, and which then persisted in the recovery phase. Global estimates of poverty incidence based on US\$1 a day show a slight increase in headcount poverty in 1990 compared to 1987 (from 28.3 percent to 29 percent) and a subsequent decline to 1996 (27 percent) (Bigsten and Levin 2005). Regional estimates of poverty incidence based on national poverty lines show a stronger rise in poverty incidence, and a more gradual decline than the global picture. Figure 1 below shows estimates of poverty and indigence headcount rates for Latin America.<sup>1</sup> As can be observed from the Figure, there was a sharp rise in the incidence of poverty from 40.5 percent in 1980 to 48.3 percent in 1990 reflecting the acute crisis experienced in the region in the 1980s, following by a gradual, and unsteady, recovery. By 2005, headcount poverty was just below the 1980 level estimate, but had remained above it throughout the intervening period. The trends reflect the impact of crises and adjustment in the 'lost decade', and the persistence of poverty in the 1990s and early 2000s.

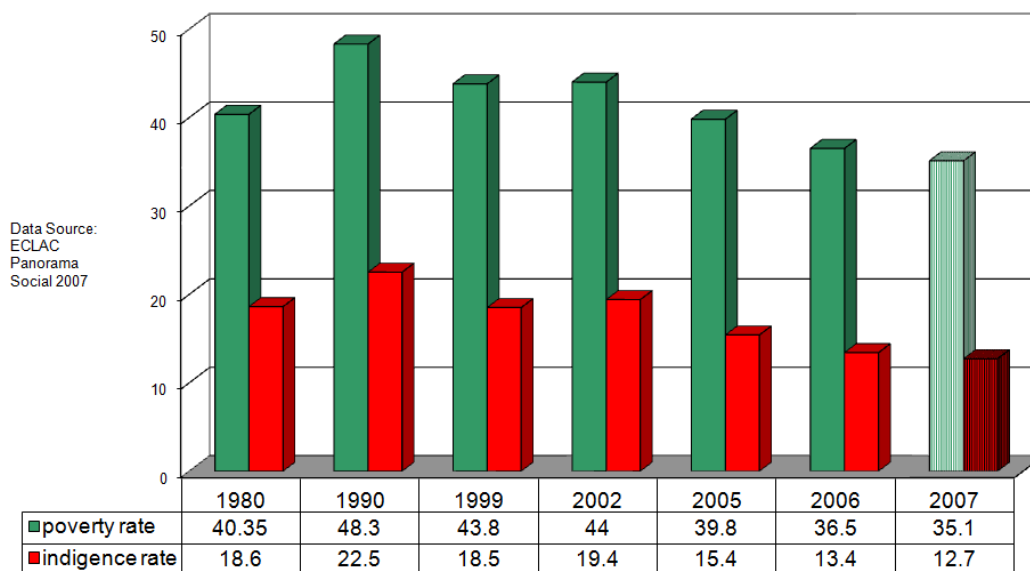
The same trend lines can be observed for extreme poverty (indigence or food poverty), a rise in the 1980s and a subsequent gradual recovery. The reduction in the incidence of extreme poverty in 2005 appears to have been stronger than for overall poverty. This is important because the trends in extreme poverty will reflect more directly the impact of the rapid expansion of social assistance programmes in the region. The key message is that after crisis and recovery, four in ten Latin Americans are in poverty and one sixth remain in extreme poverty.

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<sup>1</sup> In Latin America households are classified as indigents if their income is below that required to purchase a basic food basket. Households are classified as poor if their incomes fall below that required to purchase a basic basket of food and non-food items. Roughly, the poverty line is twice the indigence line. ECLAC poverty data provides estimates from household survey data on a consistent basis for the countries represented (ECLAC 2008).

Figure 1.

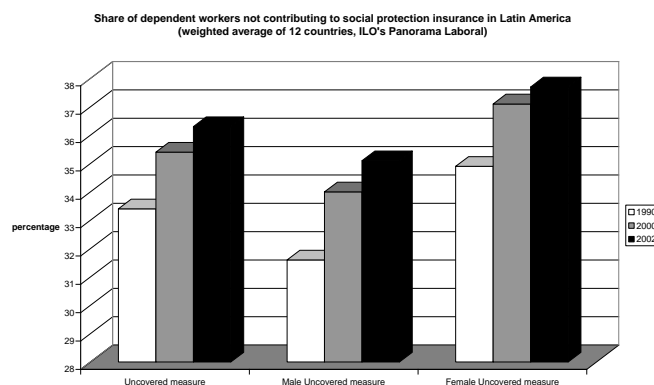
### Poverty trends in Latin America and the Caribbean - 1980-2007



Data Source: (CEPAL 2007)ECLAC 2008)

Comparable estimates of vulnerability and vulnerability trends are sadly lacking. Vulnerability describes the chances of staying in, or falling into, poverty in the future. Given the high incidence of poverty in the region, we could get a sense of trends in vulnerability by focusing on the absence of protection. Estimates of the proportion of the labour force in Latin America not contributing to social insurance schemes, for example, could help us track trends in vulnerability. Workers failing to contribute to social insurance schemes are primarily informal workers who are highly vulnerable. As can be seen from Figure 2 below, the share of dependent workers not covered by social insurance shows a rising trend in the 1990s and 2000s, consistent with a rise in vulnerability in the region (ILO 2000b, 2003, 2006).

Figure 2.



Data Source: Panorama Laboral, several issues (ILO 2000a, 2003, 2006), ILO, Lima.

The Figure is useful in identifying the trend in vulnerability, but it underestimates the incidence of informality in the labour force as a whole as the vast majority of self-employed and unemployed workers, not included in the calculations in the Figure, are not covered by social insurance institutions and programmes. Social pensions and health insurance programmes cover, on average, one third of the labour force in the region.

### Urban and rural poverty

A feature of poverty incidence in Latin America is its sectoral segmentation. One of the main consequences of high and persistent inequality and social exclusion, both in terms of income and opportunities (that is, access to human development assets), is that poverty indicators reveal that extreme poverty tends to be concentrated in rural areas and for indigenous groups. The incidence of extreme poverty is significantly higher in rural areas, especially in areas with a concentration of indigenous groups. At a regional level, countries from Central America and the Andes show significantly higher shares of urban and rural poverty (see figures 3 and 4). At a national level, regions located in the highlands and other rural areas of the rainforest seem to have lower economic performance and therefore less opportunity to tackle poverty in comparison to coastal and more urbanised areas. In addition and given that geography and politics seem to show a pro-urban bias, the advances in terms of poverty reduction tend to be concentrated in urban areas.

Figure 3

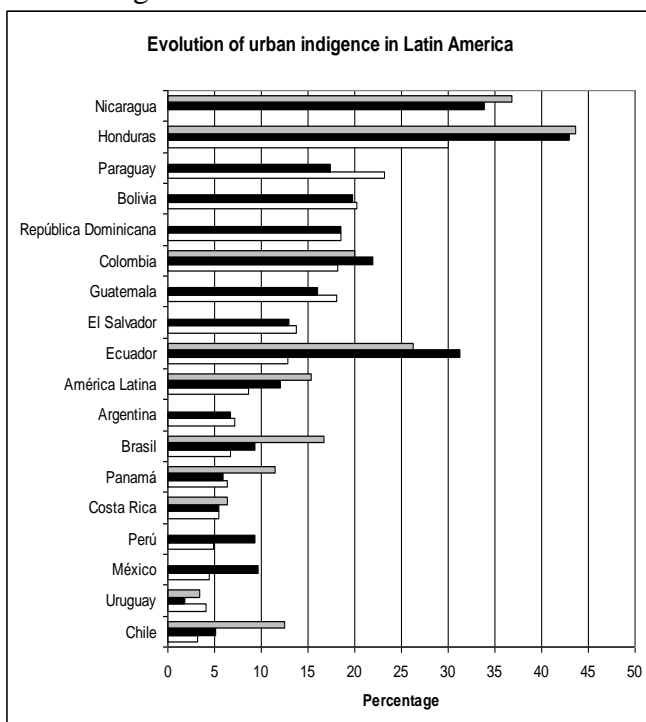
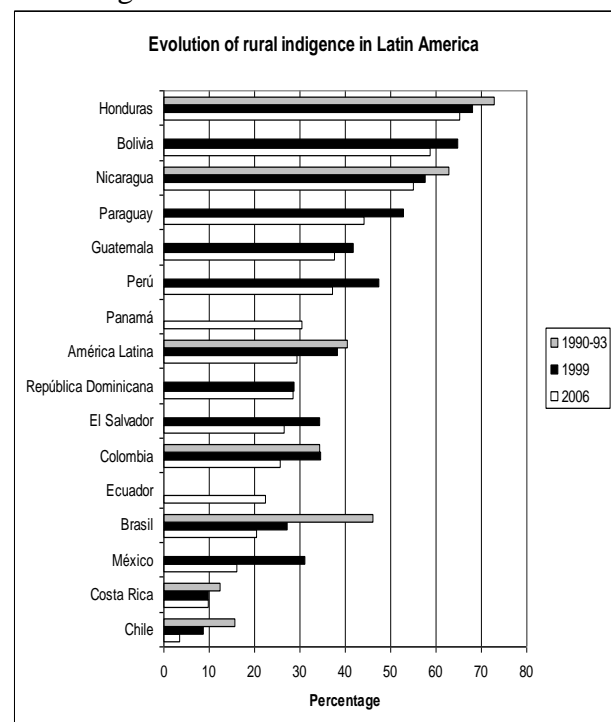


Figure 4



Notes:

- Colombia 1991, 2005; Chile 1998, 2004; Guatemala 1998, 2002; Mexico 1998; Nicaragua 1993, 1998, 2001; República Dominicana 2000; Panama (Urban) 1991; El Salvador 2004; Bolivia 2004; Paraguay 2005; otherwise data is for 1990, 1999 and 2006.

- No data for rural areas of Argentina, Uruguay and Venezuela

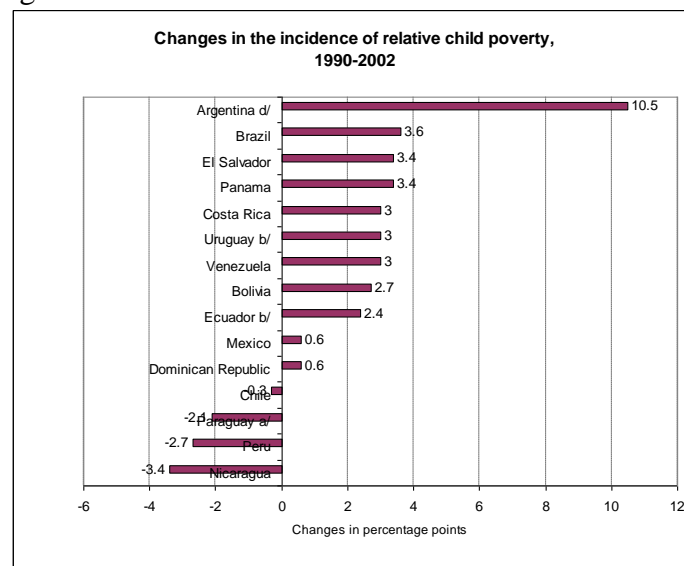
Data source: ECLAC database.

