

# Social Protection in Latin America

## Achievements and Limitations

*Francisco H.G. Ferreira*  
*David Robalino*

The World Bank  
Latin America and the Caribbean Region  
Office of the Chief Economist  
&  
Human Development Network  
Social Protection and Labor Unit  
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## Abstract

Social protection systems in Latin America have been transformed in the past two decades. Until the 1980s, those who were not covered by the social security arrangements available primarily in the urban formal sector received little public assistance beyond universal subsidies for some food or fuel purchases. Since the 1990s, the introduction of non-contributory social insurance programs (including “social pensions”) and conditional cash transfers has substantially extended the coverage and improved the incidence of social

assistance. However, the organic growth of subsidized social assistance in parallel to the older social insurance system, financed largely out of taxes on formal sector employment, has led to a dual system that is neither properly equitable nor efficient. The twin challenges that now face social protection in Latin America are to better integrate those two halves of the system, and to develop programs that promote sustainable self-reliance, by moving from “safety nets” to “opportunity ropes.”

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# Social Protection in Latin America: Achievements and Limitations

Francisco H.G. Ferreira and David Robalino

The World Bank<sup>1</sup>

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## 1. Introduction

Governments make transfers to households, either in cash or in kind, for two basic reasons. The first reason is the management of risk. Individuals in all countries are exposed to uncertainty and risk in various dimensions, including health (arising from possible illness or disability), longevity (arising from uncertainty about the time of one's death), and income (arising from unemployment or other sources of unexpected fluctuation in the income stream, such as weather shocks for farmers). If insurance markets were perfect, there might be little role for the state to intervene in the management of such risks, or to promote consumption smoothing. But well-known problems of adverse selection and moral hazard cause insurance markets to be far from perfect and, in many cases, to be missing altogether. This leads to insufficient levels of risk-pooling in the private market. Ever since the birth of European social security in Otto von Bismarck's Germany, governments have stepped in to address these insurance market failures, by means of various *social insurance* mechanisms, including old-age and disability pensions, unemployment insurance, and public health insurance.

The second basic reason why governments make transfers to households is to help reduce poverty. This motive originates not from individuals' aversion to risk, but in society's aversion to poverty or inequity: if the primary distribution of income is too unequal, or includes too much deprivation for the taste of decision makers (whether one thinks of them as social planners or as the median voter), governments can redistribute by taxing some people and transferring resources to others. Transfers made for this purpose are generally grouped under the rubric of *social assistance*. Together, social assistance and social insurance make up a country's *social protection* system.<sup>2</sup>

Although the conceptual distinction between social insurance and social assistance – the former intended for consumption smoothing and the latter for redistribution in permanent incomes – is important for clarity in policy design, it often blurs in practice – for two reasons. First is the very fact that people's income streams are volatile: unexpected unemployment is a negative shock, and public unemployment insurance mitigates it, but it may also prevent the victim of the shock from falling into poverty. Conversely, a cash transfer intended primarily to alleviate long-term poverty may help smooth consumption for poor recipients during a recession. Free health care provided in kind as an insurance

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<sup>2</sup> Some classifications add a third component in social protection: policies that aim to reduce risks *ex ante*, rather than to insure against them, include active labor market programs that seek to improve matches in the labor market and thereby reduce the frequency and duration of unemployment spells. See, e.g. Holzmann and Jorgensen (2001).

against negative health shocks may prevent a beneficiary from falling into poverty which could, in its absence, have become a long-term state. In short: the existence of a social insurance system designed to address risk will often act so as to reduce poverty – or prevent it from increasing; while the existence of a social assistance system designed to reduce poverty will often protect the poor from at least some negative effects from shocks. Such “mission overlap” may well be for the best, if properly understood and adequately managed. To demand a complete separation between the two systems would probably make as much sense as insisting that ambulances and the fire department never rush to the same distress call.

The second factor blurring the distinction between social insurance and social assistance arises from the social preference, in many countries, to redistribute for equity purposes over and above the poverty line. While such redistribution is conceptually distinct from the risk-management and insurance functions we identify as the central *raison-d'être* of social insurance, and could in principle be accomplished entirely through the tax system, it does in practice also take place through implicit or explicit transfers within the social insurance system. Many pension and health insurance schemes therefore involve systematic cross-subsidies among contributors, with the result that some people contribute more than they receive in expectation, while the converse is true for others. In addition, social insurance is sometimes partly financed by general tax revenues, often because there is a deficit between pay-outs and contribution incomes. Reliance on general taxation also entails a systematic redistribution, in this instance quite possibly from people outside the social insurance system altogether -- including future generations who will bear the cost of the unfunded liabilities of some of today's social insurance systems.

Added to the mix is the notion, now widely accepted, that social insurance systems are not justified exclusively on the basis of imperfect insurance markets and the need for more risk-pooling. It is also in part motivated by the empirical observation that, left to their own devices, a very large number of individuals save “too little” even for expected future contingencies, such as a reasonable retirement period. While such a “paternalistic” motivation has often been downplayed by economists firmly wedded to their view of rational individuals, recent lessons from psychology and behavioral economics have convinced many that there may be a legitimate role for the state in “nudging” people towards, say,

discounting the distant future a little less heavily.<sup>3</sup> In no area of public action has this role for the state been active longer than in mandatory savings for retirement, through contributory old-age pensions.

The combination of mandating long-term savings (even for expected retirement periods) and insuring against uncertainty (say, that a person's retirement period may be unexpectedly long) would already make devising a good social insurance system a complex mechanism design problem. Adding systematic inter-personal redistribution complicates things even more, because of the obvious tension between the redistribution motive and the needed incentives for saving for one's own retirement. Finally, the nature of both social insurance and social assistance instruments affects the consequences of various individual decisions on the margin – in areas as diverse as labor supply, job search intensity, propensity for private savings, family formation, etc. The optimal design of these instruments should in principle take into account not only their likely benefits in terms of reduced income volatility, inequality and poverty, but also the likely efficiency costs.<sup>4</sup> Understanding the interactions between the two components of the social protection system, even while distinguishing between them conceptually, is an important – and challenging – part of this complex public action design problem.

This paper focuses on *social assistance* programs in Latin America and the Caribbean (LAC): those designed primarily to reduce poverty and deprivation. We look briefly at the evolution of these programs since their inception, about a century ago, but concentrate primarily on the dramatic expansion in and transformation of Latin America's social assistance portfolio in the last two decades. In so doing, we pay special attention to four basic types of programs: (i) *in-kind transfers* (particularly food programs); (ii) *workfare programs*; (iii) *noncontributory social insurance schemes* (such as social pensions); and (iv) *conditional cash transfers (CCTs)*.<sup>5</sup> The chapter summarizes how each of these programs works, their achievements, and limitations. While a number of programs do share similarities across countries, the considerable heterogeneity of social and economic conditions throughout Latin

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<sup>3</sup> See, e.g. Thaler and Sunstein (2009).

<sup>4</sup> Some social protection policies may also lead to efficiency *gains*, of course. One example is their possible protective effect on the human capital of the poor. See, e.g. World Bank (2006).

<sup>5</sup> Two of these program types are good examples of the blurred boundaries between social assistance and social insurance. Workfare is typically intended as a temporary source of income for workers hit by negative employment shocks, and is thus very close to a social insurance motive. However, this "poor man's unemployment insurance" is generally designed to self-target to the poorest among the unemployed, by means of low wage rates and, sometimes, burdensome or unpleasant work. They are also often motivated explicitly as anti-poverty programs. These 'targeted' features justify the inclusion of workfare under social assistance. As for "non-contributory social insurance", the very name suggests that these are intended as social insurance substitutes for those excluded from the mainstream, contributory system. They are usually targeted specifically at the poor, or at those who work(ed) in sectors where the poor dominate, such as agriculture.

America implies that there are also important differences among them, and we point to some of the most important. Building on the above discussion about the tensions and complementarities between the insurance, redistribution, and savings motives, we also discuss two alternative options for better integrating social assistance and social insurance programs (including the large old-age and disability pension systems, and the health insurance systems) in Latin America.

Beyond this introduction, the paper is organized in four sections. Section 2 provides a brief historical overview of social protection systems in LAC, including the roots of social insurance but emphasizing the gradual shift in policy priorities that has increased the prominence of social assistance programs and led to the development of large-scale anti-poverty programs. Section 3 provides a snapshot of the state of social assistance programs in LAC today, for each of the four types of programs listed above. Section 4 takes a broader view, and considers how the various pieces of the recent “social assistance revolution” in Latin America fit together. The section reports both on important achievement and gaping limitations, and briefly discusses elements of the current debate on strategies to expand the coverage and improve the coherence and effectiveness of social protection systems in LAC. Section 5 summarizes and concludes.

## **2. A Brief History of Social Protection in Latin America**

Social protection systems in LAC date back to the early years of the Twentieth Century, and the introduction of insurance schemes for civil servants (including teachers), employees in public enterprises, members of the military, and urban private sector workers in certain industries. Countries in the Southern Cone – Argentina, Brazil, Chile and Uruguay – were the first to introduce occupational schemes in the early 1920s, inspired by the Bismarckian approach. These occupational plans offered disability pensions, survivorships, old-age pensions and in some cases health insurance. Broader social insurance availability to part of the private sector labor force came later, influenced by the Beveridge report of 1942 in the United Kingdom. Under its influence, Latin America saw a second wave of social insurance adoption in the 1940s, in countries such as Colombia, Costa Rica, Mexico, Paraguay, Peru and Venezuela. Countries in Central America and the Caribbean followed in the mid 1950s and 1960s respectively.

