



Social Safety Nets in the Andean Countries

AMANDA GLASSMAN (*)

Safety net programs are intended to provide assistance to those that are chronically unable to work or earn an income (persons with mental or physical disabilities, young children, the elderly, persons suffering from long-term illness) or those whose earning capacity is temporarily affected by unpredictable events (life cycle events such as pregnancy, short-term illnesses, economic recession, natural disasters, poor harvests). Given this focus, these programs are also intended to contribute to poverty and inequality reduction efforts and complement investments in human capital-producing services such as education and public health.

In the Andean countries, both the menu and cost of publicly financed safety net programs mirror those of a more developed OECD country. Programs include health and disability insurance, pensions, unemployment insurance, housing allowances, recreation allowances, child care and direct household transfer programs. As a share of GDP, the amounts spent on social security systems are close to the OECD average. However, the programs have historically been restricted to formal sector workers who typically comprise no more than half of the economically active population and are concentrated in the upper-income brackets, thereby limiting social security's potential ability to lessen the impact of shocks, in particular drops in consumption. In addition, most social security programs are financed through payroll taxes, a financing method that is closely linked to economic activity. The procyclic nature of revenues causes shortfalls during periods when the safety nets should be extended and surpluses when they should contract.

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Poverty Reduction and Economic Growth: What Do We Know?

OMAR ARIAS

The return to a sustained growth path is of utmost priority for Latin America and the Caribbean. The countries of the region also crave substantial reductions in poverty and social inequities. Where should the region begin? Should its pursuit of higher living standards rely entirely on boosting per capita income and productivity, or focus on specific actions to improve the living conditions of the poor?

Fortunately, growing evidence demonstrates that these strategies are not mutually exclusive, and that, in fact, in many cases they are complementary. Efforts to reduce inequality and poverty can help ensure that the benefits of growth reach the poor as well as contribute to enhance the pace of growth and thus living conditions for all.

That high and sustained rates of economic growth are essential for poverty reduction has been demonstrated in numerous studies. However, the evidence also points to a striking diversity of experiences with growth episodes and poverty changes. While some countries over some periods achieve a significant reduction in poverty as the economy grows, others obtain much less appreciable progress. How quickly growth can reduce poverty depends on the pattern of growth as well as on the initial inequality of income and assets and its evolution over time.

Because inequality in Latin America and the Caribbean is one of the highest in the world, a significant effort will be needed to reduce poverty. Even if economic growth were spread with not changes in income distribution, the

Millennium Development Goals and the Latin America and the Caribbean Reality

TITO ARMANDO VELASCO

September 2000 may become an historical milestone towards global partnership to reduce poverty and promote social equity, particularly to follow-up efforts and results of policy-making. During the 55th session of the UN General Assembly, 189 member States from developing and industrialized countries endorsed the Millennium Declaration committing themselves to reach the following goals by the year 2015: i) reduce extreme poverty and hunger, ii) achieve universal primary education, iii) promote gender equality and empower women, iv) reduce child mortality, v) improve maternal health, vi) combat HIV/AIDS, malaria and other diseases, vii) ensure environmental sustainability, and viii) develop a global partnership for development.

Since then, the so-called Millennium Development Goals (MDGs), based on the International Development Goals launched in 1996 by the OECD's Development Assistance Committee, increasingly are serving as a framework to reinforce coordination in multilateral development financing and to ensure the coherence and consistency of policies. For example, 34 democratically elected heads of State and government gathered in April 2001 at the Third Summit of the Americas, made a commitment to increase their efforts to reach these development goals. In September 2001, the UN Secretary-General released a report that draws a road map towards

Good Practices in Poverty Reduction and Equity Enhancing Loans in 2001

GUSTAVO YAMADA AND HILDA GUERRERO

More than half of the IDB lending operations and volume approved in 2001 were devoted directly to reducing poverty and enhancing social equity. The following is a sample of good practices in each of the IDB's priority areas of action.

Poverty Reduction Strategies

The **Program in Support of the Poverty Reduction Strategy in Honduras** for US\$30 million, will help this country to transform its framework for formulating public policies and allocating public funds to focus on the goal of poverty reduction, in a cross-sector and transparent way. This program fosters the creation of mechanisms for monitoring the implementation of the poverty reduction strategy and the financial instruments to channel the funds provided through debt relief. At the same time, this program supports the creation of a framework in which civil society will be involved in the design, implementation and monitoring of the strategy, which will allow for a prioritization of programs targeted to the poor and a permanent social audit of the process and its results.

