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# SPepectrum

Social Protection ▲ The World Bank ▲ Fall 2003

## Volatility, Risk, and Innovation:

Social Protection in Latin  
America and the Caribbean



Social Protection is a collection of measures

to **improve** or protect

human capital, ranging from labor market

interventions and publicly mandated

unemployment or old-age insurance to

targeted income support. Social Protection

interventions **assist**

individual, households, and communities

to better **manage**

the risks that leave people vulnerable.

◀ Cover Photo: Ximena Traa-Valarezo

**Community of Batallas, in the Honduran Moskitia,  
Assessment Mission of the Community-based  
Education program in 2000. Trilingual community  
(Miskito, Spanish, Garifuna).**



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Lead Editor: Andrew D. Mason with guidance from Ana-Maria Arriagada, Robert Holzmann and Christopher Chamberlin. Edited by Christopher Conte and Communications Development, Inc.



# Welcome

Welcome to the new SPectrum! This edition inaugurates several important changes, reflected in our new look and focus. First, after covering broad social protection themes such as disability, pensions, and children, we are now focusing on regions. Second, we are shifting toward more in-depth, comprehensive articles. We do this with a continuing commitment to delivering a highly readable magazine that explores key issues and recent developments in social protection.

Our first regional edition takes us to Latin America and the Caribbean, where we examine the challenges posed by volatility and risk and explore innovative approaches to reducing vulnerability, particularly among the poor. This regional focus takes us to the birthplace of social funds, one of the first crisis-response tools forged in the social protection toolkit 15 years ago in Bolivia. What's more, it gives an overview of how approaches to social protection have evolved in this diverse, dynamic region to include such tools as workfare, conditional cash transfers (which also had their genesis in the region), and multisector reform programs. This edition also explores new analytical approaches, describes new programs and emerging priorities, and grapples with the continuing challenge of finding effective ways to improve the capacity of individuals, households, and communities to manage risk.

We believe social protection tools and strategies have a key role to play in reducing poverty and improving human development. They address the needs of vulnerable populations, generate tools for risk management through social insurance, and provide a springboard for poor people to improve their lives in the face of crisis. As important, the multisector, dynamic nature of social protection allows for integrated approaches to key areas of development, including health, education, finance, and infrastructure. Finding such synergies is crucial if we are to address extreme poverty and hunger, achieve universal primary school completion, and tackle a multitude of health challenges, all key elements of the Millennium Development Goals endorsed by the international community in 2000.

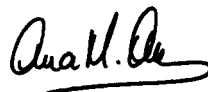
We are excited about SPectrum's new approach. Following this issue, the other five World Bank regions will prepare their own issues of SPectrum over the next two years. The Europe and Central Asia region will sponsor the next issue. We hope that the regional focus and the interregional learning will prove valuable to readers. The Social Protection staff for the Latin America and Caribbean region and elsewhere at the World Bank welcome feedback on this issue and suggestions for future ones.

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# Overview: Social Protection in Latin America and the Caribbean

Christopher Chamberlin and Andrew D. Mason

Like most developing regions, Latin America and the Caribbean suffers from a high degree of economic volatility—volatility that is much greater than in industrial economies. The manifestations of this problem are well known. The “lost decade” of the 1980s, Mexico’s Tequila Crisis of 1994–95, the recent Argentina crisis and that disaster’s spillover effects on neighboring countries have all grabbed headlines and become major concerns of policy-makers and people throughout the region. The region’s instability reflects a combination of factors, ranging from external disturbances in international markets to volatile domestic fiscal and monetary policies. All have been magnified by the region’s weak links to international financial markets and its shallow domestic financial systems.

These macro-level factors have left individuals and families, particularly the poor, highly vulnerable—a problem compounded at times by overregulated and inflexible labor markets. Recent surveys from Latin American countries show that the history of repeated booms and busts, combined with fears about the reliability of jobs, have made economic insecurity a major concern among people across the region. Such worries are particularly prevalent among the poor, who tend to be more vulnerable to economic shocks because they have fewer assets with which to manage socioeconomic risks. The region’s high levels of income inequality and, in some societies, patterns of exclusion based on race or ethnicity, intensify the difficulties they face.

While policy debates about Latin America’s volatility have centered on the need for sound economic management, governments and donors have also been concerned about protecting people’s economic security and well-being. Traditionally, programs to address economic security in the region—pensions, health insurance, and a variety of subsidies—tended to focus on the middle class. But recent crises, economic adjustment efforts, and social unrest have heightened concern about the need for safety nets and other risk-management instruments to protect the poor. The collection of social insurance and social assistance programs designed in response to this concern have come to be known as social protection (box 1).

## The Need for Innovation

Historically, Latin American and Caribbean countries spent large amounts on generous pension and other social insurance schemes that tended to benefit the relatively affluent. Indeed, fiscal pressures that arose from spending on these programs prompted substantial pension reforms in the late 1980s and early 1990s. While the reforms significantly improved the fiscal sustainability of many old age security programs, important challenges remain to increase coverage and reduce inequities arising from remaining public subsidies to these programs.

More broadly, rapidly changing economic circumstances over the past two decades—increased global integration, domestic economic reforms, and recurring external shocks—combined with continuing concerns about income inequality have prompted governments to search for new and innovative ways to provide both social assistance and social insurance. Latin America has been at the forefront of this quest as:

- The first region, starting with Bolivia in the 1980s, to establish Social Investment Funds (SIFs) to address the social costs of economic adjustment. SIFs continue to play an important role in bringing resources and empowerment to communities and improving poor people’s access to basic social services, especially in rural areas. They are rapidly evolving, developing new ways to improve service delivery, build local infrastructure and service delivery, and strengthen local development capacity.<sup>1</sup>
- The home of Argentina’s *Trabajar*, a well-targeted, well-implemented workfare program, the lessons from which have informed other employment-based safety net programs around the world.<sup>2</sup>
- The birthplace of innovative conditional cash transfer programs, beginning with the *Programa de Asignación Familiar* (PRAF) in Honduras and including such programs as PROGRESA/*Oportunidades* in Mexico, *Bolsa Escola* in Brazil, *Familias en Acción* in Colombia, and the Program of Advancement through Health and Education (PATH) in Jamaica. These programs have



## Box 1. Social Protection: Managing Social Risk, Promoting Long-Term Growth and Development

People in developing countries face a range of risks. Some risks, such as economic recessions, harvest losses, natural disasters, and wars, affect entire societies or large groups. Others, such as the illness of family members, loss of a household breadwinner's job, and crime, may affect only individual households. "Social protection" is defined as the range of public interventions that supports society's poorest and most vulnerable members and helps individuals, families, and communities manage risks better. Social protection includes a range of informal, market-based, and public mechanisms, including regulation, government financing, and the direct provision of services. Intended to augment, not replace, family, community, and market-based risk management mechanisms, such interventions complement national economic policies and support strategies for poverty reduction and human development.

Public social protection measures are often categorized into two main groups: social insurance and social assistance. Social insurance includes an array of insurance-type mechanisms, such as pensions and unemployment and health insurance, that are intended to cushion the impact of shocks affecting income, employment, or health, thereby preventing families from falling into poverty. Social assistance includes a variety of safety net programs, such as workfare, assistance to the disabled and indigent, and cash transfers, all of which help individuals and families deal with temporary or chronic poverty and achieve higher standards of living. Labor market policies and institutions often play a central role in social protection, both by influencing the nature and extent of the risks workers face and by providing a framework for social protection programs such as pensions, unemployment insurance, and workfare.

Well-designed social-protection programs can compensate for missing insurance markets or other private risk-mitigation instruments. In doing so they create opportunities among the poor for more productive investments and higher incomes. In addition, certain types of safety net tools—such as "conditional transfers," in which payments are made contingent on family investments in children's health or schooling—both provide short-term income support and strengthen longer-term investments in children's education, health, well-being, and productivity.

demonstrated how transfer programs can assist poor families while promoting greater investments in children, thus helping break the intergenerational cycle of poverty.<sup>3</sup>

- The first developing region to start moving to funded pension schemes with individual accounts and private management. The pension reform agenda launched in Chile in 1981 continues in many countries.<sup>4</sup>

### Key Challenges

Despite such progress, several important challenges remain for social protection programs in the region. Further innovation and efforts are needed to enhance effectiveness.

One key challenge is to find ways to make social insurance work for the poor and for people employed in the informal sector.<sup>5</sup> Currently, pension, health, and unemployment-insurance systems generally cover only formal sector workers, who contribute to them through their employers. In practice, this means the systems generally cover only the nonpoor in most countries. Together with

continued subsidization of social insurance programs for civil servants in some countries, this practice means that spending on social insurance is often highly regressive and in some cases continues to pose a heavy fiscal burden on government. Since social insurance accounts for a relatively large share of social protection budgets in many countries in the region, the unbalanced nature of social protection spending as a whole serves to increase, not decrease, inequality. Meeting this challenge will require finding creative and fiscally sustainable ways to bring informal sector and poor workers into social insurance systems.

Another challenge is to expand coverage of social assistance programs to the poorest and most vulnerable people, especially in response to shocks or crises. When countries face crises, government revenues typically drop, even as the number of poor people increases. Budget deficits create pressures to reduce public spending on social protection (among other things) at a time when the need for it is increasing; indeed, social protection spending per poor person generally declines. A recent study, *Securing Our Future*,<sup>6</sup> argues for countercyclical financing



of social protection programs. To provide an effective social safety net, the study suggests, countries should save when times are good so that they can expand social assistance programs when times are bad. The kind of fiscal discipline necessary to achieve countercyclical financing of social assistance in Latin American and Caribbean countries has been elusive, however, due to both institutional and political constraints.

Ensuring that social assistance programs successfully reach the poor and most vulnerable also requires effective targeting mechanisms and adequate implementation capacity. Governments need to target programs effectively in order to make the most of limited resources for social assistance. Doing so requires solid information on which households, individuals, and groups, including such groups as urban youth and the disabled, are poor and vulnerable. It also requires mechanisms to ensure that programs reach target populations. Given the economic volatility in Latin America and the Caribbean, targeting systems must locate both the chronic poor and the transitional poor (those who move in and out of poverty as a result of shocks to household income or consumption). Moreover, experience from recent crises in the region makes clear the importance of institutional capacity and crisis preparedness. To be most effective during crises, governments need to have in place programs and capacity that can be scaled up in the event of a shock.

Yet another important challenge is to increase the efficiency of social protection systems. In some countries, doing so requires changing the mix of social insurance and social assistance programs so that governments can respond more effectively to the risks their societies face. In many it requires rationalizing and consolidating a large number of fragmented programs currently run by numerous ministries and agencies with little or no coordination or coherence. Some countries, such as Chile and Mexico, are developing “one-stop” social protection shops to coordinate efforts, heighten program transparency, increase access among the poor, improve outreach and support for families, and improve targeting of programs and resources.

Finally, an emerging challenge in Latin America and the Caribbean is to orient social protection programs to help attain Millennium Development Goals. Developed and adopted by the international community at the Millennium Development Summit in September 2000, these goals focus on poverty reduction and human development. While recent improvements in poverty and social indicators suggest that several countries in the region are within reach of attaining them, national averages often conceal important differences in progress between rural and urban populations as well as across ethnic groups and groups with highly unequal incomes. Because improving well-being among poor and excluded

groups is integral to countries’ abilities to reach the Millennium Development Goals, social protection programs can play a critical role in efforts to achieve them (box 2).

## The World Bank’s Work

The World Bank’s work on social protection has evolved in significant ways since the late 1980s, when the Bank first supported the Bolivia Social Investment Fund. Responding to the evolving needs and demands of countries in the region, the Bank now supports a broader set of investment instruments, including workfare programs and conditional cash transfers. It has helped develop and apply innovative approaches to analyzing risk and vulnerability, engaged in dialogue with governments on labor market policy and old age security reform, and applied program monitoring and impact evaluation techniques to assess programs and help policymakers design them to be more effective. In the last few years, Bank support has grown to include “programmatic” lending—multiyear efforts that support policy and institutional reforms in the social sectors.

The growth and evolution of the World Bank’s work on social protection in Latin America and the Caribbean is reflected not only in the broader scope of its work but also in the increased volume of support it provides to partner countries in the region. Lending for social protection activities in Latin America and the Caribbean quadrupled from the early to the late 1990s, rising from \$777 million in 1990–95 to \$3,587 million in 1996–2000. In fiscal year 2003, Bank lending for social protection in Latin America and the Caribbean totaled nearly \$900 million.

## This Issue of SPectrum

This issue of SPectrum reviews the key issues and challenges for social protection in Latin America and the Caribbean. It highlights continuing efforts by governments in the region to provide social insurance, safety nets, and springboards to improve the lives of the poor and vulnerable. It describes how the World Bank has supported these efforts and responded to countries’ demand for innovative and effective social protection interventions.

The issue is divided into four sections. Since economic volatility is such a salient feature of Latin America and the Caribbean, section 1 focuses on several examples of aggregate shocks: the recent economic crisis in Argentina, a social crisis and unrest in Bolivia, a coffee price shock affecting several Central American countries, and a natural disaster, Hurricane Mitch, in Honduras. While these shocks have differed in their origins, they have shared important features. They have all severely strained the ability of peo-

## Box 2. Supporting Attainment of the Millennium Development Goals

The Millennium Development Summit in September 2000 adopted eight Millennium Development Goals. Since then the international community, including the World Bank, has rallied around the Goals as a way to ensure that development work is grounded in measurable improvements in people's well-being. The Goals are to:

- Eradicate extreme poverty and hunger.
- Achieve universal primary education.
- Promote gender equality and empower women.
- Reduce child mortality.
- Improve maternal health.
- Combat HIV/AIDS, malaria, and other diseases.
- Ensure environmental sustainability.
- Develop a global partnership for development.

Social protection has a critical contribution to make toward attainment of the Millennium Development Goals. By providing safety nets and compensating for missing insurance markets or other private risk mitigation instruments, social protection programs create opportunities for poor people to make more productive investments and increase their incomes, thereby helping reduce poverty. Social protection programs can also serve to reduce income inequalities in societies, helping foster more pro-poor growth and, thus, more effective poverty reduction. Many social protection programs focus on protecting and increasing family investments in education, health, and nutrition, thereby contributing to the achievement of several human development goals. Finally, reaching several of the goals will require multisector approaches. Because social protection instruments are usually multisectoral, they can generate synergies, accelerating progress toward achieving both poverty and human development goals.

ple, especially the poor, to generate adequate income. And they have created serious challenges for governments and donors to understand the impacts of the shock and to respond effectively.

Section 2 focuses on recent developments in analyzing risks and assessing social protection programs. As Latin American and Caribbean countries continue to reform their social protection programs to meet new challenges, they are testing traditional assumptions about social insurance and social assistance interventions. This has generated strong demand for new analysis and knowledge on risk, vulnerability, and public policy. Analytical efforts and policy dialogue between the World Bank and its partners in government and civil society have led to innovative approaches to analyzing socioeconomic risks over the human lifecycle in Mexico, to gauging vulnerability to poverty in Guatemala, and to exploring opportunities for enhanced labor market performance in Brazil. The section also elaborates on the contribution of the comprehensive insurance framework to social risk management, applying the framework to recent unemployment insurance reforms in Chile.

Latin American and Caribbean countries have deftly applied new ideas and developed programs geared toward getting results on the ground. Section 3 presents several illustrations of innovative programs that have been at the core of social protection efforts in the region—many of which have received support from the World Bank and other donors. The section begins by discussing developments in Argentina's workfare programs, from *Trabajar* to the current *Jefes de Hogar* program. It then explores the recent evolution of social funds in Central America, with special attention to their role in supporting decentralization efforts. It also examines lessons from the region's conditional cash transfer programs, which simultaneously provide income support and foster greater investment in children's education, health, and nutrition. The section concludes by reviewing both the accomplishments and the challenges associated with recent pension reform efforts in the region.

Social protection efforts in Latin America and the Caribbean are evolving quickly, in line with a continuing demand for innovation and improved effectiveness. Section 4 spotlights several exciting new programs and

approaches in this arena. These include multisector “programmatic” reform efforts in Brazil, Colombia, and Peru, which are designed to strengthen social protection systems as well as education and health programs. The Colombia operation marks an important departure for this new generation of lending for human development—the inclusion of explicit labor market reforms to increase the efficiency and equity of the sector, specifically performance improvements in the national training institute, reduction of labor taxes for low wage workers, and increased coverage of the apprenticeship system. In addition, a new emphasis on evaluating social protection programs is helping policymakers understand and ensure they have the desired impact. The section also spotlights two new and innovative social assistance initiatives, *Chile Solidario* and *Oportunidades* in Mexico. It also highlights youth development, an area of growing interest and activity in the region. The activities described will help engender the next generation of innovation in social protection in Latin America and the Caribbean.

We hope that this issue of SPpectrum will be interesting and useful to our partners in government, civil society, and in the donor community in Latin America and the Caribbean, as well as to our colleagues working on social protection in other regions. ▲

## Endnotes

- 1 Social Investment Funds have been implemented in a wide range of countries, including Argentina, Bolivia, Chile, Ecuador, El Salvador, Honduras, Jamaica, Nicaragua, Panama, Peru, and St. Lucia. For a review of recent findings on the impacts of social funds, see “Impact Evaluation of Social Funds,” *World Bank Economic Review* 16 (2), 2002. For a discussion of recent developments, see “Re-engineering Social Funds for Local Governance,” page 44.
- 2 The *Trabajar* program has recently evolved into the *Jefes de Hogar* program. See “Working in Partnership to Protect the Vulnerable,” page 42.
- 3 See “Conditional Cash Transfer Programs,” page 49; “Ensuring Results on the Ground,” page 66; and “Evolving Social Assistance Programs,” page 69.
- 4 See “Protecting the Elderly,” page 54.
- 5 Informal sector employment is becoming increasingly important in Latin America and the Caribbean, growing from 40 percent of the labor force in the early 1980s to more than 50 percent in the late 1990s.
- 6 David De Ferranti and others, “Securing Our Future in a Global Economy,” *Viewpoints* (Washington, D.C.: World Bank, Latin American and Caribbean Studies, 2002).





# Responding to Volatility and Shocks

Latin American and Caribbean countries have experienced a range of shocks, stemming from domestic and international economic occurrences, political events, and natural disasters, such as hurricanes and earthquakes. Indeed, in the past two years alone, countries in the region were buffeted by a major economic and political crisis in Argentina that had severe spillover effects on Paraguay, Uruguay, and other neighbors; an extended period of electoral uncertainty in Brazil; political unrest and economic uncertainty in Venezuela; and a commodity crisis in Central America. Other countries in the region, including Bolivia, Colombia, Ecuador, Peru, and the Caribbean nations, suffered a wide range of woes as well. The effects of all these events were exacerbated by the global economic slowdown and depressed international capital flows.

Volatility and shocks in the region have real, sometimes devastating, effects on people's well-being, causing incomes to fall and poverty to spread. In 2002, for instance, real GDP declined 10.9 percent in Argentina, 11 percent in Uruguay, and 8.9 percent in Venezuela. These declines translated into drops in per capita income in these countries of 12 percent, 11.6 percent, and 11.1 percent, respectively. In Argentina unemployment rose to a high of 21.5 percent, poverty rates soared 50 percent, and extreme poverty doubled. Different types of shocks can have dramatically different types of impacts, however, not only on economies as a whole, but among specific population subgroups. In Nicaragua, for example, the recent drop in world coffee prices led to large declines in income and increased rates of poverty among small self-employed coffee farmers amidst broad socioeconomic improvements outside the coffee sector.

Different types of shocks require different policy responses. In times of shocks or crisis, the World Bank works with partners in governments, civil society, and other donor organizations to help countries understand the economic and social impacts of unfolding events and protect their most vulnerable citizens. These efforts involve mobilizing resources quickly, analyzing the social impacts of unfolding crises, and providing new resources to help strengthen social safety nets. This section describes how countries in the region, with support from the Bank and other donors, have rallied to respond to four different kinds of shocks. Argentina faced a large macroeconomic shock. In Bolivia the shock came in the form of serious social unrest stirred by economic difficulties. In the coffee-producing regions of Central America, the crisis stemmed from a large terms-of-trade shock as the price of coffee declined dramatically. In 1998 Honduras and neighboring countries were hit by Hurricane Mitch with substantial impacts on the poor. ▲

# Argentina 2002: A Country in Crisis

Ariel Fiszbein and Paula Giovagnoli

Argentina is in the midst of an unparalleled crisis, testing the ability of its government and international donors to respond quickly and creatively to rapidly changing conditions. Both have responded with a combination of quick adjustments to existing programs and reforms designed to preserve—and even strengthen—the country’s social safety net.

The crisis had been building for some time. Three years of recession culminated in 2001 when efforts to protect the banking system from widespread withdrawal of deposits (the *corralito*) strangled liquidity and economic activity. The resulting popular discontent led to the resignation of then President De La Rúa that December, a quick succession of appointed presidents, a formal announcement of default on public sector borrowings, and, in early 2002, the appointment of President Eduardo Duhalde and the abandonment of the convertibility plan. The economic and financial crisis continued in 2002, when GDP declined 11 percent, more than 20 percent lower than its 1998 peak. On top of all that, sharp depreciation of the peso led the country to experience inflation for the first time since 1991.

## Devastating Social Impact

The crisis had devastating social effects. A new analysis by the World Bank shows that the share of population considered poor grew by roughly 15 percentage points during the first half of 2002, while the number of extreme poor nearly doubled. More than half of Argentina’s population now lives below the poverty line, and close to one-fourth are considered extremely poor or indigent (table 1). Between October 2001 and May 2002, household incomes fell an average of 8 percent in nominal terms, or roughly one-third in real terms. About half of all households—including a substantial portion of the middle class—experienced some reduction in nominal incomes. During the first half of 2002, unemployment increased 3 percentage points to 21 percent, and formal sector employment fell an additional 5 percentage points. Indices stopped declining during the second part of the year but showed no significant progress. The data suggest the quality of jobs deteriorated, and households grew increasingly reliant on secondary wage earners. Most new jobs were temporary and lacked standard

benefits associated with formal sector employment.

The economic deprivation reduced many people’s access to basic social services. Nearly three-quarters of all households with school-aged children—90 percent of all households in the lowest income quintile—reduced their purchases of school materials. Teachers unions have engaged in work stoppages in several provinces to protest delays in receiving their salaries. In seven provinces, school closings during 2002 ranged between 20 and 80 days out of a 180-day school year.

Formal health insurance coverage dropped significantly in the wake of job losses in the formal sector. Roughly 12 percent of people with formal health insurance either discontinued or cut back their coverage, leading to increased use of already strapped public hospitals. More than one-third of households with children under 12—and half of all households in the lowest income quintile—reduced the frequency with which they take their children for medical checkups.

While there are no updated aggregate official data that would allow one to determine whether infant mortality and malnutrition have increased, evidence of serious child malnutrition in several provinces raises concern about a graver health emergency in the future.

Households used a variety of strategies to cope with the crisis. A typical reaction was to consume less and find less expensive substitutes for both essential and nonessential goods. The deterioration in the labor market made it difficult for additional family members to supplement household income by joining the labor force. People of all incomes relied more on home production and social networks, but these strategies were particularly prevalent among low-income groups.

## The Federal Government’s Response

Although Argentina allocates a relatively large share of its budget to health, education, and social protection, the country did not have an effective safety net in place at the onset of the crisis. Initially, it responded to rising unemployment and falling formal employment by adopting programs that targeted very specific groups, but the programs were small and often uncoordinated. The fact that provincial and, to some extent, municipal governments played a



**Table 1. Main Indicators of the Effect on the Poor of Argentina's Economic Crisis, 2001–02 (percent)**

Indicator	2001	2002	
	October	May	October
Population living in poverty	38.3	53.0	57.5
Population living in extreme poverty	13.6	24.8	27.5
Unemployment rate	18.3	21.5	17.8
Real annual growth GDP	-4.5	-11	

Percentage of households that reported	Changes between October 2001 and May 2002
Reduction in nominal income	48.6
No change in nominal income	43.4
Increase in nominal income	8.0
Reduction in purchases of schools materials	71.9
Reduction in children's medical checkups	37.0
Discontinuation or reduction in health coverage	12.0

Source: World Bank staff estimates.

major role in providing social services increased the overlap, inconsistency, and inefficiency of the overall response.

The government soon recognized the seriousness of the social situation and moved decisively to expand key safety net programs. Social safety net and other priority expenditures doubled as a share of GDP, to 1.2 percent of GDP in 2002, mainly through expansion of the government's flagship temporary employment support program, the *Jefes de Hogar* (Heads of Household) Program. The government also effectively consolidated social programs into a small number of key initiatives supporting health, education, and nutrition and providing income support and community development funds to offset the worst effects of the crisis on the poor and vulnerable (box 1).

The government has more than offset increased expenditures on the social safety net with lower spending in less targeted social programs, reducing expenditures on pensions and less targeted health, education, and social insurance programs, for instance.

### World Bank Responses

The World Bank, as well as the Inter-American Development Bank (IDB), have been actively working with the government on the formulation of its Social Emergency Program. The World Bank reviewed its portfo-

lio of projects and identified \$100 million in existing loans as well as \$140 million in cost savings from existing loans to finance elements of the social emergency program within existing project objectives. These funds helped reduce harm to public health programs; ensure continuation of services offered by primary health care clinics for basic maternal and child health; provide basic school supplies that otherwise might have been out of reach of poor families; expand feeding programs for poor and vulnerable groups; and sustain the institutional capacity of non-governmental organizations and community based groups to mobilize self-help, provide sustenance, and maintain social capital. In addition, on January 28, 2003, the World Bank Board approved a \$600 million loan to support the *Jefes de Hogar* Program.

For its part, the IDB Board approved the reallocation in April 2002 of almost \$700 million from existing operations to help finance social emergency programs. That sum included nine loans to address new priorities within original project objectives and seven loans for which project objectives were amended. IDB support has financed school scholarships and cash transfers to help dissuade poor families from withdrawing their young children from school, provided medicines to primary health centers, and upgraded slums in large metropolitan areas in ways designed simultaneously to generate employment

## Box 1. Argentina's Social Emergency Program

Argentina has a variety of social emergency programs, including the following:

- Temporary work and income support programs are the cornerstone of the government's new anti-poverty strategy. *Jefes de Hogar* provides unemployed heads of households with children a monthly cash benefit, provided they participate in work and training programs.
- Emergency health programs support essential public health interventions, particularly those affecting the most vulnerable, by providing essential drugs and medical supplies and protecting programs that focus on immunizations, disease (including AIDS) control, drugs for primary health centers, and basic maternal and child health care.
- Emergency education programs seek to guarantee education services and facilitate access to them by poor children by providing school lunches and scholarships for secondary students to encourage attendance and providing basic learning materials that may otherwise be out of the reach of poor families. These programs also support the upgrading school facilities in poor localities.
- Nutritional assistance programs are designed to help meet the nutritional needs of children and poor families. In most of these programs, benefits require school attendance or participation in preventive health activities.
- Community development programs use nongovernmental organizations and community-based groups to maintain social capital and run self-help and sustenance programs. These programs focus on establishing community kitchens and projects for upgrading poor neighborhoods. These community groups play a growing role in monitoring the execution of the emergency programs.

and improve living conditions in those neighborhoods.