Throughout this early period, social protection in LAC was essentially synonymous with social insurance. The systems introduced in the two decades after the Second World War consisted largely of old-age, disability and survivorship pensions and, in some cases, elements of health insurance. They

generally expanded to private sector workers the pioneering schemes introduced earlier for civil servants and the military. But coverage remained limited, in virtually all cases, to formal-sector workers in urban areas. Social insurance in Latin America was born contingent on labor status: benefits were available as a result of – and remained dependent on – formal employment relationships, with the attendant documentation. While this represented considerable progress for the fortunate few who were employed in the formal sector, it excluded the majority of workers in most Latin American countries, who worked in rural areas, or in the urban informal sector. Without formal, documented employment in registered firms, these workers – which naturally included almost all of those in poverty – were excluded by the nascent social insurance system. Figure 1 below provides a schematic summary description of the evolution of Latin American social protection systems.

Figure 1: Chronology of Major Innovations in Social Protection in LAC



Source: Authors'

Until the early 1980s, social assistance in Latin America consisted almost exclusively of various forms of commodity subsidies, primarily applied to food (e.g., bread, sugar, milk, rice) and energy commodities (e.g., gas and kerosene). There were a few direct feeding programs, or small transfer programs for narrowly-defined vulnerable groups such as the disabled. Examples of feeding programs included the Brazilian *Programa Nacional de Alimentação e Nutrição (PRONAN)* (see Instituto Nacional de Alimentação e Nutrição, 1976) or the feeding program for young children in Costa Rica (Beaton and



Ghassemi, 1982) and Guatemala (see Gwatkin et al, 1979).<sup>6</sup> It was only after the debt crisis of the 1980s that a number of Latin American governments started to consider broader “safety nets”, aimed at “poverty alleviation” more generally. Chile was a pioneer, introducing a *workfare program* known as *Programa de Empleo Mínimo* to provide temporary employment for low income/unskilled workers in the early 1980s. At its peak the various public work sub-programs within *Programa de Empleo Mínimo* employed no less than 13 percent of the Chilean labor force (see Lustig, 2000). Workfare programs were also adopted by Argentina and Bolivia in the 1990s, and more recently in Colombia and Peru. Some of these more recent programs are discussed in Section 3 below.

During the early 1990s, as the continent sought to recover from the prolonged recessions of the 1980s, several countries also instituted a new set of programs that became known as *Social Investment Funds*. These funds typically involved setting aside discretionary budget under a purpose-built, administratively autonomous central government agency, such as the *Fondo de Inversión Social de Emergencia* (FISE) in Ecuador, which then funded an array of small infrastructure or income-generating projects proposed by local communities in poor areas. Two aspects made these funds rather innovative in the relatively staid context of Latin American social assistance: the degree of decentralization of decision-making, and the reliance on community-level participation to propose, apply for and implement the projects. The projects themselves, which ranged from building an extra classroom in the local school, digging latrines for poor households, or performing maintenance work on a rural road, generally aimed to create or upgrade small-scale social and economic infrastructure, while simultaneously generating employment at the local level.

Social investment funds are now seen as Latin American precursors to a wave of “community-driven development” (CDD) projects that have swept the developing world. Evaluations of these funds have generally found that they were successful in targeting poor communities, and that they did contribute to building needed basic infrastructure (see, for example, Paxson and Schady, 2002, on Peru’s FONCODES; Newman et al., 2002, on Bolivia’s Social Investment Fund; Pradhan and Rawlings, 2002, on Nicaragua’s Emergency Social Investment Fund; and Rao and Ibañez, 2005, on Jamaica’s Social Investment Fund). Their success implied that, although initially intended as temporary instruments for crisis-relief, some of these funds eventually became permanent fixtures in their countries.<sup>7</sup> In most cases, as crises receded

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<sup>6</sup> For further references and discussion see Solimano and Taylor (1980).

<sup>7</sup> Naturally, social investment funds are not entirely above reproach. Some commentators have suggested that, by sidestepping the line ministries and local government agencies previously charged with providing services to those areas, SIFs contribute to a perpetuation of weakness in mainstream governance institutions. It has also

and other transfer instruments were introduced, their role gradually evolved from a social assistance and public works function towards a local or municipal development rationale.

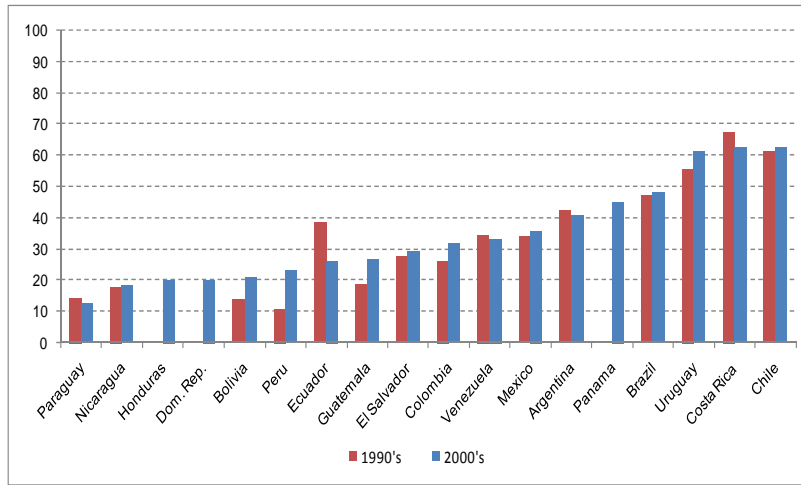
Social investment funds notwithstanding, social protection systems in Latin America in the mid-1990s were still best described as a dual system, providing rather generous (and often subsidized) social insurance benefits to a minority of the labor force – civil servants and the predominantly urban formal sector – while leaving the majority of the population, and almost all of the poor, uncovered. Even among the relatively restricted group of participants, benefit amounts varied considerably, and were seldom horizontally equitable. From their inception, the continent's Bismarckian social insurance systems were implemented with the (often implicit) expectation that, as economies developed and income per capita grew, a majority of the labor force would end up in salaried jobs in the formal sector. This expectation remains unfulfilled. Even today, over half of LAC's workforce is employed in the informal sector; the lowest level of informality is observed in Chile (near 40%) and the highest in Bolivia (close to 75%).

As a result, the coverage of contributory social insurance programs remains very limited in most countries, as illustrated by Figure 2, which depicts the share of the labor force covered by contributory old-age pension schemes in eighteen LAC countries. Pension coverage is above 50 percent of the labor force only in Uruguay, Chile, and Costa Rica. Venezuela, Argentina, Mexico, Panama and Brazil have coverage rates between 30 percent and 50 percent. In other LAC countries, coverage is less than one-third and shows little indication of improving.

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been suggested that decision-making processes at the local level have been subject to varying degrees of elite capture. See, e.g. Araujo et al. (2008) and Schady (2000).

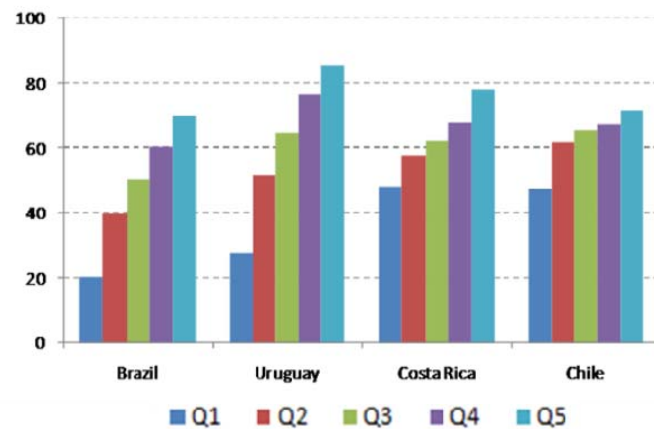
Figure 2: Coverage of Contributory Old-Age Pensions in the 1990s and 2000s (share of labor force)



Source: Ribe, Robalino and Walker (forthcoming)

Given that urban formal-sector workers tend to be better-off than most rural workers or those in the urban informal sector, coverage rates are even lower among the poor. Figure 3 disaggregates the average coverage rates shown in Figure 2 for five income quintiles, in Brazil, Chile, Costa Rica and Uruguay. Even in these relatively well-covered countries, coverage rates are much lower for the bottom fifth of the labor force. In Brazil, while almost 70% of the top quintile is covered by contributory old-age pensions, only 20% of the poorest fifth is.

Figure 3: Coverage of Contributory Old-Age Pensions (by quintile)



Source: Ribe, Robalino and Walker (forthcoming)

This “truncated welfare state” - where income redistribution took place primarily among the better-off, to the exclusion of those most in need - co-existed with persistent poverty and inequality in Latin America.<sup>8</sup> Table 1 presents the poverty headcount and the Gini coefficient for income inequality for 23 countries in Latin America. The international \$2.50-a-day poverty line (converted at 2005 purchasing power parity exchange rates) is used to identify the poor, and the data come from the Socio-Economic Database for Latin America (SEDLAC) and the World Bank’s POVCALNET database.<sup>9</sup> There is considerable heterogeneity among countries, both in current poverty levels (which range from 3.3% in Uruguay to 79% in Haiti) and in past trajectories: whereas poverty fell from 24% to 9% in Chile between 1981 and 2000, it rose from 2% to 14% in (almost exactly) the same period in neighboring Argentina. There are also large differences in the level and changes in inequality (see De Ferranti et al, 2004 and Lopez-Calva and Lustig, forthcoming). But the fact is that all countries in the region remain substantially unequal, and most are marked by unacceptable levels of deprivation. In the early 2000s, absolute poverty at the \$2.50-a-day poverty line was larger than a quarter of the population in 15 of the 23 LAC countries listed in Table 1.