Social Development

The **Sector Program to Promote Human Capital in Brazil** for US\$500 million, aims to improve federal conditional transfers programs for poor families to increase their human capital, thus contributing to break the vicious circle of poverty. The programs Bolsa Alimentação, Bolsa Escola, Programa de Erradicación del Trabajo Infantil and Agente Joven transfer cash directly to poor families in exchange for compliance with commitments in the areas of health care, nutrition, education and training. For instance, the family's commitment in education is to ensure that children attend school, in order to lower drop-out rates and improve school performance. This sector program supports improvements to the targeting mechanisms and impact evaluation of each program, to gather information about their efficiency and efficacy, and improve them accordingly.

Modernization of the State

The **Local Development and Fiscal Accountability Program in Bolivia** for US\$47 million will support policies to increase municipal management efficiency in an effort to expand and improve the quality of the services that local governments provide to their communities, especially the poorest ones. The contributions toward this effort will be made through direct support for municipal investment, by financing local development projects, and for improving the institutional and financial framework of the municipal sector. The program provides explicit targeting and performance mechanisms oriented to reduce poverty and enhance social equity. Specifically, this program promotes the reduction of inequality among regions through a financial compensation mechanism that prioritizes the localities with less resources and higher poverty indexes.

Competitiveness

The **National Program of Rural Transportation Infrastructure in Peru, Stage Two**, for US\$50 million, improves access by poor rural populations to basic social and economic services through the provision of a dependable and integrated system of rural roads. The expected benefits are a sharp reduction in travel costs and time, expansion and diversification of the supply of transportation services, easier access to social services such as education and health care and to economic services (regional markets, agricultural inputs, rural extension services, etc.). Better accessibility and dependability of the transportation system should lead to economic growth in the area of influence of a road, thereby increasing income-earning capacity. In the institutional sphere, the program will strengthen the capacity of municipalities to plan and manage the road systems in their jurisdiction, improving coordination with the districts, the use of funds, and road maintenance.

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Inter-American
Development
Bank

Sustainable
Development
Department

Poverty and Inequality Unit

Mission Statement

The mission of the Unit is to provide technical leadership for the Bank and its member governments' work in the area of poverty reduction, and to contribute to enhancing the quality of the Bank's lending and non-lending activities so as to increase their poverty reduction impact.

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Social Safety Nets

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On the other hand, very imperfectly targeted general subsidy systems are in place to cover the remainder of the population. These programs, though not explicitly designed as insurance, do sometimes serve as a kind of catastrophic insurance coverage via, for example, the provision of subsidized hospital care (Peru, Colombia, urban areas of Ecuador). In addition, large-scale feeding programs (school feeding, distribution of food products, among others) have been put in place, although their primary aim is to address malnutrition or poor school attendance. Until recent years, these programs were poorly targeted and designed such that their safety net objectives could not be met given fiscal constraints. Finally, very few programs had been the subject of impact evaluation, making it difficult to assess the effect of these investments on consumption and other measures of household well being.

Given these challenges, the Andean countries, with the support of the IDB, are in the process of redesigning their safety nets to better respond to both permanent and transitory vulnerability, while incorporating informal social security arrangements already used by the affected populations. This revision includes the development of fiscal instruments to ensure that social spending is stable and/or anticyclical. It also involves an analysis of gaps in safety net coverage and the design of new programs to ensure improved impact during crisis (self-targeted workfare or assistance for the elderly indigent, for example), reform of existing feeding programs to better reach the nutritionally vulnerable, and reform and extension of social security systems to ensure fiscal sustainability and greater health and pension effectiveness. These efforts are accompanied by a renewed emphasis on evaluating the poverty and human development impact of both new and existing safety net programs with a view to making adjustments to program design based on results.

What Do We Know?

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region would require an annual growth in per capita income of more than twice the average rate posted in the 1990s (1.5%) in order to halve by 2015 the proportion of people living on less than two dollars a day (in purchasing power parity). The growth effort would be even more formidable in countries with severe poverty.