However, it is important to note that the increased mobility of poor populations across urban and rural spaces and the deployment of combined livelihood strategies<sup>2</sup>, together with high rates of urbanisation, make difficult to clearly identify – in practice – who *the rural* and *the urban* poor are, where they do settle down and how they can be reached more efficiently with social protection programmes.

### ***Life course poverty***

Life course factors have a strong influence in the distribution of poverty across age groups. As shown in Figure 5, from the early 1990s until the beginning of the current decade, child poverty increased at least 3 percent in eleven countries, with higher percentages in Argentina, Brazil, El Salvador, Panama, Costa Rica, Uruguay and Bolivarian Republic of Venezuela, where poverty affected more children than in the early 1990s. Relative poverty levels only changed for the better in Nicaragua, Peru, Paraguay and Chile. Furthermore, in all but three countries (Chile, Costa Rica and Uruguay), over half of all children below the relative poverty line live in families which do not meet their basic needs. High income inequality and late demographic transition would be among the significant factors that explain this pattern<sup>3</sup> (UNICEF, 2005).

Figure 5



Source: UNICEF (2005) based on ECLAC data.

Notes: a/ Asuncion metropolitan area. b/ Urban areas. c/ Eight largest cities plus El Alto. d/ Buenos Aires metropolitan area. The base year is 1995 for El Salvador, 1993 for Nicaragua and 1997 for Peru and the Dominican Republic; otherwise the base year is between 1989 and 1991.

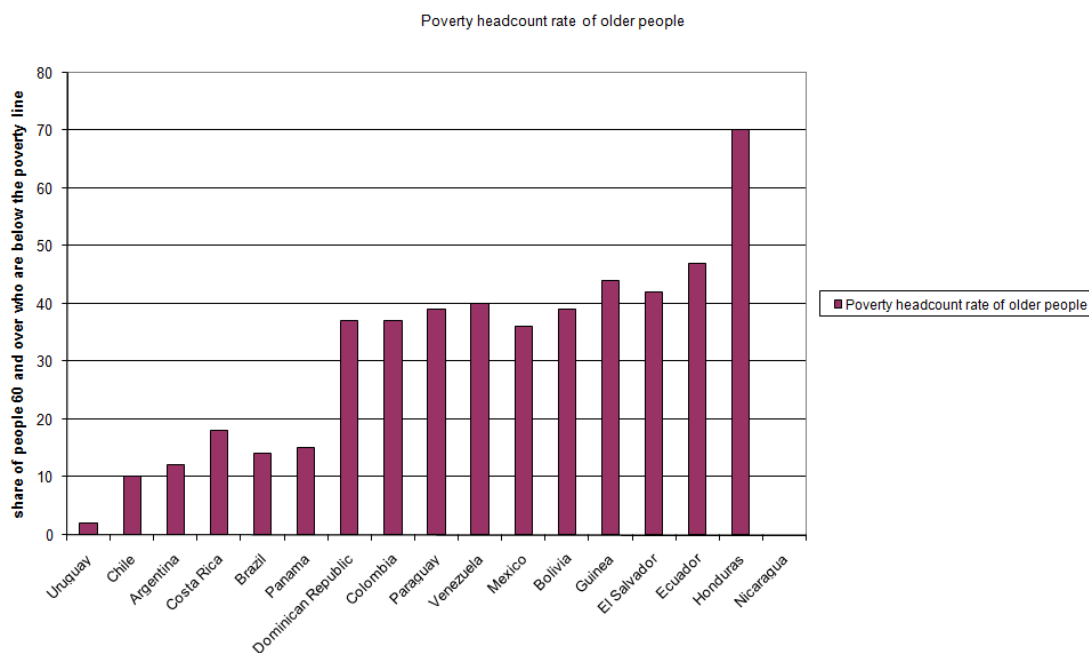
<sup>2</sup> See at this respect Hinojosa (2009), Escobal (2001), and Reardon et al (2001).

<sup>3</sup> Reduction in relative child poverty did not imply absolute child poverty reduction. In Nicaragua, for instance, the number of poor children has increased from just over 550,000 to some 700,000. In Chile, the figure has risen by some 100,000 since the early 1990s.



Figure 6 below shows the incidence of poverty among people aged 60, more precisely the percentage of people aged 60 and over who live in households in poverty (Barrientos 2006). There are significant differences in old age poverty incidence across countries in the region. Old age poverty ranges from 7.9 percent in Chile, to 38.4 percent in Ecuador. In four countries, Chile, Uruguay, Argentina and Brazil, roughly one in ten older people are poor. In the next four countries, Peru, Nicaragua, Venezuela, and Panama, around one in five older people are poor. In Honduras and Paraguay, one in four older people are poor. For the remaining seven countries, roughly one in three older people are poor. Overall, it can be concluded that old age poverty is important in Latin America.

Figure 6



Source Barrientos (2006)

### ***Poverty trends and the global financial and economic crisis***

Although poverty and indigence rates have shown a decreasing trends in the Latin American region in the period after 2002 (CEPAL, 2008), it is widely predicted that the current world financial crisis will lead to rising poverty and vulnerability. The rise of food prices, increasing rates of urban unemployment<sup>4</sup> and weak (or lack of) social protection schemes in most low-income countries will influence these indicators adversely. According to forecasts by ECLAC (ECLAC 2008), the crisis will affect particularly poor households whose income and livelihood strategies are based on informal economic activity . It is also expected that women will be among the more vulnerable to the labour market downturn cycle.

There are also concerns that a rapid deterioration in government revenues could limit the fiscal space for supporting existing social protection programmes and the introduction of new programmes. The combination of a rise in poverty and limited

<sup>4</sup> For an assessment of the impact of the financial crisis in poverty see [www.eclac.cl/cgi-bin/getProd.asp?xml=/prensa/noticias/comunicados/7/34747/P34747.xml&xsl=/prensa/tpl/p6f.xsl&base=/tpl/top-bottom.xsl](http://www.eclac.cl/cgi-bin/getProd.asp?xml=/prensa/noticias/comunicados/7/34747/P34747.xml&xsl=/prensa/tpl/p6f.xsl&base=/tpl/top-bottom.xsl)

fiscal space might have a strong impact on the more vulnerable groups, and could wipe out the gains in terms of poverty reduction from the last decade of economic and social recovery. ECLAC has called countries to strengthen the progress made providing social assistance, not just to prevent the causes of chronic poverty, but to improve the chances of vulnerable groups to enter – or continue – in a path towards getting out of poverty.

So far, the countries in the region have reacted by announcing and implementing a diverse range of measures, mostly centred on increased spending rather than tax cuts or direct subsidies. Governments have prioritized public investments in infrastructure (housing and public works, especially road building) and most countries have reinforced their social programmes giving special attention to conditional cash transfer programmes to minimise the effects of the crisis in the poorest areas. However, groups of poor people in rural areas might not benefit from these measures as much because policies focused on agriculture have been limited to the creation of temporary jobs or the implementation of partial subsidies to production inputs.<sup>5</sup>

## **2. Social Protection in Latin America**

### ***A brief background to social protection institutions in the region***

The evolution of social protection institutions before the ‘lost decade’ was initially influenced by the example of southern Mediterranean countries, and later by the ILO in the 1950s and 1960s. Its core consisted of social insurance funds, *cajas de previsión*, financed by contributions from workers and their employers. These provided a degree of protection from life course and work related contingencies. Social insurance funds were initially established for specific groups of workers. Later these were extended to cover a wider range of workers and contingencies. The expectation among policy makers was that economic development would eventually lead to the incorporation of the entire formal labour force, thus replicating the spread of social protection in European countries ‘from the strong to the weak’.

Mesa-Lago distinguishes three groups of countries in the region (Mesa-Lago 1991, 2007). In the first group, the pioneer countries, stratified social insurance funds developed in the 1920s. This group includes Chile, Uruguay, Argentina, Cuba, and Brazil. A second group of intermediate countries includes Colombia, Costa Rica, Mexico, Paraguay, Peru and Venezuela, in which social insurance developed after the 1940s. A third group of mainly Central American countries, the latecomers, developed social insurance institutions much later, in the 1950s and 1960s. The ‘pioneer’ countries from the Southern Cone managed to make significant advances towards a European-style social insurance. Employment stability for the assumed male bread-winner ensured that the protection carried over to his dependants. The emphasis on social insurance and employment protection meant that social assistance was at best residual, both in terms of contingencies and groups covered. By contrast to

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<sup>5</sup> International seminar “The Global Financial Crisis and the Rural Sector in Latin America: Options for IFAD Engagement”, IFAD, April 23-24, 2009, Rome.

social insurance, social assistance was strongly maternalistic, with an emphasis on family and in kind benefits (Barrientos 2004b; Molyneux 2006). By the end of the 1970s, in Chile, Brazil, Uruguay and Argentina the share of the labour force covered by social insurance schemes reached over 70 percent (Barrientos 2004a). For most other countries in the region, informality set hard limits to the development of social insurance funds. Employment protection was essential to this model. Social protection in Latin America was ‘truncated’ at the margins of formal employment (Barrientos 2004a; Fiszbein 2005).

The political settlement associated with Import Substitution Industrialisation strategies (ISI) is an important part of the explanation for the ‘truncated’ nature of social protection institutions and for the residual role of social assistance. Support from formal sectors workers, especially those in the public sector, military and police, and key export sectors, was essential to sustaining the development model. Social protection ensuring minimum levels of security for these workers was a key element in the political settlement which provided a measure of stability for the development model. The focus on workers in formal employment also meant that social assistance was not only residual, but also poorly focused on the poor and poorest. Social protection in Latin America is largely regressive in distributional terms. Regressivity arises both from the incidence of taxation and from the large public transfers to social insurance.<sup>6</sup> A recent paper has coined the term ‘reverse Robin Hood’ to describe the distributional impact of social protection in Latin America, in that it takes income mainly from the poor only to give it mainly to the non-poor (Lindert, Skoufias and Shapiro 2005).

The 1980s crisis, and the structural adjustment which followed, led to extensive liberalization of trade and factor markets. The incidence of labour market informality is a good indicator of the impact of liberalization. According to ILO figures, the share of employees in the urban labour force who are not covered by social insurance grew from 33.4 percent in 1990 to 36.3 percent in 2002, thereafter declining to 25.2 percent in 2006; and the share of the urban population in work (including employees and the self-employed) who are not covered by social insurance grew from 48.2 percent in 1990 to 51.2 percent in 2002, declining to 39.2 percent in 2006 (ILO 2006).<sup>7</sup> The upward trend in urban informality up to 2002 seriously challenges the expectations held before the 1980s regarding the gradual extension of social protection. It also calls into question the extent to which employment-based social protection systems in the region could ever reach beyond the minority of the labour force, mainly public and formal sector workers (Bourguignon 2005). In some countries, the decline in the labour force coverage of social insurance was precipitous. Argentina is a case in point, while in 1980 around 70 percent of the labour force were contributing to a social insurance fund, by 2003 this figure dropped to 35 percent, thereafter recovering to 45.4 percent in 2006 (Gill, Packard and Yermo 2004; Rofman 2005).