In fact, the evidence suggests that, in some countries, the truncated welfare state was more a part of the problem than a part of the solution. Regressive commodity subsidies and the type of *implicit* redistribution generated by social insurance systems often aggravated instead of alleviating the problem. In large part, the regressivity of many contributory pension systems in Latin America arises from the fact that the value of benefits paid out exceeds the value of contributions received (plus interest). This financing gap is filled from general revenues, or added to the contingent liabilities of the government (which, in the long run, amounts to the same thing). Since the poor do pay taxes (primarily on expenditures) but seldom participate in the contributory social insurance systems, these subsidies end up being regressive. In a recent study of eight LAC countries, for instance, Lindert et al. (2006) found that 58 percent of the general revenue subsidies to social insurance systems accrued to the top quintile of the income distribution, and only two percent to the bottom quintile.

It was against this background that a quiet revolution started taking place in Latin America’s social assistance systems in the early 1990s. A number of countries had re-established democratic systems in

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<sup>8</sup> See De Ferranti et al. (2004) for an early discussion of the “truncated welfare state”.

<sup>9</sup> The SEDLAC database is maintained by the *Centro de Estudios Distributivos, Laborales y Sociales* of the Universidad de La Plata, Argentina, in partnership with the World Bank. POVCALNET is a global poverty and inequality database maintained by the Poverty and Inequality Team in the World Bank’s research department. Appendix Table 1 provides details on specific sources, dates and coverage for the household surveys used to compute the statistics shown in Table 1.

the 1980s: among them, Argentina in 1982, Brazil in 1985, and Chile in 1990. Democratic congresses and administrations proved more averse to high levels of poverty and inequality than their dictatorial predecessors had been and, in many countries, these new governments sought to extend the redistributive role of the state towards those most in need of its support.<sup>10</sup> The desired expansion of social assistance was implemented through two main types of programs: non-contributory social insurance (pensions and health insurance); and conditional cash transfers (CCTs).

Non-contributory social insurance (NCSI) schemes were targeted to low income workers not covered by the social insurance system. Chile, Brazil, and Bolivia, for instance, implemented *social pensions*: flat benefits provided to individuals older than a certain age that can be either universal or conditional on an income test.<sup>11</sup> Similarly, Colombia and Mexico developed non-contributory health insurance programs targeted to low income informal sector workers and the poor. Conditional Cash Transfers (CCTs) were introduced in the mid 1990s, sometimes as replacements for inefficient and regressive subsidies. These programs offer cash assistance to poor families, provided that members – usually children – meet certain conditions on school attendance and health care use. Conditional cash transfers are now the prevalent model for income support in LAC. CCT programs (in several designs) have been established in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Panama, and Peru, and many of these are large-scale. Both NCSIs and CCTs are discussed in more detail in the next section.

Despite these innovations, expenditures in social assistance as a share of GDP remain low in Latin America relative to most other regions of the world. Calculations from Weigand and Grosh (2008) suggest that, whereas LAC countries spend on average 1.3% of GDP on social assistance (and 3.8% on social insurance), African countries spend 3.1%, the Middle East and North Africa spend 3.6%, Europe and Central Asia spends 2.0%, and OECD countries spend 2.5%. The social assistance expenditure to GDP ratio is only smaller than LAC in Asia, where the average in both East and South Asia is 0.9%. Nevertheless, the introduction of non-contributory social pensions and CCTs in the last two decades has dramatically altered the coverage and incidence of the combined system in Latin America. Figure 4 illustrates the impact of non-contributory pensions on the distribution of old-age pension coverage by quintile in four countries: Bolivia, Chile, Costa Rica and Ecuador. Whereas contributory systems hardly

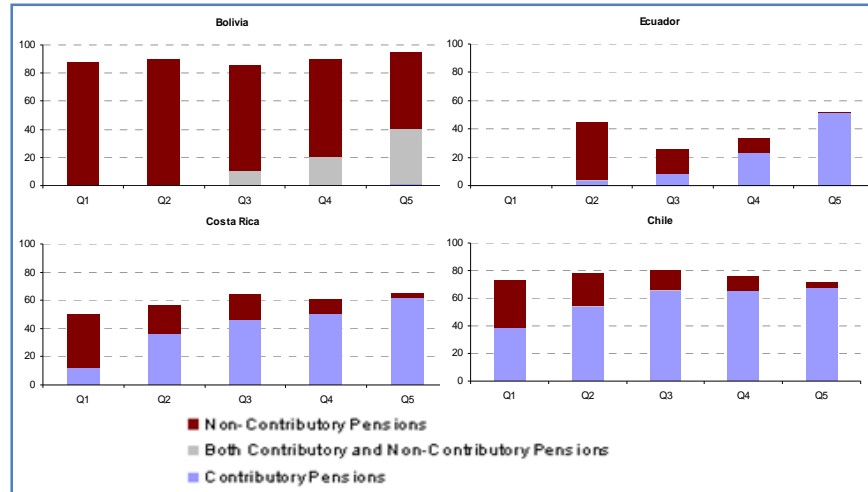
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<sup>10</sup> A classic example is the ‘welfarist’ tone of the 1988 Brazilian Constitution, which introduced the “Organic Social Assistance Law” (LOAS) and a number of the social pensions we discuss below.

<sup>11</sup> See Holzmann et al., (2009) for a review.

reached the poor in Bolivia and Ecuador, the new social pensions have succeeded in substantially increasing coverage in the bottom quintiles.

Figure 4: Old-Age Pension Coverage: Contributory and Non-Contributory



Source: Ribe, Robalino and Walker (forthcoming)

Benefit amounts for social pensions are generally – but not always – smaller than for contributory pensions, so social insurance (including both social security and public health expenditures) continues to account for the bulk of social protection expenditures in the region. Table 2 reports social spending figures for health, social security and other items in Latin America, around 2005 and 2006, both in dollars per capita and as a share of GDP.<sup>12</sup> There is considerable cross-country variation, as one would expect, with annual social assistance expenditures ranging from \$1.00 per capita in Honduras and Peru, to \$118.00 in Argentina and Trinidad & Tobago. As a share of GDP, social assistance ranges from 0% (in Peru) to 3.4% (in Bolivia).

Although spending on social assistance typically remains low, both in absolute terms and relative to health and social security expenditures, the available data suggest that most countries have been increasing those expenditures over the last decade. Table 3 shows the evolution of social assistance expenditures for 12 countries for which data are available between 1990 and 2006. Only in Bolivia and Nicaragua did expenditures decline somewhat. In the other countries they either remained constant

<sup>12</sup> In terms of the terminology in this chapter, social insurance corresponds to the combination of health and social security. Most of the expenditure under “other” would correspond to social assistance, although in some countries some active labor market programs are also included. Because countries and international agencies classify programs differently, caution is always needed when making international comparisons as in Table 2.

(Chile, Jamaica, and Peru, and Venezuela) or increased (Argentina, Brazil, Costa Rica, the Dominican Republic, Mexico, and Paraguay).

But the transformation of Latin America's social assistance system over the last two decades or so goes beyond the increase in the monetary value of its expenditures. From a situation twenty-five years ago, when social insurance was only available to a minority of workers in urban areas, and social assistance was limited to a few untargeted food and fuel subsidies, many countries in the region have now created systems that distribute resources to large numbers of poor people, including in rural areas. In that sense, the system's effectiveness has increased more markedly than its costs.<sup>13</sup> In the next section, we examine the four main components of the contemporary social assistance system in LAC: food subsidies and in-kind transfers; workfare programs; non-contributory social insurance; and conditional cash transfers.

### 3. The Modern Social Assistance System in Latin America

Modern social assistance systems comprise three core program types: cash-transfers; in-kind transfers; and workfare (see Figure 5). Cash transfers can be further sub-divided into those that seek to mimic the benefits of social insurance systems in the absence of private contributions, and those that seek to promote certain positive behaviors by conditioning the transfers. The former category of transfers is dominated by non-contributory social insurance programs that include social pensions (universal or targeted), disability pensions, non-contributory health insurance, and unemployment assistance. The latter category involves mainly CCTs, which aim to promote investments in human capital.<sup>14</sup>

In the remainder of this section we review some of the main achievements and challenges for each of these program types in turn. We begin with in-kind transfers and then discuss workfare, before turning to the two main categories of cash transfers: NCSIs and CCTs. Cross-cutting issues regarding the

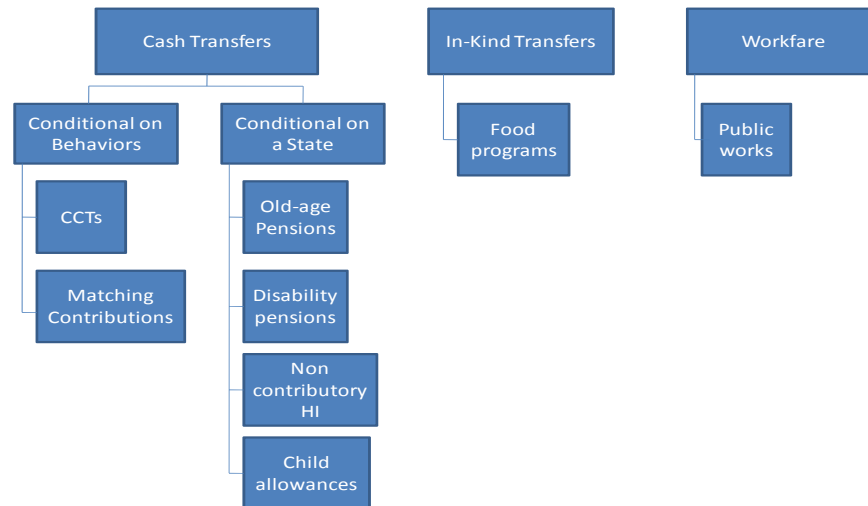
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<sup>13</sup> The increased effectiveness of LAC's social protection system is not only a property of the "steady-state". In fact, one of its most relevant benefits may be an enhanced capacity to cushion the poor from the effects of negative aggregate economic shocks, such as recessions. It has been speculated that governments' ability to rapidly expand existing programs (such as Mexico's *Programa de Empleo Temporal* or Colombia's *Familias en Acción*) during the "great recession" of 2008-09 may have been one reason behind the relatively small increases in poverty in the region over that period, given the severity of the global downturn. (Ferreira and Schady, 2009)

<sup>14</sup> It also includes a more recent type of program, *Matching Defined Contributions* (MDCs), which are being considered by countries like Colombia and Mexico. MDCs are transfers to low income workers outside the urban formal sector designed to promote adherence to various insurance schemes (e.g., pensions, health or unemployment insurance), with the aim of reducing long-term expenditures in anti-poverty programs (see Palacios and Robalino, 2009).

integration of social assistance programs with other components of the social protection system are discussed in the next section.