The World Bank has also initiated a series of initiatives to monitor evolving social conditions and social emergency programs. The monitoring includes a quick series of household surveys that provide regular information on key social indicators and focus groups that have been organized in collaboration with nongovernmental organizations throughout the country. The World Bank is making a special effort to monitor key health indicators at selected points in various provinces. In collaboration with the IDB and United Nations Development Program (UNDP), it has also convened a network of civil society organizations to audit emergency programs financed by

both the World Bank and IDB for progress in implementation and transparency.

Through their responses to Argentina's economic, social, and political crisis, the Argentine government and the World Bank proved their commitment to provide a social safety net to help people, especially the poor, get through difficult times. In the process, they demonstrated the importance of flexibility in adjusting programs to changing priorities and showed that even in times of emergency, governments and donors can address immediate conditions in a way that supports lasting improvements in programs. ▲

## Responding to Multiple Shocks in Bolivia

Large nationwide shocks to household incomes can come from a variety of sources, including sudden changes in global markets, natural disasters, drastic shifts in economic fundamentals (such as escalating inflation or the exhaustion of export resources), or a descent into civil conflict. Bolivia in recent years suffered twin shocks: a regional recession followed by serious civil unrest.

Since it adopted economic and social reforms in the early 1990s, the country's social indicators have shown remarkable progress. Child mortality has been cut in half since 1989. Health reform has produced significant increases in coverage of priority health services such as attended deliveries (up from 25 percent in 1994 to 54 percent in 2002) and immunizations (the DPT3 immunization rate rose from 78 percent in 1994 to 100 percent in 2002). Educational reform has expanded public primary education enrollment in rural areas from 60 percent 10 years ago to 100 percent today. The social and economic reforms, sustained and deepened by successive governments, also successfully stimulated growth into the mid-1990s.

After 1998 these accomplishments seemed to be in danger, however. A regional growth slowdown—particularly in Argentina and Brazil, key export markets for Bolivia—sent the economy into a stall. Poverty has increased over the past five years and now afflicts 64 percent of the population. In February 2003 the stagnant economy, high and increasing levels of unemployment, higher poverty, and decreasing average incomes across all urban income groups set the stage for violent urban conflict and unrest on a scale that Bolivia had not seen in years. Although brief in duration, the turmoil raised doubts about the sustainability of reform and peaceful democracy. It also undermined investor confidence and contributed to a fall in government revenue.

International donors, including the World Bank, rushed to the government's assistance, providing support for a countercyclical public investment budget and expansion of pro-poor safety net programs designed to sustain the substantial progress Bolivia had achieved in education and health while generating jobs through a revived workfare program. As a true countercyclical program, the workfare program is entirely temporary, with management and supervision arrangements contracted out to non-governmental entities. Indeed, after a year of operation in 2002, the parent government organization (the Single Funds Directorate) was closing the program down when the February 2003 events revived interest in continuing it. Within two months new contractors were hired and the program was again in operation, providing temporary jobs to thousands of unemployed men and women. Targeting—achieved by setting the benefit rate just below the prevailing labor market wage for unskilled workers—had been highly pro-poor in the first year and should achieve the same results in 2003.

Whether the workfare scheme and other programs supported by the government will prevent further unrest is difficult to predict. But if Bolivia can get past these perilous times, it will have avoided a more serious downturn while preserving its admirable social achievements. This will help the government build consensus for the next generation of reform. ▲



# The Coffee Crisis

*Diana Kruger, Andrew D. Mason, and Renos Vakis*

## in Central America

A steep decline in the world coffee price has had a dramatic impact on the coffee producing countries of Central America—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua—and on families who depend on coffee-related income. The drop in coffee prices has led to calls for help in understanding and addressing the impact of the crisis on poverty. But while early assessments focused on large employment losses at large coffee estates, an ongoing World Bank study is finding that the effects are more complex. In at least one country in the region, small self-employed coffee farmers, rather than laborers, have experienced the most harm. This finding has important implications for policy. In Central America, where countries have limited fiscal capacity to operate safety net programs, a clear understanding of who has been affected by a crisis—and how—is important to ensure that scarce resources assist those most in need.

### Short-Term Shock, Long-Term Structural Change

The Central American coffee crisis reflects a structural change in the worldwide coffee market. Several new producers (most notably Vietnam) have entered the market, and production has grown dramatically in other parts of Latin America (most notably Brazil). These developments have led to steep declines in world coffee prices, leaving real coffee prices at their lowest levels in more than 50 years. In fact, coffee prices are reported to have fallen below the cost of production for producers in a number of countries.<sup>1</sup>

Coffee plays an important role in Central American economies. In 1999–2000 Central American coffee exports were valued at roughly \$1.7 billion—about 11 percent of the region’s total export earnings. Coffee exports were particularly important to Guatemala, Honduras, and Nicaragua, where they represented 21.0–26.5 percent of total export earnings. Between 1999–2000 and 2000–01, however, export earnings from coffee dropped an average of 44 percent across the five Central American countries, while coffee’s share of total exports fell to less than half of its 1999–2000 levels. This loss in export revenues corresponds to about 1.2 percent of GDP for the five countries as a whole, and has put pressure on their balance of payments.<sup>2</sup>

### Concerns about Employment and Poverty

Early concerns about the social impact of the crisis focused on the employment and incomes of thousands of permanent and seasonal coffee plantation workers in each country, many of whom own no cultivable land of their own. Indeed, coffee sector employment is significant in Central America—in the form of both self-employment on family farms and in wage employment on coffee plantations. A recent study by the UN Economic Commission for Latin America and the Caribbean (ECLAC) estimated, for example, that about 28 percent of the rural labor forces of the five countries are engaged in coffee-related enterprises, with as much as 31 percent of the rural labor force in Guatemala and 42 percent of the rural labor force in Nicaragua deriving at least some proportion of income from coffee.<sup>3</sup>

Initial estimates by a joint IDB, USAID, World Bank team suggested that seasonal employment in the coffee sector declined more than 20 percent between 2000–01 and 2001–02, while permanent coffee sector employment dropped more than 50 percent.<sup>4</sup> Similarly, the ECLAC study reported that demand for coffee labor in 2001 was about 30 percent lower in Guatemala, Honduras, and Nicaragua; about 20 percent lower in El Salvador; and about 12 percent lower in Costa Rica than it had been the previous three years. According to the study, this decline in labor demand translated into an estimated loss of about 42 million labor days—or 170,010 full-time job equivalents—across Central America.

While hard data to confirm the early employment estimates were not available, evidence from household surveys gave reason for concern about the welfare of families working in the coffee sector. A 2003 World Bank Poverty Assessment for Guatemala found that coffee farmers were disproportionately represented among the poor in 2000—even before the price of coffee had reached its low point. A new poverty study for Nicaragua (2003) finds that the only major rural area where poverty rates had increased between 1998 and 2001 was the central rural region, where coffee production is concentrated.<sup>5</sup>

## Government and Donor Responses

Initial government responses focused largely on the production side of the issue, as coffee producer associations and other organized coffee interest groups in the Central American countries lobbied governments for assistance. Measures, which differed somewhat from country to country, included refinancing coffee producers' debts and using compensating funds to support producer prices.

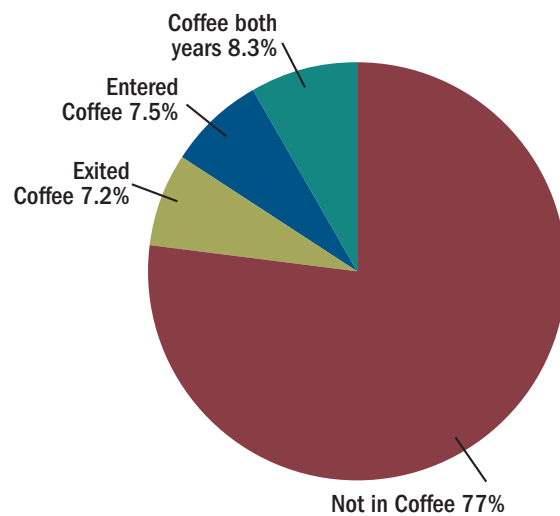
Relatively fewer resources were dedicated to addressing the immediate employment and poverty impacts of the crisis, although emergency food aid and food-for-work programs were launched in some of the countries. In Nicaragua, the government implemented more extensive food-for-work programs in 2002, supported by USAID and the World Food Programme, to offset the severe employment and poverty effects experienced the previous year. More generally, however, programs to address the welfare effects of the crisis have been relatively limited in scale, and there seems to have been neither a consistent approach to social assistance nor a clear sense of the effectiveness of programs put in place.

In April 2002 the IADB, USAID, and the World Bank co-sponsored a regional workshop on the crisis. The workshop identified a broad strategy for addressing the long-term structural changes in the coffee market: assist coffee producers in increasing their competitiveness, when feasible; promote diversification out of coffee, when not. Participants generally recognized that governments and donors needed to understand more about the poverty effects of the crisis and the need for social assistance. So governments in the region called for a study to deepen policymakers' understanding of who was most affected by the crisis—and how—and to identify effective approaches to providing social safety nets in the face of this (and other) economic shocks.<sup>7</sup>

The study, undertaken by the World Bank and Central American analysts, has focused first on Nicaragua, because the country has an extremely rich set of household surveys. These include panel data from rural Nicaragua in 1998 (when coffee prices were high) and 2001 (when prices were low).<sup>8</sup> Panel data sets, which are relatively rare, are particularly useful for examining the impact of shocks on people's living standards because they track changes in living conditions in the same households over time.

Although the study ultimately will examine a range of welfare measures and household risk management strategies, analysis to date has focused largely on changes in income and poverty, as well as impacts on children's schooling and nutrition.

**Figure 1. Household Participation in the Coffee Economy in Rural Nicaragua, 1998-2001**



Source: World Bank staff estimates.

## Social Impacts: Emerging Evidence from Nicaragua

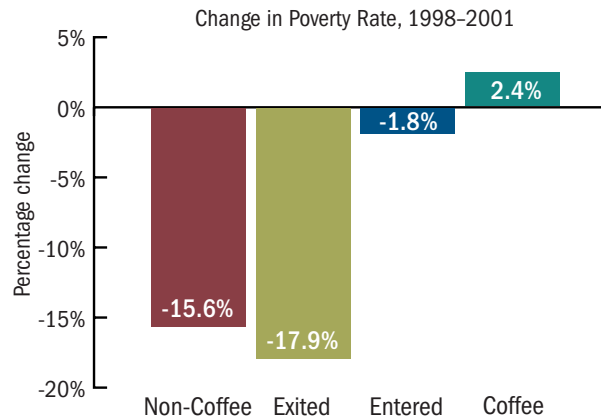
As elsewhere in Central America, the coffee price shock has hit Nicaraguans hard. Between 1998 and 2001 the average price received by Nicaraguan coffee exporters dropped 61 percent, while average farm-gate prices may have declined by as much as two-thirds. But how has the shock affected people? Have the impacts been largely through the loss of coffee sector jobs, as the initial assessments suggested? Or have their been other channels? And what are the implications for social assistance?

Initial data analysis partly reinforces the early findings about the employment impacts of the crisis. Members of households that remained attached to the coffee economy between 1998 and 2001 experienced significant increases in unemployment at a time when unemployment rates in other rural sectors remained largely unchanged. But the analysis suggests that the most severe impacts of the crisis have not been transmitted primarily through unemployment. While coffee labor households had the lowest average income and consumption levels in 1998, they managed to maintain them in 2001—in part, by finding earnings opportunities outside of agriculture. In contrast, small self-employed farmers who produced coffee experienced substantial declines in income and welfare as prices dropped between 1998 and 2001.

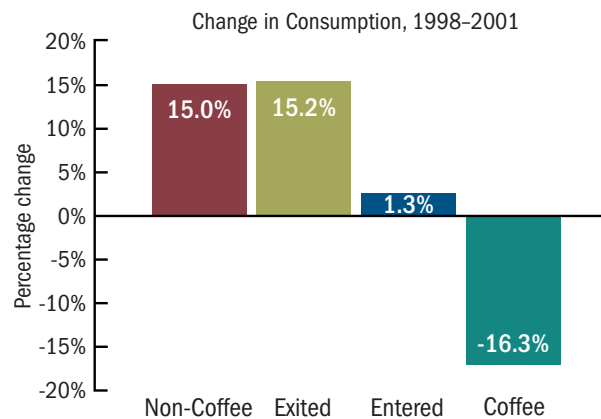
The difference appears to lie in households' economic mobility. The data indicate considerable movement of people in and out of the coffee sector between 1998 and 2001. While 23 percent of rural households in the panel had one or more members working as coffee pro

**Figure 2. Welfare declined between 1998 and 2001 among households that remained in coffee**

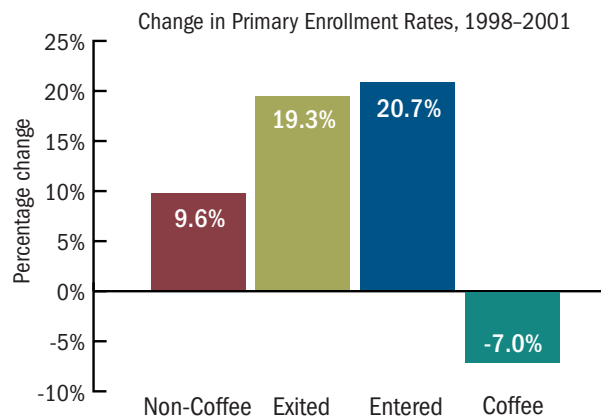
**Poverty increased**



**Consumption per capita declined**



**Primary school enrollment dropped**



ducers or coffee laborers in at least one of the two survey years, only 16 percent of those households earned income from coffee in any given year (figure 1). Households that moved in or out of the coffee economy found new income-earning opportunities, and thus avoided a decline in welfare. But the roughly 8 percent of rural households that remained in the coffee sector over the period experienced serious harm from the crisis.

These adverse effects were significant (figure 2) and included:

- **Increases in poverty.** The incidence of poverty increased among households remaining in coffee economy—by more than 2 percent between 1998 and 2001. This contrasts with an overall decline of more than 6 percent for all rural panel households during the same period. Extreme poverty increased almost 5 percent for coffee households, while declining more than 14 percent among rural households as a whole.
- **Income losses.** While per capita income increased 30 percent on average among all rural households in the panel, it fell more than 25 percent among those who remained in the coffee sector. Because even these households generally had multiple sources of income, the effect of the coffee shock on income was less than the drop in the world price; nevertheless, it was substantial.
- **Declines in consumption.** Although households remaining in the coffee sector adopted strategies to reduce the impact of the crisis on their consumption, their per capita consumption nonetheless declined more than 16 percent between 1998 and 2001. This compares with increases in per capita consumption of nearly 12 percent on average among all rural households in the panel.
- **Setbacks in schooling.** The coffee crisis has also adversely affected schooling for children in households that remained in the coffee economy. Net primary enrollment rates declined more than 5 percent among these households from 1998 to 2001, while they increased 10 percent among all rural panel households. At the secondary level, net enrollment rates stagnated among coffee households, while they increased by two-thirds (from 19 percent to 32 percent) for the entire rural panel.
- **Lost ground in child nutrition.** The incidence of underweight children dropped by more than six percentage points among non-coffee households in rural Nicaragua over the period. While declines were also found among households who stayed in the coffee sector, statistical analysis indicates that those changes were not statistically significant.

Although the study is still in its early stages, it is already helping clarify who has been most affected by the

crisis—and how. In particular, it has highlighted the importance of economic mobility in households' ability to deal with shocks. Indeed, it shows that households that exited—and even those who entered—the coffee sector between 1998 and 2001 shared in many of Nicaragua's gains over the period. They seem to have done so by finding new income-earning opportunities, particularly outside agriculture. In contrast, those who did not adjust quickly to changing economic circumstances bore the brunt of the crisis.

### Mitigating the Poverty Impacts of the Crisis

Analysis of the coffee crisis in Nicaragua and the other Central American countries is continuing, as analysts seek to deepen policymakers' understanding of its impacts and identify policies that can effectively increase families' abilities to deal with shocks. For example, the early findings on the importance of economic mobility are prompting further research into what enables households to adapt successfully to changing economic circumstances.<sup>9</sup> As the work progresses, it may reveal country-specific impacts of the crisis that require country-specific responses. In the meantime, the work on Nicaragua already highlights useful issues for the region's policymakers to consider.

First, the fact that small family farmers, rather than laborers, appear to have experienced the most serious effects of the crisis raises important issues about the choice of a short-run safety net. Two different types of safety nets have been used successfully to address poverty and economic shocks in Latin America and elsewhere: workfare (employment) programs and conditional cash transfers (transfers made conditional on household investments in children's health and education).

Experience indicates that in contexts where an economic shock results in open unemployment, workfare programs can be an effective way to provide support to unemployed workers until renewed labor demand draws them back into the labor market. Although panel data does not measure income and consumption maintenance, one of the ways that labor households in rural Nicaragua may have been able to maintain their incomes and consumption between 1998 and 2001 is through food-for-work and cash-for-work programs. This possibility deserves further exploration.

But if declining returns to self-employed activities, as opposed to open unemployment, are the problem, and if they adversely affect children's education and health, then conditional cash transfers may be a more effective response—both to provide short-term income support and to ensure that children stay in school and do not suffer negative health and nutritional impacts. This may be the case for Nicaragua, where initial findings suggest that

the most serious welfare impacts of the crisis have been on small, immobile farm households.

The April 2002 regional workshop on the coffee crisis pointed to income diversification as a key element in a strategy to deal with long-term structural change in the coffee market—an element that will require farmers to adapt to changing economic circumstances.<sup>10</sup> The Nicaragua analysis to date underscores that message by demonstrating the importance of government policies and investments that help people manage risk through greater economic mobility, both in the short term and the long term. ▲

### Endnotes

1 Brian Lewin and Daniele Giovannucci, "Global Supply and Demand: New Paradigms in the Coffee Markets" (World Bank, Agriculture and Rural Development, Environmentally and Socially Sustainable Development Network, Washington, D.C., 2003).

2 Panos Varangis, Paul Siegel, Daniele Giovannucci, and Brian Lewin, "Dealing with the Coffee Crisis in Central America: Impacts and Strategies." Policy Research Working Paper 2993 (World Bank, Washington, D.C., 2003).

3 Margarita Flores, Adrian Bratescu, José Octavio Martínez, Jorge A. Oviedo, and Alicia Acosta, "Centroamérica: El Impacto de la Caída de los Precios del Café." *Serie Estudios y Perspectivas* 9, Unidad de Desarrollo Agrícola y Unidad de Desarrollo Económico (CEPAL/ECAC, México, D.F., 2002).

4 Inter-American Development Bank, U.S. Agency for International Development, and World Bank, "Managing the Competitive Transition of the Coffee Sector in Central America." Paper prepared for the regional workshop "The Coffee Crisis and its Impact in Central America: Situation and Lines of Action," Antigua, Guatemala, April 3–5, 2002.

5 For more on Guatemala's Poverty Assessment, see "Analyzing Vulnerability and Shocks in Guatemala," page 28. For information on poverty study in Nicaragua, see "Nicaragua Poverty Assessment: Raising Welfare and Reducing Vulnerability," Report No. 26128-NI (World Bank, Washington, D.C., 2003).

6 The workshop spawned a more in-depth study by Panos Varangis, Paul Siegel, Daniele Giovannucci, and Brian Lewin, "Dealing with the Coffee Crisis in Central America: Impacts and Strategies." Policy Research Working Paper 2993 (World Bank, Washington, D.C., 2003), which comes to similar conclusions. The Bank is also currently involved in pilot projects in El Salvador and Nicaragua to provide coffee producers with access to price risk management instruments.

7 "Shocks and Social Protection: Lessons from the Coffee Crisis in Central America" (World Bank, Latin American and Caribbean Region, Washington, D.C., forthcoming).

8 Nicaragua has an unusually rich database for conducting analysis of living standards, poverty, and the social impacts of policy. The country has three nationally representative Living Standards Measurement Studies surveys, from 1993, 1998, and 2001.

9 Ongoing work includes deeper analysis of households' risk management strategies, the determinants of household income and economic mobility, and the extent to which transfer programs, such as Nicaragua's conditional cash transfer scheme, have helped to mitigate the effects of the crisis. Similar analysis is also being undertaken for El Salvador, Guatemala, and Honduras.

10 See "Working in Partnership to Protect the Vulnerable," page 42 for discussion of a well-known workfare program, Trabajar, in Argentina. For a discussion of conditional cash transfers and evidence on their impact, see "Conditional Cash Transfer Programs," page 49, and "Ensuring Results on the Ground," page 66.



# Coping with a Natural Disaster: Hurricane Mitch and the Honduran Social Investment Fund

David Warren

When the Honduras government formed the Honduras Social Investment Fund (FHIS) in 1990, its goal, like that of many Latin American social funds, was to help soften the impact of structural adjustment policies on the poor by financing small-scale investments in poor communities.<sup>1</sup> While the fund placed considerable emphasis in its early years on the creation of short-term employment opportunities, it later shifted its emphasis to expanding access to basic social services. Toward the end of the 1990s, it entered a new stage in its evolution. The fund continued to focus on social infrastructure while stepping up efforts to support decentralization and to effect systemic changes in key sectors through demonstration, innovation and capacity building at central, local, and community levels.

In 1998, however, FHIS unexpectedly found itself playing an altogether different role: helping the country rebuild from the devastation caused by Hurricane Mitch. Perhaps surprisingly, some of the same qualities FHIS had acquired to serve as the principal government agency for small scale civil projects proved invaluable in an emergency—especially its unique presence in communities throughout the country; its growing partnerships with municipal governments and other local entities; its proven track record in financing and overseeing implementation of large numbers of small-scale projects quickly, effectively, and with operational transparency; and its ability to adapt procedures to new circumstances.

## The Storm Hits

The fund faced a challenging situation after the massive, slow-moving hurricane hit on October 30, 1998. Three weeks of rain had already soaked the countryside before the storm pounded Honduras for three days. Torrential winds, floodwaters, and mudslides destroyed villages, shattered social and economic infrastructure, paralyzed production, and left up to three feet of mud and debris throughout the country. Communities cut off from economic activity and from basic services faced immediate health concerns and security risks. Some 6,000 people died, 8,000 were missing, 13,000 were wounded, and more than a million were homeless.<sup>2</sup>

Up to that moment, FHIS had been preparing for a new phase of support for social infrastructure and local development—and a new round of donor financing, including a \$45 million credit from the International Development Association. The fund had already fostered participatory planning at the community and municipal levels; developed pilot programs in municipal development, rural water and sanitation, and social assistance; continued a special program for ethnic minorities; and improved monitoring and evaluation systems. It had also carried out a pioneering impact evaluation, which found its programs to be effective at targeting, matching community priorities, making sustainable investments, and improving household level welfare. By 1998, FHIS was financing about 800 subprojects annually, mainly in the education, health, water and sanitation, municipal and community infrastructure sectors. In one of the poorest countries in the hemisphere, it had established itself as a model for social funds in many respects.

Its reputation grew after the hurricane hit. It played a pivotal role responding to requests from both local and central levels to help rebuild the country's critical local infrastructure. With the operational flexibility afforded by its legal framework and relatively lean structure, the fund was able to respond to the crisis immediately. It established 11 temporary regional offices, and delegated responsibilities and resources to senior staff appointed as regional directors. Its technical experts were in northern Honduras within hours of receiving news of the hurricane's impact to assess damage from mudslides that buried extensive areas. Regional offices worked closely with community members and municipal representatives to assess immediate needs to clean up mud and debris, and repair or replace water and sanitation systems, access roads, bridges, health centers, and schools. Recognizing the need for quick action, FHIS simplified its subproject cycle, reducing the required number of steps from 50 to 8, and it increased its use of standardized subprojects and simplified procurement methods. It also established safeguards in each of the regional offices to ensure accountability and transparency.

IDA helped the emergency response effort too. Taking advantage of recently approved, more flexible dis-

bursement procedures (called the Loan Administration Change Initiative, or LACI), it streamlined its disbursements to FHIS, thereby providing the fund with the liquidity it needed to respond to the most urgent local needs. For the first three months after the hurricane hit, IDA credit resources were the only significant funds available, and the agency disbursed 95 percent of its previously approved credit within 12 months.

## Lessons Learned

Within 100 days, FHIS approved 2,100 projects with a total value of \$40 million. By the end of 1999, about 3,400 emergency subprojects had been financed, representing an implementation rate four times higher than the pre-Mitch averages. FHIS's immediate focus on restoring economic activity and basic social services prevented the emergency from aggravating poverty. Indeed, because it financed highly labor intensive projects (labor accounts for 25–30 percent of the value of most subprojects and as much as 70 percent of clean-up activities), FHIS generated temporary employment in precisely the communities where productive activities were disrupted due to the hurricane; FHIS created about 100,000 person-months of employment during the first three months—on a par with workfare programs in other countries, such as Argentina's Trabajar.<sup>4</sup>

FHIS demonstrates that a social fund can play a vital role as part of the social safety net in times of natural disaster. Indeed, social funds are ideally suited to meet the combination of a sudden need for employment and an equally sudden need for investment in community infrastructure. Among the specific lessons learned from the role FHIS played in the wake of Hurricane Mitch are:

- A strong partnership with municipalities and communities is invaluable.
- Ability to decentralize and delegate is essential.
- A social fund's flexibility—based on an easily adaptable operations manual—makes it well-suited to respond to unforeseen circumstances. Nonetheless, it is wise to establish contingency procedures (and agree on them with financing agencies) ahead of time; many social funds now have such “contingency manuals.”
- Social funds and donors should pay attention to environmental risk assessment and mitigation. FHIS and the World Bank have devoted more effort to this issue since 1998.
- Social funds should attempt to isolate their emergency responses so that they can return their operations to normal as quickly as possible. The rapid deployment of FHIS staff and the changes in subproject processing procedures created some confusion and undermined some of the advances that had been made under the institutional strengthening program. In contrast,

Nicaragua's *Fondo de Inversión Social de Emergencia* was able to reestablish normal operating procedures much more quickly because it allocated a specific amount of money (\$12 million) during a set period of time (three months) to emergency activities.