Additional measures are therefore required to ensure that growth “trickles down” in equal or greater proportion to the poor in a sustained manner. Initiatives should focus on generating economic opportunities for the poor, expanding their access to physical and social infrastructure, eliminating the structural inequalities in the distribution of assets (especially in education), improving their risk management tools, reducing their exposure to social ills, eliminating the barriers that keep groups (ethnic, racial, women) excluded, and building efficient institutions that respond more effectively to the needs of excluded groups.

An emerging body of evidence indicates that such targeted efforts to reduce poverty and inequality are likely not only to increase the impact of growth on poverty reduction but also to contribute to accelerate growth. Poverty and inequality can constitute an obstacle for growth in diverse ways. Faced with market imperfections (market failures, incomplete or uncompetitive markets), investment indivisibilities and fixed costs, the poor are constrained in their capacity to invest in physical, human, and social capital. Poverty can also stall growth through its relationship with social and political equilibria. The evidence shows that the social upheaval and social ills (such as crime, substance abuse, and violence) triggered by pervasive poverty and inequality can trap the poor and exact high economic costs that halt a country’s growth potential. When per capita income is very low, pressure from different social groups can prompt redistributive policies or inefficient political practices (inefficient tax systems, unproductive spending, corruption and/or lobbying) that weaken capital accumulation incentives and stall growth. This may lead to suboptimal investment equilibria and leave many countries in so-called “poverty traps.” Social conflicts can also exacerbate the adverse effects of macroeconomic shocks on growth.

It is therefore important to recognize that pro-growth actions and those directly targeted to poverty reduction are very often mutually reinforcing. The more this complementarity is tapped in national policies and in the support provided by multilateral financial institutions, the more effective economic growth can be in helping the poor become active, constructive partners in achieving a sustained improvement in living conditions and social welfare in the region.

For more on this see Lustig, N., Arias, O. and Rigolini, J., Poverty Reduction and Economic Growth: A Two Way Causality, Sustainable Development Department Technical Papers Series (No POV-111). Inter-American Development Bank. Washington, D.C. (forthcoming).

Millennium Development Goals

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achievement of each goal. Thus far, most HIPC countries with completed poverty reduction strategies have incorporated MDGs into their national strategies.

Given that global relevance, a careful look is necessary on MDGs, including their 18 targets and 48 interrelated indicators set up to measure progress by comparing latest data to that of 1990, the baseline year. A preliminary review shows that three caveats should be kept in mind to improve accuracy when following up efforts and results of pro-poor policies in Latin America and the Caribbean.

First of all, some targets, such as ensuring full enrolment in primary education, may become obsolete since by 2000 more than 94% of children had been enrolled in primary education. Indeed, the Quebec Summit established a more demanding goal for 2010 that incorporates aspects of quality education, universal access and completion of primary school by boys and girls alike, and a 75% coverage for youth in secondary education.

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Millennium Development Goals (MDGs)

| MDGs | Indicator | Type of indicator | |
|--|--|-------------------|--------|
| | | Effort | Output |
| i. Reduce extreme poverty and hunger | 1. Incidence of extreme poverty | | X |
| | 2. Poverty gap ratio | | X |
| | 3. Share of poorest quintile in national consumption | | X |
| | 4. Prevalence of underweight children under 5 years | | X |
| | 5. Proportion of population below minimum level of dietary energy consumption | | X |
| ii. Achieve universal primary education | 6. Net enrollment rate in primary education | | X |
| | 7. Proportion of pupils completing 4th grade of primary education | | X |
| | 8. Literacy rate of 15-24-year-olds | | X |
| iii. Promote gender equality | 9. Ratio of girls to boys in all level of education | | X |
| | 10. Ratio of literate females to males of 15-to-24 years old | | X |
| | 11. Share of women in wage employment in non-agricultural sector | | X |
| | 12. Proportion of seats held by women in national parliament | | X |
| iv. Reduce child mortality | 13. Infant mortality rate | | X |
| | 14. Under 5 mortality rate | | X |
| | 15. Proportion of 1 year-old children immunized against measles | X | |
| v. Improve maternal health | 16. Maternal mortality rate | | X |
| | 17. Proportion of births attended by skilled health personnel | X | |
| vi. Combat HIV & other diseases | 18. HIV prevalence in 15-24-year-old pregnant women | | X |
| | 19. Contraceptive prevalence rate | | X |
| | 20. Number of children orphaned by HIV/AIDS | | X |
| | 21. Prevalence & death rates associated with malaria | | X |
| | 22. Proportion of population in malaria risk areas using effective malaria prevention & treatment measures | X | |
| | 23. Prevalence & death rates associated with tuberculosis | | X |
| | 24. Proportion of tuberculosis cases detected and cured under directly observed treatment short course | X | |
| | Further refinement is still needed | ... | ... |
| vii. Ensure environmental sustainability | Further refinement is still needed | ... | ... |
| viii. Develop global partnership for development | Further refinement is still needed | ... | ... |