Figure 5: Typology of Social Assistance Programs



Source: Authors

### In-Kind Transfers (Food-based Programs)

As discussed above, food-based programs were one of the main forms of social assistance in Latin America until the 1970s. With somewhat more efficient designs, many countries still have them. Ribe, Robalino and Walker (forthcoming, henceforth RRW) identify two broad types of food-based program, as defined by their target group. The first type targets poor households and includes soup kitchens, the distribution of basic staples or nutritional supplements (e.g., papillas, “maicena”, or atoles) to mothers and babies, as well as food-for-work programs for which participants self-select on willingness to work for low compensation (as in workfare). The second type comprises categorical programs that target specific demographic groups, rather than the poor. Most of these programs focus on school children, and are common in countries like Haiti, Honduras, Peru, Ecuador, Bolivia, Colombia, Brazil, and Jamaica. Since many of these programs operate through public schools, and because the rich in Latin America tend to select out of the public school system and into private alternatives, school feeding programs end up having a largely progressive incidence, despite their *de jure* categorical nature.

There is considerable diversity in design among food programs targeted to the poor: they range from in-kind food rations that household members can collect in certain shops (such as in the *Tortivale*



program in Mexico) or in public clinics (as in the *Programa Nacional de Alimentación Complementaria* in Chile), to food stamps targeted to the poorest households (the *Food Stamp Program* in Jamaica or the *Bono Escolar* and the *Bono Materno Infantil* in Honduras). Although school feeding programs, like the *School Cafeterias Program* of Costa Rica or Peru's *Desayunos Escolares*, are in principle less heterogeneous, there are nevertheless substantial differences in both practice and effectiveness. Chapter 7.2 and Table B.2 in Grosh et al (2008) describe a variety of examples from around the world, including LAC.

There are few rigorous impact evaluations of school feeding programs in LAC, and the evidence that does exist is mixed. On the one hand, these programs can increase enrollment and attendance and, when food is given at the start of the day, children can get an energy boost that improves concentration and learning. In rural primary schools in Jamaica, a randomized experiment showed that school breakfasts increased attendance rates, particularly among undernourished children (Powell et al, 1998). Another study showed that school breakfasts in rural areas improved the cognitive performance of malnourished children (Simeon and Grantham-McGregor, 1989). A breakfast program in Huaráz (Peru) increased the attendance rates of fourth and fifth grade students (Jacoby et al, 1996). On the other hand, the evidence on long-term learning achievement, even when it is positive, is often based on efficacy trials, and is difficult to generalize (Adelman et al. 2008). In addition, some in-kind transfer programs, such as Peru's *Vaso de Leche*, do not appear to reach their nutritional objectives (Stifel and Alderman, 2006).

It is also true that transfers in kind – including of food – generally yield a smaller increase in the beneficiaries' choice sets than would a cash transfer of the same monetary value. In addition, many of these programs have high operational and administrative costs related to procurement, transportation, and the logistics of distribution (RRW). Nevertheless, reforming traditional food-based programs has not always been easy, in part because of the entrenched interests of the institutions that manage them and of those that supply and distribute the food.

As discussed by RRW, perhaps the most promising development in this area takes the form of a set of new programs that move beyond pure "food distribution", and focus on the final outcome of improving nutrition. These programs recognize that food is sometimes only one missing input into the "nutrition production function". Accordingly, they seek to address informational gaps, influence entrenched behaviors, and assist with child weight and height monitoring, as well as supplying nutritious foods. These programs include the *Programa Nacional de Alimentación y Nutrición* (PNAN 2000) in

Ecuador, and the *Atención Integral a la Niñez – Comunitaria* (AIN-C) model in Central America. As in the case of cash-transfers, food is used as an incentive to promote participation in the programs. Some countries have also used in-kind transfers to motivate enrollment in early childhood development (ECD) programs such as PAININ in Nicaragua, which also promote hygiene and early stimulation, in addition to improved nutrition. There is some evidence that children who participate in these programs have higher levels of cognitive development and school readiness (e.g. Cueto and Diaz, 1999), although more empirical work is needed.

### **Workfare**

The rationale for workfare programs arises from an acknowledgement that traditional unemployment insurance programs, which are part of contributory social insurance in Latin America, largely exclude the poorest workers in these countries. Workfare aims to provide a cushion against unemployment risk for those workers, by offering some monetary compensation for “emergency” or “short-term” work, typically in the maintenance, upgrading, or construction of local infrastructure. In theory, wages should be set at a level such that it can assist participants and their households in avoiding hunger and extreme deprivation, but which is otherwise low enough that the program will not attract other low-productivity workers from their main occupations. Because it is targeted at workers without formal employment links or documents, budget sustainability is attained either by quotas or by self-selection: i.e. by attracting only workers who are sufficiently destitute to accept the program’s low wages in return for 30-40 weekly hours of often very hard work. The latter is clearly more desirable in terms of allocating placements to those most in need.

Although workfare programs have a long tradition in other parts of the developing world, they became more widespread in LAC only in the 1990s. As discussed above, Chile was an early adopter of the program. Mexico followed years later with the *Programa de Empleo Temporal* introduced in 1995, as part of the government’s response to the severe economic downturn associated with the *Tequila* crisis. Unlike many other LAC programs, the PET was aimed primarily at poor rural areas, where it sought to create labor-intensive jobs in the rehabilitation and improvement of local infrastructure. Since 2002, the reach of the program has been broadened, and it has become more permanent. (World Bank, 2009b).<sup>15</sup>

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<sup>15</sup> The use of workfare programs is now widespread. Workfare has been a well-studied component of India’s social protection system, with a number of studies of the Maharashtra Employment Guarantee scheme, for example (see, e.g., Ravallion et al., 1993). More recently, a version of the Maharashtra program has been scaled-up to

In 1996, it was Argentina's turn to introduce a workfare program in response to a sharp rise in unemployment and a contemporaneous increase in poverty. The first objective of *Trabajar* was to provide short-term work opportunities to the unemployed poor, subject to a strictly enforced work requirement of 30–40 hours per week. The program tried to locate socially useful projects in poor areas that involved maintaining and building local infrastructure. The main targeting mechanism was the low wage rate, supplemented by a project selection process that geographically targeted poor areas. Despite positive evaluation results in terms of targeting, *Trabajar* evoked considerable political opposition. Because the wage rate was not set low enough, there was excess demand for spots in the program, and their allocation was often perceived as being captured by local political agents.<sup>16</sup>

As a result, *Trabajar* was replaced by a new workfare program in Argentina in 2002, known as *Jefes y Jefas de Hogar*. The program transferred Arg\$150 (about US\$48) per month to beneficiaries who met the following criteria: (1) unemployed; (2) head of a household; (3) live in a household with at least one minor below the age of 18, a pregnant woman, or a handicapped person of any age; and (4) work or participate in training or education activities for 4–6 hours a day (no less than 20 hours a week) in exchange for the payment. The transfer amount was set at a level slightly below the going wage for full-time work for unskilled workers. This was a larger program than *Trabajar*: by 2003 it had nearly two million beneficiaries, or some 11% of the economically active population. As the Argentine economy recovered, however, participation in the program declined: by 2006, *Jefes y Jefas* had 1.2 million recipients, or 6.4% of the economically active population.<sup>17</sup> Since 2004, the emphasis has shifted towards promoting the re-insertion of the unemployed in the labor market through skill upgrading and job search support, implemented by the *Seguro de Capacitación y Empleo*, an ancillary active labor market component targeted to *Jefes y Jefas* beneficiaries.

Workfare programs were also implemented in Bolivia, Colombia and Peru in the 2000s. Bolivia's *Plan Nacional de Empleo de Emergencia* was set up in 2001, and benefited some 4.5% of the economically active population, before being folded into the *Red de Protección Social* in 2004. Peru's *A Trabajar Urbano* was a smaller program, set up in 2002 to provide support to poor victims of the 1998–2001 recession. By 2003, it provided some 77,000 jobs, each lasting for four months, at a total cost of US\$50 million, or 0.08% of GDP. Colombia's *Empleo en Acción*, launched in 2001, was integrated into a broader

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become India's main social assistance program, the National Employment Guarantee Scheme (see Murgai and Ravallion, 2005).

<sup>16</sup> *Trabajar* was evaluated by a number of papers, including Jalan and Ravallion (2003).

<sup>17</sup> See Almeida and Galasso (2007) and Galasso and Ravallion (2004) for detailed studies of this program.

social assistance system from the outset.<sup>18</sup> Alongside *Familias en Acción* (a CCT) and *Jovenes en Acción* (a youth program), it formed the *Red de Apoyo Social*, an integrated social support network. Despite this laudable attempt at an integrated design, *Empleo en Acción* suffered from a common malaise for Latin American workfare schemes: national laws are interpreted as forbidding a wage lower than the national minimum wage, thereby compromising the program's self-selection – based targeting.

Given the low coverage of unemployment benefit systems in the continent, workfare programs have provided a useful mechanism to assist the most vulnerable among the unemployed – particularly during macroeconomic crises. Some of these programs, such as the *Programa de Empleo Temporario* (PET) in Mexico, played an important role during the recent 2008-09 financial crisis. Many workfare programs, however, have not yet been properly evaluated and many are still affected by design problems, both in terms of targeting the most vulnerable workers and in the selection of investment projects and public works to which the labor is applied.