- Long-term goals can suffer when immediate needs are urgent. In emergencies there may be tradeoffs between quick response times and long-term quality of investments. In addition, users cannot always be thoroughly trained in operations and maintenance during emergencies. And while streamlined institutional procedures, less complete documentation, and longer working hours are appropriate during emergencies, they may not be desirable over the longer term.
- Try not to forget social needs that are unrelated to infrastructure. Urgent infrastructure construction can crowd out equally important social services support. In its focus on emergency rehabilitation of basic infrastructure, FHIS may have missed opportunities to respond to social service needs that became apparent during the emergency. These needs may not have seemed as urgent at the time of the hurricane but could have had long term impacts. Other social funds have actually intervened successfully in this area, and FHIS has since developed a program to finance innovative programs in these “softer” areas. ▲

## Endnotes

1 For the most part, early social funds (particularly in Latin America) used third-party contractors for implementation, although many around the world (including FHIS) have since turned to more community-based methods for project implementation.

2 The hurricane created severe but less widespread damage in El Salvador, Guatemala, and Nicaragua.

3 Ian Walker, Farael del Cid, Fidel Ordonez, and Florencia Rodriguez, “Ex-Post Evaluation of the Honduras Social Investment Fund (FHIS 2) Executive Summary,” September 1999, available at [[http://wbln0018.worldbank.org/HDNet/HDdocs.nsf/socialfunds/49898ac982b7c7de852568e2005d75ce/\\$FILE/FHISfinal%20reppport.pdf](http://wbln0018.worldbank.org/HDNet/HDdocs.nsf/socialfunds/49898ac982b7c7de852568e2005d75ce/$FILE/FHISfinal%20reppport.pdf)]. For more on social fund evaluations, see Laura Rawlings, Lynne Sherburne-Benz, Julie Van Domelen, *Evaluating Social Funds: A Cross-Country Analysis of Community Interventions* (Washington, D.C.: World Bank, forthcoming); “Impact Evaluation of Social Funds,” *World Bank Economic Review* 16 (2), 2002.

4 As is recommended for workfare programs, FHIS paid wages at rates just below market levels, ensuring that the public employment opportunities were self-targeted to poor people who were unable to find work elsewhere.





# Breaking New Ground in Understanding Risk, Vulnerability, and Poverty

**G**overnments and donors cannot build effective social safety nets until they understand which people are most vulnerable to shocks and the nature of the socioeconomic risks they face. Accordingly, an increasingly important element of social protection work in Latin America and the Caribbean involves increasing knowledge about vulnerability and risk, and using this understanding to design more effective public policies. A number of new tools have been developed to help in this important task.

Among the most widely used tools developed by the World Bank Social Protection Team in Latin America and the Caribbean are social safety net assessments (SSNAs), which analyze the main socioeconomic risk factors in a country, identify key vulnerable groups, review the outreach and effectiveness of social assistance programs, and present options for strengthening social protection systems. SSNAs have now been undertaken in 15 countries in Latin America and the Caribbean. Additional tools in the analytical toolkit include Social Insurance Assessments, which analyze social insurance programs, and Risk and Vulnerability Assessments. Both are being used in a number of contexts to support efforts to strengthen countries' social protection systems.

Unlike the analysis of poverty, which tends to be “static” in the sense that it provides a snapshot of who is poor at a particular point in time, the analysis of vulnerability is dynamic. Even if a person or family is not poor at the moment, they may be vulnerable to becoming poor in the future if they can't protect themselves against shocks—whether related to crop loss, the death of a family member, earthquake damage to property, or unemployment from an economic downturn. To assess vulnerability and people's ability to deal with risk, analysts would like to use panel data, which tracks the same households over a period of time, including through shocks. Such data often are not available, however, so analysts commonly have to use less-than-ideal data in order to provide policymakers with relevant and timely information.

This section discusses some of the innovative work being done in the Latin America and Caribbean region to improve understanding of risk, vulnerability, and public policy. The first article discusses the lifecycle approach to social protection policy analysis, which was developed specifically to address real-world data and time constraints. The second article discusses the findings of a recent risk and vulnerability analysis done as part of the Poverty Assessment for Guatemala; it highlights some new approaches that rely on single household surveys. The third article discusses the importance of understanding labor market dynamics in designing social protection policies, focusing on the case of Brazil. And the fourth article, on the comprehensive insurance approach to social risk management, discusses a framework that can assist policymakers in making strategic choices about social protection interventions in the face of budget and administrative constraints. The article applies the framework to assess Chile's new unemployment insurance program. ▲



# The Lifecycle Approach to Social Protection Policy Analysis

Gillette Hall

To design effective social protection policies, governments and donors must first ask three basic questions: What population groups are the most poor and vulnerable? How well do existing social protection programs protect these groups? And what policy changes would best prevent people from falling into poverty during economic crises and help them escape from poverty in good times? In an ideal world, there would be unlimited time and resources to design studies to answer these questions. But when a government changes or an unexpected window of opportunity to influence policy opens, policymakers need data and analysis quickly.

The lifecycle approach provides a handy yet systematic way to classify risk groups in a given population—by age groups through the lifecycle. It then draws on available data to measure the extent of risk across different groups, and to assess how well existing social protection policies reach those groups. The methodology has been used in most countries where social safety net assessments have been done, including Argentina, Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Peru, and Uruguay. This article draws on the case of Mexico to illustrate how the approach works. The World Bank Latin America and the Caribbean team, in partnership with the Mexican government, analyzed social protection policy issues facing the incoming government of Vicente Fox. The resulting findings were completed in six months and presented as part of the 2001 World Bank report *Mexico: A Comprehensive Development Agenda for the New Era*.<sup>1</sup>

## Three Steps

### The lifecycle approach is a three-step process:

*Step 1. Classify the population by age group and identify major risk indicators for each group.* To determine which population groups are most poor and vulnerable, the population must be classified by age group, and by poverty group. Then key risks and the leading indicators of these risks for which data are available are identified.

While the term “social risk” encompasses many issues, the team analyzing Mexico focused on risks most likely to lead to low income, either now (current poverty) or in the future (vulnerability to poverty). Finally the team added, where possible, current values for risk indicators among the poor. Table 1 provides an abridged version of these results.

*Step 2. Compile information on government social protection policy— program expenditures and incidence.* To determine what the government is doing to reach risk groups and reduce their risk, it is essential to catalogue all government social protection expenditures by type of program and major beneficiaries (using government records of program budgets). Then it is possible to chart major programs according to their incidence among each risk group. The results show how benefits are distributed between poor and nonpoor groups, and whether their impact is regressive (favoring the nonpoor) or progressive (favoring the poor). The results also show whether existing social protection programs complement other programs and services, such as education and health programs.

Governments are sometimes surprised at the findings that emerge from this analysis. Table 2, an abridged version of the analysis of government social protection expenditures in Mexico, demonstrates that just over three-quarters of all federal spending goes to social insurance programs that benefit the formal sector—a fact that largely reflects the high cost of heavily subsidized pension systems for the nonpoor. That leaves just one quarter of federal spending for social assistance directed towards poorer groups, spread across myriad small programs and government agencies. These findings suggest that social insurance programs need further reform to better help the poor and that social assistance programs should be merged to make the delivery of services more efficient. It is important to note that this simple-looking table was the most laborious part of the entire analysis; it took several months to gather data from disparate ministries on individual budgets for more than 100 programs. But it is the most compelling element of the analysis because it highlights social protection spending patterns in Mexico.

The basic findings on expenditure patterns can be

**Table 1. Identifying Key Risks By Age Group, and Leading Indicators of Risks: Urban Mexico**

Population group/main risk	Leading risk indicators	Indicator value, urban area (percent)		
		Poorest 10 percent	Poorest 30 percent	All
<b>Ages 0–5</b>				
Stunted development	Preschool attendance (age 5 only)	53	71	82
<b>Ages 6–14</b>				
Low human capital development	Primary school enrollment (ages 6–11)	92	94	95
	Lower secondary school enrollment (ages 12–14)	41	55	68
<b>Ages 15–24</b>				
Low human capital development	Upper secondary enrollment (ages 15–17)	19	29	46
<b>Ages 25–64</b>				
Low income	No education or incomplete primary (low skills) (ages 25–40)	49	36	17
<b>Ages 65+</b>				
Low income	Receives pension	2	7	22
<b>General population</b>				
Low-quality housing	No piped water	18	15	7
	No piped sewerage	50	37	18

Source: *Mexico: A Comprehensive Development Agenda for the New Era*, World Bank, Washington, D.C. (2001)

enhanced by charting the incidence of individual programs across the major age and income groups identified in step 1 (table 3). Household survey data analysis pointed clearly to the regressive nature of such key social protection programs as labor market training, pensions, food distribution, and housing subsidies. (The abridged table illustrates results obtained for major programs in urban areas for age categories 25 and above.)

*Step 3. Identify policy priorities, concrete reform options, and cost estimates.* The final step in the analysis is to rank problems or weaknesses in current social protection policy by urgency, and to provide policy guidance on how to address these problems. The study emphasizes the need for more investment in human capital among the poor, the number one way to increase income and thus reduce poverty in the long run. To do this, it is necessary to consult with government officials and review the results of the lifecycle analysis of the major risk groups and their size. Current expenditures on programs that are or are not working to reach the poorest also should be reviewed. Major problems to be addressed usually emerge in fairly straightforward fashion from the analysis, which has worked well in a number of settings.

For Mexico, the analysis produced seven major policy problems or weaknesses that social protection policy could help resolve (table 4). As shown in column one

of table 4, they ranged from low coverage of early child development (ECD) programs to low pension coverage among the poor and low access to basic social infrastructure in remote rural (indigenous) areas. Drawing on work already done in step 1, the team was able easily to estimate the size of the current gap in coverage—that is, the size of the uncovered groups that new or reformed policies would have to reach. That is illustrated in column two. For each policy problem, the team next identified a “best practice” solution. This could be either a program already working in Mexico that simply needed to be expanded, or one proven to work in another country that could be adapted to Mexico. Basic cost estimates were then developed on a per capita basis for implementing this new or changed policy, drawing on existing data on costs within Mexico or international average costs for provision of comparable service.

These “back of the envelope” calculations are not precise, but they can quickly provide a sense of what would be involved in solving one problem as opposed to another—and the potential gain from altering the current distribution of resources. In the case of Mexico, the biggest surprise came when the team tallied the total cost of implementing policy solutions for all seven major social protection policy problems. It came to 60 billion pesos, less than the current subsidy out of general revenues for

**Table 2. Federal Social Protection Expenditures in Mexico, by Program Type and Major Beneficiaries**

Program type	Number of programs	Budget 2000 (million pesos)	Percent of total budget	Major beneficiaries
<b>Social insurance</b>	<b>4</b>	<b>170,539</b>	<b>76.1</b>	
Social Security	3	158,687	70.8	Formal sector employees
Negative Income Tax	1	11,760	5.2	Formal sector employees
<b>Sectoral social assistance</b>	<b>29</b>	<b>15,862</b>	<b>7.1</b>	
Education	18	6,623	3.0	Poor, low educated
Health	5	4,741	2.1	Rural poor
Housing credit	2	3,780	1.7	Public sector employees
Other	4	719	0.3	Various vulnerable groups
<b>Income transfers and subsidies</b>	<b>7</b>	<b>14,765</b>	<b>6.6</b>	
PROGRESA (conditioned income transfer)	1	9,635	4.3	Rural poor
Food programs	6	5,130	2.3	Poor
<b>Income generation</b>	<b>54</b>	<b>15,531</b>	<b>6.9</b>	Poor unemployed
<b>Social infrastructure</b>	<b>5</b>	<b>2,250</b>	<b>1.0</b>	Communities with low access to basic infrastructure
<b>Natural disaster protection</b>	<b>1</b>	<b>4,840</b>	<b>2.2</b>	Communities hit by natural disasters
<b>Other</b>	<b>5</b>	<b>203</b>	<b>.09</b>	Poor communities
<b>Total</b>	<b>105</b>	<b>223,991</b>	<b>100.0</b>	

Source: Mexico: A Comprehensive Development Agenda for the New Era, World Bank, Washington, D.C. (2001)

**Table 3. Mapping The Incidence of Government Social Protection Programs Onto Each Age and Income Group: A Sample of Results for Ages 25 and Above**

Population group/main risk	Program coverage	Indicator value, urban area (percent)		
		Poorest 10 percent	Poorest 30 percent	All
<b>Ages 25-64</b>				
Low income	Has attended training program	0.0	2.0	12.0
	Has access to social security system	9.0	19.0	43.0
	Receives <i>ayuda alimentaria o dispensa</i> (food transfer)	1.6	4.0	12.0
<b>Ages 65+</b>				
Low income	Receives pension	2.0	7.0	22.0
<b>General population</b>				
Low-quality housing	Access to housing credit	0.7	4.0	16.0

Source: Mexico: A Comprehensive Development Agenda for the New Era, World Bank, Washington, D.C. (2001)

public pensions. By making explicit the costs or trade-offs implicit in current expenditure patterns, the lifecycle approach may pave the way for decisions that would alter

the distribution of funds in the future to support more effective, poverty-targeted social protection policies in Mexico and around the region. ▲

**Table 4. Cost of Implementing Social Protection Initiatives in Seven Major Risk Categories**

Problem	Size of population at risk (coverage gap)	Social Protection policy initiative	Annual cost per person (pesos)	Estimated cost to cover gap (billion pesos)
Low early child development (ECD) and preschool coverage	ECD: 4.6 million poor children ages 0–4.	Expand early child development services (PRONEI) <sup>1</sup> to all poor children 0–4.	540	2.5
	Preschool: 375,000 poor children age 5	Expand CONAFE <sup>2</sup> preschool coverage to all poor children age 5.	3,510	1.3
Pocket of low primary school attendance in rural areas	270,000 rural poor children ages 6–12 not attending primary school	Expand CONAFE primary-school coverage to all poor	3,735	1.0
Low secondary school enrollment rates	1.9 million poor youth ages 12–14 not attending lower secondary.	Offer secondary scholarships (PROGRESA) <sup>3</sup> to non-attending youth ages 12–14 (lower secondary), and to youth ages 15–18 (upper secondary)	3,090	5.9
	2.2 million poor youth ages 15–18 not attending upper secondary		3,600	7.9
Low earnings among the working poor	4.4 million poor ages 25–64 employed full time	Expand/reform negative income tax to cover all fully-employed working poor ages 25–64	1,700	7.5
Low access to pension (income support) among elderly poor	2.25 million elderly poor (ages 65 and over)	Provide minimum old-age pension to all current elderly poor	1,200	2.6
	8.8 million current workers without access to social security	Expand access to social security pension system to all informal sector workers	780	6.9
Low housing quality among the poor	4.8 million households	Offer subsidized housing credits to all poor households with low housing quality	2,383 per family	11.5
Remote villages with low access to basic infrastructure	1.3 million people in remote villages without access to water	Install potable water service in all isolated communities currently without water	10,000 per person (avg.)	13.0
<b>Total annual cost of implementing the above interventions</b>				<b>60.1</b>

Source: Mexico: A Comprehensive Development Agenda for the New Era, World Bank, Washington, D.C. (2001)

Notes:

1 Programa No Escolar de Educación Inicial (Peru).

2 Consejo Nacional de Fomento Educativo (Mexico).

3 Programa de Educación, Salud y Alimentación, now called Oportunidades (Mexico).

## Endnotes

1 Available at [<http://lnweb18.worldbank.org/external/lac/lac.nsf/0/9364AB8A25BABD6085256A4C004B3963?OpenDocument>].



# Analyzing Vulnerability and Shocks in Guatemala

Kathy Lindert and Emil Tesliuc

**“As for the earthquake (of 1976), it affected the families because the majority of houses were destroyed. Most had to build shelters between the fields and in the road....Many still haven’t repaired their houses.”  
Kaqchiquel villagers.**

Guatemala has had its share of shocks in recent years, including Hurricane Mitch in 1998, the recent coffee crisis, and serious drought. It also has very high levels of poverty. Those two unfortunate facts raise important questions for policymakers: How much of the country’s poverty results from such external shocks, as opposed to more endemic conditions? And how can the government best protect the people most vulnerable to shocks—the poor?

The Guatemalan government and the World Bank set out to answer these questions by conducting a Risk and Vulnerability Assessment as part of the broader Guatemala Poverty Assessment Program. The Risk and Vulnerability Assessment brings a “vulnerability lens” to poverty analysis. Instead of a passive, reactive approach (which asks, “Given poverty, what can be done to reduce it?”), it takes a dynamic, proactive approach (which asks, “Given vulnerability, poverty, and risks, what can be done to get help poor people escape poverty and to reduce the likelihood that others will fall into poverty?”). The study, which broke methodological ground, produced new insights into the nature of poverty in Guatemala, the impact of shocks on different population groups, and the kind of policies that can best address each problem.

## Combining Qualitative and Quantitative Data

The challenge was how to produce a dynamic understanding of poverty and shocks with the limited data that was available. Ideally, a dynamic study would be based on panel data—information collected from particular households over a long period of time (perhaps a decade)—but such information was not available. Instead, the World Bank worked with Guatemala to introduce a module on risks and shocks into the country’s first Living Standards Measurement Survey (ENCOVI 2000). This module

posed retrospective questions designed to elicit information on 26 types of shocks (economic, social, lifecycle, natural). It asked whether the shocks triggered a loss in consumption, income or wealth; the main coping strategies used to compensate for these losses; whether households were able to compensate for the welfare loss; and how long it took to resolve difficulties arising from the shocks. A complementary qualitative study was conducted in 10 rural villages from the ENCOVI sample, covering 5 different ethnic groups. This Qualitative Poverty and Exclusion Study (QPES 2000) included a module of open-ended questions on perceptions of shocks (occurrence, main coping strategies and responses, and types of assistance received, if any).

Together, the two parts of the study shed new light on the nature and impact of shocks. It showed, for instance, that shocks have multidimensional effects. In addition to economic effects (loss of wealth and income, and damage to community assets), the effects can be psychological (the demoralizing impact of job loss or the fear or post-traumatic syndrome associated with violence), or social (loss of trust and social capital within villages). The study also documented harm to health (death, illness) and education (children cannot attend school). And it showed that localized, or idiosyncratic, shocks are almost always associated with income or wealth losses, while social shocks (violence, unrest) are less likely to cause income or wealth losses but clearly have a psychological and social impact. Some shocks, like earthquakes, fire, or hurricanes, mainly affect household wealth and community assets, while other natural shocks primarily affect income.

The duration of impact varies by type of shock—with some surprisingly long effects. In the Qualitative Poverty and Exclusion Study families reported still living in homes that were badly damaged by the earthquake of 1976. Hurricane Mitch had catastrophic consequences on some villages, completely wiping out their main productive base (box 1). The social and psychological impact of the political violence of the 1980s is also long-lasting.

*Main coping strategies.* Both the Living Standards Measurement Survey and the Qualitative Poverty and

## Box 1. Catastrophic Consequences of Hurricane Mitch for a Ladino Village

Living conditions in one Ladino village in the Nororiente Region have drastically worsened since Hurricane Mitch struck in 1998. Before the hurricane, the main source of income was agriculture, with a fairly diverse range of products, including lemons, papaya, tobacco, melons, eggplant, and livestock, corn for subsistence, and palms for raw material for artisan work. Hurricane Mitch severely damaged land fertility. Flooding washed away the productive topsoil and dumped rocks all over the fields. It destroyed livestock animals and farm implements. Now, most people have to search for day labor jobs elsewhere, and about 400 people (half the people in the village) migrated to the capital or the United States, leaving their families behind.

The hurricane exposed vulnerabilities in the asset base of the village, which lacks proper drainage despite having electricity and water. The villagers blame a dengue epidemic on Hurricane Mitch because stagnant waters generated an infestation of mosquitoes. The epidemic's effects were exacerbated by the lack of health services in the village.

Exclusion Survey showed that Guatemalan households have to rely on their own assets and collective action as their main coping strategy because fewer than 1 percent receive formal government or nongovernment assistance after shocks. The main coping strategies include reducing consumption and increasing self-help (supplying more labor, selling or mortgaging assets, drawing down savings). For family disputes, accidents, or deaths, households relied on informal coping mechanisms, such as borrowing or receiving help from friends, relatives or neighbors. Use of formal insurance and credit was uncommon, but more likely for insurable risks such as fire, earthquakes, hurricanes, and landslides.

Not all income or wealth losses result in a reduction in consumption. Most households are able to protect their consumption even when faced with shocks. Just over a quarter of all shocks resulting in income or asset losses forced households to cut their consumption. In most cases, households were able to mitigate the effects of shocks or use coping strategies other than reducing overall consumption. In terms of severity, economic shocks had the highest negative impact on household income, consumption, and wealth; income losses averaged 28 percent for job loss, 19 percent for accidents of the breadwinner, and 17 percent for lower earnings and bankruptcy. Natural agricultural shocks had an important but less severe impact on household income: 11 percent for harvest loss, 10 percent for pest infestation and 9 percent for drought and worsened terms of trade.

### Vulnerable Groups

Not surprisingly, the data showed that the poor are more vulnerable to shocks than the rich. Some 88 percent of the extremely poor and 86 percent of the poor suffered losses in income, consumption, or assets as a result of shocks,

compared to 83 percent of the nonpoor. Poor households are most exposed to natural shocks, mainly because they depend on agriculture as a source of living and are more likely to reside in marginal areas. Natural shocks caused welfare losses for two-thirds of the poorest 20 percent of Guatemalans, compared to half of those in the wealthiest quintile. The nonpoor, in contrast, are more often the victims of economic shocks.

As hoped, the dynamic assessment clarified the relationship between shocks and poverty. In general, poverty can be either chronic, affecting individuals or certain groups for an extended period of time and transmitted across generations, or it can be transient, with many people moving in and out of poverty over relatively short periods of time. Each has different implications for policy and targeting. For example, insurance-based interventions may be more appropriate in countries in which transient poverty dominates, but less appropriate in countries where poverty is more chronic. Where chronic poverty is more common, countries probably should emphasize building assets of the poor rather than designing insurance-based solutions.

Using a stochastic model of consumption and its variance, and taking into account household characteristics and the likelihood of experiencing shocks, the Risk and Vulnerability Assessment showed that chronic poverty is more prevalent than transient poverty in Guatemala. While 56 percent of the population was poor in 2000, four-fifths (44 percent of the total population) were chronically poor, while one-fifth (12 percent of the population) were transient poor (see box 1).

A similar pattern held for those vulnerable to poverty. The study showed that 64 percent of Guatemala's population was vulnerable to poverty in the future. Of these people, four-fifths (51 percent of the overall population) were vulnerable because of their low expected mean

**Table 1. Classification of Poverty and Vulnerability: Transient versus Chronic? (percent of total population)**

		Observed poverty status based on consumption		
		Poor 56.2 percent	Nonpoor 43.8 percent	
Vulnerability	Vulnerable >50 percent chance of being poor in future 64.2 percent (LM = 51.4 percent) (HV = 12.8 percent)	Chronic poor (LM vulnerable) 44.4 percent	Vulnerable to chronic poverty (LM vulnerable) 6.9 percent	Expected consumption < poverty line 51.3 percent
		Frequently poor (HV vulnerable) 4.1 percent	Vulnerable to frequent poverty (HV vulnerable) 8.7 percent	Expected consumption > poverty line = 12.8 (frequently poor) + 35.9 (nonvulnerable) = 48.7 percent
	Non-vulnerable < 50 percent chance 35.8 percent	Infrequently poor 7.7 percent	Non-vulnerable nonpoor 28.2 percent	
				Expected consumption

*Note: Poor = Chronic poor + transient poor. Transient poor = frequently poor + infrequently poor. Vulnerable group = LM vulnerable + HV vulnerable. LM vulnerability group = chronic poor + vulnerable to chronic poverty. HV vulnerability group = frequently poor + vulnerable to frequent poverty. Classification scheme adapted from Bidani and Richter (2001). Estimates from World Bank calculations using data from the ENCOVI 2000, Instituto Nacional de Estadística – Guatemala. Numbers may not add exactly to 100 percent due to rounding.*

*Source: World Bank staff estimates.*

consumption, while one fifth were vulnerable because of their high volatility of consumption.

*Chronically Vulnerable Groups and the Lifecycle Approach.* Certain groups are highly vulnerable due to special circumstances. The Risk and Vulnerability Assessment classified risks over the lifecycle (by age group), assessing vulnerability related to nutrition, education, health, access to basic services, and exposure to natural disasters. It also looked at the number of poor people who are at risk, and explored whether the risks are likely to have lasting, even inter-generational, effects on poverty. Among the risks of particular concern are malnutrition, low school enrollment, late school entry and grade repetition, child labor, low earnings, low health coverage of the elderly, lack of access to basic services among the poor, and higher exposure to natural disasters.

Child malnutrition is particularly high in Guatemala, with some 44 percent of all children suffering stunted growth. Child labor is also common; about half a

million children between the ages of 7 and 14 are employed, with a third of them working in plantations (mainly coffee and sugar fincas). Seasonal migrants and their families also appear to have higher poverty and vulnerability rates than those who migrate permanently or the general nonmigrating population. Poverty rates among temporary migrants are high—75 percent, compared with 55 percent of permanent migrants and 56 percent of the general population.

### Policy Implications

The chronic nature of poverty and vulnerability in Guatemala has important policy implications. Most importantly, the findings suggest that interventions, whether designed to address poverty or to protect against shocks, should concentrate on building the assets of the poor, as emphasized in the 1996 Peace Accords and in the government's poverty reduction strategy. Social protection

programs can play an important role in this context. When designed properly, conditional cash transfer programs can be quite effective in helping ease demand-side constraints—limits to family budgets and high opportunity costs—that have been shown to be a barrier to education and health.

Second, the data suggest that a strategic emphasis on children—particularly child-focused interventions to reduce malnutrition and promote early childhood development—is crucial to avoid inter-generational transmission of poverty and vulnerability.

Third, the study suggests that policies designed to protect the poor against shocks should emphasize expanding and improving disaster management and relief given the disproportionate exposure of the poor and vulnerable to natural disasters and agriculture-related shocks. The introduction of catastrophic insurance may also merit consideration. Interventions should be carefully targeted to the poor and delivered in a timely manner. Since exposure to some natural disasters seems to be largely determined by location and geography, maps of regional vulnerability to natural disasters could be useful for risk management planning. Use of such maps in conjunction with poverty maps would greatly enhance the ability of governments and donors to target limited funds for disaster relief. Since natural disasters often damage or destroy community infrastructure (in addition to reducing income and wealth at the household level), social funds could be an institutional channel for relief and infrastructure rehabilitation.