Emergency responses to the rise in poverty and vulnerability in the wake of the crisis proved inadequate. The residual social assistance institutions in place before the 1980s did not have the capacity to provide an effective response to the rapid rise in

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<sup>6</sup> In Brazil for example, one of the few countries that so far has avoided fundamental reforms to the pension component of their social insurance schemes, the subsidy from tax revenues to plugging the deficit of social insurance pensions amounts to 4-5 percent of GDP annually.

<sup>7</sup> Note that changes to household surveys after 2003 could affect comparability with earlier data.

poverty and vulnerability, and in any case structural adjustment hit public agencies and their budgets, hardest. Some countries, with support from international institutions, put in place emergency safety nets, mainly in the form of public works and in kind transfers. These proved insufficient and highly divisive given the blunt and discretionary nature of the targeting instruments employed. Emergency responses gave way to social funds and sectoral programmes targeting ‘vulnerable’ groups. Social funds were set up to support demand led community initiatives, and involved emergent NGOs, but they rarely reached the scale required to address widespread poverty and vulnerability, and the creation of parallel structures to government agencies meant that they were unlikely to make a significant contribution to developing long term social assistance institutions and the social contracts needed to underpin them. Some countries focused social programmes on vulnerable population groups such as indigenous people, senior citizens, or women, which created fragmented sectoral institutions with little flexibility to respond to the dynamics of poverty. These did not prove successful either, as they failed to exploit opportunities for economies of scale in programme design and implementation, and often targeted the same population many times with separate but insufficient forms of support.

In the last two decades, the main changes to social protection institutions in the region are the reform of social insurance, especially pensions and health insurance, and the emergence of new large scale social assistance. These are discussed in turn below.

### ***Social insurance***

Following Chile’s 1981 pioneering pension reform, a number of countries in the region have reformed their pension systems. Pension reform has been implemented in Peru in 1993, Argentina and Colombia in 1994, Uruguay in 1996, Mexico and Bolivia in 1997, El Salvador in 1998, Costa Rica in 2001 and the Dominican Republic in 2003. Enabling legislation has been approved in Ecuador, Nicaragua and Venezuela but implementation has not materialised. The reforms implemented share common traits. They aim to replace unfunded defined benefit social insurance pension schemes with funded defined contribution pension plans. However, the scope and condition of pre-existing pension schemes and political economy factors have resulted in a diversity of outcomes. This section briefly reviews this diversity.

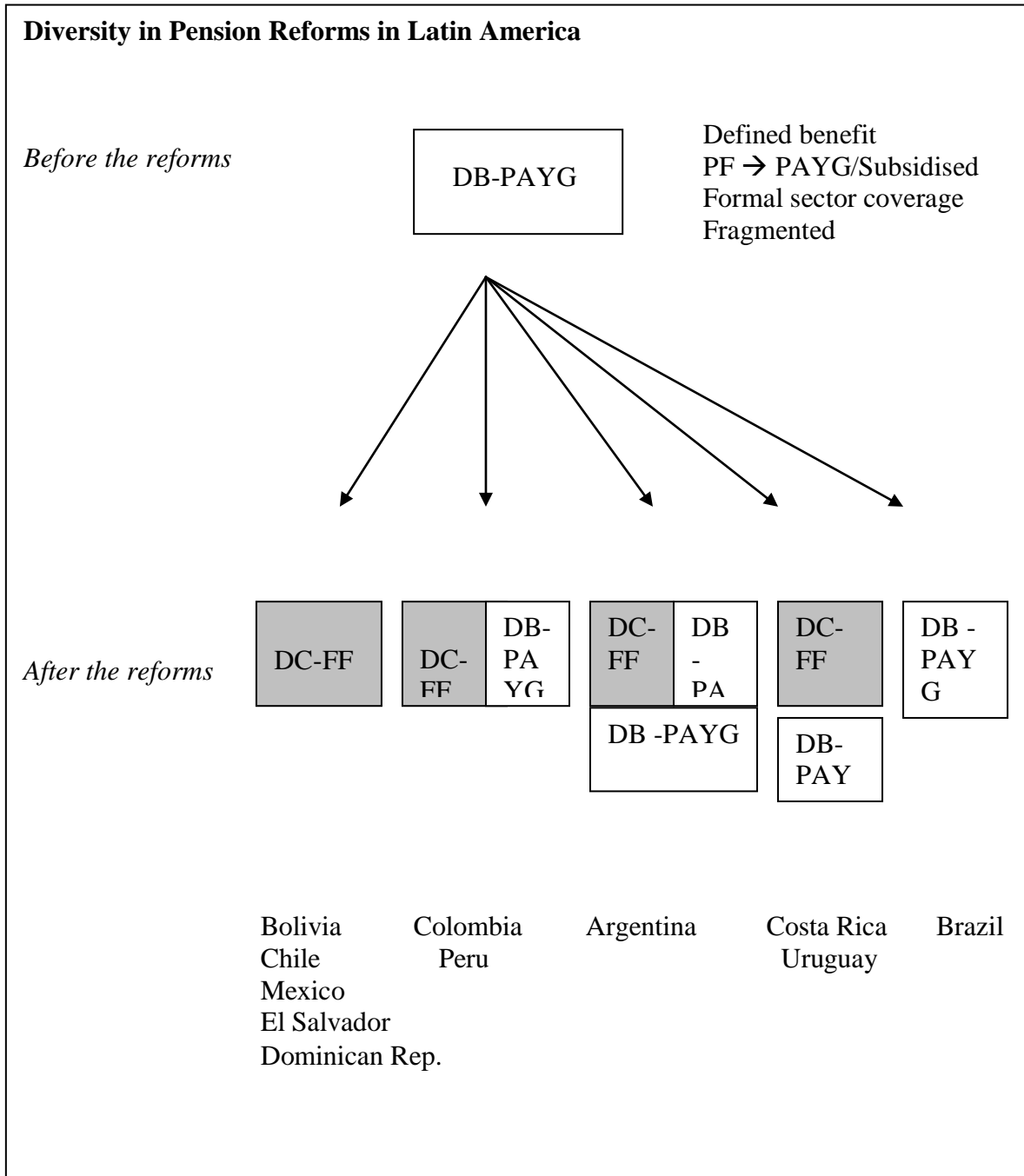
The main innovation at the core of pension reforms was the introduction of individual retirement pension plans managed by newly created private pension fund managers.<sup>8</sup> The new pension plans are of the defined contribution type and are fully funded. In the new pension environment, employees in formal employment are required to contribute a fraction of their earnings to a retirement account. Pension fund managers compete for savings, manage workers’ accounts, invest the pension fund, and surrender balances at retirement. They also provide disability and survivor benefits. At retirement, workers use their account balances to make pension arrangements, which include purchasing an annuity from insurance providers or agreeing a scheduled withdrawal of the balances from their pension accounts. The introduction of individual pension accounts competitively offered by new pension fund managers

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<sup>8</sup> For a more detailed discussion of the reforms see Barrientos (1998) and Queisser (1998). Some countries retained pay-as-you-go pension schemes, and Argentina allowed a public pension fund manager to compete with private ones.

is a novel way of organising pension provision in Latin America, and the development of a pension fund management market is perhaps the most important innovation introduced by the reforms.

Figure 1.



While this core feature of the reforms became common to all ten countries, its role within the pension system, and its linkages to the pre-existing social insurance pension schemes depended on specific country conditions (Gill, Packard and Yermo 2004; Mesa-Lago 2007). Two factors played an important part in shaping the reforms. In countries with more developed social insurance schemes, the transition to individual retirement plans was bound to be costlier, especially as those in employment would be required to support those in retirement while saving for their own retirement. In these countries, the reforms were always likely to aggregate a greater number of opponents. Political conditions were also influential. Pension reform in Chile was introduced with very little discussion and scrutiny mainly due to the fact that political institutions were suspended. In other countries, political discussion around the reforms was fierce (Mesa-Lago 1999). The development reached by pre-existing institutions and political economy factors resulted in several configurations of the mandatory components of the new pension systems. Figure 1 shows the different variants produced by the reforms.

In five countries, Bolivia, Chile, Mexico, El Salvador and the Dominican Republic, the reforms simply replaced the pre-existing defined benefit, pay- as-you-go (PAYG), social insurance schemes, with defined benefit, fully funded individual retirement plans. New entrants to the labour market had no choice but to join the new pension plans, while affiliates to the pre-existing pension schemes were encouraged to migrate to the new pension plans. Entitlements under the old scheme were transferred to the new individual retirement plans. In Chile, for example, contributors to the social insurance scheme were provided with a ‘recognition bond’ reflecting their contribution history and redeemable at retirement. This practice also had the advantage of spreading government liabilities into the medium term.

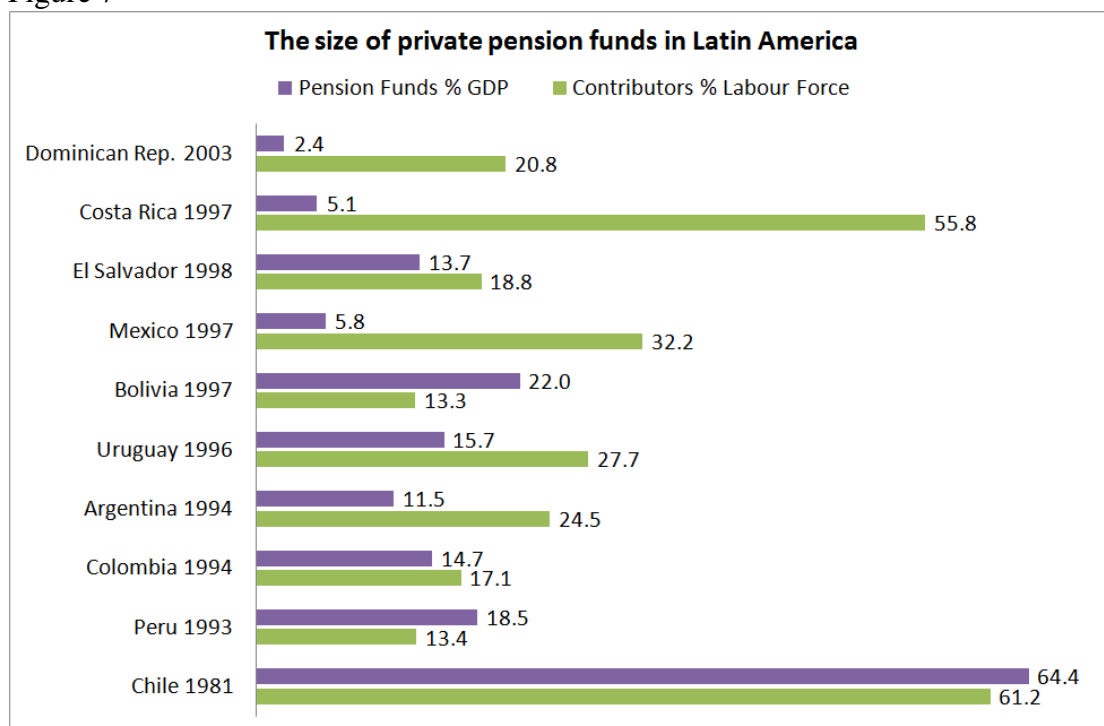
In two countries, Colombia and Peru, contributors to the old social insurance schemes were given the choice to stay or to move to individual retirement accounts. New workers were required to join the new pension plans. The two types of pension schemes therefore run in parallel. In Argentina, where opposition to the reforms by trade unions was most acute (Kay 1999; Ghilarducci and Ledesma 2000), the outcome of the reform was a two pillar pension system in which the first pillar consists of a PAYG basic pension, with a choice of either the old PAYG scheme or the new individual retirement accounts. This is in fact a two-pillar pension system with limited choice in the second pillar. In two countries, Uruguay and Costa Rica, a different two pillar pension system emerged, with a first pillar consisting of a redistributive PAYG defined benefit schemes, and a second pillar consisting of individual retirement accounts. There is no choice in the second pillar (Martinez Franzoni and Mesa-Lago 2003; Martinez Franzoni 2005).