### **Non-Contributory Social Insurance Programs**

With informality rates generally upwards of 40% of the labor force, unemployment benefits were not the only component of the contributory social insurance system that was unavailable to most poor people in Latin America. The vast majority of them had no old-age or disability pensions either. Similarly, only a minority had access to health insurance. In principle they could receive health care through national health services (i.e. where health insurance is provided by universal in-kind access to services) but benefits are often inadequate in both quantity and quality. Even if they could land themselves a workfare spot during a recession, or after having lost a job for idiosyncratic reasons, their old-age security or insurance against disability and sickness were not guaranteed. The problem was aggravated by the fact that even those covered by social insurance programs are not covered all the time. In Argentina, Chile, and Uruguay, for instance, median contribution densities are below 50% (see Forteza et al., 2009). This is not surprising, since most poor people in Latin America are not consigned permanently to the urban informal sector. They change jobs frequently, sometimes into and out of formal employment.

A natural response to this (large) coverage gap has been to develop non-contributory or subsidized insurance programs – mainly for pensions and health insurance. In the case of pensions the programs

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<sup>18</sup> Colombia also had an earlier experience with workfare as part of the *Red de Solidaridad Social*, between 1994 and 1998.

are of one of two variants: so-called social pensions; and matching defined contributions (MDCs). Social pensions are effectively entitlements, financed entirely out of general revenues (or earmarked taxes, which is much the same in this context, only more distortionary), and paid out to certain pre-determined categories of individuals. These categories can be defined by age alone, as in Bolivia's *Bono Solidario*, which makes a universal fixed cash transfer to all Bolivian citizens aged 65 or higher. Or they may be defined by some combination of age and previous employment history, as in the case of Brazil's *Previdência Rural*, which since 1991 has extended old-age, disability and survivor pensions to men aged 60 or older, and women aged 55 or older, who previously worked in subsistence activities in agriculture, fishing and mining, and to those in informal employment.

These are not small programs. In the late 1990s, while they were still relatively young, they cost about 1% of GDP, both in Bolivia and Brazil (see Barrientos and Lloyd-Sherlock, 2002). In all likelihood they account for larger expenditures and reach greater numbers of people now. There is some evidence that they have made non-negligible contributions to poverty reduction, although it is often pointed out that they do so relatively inefficiently, since they are less well-targeted than alternative programs. See e.g. Barros, Foguel and Ulysea (2006).

The other programs that have been considered (mainly in Colombia, Mexico, and Peru) are MDC systems, which target individuals in the informal sector with some, but limited, savings capacity. Such schemes consist of individual accounts and benefit from varying degrees of state subsidization (where the government matches individual contributions, much as a private-sector employer usually does in a contributory scheme). None of these programs have been rigorously evaluated but the Mexican experience so far indicates that take-up rates have been low.<sup>19</sup>

A challenge voluntary contributions face is that individuals are “myopic” – which is the reason why contributions to social security are *not* voluntary for richer, formal-sector workers either. As we now know from a large body of evidence from behavioral economics, human beings generally tend to “over-discount” the distant future, and to procrastinate in making even basic investments with large long-term returns. Known as myopia, “hyperbolic discounting”, and by various other names, these departures from standard rationality appear to be quite common. And they may provide a theoretical justification for a series of well-established paternalistic institutions that “force people to do what is good for them”, like

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<sup>19</sup> For a discussion of the systems and their potential see Palacios and Robalino (2009).

saving for when they are retired.<sup>20</sup> When combined with poor financial literacy, “over-discounting” of the distant future can lead to demand for pensions that is both inefficiently low and inelastic. Impavido et al. (2009) argue that these market failures may justify regulatory interventions aimed at increasing the risk-adjusted expected returns observed in the “quasi-markets” for pension products.

### **Conditional Cash-Transfers**

The program type that has been credited with contributing to poverty reduction as much as, if not more than, NCSIs, and which is argued to do so more effectively, because of better targeting, is the conditional cash transfer (CCT). Conditional cash transfers consist of periodic payments targeted to poor households (and usually delivered to women), which are made only if household members meet certain conditions, such as attending school (for children) or visiting health clinics for hygiene lectures and check-ups (for parents and children). The objective is to alleviate current poverty (by targeting transfers to the very poor) while simultaneously seeking to break the intergenerational transmission of poverty by encouraging investment in the human capital of poor children.

Originally proposed by two Brazilian economists, in a newspaper article in 1993 and a working paper from 1994, CCTs were first implemented in practice in Brazil’s Federal District and in the city of Campinas in 1995.<sup>21</sup> Their rise to prominence began when they were adopted by the Mexican government in 1997, and deployed in a set of poor rural areas by means of an experimental design, which permitted careful evaluation of its impacts. CCTs now exist in fifteen LAC countries and benefit an estimated 22 million households (over 90 million people or 16 percent of the region’s population).

Where CCTs exist they have absorbed a significant share of social assistance expenditures, with budgets ranging between 0.1 percent of GDP (Chile and Peru) and 0.6 percent of GDP (Ecuador). There are nonetheless important variations across countries in terms of coverage, and the level of benefits. For instance, coverage rates vary between 1.5 percent of the population (in El Salvador) and 54 percent of the population (Bolivia). Benefits range between 0.25% of GDP per capita (Costa Rica) and 20% (El Salvador). There are also differences regarding the enforcement of conditionalities. Unlike in Mexico’s *Oportunidades*, for example, in Ecuador’s *Bono de Desarrollo Humano* benefits are paid without monitoring conditionalities (see RRW). In the remainder of this section, we summarize what is known

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<sup>20</sup> See, e.g. O’Donoghue and Rabin (1999) for a classic treatment of “procrastination in preparing for retirement”, or Thaler and Sunstein (2009) for a more general, but excellent introduction for the non-technical reader.

<sup>21</sup> See Camargo (1993) and Almeida and Camargo (1994) for the original proposals. Camargo and Ferreira (2001) review the early Brazilian experiences, and propose the consolidation that led to the Bolsa Família program.

about the effects of CCTs on three different types of outcomes they seek to affect: present income or consumption poverty; educational outcomes; and health and nutrition outcomes.

*Poverty reduction.* Recent studies argue that CCTs have made important contributions to poverty reduction in at least some of the countries where they have been implemented. Program effects on national poverty rates are difficult to identify causally since, even where experimental evaluations are available, these impacts extrapolate their internal validity. Nevertheless, using a micro-simulation technique, Fiszbein and Schady (2009) estimate that CCTs have reduced the national headcount poverty rate by 8 percent in Ecuador (*BDH*) and Mexico (*Oportunidades*), by 4.5 percent in Jamaica (*PATH*), and by 3 percent in Brazil (*Bolsa Familia*). These reductions arise essentially because CCT benefits have been unusually well-targeted, and not substantively offset by labor supply disincentives. The combination of geographical targeting and proxy means-testing that many (but not all) CCTs have used to identify beneficiary households has proved to be one the main sources of their success. Mexico's *Oportunidades* delivers 45% of all benefits to the poorest 10% of its population, while programs in Chile and Jamaica achieve equally impressive shares of 35-40% to the bottom decile. (See Chapter 3 in Fiszbein and Schady, 2009).

As for behavioral responses that might have offset some of the income gains from the transfers, initial concerns that the programs would reduce incentives for work have not received much empirical support so far. Studies found no evidence of disincentive effects from CCTs on adult labor supply in Mexico (Skoufias and di Maro, 2006), Ecuador (Edmonds and Schady, 2008) and Cambodia (Filmer and Schady, 2009). Only in Nicaragua did Maluccio and Flores (2005) find that the *Red de Protección Social* appears to have resulted in a significant decline in the number of hours worked by adult men (but not women). Effects on child labor supply (where disincentives are generally regarded as a positive outcome, but which may nevertheless have an offsetting effect to present consumption poverty) are more mixed. Bourguignon, Ferreira and Leite (2003) find little effect of (the older) Bolsa Escola program on child work, but Edmonds and Schady (2008) find a bigger impact in Ecuador.

With benefits largely reaching the poor households to which they were intended, and limited evidence of offsetting reductions in other income-earning activities, it is unsurprising that poverty declined. In fact, reductions in poverty have not been larger only because pre-transfer incomes are often well below the poverty line, and transfers are relatively modest. Nevertheless, even if most beneficiary households are not lifted out of poverty altogether, they are certainly brought closer to the poverty line,

as reflected in reductions in the poverty gap and the squared poverty gap. See Table 4, which is adapted from Table 4.3 in Fiszbein and Schady (2009).

*Educational outcomes:* The evidence on the educational impacts of CCTs is both of higher quality (because it often relies on the internal comparison of outcomes for children randomly allocated to treatment or control groups) and more mixed. There is considerable evidence that the programs increased school enrollment and attendance, and lowered school drop-out rates (Behrman et al., 2005, Britto 2004 and 2007, and Rawlings, 2005). This effect was particularly pronounced at the secondary school level – where enrollment rates were lower than in primary to begin with – and, in some countries, for girls. But there is much less evidence that the programs helped improve final educational outcomes – such as learning as measured by achievements in standardized examinations.<sup>22</sup> It would thus appear that the behavioral impacts of CCTs are stronger on (if not limited to) the immediate behaviors on which the transfers are conditioned, such as enrollment and attendance at schools. It has been hypothesized that further improvement in actual learning requires additional measures, including investments in the supply-side of the educational system.<sup>23</sup> Such investments are all the more needed to the extent that the children being attracted to – or retained in – school as a result of CCTs are typically from poorer family backgrounds and may require additional support to achieve even the learning levels of their new peers.