Finally, it should be noted that while poverty is more severe in rural parts of the country, social protection policy should not neglect urban areas. The ratio of vulnerable people to currently poor people was 2.2 times higher in the capital than in the rest of the country and 33 percent higher in urban areas than in rural ones. While poverty is lower in urban areas and the capital, in short, a significant share of the urban population is vulnerable to future poverty.<sup>1</sup> ▲

## Endnotes

- 1 The Guatemala poverty reports, including the complete *Poverty in Guatemala* (2003), on which this article is based, can be found at [<http://www.worldbank.org/guatemalapoverly>].



# Understanding Labor Market Linkages: Improving Pay, Job Availability and Stability in Brazil

Andreas Blom and Indermit Gill

Labor markets play a crucial role in social protection. If they do not function well, economic growth may not translate into jobs, investments in education and technology may not lead to higher productivity and earnings, and incomes may remain uncertain—even when economies become more stable. If labor markets do function well, though, the results are more positive, and governments have a much easier time meeting the needs of the poorest and most vulnerable members of society.

Brazil's labor market has intrigued analysts and policymakers for decades. It has been characterized as flexible and efficient, as segmented and inequitable, and as almost everything in between. Those who say it works well point to the country's relatively low unemployment rate, its generally pragmatic labor unions, its low minimum wage and its high rate of job turnover. For those of this view, labor reform is not a high priority. Those who say it does not work well, on the other hand, point to the high rate of informality, the frequency of litigation in labor courts, high inequality of earnings, and the limited reach of labor laws and government interventions to assist workers who need help. Such people believe labor reforms are needed.

Which view is correct? In December 2002, the World Bank's Latin American and the Caribbean Region and *Instituto de Pesquisa Econômica Aplicada*, a Brazilian governmental think tank, issued *Brazil Jobs Report*.<sup>1</sup> The fruit of two years of work, the report builds upon 12 background papers, half of them diagnoses of the Brazilian labor market by Brazilian experts and the other half reviews and analysis by World Bank researchers of international experience on labor market reforms.

The report addresses the debate about the Brazilian labor market by focusing on its outcomes rather than its workings. The important question is not whether Brazil's labor market is overly informal, excessively litigious, or characterized by unduly frequent job turnover. What really count are results: Does the economy produce adequate employment growth so that job-seekers can find gainful employment? Are worker productivity levels acceptable and fairly compensated? And do workers and their households have reasonable income security?

Using this perspective, the study concluded that the Brazilian labor market is regulated in a way that is unsuitable for the country's open and market-based economy. Brazil is creating too few jobs, its labor productivity is too low, and its families face unnecessary uncertainties about their incomes. The report concludes that labor market institutions and regulatory policy should be overhauled to keep pace with the evolution of society in general.

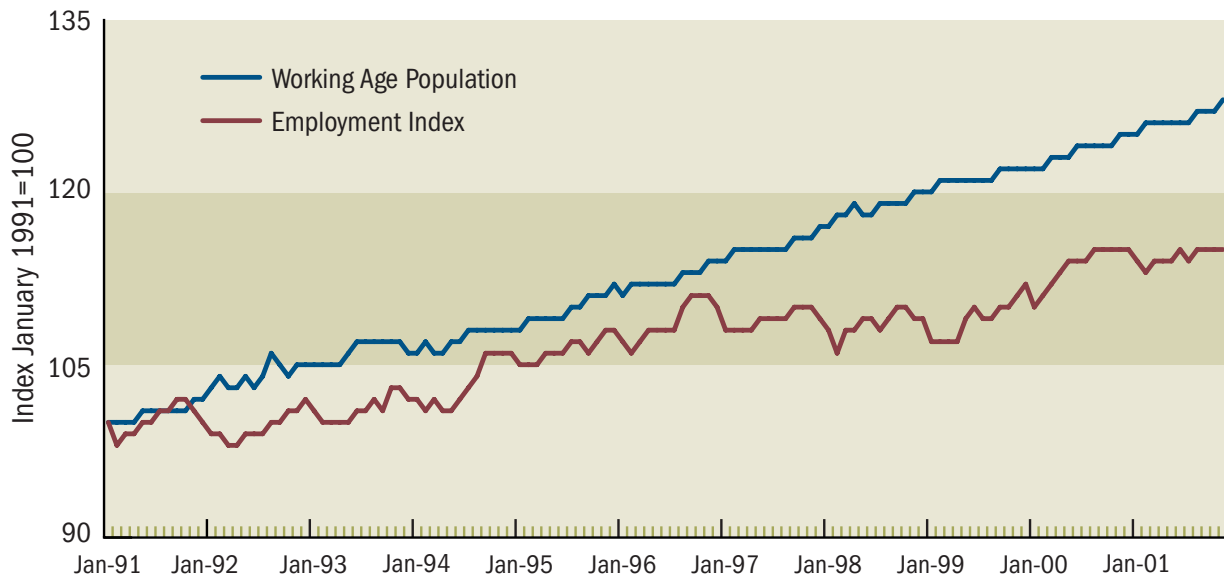
## Labor Market Outcomes in Brazil

In 2000 Brazil had a labor force of about 80 million people. Two-thirds of its population of 170 million is of working age, implying a labor force participation rate of about 70 percent. With unemployment around 8 percent, this means 73 million people are employed. Of that total, about three million are employers, and 17 million self-employed. The remaining 53 million are split evenly between formal and informal wage and salaried workers.

Unfortunately, the *Brazil Jobs Report* turned up important signs that Brazil's labor market outcomes are deteriorating and that its performance compares unfavorably to benchmark countries. Both signal the need for labor reforms. The main outcomes of concern are:

- **Sluggish employment growth.** Job creation is increasingly insufficient to accommodate the growing labor force. While the working age population increased 25 percent between 1991 and 2001, employment grew only about 12.5 percent (figure 1). The unemployment rate now hovers around 8 percent, up from 6 percent in the early 1990s.
- **Falling participation rates.** Labor force participation has fallen in urban areas from 61 percent in 1990 to 56 percent in 2001. Had it fallen half as much, unemployment rates would be in double digits.
- **Low productivity.** Value added per worker in Brazil was lower in 2000 than in 1980. In contrast, Chile's labor productivity rose by almost 50 percent and Thailand's more than doubled during this period. Compared with countries at the same income level as

**Figure 1: The Working Age Population Has Grown Faster than Employment During the Last Decade**



Source: Pesquisa Mensal de Emprego (PME) from Instituto Brasileiro de Geografia e Estatística (IBGE), 1991-2001.

Brazil, such as Mexico and Malaysia, Brazil faces a productivity shortfall of about 50 percent.

- **Low income security.** In 2000, for the first time, the number of workers without access to social security and compensatory programs became larger than the number of those who enjoy some income security during unemployment, disability and old age.

### How the Brazilian Labor Market Functions

These inadequate outcomes are closely linked to three much-debated characteristics of the Brazilian labor market: its excessive litigation, frequent job turnover, and high levels of informality.

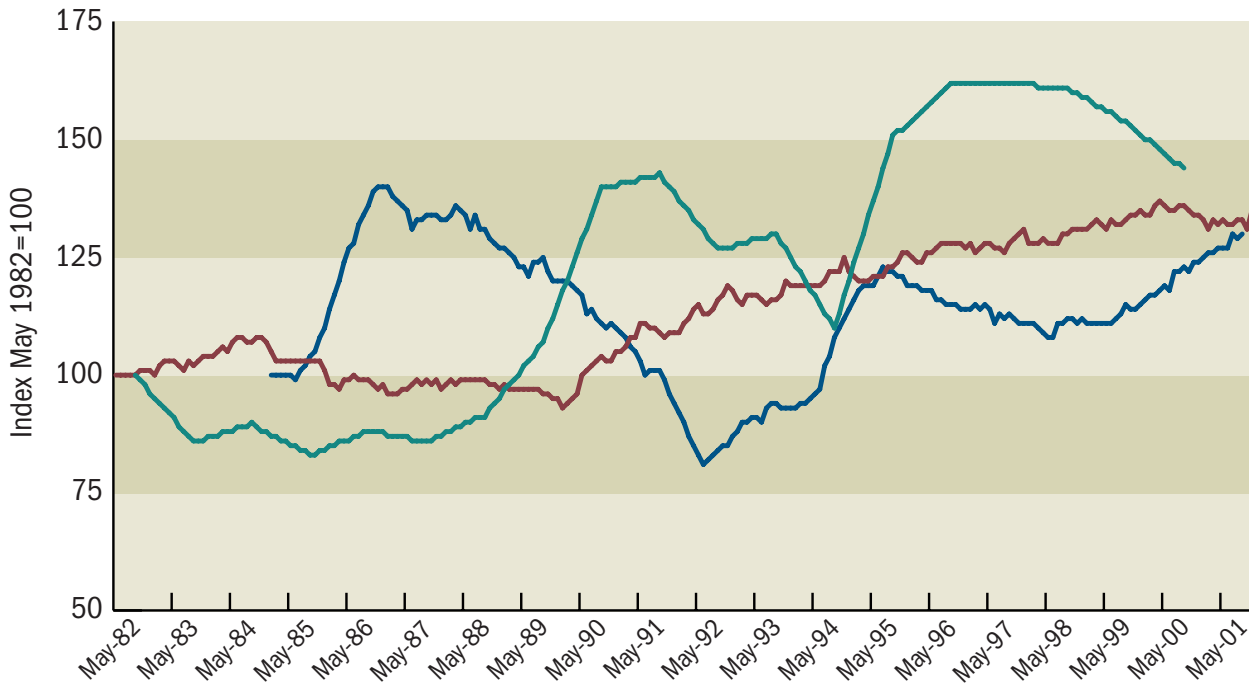
**Excessive litigation.** Of the institutions that affect Brazil's labor market, none is more important than the country's system of labor courts, known as the *justiça do trabalho*, a special section of the judicial branch of government that employs judges, lawyers, and others charged with resolving labor disputes between employers and workers. By all measures, these courts are extraordinarily busy. In 2000, they entertained about two million complaints, suggesting that more than 6 percent of all salaried workers go to court every year. Four out of five court cases involving Brazilian companies are labor-related. What's more, workers are resorting to legal action with increasing frequency: lawsuits have increased 60 percent over the last

decade (figure 2). These figures are high even when compared with countries thought to be overly litigious, such as the U.S. And while the full costs of this system are difficult to measure, especially since workers' rights to sue employers do not expire until five years after they leave their jobs, two things are clear: The direct costs (pay, fines, and lawyers' fees) are substantial, and the indirect costs from changed behavior of the workers and employers are even greater. Although there is no systematic evidence, this almost certainly has reduced employment.

**Excessive job turnover.** Labor turnover in Brazil is unusually high. Fully one-third of the labor force changes jobs every year, and the situation is getting worse: labor turnover has increased 60 percent from the recession in 1992 to 2001. One reason for this high rate is believed to be the design of individual severance accounts system, the *Fundo de Garantia por Tempo de Serviço*, mandated since 1968. International statistics confirm that the Brazilian labor market is hyperactive compared to other countries—often presented as evidence of Brazil's dynamism.<sup>3</sup> But there is evidence that Brazil's labor laws may actually increase turnover beyond what would occur with more neutral laws. This suggests that companies may not get a full return for their investment in training workers in specific skills, or that they may forgo such investments altogether. In either case, the result is lower worker productivity.

**High levels of informality.** More than half of

**Figure 2. Litigation, Informality and Turnover have Increased Since the 1980s**



Note: Litigation is measured as number of court cases per 1,000 workers.

Source: Supremo Tribunal Federal and Source: Pesquisa Mensal de Emprego (PME) from Instituto Brasileiro de Geografia e Estatística (IBGE), 1982-1990.

Brazil's labor force works outside the regulated sector—28 percent hold informal salaried jobs and 23 percent are self-employed. Both types of informality have increased noticeably, from 17 percent in 1990. Today, while the share of self-employed workers in Brazil is comparable to countries with similar income levels, the share of workers in informal salaried jobs is double that found elsewhere in Latin America. Informal workers are prevented from participating in income-support programs, implying higher income insecurity and lower welfare for workers.

**Institutions Must Evolve**

Labor markets serve as an important link between the factors that affect demand for labor and those that affect its supply. That link is not functioning well in Brazil today. Brazil has changed from a high growth, high inflation, closed economy that was dominated by the public sector in the 1960s and 1970s, to a low growth, relatively open, low inflation country, led by the private sector since the mid-1990s. It is hard to imagine a more changed set of circumstances. The rules, regulations, and organizations that may have served Brazil's labor market well in the

1960s and 1970s may not have helped much in the 1980s, and may have even hindered progress since the 1990s. Brazil needs to keep what is working, and change what is not. Yet while it has changed its constitution several times, it has not changed many institutions governing litigation, arbitration, and collective bargaining since their inception in the 1940s.

In place of the economic incentives embedded in current institutions, Brazil needs labor reforms to stimulate broad-based growth and increase worker welfare. Policy initiatives to improve the job opportunities of poor workers and small and medium-size enterprises are particularly important. Reforms should be aimed at:

- Pricing labor correctly to increase employment growth.
- Aligning the incentives for workers to raise labor productivity and wages.
- Improving income-security programs so that workers and their families are better protected from both systemic and idiosyncratic shocks.

In December 2002 the *Instituto de Pesquisa Econômica Aplicada* and the World Bank presented their labor market report to the Brazilian government. The

Bank is currently engaged in policy dialogue with the newly elected Brazilian government on these issues. Reforming the labor market would bring great gains to the Brazilian population at large and be an important step toward a more equal, participatory, and prosperous society. ▲

## Endnotes

1 The policy report is available on [www.worldbank.org](http://www.worldbank.org) and [www.banco-mundial.org.br](http://www.banco-mundial.org.br), and a second volume containing the 12 background papers is forthcoming as a separate publication.

2 Paradoxically, in most other countries, labor market experts find the opposite. That is, labor regulations tend to make dismissals costly for employers, and therefore lead to a freezing of the labor market with an artificially low turnover.



# Pooling, Saving, and Prevention: A Comprehensive Insurance Approach to Social Risk Management<sup>1</sup>

Truman G. Packard

When faced with the prospect of economic loss, whether from natural shocks or man-made ones like unemployment or poverty, individuals and societies can respond in a variety of ways. Social risk management is a conceptual framework that helps policymakers choose between three broad categories of response: prevention, mitigation, and coping. The comprehensive insurance approach focuses on the middle category, mitigation, offering a tool for determining which insurance instruments and preventive measures will be most effective given the possible size and frequency of various types of loss. This article explains the comprehensive insurance framework, and uses it to assess recent reforms in Chile's unemployment insurance system.

The comprehensive insurance problem for individuals, households, or governments is to determine the optimal mix of three types of instruments: market insurance, self-insurance, and self-protection. Market insurance works by pooling risk across individuals. Where it is available, it can be purchased at a price—the premium. Self-insurance—essentially individual saving—does not involve pooling. While it has no explicit price, its price can be imputed from the costs people incur to save. Individuals who neither insure through the market nor insure themselves must cope with whatever losses befall them. They can, however, mitigate risk by taking preventive measures. While self-protection reduces the probability that losses will occur, it differs from the first two strategies because it does not reduce the size of a loss should one actually occur.

## Implications

This framework has four main implications:

- First, risk pooling and savings are substitutes: an increase in the price of pooling increases the demand for saving.
- Second, risk pooling covers rare losses more efficiently than savings. That is because the implicit price of saving does not fall as the possibility of loss decreases, while the price of pooling does.
- Third, pooling mechanisms do not inevitably lead individuals to spend less on prevention. In theory, insurance might lead people to reduce their safeguards

against possible loss; when you insure your house against burglary, for instance, you may take less care than you otherwise would to lock the house since insurance coverage lowers the cost of replacing stolen goods. But this possibility—moral hazard—need not arise. If preventive measures reduce the possibility that losses will occur, and if the reduced risk is rewarded in the form of lower premiums, risk pooling and prevention can become complementary. Thus, premiums for private automobile accident insurance are typically higher for groups of drivers the market considers more risky (men under 25) and lower for those considered less risky (senior citizens). In the case of public, market-type pooling, the premiums employers in the United States pay for unemployment insurance are risk-rated; industries characterized by frequent turnover pay higher premiums than those with lower turnover.<sup>2</sup>

- Fourth, individuals are better off when all options are available than when one is missing. If only pooling and prevention are available, individuals would be worse off since they would be forced to use risk-pooling mechanisms for losses that are not rare. If only pooling and savings are available, those who are good at prevention would be denied the opportunity to reduce the premium they pay for pooling. And if only saving and prevention are available, individuals would be denied the most cost-effective tool for protecting themselves against rare but very costly losses. (When prospective losses are relatively small, however, it may be more efficient to bear the loss rather than incur the costs of mitigation.)

Figure 1 illustrates the prescriptions of the comprehensive insurance approach on two axes: frequency (the probability of occurrence) and size of the prospective loss. It is more efficient for individuals to cope rather than try to insure (either by pooling or saving) against small, rarely occurring losses (the top, left corner of the figure). But as prospective losses become more frequent, it becomes relatively more efficient to engage in prevention and saving to mitigate the losses. As prospective losses become less frequent but increase in size, on the other hand, it is more efficient to engage in risk pooling. For losses that occur

frequently and are catastrophic (the bottom, right corner of the figure), individuals or households can do little on their own to mitigate the losses, and public intervention is needed to provide larger risk pools. This usually takes the form of tax-financed social assistance, which in effect pool risks across all taxpayers. Covariate risks—those suffered by many individuals in the same potential risk pool at the same time—fall in the catastrophic and frequent lower right corner of the figure.

### The Need for Public Intervention

The comprehensive insurance framework is not limited to analyzing risk management at the household level. It also offers guidance for governments in examining the implications of economic management and fiscal policy for social protection. Just as individuals and households facing risk can pool, save, or prevent where the necessary instruments to do so are available—or cope with losses from a shock should they fail to insure—governments have similar options. They can pool the risks of a limited range of possible losses through promotion of market insurance (such as private disaster insurance or public standby facilities); they can save by accumulating surpluses in good times to spend on social programs during bad times (earmarking, stabilization funds, countercyclical spending policies); and they can help prevent future losses by practicing prudent monetary and fiscal policy, undertaking reforms that increase the efficiency and safety of factor markets, and investing in increasing their administrative capacity. Often governments that are forced to cope are likely to cope badly by cutting investment in public education, health, and infrastructure.

The policies governments use to manage risk affect the instruments they can provide in turn (or augment) for individuals and households. Governments that fail to prevent losses such as unemployment by exercising prudent fiscal and monetary policies and eliminating distortions in markets leave their citizens little alternative but to try to cope. That is partly because profligate public spending and failure to remove market inefficiencies increase the likelihood of macroeconomic shocks, making them difficult to insure against, and partly because the same market inefficiencies keep prices of saving and risk pooling from adjusting to reflect risks accurately. Where prices cannot adjust and administrative capacity to correctly price risk is low, the complementary link between prevention and risk pooling is broken, increasing the likelihood that social insurance will succumb to moral hazard and adverse selection.<sup>3</sup>

Governments that do engage in sound economic policies, however, reduce the likelihood of future shocks, thereby reducing the cost of pooling risks. For them, social insurance becomes more affordable.

### Unemployment Insurance

Because employment earnings are typically the largest source of household income, losses resulting from job loss and extended periods of unemployment are substantial, even catastrophic. But if a labor market is relatively free of distortions and operates efficiently, the risk of losses from extended periods of unemployment is usually rare (although labor-market turnover may be high). In this happy situation, individuals are more likely to rely on self-insurance (savings) to mitigate the income losses from relatively frequent turnover and movement from one sector of employment to another, while seeking other options to protect against the relatively rare, but larger losses from extended periods of unemployment.

The job of providing insurance usually falls to government because the risk of becoming unemployed can be highly systemic. When unemployment strikes, say in a recession, a large number of individuals in the risk pool are affected. Since there typically are not enough employed people to compensate those who have lost their jobs, it becomes too expensive for private insurers to cover losses. For this reason, unions and governments step in to provide insurance instruments. These include pooling at the firm level in the form of severance programs, pooling across the working population in pay-as-you-go systems of unemployment insurance, and establishing systems based on individual savings accounts with minimum benefit guarantees backed by pooled funds.

### The Case of Chile

With some recent notable exceptions, analytical work suggests that the labor market in Chile is relatively efficient and free of barriers to employment (compared with Argentina or Colombia). As a result, many individuals can afford to self-insure against the prospect of short-term unemployment, and the government is well positioned to provide pooling against some amount of longer-term joblessness. Both forms of protection increasingly appear to be needed: there is growing concern that job loss is becoming more frequent, and the average duration of unemployment may be rising. With the rate of joblessness remaining high—10 percent in 2001—current unemployment may be rooted not only in lower aggregate demand, but also in the realignment of relative prices. The cost of capital has been declining significantly, the cost of labor increasing. Since 1998 minimum wages have increased by about 20 percent in real terms, affecting mostly small and medium-size enterprises, which are the major generators of employment in the private sector. Recent changes to the labor code may raise the cost of labor further through greater restrictions on employers in dealing with strikes and dismissals.

**Figure 1. Prescribed Mitigation Instrument According to Size and Frequency of Potential Losses**

Size of loss	Frequency of loss (probability of occurrence)									
	Rare									Frequent
Small	Do nothing (coping)									More saving, more prevention
Medium	Some saving									More prevention
	More pooling									Less saving
Large	Pooling									Prevention
Catastrophic	Pooling									

In the midst of this changing macroeconomic picture, Chile is gradually replacing a very modest, noncontributory unemployment benefit—the *subsidio por cesantía*, available to all who can present proof of job loss and financed out of general revenues—with a contributory unemployment insurance system based primarily on private savings accounts. The new system combines aspects of savings and market-type risk pooling. Employer and worker contributions accumulate in privately managed individual savings accounts (similar to Chile’s retirement savings accounts), and covered workers are granted limited access to a government-financed pool of funds if they exhaust the balance in their accounts.<sup>4</sup>

Seen through the comprehensive insurance lens, Chile’s system is well designed. It effectively mitigates the more frequent losses from job turnover (through savings) as well as the relatively rare losses from extended periods of unemployment (through public risk pooling). Its flexibility is key. Should the magnitude or frequency of prospective losses from unemployment change with the economic cycle or changes in policy, the size of the savings component relative to the pooling component could be adjusted without requiring politically contentious structural changes to the whole system.

### Drawbacks

The new system has some drawbacks. First, the maximum potential benefit duration—five months—is short, especially with the rising average duration of unemployment. For the many unemployed workers who may not succeed in finding work in that time, the end of their entitlement (as well as the fact that replacement rates decline with each successive month) will result in hardship. This problem will be especially apparent during downturns when the private labor market generates fewer new job openings than during periods of growth.

A second concern is that the new system does nothing to protect workers in the informal sector against losses from unemployment. Previously, both informal and formal workers could qualify for benefits simply by offering proof of unemployment. By shifting to employer and worker contributions as the main source of financing, the system now draws a sharp distinction between the protection enjoyed by workers with legal contracts and those without them, including the self-employed. And the creation of individual accounts is not likely to lead to greater formalization, as it did in Chile’s pension reform in 1981. Then, individual savings accounts replaced a pay-as-you-go payroll-tax financed

system and actually led to a reduction in payroll tax rates. But the new unemployment accounts do not replace a payroll-tax financed system. As a result, they will add to payroll taxes rather than lead to reductions in contribution rates.

All this suggests that self-targeting public employment programs (those that do not require proof of unemployment and that pay salaries well below the private market wage) continue to be the best unemployment insurance governments can offer to workers in the informal sector. Although not explicitly aiming to help such workers, noncontributory unemployment assistance and employment creation programs such as *Trabajar* in Argentina<sup>5</sup> may fit the bill because they do not condition access to benefits on whether workers have paid premiums or contributed to individual accounts. ▲

## Endnotes

1 Based on Isaac Ehrlich, and Gary Becker, "Market Insurance, Self-Insurance and Self-Protection," *Journal of Political Economy* 80: 623–648 (1972); Indermit Gill and Nadeem Ilahi, "Economic Insecurity, Individual Behavior, and Social Policy" (World Bank, Office of the Chief Economist, Latin America and the Caribbean Region, Washington D.C., 2000). For an empirical application of the framework to the risk of poverty in old age see Truman Packard, "Pooling, Saving and Prevention: Mitigating Old Age Poverty in Chile," World Bank Policy Research Working Paper 2849, (Washington, D.C., May, 2002)

2 Risk pooling and prevention can only be complementary if the price of pooling accurately reflects the probability of loss. That can be difficult to achieve, especially in the case of large government social insurance schemes, for both administrative and political reasons. As a result, moral hazard has become widespread, especially in the welfare states found in many European countries.

3 Adverse selection is another perverse outcome of providing insurance that arises due to imperfect information. Since the individuals most likely to purchase insurance are those who are more likely to need it, a risk pool can quickly be populated by a large number of bad risks, that is those that are more likely to suffer the shock and need a pay-out from the risk pool. If the risk pool has too many bad risks there will not be enough good risks to effectively cover possible losses. Adverse selection compromises the effectiveness of the risk pool.

4 The new system went into effect in May 2002, and applies to all new employment contracts. Workers with existing contracts can choose to participate in the new system, but will be forced to join upon negotiating a new contract. The noncontributory subsidio por cesantia will be phased out, and the government funds that currently finance subsidio will be diverted to finance the pooled component of the new system.

5 "Working in Partnership to Protect the Vulnerable," page 42.





# Effective Social Protection Programs

**G**overnments and donors have employed a wide variety of tools to protect the vulnerable and provide a springboard out of poverty. Typically, these social protection tools consist of both social insurance and social assistance programs. Social insurance includes mechanisms that pool risks across groups, such as pension systems and unemployment and health insurance programs. Social assistance programs provide income and support basic services; they include cash and in-kind transfers, workfare, programs targeted to specific groups such as indigenous populations and at-risk youth, and a number of community-driven support activities backed by social investment funds. The exact mix and form of a country's social protection programs depends on its specific circumstances—including, among other factors, the key risks and vulnerable groups, the presence or absence of private insurance markets, the fiscal and administrative capacity of the government, and the state of nongovernmental organizations and the private sector.

While different countries face different circumstances, all share some common challenges in creating effective social protection programs. For example, many countries in Latin America and the Caribbean reformed their pension programs in the late 1980s and early 1990s, substantially improving their long-term fiscal sustainability. But they still face challenges to improve program coverage and address concerns about the equity of remaining public subsidies. Similarly, while models of effective social assistance programs exist in Latin America and the Caribbean, many countries continue to face challenges relating to institutional capacity, program targeting, fiscal affordability, and impact.

