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TOWARD MORE INTEGRATED SOCIAL PROTECTION IN COLOMBIA:
EMERGING LESSONS FROM RECENT EXPERIENCE IN LATIN AMERICA-
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Since 2004, the World Bank has been supporting the efforts of the Government of Colombia (GoC) to deepen its knowledge on poverty and inequality, particularly through the technical assistance provided to the Poverty Mission (MERPD). In September 2007 the Departamento Nacional de Planeación (DNP) requested assistance from the Bank on their Income and Employment Generation Strategy. The Bank provided support through three main activities that included: i) Technical assistance in the analysis and revision of the poverty measurement; ii) Assistance in the organization of a conference on employment and development; and iii) Technical assistance to the CONPES on income and employment generation. This TA consisted on periodic meetings, workshops, and the production of different technical notes and papers that discussed areas relevant to the CONPES and that were discussed and delivered to the Government.

Through these technical assistance, the Bank was successful in highlighting the challenges and options in the design and implementation of the Income and Employment Generation CONPES documents, and identifying relevant issues for income and employment generation in Colombia, for example, the barriers that poor people face in improving their income generation and employment status such as low human capital and inadequate labor regulation framework. The TA has also helped the Government to better organize and target their Income and Employment Generation strategy. The Bank has also provided technical and institutional assistance for the review of poverty methodology in Colombia. The TA has also been successful in laying out an agenda that would lead to the definition of a poverty measurement methodology in Colombia and to an institutional sustainability of poverty numbers estimation and dissemination. Andres Escobar, Deputy Director of DNP, expressed DNP gratitude for the Bank’s technical assistance in a letter included in Volume 1 of this report.

This report is structured in two Volumes. Volume I describes the process and stages of this technical assistance and the main findings of the papers that were produced as inputs for the Income and Employment Generation CONPES documents. This Volume (2) contains the five papers and one technical note on Social Protection produced for the Income and Employment Generation CONPES.

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The team worked closely with the following Government counterparts in the process of the technical assistance. Valuable feedback was received from the National Planning Department (DNP) Andrés Escobar (Deputy Director), Luz Stella Rodríguez (Advisor for the General
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TOWARD MORE INTEGRATED SOCIAL PROTECTION IN COLOMBIA: EMERGING LESSONS FROM RECENT EXPERIENCE IN LATIN AMERICA

INTRODUCTION

In September 2007 the National Planning Department of Colombia (DNP) requested the support from the World Bank in crafting a national income and employment generation strategy for the poor. The request for support focused on several specific areas, including: (i) diagnosis of the barriers faced by rural and urban poor in attaining greater success in the labor market and/or in undertaking more productive self-employed enterprises; (ii) identification of key areas for policy, program, and strategy development, including direct measures for raising the incomes of the poor, as well as strengthening of Colombia’s social protection system; and (iii) collection and presentation of relevant international experience – e.g., good practices, promising approaches – that could provide insights to the Government in the development of its strategy. It was expected that the Bank’s inputs would contribute the DNP’s development of several CONPES documents (Government policy papers) that would formally outline the key parameters of the countries income and employment generation strategy.

This note responds to a specific request from the DNP team related to the strengthening of Colombia’s social protection system. Specifically, the DNP team expressed a desire to understand recent advances made by other Latin American and Caribbean countries in “integrating” – better articulating and coordinating – diverse sets of social protection programs to improve coverage, efficiency and impact of their programs. Among DNP’s interests is in expanding access to social assistance/promotion (especially promotion programs aimed at strengthening the human capital of the poor) and social insurance (programs to manage risks, such as health shocks or the risk of poverty in old age) in cost effective ways that take care to minimize possible adverse incentive effects in the labor market and/or the economy at large. This note thus focuses on recent initiatives in the Latin America region to better integrate countries’ social protection systems and the emerging lessons for Colombian policymakers.

CONTEXT

Colombia has a clear commitment to providing more effective social protection to its citizens. This commitment was manifested clearly in 1999 with the issuance of a

1 A CONPES (Consejo Nacional de Política Económica y Social or National Economic and Social Policy Council) document is the principal instrument for articulating directions in national economic and social policy in Colombia. Development and publication of these documents is the responsibility of Colombia’s National Planning Department, DNP.