Source: Based on UN, 2001. Road Map towards the Implementation of the UN Millennium Declaration, Report of the Secretary-General.

Millenium Development Goals

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Conversely, other targets may look ambitious in the presence of accumulated gaps during the last decade and current economic prospects. For instance, the first and major target of halving extreme poverty by 2015 seems hard to achieve since the resumption of growth during the 1990s (3% in real GDP) has contributed, among other factors, to reduce extreme poverty by just around 7%, on a \$1 a day-poverty line basis. All the more, taking into account that extreme poverty in many Latin American and Caribbean countries may be underestimated vis-à-vis Sub-Saharan Africa and South Asian countries when using the international poverty line at 1993 purchasing power parity (PPP).

Secondly, most indicators mask vast disparities that characterize Latin America and the Caribbean across and within countries, between high-income and low-income groups, ethnic groups, regions, age and gender groups.

Finally, although 20 out of 24 core indicators (see table) drawn to measure progress in the first six goals (*) are feasible to estimate attained living-standards (output indicators), and thus **results** of poverty reduction policies, barely 4 of them are adequate to measure **efforts** and resources that governments and societies shall undertake to reach those living-standards (effort indicators). Even using other categorization of indicators, they are predominantly impact and outcome indicators rather than intermediate indicators.

With these caveats in mind, the Poverty and Inequality Unit of the Sustainable Development Department of the IDB, consonant with priorities established by the 8th General Replenishment in the Bank's Resources, is initiating a regional technical cooperation project to measure "Effort and Result Indicators for Poverty Reduction" (IndERPOB) in order to adapt MDGs to the particular reality of the region, and consequently to gauge not only the results of poverty reduction, but also governmental **efforts** and resources required to tackle poverty and social inequity. The project may contribute to define and assess MDGs according to the region's current situation and governmental efforts undertaken against poverty; to compare the outcomes of public policies oriented to reduce poverty and enhance social equity over time and across countries; and, to build capacity in national offices in charge of official estimates of poverty and human development. Ultimately, the project aims to help the Latin America and the Caribbean countries to adapt and embrace development goals according their own requirements.

() Further refinement is still needed to choose the remaining 24 indicators adopted in the UN road map to follow-up goals vii) and viii).*

Good Practices

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Integration

The Trinational Program for Sustainable Development in the Upper Lempa River Basin (El Salvador, Guatemala, Honduras), for US\$22 million, aims to improve the quality of life of the local population, through actions that promote sustainable development and contribute to break the vicious cycle of poverty and natural resources degradation. The program's expected benefits include those obtained by poor farmers through crop diversification and improvement in crop yields, by incorporating farming techniques and soil conservation practices; the benefits generated by economic diversification programs, which seek to increase the income generated by nonagricultural profitable activities; and public environmental benefits, related to health, prevention and mitigation of natural disasters. This program also contemplates the strengthening of local governments and the coordination of actions to resolve shared problems in the frontier area of the three countries that will bring additional benefits to the economies of the region.

MECOVI News

- The number of participating countries is increasing. The inclusion of Ecuador, Honduras and the Dominican Republic brings the total number of beneficiary countries to ten.
- The MECOVI Program's Eight Regional Workshop took place on 28-30 November 2001 in Buenos Aires. The central topic was "Past, Present and Future of the MECOVI Program." Representatives from the statistical offices of the 10 participating countries attended.
- The MECOVI Program's Seventh Regional Training Course is scheduled for April 8 to 28, 2002, in Buenos Aires. The course is being organized in cooperation with Argentina's Instituto Nacional de Estadística y Censos (INDEC). For more information visit: www.indec.mecon.gov.ar/mecoviargentina.
- In July 2001 Nicaragua finished the fieldwork for the "Encuesta de Medición de Niveles de Vida" (EMNV 2001). This is the second such survey with national coverage undertaken in the framework of the MECOVI Program in the country.