Finally, in twelve countries in the region individual retirement accounts were not introduced and PAYG defined benefit schemes remained in place. In some of these countries, parametric reforms to the social insurance scheme were introduced, of varying degrees of importance. Brazil stands out as the parametric reforms introduced have shifted social insurance schemes in the direction of notional defined contribution plans, which take account of demographic change in the benefit formula (Pinheiro 2005).

As can be seen from the Figure, the shift to defined contribution fully funded pension plans in the region has been a dominant feature, but it is by no means complete, and the model of reform has many variants. Moreover, the articulation of defined contribution pension schemes and defined benefit pension plans has shifted over time. In those countries where a choice between these two was provided, the expectation among the reformers was that the old social insurance schemes would gradually wither away. This has not proved to be the case.

The outcomes from the reforms to social insurance have been debated in detail in the region, by supporters and detractors (Mesa-Lago 2007). Our focus here is to draw out the implications from these reforms for the shape of social protection systems in Latin America, and the implications for poverty reduction. A fair assessment of the social insurance reforms in the region are that they have been more successful in establishing new financial institutions (private pension funds, annuity providers), than in strengthening the protection of workers in old age. Figure 7 below helps to illustrate these points. Private pension funds control a significant proportion of financial wealth, but cover at best a fraction of the labour force. Only in Chile and Costa Rica, pension funds proved attractive to a majority of the labour force. In Chile, private pension funds control financial instruments equivalent to nearly 65 percent of GDP. In other countries, private pension cater for a minority of well paid workers.

Figure 7



Source: AIOS Boletín Estadístico 2007

The fact that social insurance reforms did not take root strengthens the case for focusing on social assistance as the route to extend social protection in Latin America. This has now been acknowledged by the World Bank, a key driver for the reforms (Gill, Packard and Yermo 2004). Brazil is an interesting case, because it did not privatise its pension funds but opted for parametric reforms. Around 60 percent of

pensioners from the social insurance funds there only manage to achieve a minimum pension, equivalent to non-contributory pensions, while a minority of highly paid workers and civil servants draw very generous pensions. In Brazil the social insurance funds are an important poverty reduction programme.

The financial crisis could have large effects on private pension funds, given their financial exposure, and implications for public resources and by extension social assistance. In December 2008, the Argentinian government ‘nationalised’ the private pension funds, at a stroke taking over the pension liabilities of workers in them. The measure will hugely raise the regressive nature of social insurance in the region, and could crowd out resources for the expansion of social assistance for households in poverty. Chile, on the other hand, implemented reforms in 2008 which strengthen the first pillar, non-contributory, pensions. The aim of the reforms is to eventually extend coverage to all older groups in the country. (Mesa-Lago 2008)

### ***Social assistance programmes in Latin America***

In the last decade there has been a very rapid expansion of new forms of social assistance programmes in the region. These programmes target particular groups in the population in poverty and/or regions and municipalities characterised by high poverty indicators.

Income transfer programmes in middle-income countries in the region have their earliest referent in the Uruguay’s Family Allowances Scheme (initiated in 1914) and non-contributory pension schemes in Costa Rica, Chile and Brazil. . However, in the late 1990s and the 2000s there has been substantial growth in income transfer programmes as a means to tackle poverty and vulnerability. Their success with regards to their short term objectives in middle income countries – mainly Mexico and to a lesser extent Brazil – has led other middle and low-income countries to adopt similar approaches. There has been strong growth in human development transfer programmes. These programmes were introduced initially as temporary or pilot programmes, but , as Barrientos and others suggest, many of those programmes have been scaled up and institutionalised as a specific route to the extension of social protection (Barrientos and Santibañez 2009; Barrientos and Santibanez forthcoming). Whilst initially income transfer programmes developed in middle income countries, recent experiences show that they are feasible and effective in low income countries too.

A feature of the recent development of social assistance programmes is that their surge and evolution reflects both policy learning and strong civil society demand. In a sense the spread of these programmes is a result of policy makers’ decisions to respond to a challenging context of formal labor market retrenchment and upsurge of poverty and inequality. In an important sense, changes in social policy and implementation of social assistance programmes have also been induced by civil society groups who along the years have campaigned and mobilized grassroots groups making specific claims about welfare provision – in Brazil, for instance, grassroots support to President Lula has largely been identified with his commitment to



consolidate *Bolsa Familia* (Hall 2008). The various organizations classified in the “Third Sector” have also implemented self-help groups and support networks, which in some cases have been adopted by the public sector as ‘innovative’ experiences for social protection design and eventual administration (for example, the Programa Vaso de Leche in Peru (Banco Mundial 2007)). This feature introduces an additional challenge to social protection program managers to avoid reliance on passive and perhaps clientelistic relations with beneficiaries.

In the following sub-sections we provide a summary of social assistance programmes in Latin America, considering their main objectives and impact. Programmes can be classified into two groups: non-contributory pensions programmes and income transfer programmes with focus on human development. Our analysis builds on the programme information provided in the Social Assistance in Developing Countries database (Barrientos, Holmes and Scott 2008).

### **New forms of social assistance**

According to Bertranou and Grushka (2002), non-contributory pension programmes constitute a good alternative to extend the scope of social protection to those segments of the population that have traditionally been excluded from social security.

**Argentina.** Argentina started with an unconditional income transfer programme in 1994 (*Pensiones Asistenciales*) which established non-contributory pension programme support to vulnerable individuals and those who have made a significant contribution to society (war veterans, relatives of disappeared persons, scientific achievement, etc). It then implemented two conditional income transfer programmes in 2002 and 2004 respectively: the *Jefes y Jefas* (‘Male and Female Heads of Household’), which was a response to the economic crisis experienced by the country at the end of 2001, and the *Programa Familias por la inclusión social* (‘Families for social inclusion’), which provides income transfers to families in extreme poverty to support household access to health and education as well as implements community development projects.

**Bolivia.** Bolivia started its first non-contributory pension programme named BONOSOL in 1997, after the privatisation period, as a redistributive means that would benefit to citizens reaching 60 years of age. This programme has suffered several modifications and been re-launched as *Renta Dignidad* in 2008. Another income transfer programme is the *Bono Juancito Pinto* which was launched in 2006 and targets all students from public primary schools.

**Brazil.** Brazil’s first income transfer programme, *Benefício de Prestação Continuada* (‘Continuous delivery of benefits’), started in 1993 as a non-conditional non-contributory pension programme targeting poor individuals aged 65 and over. It was then followed by a series of pilot conditional programmes with human development purposes: the Child Labour Eradication Programme (PETI) from 1996, the *Bolsa Escola* initiated in the Campinas State in 1995 to assist poor households with children of school age, *Bolsa Alimentação* which targeted indigent households, and *Auxílio-Gás* (an unconditional income transfer subsidising poor households’ consumption of gas). All of these pilot programmes were sequentially integrated since 2003 into *Bolsa*

*Familia*, the federal programme carried on with intervention of states and municipalities which consolidates an income transfers strategy as a means for reducing poverty, inequality and exclusion.

In addition to these programmes, the Federal Government of Brazil has a long standing tradition of assisting to informal workers from rural areas (for instance with programmes such as FUNRURAL). After the 1988 Constitution, such a support was consolidated into the *Prêvidencia Rural* (Rural provision) programme, which since 1991 supports rural informal workers reaching the age of 55 if women and 60 if men, or disabled.

**Chile.** The first unconditional non-contributory pension programme programme, the *Programa de Pensiones Asistenciales* (Assistance pensions programme), was established in 1975 to support old or disabled individuals without other sources of income. No other programme was registered until after the change of political regime when the new government established in 2002 the *Chile Solidario* programme, which provides integrated support to households in extreme poverty.

**Colombia.** Colombia's first income transfers programme, the *Programa de Ampliación de Cobertura de la Educación Secundaria* ('Programme for the Extension of Secondary School Coverage') was established in 1991 to raise secondary school enrolments among low-income groups in Colombia. Its second programme, *Familias en Acción* ('Families in action') started in 2001 as a conditional income transfer for human development targeting poor households with children in poor areas.

**Costa Rica.** The *Régimen No Contributivo de Pensiones por Monto Básico* (Non-contributory Basic Pensions Regime) was the earliest unconditional income transfer programme in Latin America targeting the elder and disabled poor individuals. In 2001 the Costa Rican government established the *Superémonos* programme ('Let's get better') which targets children from poor households to improve school enrolment and attendance.

**Dominican Republic.** The *Programa Solidaridad* ('Solidarity Programme') was launched as a conditional income transfer programme for human development in 2005 targeting households in extreme and moderate poverty.

**Ecuador.** The *Bono Solidario* ('Solidarity Bonus') was initially launched in 1998 as a compensation programme to poor households with children, elderly and disabled for withdrawing price subsidies on petrol and derivatives. Since 2004 it became the *Bono de Desarrollo Humano* (Bonus for Human Development), which aims to reduce poverty and targets the same groups of the previous programme provided that no one in the household is in formal employment or covered by social insurance.

**Honduras.** The *Programa de Asignación Familiar* (Family allowance programme) started as a pilot conditional income transfer programme for human development in 1990 and then re-launched in 2000 in such as a 'second phase'. It targets all households from municipalities with lowest mean height for age z-scores.

**Mexico.** The *Programa Nacional de Educación, Salud y Alimentación* (PROGRESA) was developed as a income transfer programme for rural households in extreme

poverty. It started in 1997 and aimed at poverty reduction and prevention in small rural communities with a high marginality score and access to education and health providers. With the same vision, the OPORTUNIDADES programme has extended the coverage to urban areas and also included micro enterprise support components.