This section describes several innovative programs that have been at the core of the region's efforts to protect the poor and vulnerable. Many have received financial or technical support from the World Bank and other donors. The section starts with three of the workhorses of social assistance efforts in the region—workfare, social funds, and conditional transfer programs. The articles review recent accomplishments, explore how programs are adapting to evolving circumstances, and discuss key challenges countries and donors face as they work to provide effective social safety nets. The section concludes with an article that focuses on old age security; it examines gains associated with pension reform efforts and challenges that remain for the pension reform agenda. ▲

# Working in Partnership to Protect the Vulnerable: Argentina's *Trabajar* and *Jefes de Hogar* Programs

Claudia Berra and Polly Jones

As unemployment climbed in the wake of prolonged recession in the late 1990s, the Argentine government and the World Bank collaborated to strengthen a key element of the country's social safety net: direct employment programs for poor workers unable to find jobs. The partnership produced significant benefits not only for some of the country's most vulnerable groups, but for the whole society as well.

The Ministry of Labor and Social Security had offered temporary work to those who were not covered by unemployment insurance or other safety nets since 1993. As a result, it had a management and administrative structure that enabled it to plan strategically and operate throughout the country. But with joblessness rising to 17 percent by October 1997, the Ministry was eager to increase the effectiveness of its programs and expand coverage to more of the unemployed who were poor and least qualified for jobs. To avoid distorting the labor market, it hoped to improve the employability of the beneficiaries rather than merely granting subsidies.

A World Bank team analyzed the strengths and weaknesses of the existing programs, asking several key questions: What is the target population? What mechanisms would assure better targeting? What can the Ministry do to achieve these results?<sup>1</sup> The result was *Trabajar*, a program to put unskilled and unemployed people to work on small infrastructure projects designed to improve living conditions in poor areas. Municipal governments or nongovernmental organizations carried out the projects, and the central government covered the labor cost. The Bank provided two investment loans totaling nearly \$500 million to finance *Trabajar* over five years beginning in 1997.

The program had several notable strengths:

**Effective targeting.** The program targeted both the poorest households, which received income transfers, and the poorest regions, which benefited from social investment. To accomplish these twin goals, the overall budget was allocated among regions based on household survey data

that showed the distribution of the target population—unemployed people below the poverty line (reallocation was allowed in the event any locality failed to use its share). Two requirements ensured that funds would be allotted to individuals in a way that kept administration costs low and prevented funds from leaking to the non-poor: beneficiaries had to work six hours a day and benefits were set slightly below the going wage rate for unskilled labor (based on household survey data). These requirements guaranteed that only poor people without steady work would find the program attractive and decide to participate. Finally, a system was developed to ensure that resources would be concentrated in the most disadvantaged localities, as indicated by estimates of local poverty. The World Bank designed an indicator to monitor performance in this area.<sup>2</sup>

**Integrated information and monitoring.** In collaboration with the World Bank, the Argentinian government developed an integrated information and monitoring system to gauge the impact of the program. The system provided for periodic follow-up of the execution of projects, and supplied information regarding the activities carried out, the status of project resources, and comparisons of results with expectations based on selected indicators. Quarterly and annual reports facilitated coordination, prevented duplication with other Ministry programs, helped to overcome the fragmentation of activities, and made it easier for the government to integrate projects and adjust for gaps in coverage.

**Management improvements.** The World Bank supported other management improvements, including more systematic evaluation and strategic planning. Monitoring indicators became a key element in management and decision-making, used to plan technical assistance and to defuse political pressures.

**Evaluation.** *Trabajar* was one of the few programs—if not the only one of its size and coverage in the country—that had two impact evaluations. The first took advantage of a comprehensive survey that another Argentine agency was conducting with World Bank support. The National Statistical Institute administered that



survey instrument on a sample of *Trabajajar* beneficiaries, and the World Bank selected a control group from the larger survey, using a relatively new evaluation technique known as matching. Because future Bank financing of *Trabajajar* depended on the performance of the first project, the work was organized to generate results less than a year after approval of the first loan. The second evaluation looked at what happened to participants in *Trabajajar* after they left the program.

The studies broke new ground in the areas of methodology and program evaluation. They demonstrated several things: first, it is important to think about evaluation early enough to be able to identify and design instruments, and coordinate with other groups such as national statistical institutes; second, participation by staff in the World Bank research department can ensure technical excellence; and third, local counterparts are capable and willing to collaborate on evaluations, building local capacity in the process.<sup>3</sup>

## Results and Next Steps

Evaluations based on household surveys showed that participation in *Trabajajar* increased incomes of beneficiaries on average by \$103. That was less than the *Trabajajar* subsidy of \$200 because the calculation took into account the opportunity cost—that is, what income a beneficiary might have realized from a job in the market. The evaluation also showed that more than half of the participants belonged to households whose per capita income put them in the poorest 10 percent of the population. Four out of five were within the poorest 20 percent of the population.

But that doesn't begin to measure all the benefits of the collaboration between the World Bank and Ministry teams. *Trabajajar* also led to completion of more than 10,000 community infrastructure projects that reached, on average, 300,000 beneficiaries per year. What's more, beneficiaries had an opportunity to learn the value of work to their communities and to themselves as individuals without the stigma that might accompany government subsidies.

The work goes on. In late 2001, with unemployment hitting 21.5 percent, the government expanded support to families in danger of economic deprivation by establishing the *Jefes de Hogar* (Heads of Household) Program.<sup>4</sup> The program resembles *Trabajajar* in many respects. It, too, required beneficiaries to work at a wage rate expected to ensure targeting to the poor, used similar systems of monitoring, emphasized poor geographic areas and used household surveys to evaluate the impact.

But the new program also has significant differences. It guarantees access to all eligible heads of household willing to fulfill the work requirement, expands the

work requirement activities to include labor-intensive community services and maintenance activities (working in a soup kitchen, a health center, or school), involves supervision of only a sample of projects, and places responsibility for selecting the activities and registering beneficiaries at the local level. Since its announcement in April 2002, the program has grown to cover nearly two million beneficiaries. The impact evaluation will be based on data from a special module that the National Statistical Institute agreed to include in its regular bi-annual household survey. The evaluation will use matching techniques and panel data. ▲

## Endnotes

1 For more details on the framework for analysis, see Ravallion, Martin, "Appraising Workfare," *World Bank Research Observer* 14: 31–48 (1999).

2 To read more, see Ravallion, Martin "Monitoring Targeting Performance when Decentralized Allocations to the Poor are Unobserved," *World Bank Economic Review* 14 (2): 331–46 (2000).

3 To read more, see Martin Ravallion, Emanuela Galasso, Teodoro Lazo, and Ernesto Philipp, "Do Workfare Participants Recover Quickly from Retrenchment?" Policy Research Working Paper 2672 (2001), and Agustín Salvia, Emanuela Galasso, and Martin Ravallion, "Assisting the Transition from Workfare to Work: A Randomized Experiment," Policy Research Working Paper 2738 (2001).

4 The World Bank approved a \$600 million loan to support the *Jefes* Program in January 2003.

# Re-engineering Social Funds for Local Governance: The Central American Experience

Rodrigo Serrano and David Warren

In recent years, many social funds in Latin America and other regions have been redefining their goals and strategies to promote good local governance. This trend reflects an emerging consensus that a lasting reduction in poverty requires capable, accountable, and dynamic local governments as well as vibrant and empowered civil societies. The challenge for these social funds is how to apply this new focus to their traditional task of creating small-scale infrastructure and delivering local services.

Social funds in Central America were created in the early 1990s to soften the impact of structural adjustment policies on the poor by financing small-scale investments (mainly infrastructure projects) in poor communities, thus enhancing these communities' access to basic services and generating temporary employment. By the mid-1990s, the funds had shifted their emphasis towards improving access to basic services and infrastructure, particularly in the areas of education, health, water and sanitation, and municipal and community infrastructure. Most of the Latin American funds continued to use centralized methods at the beginning of this new phase, financing and overseeing contracts with third parties or in some cases directly with communities, but largely bypassing local governments. But some funds started to realize that their new mandate called for a more decentralized approach. Even if local governments were unresponsive, captured, or corrupt, the argument went, the solution was to reform them rather than skirt them and thereby undermine their relevance to their own citizens.

This article explores how three social funds in Central America—*Fondo de Inversión Social de Emergencia* (FISE) in Nicaragua, *Fondo Hondureño de Inversión Social* (FHIS) in Honduras, and *Fondo de Inversión Social para el Desarrollo Local* (FISDL) in El Salvador—are meeting the decentralization challenge. In the last few years, all three have partially or radically shifted resources and responsibilities for investment planning, contracting, implementation, and maintenance to local governments. Their strategies for accomplishing this reform have varied. The funds in Honduras and Nicaragua have taken a gradual approach, complementing the efforts of agencies responsible for

decentralization policy in those countries. In El Salvador, in contrast, the national government has transformed the social fund into the lead agency for local development, and pressed for a more radical devolution of responsibilities to local governments.

## Fostering a Local Dialogue to Improve Local Investment Planning

As a first step toward decentralization, all three funds started requiring that priority investments arise from municipal investment plans rather than isolated petitions from communities. Further, they put measures in place to ensure that municipal plans were products of genuinely transparent and participatory dialogue between communities and local authorities.

In Honduras and Nicaragua, the absence of statutory guidelines for participatory municipal planning forced FHIS and FISE to develop their own ways to ensure meaningful and participatory planning processes. Evaluations show that the procedures prescribed by the social funds produced plans that were transparent, inclusive, and participatory. But they also showed that local citizens and governments saw the municipal investment plan more as an instrument to get social fund financing than as a tool to plan local development in general. Overcoming this perception is difficult in the absence of statutory guidelines enforced by noninvestment related agencies, but social funds can mitigate this problem by requiring that municipal plans be based on open project menus (even if a social fund only finances certain menu items) and that local governments commit some of their own revenues to pay for these plans (rather than relying only on social funds' resources). In addition, the funds themselves should recognize existing municipal plans (when they meet pre-defined criteria) rather than always demanding a new plan for the social fund.

The two funds' participatory planning methodologies not only improved the quality of municipal investment planning, but also influenced policy. When the agencies responsible for municipal development—the Institute for



Municipal Development in Nicaragua, and the Ministry of the Interior and Justice in Honduras—decided to develop statutory guidelines for participatory municipal planning, they took into account the social funds' experience and their methodologies.<sup>1</sup>

The process worked differently in El Salvador since FISDL was the lead agency for local development. There, the social fund focused on making policy rather than devising a specific methodology for participatory planning. It worked with the Consultative Group, a group that had defined the National Strategy for Local Development and that included representatives of national government, the Association of Municipalities, nongovernmental organizations, and the private sector. After more than a year of deliberations and technical studies, the Group agreed on six minimum criteria for participatory planning, including 19 indicators, 26 means for verification, and a range of possible outcomes.<sup>2</sup>

### Competitive Bidding to Create Incentives for Good Municipal Performance

These three Central American social funds have sought to design financing mechanisms based on sound principles for intergovernmental relations. FHIS and FISE established ex-ante municipal allocations based on a formula incorporating population and poverty indicators. FISDL is experimenting with a more radical innovation: a competitive bidding system. In a context where local governments receive significant resources through intergovernmental transfers (6 percent of the national budget) but few mechanisms exist to ensure the good use of those resources, FISDL believes competitive bidding will create incentives for good municipal performance. Specifically, the system was designed to promote these goals:

- **Ensure municipal commitment.** With all municipalities competing for FISDL's funds, proposals with the highest local contributions win.
- **Reward participatory planning, administrative efficiency and transparency.** To participate in the bidding, a local government must have a municipal development plan elaborated on the basis of a municipal participatory planning process, show evidence that it has presented quarterly reports to the national government on the use of transferred resources, demonstrate that it has executed the previous year's national transfers, and produce auditing documents certifying that it makes good use of intergovernmental transfers.
- **Encourage municipalities to invest in high-impact projects.** Before the bidding process, municipalities were mostly investing in isolated, small (less than \$22,000), and low-impact projects. Now, projects seeking FISDL funding must be greater than \$50,000,

a requirement that helps ensure that the projects serve multiple communities and even multiple municipalities.

- **Increase municipal capacities to create alliances with other local governments, the private sector, nongovernmental organizations, and other institutions.**

Another reason for making local contributions the main criteria for winning FISDL funds is to encourage municipalities to reach out to businesses, nongovernmental organizations, and the communities for cash or in-kind contributions. To promote inter-municipal associations, FISDL said that, if all other considerations are equal, a project presented jointly by more than one municipality would be selected over one presented by single local governments.

Between September 2000 and September 2002, FISDL organized eight competitive biddings (*Concurso de Fondos*), in which 203 municipalities (77 percent of the total) sought funding for 371 investment projects. FISDL awarded funding to 248 projects sponsored by 127 municipalities. The total investment budget was about \$46 million, 48.5 percent of which came from local governments, community associations, private businesses, and organizations of Salvadorans in the United States.

Contrary to fears, the process did not discriminate against poorer and smaller municipalities. In fact, 75 percent of the funds were awarded to municipalities in the poorest two quintiles. Some of these municipalities have strong social networks, which allow them to mobilize high levels of support from their communities. What's more, these municipalities generally have shown a greater predisposition than larger and richer municipalities to meet good governance eligibility criteria, which require participatory planning, administrative efficiency, and transparency.

### Devolution of the Project Cycle to Build Municipal Capacity for Managing Investment Projects

The acid test of a social fund's commitment to decentralization is how far it goes to shift responsibilities and resources for managing the project cycle—the procedures that govern identification, design, approval, contracting, execution, supervision, and maintenance—to local governments. This has not been easy to accomplish because most local governments have weak managerial capacities.

FHIS and FISE are following a gradual approach, transferring responsibilities according to local governments' capacities and seeking to help municipal development agencies increase their capabilities. FHIS started by devolving all responsibilities to the 20 municipalities with the greatest administrative capacities, as measured by an index. The fund transferred its instruments for project cycle management, such as software for project formulation, and has given municipal teams training and techni-

cal assistance on its standards and procedures. Local governments have applied this know-how not only to FHIS-funded projects, but also to investments funded with their own revenues. FHIS is working closely with the agency that coordinates municipal training (the Ministry of Interior and Justice) to enhance the revenues and capacities of other municipalities with high potential for improvement.

For municipalities with low capacities and low potential for improvement, FHIS is experimenting with the idea of shifting responsibility to associations of municipalities that are supported by nongovernment organizations or government agencies. The fund is testing this approach with the InterMunicipal Council of Lempira Sur, which, supported by the German Technical Cooperation Agency, brings together six of the poorest municipalities in the country. FHIS is studying what alternatives are available for the low-capacity, low-potential municipalities that do not belong to such associations.

Once again, FISDL has chosen a more radical approach. Since 1999, FISDL has shifted all project cycle responsibilities to all local governments, and has set up a support structure of 52 municipal advisors who assist local governments with project management. Municipal advisors spend one day per week in every municipality, working with laptop computers that allow them to connect remotely to the agency's information systems. FISDL has a demand-driven program to build municipal administrative capacities.

### Preventive Maintenance Fund to Ensure Sustainability of Local Investments

Social funds have been criticized in the past for failing to ensure that infrastructure they help build is maintained. That was a complicated task since local governments, bypassed in planning and developing projects, often did not accept responsibility for maintaining the resulting infrastructure. The social funds in Nicaragua, Honduras, and El Salvador have addressed this concern not only by working more closely with local governments and user groups, but also by devising innovative institutional mechanisms for maintenance.

In 1997, for instance, Nicaragua's FISE created the Preventive Maintenance Fund (*Fondo de Mantenimiento Preventivo* or FMP), which helps municipalities pay for preventive maintenance of primary schools and health centers. Instead of being a discretionary fund managed by FISE, FMP's funds appear as a specific line in the central government's General Budget approved by Congress; FISE administers the transfer according to transparent rules. Initially limited to FISE's investments, the FMP now can cover all primary schools and health centers in the country.

Before these funds can be released, several conditions must be met:

- Both local governments and communities (the latter through education or health maintenance committees) must provide local counterpart resources. So far, for every dollar provided by the national government, communities and local governments have contributed 27 cents. Extremely poor municipalities receive more co-financing than those that are less poor.
- Local School Councils, Maintenance Committees and local governments, with the support of the Municipal Delegates of the Ministries of Education and Health, must assess their infrastructure and devise a maintenance plan and budget for each facility.
- Each municipality must present an Annual Maintenance Plan, which is based on individual facility maintenance plans and specifies local contributions. Before FISE approves the proposal, local governments must deposit their share in a bank account.

Once these conditions are met, FISE disburses the funds in tranches to local governments, which in turn distribute them among the selected facilities. Community maintenance committees supervised by the local government manage the work. The committees have a strong incentive to perform well since they can receive funds every year only if they are well organized and can show a good track record.

As of 2002, the FMP had funded preventive maintenance on almost 3,000 units; this represents 97 percent of the units built, repaired or expanded with FISE's funds, or 41 percent of the primary health and education network. Since 1997, the FMP has channeled \$3.5 million to communities for preventive maintenance; of this, 80 percent came from the central government through FISE, 10 percent from local governments, and 10 percent from community groups.

### Is It Working?

It is too early to make a conclusive assessment about the contribution that FHIS, FISE, and FISDL have made to decentralization in their respective countries. The reform of these funds is still recent, and decentralization policies have gone through significant fluctuations. Their main contribution so far has been to create conditions at the local level that enable the decentralization processes to work well. In particular, the funds have fostered new dialogue between communities and local governments concerning local investment priorities, and they have contributed to institutionalize statutory guidelines for participatory and transparent municipal planning. By transferring funds as well as managerial and technical know-how to municipalities, they have enabled learning by doing, and they have increased municipal capacities to manage infrastructure building. And they have developed institu-

tional mechanisms to guarantee that infrastructure is maintained. They still face the challenge, however, of increasing the involvement of communities beyond the planning stage.

While the balance so far appears to be positive, the lack of a clear and comprehensive policy for decentralization and local development from national governments has made it difficult to establish the proper role of social funds in each country with respect to these issues. A national decentralization policy should include incentives for civic engagement, sector policies that clearly allocate responsibilities, sound legal and fiscal frameworks, and initiatives to build municipal administrative and financial capacities. Without such policies, social funds operate in an institutional vacuum that limits their contribution to processes of good local governance and healthy intergovernmental relations. ▲

## Endnotes

- 1 For the municipal planning system of Nicaragua see <http://www.inifom.gob.ni/Documentos/SPM-ILUSTRADA.pdf>.
- 2 For a detailed list of indicators and outcomes, see [www.fisdll.gob.sv](http://www.fisdll.gob.sv).

## The Honduran *Nuestras Raíces* Program

While supporting decentralization, social funds often are asked to help meet the needs of vulnerable individuals and groups whose voices may not be strong within a given area to mobilize support. These special needs groups can include at-risk children and youth, people with disabilities, the elderly, and people infected with HIV/AIDS. Social funds around the world have been at the cutting edge in developing innovative strategies to reach such groups, often working with nongovernmental organizations and other partners under special programs. The Honduras Social Investment Fund's *Nuestras Raíces* (Our Roots) Program is one such effort. It aims to reach ethnic communities that historically have been marginalized.

The indigenous and Afro-Honduran communities of Honduras represent the country's most vulnerable population groups. Accounting for approximately 16 percent of the national population (959,700), these groups are distributed among 9 communities and organized into 10 ethnic federations located in 15 of the country's 18 departments.

The Honduran Social Investment Fund launched *Nuestras Raíces* in 1995 in response to demands from ethnic communities. The program seeks to finance micro-projects identified, selected, and executed by the communities, cultivate a culture of savings and investment by creating or strengthening rural savings and credit mechanisms, and increase communities' technical and financial management capacities. Its main activities include training, micro-project execution, strengthening institutions, providing tools, facilitating communication between FHIS, federations, and communities, and monitoring and evaluation.

Between 1995 and 1999, the World Bank provided financial support totaling \$6.5 million to the program in three phases. A fourth phase began in June 2001, with \$13 million from the World Bank. This phase financed 4,168 micro-projects, directly benefiting 125,000 heads of household. Some 42 percent of the beneficiaries were women, and women held 60 percent of representative positions. The program also strengthened 3,668 rural credit and savings groups. A total of 3,350 group coordinators, 420 ethnic liaisons, 310 liaisons with the Fund, and 50 heads of the ethnic federations were trained to run the program.

An evaluation in 2002 showed that the program successfully targeted extremely poor population groups and worked well with the indigenous and Afro-Honduran federations, contributing to their social legitimacy and development. The evaluation also said that by financing micro-projects that were of high priority for communities, the program strengthened local decisionmaking, enhanced communities' capacity to mobilize other funds, and effectively helped organize rural credit and savings mechanisms and other productive activities.

The evaluation also identified some limitations of the program. It said the organizational capacity of the federations was uneven, the projects had limited sustainability because the program only financed labor costs, and there was limited trickle-down of training from community representatives to the rest of the community. In the long run, the program also needs to support a fuller integration of indigenous and Afro-Honduran communities into the mainstream processes of governance and service delivery, both at the central and local levels. This would have implications for Fund activities beyond the *Nuestras Raíces* Program.

Based on the recommendations of the evaluators, the Honduran government is addressing these concerns. It and the World Bank are working on a possible new phase of support for the program in 2004. ▲

# Conditional Cash Transfer

## Programs: An Effective Tool for Reaching the Poorest and Most Vulnerable

Andrea Vermehren

Helping the poorest of the poor has never been easy. Although governments and nongovernmental organizations have taken significant steps to make basic social services available in poor regions, they still fail to reach many needy families. Demand side factors—including high out-of-pocket expenditures for items such as school uniforms, materials, and transportation; families' need for children to contribute to their income; and various behavioral and historic barriers—all keep many poor people from taking advantage of services even when they are available. But a new type of social assistance program seeks to narrow the gap between supply of services and demand for them. Known as the conditional cash transfer (CCT) program, it gives families cash benefits to pay for basic health and school expenses—as long as children attend school and regularly visit health clinics.

The World Bank supports CCTs in a number of countries in Latin America, Eastern Europe and the Middle East. In 2002, the Bank's Latin American and the Caribbean Region and the Mexican government sponsored the first regional workshop on CCTs,<sup>1</sup> focusing on the experience of practitioners and donors. This article draws on the collective experience of officials, donors and academics who participated in the workshop to share some lessons learned in designing and putting CCTs into practice.

### Similar Objectives, Different Contexts

CCTs have two objectives: to increase income and alleviate poverty in the short term, and to break the inter-generational cycle of poverty by increasing human capital. But different situations led to their creation in different countries. (For details on program features by country, see table 1.)

#### The Pioneers: Mexico and Brazil

Following the experience of Honduras' *Programa de Asignación Familiar*, Mexico was one of the first governments to introduce a conditional cash transfer program. PROGRESA, the *Programa de Educación, Salud y Alimentación* (Education, Health and Nutrition Program)

was launched in 1997 and recently renamed *Oportunidades*. It offers health and education grants to families on the condition that their children under age six pay regular visits to health facilities and those 6–17 remain in school. The program, which replaced general food subsidies, is fully financed by the national government. Combining geographical and household targeting, it has become the largest conditional cash transfer program in Latin America, serving more than 3.5 million families, and is now being expanded to urban areas and older children. Brazil followed in the late 1990s with programs such as *Programa Nacional de Bolsa Escola* and the *Programa de Erradicación do Trabalho Infantil* (PETI). Both programs seek to reduce poverty, increase educational attainment, and decrease the incidence of child labor. The Bolsa Escola Program is financed at the municipal level and operates in metropolitan areas of Brazil. PETI's principal objective is to eliminate the worst forms of child labor among children ages 7–14 in rural areas, while also increasing school access and retention and reducing short-term poverty. For 2003 it plans to expand to urban areas and target children involved in prostitution, drugs, and other harmful activities.

#### Conditional Cash Transfers as Part of a Social Safety Net Reform

Jamaica introduced a conditional cash transfer program in 2001 as the centerpiece of a broader effort to reform a social safety net characterized by duplication of programs, deficient targeting, and lack of coordination among social ministries and agencies. To correct these problems the country consolidated three parallel transfer programs, each with different rules and selection criteria, into a CCT program. PATH (Program for Advancement Through Health and Education), as the program is known, provides benefits to children, pregnant mothers, the disabled, the elderly, and the indigent poor. The assistance is conditioned on school attendance by children ages 6–17 and regular health clinic visits by others. As part of PATH, the Jamaican government introduced a universal Beneficiary Identification System, a proxy means test applied at the



**Table 1. Features of Conditional Cash Transfer Programs, by Country**

Country	Name of program	Level of monthly benefits	Annual budget (\$)	Number of beneficiaries
Mexico	Programa Oportunidades	Various, about \$15 per family	1.8 billion (2002)	3.3 million families (2001)
Brazil	Bolsa Escola	\$5.17–15.10 per family	800 million	1.8 million families (8 million children)
Colombia	Familias en Acción	\$6 per child in primary school, \$12 per child in secondary school	100 million (2003)	340,000 families (1 million children)
Jamaica	PATH (Program of Advancement through Health and Education)	\$6.50 per person, successively increasing to \$9 per person	22 million (2003)	230,000 children, pregnant mothers, elderly, disabled, and poor people
Nicaragua	Red de Protección Social (Social Safety Net)	Nutrition benefit \$34 per family every 2 months; education benefits \$17 per family or more every 2 months	5 million (2001)	10,000 families, 60,000 children (2001)
Costa Rica	Superémonos	\$27.5 per family for maximum 6 months	3.34 million (2002)	8,300 families
Honduras	PRAF (Programa de Asignación Familiar/Family Assignment Program)	\$3 per person	1.2 million (2002)	About 220,000 children, pregnant mothers, and elderly people

Source: "Workshop on Conditional Cash Transfer Programs: Operational Experience," prepared by Ayala Consulting Co., World Bank, Human Development Department, Latin America and the Caribbean Region, 2003.

### Box 1. Conditions for Receipt of Transfers: Nicaragua's CCT program, *Red de Protección Social*

- No more than five days of absenteeism per school semester
- Monthly or bimonthly visits to health centers, depending on child's age
- A child's progress in weight gain
- Mothers' participation in bimonthly seminars on nutrition, hygiene, early childhood development and other subjects

Note: Attendance is verified by teachers and health personnel.

household level (other safety net programs—including school feeding, school fee assistance, health programs—also will use the system). The World Bank helped facilitate a consensus on the reforms, supported design of the CCT program including its targeting mechanism, and helps finance benefits and technical assistance.