*Health outcomes and nutrition:* CCTs also appear to have increased the demand for health services (on which they are conditioned) although, once again, improvements in final health and nutritional outcomes have been modest. For instance, the evidence reviewed in Lomeli (2008) suggests that, as a result of the programs, take-up of prenatal, natal, and postnatal care has increased in Peru, Honduras, Mexico, and El Salvador. Take-up of child growth monitoring increased in Colombia, Honduras, Mexico, Nicaragua, and Peru, while vaccination rates increased in Colombia, Honduras, Nicaragua, and Peru. It is less clear, however, whether the programs have had long-term impacts on health outcomes. Although positive effects on maternal mortality rates (in Mexico) and morbidity rates (Mexico and Colombia) have been reported in the literature, methodological and data shortcomings mean that the evidence remains less than conclusive.<sup>24</sup> There is nonetheless some robust evidence that PROGRESA has caused a

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<sup>22</sup> See Chapter 5 in Fiszbein and Schady (2009), and the references therein.

<sup>23</sup> The original and highly successful PROGRESA program in Mexico, which was the precursor to *Oportunidades*, did in fact implement such complementary supply-side interventions. But they would appear to have been overlooked in most subsequent, large-scale CCT programs.

<sup>24</sup> See the discussion in Chapter 5 in Fiszbein and Schady (2009).



substantial (17%) reduction in infant – although not in neonatal – mortality rates in rural Mexico (see Barham, forthcoming).

On balance, CCTs have transformed the social assistance landscape in (and, increasingly, beyond) Latin America in large part because they greatly enhanced the State’s capacity to target resources effectively to the poorest people in society. As we saw in Section 2, the bottom fifth of the income distribution had been effectively excluded from any serious state assistance throughout Latin America’s history, and this only started to change with the introduction of NCSIs and CCTs in the 1990s. Furthermore, this appears to have been the case under very different targeting systems, ranging from the careful, multi-layered geographical-cum-proxy-means approach of *PROGRESA* – rural *Oportunidades*, to the enormously decentralized and much less rigorous approach of *Bolsa Família*. The fact that the latter program also appears to be very well-targeted would seem to warrant further research on the determinants of CCT targeting.<sup>25</sup>

CCTs have also contributed to rationalizing and integrating social assistance programs, and reduced the role of untargeted programs and consumption subsidies. The classic example is Brazil’s *Bolsa Família*, which consolidated four other programs (*Bolsa Escola*, *Bolsa Alimentação*, *Cartão Alimentação*, and *Auxílio Gás*), and is now the largest program in Brazil after the social pensions for the elderly and disabled (BPC) (see World Bank, 2009a). Another example is Mexico’s *Progresas* (now *Oportunidades*) that, when established in 1997, replaced consumption subsidies for tortillas.

Although CCTs have been very successful, there is always room for improvement. RRW identify three areas where more thinking is required: (i) improving coordination between CCTs and the supply side in health and education; (ii) modernizing procedures for enrolling and “graduating” beneficiaries in a timely fashion; and (iii) adapting programs to urban settings.

On the supply side, the quality of education and health care remains low in most countries in the region. Hence, even if individual investments in education and the consumption of health services increase as a result of CCTs, social benefits will be constrained in the absence of structural reforms in education and health systems. There is also room to improve the administration of CCTs, and in

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<sup>25</sup> It is possible, for instance, that the five thousand mayors who have overseen the targeting of *Bolsa Família* in Brazil have exerted greater effort in ensuring that the money reaches its intended beneficiaries because the conditionalities (or co-responsabilidades, in the Spanish usage) associated with them reflect a new political economy equilibrium, whereby middle-class voters are much more supportive of transfers if they are (i) not seen to be unconditional handouts, and (ii) not seen to be captured by politicians and their cronies. See Levy and Rodríguez (2004), and Chapter 2 in Fiszbein and Schady (2009).

particular, the procedures to enroll and “graduate” beneficiaries. It is important to have a continuous system where individuals can apply for benefits and be enrolled if eligible, and beneficiaries are periodically re-certified to ensure they meet eligibility conditions. Finally, alternative designs may need to be considered in urban areas. Although urban poverty rates are lower than those in rural areas, many of the region’s poor now live in cities. This has generated political pressure to expand CCT coverage to urban areas. But urban contexts have proved quite different, and there is some evidence that CCT impacts are lower there. Special consideration to challenges specific to urban areas may be needed to ensure that the programs’ potential is also reached in that context.

#### **4. The Future of Social Assistance within LAC’s Social Protection Systems**

As argued in the previous two sections, social assistance has come a long way in Latin America in the last two decades. In the 1980s, the continent’s “social assistance system” was really no more than a disparate collection of food and fuel subsidies, a few direct feeding programs and the odd workfare scheme. It channeled limited resources and only a small share of those ever reached the poor, since most subsidized commodities were normal goods. Alongside this “non-system”, stood a truncated social insurance system that provided some incentives for mandated savings for retirement for civil servants and formal sector workers, as well as health and some unemployment insurance – often through severance pay schemes.

By 2010, social assistance expenditures have risen and a sizable fraction of the continent’s truly destitute people have received or continue to receive direct cash transfers from the government. In some countries, like Brazil, Chile and Mexico, it is now possible to claim that a majority of the poor are in receipt of one or more government programs created with the specific purpose of redistributing income or opportunities. And it seems to be working: a number of recent studies claim that part of Brazil’s success in reducing poverty and inequality since 2001 is directly attributable to social assistance programs in general, and to *Bolsa Familia* in particular.<sup>26</sup> The region pioneered conditional cash transfers – arguably *the* social policy innovation of the last two decades – and succeeded in scaling them up from small municipal programs with relatively limited impact to large, nation-wide systems that actually make a dent on poverty, and even on the previously impervious level of inequality. It introduced non-contributory social insurance systems that have contributed substantially to closing the coverage gap. It

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<sup>26</sup> See Barros, Foguel and Ulyseia (2006), Ferreira, Leite and Litchfield (2008), and Ferreira, Leite and Ravallion (forthcoming).

experimented with social investment funds, devolving project selection and investment decisions to poor communities in remote Andean and Amazonian villages. Is it time to uncork the Champagne?

While much has been achieved, the very fact that social assistance programs in LAC have grown “organically”, without much planning or thought given to how the various pieces of the puzzle fit together, has given rise to considerable inefficiency, and to a whole new generation of challenges. In this section, we discuss two such challenges. There are others, to be sure, but these are the ones we consider to be of first-order importance: first, the disconnect between the social assistance and social insurance “halves” of social protection; and second, the incompleteness of policies aimed at promoting greater opportunity for durable poverty reduction.

The disconnect between social assistance and social insurance arises, fundamentally, from the fact that the two systems remain separate, and social insurance remains contingent on labor market status. Formal sector workers qualify for social insurance, funded primarily by mandatory contributions and payroll taxes. Many, and in some cases most, of those who do not, are now eligible for other sorts of “replacement” benefits, under the rubric of social assistance. If a worker does not qualify for a contributory old-age pension, she may qualify for a non-contributory one. If another has no right to unemployment insurance, he may still earn some income from a workfare scheme – or receive cash for keeping his children in school. Although the levels of the formal benefits remain on average much higher, the financing mechanisms that have been set in place constitute, in effect, a tax on formal sector employment coupled with a subsidy on the informal sector. The payroll taxes or other social security contributions that fund formal social insurance introduce a wedge between labor costs paid by formal sector firms and wages received by their workers. This distorts decisions on two fronts: it makes labor expensive vis-à-vis capital in the formal sector, relative to the non-intervention prices. And, on the margin, it makes formal sector employment less attractive than informal employment for a worker of given productivity. This latter effect is compounded by subsidies he or she may receive in the informal sector, from social assistance programs.

This inefficiency was described, both theoretically and empirically (for the case of Mexico) by Levy (2008) and, although disagreements remain about the quantitative estimates of the efficiency cost of the tax represented by the duality of the social insurance-social assistance system, there is little dispute that it is a problem. At least two alternative solutions have recently been proposed. After diagnosing the problem, Levy (2008) suggests a simple - but radical - solution, the essence of which is as follows. Basic old-age pensions and health insurance should become universal entitlements, funded out of general

revenues, raised by a tax on consumption expenditures, for example. Additional coverage might be purchased privately, of course, but the basic public provision of all (previously contributory) social insurance benefits would now be funded in this way. Taxing people “at the door of the store” rather than workers “at the factory gates” (as he puts it) would eliminate the distortionary wedge between labor costs and wages in the formal sector, thus restoring the relative prices of capital and labor for firms, and equating wages for workers of the same productivity across the economy. Levy (2008) suggests that a consumption tax of around 4.5 percent of GDP would suffice to finance appropriate benefit amounts for the Mexican workforce. He estimates efficiency gains of the order of 0.9 and 1.4% of GDP.

Levy’s proposals are grounded in undeniably good economics, and have the beauty of simplicity. Politically, the package may be difficult to implement in countries that have already adopted social insurance systems (old-age and disability pensions, health insurance and unemployment insurance) with mandates that go beyond a basic package of social security benefits. Given a budget envelope, there is also the question of whether the subsidies to finance the various programs should be universal or if individuals with savings capacity should contribute to finance part of the costs of the benefits they receive (the part they value) – thus freeing up resources for other social expenditures.

An alternative proposal has been put forward by RRW. As in Levy (2008), RRW recognize that non-contributory programs can discourage formal work and that social security contributions have a large tax component that distorts labor markets. They emphasize that a large share of the tax arises from implicit redistributive arrangements within the system, and argue that the focus of reform should be on eliminating this implicit redistribution. This could be accomplished, for instance, by moving from defined benefits to defined contribution pensions, from unemployment insurance to unemployment savings accounts, and from earnings-based health insurance to premiums-based health insurance. The programs could then be open to workers outside the formal sector under the same rules. To cover individuals with limited or no savings capacity, there would be an integrated system of subsidies that top-up contributions and/or benefits. These subsidies would be allocated on the basis of means (not of where individuals work) and would be financed through general revenues. The proposal also calls for reviewing (and harmonizing) the mandates of the various insurance schemes in order to make them more affordable and reduce the implicit taxes associated with excessive precautionary savings. In essence, their proposal separates the insurance and redistributive function of the various programs and makes the latter more transparent and less distortionary.