2 The term “social protection” can be defined in different ways. In this note, it is taken to refer to the collection of public social insurance, social assistance, and social promotion programs that focus on providing protection against key risks (e.g., health shocks, poverty in old age, disability), providing income and other support to poor families, and strengthening the capacity of poor households to escape poverty.
CONPES that proposed the creation of a social protection system in which all citizens would be protected against key risks, as well as by subsequent actions. Among its key goals, the Government of Colombia has committed to ensuring universal health insurance coverage (via a combination of contributory, subsidized, and partially subsidized health regimes), to expanding old-age income security (both through expansion of coverage of existing contributory and subsidized programs and through the creation of a new program of Periodic Economic Benefits, BEPs), and to stronger, more effective poverty reduction efforts (not only through expanding Familias en Acción, the country’s conditional cash transfer program, but also through the creation of the Red Juntos, a network of services intended to provide integrated support to the country’s poorest families).

Colombia’s efforts to extend social protection to its citizens are paying dividends in several areas. For example, in terms of social promotion programs, the Government’s Familias en Acción program now now reaches 1.5 million households (1.2 million extreme poor households – SISBEN I – and 300,000 displaced households. The program provides cash transfers to poor families in return for these families undertaking certain basic human capital investments in their children, including investments in basic education, health, and nutrition. The program has been shown to have a positive impact on the welfare and human capital investments of beneficiary families. Specifically, recent impact evaluations of the program has shown that Familias positive impacts on children’s schooling and nutritional outcomes; it also has positive impacts on beneficiary households’ levels of spending on food items (Institute of Fiscal Studies 2005, Attanasio et al 2006). Beyond Familias, the Government is in the process of piloting the Red Juntos programs that will provide support to poor families via social workers (gestores sociales) as well as preferential access to basic social services.

In addition, the Government has made important advances in extending health insurance to the population. By 2006, just over 80 percent of active workers (and their families) now have health insurance, either via the contributory and the subsidized regimes (figure 1). Moreover, access to some form of health insurance is relatively equitably distributed across different socio-economic groups. Over 72 percent of all informal sector workers, including for unpaid workers, report having health insurance; similarly, roughly 76 percent of workers (and their families) in the lowest income quintile report being covered by health insurance, through either the contributory or subsidized regimes. Data from Colombia’s national household survey Encuesta Continua de Hogares (ECH) 2006 indicates that about half of those covered are covered by the contributory regime, while the remainder are covered by the subsidized regime (or by special plans designed, for example, for the army, etc.).

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3 World Bank staff estimates.
In other areas, the Government of Colombia faces ongoing challenges. Data from the 2006 ECH shows, for example, that pension coverage (Colombia’s main instrument for providing old-age income security) remains low. Approximately 29 percent of active workers report having pension coverage, defined as actively contributing to a pension scheme (figure 2). This aggregate figure is low – both in absolute terms and relative to other countries in the region. But for many important categories of the population – informal workers, the poor – coverage is even lower, and nearly zero among some socio-economic groups. Only 7.6 percent of informal employees indicate that they have pension coverage, while only 1.7 percent of informal self-employed workers report having coverage. Similarly, coverage among (all) workers in the poorest quintile is only 5.0 percent.
costs and the high minimum wage contribute to significant labor market segmentation in Colombia and, as such, serve to ration some workers out of formal sector employment (and, thus, out of the formal social security system). Another set of contributing factors are related to the design of social protection programs: factors that reduce the perceived benefits and raise the perceived costs of workers’ affiliating with formal social security. These features of the social protection system include: (i) long vesting periods for pensions that workers may perceive make it impossible to qualify for a pension; (ii) a multi-dimensional mandatory social security package, some components of which workers may not value; and (iii) the subsidized health regime that enables some (poor) workers to access non-contributory health benefits if they work outside the formal sector (World Bank, forthcoming, 2008).

Like other countries in the region, Colombia’s efforts to expand social protection is taking place via a mix of programmatic instruments – via traditional contributory social security, via subsidized health and old-age income security programs, as well as through a range of social assistance and promotion programs, run by a number of ministries and agencies and with responsibilities distributed across entities at both the national and municipal levels. While Colombia’s multiplicity of initiatives has clearly brought many benefits to its citizens – e.g., high levels of health insurance coverage – these initiatives also create some important challenges, whether related to policy and program coordination or to the types of incentives the multiplicity of programs creates in the labor market (and economy more broadly). One key challenge will thus be to design and implement new programs – and to adapt existing programs – to function part of a larger, integrated and coherent system of social protection.