### CCTs as Emergency Response

Colombia and Turkey introduced CCT programs in 2000 as a quick response to emergencies. In Colombia's economic crisis and Turkey's earthquake, short-term poverty alleviation was as important as long-term human development. The Colombian program is modeled on the Mexican program and is part of a package of safety net investments that, along with a workfare program and youth training program, constitute Colombia's main social sector response to the economic crisis. This package of programs is supported primarily through external financing from the World Bank and the Inter-American Development Bank (IDB), with total financing amounting to an additional 0.3 percent of the country's GDP (approximately \$250–300 million a year) above current public social expenditures through 2004. This strategy represents a first step in developing a countercyclical social protection program that can be implemented in times of crisis to address the needs of the vulnerable. Turkey, meanwhile, made one-time cash payments to victims of the 2001 earthquake, and is setting up a long term CCT program, also modeled after PROGRESA.

### CCTs as Programs to Improve Human Development

In Nicaragua and Honduras, CCT programs were designed more to address long-term human development concerns. In parts of each country, as many as 50 percent of all children never enroll in school or drop out during early years of primary school. Nicaragua provides cash benefits to families so that they can meet their obligations. Because of supply constraints, it contracts with private health providers to offer services in remote areas so that families receive minimum health care service. The World Bank is cofinancing part of this program, in coordination with the main donor, the IDB.

Conditional cash transfers improve the efficiency and effectiveness of safety nets in several ways:

- They achieve multiple objectives such as health, nutrition, and education through the use of a single instrument.
- They are better targeted than general subsidies and most infrastructure investments due to proxy means testing and geographical targeting.
- They are transparent as to who receives payments.
- They can be useful tools in times of crisis because gov-

ernments can vary the level of benefits and number of beneficiaries as conditions change.

- Transaction costs for cash benefits are much lower than for in-kind benefits.
- They empower families, especially women, by allowing them to make choices on how and when to use the benefit.
- They have achieved significant, measurable impacts on beneficiaries' welfare, notably in health and education.

However, questions regarding the effects and effectiveness of conditional cash transfers remain:

- *Verification of eligibility of beneficiaries.* How can the targeting system be designed so that it is sufficiently flexible and is resistant to outside influence?
- *Conditions on transfers.* Should all transfers be conditional—for instance, by earmarking them for disabled? What value added is expected?
- *The tradeoff between supply and demand.* Shouldn't the supply side first be put in order before introducing a demand side intervention that then suffers from inadequate supply?
- *Undesired effects on family behavior.* Do the transfers influence people's decisions to seek work, or do they provide incentives to have more children?

Some of these issues need more research and others will need to be addressed in the country context.

### Lessons Learned in the Design and Implementation of Conditional Cash Transfers

Although CCT programs have straightforward objectives, they can be quite complex to design and operate. Their main elements include:

- *Targeting mechanism.* All CCT programs use geographic and household targeting to reach individual beneficiaries. Household targeting requires a proxy means test based on a scoring formula to identify whether families are eligible for benefits. Achieving consensus among decisionmakers on the mix of indicators to be included in the scoring formula can be a technical and political challenge. Countries with large differences between rich and poor are better served by proxy means testing, while geographic targeting may be more efficient in countries or regions with largely homogenous populations.
- *Benefit amount.* This depends on several factors: the out-of-pocket cost of children's schooling and regular health visits; the opportunity cost of sending children to school rather than having them work and of the parents' time to take their children to health facilities; a country's ability or willingness to finance a program; and the overall cost of living. Experience shows that

benefits should not be less than one third of the poverty line. If the benefit is set too low, the program is likely to fail to keep children in school and healthy. If it is too high, an opportunity is lost to reach out to more families and form a broader constituency.

- *Program cycle.* Once people are identified as eligible, they must register for the program. This is usually done through the local offices of the agencies that run the program. Beneficiaries must present identification, and receive information and training about the programs, including the conditions for participating. Once they have successfully registered, they can start receiving payments. Their compliance with conditions must be monitored regularly. Beneficiaries who do not comply can be suspended or dropped from the programs. But there should be an appeals mechanism; normally committees, including some representatives from civil society, are set up at the local or municipal level to perform this function.
- *Payment system.* Payments are made to the head of the household, usually the mother, every two months, either through the banking or postal system or through other arrangements. A reliable and timely flow of funds is crucial. Delay could thwart the main objective of a program—to provide payments as soon as the conditions have been met. It is not always easy to find a pay agency that is efficient, quick, transparent, easily accessible, and reasonable in the price it charges for its services. As a result, many CCT programs have decided to test the services of prospective pay agencies before making long-term commitments to them.
- *Role of mothers.* Paying benefits directly to mothers or assigned care givers has proven to be a highly effective way of ensuring that beneficiaries comply with the conditions set forth in the programs. Some countries also recruit mothers to help other beneficiaries, follow-up with families that are not complying, and provide feedback to program managers on program bottlenecks and difficulties. This has had the very positive side effect of empowering people and building social capital.
- *Coordination with line ministries.* Cross-sector collaboration, especially between health and education ministries, is crucial. In most cases, these are the agencies that provide the necessary services, and their role in certifying compliance with conditions is a key element of any CCT program. Communication among them has been a challenge in some countries. Health and education ministries should be actively brought into the programs from the start. Mexico decided to provide some of the resources for PROGRESA and *Oportunidades* through the line ministries to ensure their sense of ownership and participation.

- *Training also is essential.* Headquarters staff need to know their new tasks. Field staff members need to know the entire program cycle, and usually need training in community organization and client-relation skills. Mothers or primary care takers need to be aware of their responsibilities (CCT programs often require mothers to attend courses on nutrition, hygiene and reproductive health as part of the conditions for receiving benefits). Mothers also need to know how to collect benefits and what to do in case problems arise. And staff from health and education ministries and facilities need to be informed about a program's basic features and about their obligations to provide the beneficiaries and the implementing agencies with the needed information about school attendance and health clinic visits.
- *Public information campaigns.* The public needs accurate information about a program's goals, target group, and how it functions. It is important to develop adequate instruments to attract the targeted beneficiaries and to reinforce participants' understanding of the program and of their obligations. A well-designed information campaign also can help generate political support for the program or for other enhancements to the country's social safety net.
- *Management information systems.* A reliable and updated management information system is essential since data on beneficiaries, payments, and compliance must be processed each month. Program managers must be able to respond quickly to any inconsistencies and flaws in a program. New technologies, like registration of electronic fingerprints and digital photos to register beneficiaries, can be used to fill gaps in national record systems.
- *Monitoring and evaluation systems.* Provisions for monitoring and evaluation system should be included in the design of CCT programs. These should make it possible to make timely operational adjustments and program improvements. An advantage of CCTs has been that they are highly transparent since data on the exact number of beneficiaries, regional distribution, and the compliance record are readily available at all times. Most programs have been able to establish baseline surveys before becoming fully operational so that they can measure outcomes and impacts.<sup>2</sup>

## Getting Started

The combination of conceptual simplicity and operational complexity suggest two other important points. First, the political will to establish a CCT program is fundamental. Prior to implementation, a consensus should be reached among stakeholders on three key issues: the target group

and targeting mechanism, the benefit amount, and the extent of cross-sector collaboration. Second, governments and donors must recognize that CCTs are not just other projects that can be added to the array of social safety net programs already in place. Because of their multisector approach, they should be part of a broader social safety net reform that rationalizes and links programs in a coherent way.

All of these lessons suggest that countries adopting CCTs should start with a pilot phase to experiment with such key features as targeting formulas and benefit amounts, to practice cross-sector collaboration, and to adjust the program cycle to specific country needs. In light of the operational complexity, sponsors also should recognize the need for careful planning. All major elements of a program should be included from the start, from the pilot phase to monitoring and evaluation systems. Considering the proven value of CCTs that are well planned and executed, careful investments in the initial planning and pilot stages will pay off later. ▲

## Endnotes

- 1 See summary report on “Workshop on Conditional Cash Transfer Programs: Operational Experience,” prepared by Ayala Consulting Co. (World Bank, Human Development Department, Latin America and the Caribbean Region, 2003).
- 2 For more details on evaluation, see “Ensuring Results on the Ground,” page 66.

# Protecting the Elderly: Old Age Security Reform in Latin America

Rafael Rofman

Most countries in Latin America have reformed their pension systems in the last 20 years by introducing funded schemes with individual accounts and private management. These reforms didn't come easily. They stirred political and social conflicts, and encountered financial problems. In many countries, they suffered setbacks. Indeed, only in countries with authoritarian regimes was the process smooth and quick; in other countries, parliamentary debates took years, and legal disputes continued well after the reforms were enacted.

Was it worth it? Pension reformers hoped a funded system with private accounts would ease short-term fiscal pressures, improve the long-term viability of pension systems, have positive effects on capital markets, make future retirees more secure by diversifying their sources of retirement income, and offer a solution to poor governance at pension institutions. Some advocates also expected that creating a stronger link between contributions and benefits would lead to higher compliance and formalization of the labor force, which in turn would extend formal protection of social security and promote economic growth.

While is it too soon for a full-scale assessment, it is possible to compare the current situation with some of the stated goals of the reformers. This preliminary assessment suggests that most reforms indeed have had significant success in improving long-term fiscal sustainability, diversifying risks and increasing transparency in the system. Evidence concerning their effect on capital markets is limited and, in some cases, other reforms enacted at the time of the pension reforms complicate the picture. But in two important areas—the coverage of the systems and their effect on the distribution of income—there is still much to be done.

## The Main Accomplishments

Long-term fiscal sustainability of pension systems clearly has improved. Traditional pay-as-you-go (PAYGO) schemes, in which contributions from current workers are distributed to current retirees, tend to build large amounts of implicit debt without accumulating assets to pay it in the future. This is a particular problem in the case of

countries with aging populations; for such societies, the contributions necessary to pay promised benefits may be higher than the political system can tolerate. Thanks to the introduction of funded schemes, in which workers' contributions are saved and distributed to them when they retire, the accumulation of implicit debt has stopped and, in most cases, the debt stock has been reduced. This effect has been particularly strong in countries like Chile and Peru, which were able to use fiscal surpluses to finance the transition cost of the reform. But it also was significant in countries like Argentina and Uruguay, even though they had to issue new explicit debt to partially finance the reform.

The reforms also succeeded in diversifying risk for retirees. By creating more than one source of retirement income—typically a first pillar organized as a PAYGO scheme provides basic benefits, while a second pillar provides benefits based on individual contributions—the new arrangements have made retirement income more secure. When Argentina decided to cut benefits 13 percent in 2001 to cope with its recent fiscal and financial crisis, for instance, workers' savings in individual accounts were not affected. Conversely, when the government was able to restore benefit levels and increase the minimum benefit to compensate for inflation during 2002, benefits provided by the funded scheme were not increased at all.

Finally, the reforms have significantly increased transparency in pension systems. That is partly because the surrounding debate generated a large literature that improved the general understanding of the problems involved in pension systems, and partly because the new individual accounts require a very efficient registration system, which helped make good quality data available.

## Remaining Problems

Coverage—how many people are protected by a pension system—is another story. Most pension models in Latin America, both before and after the reforms, assume that most individuals are part of the formal labor market. People who are part of the informal economy or unemployed are not covered, nor are the self-employed in many



## Box 1. Reformed Pension Systems: Is There a Latin American Model?

Discussions on pension reform in Latin America usually assume that there is a Latin American Model, almost identical in every country. However, a quick overview of the main characteristics of the systems shows important differences. Most systems share one key characteristic: they introduce funded schemes that provide individual accounts and are managed, at least partially, by private companies. However, there are few similarities beyond this. Some examples of the differences include:

- **Legal coverage.** While some systems aim to legally cover all workers (as in Argentina or Uruguay), others take a more restricted approach. In Peru only employed workers from the private sector are included, while Mexico maintains an independent system for civil servants.
- **Role of government and minimum benefits.** In some cases, the role of the government has been reduced to supervising and providing funds for a minimum benefit to those who qualify (as in Chile). At the other extreme, the government supervises pension managers, owns the largest managing company, collects and distributes all contributions, and continues to pay a large proportional benefit through a PAYGO scheme (as in Uruguay).
- **Competition among private providers.** Private providers can openly compete in several countries, but in Bolivia the government held open bidding and granted managers exclusivity in their assigned areas.
- **Portfolio diversification.** Some countries like Peru and Chile allow a high degree of diversification of assets, with large investments in the stock markets. Others concentrate investment heavily in government bonds, as in Mexico.

countries. As a result, actual coverage of contributory pension systems ranges from 60–80 percent of the labor force in countries like Chile or Uruguay, to as little as 10 percent in several poorer countries. Low coverage rates suggest that many individuals—especially the poor and most vulnerable, who are most likely to be part of the informal economy—are exposed to loss of income due to old age.

While low participation rates sometimes result from worker rejection of inefficient schemes, in most cases they reflect other causes, such as low productivity (resulting in low income and high degrees of informality), restrictions imposed by employers who remain in the informal sector to avoid taxes and regulation, and simple myopia. That suggests that while pension reforms may have succeeded in addressing the labor market distortions caused by large unfunded systems financed with payroll taxes, coverage of formal pension systems has probably remained low due to lack of reforms in other areas, particularly in job security and regulation of small and medium-size enterprises.

The distributive effects of the reforms also raise concerns. One theoretical advantage of traditional PAYGO schemes is that their benefit formulas can be adjusted to redistribute income towards poorer groups. But this progressive effect can be offset if their coverage is not universal or if the schemes are supported by general revenue taxes. In such situations, some of the poorest indi-

viduals, who do not participate in the system, can end up subsidizing middle-income participants.

The new systems were expected to take care of this problem by separating the distributive from the savings components of pensions. Private second pillar individual accounts were supposed to be pure savings, since each individual would receive exactly what he or she had contributed to the system. But most reformed systems still have a first pillar that grants benefits to all workers (as in the case of Argentina, Uruguay and Colombia) or that at least provides a minimum pension (as in the case of Chile and, more recently, for older participants in Peru's new private system). The main purpose of this first pillar is to have a progressive distributive effect similar to the old PAYGO schemes. But, as was the case before reforms were adopted, the first pillar, if financed by taxes instead of contributions, still can transfer funds from nonparticipating, poor taxpayers to pay benefits to middle-income participants. Moreover, the cost of the transition to the new systems is in most cases financed from general revenue, creating another transfer with potential regressive implications. While this last effect is temporary, lasting until the transition is completed, that transition can take several decades.

Finally, and possibly of greatest concern to the welfare of affiliates when they reach old age, there is a danger that the structure of the new private second pillars squelches competition. There are emerging country cases

where the new fund managers in the second pillars have begun to cover their start-up costs, run efficiently, and even to generate attractive profits. However, these savings have rarely been passed on to affiliated workers in the form of lower fund management fees. High management fees eat into workers retirement savings, and lower the likelihood affiliates will earn adequate pensions from the new systems—a problem that urgently needs to be addressed.

### Using Integrated Systems to Provide Protection

Contributory schemes, in short, are a very efficient model to reach everyone in societies where informality is rare and most workers and employers contribute to the systems. But they are insufficient when a large portion of the population is not in the formal labor market. This is the case in Latin America, where the reforms of the last two decades may have fixed structural problems of existing pension systems, but did not expand protection to more workers. Since uncovered workers are usually poor and less able to protect themselves, systems with low coverage tend to protect those who probably could obtain retirement income from other sources, while ignoring those who depend on receiving it.

Extending coverage will be a critical measure of the future success of old age income-security systems. One approach to resolving the problem of low coverage is to establish noncontributory pension programs, in which older individuals obtain basic income to stay out of poverty. But these programs are usually considered government-

run charities, generally underfunded and run with considerable discretion. Access is usually limited due to budgetary constraints and there is little coordination with the formal retirement systems. For example, some of the largest noncontributory pension schemes in Latin America and the Caribbean are based on benefits granted by members of Congress on a discretionary basis, with no objective assessment of actual needs of the beneficiaries on any type.

Several countries in the region have been considering integrating noncontributory schemes with formal pension arrangements, creating a system that provides benefits to all retirees. This system would have several pillars that aim to protect different groups, including long-term informal workers, those who shift in and out of the formal sector and people who spend most of their working years in the formal sector. A typical multipillar approach would have a first pillar organized as a PAYGO system, providing a basic benefit to retiring workers with strong redistributive effects, a second pillar organized as a funded scheme where workers receive benefits based on their pension contributions, and sometimes a third pillar where voluntary savings are used to increase the total benefits.

Argentina, Ecuador and Paraguay have passed or drafted legislation that moves in this direction, although none have put the reforms into effect. Multipillar systems aiming to achieve universal protection must be carefully calibrated to avoid excessive costs and negative incentives for formal workers. But if they are well designed and implemented, they could be the answer to the coverage and distribution problems. ▲

## The Remaining Equity Challenge Posed by Civil Servant Pension Systems

Many publicly managed pension systems in Latin America still absorb a large share of social protection budgets while distributing benefits in a regressive pattern. This is true even in countries that have privatized a portion of their retirement security systems by introducing individual savings accounts.

After a decade of pension reforms, for instance, Peru's treasury still had to pay out \$1.7 billion in 2000 to cover public pension system debts, even though about 50 percent of the benefits went to households in the wealthiest income quintile and less than 2 percent to families in the poorest quintile.<sup>1</sup> That debt payment equaled 70 percent of the amount set aside in 2002 to service Peru's external debt, 60 percent of public spending on education, 180 percent of the government's expenditure on health care, and 140 percent of the amount spent on all poverty alleviation programs.<sup>2</sup> And the country is bearing those pension costs at a time when the country's general retirement security system covers only 11.5 percent of the population.

In 1992, Peru enacted reforms that allowed workers to redirect their social security contributions into privately managed individual retirement accounts. New workers now choose between a public pay-as-you-go regime and a system of individual accounts. By shifting some workers out of the public system and into the private account system on a voluntary basis, this reform went some way towards reducing the government's public pension liabilities. But Peru still faces an enormous deficit arising from pension liabilities each year. The reasons are clear. Civil servants covered under the old plan face no minimum retirement age, and can retire with full benefits after just 15 years of employment (12.5 for women) at pensions equal to 100 percent of their last salaries, indexed to future increases for employees at the same salary level and position.

The Peruvian government is working to slow the growth of public pension liabilities while encouraging a greater number of workers to open individual retirement accounts. The World Bank has partnered with a high level group within the government, including the directors of each major government office involved in pension policy, to analyze the outcomes of recent reforms and simulate the fiscal and distributional impact of additional reform alternatives using state-of-the-art Bank technical tools (PROST, the Pension Reform Options Simulation Toolkit).<sup>3</sup> This reform work is also a major candidate for support under the Bank's on-going programmatic lending program (the Peru Social Reform Loans). ▲

### Endnotes

1 Instituto Nacional de Estadística e Informática (INEI) calculations, *Encuesta Nacional de Hogares, III Trimestre* (INEI, 1999, 2000, and 2001).

2 Data are not available on the size of transfers from general revenues required to pay the pensions of retired military, implying additional unquantified transfers from public revenues.

3 For further material on PROST and the World Bank's resources on reforms to social security and private pensions, see [www.worldbank.org/pensions](http://www.worldbank.org/pensions).



# New Directions and Emerging Priorities

**S**ocial protection efforts in Latin America and the Caribbean are evolving rapidly in the face of continuing changes in the global economy, new generations of economic reforms, and countries' increasing commitment to ensure social gains and effective social safety nets. This evolution has been shaped by a growing recognition of the cross-sector nature of social policy and by a growing interest among donors and governments in developing effective human development and social protection systems, rather than creating separate, atomistic programs to help the poor and vulnerable.

Such concerns, along with the international community's adoption of the Millennium Development Goals, have focused attention on the need to ensure that programs actually achieve their desired results. There is more interest than ever in monitoring program impact, strengthening countries' institutional capacities to deliver effective social protection, and scaling up successful endeavors to reach those in need. Moreover, there is an increasing recognition of the fact that certain groups—such as children under the age of five, youth, indigenous groups, and the disabled—have received insufficient attention and public action in many countries and may require special, tailored public policies and programs.

This section spotlights several exciting new programs and approaches designed to address these emerging issues and concerns. The first article discusses three recent programmatic reform efforts in Peru, Brazil, and Colombia. These multisector reform initiatives, supported by the World Bank, are designed to strengthen systems of support and service delivery for human development, including education, health, and social protection. The second article focuses on recent evaluations of several conditional cash transfer programs in the region. Individually, these evaluations highlight the power of CCTs to provide income support while fostering long-term human development. But more generally—and as importantly—such evaluations are helping policymakers to understand the effects of their programs and thereby to their effectiveness.

The section also spotlights two new and innovative social assistance initiatives undertaken by countries in the region: Chile's *Solidario* and Mexico's *Oportunidades*. These programs highlight cutting-edge efforts to strengthen social protection institutions, enhance targeting towards groups difficult to reach, and increase the impact of social assistance programs. Finally, the section explores emerging work on a specific target group—youth—of growing interest throughout Latin America and the Caribbean. ▲



# Protecting the Poor through Programmatic Adjustment Lending: Innovative Social Sector Reform Programs in Peru, Brazil, and Colombia

*Evangeline Javier, Vicente Paqueo,  
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Social reforms, unlike macroeconomic adjustments, typically require long-term, incremental policy changes. But until the late 1990s, the World Bank did not provide the kind of financial and technical assistance some countries needed to sustain reforms in times of crisis and beyond. Instead it mostly provided funds for discrete investments or for technical assistance that did not have much impact on overall policy. What's more, its sector adjustment loans tended to have inflexible, short-term horizons that were too restrictive to support ongoing social reforms.

Recognizing the need for steady, incremental social reform combined with institution building in the social policy arena, the World Bank introduced a Programmatic Structural Adjustment Loan/Credit (PSAL/PSAC)<sup>1</sup> instrument in 1998. The goal was to provide fast-disbursing, flexible, and multiyear support both to help countries with external financing gaps preserve their social safety nets in time of crisis and to strengthen them in the long run through capacity-building and institutional reforms. In the Latin America and the Caribbean Region, loans to Peru, Brazil, and Colombia illustrate how the new multi-sector social-reform efforts have worked in practice.

## The Peru Programmatic Social Reform Loan

The Programmatic Social Reform Loan (PSRL) for Peru in early 2001 was the first programmatic structural adjustment loan to focus entirely on social reforms. Besides supporting education, health, and social protection programs, it brought key players from government ministries together with multisector, multidisciplinary teams from the World Bank to help address the social aspects of public spending, increase the transparency of social programs and empower the poor to participate in setting public policy.

The loan was conceived under difficult circumstances. At the end of 2000, a corruption scandal had led to the downfall of the regime of President Alberto Fujimori. Political uncertainty fed a severe economic

downturn that had swelled the federal deficit to 3 percent of GDP in 1999. The country had to make a dramatic fiscal adjustment—rationalizing the tax system while significantly cutting expenditures. And it had to act quickly. A transition government, which took office with a mandate to arrange for clean and orderly elections within six to eight months and to lay the groundwork for economic recovery, sought the World Bank's assistance to help address the country's short-term fiscal problems and initiate medium-term social reforms that by their nature would extend beyond the government's short tenure.

The PSRL, with its flexible, medium-term benchmarks and triggers for future financing, was an ideal tool to meet the government's diverse requirements. It also proved a useful vehicle to propel a dialogue about reform from the transition administration to the government of President Alejandro Toledo. The loan was planned to have three phases, each financed by a single-tranche loan of \$100 million. PSRL I, which the Board approved in June 2001 (the end of the transition government's term), focused on protecting social programs critical to the poor during the country's difficult fiscal and political transition. Protected programs included basic and secondary education, public health, and basic infrastructure such as rural roads, water supply and sanitation services. Some programs—ones providing for mobile health units in the Amazon areas, energy generation based on traditional methods, and bilingual education—were designed particularly to help dispersed, mostly indigenous groups. The government, for its part, established a budget mechanism that protected an allocation of about \$1 billion (1.9 percent of GDP) for the selected social programs despite fluctuations in revenue. Such anticyclical budgeting for social expenditures is important to protect the poor, but was atypical in Peru until recently.

PSRL I also laid the groundwork for administrative reforms, including the development of a transparent and participatory resource-allocation mechanism, rationaliza-

tion of expenditures, and systematic performance tracking of social programs. Specifically, it supported improvements in Peru's integrated financial administration system, development of targeting mechanisms for poverty-alleviation programs, and monitoring and evaluation of selected social programs. The government also agreed to take steps to consolidate duplicative food supplementation programs. PSRL I established benchmarks and financing triggers for these various reforms, in the process tremendously helping frame a dialogue about social policy with the incoming Toledo administration.

PSRL II built on the earlier loan by encouraging increased social spending and refinements to Peru's social safety net for the poor. Specific targets were set for greater public expenditures on selected social programs. What's more, the government launched a countercyclical public works program. While continuing to support improved access of the poor to education and health services as well as rationalization and enhanced transparency of social expenditures, PSRL II advanced the establishment of a social accountability system that promotes citizen participation in the supervision and monitoring of public sector performance. Finally, the new loan backed initiation of a participatory budget-preparation process for some regional departments.

While in some ways a continuation of the previous programmatic structural adjustment loan, PSRL II marked a significant departure in three important respects: it attempted to link structural adjustment actions with medium-term results indicators, many of which were related to the Millennium Development Goals; it facilitated a transition from short-term budget protection for social programs during a prolonged economic slowdown to a medium-term shift in public expenditure to benefit the poor; and it supported a consistent program of social reforms complemented closely by technical assistance and programmatic investment loans in health and education. The government met the agreed triggers for PSRL II, and the Board approved the second \$100 million loan in September 2002. The World Bank and the Peruvian government are currently reviewing progress in implementing the reforms and reaching the benchmarks and triggers for PSRL III. The World Bank conducted a survey of government officials in September 2002 to get feedback on Peru's experience with the PSRLs (box 1).

### The Brazil Programmatic Sector Reform Loan

As in the case of Peru, the Brazil Human Development Programmatic Sector Reform Loan (HD PSRL) was prepared at a time of political and economic upheaval. Facing an unusually adverse external economic environment, a new government needed to act quickly to build a record

of credibility so that the country could improve its access to international markets. The government also was eager to prevent market volatility from damaging the prospects for economic growth and social equity. The administration of President Luiz Inácio Lula da Silva, which took office in January 2003, saw the World Bank loan as a way to demonstrate that the country was making prudent choices regarding fiscal, monetary and social policy while building on past reforms that have improved the delivery of social services.

Brazil already had made great strides toward strengthening its social programs. From 1999 to 2002, it has moved aggressively to decentralize service delivery, place a floor under basic education and health spending, reduce inequalities among states and municipalities, and develop mechanisms to target assistance to poor communities. The World Bank supported those efforts with a Special Sector Adjustment Loan in 1999, which selected 22 core human development programs for protection and evaluation. The first programmatic sector adjustment reform loan supported a subset of these programs, along with some others that had proven to be effective, during the country's political transition. A companion Technical Assistance Loan, currently under preparation, will complement the effort by helping Brazil build a base of knowledge needed to advance the reform agenda and improve basic social programs and outcomes. (See also box 2 on the BRASA Program of analytic and advisory services.)

