

THREE

Social Safety Nets That Trigger Automatically

Ideally, a publicly financed social safety net serves two purposes. First, it protects the many people vulnerable to income losses, especially during economic downturns—including not only the 32 percent of all households that are poor in Latin America (as measured by ECLAC) but also another 20 to 30 percent of middle-income households. Safety net programs establish a floor below which households are not allowed to fall. Some programs, such as food stamps, protect households hit by sudden disability, unexpected job loss, death of a major breadwinner, and so on. In addition, an arsenal of these and other measures—emergency public works jobs, special school subsidies—should be available in times of increased unemployment and real wage declines. Second, an adequate public safety net provides cash and in-kind transfers to chronically poor households to minimize the most dangerous risks associated with deep poverty—such as child malnutrition and missed schooling. (Social safety nets can be distinguished from social insurance programs. Social safety nets transfer income in one way or another to the needy. They target the chronically poor as well as other households that are put at risk of poverty by economic shocks. In contrast, social insurance programs—contributory pensions, unemployment insurance, and so forth—are largely related to earnings and need not include any transfers, although some may contain an element of cross-subsidization, as when pension

programs find ways to provide cash transfers to those who have not made adequate contributions).¹

An Income Floor

Only a few countries have developed systematic programs to provide temporary or “emergency” income support for working-class and middle-income as well as poor households hit by sudden job loss due to exogenous shocks or a major economic downturn.² Such programs must be carefully designed to avoid encouraging abuse and dependency. A few initiatives undertaken in the 1990s, such as Argentina’s *Trabajar* and Chile’s *Chile Joven*, seem to have worked relatively well, but they were mostly ad hoc emergency programs that were not fully institutionalized, and they have been discontinued.³ (In 2002, Argentina launched *Jefes y Jefas de Hogar*, replacing *Trabajar*, which served as the government’s main safety net response to the economic crisis of 2001–02. Despite targeting flaws, it seems to have helped mitigate the impact of the crisis somewhat, especially among the extremely poor.⁴ Although *Chile Joven* no longer exists, Chile has developed smaller, more focused programs—like

1. The World Bank makes the following distinction: “Social insurance programs help households manage risk, but before the fact. Safety nets take up the load where households cannot participate in social insurance schemes or when the benefits from those are exhausted.” “Safety Nets and Transfers” (<http://go.worldbank.org/RJP1CF2CM0> [June 2007]; Grosh, Blomquist, and Amde 2002, p. 5). This chapter is concerned with the latter. We discuss pensions in chapter 4 and unemployment insurance in chapter 6.

2. For a review of programs introduced in Argentina, Chile, Colombia, and Peru since the 1990s, including a summary of the results of their impact evaluations, see Bouillon and Tejerina (2006). In practice, some of the workfare programs have become tools in the general effort to combat poverty and high unemployment, operating even after a recession or crisis has passed, as in Argentina, Chile, and Uruguay in recent years. Some have lasted longer than intended because of a lack of appropriate guidelines for bringing them to a close once the crisis is over (ECLAC 2006b).

3. See Paredes (2005); Santiago Consultores Asociados (1999); and Bravo and Contreras (2000) on *Chile Joven*, a training program for unemployed youth. See Jalan and Ravallion (2003); Ravallion (2000); and Coady, Grosh, and Hoddinott (2004) on Argentina’s *Trabajar*, a labor-intensive public works program.

4. At its peak in 2003, *Jefes y Jefas* reached nearly 2 million beneficiaries, who were required to work or participate in training activities for at least twenty hours a week in exchange for a cash transfer. Coverage has since declined by about 20 percent. Galasso and

Programa Especial de Jóvenes—that finance job training for out-of-school, unemployed youth, targeting areas with the highest incidence of poverty or youth unemployment).⁵ Across countries, specifically countercyclical programs are even rarer than initiatives such as these.