Why “Integrated” Social Protection?

Traditionally, policy-making in social protection – not only in Colombia, but elsewhere in Latin America (and beyond) – has focused on specific programs addressing specific issues and run by specific institutions. As the number of programs (and program modalities) increase, however, it becomes increasingly important to take a more integrated perspective on providing social protection. Why?

Social protection is by its nature is multi-sectoral and “multi-institutional”, with responsibilities for different programs commonly distributed across different ministries and agencies. This has several implications as countries increase their efforts in social protection. For example:

- In a number of countries this has resulted in considerable “fragmentation” of social protection: implementation of numerous small-scale and uncoordinated programs across a range of institutions, often without strategic focus. This commonly led to lower-than-expected impacts of social protection. Small size has meant that programs are often unable to exploit economy of scale in implementation, while lack of coordination has meant that coverage gaps have co-existed with overlaps and duplications in coverage. Lack of strategic focus has meant that programs have not always focused in the areas of highest social returns.
o The multi-sectoral, multi-institutional nature of social protection has also meant that efforts to support increases in poor households’ demand for basic services (e.g., in education, health and nutrition) through demand-side interventions such as conditional cash transfer programs (CCTs) have been implemented by different agencies than those responsible for the supply of such services. Evidence from the region suggests that lack of “integration” or “articulation” of demand- and supply-side programs implemented by different agencies can reduce the overall effectiveness of such interventions.

Responsibility for implementation of social protection programs also often takes place across different levels of government (e.g., national, departmental, municipal). Lack of strategic alignment, communication, and coordination in implementation across levels of government (as well as across agencies at any given level of government) can thus serve to reduce the effectiveness, impact, and cost-effectiveness of social protection programs, and of the “system” as a whole.

Recent cross-country analysis suggests that greater integration and/or articulation of social protection, in the form of greater strategic alignment (including a focus on the most effective and cost-effective program models) and better institutional communication and coordination can thus serve to improve the cost-effectiveness and impact of social protection. For example, countries with greater levels of policy coherence and inter-institutional communication have higher levels of social security coverage, even after controlling for average GDP per capita (figure 3).

Figure 3: Social Security Coverage in Latin America is positively associated with Greater Coordination and Coherence of Policies (controlling for GDP per capita)

Recent evidence also suggests that where multiple programs addressing similar risks are uncoordinated or implemented with incompatible rules, social protection can

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Note: Partial correlations controlling for GDP per-capita


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5 This and related analysis will be presented in a forthcoming World Bank regional study on strengthening social protection systems in Latin America and the Caribbean.
have unanticipated and undesirable secondary effects, for instance, on labor market functioning and outcomes. For example:

- Where countries implement separate contributory health insurance regimes – say, for private and public sector workers – with different eligibility rules and benefit levels, lack of portability across systems often impedes the movement of labor across jobs and sectors, with potentially negative effects on both workers’ welfare and on economic productivity.

- Where countries design and implement both social insurance and social assistance programs to address the same risk – e.g., both contributory and non-contributory health insurance and pension programs – there is a risk that such “competing” programs can create incentives for increased labor informality, again potentially affecting adversely workers’ welfare and productivity (Levy 2008, Perry et al 2007). Indeed, recent evidence for Colombia indicates that the country’s subsidized health regime has had a small, positive and statistically significant effect on labor informality in the country (Camacho and Conover 2007 cited in World Bank, forthcoming, 2008).

For these reasons, integration (or “articulation”) of social protection in the form of “harmonized” rules and greater “incentive compatibility” of programs and financing modalities can help promote greater labor market efficiency as well as more effective programs.

In sum, as Colombia, and similar countries, move toward providing greater, more effective social protection to their citizens, it will be increasingly important to think not only in terms of individual programs, but about the functioning of the “system” as a whole. This will require a focus not only on the impact of individual programs (which, of course, is important) but on how different programs interact, how the incentives of different initiatives are aligned (both program design and financing), and how implementation is coordinated across agencies or levels of government. This will be critical to ensuring that the collection of programs is having the desired impacts and is making effective and efficient use of scarce government resources.