**Panama.** The *Red de Oportunidades* (Opportunities network) programme started in 2006 as a pilot income transfer programme aiming to reduce extreme poverty. It guarantees to poor households access to basic services, household support, and infrastructure development in order to re-integrate them into processes of economics dynamics and social development.

**Paraguay.** The conditional income transfer pilot programme for human development *Red de Protección y Promoción Social* (Social Protection and Promotion Network) started in 2005 assisting poor households with children from poor communities.

**Peru.** The programme *Juntos* (Together) was established in 2005 to provide cash and food supplements transfers to poorest households with children, conditional on health, schooling, and registration. It targets households in extreme poverty from the nine poorest regions.

**Uruguay.** The *Programa de Pensiones No-Contributivas* (No-contributory pensions programme) formally started in 1986 as an unconditional non-contributory pension programme, however it gives continuity to long standing similar programmes put in place since 1914. It targets the elder or disabled poor individuals who are excluded from social insurance schemes. In addition and in order to attack poverty with an integrated programme, in 2005, the Government of Uruguay put in place the *Plan de Atención Nacional a la Emergencia Social* (National Plan to Address the Social Crisis) which includes income transfers, public works and micro-enterprise development for the lowest quintile of the population below the poverty line.

## **Design features of social assistance programmes**

Many of the social protection programmes in Latin America arose from a political recognition that a significant proportion of the labour force and their families are in informal employment and do not have access to traditional social security schemes. Furthermore, given that the exclusion from social security is a consequence of their marginal access to formal labour markets, the protection of vulnerable and poor population is basically based on non-contributory and social assistance programmes (Bertranou et al 2002).

Argentina, Brazil, Costa Rica, Chile and Uruguay are among the countries which have set a precedent for the design of non-contributory pension programmes, in the same way as they are well known for their relatively more developed social security systems. However, several economic crises in the last 20 years have modified the coverage and impacts of these systems and programmes. In several cases, have been used as a political cushion to absorb the adverse effects of significant reductions in contributory pensions systems.

In Brazil the design of non-contributory pensions for elders, widows, handicapped and mothers with more than seven children has been done in a way of protecting the entire population (Schwarzer and Querino, quoted in Bertranou et al 2002). In Chile non-contributory pensions would have been also designed to reach the whole population not covered by social security schemes. The assistance programme targeted poor population over 65 years-old, handicapped over 18 years-old and all mental-ill individuals, and not covered by any other pension scheme.<sup>9</sup> In addition to income transfer, beneficiaries of this programme have free access to public health service, family allowances and funeral expenses (Gana 2002).

In Costa Rica , where the level of social development can largely be explained by longstanding concern with extending social protection to a majority of the population, social protection programmes arose as a way to compensate those who have been left aside from the benefits of economic growth and instead have fallen in poverty. In that way, non-contributory income transfer schemes were implemented along the years since 1974 as a way of ensuring that social protection is part of a social development strategy and not just a compensatory resource in times of crisis or social emergency (Duran 2002).

Uruguay is another country with long standing social policy tradition. Expenditure on social sectors focus largely on non-contributory pensions for elderly people over 70 years-old and handicapped are stipulated as a right in the country legal framework. Therefore, in 2002 more than 85 percent of elder population were covered by formal social security and 5.54 percent by non-contributory pensions (and Lorenzelli 2002).

By contrast, the Argentinean non-contributory pension programme developed in the context of a social policy characterised by a high degree of fragmentation not only between the national institutions (for example, the Social Security Administration and the Ministry of Social Development), but also the various levels of government (national, provincial and municipal) (Bertranou and Gushka 2002). One of the characteristics of this programme, much like other subsystems of social protection, is that it was founded on a legal framework that developed in a disjointed and uncoordinated fashion. Indeed, the auxiliary pensions (*pensiones graciabiles*) granted by Congress deserve special comment. In theory, these benefits must adhere to the objectives established for protecting vulnerable groups; however, national legislators are responsible for selecting and managing the benefit without intervention on the part of the institution responsible for administering the non-contributory pension programme.

With regards to income transfers programmes with an aim other than pensions, those have focused on poor households to subsidise investment in human capital by conditioning on enrolling their children in school and making regular health checks to ensuring child health development. Most of these programmes combine demand and supply side components. From the 'demand-side' their main objective is to induce households (through income transfers and conditions associated with the receipt of these income transfers) to make more intensive use of the existing educational and health. From the supply side, programmes are accompanied by complimentary efforts

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<sup>9</sup> Food pensions and political-victims compensation pensions are excluded from this restriction.

and resources directed at strengthening the supply and quality of the educational and health services.

Two of the most known programmes for human development are the Eradication of Child Labour Programme (PETI) and Bolsa Escola in Brazil, and PROGRESA in Mexico. In Brazil the idea of income transfer to poor families emerged from the University of Brasilia and first implemented by the government of the Distrito Federal in 1995 (Cardoso and Souza 2002). There is also a supply-side component to each programme with resources allocated toward improving school quality and access (e.g., more teachers, health clinic staff, higher salaries, and extensive expansion). PETI was designed to eradicate child labour from families in a situation of extreme poverty and social exclusion in urban and rural areas. This programme is covered by constitutional mandate and is part of the social assistance commitment made by the Federal Government within the scope of Program Avança Brasil. From being a pilot programme implemented in the coal production areas of the State of Mato Grosso, it sequentially was expanded to other municipalities and States of Brazil. (Brazilian Court).

Similar to the PETI programme, the Federal *Bolsa Escola* gives income grants to poor families with school-age children (selected on an income-means test and/or a scoring system, but initially located in metropolitan areas). The main goal of *Bolsa Escola* has been to reduce future poverty by increasing school educational attainment and to reduce current poverty by transferring income to poor families. Following the programme popularity, in the early 2000s more than 100 other programmes would have been implemented in other municipalities within state and non-governmental strategies of poverty reduction (Levinas and others 2001).

In Mexico the PROGRESA programme began as a component of an overall strategy for poverty alleviation, as such PROGRESA works in conjunction with other programmes that are aimed at developing employment and income opportunities.<sup>10</sup> PROGRESA's multi-sectoral focus has provided an integrated package of education, nutrition, and health services to poor families, and requires active participation by the recipient households in exchange for the benefits. PROGRESA gives benefits mainly to mothers.

Following these referents, human capital-oriented income transfer programmes were also implemented in Chile, Argentina, Peru, Guatemala, Honduras, Nicaragua, Paraguay and Bolivia. After the change of political regime in Chile, the *Chile Solidario* programme was designed as a system of social protection which combines social assistance and community development to tackle extreme poverty. For an estimated period of five years, beneficiaries of this system receive psycho-social support, a protection bonus, income subsidies and have preferential access to other programmes of community development. In Bolivia the *Bono Juancito Pinto* was introduced in 2006 as part of an integrative policy of social protection and community development named "*Bolivia digna, soberana, productiva y democratica para vivir*

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<sup>10</sup> Beneficiaries are selected through a three-stage targeting mechanism. First, using national census data, geographic targeting is applied to select the most marginal communities. Second, socioeconomic data are collected from all households in the most marginal communities. Using income and other data (e.g., education, housing conditions, and durable goods) a discriminating analysis is used to identify "poor" households. Finally, community feedback is used to reclassify households (Coady 2003).

*bien*”. In Peru the *Juntos* programme is also part of a state strategy for tackling extreme and child poverty (the Estrategia Nacional Crecer), and is targeted to households in situation of indigence and social exclusion. *Juntos* combines income transfers with the supply of health and education. Design of the Peruvian programme is similar to Mexico’s *Oportunidades*, Brazil’s *Hambre Cero* and Chile’s *Puente*. All of them were acknowledged as part of a regional strategy to eradicate poverty.

In spite of a general aim to eradicate poverty shared by all programmes from medium and low-income LACs, in most of the cases the transfer levels are set only at a fraction of the poverty line. Therefore, the transfers have not been set to bring households up to the poverty line but instead to support schooling and health care access<sup>11</sup>. Nonetheless, these programmes are intended to produce non-income effects. For instance, the transfers are paid to the mother in the expectation that they will be used to support children, and perhaps strengthen the mother’s position within intra-household decision making; programmes have co-responsibilities, both from beneficiary households and from the programme agency; and some programmes include more intensive support from programme agents (Barrientos and Santibanez, forthcoming).

A general feature of design in most of the Latin American countries is that selection processes rely on several criteria which combine geographical identification, deprivation indicators, categorical selection and community validation. Indicators for targeting include: household poverty, per capita expenditure below the poverty line, quality of life index, assets test. Given that rural poverty expose indicators of higher incidence, many of the programmes focus on the rural poor, however, in El Salvador and Bolivia, the urban poor are also reached with income transfers. In other cases it is only the ‘supply side’ of human development income transfer programmes that reach both urban and rural areas and the ‘demand side’ stays focused on the rural poor.

## Implementation

In most of the countries the implementation and administration of social protection programmes have been assigned to ministries and public sector organisations which are in charge of social assistance and social development. However, in countries such as Costa Rica, Brazil, and Uruguay, social security public administrations are also the ones which administer social protection programmes. That entails the advantage of having the structure needed for managing large amounts of income transfer, but that has also shown limitations to identify and verify the target population (Bertranou, Solorio and van Ginneken 2002).

In Argentina, from 1996 the non-contributory pension programme was administered by the Secretariat for Social Development (SDS). Until 1999 it was under the Office of the President and since then has been transferred to the Ministry of Social Development and Environment (Bertranou and Grushka 2002).

In Brazil, the PETI programme followed the principles of decentralised management, which implied that the execution of the programme is shared by the three levels of

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<sup>11</sup> For instance, in Nicaragua the transfers were equivalent to 21 percent of household expenditure on average, but only 3.6 percent in Honduras. In Paraguay the transfer level was set to equal the average poverty gap among the bottom to deciles of the population. In El Salvador the combined transfers equal around 50 percent of the poverty line (Barrientos and Santibanez forthcoming).

Government (federal, state and local). Initially transfers were made to municipalities, however the administrative burden to meeting certification criteria made the central government to opt for direct transfers to the beneficiary families. As Cardoso and Souza note, despite the decentralised design of income transfer programmes, main limitations in implementation can be explained by the difficulty to build a trustworthy catalogue of poor families entitled to benefits and the hurry that has characterised the updating of prior catalogues each time that a new municipal administration came into power (Cardoso and Portela Souza 2003).

In Chile, where the overall coverage of non-contributory pension programme are defined at central government level and based on budgetary criteria, distribution along the country responds to regional differences of poverty levels and the waiting lists of potential beneficiaries in each region. Final targeting and eligibility have been point-based, where regions and municipalities have kept their own system (Gana Cornejo 2002).

In Costa Rica the implementation of social protection programmes has been made through a complex network of public organisations ('executive units'), but with a single centralised funding body (the Fondo de Desarrollo Social y Asignaciones Familiares). That has implied problems of duplicity and increased bureaucracy, spill-over and path-dependence effects, and constraints for adequate impact assessment.