To meet the challenge of spending on countercyclical or emergency programs, governments normally need to spend more during recessions or periods of low growth, when they are collecting less. That is why in chapter 1 we emphasize the need for fiscal surpluses or low deficits and in chapter 2 we highlight the advisability of saving in good times (see also box 3-1 for the role of the IMF).⁶ Emergency programs should be permanently available, but spending on them must be short-lived and disciplined. Given their debt burdens and fiscal pressures, many countries in the region will need to rely for some years on external support to finance countercyclical social safety net programs, but that support should not be seen as being available indefinitely.

We highlight three guidelines for emergency programs:

- ◆ Automatic kick-ins. Programs need to be established before a downturn occurs, and a commitment must be made to maintain steady levels of adequate spending during fiscal tightening. A minimum spending level should always be maintained for primary education and health programs. Countercyclical spending should kick in automatically to provide for emergency public works employment and subsidies to families to keep their children in school.
- ◆ Sunset clauses. Countercyclical programs need to have clear “sunset” or exit clauses to preserve the fiscal integrity of the budget and reduce program vulnerability to political pressures.

Ravallion (2004) shows that about 40 percent of Jefes’ participants in its first year came from the poorest 20 percent of the population and 90 percent fell below the official poverty line—which is better than average for social programs in the country but not as well-targeted as its predecessor, the smaller-scale Trabajar. Many of Jefes’ beneficiaries were new entrants into the labor force (mostly women) as opposed to workers who had lost their jobs as a result of the crisis. All in all, for 2002, the program helped reduce aggregate unemployment by about 2.5 percent and prevented an extra 2 percent of the population from falling into extreme poverty.

5. For further details on Chile’s Programa Especial de Jóvenes (short for Programa de Formación en Oficios para Jóvenes de Escasos Recursos), see Universidad de Chile (2006) and Quapper and Valenzuela (2005).

6. Birdsall (2002) and Birdsall and Menezes (2005) elaborate on these points. See also Braun and di Gresia (2003) and Hicks and Wodon (2001).

BOX 3-1. The Role of the IMF

Governments' social spending and programs critical to the most vulnerable groups come under increased pressure during economic shocks or budgetary retrenchments. Spending on personnel salaries is politically invulnerable so spending on complementary but critical inputs (books, medicine, and so forth) is often cut drastically. For example, during the 1999–2000 crisis, hospitals in Ecuador adjusted by cutting spending on vaccines. In 2003, the IMF board approved a recommendation (based on a report from the fund's Independent Evaluation Office) to encourage fund staff during Article IV consultations to invite national authorities to suggest whether they would want to see programs protected in the event of a negative shock and if so, which ones.¹

Systematic and thoughtful implementation of this nonintrusive approach would help countries protect fiscal adjustment from untoward political pressure. It would also help the IMF itself, rescuing it from the widespread perception, which is ultimately harmful to its effectiveness, that its support for fiscal discipline mindlessly and callously pushes spending reductions that hurt the poor.²

1. IMF (2003b).

2. Nancy Birdsall, letter to Horst Kohler, managing director of the International Monetary Fund, January 8, 2004 (Washington: Center for Global Development). For more on the role of the IMF, see CGD (2007).

- ◆ Targeting mechanisms. For emergency employment programs, self-selection works best; accordingly, the wage offered must be slightly below the market wage so that the jobs created are of interest only (or mainly) to the population targeted. Chile's emergency public works program, which employed millions during the country's recession in the 1980s, is a good example.⁷

Chronic Poverty

Latin America has a long history of uncoordinated programs to help the chronically poor, often driven by populist clientelism and marred by

7. See Subbarao (2003, 1997).

weak, arbitrary, and politically unsustainable funding.⁸ But in the 1990s Brazil, Mexico, and other countries introduced a new generation of well-regulated, targeted programs that are reaching a large proportion of poor households, often while spending less than 1 percent of GDP (box 3-2).⁹ Such programs often have taken the form of “conditional cash transfers”—for example, transfer to mothers who keep their children in school. These institutional innovations represent effective public investment, including in human capital formation, at the same time that they protect the poorest families from destitution in the worst economic times.