**Promising Approaches from Latin America and the Caribbean**

Efforts at better integration and articulation of social protection in Latin America and the Caribbean are relatively recent and, as such, formal evidence on the impacts of efforts to integrate is still scarce. Nonetheless, several recent experiences in the region point the way to what appear to be promising approaches. These experiences may provide useful lessons to the Government of Colombia. The remainder of this note summarizes these experiences, with additional detail presented in a series of annexes. The next section focuses on recent experiences in social assistance and (most particularly) social promotion, while the section after that focuses on recent experiences and promising approaches in social insurance.
Social Assistance and Social Promotion

Over the last decade, several countries in the region have undertaken efforts to reduce fragmentation and increase the strategic focus, integration, and impact of their social assistance and social promotion programs. In a couple of instances, the Government of Colombia has already availed itself (or is in the process of learning) the lessons from these experiences. Among the noteworthy examples from the region:

- **In Mexico**, the Oportunidades Program (formerly called Progresa), is less fragmented, better targeted and more effective than the numerous food and food subsidy programs it replaced. In the mid-1990s, the Government of Mexico launched Progresa, a conditional cash transfer program, focused on providing demand-side subsidies to poor households delivered conditional on households undertaking specific “co-responsibilities”, including sending their children to school, undertaking health visits and nutritional monitoring for children, and mothers’ participating in health and nutritional training. Up until that time, the Mexican Government had implemented 15 food subsidy programs (4 broad-based, 11 targeted to specific “vulnerable” groups) run by ten different Secretariats and agencies. These earlier programs were inefficient in many ways. They were not well-targeted toward the poor; they involved high administrative costs; there was little coordination between the Secretariats and agencies, resulting in overlapping efforts; and with few exceptions, they did not address poverty or social protection in an integrated way. In contrast, Progresa/Oportunidades has proved to be a well-targeted, coherent in its approach, and an effective model of intervention for strengthening the human capital and the capabilities of the poor.\(^6\) (For further details, see Annex 1.) What can Familias in Acción incorporate from this experience?

- **In Chile**, the government has also focused on creating an integrated, multi-sectoral program for poverty reduction, called Chile Solidario. The Chile Solidario program started in 2002, under the Ministry of Planning (MIDEPLAN), as a program to provide support to the poorest Chileans in escaping poverty. The program focused specifically on tackling hardcore, persistent poverty that was not responsive to traditional social sector programs and interventions. The program provides comprehensive support and multiple services to families, as well as links poor families to all the public monetary subsidies to which they are entitled. The main components of Chile Solidario include: (i) psycho-social support to families in extreme poverty via a system of social workers; (ii) monetary subsidies/transfers to eligible families; and (iii) preferential access by beneficiaries to basic social programs and services offered by a variety of public and private entities.

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\(^6\) The Progresa/Oportunidades program has been rigorously evaluated and shown to have positive impacts on poor children’s enrollment, attendance, and persistence in school. The program has also been found to increase food consumption, growth and nutritional monitoring, and reduce the incidence of illness of poor children (see, e.g., Rawlings and Rubio 2005, Skoufias 2005). The program has served as a model of effective intervention in the region, including for Colombia whose Familias en Acción model follows a similar approach.
working in health, education, labor, housing and justice. MIDEPLAN implements the program in coordination with the network of public and private social service providers at the national, regional, and local levels. In working towards an integrated system of social promotion and protection, it has been for Chile Solidario to focus on strengthening systems and institutions that were not originally designed with an integrated, multi-sectoral intervention in mind. This includes development of shared institutional framework and common information network to facilitate coordination among social service providers and provide consistency in determining program eligibility and preferential access to services. The lack of coordination among public sector institutions and programs was a particular challenge, given that in 2003 Chile implemented roughly 400 social programs run by 80 different institutions (half of these were classified as social protection programs). Since then, however, a management control system has been developed and strengthened, and the use of performance indicators, program evaluations, comprehensive management reviews, and competitive funds for financing public sector investments have become more prevalent. 