Whichever one of these approaches one prefers, or indeed whether one has an alternative proposal, these recent contributions to the debate have the great merit of pointing out that, even as it represented a success in terms of reaching the poor, the rise of social assistance in Latin America in the last two decades has been incoherent and, therefore, inefficient. One challenge that faces the system as it moves forward is the need to integrate the contributory and non-contributory “halves” in a way that is fair, that preserves social gains to the poor, but also that is less distortionary and restores the right economic incentives for firms and workers – both in terms of static resource allocation, and in terms of long-term savings. If achieved, this will be no small feat, and the path to success is likely to involve more than tinkering at the margins.

The second challenge for Latin America’s social protection system is that, despite having finally reached the poor, rather than merely the urban middle-classes, it remains remarkably timid in the kinds of support it offers them in their quest to leave poverty behind permanently. Non-contributory social insurance programs, including social pensions, are now a mainstay of modern social assistance in Latin America, but they are effectively social-insurance substitutes, which prevent people from falling deeper into poverty when they become unemployed or too old to work. Programs that move, to paraphrase a recent title, from protection to promotion, are rarer.<sup>27</sup> CCTs obviously claim a spot, since they are designed specifically to break the intergenerational transmission of poverty, by investing in the human capital of poor children. Some of the investments in social and economic infrastructure made under the aegis of social investment funds at the local level also count as efforts to promote greater opportunity for a sustainable exit from poverty. Similarly, recent programs that promote “competency certification” (in Argentina) or lifelong learning skills (in Chile) are steps in the right direction.

Perhaps the most promising recent initiatives that qualify as “opportunity rope” policies, rather than merely “safety nets”, are programs to promote early childhood development. It has long been known that performance in certain cognitive tests at early ages (e.g. 3-6) are powerful predictors of future achievements in education, labor market attachment, and earnings (see, e.g. Currie, 2001). It has also long been understood that those early childhood skills (both cognitive and non-cognitive) that appear to have such persistence are responsive to relatively simple interventions. Child weight, height and cognitive skills respond to nutritional supplementation. Psychosocial stimulation also enhances cognitive and non-cognitive skills. This was documented in LAC as early as 1991, in the influential Lancet study by Grantham-McGregor et al (1991). Longer-term longitudinal studies in the United States have shown that

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<sup>27</sup> The title is *For Protection and Promotion*, by Grosh et al. (2008).

some of the effects of early-childhood interventions persist well into adulthood, with beneficiaries of the Perry Pre-School Project of the 1960s, for example, still earning wages one-third higher than members of a randomly selected control group at age 40. Treatment group members were also convicted of fewer crimes, and spent less time in jail. Recent work by James Heckman and various collaborators has further documented the effects of early childhood interventions, and noted that the technology of skill formation at a neurological level is such that the economic returns to those interventions tend to be very high.<sup>28</sup> Because the impacts of these interventions also tend to be higher among children from disadvantaged social backgrounds, they are a rare example of policy interventions with no equity-efficiency trade-off (World Bank, 2006).

There are now a number of interventions targeted at improving health, nutrition and skills for young children, aged 0-6, in Latin America. They include *Hogares Comunitarios* in Colombia, *Educación Inicial no Escolarizada* in Mexico, *Programa de Atención Integral a Niños y Niñas Menores de Seis Años de la Sierra Rural* (PAIN) in Peru, and many others. In Chile, where there had been a few smaller pilot interventions early on, the government has recently launched a large national program with a wide range of interventions aimed at this age group, known as *Chile Crece Contigo*. This program is much larger than most of its predecessors in Latin America, in terms of coverage, budgetary resources, and scope of interventions, and much should be learned from it in the next few years.<sup>29</sup>

There have also been substantial “downward extensions” of the educational system in Latin America, by expanding the coverage of pre-school enrollment. Credible evidence from Uruguay suggests that pre-school attendance increases the likelihood of subsequent school attendance at age 15 by 27 percentage points (Berlinski et al. 2008). At even younger ages, there have also been substantial increases in coverage rates for daycares and similar center-based programs, but there is much less evidence on their long-term effects, particularly when compared to the counterfactual of care by a child’s parents. This is an area where the returns to additional research appear particularly high in LAC.<sup>30</sup>

Although the mix of conditional cash transfers, early childhood development interventions, and a new breed of active labor market programs is exciting, and contains many promising elements, it certainly does not yet represent a coherent strategy. It has been suggested that public policy against poverty should move beyond (while continuing to incorporate) safety nets; that there is a legitimate role

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<sup>28</sup> See, e.g. Carneiro and Heckman (2003), Cunha et al. (2005) and Cunha and Heckman (2007).

<sup>29</sup> Schady (2006) and Vegas and Santibañez (2010) review the literature and programs on ECD in Latin America.

<sup>30</sup> We are grateful to Norbert Schady for an illuminating discussion on this point.

for public action to seek to level the playing field, by promoting greater opportunities for the poor and disadvantaged.<sup>31</sup> Though many countries in Latin America have recently begun to experiment with such active promotion policies, none has yet developed an integrated strategy for this. Chile comes closest, with the combination of *Chile Solidario* and *Chile Crece Contigo*. Elsewhere, coherence in a set of policies aimed explicitly at promoting opportunity for the disadvantaged remains lacking. Therein lies the second great challenge to the social protection system in LAC in the decade that begins in 2010.

## 5. Conclusions

This paper has reviewed the achievements and limitations of social protection in Latin America in the last couple of decades, and considered some of the challenges that face it in the immediate future. In doing so, it sought to take into account the multiple layers of interdependence between social assistance and social insurance. We introduced their distinct objectives as risk-pooling and consumption smoothing for social insurance, and poverty reduction for social assistance. But the interdependence between the two systems, arising from the variability of income streams, overlapping sources of finance, and the incentives they set for individuals, was also noted.

These inter-relationships were a common thread in our brief review of social assistance in LAC since the Second World War. Because mandatory and contributory social insurance schemes were Bismarckian in inspiration, and thus contingent on formal employment, they excluded the bulk of workers, and almost all of the poor in the region. Since the late 1980s, democratic governments have sought to complement this “truncated welfare state” by extending non-contributory social assistance benefits to those previously excluded. This has led to mixed results: on the one hand, states in Latin America have succeeded in reaching their poor. A variety of non-contributory social pensions, such as Brazil’s *Benefício de Prestação Continuada* (BPC), now do make relatively large transfers to people formerly excluded from any social protection. Unemployed and informal sector workers in Argentina, who might previously not have qualified for formal severance pay or unemployment insurance, can now receive the *Asignación Universal por Hijo*. Most prominently, conditional cash transfers – a homegrown invention - have mushroomed throughout the region, with a remarkably good track record in targeting, and proven impact on school enrollment (at least).

On the other hand, the system of benefits that arose from this “organic expansion” remains dualistic and divided. Because social insurance is (largely) financed by taxing formal sector employment, while

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<sup>31</sup> See e.g. World Bank (2006) and Bourguignon et al. (2007).

social assistance is financed out of general revenues and subsidizes (primarily) informal sector workers, the net effect is a labor market distortion that generates an inefficient allocation of resources across the economy. Telling of the magnitude of the ensuing challenge is the fact that the reforms that have been proposed to address it, while quite different from one another, are always fairly radical.

In addition to pursuing a more efficient (and equitable) integration of the two halves of the social protection system, we argued that the other great challenge facing Latin American policy-makers in this area is the creation of a more holistic and coherent set of policies aimed at promoting sustained poverty reduction. Such policies would not restrict themselves to the “safety net” function of cushioning the fall due to negative shocks, or providing for retirement. They would seek to provide the means by which those who would otherwise be likely to spend most of their lives in poverty might escape that fate by accumulating assets and accessing opportunities. Early childhood development interventions, CCTs, and some active labor market programs are promising elements of such a system of “opportunity ropes”. But they remain, so far, isolated and piecemeal. More thought should be given to how they can be linked, and to how synergies both in the “production functions” of human and social capital, and in the administration and funding of targeted programs, can be exploited. If there is as much progress in social protection in Latin America in the next two decades as there was in the last two, a paper similar to this written in 2030 may well have a hard time finding a single country with over a quarter of the population in extreme poverty.



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TABLE 1: GDP per capita, poverty and inequality in 23 LAC countries over time.