If a program is to protect the very poor against the worst risks of deep poverty, it must have the following four characteristics:

- ◆ Commonsense targeting of poor individuals and households. Adequate targeting requires a reliable system of information gathering on household living standards and a heavy dose of common sense, which dictates some geographical targeting of poor neighborhoods and poor regions, as in conditional cash-transfer programs in Honduras and Nicaragua.¹⁰ Systems of information gathering—Chile and Mexico

8. Lindert, Skoufias, and Shapiro (2006) examines the evolution of public transfers in the context of the broader welfare state in Latin America. Their findings, based on fifty-six interventions in eight countries, suggest that public social transfers have been largely regressive in the region—primarily because the bulk of funds goes toward social insurance (pensions, unemployment), which are highly regressive (see chapter 4). Social assistance transfers are more progressive in absolute terms, with the average program transferring 38 percent more to the bottom quintile than would be the case with a random allocation. Still, 35 percent of programs are regressive. Conditional cash transfers are the best targeted. In Mexico’s Oportunidades, the poorest quintile receives nearly nine times more benefits than the richest. Targeting efficiency is also impressive in Brazil’s Bolsa Família, where 73 percent of transfers reach the poorest quintile of the population. Other types of cash transfers, however, show mixed results. Mexico’s farmer-support program, PROCAMPO, is regressive, with 43 percent of benefits going to the richest quintile and 12 percent to the poorest. School-based meal programs tend to favor the poor, but other meal programs show mixed results. Finally, scholarships are found to be quite regressive, with 37 percent of benefits going to the richest quintile and only 8 percent for the poorest quintile.

9. Another good example of an innovative cash transfer program is Chile’s Solidario, started in 2002, which provides cash transfers to extremely poor families, many of which are indigenous. See Galasso (2006) and Palma and Urzúa (2005).

10. Most conditional cash transfer programs in the region rely on a combination of geographical targeting and household assessment mechanisms to determine eligibility. When selecting communities to participate, programs like Colombia’s Familias en Acción and Nicaragua’s Red de Protección Social also look at each community’s capacity to respond to increased demand in health and education services (Rawlings and Rubio 2005; Rawlings 2005). Coady, Grosh, and Hoddinott (2004) suggests that combining multiple targeting

BOX 3-2. Two Successful Safety Net Programs

Mexico's Progresa, started in 1997, was designed to provide school subsidies, nutritional supplements, and cash food payments to poor families in rural areas of the country. Based on community feedback, household information, and geographical targeting of poor regions, Progresa showed what poverty reduction programs can do to promote growth-inducing investments in the country's future. In the first three years, the program reached close to 3 million rural families, about 30 percent of the estimated poor in the country, making a substantial difference in such indicators as school enrollment.¹ Renamed Oportunidades, the program began a gradual roll-out to urban areas in 2002, expanding its coverage to 4.2 million households (close to one-fifth of the country's population) the following year at a cost of MXN\$22.3 billion (US\$2.1 billion), or 0.32 percent of GDP. By 2007, the program reached about 5 million families (24 percent of the population) with a budget of MXN\$39 billion (US\$3.5 billion), or 0.39 percent of GDP.

Oportunidades now includes high school students, who also participate in a savings plan called Jóvenes con Oportunidades. The program offers a bonus that grows each year and turns into a savings fund if the student completes high school before turning twenty-two years of age. Students can use the bonus to help fund higher education or buy health insurance; they also can put it up as collateral for microcredit or use it to make a down payment on a house. Since 2003, Jóvenes con Oportunidades has opened more than 270,000 savings accounts on behalf of Oportunidades beneficiaries. Its impact has not yet been formally evaluated.

Between 1995 and 1998, Bolsa Escola guaranteed a minimum-wage income to poor families in Brazil's Federal District as long as their children (ages seven to fourteen) attended school regularly. In 1996 the program covered more than 44,000 children (12 percent of public school enrollment that year) at a cost of less than 1 percent of the district's total budget, and it made a substantial difference in such indicators as school drop-out and repetition rates as well as the employment rate of children ages ten to fourteen. The program was later adopted in other cities and states.

1. See De Janvry and Sadoulet (2006) for a discussion on how to make conditional cash transfer programs more efficient by targeting and calibrating grants.