In Uruguay, the programme is managed entirely from a special unit within the *Banco de Previsión Social* (Social Prevention Bank), which works from its base in the capital city (Montevideo) and then decentralises into BPS's regional offices. At that regional level there is no particular administrative apparatus that guarantees an efficient implementation. Main problems would have been related to non-specialised personnel in charge of the programme and the difficulties to verifying the income basis of potential beneficiaries.

In Chile, where the *Chile Solidario* system was implemented at multi-institutional level, coordination has been a particular challenge. Evaluations of some of the programmes involved showed that the flexibility and adaptation observed in programmes of psycho-social support were hardly observed during implementation phases of income and employment programmes (MIDEPLAN 2004). Among some factors rarely considered in implementation phases are the family characteristics and the local contexts that bound the ability of the poor to enter into labour markets.

In Peru, formulation and implementation of social policies is in charge of a multi-sectoral commission (CIAS), created by law in 1990 and in front of the anti-poverty strategy since 2003. The CIAS's core groups get the ministries of Health, Education, Agriculture, and Women and Development together. However, given the high political component of social protection programmes, in practice, these programmes are directly managed from the Ministry of the Presidency and coordinated with other state instances both at central and regional levels (such as the Decentralised Offices of the Presidency - OPDs).

## Funding

In Argentina, Brazil, Chile, Costa Rica and Uruguay, Bertranou et al (2002) noted that most of the non-contributory pensions and protection programmes are funded by taxes and government general income, consequently there is a cross-sector subsidy (from formal to informal sectors and from urban to rural areas). Nonetheless, they also found that in some cases funding for these programmes are semi-contributory, that is, has roots in other forms of contributions from sectors considered by convention as “informal”, such as agriculture<sup>12</sup>. Funding for non-contributory pensions programmes in Chile is included in the national budget. In Uruguay funding for non-contributory pension programmes comes from government income and also from workers payroll contributions. It is noteworthy that expenditure in social sectors grew more than the GDP and that fact was greatly related with the emphasis government put on non-contributory cash-transfer programmes.

A common feature to most human development focused transfer programmes is the international nature of their financing, with the World Bank and the IADB as main financing agencies and their loans involve funds for expenditure in conditional income transfers, technical assistance and project management, and capitalisation of the front-end fee<sup>13</sup>. For medium-income countries such as Brazil, Mexico, Chile, Costa Rica and Colombia loans range go from US\$ 92.7 million to US\$ 520.2 million. In addition, the *Bolsa Familia* programme gets World Bank funds within a results-based management framework which triggers increases in the rates of loan disbursements<sup>14</sup>.

In Nicaragua and in El Salvador their programmes were initially set up to channel international aid to demand-driven local community development. Honduras’ Family Allowances Program (PRAF) has also been financed by the IDB (FSO). Few exceptions to dependence on international loans are the PETI programme in Brazil which is funded by the National Social Assistance Fund, the *Bono Juancito Pinto* in Bolivia which is financed by taxes on hydrocarbons and the *Juntos* programme in Peru which 90 percent of its finance comes from general revenue and the remaining 10 percent by international loans<sup>15</sup>.

## Impact

Studies of the contribution of non-contributory pensions to poverty reduction showed that such an effect in Brazil and Chile would have been to decrease indigence incidence in a range between 67 and 95 percent and poverty incidence in a range between 18 and 30 percent and between 21 and 24 percent in Costa Rica (Bertranou et

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<sup>12</sup> By 2002, it was found that 100 percent of non-contributory pensions and assistance in Argentina, Uruguay and urban Brazil would have been funded by general income, and in rural Brazil 8.4 percent of rural programmes would have been funded with taxes on primary trade of agriculture products. In Costa Rica, 5.4 percent came from taxes to cigarette and spirits, and 46.2 percent from patrons’ contributions. In Chile 8.4 percent would have come from individuals’ contributions. (Bertranou et al 2002, p. 17).

<sup>13</sup> See for more detail the WB’s country projects at <http://www.worldbank.org/infoshop>

<sup>14</sup> The Bank is also experimenting with that funding modality in other projects in Brazil and evaluating its application to other countries (Lindert, 2007).

<sup>15</sup> [http://www.juntos.gob.pe/pdf/trans\\_plan\\_anual/PIA2009.pdf](http://www.juntos.gob.pe/pdf/trans_plan_anual/PIA2009.pdf)



al 2002)<sup>16</sup>. In Argentina, by 2002 the non-contributory pension programme would have been effective at reducing poverty, among those families with a member who receives the benefit, by 31 percent, and extreme poverty or indigence by 67 percent (Bertranou and Gushka 2002). The impact of the non-contributory cash-transfers programmes in Chile would have been important for poverty reduction and improvement of income distribution. According to Gana (2002), 11.3 percent of the lowest quintile's income comes from these programmes. With regards to poverty reduction, by 2000 extreme poverty incidence would have decreased by 69 percent and poverty in 15.3 percent. An important factor that would help to explain such an impact in each one of the countries is the extent to which the programmes became extensive. For instance, in Argentina between 1991 and 2000 the number of beneficiaries more than doubled (from 158,000 to 351,000). The number of direct beneficiaries with pensions was 350,000 persons, but if health coverage provided for the families of some beneficiaries is included, coverage may be said to extend to 450,000 persons. The average benefit was \$153, which is 57 percent of the average benefit in the contributory system (Bertranou and Gushka op cit).

In Brazil the PETI programme increased significantly its reach since it was created. From 3710 children assisted in 1996, it reached to 749,353 children in 2001. Following that effect, the municipalities involved in the programme have reported significant reduction of the student drop-out rates. By 2002 *Bolsa Escola* reached almost all Brazilian municipalities, providing assistance to five million children (Cardoso and Souza 2002) and by 2006 it would have reached to all households in poverty (about 11 million in the country).<sup>17</sup> Based on a study of seven states in Mexico, Skoufias and McClafferty (2001) showed that PROGRESA's impact on education has significantly increased enrolment rates, particularly of girls, especially at the secondary school level. The programme would also have impact on improvements in health of both children and adults, and on food consumption.

An additional overall impact observed in several countries has been on women empowerment. Not necessarily being part of the design, targeting showed that women are the largest group of population who have had access to non-contributory pension programmes (for instance, 72 percent of in Argentina and 60 percent in Chile)<sup>18</sup>. The evaluation of PROGRESA also reported improvements in women empowerment due to control of the monetary benefits which would have increased their household decision making. Saldain and Lorenzelli showed that beneficiaries in the Uruguay cash-transfer pensions programme were mainly women and the urban poor (Saldain and Lorenzelli 2002). Nonetheless, they also showed that there has been a linear relationship between the number of urban poor and the programme beneficiaries, which implies that the programme has played a cushioning role when social deterioration was observed, but it would not necessarily reduced poverty severity. Similarly, given the geographical concentration in urban areas, rural poverty may not have been properly addressed. In spite of these weaknesses, the transfer programmes involved would have had positive redistributive effects (Saldain and Lorenzelli 2002).

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<sup>16</sup> Impact in Brazil includes the effect of contributory pensions. In Chile and Argentina the impact was measured in terms of households, whilst in Costa Rica and Brazil it is in terms of individuals.

<sup>17</sup> PNUD Brazil.

[http://www.pnud.org.br/pobreza\\_desigualdade/reportagens/index.php?id01=2237&lay=pde](http://www.pnud.org.br/pobreza_desigualdade/reportagens/index.php?id01=2237&lay=pde)

<sup>18</sup> Percentages calculated by 2000. (Collaborations quoted in Bertranou et al 2002).

## Challenges

With non-contributory pension schemes, issues of targeting and differential access by rural and urban populations are an important challenge. In Chile most of the non-contributory pensions programme are located in urban areas (62 percent in 2000 (Gana 2002))<sup>19</sup>. In Costa Rica, targeting non-contributory pensions and assistance programmes on poor beneficiaries should have benefited primarily the rural population, women and those with lower education levels. As it is, a majority of beneficiaries live in urban areas, reducing the impact of the pension on poverty reduction would have been limited. The low level of the pension benefit also limits the impact of the programme on poverty incidence. Estimations for Costa Rica suggest that 32 percent of beneficiaries are expected to remain in extreme poverty and only 8.6 percent would have graduated from extreme poverty into moderate poverty (Duran 2002).

Although a generalised assessment of the cost-effectiveness of all *Bolsa Escola* programmes in the several Brazilian states has not been made yet, studies such as the one on Brasilia DF showed that its programme increased school attendance and reduced child labour using less than one percent of Brasilia's budget. However, in poorer states similar results needed considerably more resources. For instance, Salvador Bahia would have needed 20 percent of its own budget (World Bank 2002) and according to Levinas and others (2001) the vast majority of municipal programs in 1998-99 served a very small fraction of the poor population. Similarly, with regards to the PETI programme drawbacks have been pointed out in terms of its impact on child labour reduction. Given that there is no precise data on the amount of children involved in labour activities, selection and targeting has been difficult. Furthermore, in some municipalities the criterion that children must actually be working has been relaxed and the programme was extended to all poor families (Bertranou and Gushka 2002).

In low-income countries impact evaluation is still an uncommon practice. Impact assessment studies for income transfer programmes in Nicaragua, Honduras and Paraguay are unable to confirm a significant rise in consumption among beneficiary households, instead transfers appeared to have stabilised consumption in a context of generalised consumption declines for the population in rural areas. These programmes show a large impact on the poverty gap, but little impact on the poverty headcount. They also show a significant rise in school enrolments and attendance among beneficiary households (but impact on child labour are less clear cut), and large improvements in primary health care utilisation (Barrientos and Santibañez, forthcoming).

Although many human development income transfer programmes combine the 'demand-side' with the 'supply-side' as an integrative way of attacking the constraints to improving children development in poor localities, there is still ongoing discussion about the effectiveness of each component. Comparing the cost effectiveness of income subsidies for schooling with school infrastructure development in Mexico, Coady and Parker (2002) show that the demand-side component (income subsidies)

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<sup>19</sup> Chile's population is predominantly urban, 85.9 percent in 2000, but the incidence of poverty is higher in rural areas (Gana 2002).

are a much more cost-effective way of increasing education levels relative to building additional schools.