Country	Early 1980's			Early 1990's			Early 2000's		
	GDP percapita	Poverty Headcount	Gini Coefficient	GDP percapita	Poverty Headcount	Gini Coefficient	GDP percapita	Poverty Headcount	Gini Coefficient
Argentina	\$9,372	1.71 <sup>a</sup>	40.1 <sup>a</sup>	\$7,472	5.9	45.0	\$8,593	14.2	50.4
Bolivia	\$3,536	21.0*	42.0*	\$2,929	25.4*	42.0*	\$3,402	43.5	61.7
Brazil	\$7,072	37.4	57.3	\$7,179	37.7	60.4	\$8,010	27.4	58.8
Chile	\$5,539	24.2*	56.4*	\$6,589	21.2	55.1	\$10,810	9.1	55.2
Colombia	\$5,165	35.1*	59.1*	\$6,023	25.0*	53.5*	\$6,521	37.8	57.2
Costa Rica	\$6,053	44.2*	47.4*	\$6,228	20.7	44.0	\$8,096	14.7	45.8
Dominican Republic	\$3,750	39.7*	47.7*	\$3,781	41.4*	50.7*	\$5,925	15.8	51.9
Ecuador	\$5,827	26.9*	50.4*	\$5,501	32.8*	51.1*	\$5,879	46.8	56.0
El Salvador	\$3,862	28.5*	48.9*	\$3,686	37.1	52.7	\$5,350	29.7	51.9
Guatemala	\$3,815	72.9*	58.2*	\$3,337	61.6*	59.1*	\$4,011	34.6	54.2
Guyana	\$2,011	13.2*	51.5*	\$1,460	31.6*	51.5*	\$2,401	21.8*	44.5*
Haiti	\$2,028	78.8*	59.5*	\$1,638	80.4*	59.5*	\$1,136	78.8	59.2
Honduras	\$2,798	32.8*	55.0*	\$2,657	56.7	51.4	\$2,969	41.8	54.5
Jamaica	\$5,171	26.0*	43.1*	\$5,933	63.3	57.9	\$6,614	43.1	62.3
Mexico	\$11,049	32.8*	46.2*	\$10,101	19.5	54.1	\$11,905	20.2	53.8
Nicaragua	\$2,791	41.8*	56.3*	\$1,869	65.9*	56.3*	\$2,132	47.5	50.2
Panama	\$7,013	18.3*	48.7*	\$6,085	34.0	55.5	\$8,070	28.6	56.5
Paraguay	\$4,373	25.9*	39.7*	\$4,028	28.3*	39.7*	\$3,715	27.5	56.2
Peru	\$6,344	9.2*	45.7*	\$4,458	9.8*	43.8*	\$5,637	25.6	48.7
Suriname	\$6,600	37.2*	52.8*	\$5,343	39.5*	52.8*	\$5,302	34.6*	52.8*
Trinidad and Tobago	\$14,821	3.9*	42.6*	\$10,164	20.7*	41.4*	\$14,577	11.6*	40.2*
Uruguay	\$7,882	4.8*	43.6*	\$7,310	3.4	42.1	\$7,942	3.3	43.9
Venezuela, RB	\$11,156	22.4*	55.8*	\$9,574	15.2	41.2	\$8,689	30.6	44.0

Notes: GDP per capita is in constant 2005 international dollars, at PPP exchange rates. Source: World Bank, World Development Indicators. The poverty headcount measures the incidence of poverty for the line of US\$ 2.50 dollars per day. The Gini coefficient is an inequality measure that ranges between 0 and 100. Source for poverty and inequality statistics is the SEDLAC / CEDLAS, unless indicated by \*, which denotes the World Bank's POVCALNET dataset. Exact years for each survey are given in Appendix Table 1.

<sup>a</sup> Gran Buenos Aires  
Urban

Table 2: Social expenditures in LAC: per capita and as a share of GDP

Country	as a share of GDP (%)				Dollars per capita US\$ constant (2000)			
	Health	Social Security	Social Assistance and Other	Total	Health	Social Security	Social Assistance and Other	Total
El Salvador	1.69	0.04	1.2	2.9	34	1	26	61
Honduras	3.44	0.26	0.1	3.8	36	3	1	40
Ecuador	1.28	2.36	0.2	3.8	19	36	4	59
Guatemala	1.09	0.98	2.0	4.1	16	14	33	63
Jamaica	2.78	0.46	1.2	4.5	81	13	37	131
T&T	2.18	1.44	1.3	4.9	203	134	118	455
Peru	1.52	3.65	0.0	5.2	37	101	1	139
Paraguay	1.7	2.39	1.2	5.3	16	34	7	57
Dom. Rep.	1.54	1.28	2.6	5.4	46	38	76	160
Nicaragua	3.47	--	2.9	6.3	29	0	25	54
Mexico	2.67	2.11	1.8	6.6	163	129	108	400
Venezuela R, B.	1.82	4.64	1.6	8.1	82	197	67	346
Chile	2.79	5.86	0.2	8.9	158	365	12	535
Colombia	2.2	7.21	0.6	10.0	49	166	14	229
Bolivia	3.4	4.39	3.4	11.2	35	45	35	115
Costa Rica	4.95	5.24	1.7	11.9	220	237	74	531
Panama	5.69	6.02	1.2	12.9	240	254	49	543
Uruguay	1.75	12.47	0.3	14.6	111	791	21	923
Argentina	4.58	9.47	1.7	15.7	366	739	118	1223
Cuba	6.46	8.52	2.6	17.6	218	270	93	581
Brazil	4.92	12.98	1.1	19.0	180	476	35	691
Source: Social Database ECLAC.								

**Table 3: Trend in Social Assistance Expenditures in LAC Countries**

	1990	1995	2000	2001	2002	2003	2004	2005	2006	Trend <sup>1</sup>
Argentina	0.9	1.0	1.3	1.3	1.2	1.4	1.5	1.7	1.9	++
Bolivia <sup>2</sup>		1.3	1.4	1.4	1.4	1.2	1.1			-
Brazil			1.0	1.0	1.2	1.2	1.4	1.5		++
Chile	1.4	1.6	1.7	1.8	1.7	1.7	1.5	1.6	1.5	NT
Costa Rica	0.9	0.7	1.7	1.6	1.6	1.5	1.5	2.8		++
Dominican R		0.4	1.1	1.0	0.3	0.5	1.7	1.3		++
Jamaica			0.8	0.8	0.8	0.6	0.8	0.8	0.7	NT
Mexico <sup>3</sup>	0.1	0.4	0.2	0.2	0.2	0.3	0.3	0.3	0.4	+
Nicaragua		1.0	1.2	0.8						-
Paraguay		0.2	0.4	1.5	1.3	1.0	1.0			++
Peru			0.8	0.8	0.8	0.7	0.8	0.7	0.7	NT
Venezuela	0.98	1.41	0.78	0.87	0.82	1.04	1.17			NT

Notes: 1/ ++= strong increase; +=increase; NT=No trend, -=Decline Notes: 2/ Data in 1995 column for Bolivia are from 1997. 3/ Data for Mexico are only for Progresa / Oportunidades.

Source: Chapter 6 in Ribe, Robalino and Walker (forthcoming), based on national accounts and using United Nations definitions for social assistance.

**Table 4: The Impact of CCT Programs on National Poverty Indices**

	Headcount poverty rate			Poverty Gap			Squared Poverty Gap		
	Pre-Transfer	Post-Transfer	Relative Reduction %	Pre-Transfer	Post-Transfer	Relative Reduction %	Pre-Transfer	Post-Transfer	Relative Reduction %
Brazil	0.2445	0.2365	-3.3	0.0998	0.0901	-9.7	0.0576	0.0482	-16.3
Mexico	0.2405	0.2222	-7.6	0.0846	0.0683	-19.3	0.0422	0.0298	-29.4
Ecuador	0.2438	0.2242	-8.0	0.0703	0.0606	-13.8	0.0289	0.0235	-18.7
Jamaica	0.2439	0.2330	-4.5	0.0659	0.0602	-8.6	0.0258	0.02239	-13.2

Source: Table 4.3 in Fiszbein and Schady (2009, p.110)



Appendix Table 1: Sources and coverage for poverty and inequality statistics in Table 1.

Country	Early 1980's		Early 1990's		Early 2000's	
	Poverty Headcount	Gini Coefficient	Poverty Headcount	Gini Coefficient	Poverty Headcount	Gini Coefficient
Argentina	80 ( Gran Buenos Aires)	80 ( Gran Buenos Aires)	92 (Urban)	92 (Urban)	2000 (Urban)	2000 (Urban)
Bolivia	81 (National)	81 (National)	90 (National)	90 (National)	2000 (National)	2000 (National)
Brazil	81 (National)	81 (National)	90 (National)	90 (National)	2001 (National)	2001 (National)
Chile	81 (National)	81 (National)	90 (National)	90 (National)	2000 (National)	2000 (National)
Colombia	81 (Urban)	81 (Urban)	90 (Urban)	90 (Urban)	2000 (National)	2000 (National)
Costa Rica	81 (National)	81 (National)	90 (National)	90 (National)	2000 (National)	2000 (National)
Dominican Republic	81 (National)	81 (National)	90 (National)	90 (National)	2000 (National)	2000 (National)
Ecuador	81 (National)	81 (National)	90 (National)	90 (National)	2000 (National)	2000 (National)
El Salvador	81 (National)	81 (National)	90 (National)	90 (National)	2000 (National)	2000 (National)
Guatemala	81 (National)	81 (National)	90 (National)	90 (National)	2000 (National)	2000 (National)
Guyana	81 (National)	81 (National)	90 (National)	90 (National)	2002 (National)	2002 (National)
Haiti	81 (National)	81 (National)	90 (National)	90 (National)	2001 (National)	2001 (National)
Honduras	81 (National)	81 (National)	92 (National)	91 (National)	2001 (National)	2001 (National)
Jamaica	81 (National)	81 (National)	90 (National)	90 (National)	2001 (National)	2001 (National)
Mexico	81 (National)	81 (National)	92 (National)	92 (National)	2000 (National)	2000 (National)
Nicaragua	81 (National)	81 (National)	90 (National)	90 (National)	2001 (National)	2001 (National)
Panama	81 (National)	81 (National)	91 (National)	91 (National)	2001 (National)	2001 (National)
Paraguay	81 (National)	81 (National)	90 (National)	90 (National)	2001 (National)	2001 (National)
Peru	81 (National)	81 (National)	90 (National)	90 (National)	2000 (National)	2000 (National)
Suriname	81 (National)	81 (National)	90 (National)	90 (National)	2002 (National)	2002 (National)
Trinidad and Tobago	81 (National)	81 (National)	90 (National)	90 (National)	2002 (National)	2002 (National)
Uruguay	81 (Urban)	81 (Urban)	92 (Urban)	92 (Urban)	2000 (Urban)	2000 (Urban)
Venezuela, RB	81 (National)	81 (National)	92 (Urban)	92 (Urban)	2000 (Urban)	2000 (Urban)

Notes: This table shows the year and geographic representativeness of each survey. Shaded entries from POVICALNET and the remainder from SEDLAC.