MECOVI is the Program for the Improvement of the Surveys and the Measurement of Living Conditions in Latin America and the Caribbean. It is co-sponsored by IDB, the World Bank and the Economic Commission for Latin America and the Caribbean (UN-ECLAC).

Education, Family Background and Racial Earnings Inequality in Brazil

OMAR ARIAS, GUSTAVO YAMADA AND LUIS TEJERINA

Insufficient survey and census data on ethnicity and race has limited the analysis of the sources of racial inequality in Latin America. Brazil, the country with the largest population of African descent, is among the few that systematically collects information on race in household surveys. In a recent study we combine survey data with annual state data on pupil-teacher ratios covering broadly the period 1940-90 to investigate the role of race, family background and differences in education (both the quantity and quality) and the returns to these characteristics in explaining racial earnings inequality in Brazil. We consider workers who self-identify into three major racial groups: whites (54%), pardos (39%) and pretos (7%). The latter two correspond to the mixed race and black population of African descent, respectively.

We examine two main questions: 1) How important are “unexplained” racial earnings gaps and differences in returns to education once we adjust for measured productive characteristics of workers and jobs, including family background and education quality; and 2) How do the gaps in earnings and returns vary for workers at different points of the (adjusted) earnings distribution? We go beyond the usual average racial earnings gap decomposition and estimate the gaps in earnings and education returns for worker placed at various points of the earnings distribution of each racial group, given observed workers characteristics. In addition, we adjust racial earnings gaps by proxies, albeit imperfect, of family background and education quality.

Our main findings are as follows. While differences in human capital, including parents’ education, and in its returns, account for most of the earnings gap between whites and the afro-descendent population at the bottom of the earnings distribution, a 10 percent earnings gap remains at the top of the wage scale. There is a substantial earnings payoff to parents’ education that is similar between and within race groups. In addition, consistent with findings for the United States and South Africa, a decline in the pupil-teacher ratio by 10 students raises the average return to each year of education by 1 percentage point. However, the fact that whites have better educated parents and attend relatively better quality schools accounts for only a fraction of their advantage in returns to education. We also find that returns to education vary significantly along the earnings distribution. The gap in education returns between whites and pretos is larger at the upper part of the distribution than at the bottom, while the gaps between whites and pardos follow the opposite pattern. This finding is consistent with a classic hypothesis in the racial inequality literature in Brazil that interracial marriage may soften racial tensions by improving mobility opportunities for blacks; a main distinction with racial relations in the U.S.

The results suggest that equalizing access to quality education, including improved learning environments, is key to reducing interracial earnings inequality in Brazil. However, the gradient of skin color, in itself, appears as a significant determinant of labor market performance, particularly in granting higher returns to human capital investments. This may call for specific policies to eliminate social barriers that limit equal opportunity in pay and in the access to high quality jobs.

For more on this see Arias, O., Yamada, G. and Tejerina, L., Education, Family Background and Racial Earnings Inequality in Brazil, forthcoming in the SDS Technical Paper Series

Upcoming Events

Third Meeting of the Poverty Reduction and Social Protection Network.

The next meeting of this network of Latin American and Caribbean policymakers will take place on May 23-24, 2002, at the Bank’s Headquarters in Washington, D.C. The goal of the network is the creation of a forum in which the countries of the region can share experiences, learn about practices being implemented outside the region, and explore opportunities for regional cooperation in poverty reduction and social protection. This third meeting will include presentations and open dialogues on institutional aspects of poverty reduction in the region, experiences and best practices with microcredit programs and human capital investment programs targeted to the poor, etc. For further information, please contact Hilda Guerrero, hildag@iadb.org (202-623-2539)

Sixth Meeting of the LACEA/IADB/World Bank Network on Poverty and Inequality (NIP)

This meeting will be held in October 2002 in Madrid, Spain, as part of the activities of the Annual Meeting of the Latin America and the Caribbean Economics Association (LACEA). Activities will include a full day of presentations among network participants (NIP Day) of ongoing research of members of the network, as well as keynote speeches by prominent scholars in the area of poverty and inequality. For more information, please contact Denise Duderma (NIP, Brazil, duderman@iets.inf.br) or Omar Arias (IDB, Washington, omara@iadb.org).