The sustainability of social assistance programmes is an important challenge. Three main factors appear to be central to shaping the sustainability of social assistance programmes: government commitment, the credibility and quality of the program, and fiscal sustainability. In particular, it has been observed that sustainability of income transfer programmes depends on a combination of funding constraints, criteria for establishing the period of participation in the programme and exit strategies. Bertranou and Gushka (2002) showed that in Argentina, by 2002, the non-contributory pension programme accounted for three percent of the aggregate social security expenditure and 0.2 percent of the GDP. Although such amount was 'manageable' for the government – at least until the economic crisis occurred in 2004 – it has also been acknowledged that it has been the fiscal complex organisation (divided between three co-existing levels of government: national, provincial, and municipal) which has adversely affected their implementation in terms of efficiency and effectiveness. In Brazilian non-contributory pension programme, concern was raised about the sustainability of the rural non-contributory pension programme. In particular, the fact that the legislation included a subsidy from workers affiliated to social insurance to finance the rural pension programmes raised concerns from trade unions representing largely urban workers. In fact, the financing of the rural non-contributory pension scheme comes in full from general tax revenues and involves no subsidy from social insurance contributions (Schwarzer and Querino 2002). In Costa Rica, there are concerns that a recent increase of expenditure in pensions might have implications for social expenditures on health, education and social services.

A response to sustainability concerns is to aim to combine fragmented programmes into a single large programme. For instance, Bolsa Familia in Brazil will bring together four separate programmes, Bolsa Familia, PETI, a gas subsidy programme and a food subsidy programme.<sup>20</sup> However, a tendency towards integration has not been widely adopted by policy makers. In many programmes the institutional architecture follows presidential initiative. The Office of the President has a direct influence over policy formulation while service delivery is in charge of a plural network. However, a plurality of providers can constitute an obstacle to the longer term institutionalisation of the programmes (Soares and Britto 2007). Furthermore, as Moore (2008) illustrates for Honduras, the combination of political instability that surrounds presidential initiatives, the influence of international agencies, and the creation of parallel administrative structures is not conducive to the institutional strengthening that is needed to convert pilot short-term income transfer programmes into long term anti-poverty strategies.

In sum, there has been a rapid development of social assistance programmes in Latin America. Whilst there is large diversity in programmes design, non-contributory

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<sup>20</sup> In discussion of social policy in Brazil, basic income policies have proved attractive as a means to integrate social programme. Basic income policies are a response to the high income and wealth inequality in the country. According to Senna et al. (2007) "The Brazilian minimum income programs propose to promote the linkage with other social policies and programs, creating the possibility that, in theory, the typical fragmentation of the Brazilian social policies will be overcome, facilitating the adoption of intersectoral actions" (Senna et al. 2007).

pension schemes and human development income transfer programmes are the main programme types in the region. The section has identified the main development and provided a discussion of their design, impact and institutionalisation. Emerging forms of social assistance are the main policy responses to poverty and vulnerability. They have the capacity to make an important contribution to these objectives.

### *Social protection and social equity*

Inequality is one of the striking features of many Latin American countries. Inequalities in income and opportunities are widely regarded as one of the barriers to human, social and economic development in the region. The fundamental aim of social protection is to provide the population with protection in the event of hazards that threaten to push people into poverty, and to strengthen exit from poverty among those already in persistent poverty. To the extent that social protection is rightly understood as one of the main components of a broader social equity agenda (ECLAC 2006), it can contribute to reducing social inequalities. The reduction of inequality is not the primary role of social protection. Policies that can directly redistribute assets and opportunity can have a stronger impact on reducing inequality. In the following circumstances, social protection policies can make an important contribution to reducing inequality.

Firstly, existing inequalities reflect people's degree of exposure to risk and their ability to cope with those risks. Underprivileged groups bear the brunt of the disadvantages associated with social exclusion and greater exposure to risk (ECLAC 2006). Social protection policies, in protecting these groups, can reduce economic inequalities among those in poverty.

Secondly, and notwithstanding the positive trends of economic growth in many Latin American economies prior to the current financial and economic crisis, the formal labor market has not evolved in an inclusive way so as to produce stability for the workforce, which is more vulnerable to unemployment, precariousness and informality. Existing contributory social protection mechanisms have demonstrated to be insufficient to protect the bulk of the population from the risks associated with a possible loss of income, health, ageing, gender discrimination or other factors. Poverty reduction programs aimed at promoting social inclusion via solidarity-based financing mechanisms are one of the most tangible expressions of the principle of collective equity. Without exception, new forms of social assistance in Latin America target the poor and poorest (Barrientos and Santibañez 2009).

Thirdly, segmented and incomplete pension regimes have become a major source of inequity (ECLAC 2002). At present, many social insurance schemes in Latin America are regressive. Reform of pension schemes that establish more inclusionary and comprehensive social protection systems can have positive effects on the reduction of inequality (Arza 2008).

Finally, social rights are increasingly being invoked as a guiding principle for social protection. Social protection can also advance and embed rights. As Piron (2004) suggests, this can in addition have an effect on citizenship.

### 3. Social Protection in the Ford Foundation

The purpose of this short section is to speculate on the potential areas in which Ford Foundation work and social protection initiatives in Latin America overlap. The discussion in this section is very preliminary and the points below are not grounded on a detailed assessment of Ford Foundation work on social protection in Latin America.<sup>21</sup> Ford Foundation regional officers are in a far better position to make this assessment, and the points discussed are offered as an input to that assessment.

#### Key features of social protection reforms

As noted in the previous section, social protection in Latin America and the Caribbean shows major changes in the last two decades: the reform of social insurance pensions and health insurance; and the rapid expansion of social assistance. These changes have affected most countries in the region and have re-shaped social protection in the region. The reform of social insurance has more or less completed its cycle. Countries with unreformed social insurance institutions are not contemplating fundamental reforms. Early reformers like Chile are engaged in reforming individual retirement accounts to improve coverage and benefit certainty, but the second generation reforms mainly extend the role of government in pension provision. The expansion of social assistance, on the other hand, is still at the early stages of its cycle. In Mexico and Brazil, there appears to be a medium term dynamics which further institutionalises *Oportunidades* and *Bolsa Familia*. In lower income countries, income transfer programmes have not developed the same momentum, in Nicaragua for example the Red de Protección Social is being scaled down. In Honduras, El Salvador, and Paraguay, the expansion of social protection has been slow and fitful.

International attention has concentrated on the innovative design of the new social assistance programmes in Latin America, and the ‘conditional cash transfer’ tag is widely used among policy makers to brand the new programmes and similar ones emerging in other regions. For our purposes, it is important to focus on other features.

Firstly, perhaps the most important feature of the new social assistance programmes is their scale. Most countries in the region had by the 1990s some form of social assistance addressed to those in poverty, but it was largely residual and fragmented. By comparison, Bolsa Familia reaches over 11 million households, while Oportunidades reaches over 5 million households. Chile Solidario is intended to reach all households in extreme (food) poverty. Scale, not design, is perhaps the defining feature of the new social assistance programmes in the region.

Secondly, contrary to the ‘conditional cash transfer’ tag description of the programmes, they combine a range of interventions, in-kind transfers, and services. In

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<sup>21</sup> This is in part due to the limited information on which the discussion below is based. The listing of recent FF grants for the region which was made available provides only a limited insight into social protection work. In fact, social protection was not used as a keyword in the classification of grants, so the list provided may have significant gaps (this was confirmed by FF officers for the Southern Cone and Andean regional office). The ToR for the Global Social Protection study does not request an in depth examination of Ford Foundation work on social protection. The main focus is on mapping broad social protection developments and trends.

most programmes, except for unconditional transfers such as pensions or family allowances, income transfers are just one component. Many researchers have remarked upon the fact that the non-income effects of the programmes are very important. In fact the non-income effects, such as improvement in school attendance and health status, are crucial to delivering long term reduction in intergenerational poverty transmission. The combination and integration of interventions is a primary feature of new social assistance programmes.

Thirdly, in the more successful and larger programmes, government agencies play a dominant role in coordinating a wider range of providers. In fact, one of the weaknesses in the institutionalisation of new social assistance programmes in lower income countries arises from the presence of delivery agencies which are parallel to government agencies (the experience of PRAFII in Honduras is a good example). Combining interventions necessarily involves several agencies, and perhaps a combination of profit and not for profit providers (in health and education), but a feature of existing programmes is the central role of government agencies in directing delivery.

### **...and appropriate role of independent organisations**

These three key features pose some challenges in defining an appropriate role for independent organisations supporting social protection. An organisation like FF has necessarily a reduced scale focus. FF work on the IDAs in the USA, for example, focuses on providing assistance to government and non-governmental agencies in adopting and providing IDAs. This is done by supporting ‘demonstration’ programmes, supporting technical assistance, providing initial funds to leverage other funders, and generating and disseminating knowledge. As a USA based organisation, with a longstanding involvement in public policy, FF was in a good position to advance this work. The large scale of social protection programmes in Latin America, and their governmental institutionalisation (admittedly incipient in lower income countries) defines a different policy environment. FF capacity to influence existing large scale social protection programmes is perhaps limited, and its potential involvement in establishing new programmes in lower income countries in the region would need careful consideration especially as the Inter-American Development Bank and other multilateral and bilateral donors are in a better position to provide medium term financial and technical support. FF does not have a long track record and experience in core social protection in the region. An important point emerging here is that external organisations wishing to involve themselves in social protection work in the region would need to have a strategy for engaging and collaborating with government agencies.

The fact that new social assistance programmes aim to integrate a range of interventions addressing the multidimensional nature of poverty does generate spaces for engagement for organisation such as FF. The scope of income transfer programmes in Latin America varies across countries, from pure income transfers such as Bono Dignidad in Bolivia to integrated poverty transfers such as Chile Solidario in Chile. Human development transfer programmes such as Familias en Acción in Colombia include schooling, nutrition and health interventions. The dynamics of these programmes over time suggests a widening in the scope of the programmes. The extension of PROGRESA to urban areas, for example, led to

widening of the range of interventions packaged in the programme to include training and post school education, small enterprise skills, and others. Apart from OPORTUNIDADES and Chile Solidario, few social assistance programmes have given serious consideration to the type of interventions that would enhance employment and investment in physical or financial productive assets among beneficiary households. In some countries this is because other agencies or programmes focus on these areas; but it has also to do with the fact that social assistance programmes are in their early stages of development or programme cycle. For organisations such as FF there are opportunities to engage in widening the scope of the programmes. FF longstanding interest and expertise in micro-saving and asset accumulation are relevant here.

### **Income and asset transfers**

It will be useful to preface this with some brief comments on the relationship existing between income and asset transfers. In developing countries, income transfers are a means to raise household consumption. Income transfers are usually a fraction of household consumption and are not intended to lift beneficiary households above the poverty line. Non-contributory pensions, for example, target poor older people and their households while human development transfer programmes target households with children or expectant mothers. Asset transfers are also intended to raise household consumption but mediated through the exploitation of the assets. Among policy makers, and in some development policy discussions, income and asset transfers are sometimes perceived as alternatives (as in ‘giving people fishing rods not fish’). There are important differences in the properties of typical (pure) income and typical (physical or financial) asset transfers<sup>22</sup> - for example short term income transfers might not translate into long term welfare improvements while asset transfers may involve short term sacrifices to secure longer term welfare improvements – they can more appropriately be looked at as complementary. Increasingly, they are perceived in this light. Bangladesh’s BRAC learned from their microfinance programmes that a substantial group of borrowers in extreme poverty would often be unable to generate sustainable welfare improvements from asset transfers and designed a specific programme *Challenging the Frontiers of Poverty Reduction- Targeting the Ultra Poor* in order to address the specific needs of this group. This asset transfer programme includes a stipend to help stabilise consumption. *Oportunidades*, on the other hand, has over time incorporated skills and small enterprise development components to the basic transfers and services package to help support sustainable exit from poverty. At any rate, human development transfer programmes are specifically aimed at improving the productive assets of beneficiaries through health, nutrition and education interventions. They can be described appropriately as productive asset transfer programmes. The effectiveness of poverty reduction policies requires consideration of the mix and complementarity of income and asset transfers. The Latin American social protection policy environment provides a context in which this issue can be fruitfully explored.