The Brazil HD PSRL is part of a long-term strategy to help the country improve targeting, resource allocation, and efficiency in human development spending. Putting special emphasis on results-oriented policies, it focused on strengthening governance by clarifying institutional roles, establishing transparent financing mechanisms, and developing evaluation tools and communications systems. It was innovative because it pursued a multisector strategy with crosscutting themes and strongly integrated outcomes. And it was developed quickly, in cooperation with both an outgoing and incoming administration, because of the need for prompt action. The loan specifically supported the following:

- **Recent innovations in social policy.** Over the past three years, the Brazilian government has strengthened programs to decentralize the delivery of social services, place a floor on basic education and health spending, and reduce interstate and intermunicipality inequalities. It has also developed institutional mechanisms to focus assistance to poor communities and coordinate a variety of programs to improve assistance for disadvantaged populations.
- **The protection of budgets and monitoring of social policies during times of transition and instability.** In times of macroeconomic instability and a political

## Box 1. Listening to our Clients: Perspective from the Client Survey for the Peru Programmatic Social Reform Loan

In September 2002 the Bank's Vice Presidency for Operation Support and Country Services carried out a client survey in Peru to get feedback on the country's Programmatic Structural Adjustment Loan (PSAL). Respondents, including officials from the Ministry of Finance, the inter-ministerial Social Policy Commission, and social ministries, generally agreed that programmatic adjustment lending is very promising, but that it also faces challenges.

Excerpts from the survey:

"PSRL has been an instrument for the government to prepare a medium-term policy framework during a period of transition. The medium-term indicators brought a shift to a results-oriented framework and were a driving force for social policy formulation."

"The PSRL program was a tool for leverage that stimulated inter-sector discussion within the government. It forced a discussion that would not normally have taken place."

"Counterpart team felt that the operation provided a 'leverage vehicle.' The team felt that it was not money that mattered but policy."

"Social reform takes more than a three-loan program. The government would like 'more carrot behind the stick'— four or five year program."

"Work on a long-frame of priorities and programs. Social reforms take five years or more."

Medium and intermediate-term indicators are important to make sure that you're on track toward the long-term.

"Continuity of career civil service is important—every six to 12 months we have to explain the program to a new batch of people."

"Don't set targets too optimistically—realistic goals help ensure accountability."

transition, sound human development policies are critical to guarantee continued growth and a reduction in poverty. These policies require effective targeting, redistribution of resources to benefit the poor, transparent allocation of resources, and successful conditional cash transfers.

- **The new administration's commitment to continue, improve, and expand these effective social policies.** Key to the success of the loan was the government's dedication to improving and expanding sound policies, including its active efforts to enhance national household surveys to allow for stronger evaluation and monitoring.

### Social Sector Operations in Colombia

Using a programmatic approach to country assistance, the World Bank also has worked with the Colombian govern-

ment to develop a series of investment and adjustment operations addressing the social consequences of an economic crisis and providing a basis for continued reforms in the social sectors.

In 1999 Colombia experienced its largest recession in 70 years, with GDP falling 4.3 percent. The recession was accompanied by a growing fiscal imbalance, as public sector debt rose to close to 50 percent of GDP by 2000. The social consequences were severe. The unemployment rate doubled during the late 1990s, inequality increased, and a number of poverty measures rose dramatically. A 7 percentage point increase in urban poverty between 1995 and 1999 marked a reversal in a decade of progress toward reducing that key social indicator. Politically, the crisis was accompanied by an intensification of Colombia's internal conflict, the displacement of hundreds of thousands of people, and a general increase in violence and insecurity.

The World Bank and the Inter-American Development Bank worked with the administration of President Andres Pastrana to respond to the crisis with a coordinated set of safety net operations designed as short-term, emergency steps to protect vulnerable groups against the negative impact of the crisis. These included a temporary employment program (the Community Works and Employment Project) and a conditional cash transfer program (the Human Capital Protection Project) for eligible poor families.

The Social Sector Adjustment Loan was prepared at the end of President Pastrana's administration, when the peace process had broken down and the economic and social crisis was deepening. In coordination with the Inter-American Development Bank and building on research carried out in collaboration with Colombia's government<sup>2</sup>, the loan had three overarching objectives:

- To build a foundation for consolidating critical social sector reforms in education, health, and social protection.
- To encourage the new administration to carry forward the reforms supported by the loan.
- To provide a financial cushion and support social measures to complement fiscal reforms under a World Bank-supported Structural Fiscal Adjustment Loan.

The Social Sector Adjustment Loan served as a bridge between the old and new governments, supporting the consolidation of key reforms and providing a foundation for continued progress toward social equity and efficiency. The improvements it supported were achieved with little or no additional budget allocations, a key consideration given fiscal constraints. The specific policy reforms supported by the adjustment loan included:

- Increased transparency and citizen oversight of social programs through a system of independent impact and performance evaluations, and expanded public monitoring of the government's main social programs.
- Development of a comprehensive social risk management strategy to improve Colombia's ability to assist the poor during crises and to strengthen social assistance and insurance to the chronically poor during normal times.
- Improvements in social services for vulnerable Colombians. People displaced by violence gained better access to state-supported social programs, the size and characteristics of this group were analyzed, and the quality and coverage of early childhood development services were improved.
- Expanded and more efficient health insurance coverage to improve the health status of poor Colombians, reduce financial risks associated with illness, and protect them against communicable diseases.
- Improvement of the public education regulatory frame-

work. To improve children's educational status through increased efficiency and equity in the allocation of resources, the program supported a new law basing resource transfers on poverty levels and number of students and the introduction of alternatives to traditional forms of public education, including contracting out to the private sector and providing scholarships to high performing but economically poor students.

The Social Sector Adjustment Loan was approved in August 2002, just before the inauguration of Colombia's current president, Alvaro Uribe. Despite apprehension about the risks of preparing an adjustment loan at the end of a political administration, the loan facilitated a smooth transition by providing timely financial support, ensuring continuity in Colombia's social sector development, and giving the newly elected government an opportunity to commit itself to key social reforms supported by the loan.

Today, the new government is focused on pursuing measures that expand and deepen reforms in education, health, and social protection along the lines envisioned in the loan. These include passage of a labor reform law and the establishment of a Ministry of Social Protection that merges health, labor, and social assistance agencies. Both sets of reform are key elements of a more efficient, equitable, and coherent social risk management system. Two new Programmatic Labor Reform loans will respond to supporting the government's strong commitment to a medium-term reform agenda. Over the next four years, these loans will support the sustained implementation of an integrated social risk management system and related reforms in education, health, and labor.

## Continuing Challenges

To ensure that programs are measurably increasing people's welfare and reducing poverty, World Bank teams worked with their counterparts in government to identify indicators of social progress, to determine which indicators could serve as benchmarks for assessing the impact of programs, and to agree on what minimum outcomes would have to be achieved before future lending would be approved. The identification of indicators, benchmarks, and triggers is especially important and challenging in programmatic lending, which tends to address more systemic issues and serve more diffuse groups of beneficiaries than specific project loans.

Existing information systems and data collection efforts already provide significant information that can be used in this important task. In Brazil, for instance, 11 triggers were identified as prerequisites for launching Phase II of the PSRL, and triggers for Phase III will be

determined during the preparation stages of Phase II. But difficult technical and conceptual issues remain in Brazil and elsewhere. It is widely recognized that the quality of the data can be improved. In Brazil, a Technical Assistance Loan is providing technical and financial assistance to improve the availability and quality of data.

Peru, Brazil, and Colombia's experiences with programmatic structural adjustment loans for the social sectors show that achievement of reform objectives requires several years of step-by-step progress in adjusting and building institutional capacities. Many reforms, such as those involving civil service or pensions, need a long time horizon so that consensus can be built among all the relevant parties. A close partnership between the government (including finance and sectoral ministries and agencies), other constituents, and the World Bank is crucial to ensure that reform agendas move forward.

The current wave of social programmatic loans has placed social issues prominently on the agendas of the finance ministries in these countries—an important achievement in itself. As the client survey in Peru indicated, the programmatic social loans have raised the profile of social issues and brought out the fact that social reforms require more than a few loans. What matters in the end is the long-term change in policy and improved social outcomes, facilitated by a process of consensus building and by the phased availability of program loan funding.

While challenges remain, the three countries are in the process of constructing social protection systems that increase access of the poor and disadvantaged to basic education, health, and social protection programs. Social programs in these countries are being strengthened by increased accountability, better coordination of state and municipal policies, greater transparency in budget planning procedures, and an increased consumer voice in policy. With such continuing improvements and development of countercyclical policies and programs, these countries are becoming better positioned to deal with crises, enhance poor people's access to social services, and increase the efficiency of the use of scarce fiscal resources allocated to human capital development. ▲

## Endnotes

1 PSALs are loans under International Bank for Reconstruction and Development (IBRD) terms; PSACs are credits under International Development Association (IDA) terms.

2 See "World Bank Colombia Poverty Report" (Report 24520-CO) and "Social Safety Net Assessment" (Report 22255-CO) for additional information.



## Programmatic Analytical Support: The BRASA Program

The World Bank is supporting a multiyear program of analytic and advisory activities to help the new Brazilian government improve its social programs and policies. Collectively known as the Brazil Social Assistance (BRASA) Program, the Bank's effort is designed to help the government deliver tangible results in the short run and develop a longer term strategy, supported by solid monitoring and evaluation mechanisms, for delivering well-targeted benefits to poor and vulnerable groups.

The BRASA Program provides technical support in the following specific areas:

- Policy and analytical work on social safety net programs. The program supports activities to provide sound policy advice and analytical work on pertinent topics. It is giving technical advice on the design of Brazil's Zero Hunger (*Fome Zero*) flagship social program, providing technical advice and engaging in policy dialogue on proposals to integrate and better coordinate various aspects of Brazil's social safety net, and conducting a social safety net assessment.
- Tools for improving the targeting of social programs. The program will review Brazil's existing tools for beneficiary selection (such as the *Cadastro Unico*) as well as similar types of tools in other countries. It also will construct poverty maps for geographic targeting and evaluation.
- Tools for monitoring and evaluating social policy. The program will help develop improved tools for monitoring and evaluating social policy. These include a results-based monitoring and evaluation system for social policy and better data collection systems for social policy feedback. One specific goal is to strengthen the policy and program content of household surveys.

By adopting a multiyear programmatic approach that is flexible and responsive to client demands, the World Bank signals its commitment to help Brazil improve the effectiveness of its social safety net over the short and longer term. Moreover, the BRASA Program demonstrates the World Bank's support for collaboration by partnering closely with counterpart agencies and consulting with key stakeholders, local researchers, and think tanks. ▲

# Ensuring Results on the Ground: Evaluating the Impact of Conditional Cash Transfer Programs

Laura B. Rawlings and Gloria M. Rubio

In most of the developing world, little is known about whether social programs are meeting their intended objectives.<sup>1</sup> As a result, policymakers do not have enough information to decide how to direct scarce development resources to the most effective investments. But the new generation of conditional cash transfer programs introduced in Latin America over the past few years stands out as a welcome exception. Program designers provided for rigorous evaluations from the inception of these programs, and the results, now starting to come in, are shaping the direction of this new poverty-reduction tool.

This article reviews the experience in evaluating the impact of conditional cash transfer programs in Mexico's Education, Health and Nutrition Program (*Programa de Educación, Salud y Alimentación*, PROGRESA)<sup>2</sup>, Nicaragua's Social Protection Network (*Red de Protección Social*, RPS) and Honduras's Family Assistance Program (*Programa de Asignación Familiar*, PRAF), the first generation of conditional cash transfer programs. In each program, planners put a high priority on impact evaluation and allocated sufficient funds for rigorous evaluation. Early planning allowed for the most robust evaluation methodologies available, including experimental designs supported by the collection of repeated observations from households in the treatment and control groups before and after program implementation. In addition, programs used respected national and international teams to conduct the evaluations, lending credibility to the results. Top policymakers fostered mutual respect between evaluators and program managers. And the programs made effective use of evaluation findings to inform program-related policy decisions.<sup>3</sup>

## Planning for Evaluation

Measuring the impact of a program requires asking a fundamental question: What would the situation have been had the intervention not taken place? This question cannot be answered through direct observation, but it is possible to assess the results of a policy or program by comparing program participants (the treatment group) with a

similar group of nonparticipants (the comparison group or control group). One approach is to assign people to each group randomly, thereby guaranteeing equivalence, on average, between the treatment and control groups. This experimental approach, as it is known, is considered the most rigorous and reliable evaluation design.

Conditional cash transfer evaluators were able to take an experimental approach in part because logistical complexities, fiscal constraints, and uncertainties about program impacts led to gradual implementation of early programs. That enabled evaluators to assign people randomly into two groups: those who were invited to participate during the early stages of the program (the treatment group) and those who were brought into the program later (the control group). In PROGRESA, evaluators randomly assigned communities that entered the program in 1997 to the treatment group, while it selected the control group from communities that entered a few years later (table 1). That allowed for a comparison from which program impacts could be inferred. Nicaragua followed a similar evaluation strategy. Honduras took a more elaborate approach; its evaluation objectives required randomly assigning program municipalities to four groups: group one received only cash transfers (vouchers), group two benefited from both cash transfers and improvements in service quality at schools and health centers, group three benefited from improvements in service quality only, and group four served as the control group. This allowed the evaluation to assess three separate impacts: the effect of demand-side investments as provided by the conditional cash transfers, the effect of supply-side investments in schools and health centers, and the combined effect of demand and supply investments.

Early planning of these evaluations allowed for the application of experimental designs as well as the collection of baseline data. This permitted the collection of repeated observations from households in the treatment and control groups before and after program implementation, another feature supporting the strength of the impact evaluation results. Evaluators relied on household surveys as the main data-collection instrument. They also

**Table 1. Evaluation Design of First Generation of Conditional Cash Transfer Programs**

Program	Evaluation design	Main indicators	Data sources
Honduras, Family Assistance Program (PRAF II)	Experimental design based on random assignment of municipalities into four groups: Group 1 (vouchers), Group 2 (vouchers and supply incentives), Group 3 (supply incentives only), and Group 4 (control group)	<ul style="list-style-type: none"> <li>■ Education outcomes (test scores, repetition, promotion, attendance)</li> <li>■ Availability and quality of education inputs</li> <li>■ Health outcomes (maternal and infant mortality)</li> <li>■ Utilization and satisfaction with health care services</li> <li>■ Health care practices</li> </ul>	<ul style="list-style-type: none"> <li>■ Census of Group 1 and Group 2 municipalities</li> <li>■ Household surveys (baseline plus two followup surveys – one and two years after program launch)</li> <li>■ School and health center surveys</li> <li>■ Standardized achievement test scores</li> </ul>
Mexico, Education, Health, and Nutrition Program (PRO-GRESA)	Experimental design based on the random assignment of communities into treatment and control groups	<ul style="list-style-type: none"> <li>■ School enrollment and attendance</li> <li>■ Utilization of health care services and health status</li> <li>■ Child nutritional status</li> <li>■ Household consumption and caloric availability</li> <li>■ Poverty incidence</li> <li>■ Changes in fertility</li> <li>■ Women's status and intra-household relations</li> <li>■ Time allocation</li> <li>■ Private transfers</li> <li>■ Community relations</li> </ul>	<ul style="list-style-type: none"> <li>■ Census of evaluation communities</li> <li>■ Household surveys (baseline plus five followup surveys – every six months)<sup>a</sup></li> <li>■ School and health center surveys</li> <li>■ School and health center administrative data</li> <li>■ Community questionnaires</li> <li>■ Test scores</li> <li>■ Key informant interviews</li> <li>■ Focus group discussions with community members</li> </ul>
Nicaragua, Social Protection Network (RPS)	Experimental design based on random assignment of census areas into treatment and control groups	<ul style="list-style-type: none"> <li>■ Targeting efficiency (leakage and coverage rates)</li> <li>■ School enrollment and attendance</li> <li>■ Consumption patterns</li> <li>■ Utilization and quality of child health care services (including immunizations)</li> </ul>	<ul style="list-style-type: none"> <li>■ Census of program area</li> <li>■ Household surveys (baseline and followup)</li> <li>■ School survey</li> <li>■ Key informant interviews</li> <li>■ Focus group discussions with community members</li> </ul>

*a. The evaluation also benefited from data on anthropometric measures and blood samples collected separately by the National Institute of Public Health.*

used school and health center surveys and community questionnaires, as well as qualitative studies. In Mexico and Nicaragua, evaluations included interviews with stakeholders, and focus group discussions with community members.

## Findings

Evaluation results, available for PROGRESA in Mexico and the RPS pilot in Nicaragua, show that conditional cash transfers are an effective instrument for increasing the human capital of the poor through investments in health and education.

*Education.* Conditional cash transfer programs have raised enrollment rates for both boys and girls. In Mexico, primary school enrollment rates increased around 1 percentage point from a high pre-program level of about 90 percent. At the secondary school level, enrollment rates rose 7.2–9.3 percentage points for girls from baseline enrollment rates of 67 percent, and from 3.5–5.8 percentage points for boys from a baseline of 73 percent. In Nicaragua, program impacts are even more impressive. Average enrollment rates of children ages 7–13 in grades 1 to 4 in treatment areas increased nearly 22 percentage points as a result of the program, from a low starting point of around 70 percent.

Program impact on attendance rates are mixed. In Nicaragua, the RPS produced an increase of 30 percentage points in the share of children who had fewer than six unexcused absences during a two-month period. The PROGRESA evaluation showed more pronounced effects on school enrollment than on attendance rates.

*Child health and nutrition.* Evaluations show improvement in this area too. Growth-monitoring visits of PROGRESA beneficiaries up to three-years-old have increased between 30–60 percent, and beneficiaries up to six years old have a 12 percent lower incidence of illness compared with control group children. In Nicaragua, around 60 percent of children under three-years-old participated in nutrition monitoring before the RPS was implemented. After a few months of program operation, more than 90 percent of children in RPS areas benefited from nutrition monitoring compared with 67 percent in control areas. The RPS increased timely immunization among children 12–23 months old by 18 percentage points.

Consumption levels also grew faster for households participating in conditional cash transfer programs. In Mexico, the average consumption level in PROGRESA households increased 14 percent. Median food expenditure after more than a year of program operation was 11 percent higher than in control group households. In Nicaragua, control households experienced a sharp decline

in consumption due in part to low coffee prices and a drought, whereas the average per capita annual household expenditures in RPS areas did not change. This suggests that conditional cash transfer programs may also help poor people shield their consumption in times of crisis, a role worthy of further analysis.

## The Value of Impact Evaluations

The impact evaluations carried out in this first generation of conditional cash transfer programs have played an important role in influencing program-related policy decisions. In Mexico and Nicaragua, they triggered some program modifications, guided decisions about program expansion, allowed the programs to survive changes in political administrations, and generated interest in replicating these programs internationally. In Mexico, the positive findings helped prompt expansion of the program from rural areas into urban areas, and the program has continued with relatively few alterations despite a dramatic change in government. Likewise, findings that Nicaragua's RPS program met most of its targets and in many cases performed far better than anticipated led to its continuation and expansion despite a change in government.

Indeed, solid evidence of program effectiveness has led to the expansion of conditional cash transfer programs throughout Latin America and Caribbean. These programs show the critical role of evaluations in informing effective policy decisions, in establishing empirical results in the fight against poverty, and providing evidence on program effectiveness to countries considering similar strategies. Multilateral and bilateral development agencies, policymakers, foundations, and other stakeholders in international development should work together to foster similar approaches to evaluation for other types of programs. A better understanding of the impact of policies and programs would help governments and development agencies ensure the efficient use of scarce resources in the fight against poverty. ▲

## Endnotes

1 This article is based on Laura B. Rawlings and Gloria M. Rubio, "Evaluating the Impact of Conditional Cash Transfer Programs: Lessons from Latin America" (World Bank, Washington, D.C., 2002).

2 In March 2002 PROGRESA changed its name to Oportunidades and introduced a few changes in its objectives and operational features. Given the recent nature of this change, and thus, the limited experience with the renewed program, this article concentrates primarily on examining the original PROGRESA program.

3 For a more detailed discussion, see "Conditional Cash Transfers," page 49.

# Evolving Social Assistance Programs: *Chile Solidario* and Mexico's *Oportunidades*

Some of the most innovative social assistance policies today are home grown. In the Latin America and the Caribbean region, Chile and Mexico offer impressive examples. Taking advantage of its relative low levels of poverty, Chile has launched a proactive effort to root out chronic poverty. Mexico, meanwhile, has vastly increased the scope of a successful five-year old conditional cash transfer program.

## **Chile Solidario: A Proactive Approach to Confronting Structural Poverty<sup>1</sup>**

In its most recent poverty report on Chile, the World Bank argued that the government should take a more proactive approach to poverty reduction and social protection. In May 2002, President Ricardo Lagos' administration did just that, announcing a highly innovative package of legislative reforms called *Chile Solidario*. Most notably, the reforms will refocus social protection efforts on entire households rather than on individuals. In addition, the government will seek out prospective beneficiaries, guarantee them access to cash transfers that historically have been rationed, integrate programs to a greater degree than in the past, focus on results, and require more cooperation between line ministries.

Although Chile has made remarkable gains in reducing poverty in the past decade, there is evidence that poverty has increased in recent years. Still, poverty rates remain relatively low compared with rates in other countries in Latin America and Caribbean—a situation that makes a proactive approach more feasible in Chile than in many other developing countries. The *Chile Solidario* initiative represents a concerted effort to bring the 225,000 poorest households in Chile out of poverty. Consisting of both new legislation and changes in current laws, it will dramatically alter the government's approach to confronting poverty and extending social protection. The changes, particularly with respect to social assistance, are as significant as the reform of welfare in the United States in the mid-1990s.

*Chile Solidario* will reach out to indigent people

who have been excluded from the social protection system in the past, connecting excluded groups, particularly indigenous communities, to the public and private network of services. It will shift away from a fragmented structure of social assistance, bundling existing social services and cash transfers and adding a new conditional cash transfer for the poorest families who choose to participate. It will also reduce the number of intermediaries between the providers and beneficiaries of social protection interventions and act as a catalyst for targeted interventions in other social sectors.

The starting premise of the intervention is that the principal assets (and perhaps the only capital) of poor households is their desire to live as families and the complex web of intrahousehold mutual support they maintain to support this goal. Accordingly, the reform package targets families, rather than the 850,000 individuals currently classified as indigent, for preferential access to social services. Further, rather than making assistance and protection available only to those who demand it, *Chile Solidario* seeks to overcome the isolation and the exclusion of poor people by actively supplying assistance and protection to them. Armed with data identifying Chile's poorest people, social workers go door to door inviting families to participate in a two-year program of social support. This proactive approach is much more characteristic of policies and interventions deployed to address indigence in high-income countries than in Latin America and the Caribbean. But it may be appropriate, given Chile's low levels of poverty and its greater administrative capacity relative to other countries in the region.

The *Solidario* initiative builds on the *Puente* (Bridge) Program piloted by Chile's Solidarity and Social Investment Fund early in 2002. As of January 2003, seven months after the reform was announced, the effort has expanded from 14,000 households to 44,378. *Puente* acts as the entry point to the social protection system for the 225,000 households targeted by the *Solidario* initiative, as well as the foundation on which the various social transfers and interventions bundled together by the policy reforms will rest.



*Puente* caseworkers visit indigent households identified through the *Ficha CAS*, a survey tool, and invite them to participate in the program. They also approach potentially eligible households that have been missed by Chile's poverty targeting instruments but frequently are identified by local government and community organizations. These households are tested for eligibility and invited to participate if they qualify. Participants gain preferential access to Chile's principal social transfers and programs. They are given priority access to primary health care under FONASA, the public health insurance system, and to employment programs. Schools attended by members of their households receive special school-retention vouchers issued by the Ministry of Education.

The Ministry of Planning will oversee and coordinate the initiative. Besides identifying the first wave of households that will be invited to take part in the *Puente* Program, the ministry is coordinating efforts with the other line ministries (Labor, Health, Education, Housing) involved in delivering the payments and services guaranteed to targeted households.

*Solidario* is generally considered an improvement on the current policies. However, there are some concerns. A key point in the *Puente* Program is that household members take responsibility for getting themselves out of poverty; the program supports their efforts, but only for a defined period of time—two years. The key to success, therefore, is to provide people with the tools, skills, and information they need to lift themselves out of indigence. The bundling of other social services is also critical: it entails simultaneous interventions to address various dimensions of poverty and help various specific household members at the same time. This will be a new way of working for the Chilean public sector—indeed, for the public sector in any country. Success will depend on the formation of positive synergies among the various interventions. An Achilles heel of the initiative is that unless participating households can earn increased incomes, they will not be ready to exit the program. Further, it will take an enormous commitment and effort by the government to make the package of reforms work and to prevent the initiative from becoming just another social assistance program.

### Mexico's *Oportunidades*: Building on Success<sup>2</sup>

Previous articles in this publication have described the success of conditional cash transfer programs in shielding poor families from shocks and helping lift them out of poverty.<sup>3</sup> Mexico's *Oportunidades* (Opportunities) Program represents a significant effort to expand coverage and benefits provided by that country's highly successful PROGRESA (Education, Health, and Nutrition) conditional cash transfer program. The government initiated

the PROGRESA program in 1997. That year, it provided conditional cash transfers and specific assistance to over 300,000 poor families in nearly 6,500 rural communities in 12 states of Mexico. Today, *Oportunidades* reaches farther into rural areas and is growing to include poor families in urban areas. The program currently serves 4.2 million families—or about 21 million people—in over 2,300 cities and 70,500 towns in 31 of the country's states.

Like PROGRESA, *Oportunidades* provides scholarships to promote children's schooling; a basic health care package focused on preventive health care, nutrition, and hygiene education; and cash transfers and nutritional supplements to improve family nutrition. To receive these benefits, families must take specified actions to promote family health, nutrition, and education. But *Oportunidades* has introduced several significant innovations:

- It provides economic incentives (since 2002/03) for youth to complete high school (Youth with Opportunities) through the establishment of individual savings accounts that can be used after graduation for a variety of purposes, such as paying for continued education, initiating a business, and purchasing health insurance.
- It uses a demand-based approach to identify beneficiary families in urban areas. Instead of selecting geographic areas deemed to have high levels of poverty based on census or survey data and then interviewing all the households in those areas, the program establishes and widely communicates a schedule and location for the program to receive applications. All interested families can fill out questionnaires concerning their socioeconomic characteristics. For households that appear to qualify for the program, home visits are carried out to verify eligibility. This approach appears to improve targeting, both because beneficiaries are self-selected and because geographic targeting may miss some poor families in urban areas.
- It uses bank cards and savings accounts to transfer money to qualifying families. This enables beneficiary families to use the transfers gradually; helps integrate beneficiaries into the banking system, since they can use the same accounts to manage money from other sources; allows the direct and transparent transfer of benefits to families without the intermediation of politicians, leaders or agencies; and enables effective administration of the program, especially reconciliation of payments.
- It establishes an electronic verification system in schools and health facilities to certify compliance with conditions for transfer. Verification occurs every two months. This approach shortens the time between data generation and processing, improves the quality of the information, and reduces administrative costs.