(Jamaica has also undertaken efforts to better integrate its social protection system, using the PATH Program, a conditional cash transfer program, as the centerpiece. As in Mexico, the PATH CTT has been instrumental in reducing fragmentation and increasing the impact and efficiency of Jamaica’s safety net by replacing several programs, run by two ministries, with a single program. Launched in 2002, PATH has become the country’s flagship social assistance program, providing cash transfers to thousands of beneficiaries. The program has served to consolidate several overlapping administrative systems into a single system with objective, standardized poverty indicators. The new system has enabled administrators to provide better service to more beneficiaries while reducing administrative costs by as much as 10-30 percent (Mathematica). As part of the ongoing efforts to strengthen its social safety net, Jamaica is now developing a Steps-to-Work Program that will focus on engaging working-age members of PATH households in a set of initiatives aimed at greater “employability” (or job readiness), skills and competencies development, job matching, and business development. The program, to be piloted over a 2-year period starting in 2008, will draw on a number of interventions already operated by Jamaican agencies to provide job search assistance, labor market intermediation, remedial education, skills and competencies training, on-the-job training and apprenticeship, business development, micro-enterprise support, and care support services to meet poor working families’ needs. Steps-to-Work will be assessed at the end of the piloting period and if effective, it could be scaled up

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7 The Red Juntos program in Colombia is seeking to build on the lessons of a more integrated approach to social assistance developed via Chile Solidario.

8 In a number of countries in the Latin America and Caribbean region, the development of reasonable proxy means testing systems is providing economies of scale in administrative systems as well as implicitly integrating benefits systems by enabling the adoption of objective targeting measures and the use of consistent data and eligibility criteria across programs. This is happening or planned in a range of countries in the region, including Brazil, Chile, Colombia, Ecuador, Jamaica, and Mexico.
to serve the entire PATH working-age adult population. (For further details, see Annex 3.)

- **In El Salvador**, the *Red Solidaria* program is an integrated social protection program that combines demand-side support to poor families via a conditional cash transfer program with investments to strengthen the supply of education and health services in poor areas. Focused on the countries 100 poorest municipalities, the program also focuses on strengthening legal access to services among the poor via registration and identification drives, and on providing technical and related support to small-scale productive and income generation enterprises among the rural poor. The program’s main objective is to improve the ability of the poor to participate in and take advantage of the country’s socio-economic progress through: (i) strengthening poor households’ demand for investments in human capital (education, health and nutrition), (ii) improving the network of basic infrastructure and services available to the poor, (iii) and supporting the development of economic enterprises in poor areas. A critical contribution of the Red Solidaria program has been that the Government has used the program as a vehicle for better “articulating” and integrating its social protection and poverty reduction programs and policies. To accomplish this, the program has been coordinated out of the Technical Secretariat of the Presidency, with strong links to the different responsible ministries and agencies, including the ministries of education, health, agriculture, and water and public works, El Salvador’s social fund (FISDL) and the civil registry. These links were developed very early on in the design phase of the program to ensure critical inputs from and coordination among key institutional actors from the start of the program’s development. Through high-level political support and coordination, the Red Solidaria program has helped facilitate the re-prioritization of public sector strategies and investments in education, health, water, and local development around the Government’s commitment to effective poverty reduction. This high level coordination is helping to ensure, for example, that supply-side investments in education, health, and basic infrastructure are well coordinated with the development and expansion of the demand-side conditional cash transfer program. (For more information, see Annex 4.)

- **Brazil’s Bolsa Familia** Program (BFP) is the largest conditional cash transfer in the developing world. BFP was created in October 2003, through the merger of four pre-existing cash transfer programs in an effort to improve efficiency and coherence of the social safety net and to scale up assistance to provide universal coverage of Brazil’s poor. An important feature of the BFP is its implementation in a highly decentralized context. While the BFP is managed by the Ministry of Social Development (MDS), numerous other agencies, both centralized and decentralized, are involved in various aspects of program implementation complemented with detailed manuals and regulations that spell out the specific roles and responsibilities of each agency. At the Federal level, the Ministry of Social Development is the program’s policy and supervision agency (itself created in 2004 as the result of a merger of the (former) Ministries of Social Assistance and Food Security and the Bolsa Familia Executive Secretariat. Municipalities
carry out many aspects of program implementation and are responsible for maintaining a local coordinator for the program, registering potential beneficiaries in the Cadastro Único, and monitoring health and education. To address the challenges of program implementation in a complex, decentralized institutional environment, the BFP has developed a number of innovative mechanisms to support and promote incentives for quality implementation across levels of government. This has included: (i) the establishment and signing of joint management agreements between the MDS and municipalities to formalize their respective roles and responsibilities and establish minimum standards for program operation; (ii) provisions of performance-based financial incentives for municipalities; (iii) training and capacity building efforts for municipalities with relatively low implementation capacity; (iv) annual BFP “innovation awards” to provide additional incentives to municipalities and to support regular sharing and dissemination of good practice at the municipal level; and (v) audits to support oversight and control of implementation where “principal-agent” issues could be a problem.