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<sup>22</sup> Other distinctions between typical asset and typical income transfer programmes are important too: income transfer programmes can be scaled up faster and can reach households with few productive resources.

Proyecto Capital is an innovative project supported by Ford Foundation and managed by Fundación Capital and the Instituto de Estudios Peruanos aiming to support the introduction of micro-saving components in income transfer programmes. The project supports research into the opportunities for micro-saving instruments in five countries: Argentina, Chile, Colombia, Ecuador and Peru; engagement with policy makers; and the design, development and testing of relevant instruments. In its first phase in 2009, the project is expected to produce needs-based proposals for appropriate components. At this point in time, there is an expectation that a further phase in the project will support the actual piloting of these components. Proyecto Capital provides an example of how FF can pursue ways in which to engage with emerging social assistance programmes in ways that make full use of its experience and expertise.

It will be interesting to find out what proposals emerge from this project. In the USA, FF has championed Individual Development Accounts and Child Savings Accounts as saving instruments. The experience with individual retirement accounts in the region suggests earmarked saving instruments might not be especially attractive to low income households. As discussed in section 2 above, individual retirement accounts introduced in several Latin American countries require earnings related contributions from workers to retirement accounts, with the balance available only at retirement or the death of the beneficiary. Coverage is very low, and restricted to formal employment. Individual retirement accounts proved particularly unattractive to self-employed workers. While the low public trust in financial institutions in the region was probably a factor, the illiquidity of the saving instrument was often given as a reason for not contributing among workers. IDAs in the USA provide matching saving contributions by participants providing withdrawals are associated with higher education, housing, or small business investment (similar to provident funds in some developing countries). Liquidity of savings is likely to be an issue for households in poverty in Latin America.<sup>23</sup>

## **Rights and social guarantees**

Another area where FF longstanding interests and expertise and the new social protection policy environment in Latin American suggest potential synergies is the current interest with social guarantees as a means to ensure economic and social rights are realised. Health insurance and care in the region are strongly segmented, with a plurality of providers: public, for profits, not for profits, etc. Chile's recent AUGE programme seeks to ensure a set of basic services are provided on demand, across the plurality of health providers. It establishes a set of basic rights to care which all Chilean citizens can exercise regardless of their health insurance or health provider. On a different level, human development transfer programmes ensure access to primary health care for households in extreme poverty, with co-responsibilities for both beneficiary households and programme agencies clearly established at the outset. In lower income countries, human development transfer programmes include supply side interventions to ensure these co-responsibilities. Social guarantees constitute an interesting route to ensuring economic and social rights, especially among those in poverty and subject to social exclusion.

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<sup>23</sup> It is also an issue for USA participants, Ford Foundation reported that 2/3 of participants in a 14-site impact study showed un-matched withdrawals.



In pursuing a rights-based approach to social protection Latin American countries need to upgrade their social contracts between the various agents of the state and civil society. This entails designing of institutions and policies capable of generating space for broad participation, in particular to enable the participation of the most disadvantaged groups and sub-national territories. The FF longstanding support to institution building could target institutional design – and participatory mechanisms – for social protection systems. Connected to this is the necessary support for the formation of highly skilled professionals on issues like tax structure and burden, fiscal and social services delivery decentralization, expansion and selectivity of social expenditure, and monitoring and impact assessment of social protection programs. On these same lines, ‘lesson learning’ supported by donors and independent organizations has been shown to be essential to the development of evidence-based policy. While important progress has been made to systematise poverty reduction programmes (for instance the lesson learning program carried out by Rimisp and FIDA (Aguirre et al 2009)), less has been done on social protection. The FF could also extend its support to this area.

In a number of LAC countries the government revenue used to finance social protection programs includes not only central government tax revenue but the proceeds from the sale of natural resources obtained both at central and regional (sub national) levels. Furthermore, in some mineral-rich countries large mining and oil/gas companies are implementing social assistance projects as part of their corporate social responsibility (CSR) programs. However, neither local governments nor companies seem to be fully aware of the country’s social protection system and how their CSR actions can contribute to it. The FF could explore collaboration with the corporate sector and the ways in which affected communities by mineral activity can participate in social protection-oriented CSR measures.

## **4. Conclusions and further research**

The incidence of poverty and vulnerability showed a step increase in the 1980s, and halting recovery in the 1990s. Poverty is higher in rural areas, and for indigenous groups. Life course factors are also an important determinant of poverty, but policy responses have proved effective in reducing old age poverty in some countries. Most recently, a downward trend in poverty incidence is under threat as a consequence of the global financial crisis.

Social protection institutions in Latin America at the start of the 1980s can be best described as ‘truncated’, with social insurance schemes accessible to workers in formal employment, and social assistance largely underdeveloped. In the period since 1980s two main reforms have taken place. Firstly the reform of social insurance programmes in ten countries in the region, replacing social insurance funds with individualised saving retirement plans. The private pension funds have attracted at best a fraction of the labour force, reinforcing the ‘truncated’ nature of social protection institutions. Two thirds of the labour force remains unprotected in the region. Secondly, new forms of social assistance have emerged in many countries, primarily human development income transfer programmes focused on households in poverty, and non-contributory pension schemes.

New social assistance programmes are designed to reduce poverty and vulnerability, making poverty reduction, and in particular chronic poverty, the cornerstone of social policies. Social assistance programmes, and especially human development income transfer programmes, have the potential to make a significant contribution to reducing extreme poverty in the region, but important challenges remain. First, the effectiveness of these programmes requires attention is paid to the level of benefits, and the duration of support. Second, it will be important to ensure that existing programmes move in the direction of stronger institutionalisation and sustainability. This is especially true of programmes in low income countries in the region, where financing and delivery capacity are limited. Third, implementation and delivery of social assistance programmes require long term partnerships under the direction of secure and well resourced public sector agencies. In this context, it is urgent to consider the role of non-government organisations with a commitment and expertise in social protection in meeting these challenges.

## **APPENDIX One: Terms of Reference for Scoping Study and Regional Papers**

### **Social protection as development and transformation: Assessing the field**

Scoping study for the Ford Foundation – Interim note

Sarah Cook

Institute of Development Studies

November 2008

The purpose of this grant is to provide a review of current approaches to social protection as responses to vulnerability and insecurity across different regional contexts. Currently regional reviews of social protection programmes and approaches are underway, covering Africa, Latin America, South and South East Asia, and the US. The reviews are being structured around life-course related vulnerabilities, the needs of different population groups at different stages of the life-course and how these are (or are not) being met through formal or informal social protection interventions.

While we have not yet completed the reviews, we can see emerging variations across regions in terms of need or vulnerabilities; social protection approaches and responses, and the gaps or limitations of existing provisions. Among the challenges faced in this initial stage of the work are the huge scope of the review being undertaken and the need to set some boundaries on the exercise; and finding a framework for analysis that allows for multiple dimensions of regional variability while also being able to provide some generalisable lessons. This is highlighted in the preliminary efforts to identify Ford Foundation grants on social protection. Given that social protection has not been an articulated line of work, there is limited shared understanding of the terminology within the Foundation. While many grants could be defined as falling broadly within the rubric of social protection, this is often not their primary purpose. There may be resistance to applying this label – which is often interpreted as ‘welfarist’ – to projects whose motivation embodies a social justice, equity or rights agenda. While we will attempt to define social protection more broadly – incorporating a developmental and transformative agenda of moving from protecting livelihoods to empowering citizens in demanding their entitlements – this debate will remain on-going within the community of researchers and practitioners working in this field.

As initially proposed, our organizing framework for the reports involves a typology based on an analysis of the intersection of three sets of issues:

- The social protection needs and vulnerabilities across different stages of the life course from a ‘productive’ standpoint. This would distinguish between those who are going to be economically active in the future (the young), those who are currently economically active or seeking to be active (working-age adults) and those whose activity is declining (the elderly).
- Patterns of risk, vulnerability and exclusion experienced by these different cohorts in different contexts, given prevailing structures of protection.

- A review of measures in place to address excluded and vulnerable groups and the extent to which they incorporate a concern with a broader developmental or transformative agenda.

A suggested outline of the report is attached below. Draft regional papers and concept notes will be produced in December/January for discussion, review and revision prior to organizing a workshop, planned tentatively for April.

## **Ford Foundation Social Protection Scoping Study Suggested outline of report**

### **Introductory chapter (SC/NK)**

- 1) Definitions and concepts of social protection, key approaches and dominant discourses (what is SP trying to achieve: protection, promotion)
- 2) Main instruments of social protection (conventional / unconventional)
- 3) Special issues – e.g institutions/actors; financing; politics and policy processes; marginalised / hard to reach groups...
- 4) Organising framework for subsequent chapters – life course mapping of programs: gender and generation (for example, see Kabeer 2008 Chapter 3)  
Children (infant/pre-school/school); adults (workers/non-workers); retirees/elderly (economically active – past/present/future)

Measures which take productive work as the *raison d'être*...

Measures which take reproductive work...

- 5) Analytical principles: evaluation of programmes in terms of own objectives (protection, promotion, transformation; other criteria?)
- 6) Lessons in terms of broader objectives: strengths, limitations, gaps
- 7) Implications for Ford and other organisations.

### **Regional chapters (max. 15,000 words)**

**(USA/Europe; Sub-Saharan Africa; Latin America; South Asia; East and SE Asia)**

- 1) Introduction (short) – regional context and challenges
- 2) Situation analysis: nature of poverty, vulnerability and marginalisation, approaches to / dominant discourses on social protection within that region
- 3) Life course mapping of existing measures:  
Gender and generation  
Social difference (race, caste, ethnicity, migrant status,) how are these addressed
- 4) Analytical framework: evaluation in terms of immediate and broader objectives plus lessons
- 5) Conclusions – key points – strengths / limitations; gaps; recommendations

Possible additional section or part of analysis and conclusions: Key issues / cross-cutting themes e.g.:

- Institutions/actors
- Politics and policy processes
- Financing of SP

- Neglected / ignored groups or issues (relevant to specific region) – eg housing, domestic violence...
- Implications for justice, citizenship, equity

We aim to write some short concept notes/theme papers on these (or other) themes: if they emerge as prominent issues from the regional reviews they could be highlighted there; and/or the information can be developed/incorporated in specific short papers.

**References** (overall + by region)

**Appendices:** review / ‘database’ of programmes

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