- It strengthens a “data warehouse” to improve monitoring of the program’s operation and develops a management information system that produces 53 management, operational, and outcome indicators. These indicators, together with field audits and newly adopted complaint management mechanisms, allow for periodic supervision of the program as a whole. ▲

## Endnotes

1 This section was written by Truman G. Packard, with contributions from Jaime Crispi (Dirección de Presupuestos, Chile) and Veronica Silva (FOSIS, Chile’s Social Investment Fund).

2 This section draws heavily upon the following publications: SEDESOL, *Coordinación Nacional del Programa de Desarrollo Humano Oportunidades, Así se Construye Oportunidades*, Informe 2002 (México 2002); SEDESOL, Programa de Desarrollo Humano Oportunidades, Resumen Ejecutivo de la Evaluación Externa del Programa de Desarrollo Humano Oportunidades 2002 (México 2002).

3 “Conditional Cash Transfer Programs: An Effective Tool for Reaching the Poorest and Most Vulnerable,” page 49, and “Ensuring Results on the Ground: Evaluating the Impact of Conditional Cash Transfer Programs,” page 66.

4 For discussion of PROGRESA and conditional cash transfers more generally, see “Conditional Cash Transfer Programs” (p. 49), “Ensuring Results on the Ground” (p. 66) in this issue.

# Youth as a Key to Development

Lorena Cohan, Wendy Cunningham,  
and Andrea Vermehren

Investing in youth means investing in the overall development of a country. Yet every year, governments in Latin America and the Caribbean spend large shares of their national budgets on efforts to cope with negative youth behaviors instead of focusing on preventive measures that would be much more cost effective. The failure to invest in preventive interventions that focus on youth development results in lower productivity, higher social dependence, and greater risk—problems that extend far beyond the period of youth and lead in the aggregate to lower rates of growth and inefficient public expenditures.

While the case has been made for investing in children as a strategy for risk prevention and investing in adults to mitigate and cope with risk, a strategy for youth development—the critical link between the childhood and adulthood—is largely missing. The World Bank, aware of the positive long-term effect that investments in youth could have on poverty reduction and economic development, has joined the international community in making a deep commitment to youth development. The Latin America and the Caribbean Region of the Bank has been at the forefront of this effort.

While youth—individuals in the transition period between dependence on parents and independent adulthood—account for 20 percent of the total population of Latin America and the Caribbean, their living situation relative to the adult population is significantly worse. Overall, they are poorer, have higher unemployment rates, are more likely to be perpetrators or victims of violence, engage in riskier sexual behavior, and are more likely to suffer depression and commit suicide (box 1). Furthermore, the negative and risky behavior they are more prone to engage in has repercussions throughout their lifetimes. Youth tend to make poor decisions for two reasons: they do not have the cognitive development to understand the long-term costs of their actions, and they respond to the incentives presented to them. If their environments are unhealthy, they will make poor choices in response.

Underinvestment in programs to prevent and address these youth behaviors hinders economic development for several reasons:

- **Returns on investments in children will not be fully realized if they are not followed by investments in youth.** Over the years, countries have devoted considerable resources to childhood development, but those investments may not pay off unless they are continued during the youth stage—in particular, through such interventions as secondary education, job training, employment, family formation, and community activity. Youth should not be excluded from receiving many investments that are made for children—including ones designed to encourage positive socialization, build self-esteem, and foster equitable gender roles and responsible sexuality.
- **Youth are a significant source of human capital.** Accounting for almost 20 percent of the population as well as a significant percentage of the labor forces in Latin American and Caribbean countries, youth could play an important role in building the productive capacity of economies in the region. But their potential is not being realized because of inadequate investment in education and health care. Also, governments are not creating incentives to encourage youth to invest in themselves and to protect these investments by avoiding risky behaviors.
- **The sexual behavior of youth has serious demographic implications.** Youth tend to engage in more risky sexual behavior than adults, mainly because they lack knowledge on safe sexual practices, fail to internalize the costs, and often think they have no future. Risky sexual behavior has a significant negative impact on fertility rates, dependency ratios and the spread of sexually transmitted disease, all with profound implications for economic growth, poverty, and equality. HIV/AIDS, for instance, has reached epidemic proportions among youth in the Caribbean, killing prime-age workers and family heads and leaving a population composed of the elderly and the very young.
- **Negative youth behaviors can hurt the investment climate.** Human capital and investment risk within a country are jeopardized when youth engage in negative behaviors. Clearly, low school attainment, a prob-

## Box 1. Youth in Latin America and the Caribbean At-a-Glance

- Youth represent 19.5 percent of the total population in Latin America and the Caribbean.
- Some 77 percent of Latin America and the Caribbean youth live in urban areas.
- In 1999, 50 percent of 13- to 19-year-olds were poor.
- Between 1994 and 1999, the youth unemployment rate increased from 14 percent to 20 percent and was as high as 25 percent in some countries.
- In urban areas in 2000, half of 20-year-olds had dropped out of secondary school or were behind in their studies—in rural areas, this figure rose to three-quarters.
- Some 15 percent of 18- to 19-year-old women have had children before reaching the age of 18
- Youth make up 16 percent of intraregional migrants.
- Women 15- to 19-years-old account for half of the pregnancies in Nicaragua and more than half of all maternal deaths.
- In Chile in 1998, 48 percent of violent robberies were committed by individuals less than 19 years old; between 1995 and 1998, the percentage of 14- to 18-year-olds arrested for violent robbery grew by 207 percent.
- Some 65 percent of reported rape victims are under the age of 17 in Nicaragua
- One in ten students 10- to 17-years-old in the English-speaking Caribbean have been sexually abused.

Source: Francisco Pilotti, "Desk Review: Los Programas de Juventud en América Latina y el Caribe: Contexto y Principales Características" (World Bank, Human Development Department, Latin America and Caribbean Region, 2002); Lorena Cohan, "Youth in Nicaragua" World Bank, Human Development Department, Latin America and Caribbean Region, 2002).

lem after primary school, as young people start making their own choices, will limit the stock of human capital. Furthermore, high levels of crime and violence discourage business investment.

- **Investment in youth can reduce the long-term cost of social protection.** Countries can save money over the long run by investing in education, health, life skills, and citizenship for youth (box 2) and working to get the environment right by controlling crime, creating a dynamic economy with job opportunities and good pay, and developing institutions that are adept at dealing with specific youth issues (family courts to protect youth, juvenile detention halls, health services that respond to youth pressures). For example, by lowering school dropout rates, countries can avoid costs associated with crime, drug and alcohol abuse, early child-birth, unsafe sexual activity, and low employability—which would otherwise mean lost productivity, forgone profits, higher social costs for prisons, and greater dependence on social safety nets and the child welfare system.

Such concerns lie behind the World Bank's growing involvement in youth development. The Millennium Development Goals, for instance, set specific targets for 15- to 24-year-olds involving the illiteracy rate, the ratio of literate females to males, HIV prevalence among pregnant women, and the unemployment rate.

### Challenges in Youth Development

Strategies for helping youth can be summarized as "youth development", rather than the frequently used term "at-risk youth", which has negative connotations that discourage investment in youth and encourage their social exclusion.

Youth development not only takes into account the objective of investing in youth (through expenditures in education, health, citizenship, and life skills), but also offers a more positive view of strategies to prevent youth from engaging in negative and unproductive activities. Rather than suggesting the need for strategies to cope with undesirable outcomes, youth development implies risk prevention and risk mitigation via a holistic and integrated approach that begins during childhood and includes efforts to ensure that youth have positive role models, influences, incentives, and opportunities.

Creating effective strategies for youth development involves several challenges. First, because of the many different factors that influence youth development, a multi-sector approach is required. That implies a need for coordination among different institutions within a country (such as ministries of Education, Health, Planning, Justice, and Labor) and among different sectors within the World Bank—including social protection, among others—and many different donors. Second, youth interventions that have succeeded have used an integrated approach, including the participation of families, communities,

## Box 2. The Costs of Not investing in Youth in the Caribbean

- Youth crime and violence costs St. Lucia 0.4 percent of GDP in forgone earnings and decreases total incomes by 1.1 percent of GDP annually.
- A 1 percent decrease in youth crime would increase tourist receipts by 4 percent in Jamaica and by 2.3 percent in the Bahamas.
- A single cohort of adolescent mothers in St. Kitts and Nevis is estimated to cost society more than 0.67 percent of GDP
- AIDS-related deaths of those who contracted the disease during adolescence decrease output by a range of 0.01 percent of GDP in Suriname and Antigua and Barbuda to 0.17 percent of GDP in the Bahamas in just 2000.
- If female youth unemployment were reduced to the level of adult unemployment, GDP would be higher by a range of 0.3 percent in Antigua and Barbuda to 2.9 percent in Jamaica.

Source: World Bank, *Caribbean Youth Development: Issues and Policy Directions* (World Bank: Washington, D.C., 2003).

schools, peers, mentors, the legal system, and the medical community, among others. This is more difficult than focusing on single individuals. Third, since the focus on youth is relatively new to the development community and the World Bank, there is no clear model or impact evaluations showing what youth interventions work. That makes project design all the more difficult. Finally, scaling up the small initiatives that have been shown to be effective requires time, energy, and possibly new models.

Although the World Bank is new to youth development and is currently working with other multilateral and bilateral institutions that have more expertise in youth issues, it can make important contributions:

- Because it is in constant policy dialogue with national governments, it can emphasize to them the importance of investing in youth.
- The World Bank's strong analytical work could be combined with new operations targeted specifically towards youth.
- The World Bank has considerable expertise in different sectors, including education, health, urban development, social development, public sector, and labor. This could be expanded to include policy research on investing in youth.

### The World Bank's Current Work in Youth Development

The World Bank has undertaken significant initiatives in the last few years. In September 2002 it appointed a Children and Youth Advisor, who reports to the Director for Social Protection. At the regional level, the Latin America and the Caribbean Section has been active in both analytical work and operations. The region has undertaken country reviews of youth and youth issues in

Nicaragua and Jamaica—work that has influenced wider World Bank documents such as the Country Assistance Strategies and Poverty Assessments. In addition, Latin America and the Caribbean staff have collected and analyzed data on youth and social exclusion, poverty, vulnerability, and the costs and determinants of negative youth behaviors for Argentina, Brazil, Honduras, Paraguay, Trinidad and Tobago, and the Caribbean. This work is serving as the basis for coming operations.

World Bank operations in youth development include a number of interventions that specifically target youth. The Colombia Youth Development Project, for instance, was a Learning and Innovation Loan that tested and evaluated alternative multisector and participatory approaches to better understand what services would lead to long-run improvements in human capital development and employment opportunities. The seven subprojects addressed youth employment in rural and urban settings, domestic violence, juvenile delinquency and violence, and school dropouts. All were prepared with strong participation of youth, local nongovernment organizations, and local government entities. The subprojects are in their final months of implementation, and will be followed up by project data collection, evaluation, and lessons.

A number of other World Bank projects include youth as part of target beneficiary groups:

- Honduras Social Assistance Innovations Fund, under the World Bank's Fifth Social Investment Fund Project, supports innovative proposals for social assistance to key target groups. Forty percent of the program's resources are set aside for sexually exploited youth, youth with HIV/AIDS, and youth who live or work on the streets, suffer drug addiction, or have physical or mental handicaps. Based on experience



with this program, the Bank is now supporting the government in developing successful strategies to improve youth employability.

- Jamaica AIDS Control Project funds a nongovernmental organization called Children First, which addresses the social welfare and educational needs of street children and marginalized youth. Interventions include peer education, sexuality, and HIV/AIDS. World Bank support is helping to create a support system for dealing with the epidemic.
- Jamaica Program for Advancement through Health and Education, part of Jamaica's social safety net, provides conditional cash transfers to 200,000 poor people, mostly children and youth under 18, provided they regularly attend school.
- Colombia's Families in Action Project provides education and health and nutrition cash subsidies to poor households with children ages 7–17 who maintain 80 percent school attendance.
- El Salvador's Education Reform Project and Secondary Education Project finance the the Open Schools Program, which has led to a decrease in violent activity, particularly gang violence. The program keeps schools open on afternoons and weekends for cultural activities, sports, and other extracurricular activities so that students have a place to go.

### Future Partnerships in Youth Development

The World Bank's partners—including the United Nations Children's Fund, the World Health Organization, bilateral agencies, nongovernmental organizations, and the private sector—have done an excellent job on youth development issues for many years. Still, enormous challenges remain, requiring the attention and commitment of many different actors. The World Bank believes that it can use its policy dialogue with governments, civil society, and the private sector, and its strong analytical work, to increase awareness of the need to concentrate efforts on youth development and to demonstrate the positive impact that investing in youth can have on economic development and poverty reduction. It also hopes to increase the focus on youth development in current and future operations, for example in the areas of human development, environment, financial sector, and private sector development. Finally, it can include youth development issues in adjustment lending so that successful youth development programs do not suffer from lack of funds, and the policy environment and legal framework are favorable toward youth.<sup>2</sup> ▲

### Endnotes

1 In general, the term "youth" refers to people between childhood and adulthood, but differing socioeconomic conditions and cultural norms lead to definitions ranging from 10 to 35 years of age. The United Nations defines youth as people ages 15–24. The World Bank's definition varies according to country and context.

2 For more detailed information on the Bank's analytical work on youth, please see:

- World Bank, *Caribbean Youth Development: Issues and Policy Directions* (Washington, D.C.: World Bank, 2003).
- World Bank, "Trinidad and Tobago Youth and Social Development: An Integrated Approach for Social Inclusion," Report 20088-TR, (Latin America and Caribbean Region, Caribbean Country Management Unit, Environmentally and Socially Sustainable Development Sector Management Unit, Washington, D.C., 2002).
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# Latin America and the Caribbean At-a-Glance: Selected Indicators

**W**hile the countries in Latin America and the Caribbean all face important challenges with respect to reducing poverty, meeting the Millennium Development Goals (MDGs), and providing social protection for their people, the specific challenges are often quite country specific. The tables and figure in this section provide a sense of the different circumstances and challenges facing countries in the region. Table 1 provides an overview of the poverty situation in selected countries, measured using both country-specific poverty lines and international thresholds that identify the share of national populations living on less than \$1 and \$2 per day. Table 2 highlights where countries in Latin America and the Caribbean stand in terms of selected MDG indicators – related to extreme poverty and hunger, education, gender equality, child and adult health, and employment. Data on public social protection spending in several countries in the region, as well as a comparison with average government spending on social protection in OECD countries, is presented in figure 1. The section concludes with a brief summary of World Bank-supported social protection operations in Latin America and the Caribbean from 2000 to the present (table 3). ▲

**Table 1. Poverty in Selected Latin American and Caribbean Countries**

Country	National poverty line				International poverty line		
	Survey year	Population below the poverty line (%)	Survey year	Population below the poverty line (%)	Survey year	Population below \$1 a day (%)	Population below \$2 a day (%)
Argentina	1995	28.4 <sup>a</sup>	1998	29.9		..	..
Bolivia	1997	63.2	1999	62.7	1999	14.4	34.3
Brazil	1990	17.4		..	1998	9.9	23.7
Chile	1996	19.9	1998	17.0	1998	<2	8.7
Costa Rica	1992	22.0		..	1998	6.9	14.3
Dominican Republic	1992	33.9 <sup>b</sup>	1998	28.6 <sup>b</sup>	1998	<2	<2
Ecuador	1994	35.0		..	1995	20.2	52.3
El Salvador	1992	48.3		..	1998	21.4	45.0
Guatemala	1989	57.9 <sup>c</sup>	2000	56.2 <sup>c</sup>	1998	10.0	33.8
Haiti	1987	65.0 <sup>d</sup>	1995	66.0 <sup>d</sup>		..	..
Honduras	1991	74.8 <sup>e</sup>	1999	65.9 <sup>e</sup>	1998	23.8	44.4
Jamaica	1995	27.5	2000	18.7	2000	<2	13.3
Mexico	1988	10.1		..	1998	8.0	24.3
Nicaragua	1993	50.3	1998	47.9	1998	82.3	94.5
Panama	1997	37.3		..	1998	7.6	17.9
Paraguay	1991	21.8		..	1998	19.5	49.3
Peru	1994	53.5	1997	49.0	1996	15.5	41.4
Trinidad and Tobago	1992	21.0		..	1992	12.4	39.0
Venezuela, RB	1989	31.3		..	1998	23.0	47.0

Source: 2003 World Development Indicators, World Bank, unless otherwise indicated.

Notes:

a percentage of population below the poverty line in urban areas only.

b Dominican Republic Poverty Assessment, World Bank, 2001.

c Poverty in Guatemala, World Bank, 2003.

d percentage of population below the poverty line in rural areas only.

e Honduras, Poverty Diagnostic, World Bank 2000.



**Table 2. The Millennium Development Goals: Where the Latin American and Caribbean Countries Stand**

Country	Eradicate extreme poverty and hunger			Achieve universal primary education		Promote gender equality		Reduce child mortality		Combat HIV/AIDS and other diseases		Develop a global Partnership for Development
	Share of poorest quintile in national income or consumption %	Child malnutrition weight for age % of under 5		Net primary enrollment ratio %		Ratio of female to male enrollments in primary and secondary school %		Under-five mortality rate per 1,000 live births		HIV prevalence % ages 15-24	female % ages 15-24	Unemployment % ages 15-24
	1986-2000 <sup>a</sup>	1990	1999	1990	1998	1990	1998	1990	2000	1999 <sup>b</sup>	1999 <sup>b</sup>	1999
Argentina	..	..	5	..	107	..	100	28	22	0.9	0.3	..
Bolivia	4.0	11	8	91	97	89	..	120	79	0.1	0.0	..
Brazil	2.2	7	6	86	98	..	100	58	39	0.7	0.3	18
Chile	3.3	..	1	88	88	98	95	20	12	0.3	0.1	21
Costa Rica	4.5	3	5	86	..	96	..	16	13	0.6	0.3	12
Dominican Republic	5.1	10	6	..	87	..	103	59	47	2.6	2.8	..
Ecuador	5.4	..	..	..	97	97	98	51	34	0.4	0.1	24
El Salvador	3.3	15	12	75	81	100	95	54	35	0.7	0.3	13
Guatemala	3.8	..	24	..	83	..	..	68	49	1.2	0.9	..
Haiti	..	27	28	22	80	..	..	131	111	4.9	2.9	..
Honduras	2.2	18	25	89	..	103	..	65	44	1.4	1.7	6
Jamaica	6.7	5	4	96	92	97	99	32	24	0.6	0.4	34
Mexico	3.5	17	8	100	102	96	97	46	36	0.4	0.1	3
Nicaragua	2.3	..	12	72	..	..	..	63	41	0.2	0.1	..
Panama	3.6	6	8	91	..	96	..	..	24	1.6	1.4	29
Paraguay	1.9	4	..	93	92	95	96	37	28	0.1	0.0	0.5
Peru	4.4	11	8	..	103	93	94	75	41	0.4	0.2	1.0
Trinidad and Tobago	5.5	..	..	91	93	98	100	24	19	0.8	0.6	25
Uruguay	5.4	6	4	91	92	..	108	24	17	0.4	0.2	24
Venezuela, RB	3.0	8	4	88	..	101	..	27	24	0.7	0.1	26

Source: 2002 World Development Indicators.

Notes:

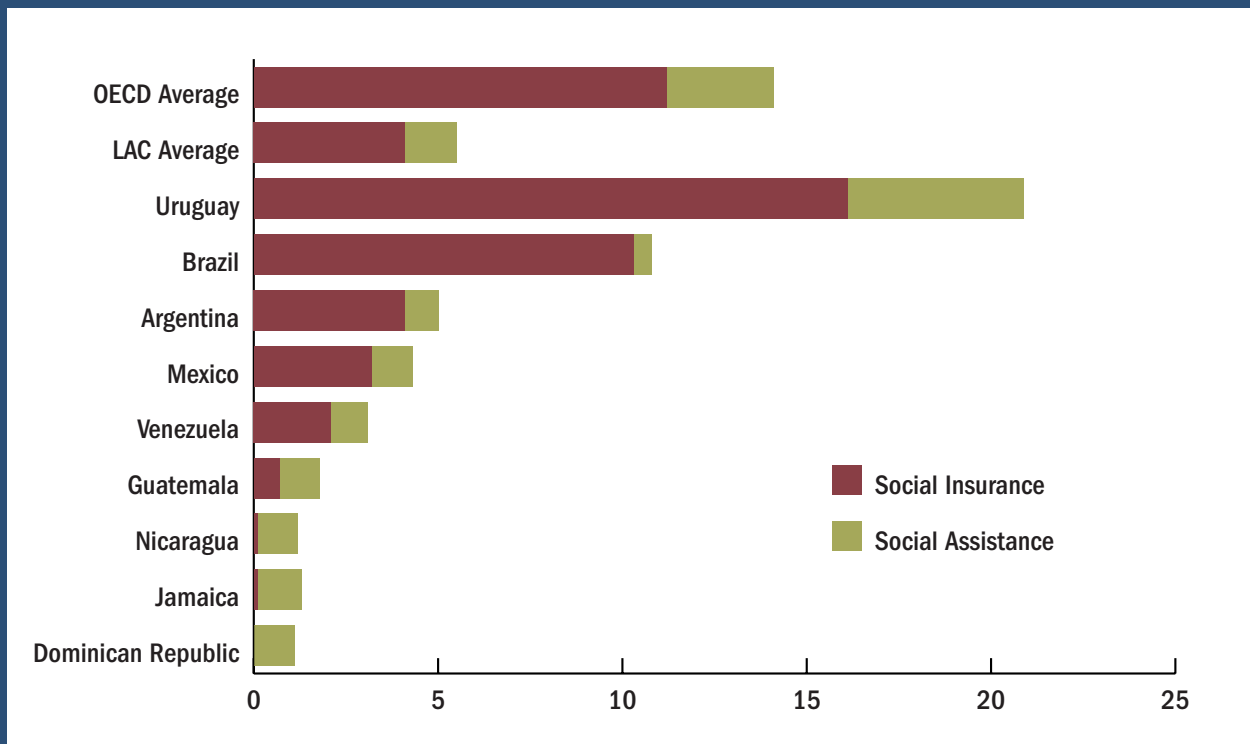
<sup>a</sup> Data are for the most recent year available.

<sup>b</sup> Average of high and low estimates.



## Figure 1. Public Spending on Social Protection in Latin America and the Caribbean (percent of GDP)

Governments in Latin America and the Caribbean spend an average of just over 5 percent of GDP on social protection. This compares with about 14 percent of GDP in OECD countries. The regional average conceals tremendous variation across countries, however, ranging from over 20 percent in Uruguay to just over 1 percent in the Dominican Republic, Jamaica, and Nicaragua. Countries that have high social insurance expenditures spend more on social protection overall. Uruguay, Brazil, Argentina, and Mexico all spend relatively larger shares of their budgets on social protection, reflecting in part heavier spending on social insurance programs such as pensions.



Source: World Bank (2001), "Social Safety Nets in Latin America and the Caribbean: Preparing for Crises," Human Development Department, Latin America and the Caribbean Region, Washington, D.C.

## Table 3. World Bank-Supported Social Protection Operations in Latin America and the Caribbean

The World Bank's social protection-related operations in Latin America and the Caribbean have changed greatly since 1990, when social funds dominated the portfolio. In 2003 three of four operations presented to the Bank's Board were multisector adjustment loans or credits.

The Latin America and the Caribbean region of the World Bank currently has a social protection portfolio of \$1.2 billion in 11 different projects, in addition to social protection components of adjustment loans, environmental projects, and technical assistance. Between 1990 and 2003, the Latin America and the Caribbean Region of the World Bank approved 48 projects totaling \$5.56 billion, or 39 percent of World Bank lending on social protection. The table below shows the operations approved since fiscal 2000.

Country/project	Description	Year approved	Amount (millions of \$)
Argentina: Head of Households Project	This cash transfer program benefits nearly 2 million people, including children, in families headed by poor and unemployed workers. The heads of households must engage in work or training in order to receive the monthly transfers.	2003	600
Bolivia: Social Safety Net Structural Adjustment Credit	This credit will protect the budget of social programs in health, education and social protection, including emergency employment, in order to protect the social gains Bolivia has achieved since the early 1990s and to help the government manage its social safety responses to the current crisis.	2003	35
Colombia: Social Sector Adjustment	This project benefits Colombia's poor by strengthening social protection, expanding immunization and health insurance coverage, and improving transparency and citizen oversight of government social programs.	2003	155
Peru: Programmatic Social Reform II	This loan helps improve access by the poor to social programs, while promoting transparency in social spending and empowering communities to participate in decisionmaking.	2003	100
Jamaica: Social Safety Net Investment Loan	This project is helping to improve the quality of life for the poorest groups by supporting consolidation of social assistance programs into a new program targeted to the neediest children, youth, elderly, and disabled.	2002	40
Colombia: Human Capital Protection Project (Cash Transfers)	More than 1 million of Colombia's poorest children will benefit from this investment loan, designed to improve their health and education through conditional cash transfers or grants to eligible families with students under 17 years old.	2001	150

Table 3. Continued

Country/project	Description	Year approved	Amount (millions of \$)
Honduras: Fifth Social Investment Fund Project	This credit continues support for the Honduras Social Investment Fund, which benefits the poor by financing small-scale social and economic infrastructure and social assistance programs.	2001	60
Nicaragua: Poverty Reduction and Local Development	This investment credit is financing small-scale social and economic infrastructure for the poor, as well as technical assistance for municipal planning, community organization, and social protection.	2001	60
Peru: Programmatic Social Reform I	This project benefits low-income rural Peruvians through decentralized, more closely monitored, social reform programs that support health, nutrition, and education and give beneficiaries oversight authority of the programs.	2001	100
Colombia: Community Works and Employment Project	This project finances small, labor-intensive public works to provide temporary employment to poor workers, increase the labor income of their families, and prevent deterioration of living standards in poor communities.	2000	100
St. Lucia: Poverty Reduction Fund	This operation has helped develop the institutional and operational framework for a social fund that develops quality social and economic infrastructure, and services for St. Lucia's vulnerable poor. The project will thus contribute to a sustainable infrastructure, fostering community-led development.	2000	3

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