(continued)

BOX 3-2. Two Successful Safety Net Programs (continued)

In 2003, the Brazilian government combined what was by then a federal Bolsa Escola program (Bolsa Escola Federal) with three other federal conditional cash transfer programs to create Bolsa Família, promoting education, health, and nutrition. With a budget of R\$5.9 billion (US\$2 billion), or 0.30 percent of GDP, Bolsa Família reached 7 million families by the end of 2004, transferring on average about US\$25 per family per month through an electronic card (*cartão de benefício social*) issued and distributed by local branches of a government bank. As of 2007, the program reached 11.1 million families (100 percent of the estimated poor based on a program-specific poverty line of R\$120 a month, about US\$2 a day) and had an annual budget of R\$8.8 billion (US\$4.1 billion), or 0.35 percent of GDP.

An important feature of both programs is that cash transfers go mainly to women, who usually are the caregivers in the family. Many research studies have shown women are more likely than men to spend the money on their children.

Sources: On Mexico's Progres-Oportunidades, see México-SEDESOL (2007); Behrman, Parker, and Todd (2007); Cruz, de la Torre, and Velázquez (2006); Gertler, Martinez, Rubio-Codina (2006); Levy (2006a); Skoufias (2000, 2005); Schultz (2004); Gertler (2004); and Skoufias and Parker (2001). On Brazil's Bolsa Escola/Bolsa Família, see Lindert and others (2007); Vaitsman and Paes-Sousa (2007); Brasil-MDS (2007); Brasil-MP (2007); De Janvry, Finan, and Sadoulet (2006); Soares and others (2006); Draibe (2006); De Janvry and others (2005); Cardoso and Souza (2004); Bourguignon, Ferreira, and Leite (2003); and Caccia Bava and others (1998). De Janvry and Sadoulet (2005) outlines key lessons from both the Brazilian and Mexican programs. De Janvry and others (2006) finds that the conditional transfers in Mexico have helped protect school enrollment from the impacts of economic shocks. Overviews of other experiences in Latin America can be found in Morley and Coady (2003); Rawlings (2005); Rawlings and Rubio (2005); Villatoro (2005b); Handa and Davis (2006); and De la Brière and Rawlings (2006).

mechanisms tends to yield more accurate results. The authors rank eighty-five antipoverty programs in thirty-six developing countries on the basis of their targeting performance. Argentina's Trabajar appears at the top of the list as the best-targeted intervention, with 80 percent of the benefits on average going to the poorest quintile of the population.

have made good progress—can function only if they allow analysts in- and outside government full access to the data and provide for full public dissemination.¹¹

- ◆ Politically transparent rules that govern how money is spent. Programs have to be immune to clientelism, political manipulation, and corruption in procurement. It makes sense to include nongovernment officials in program governance or to find other ways to insulate program leadership from political changes.
- ◆ Community involvement. Active participation of the community should be an integral part of the program, and opportunities for communities to form partnerships with nongovernmental organizations should be provided.¹²
- ◆ Evaluation. The costs associated with rigorous evaluation can represent as little as 1 percent of total program costs.¹³ The experience of Mexico, which has sponsored independent evaluation of its cash transfer program (box 3-2), shows that the returns to evaluation are high, in terms of both increasing the effectiveness of spending through design adjustments and making the political case for sustaining good programs.¹⁴

11. Chile and Mexico examples are from Castañeda and others (2005).

12. Some of the existing programs, like Oportunidades in Mexico, include community mechanisms for validating beneficiaries (Villatoro 2005a). Community participation in Argentina's Jefes y Jefas program helped reduce political and social conflict (Kessler and Roggi 2005). For further discussion of community-based targeting in social safety net programs, see Conning and Kevane (2002) and Pritchett (2005).

13. IDB (2003a).

14. See the recent report by a CGD working group on why good impact evaluation is too rare (Saviedoff, Levine, and Birdsall 2006). For further details on Mexico's experience, see Behrman and Skoufias (2006) and Cohen, Franco, and Villatoro (2006). For the experiences of Latin American countries with the monitoring and evaluation of government programs in general, see May and others (2006) and Zaltsman (2006).