Social Insurance

More recently, several countries in the region have begun to focus on better integration of social insurance programs, including pensions and health insurance, providing both a focus on broadening coverage and on increasing the design and incentive compatibility of contributory, subsidized, and non-contributory programs (or program components). For example:

- A newly approved pension reform in Chile focuses on moving the country toward universal pension coverage in an integrated, incentive compatible way. Since 1981, Chile’s pension system has been based largely on an individual savings pillar, combined with social assistance component, the PASIS, for indigent and disadvantaged households. Together, the combination of individual savings and social assistance pillars helped Chile to achieve one of the highest and most equitable rates of coverage of the elderly in all of Latin America (Rofman and Luchetti 2006). Nonetheless, in terms of preventing poverty among the elderly, important challenges remained. The minimum pension (attached to the savings pillar) has only been available to individuals who have contributed at least twenty years to individual accounts, and evidence indicates that many workers are unable to achieve the required contribution history before retiring. Moreover, coverage gaps remain. In 2003, roughly 23 percent of all seniors, age 65 and over did not receive a pension, either through the individual savings pillar or through the PASIS. About one-quarter of all seniors in the poorest quintile lacked coverage via one program or the other. To address these concerns, the

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9 The 1981 Chilean pension reforms that moved the country to a system based largely on individual savings accounts influenced subsequent pension reforms in several Latin American countries, including in Colombia.

10 Patterns of coverage under the contributory and non-contributory programs differ quite significantly. In 2003, nearly all seniors in the wealthiest quintile received their pensions via the contributory program,
Government of Chile launched another round of reforms in 2006 that were passed by the Chilean Congress at the end of 2007. The latest Chilean reform focuses on providing old-age security for all, including the poor and those who work outside the formal sector. In designing this reform, Chile set out to move from two separate systems – a system of individual accounts (defined contribution pillar) and a targeted social assistance pension (PASIS) – to a single integrated system. The reform seeks to establish an appropriate mix of pooling and saving instruments, an effective institutional structure for supervision and management of the new system, and, importantly, incentive compatibility between the poverty-prevention and saving components of the system and the labor market. The system also includes measures to promote greater gender equity, as well as incentives to draw more young contributors into the system. (For additional details, see Annex 6.)

- A recent civil service social security (ISSSTE) reform in Mexico is helping to harmonize pension rules across the private and public sector systems, facilitating portability of benefits and greater labor mobility while strengthening the fiscal sustainability of the system. In early 2007, the Government of Mexico undertook a long overdue reform of the country’s civil service pension and health insurance programs largely to deal with an unsustainable fiscal situation. The reform modified the structure of contributions and benefits and altered the institutional structure through which those benefits are provided to its beneficiaries. On the pension side, the reform consisted of a change from an unfunded defined benefit (DB) program to a funded defined contribution (DC) scheme, whose broad parameters will be similar (although not identical) to those currently operating under the private sector system run by the Mexican Social Security Institute (IMSS). On the health side, the reform focuses on facilitating greater long-run efficiency of Mexico’s healthcare system through series of measures, including through separation of insurance and provider functions, harmonization of rules across the private and public sectors, movement toward strategic purchasing, and provision of greater patient choice among public providers (including IMSS, ISSSTE, and the national public health programs administered through the Health Secretariat). While the driving force behind the reform was the need for fiscal sustainability, the reforms, when fully implemented, the greater integration of Mexico’s civil servant and private sector social security programs created by this reform should be expected not only to strengthen social security in Mexico, but to strengthen labor market mobility across public and private sector jobs (and, thus, operation of the Mexican labor market).

- While only in the early stages of discussion, the Government of Mexico is also beginning to focus on broader “integration agenda” in health along the lines spelled out as part of the ISSSTE reform. This integration agenda is focused on strengthening the efficiency of the Mexican health system with the objective of attaining universal health insurance coverage by 2010, a goal set out in Mexican

while about 43 percent among those in the lowest quintile. About one-third of seniors in the lowest quintile received their pension through the non-contributory PASIS program (Rofman and Luchetti 2006).
law. At present, Mexico’s health system is horizontally segmented with vertically integrated sub-systems. Horizontal segmentation means the separation of access to the system by virtue of people’s labor affiliation, resulting in several sub-systems (IMSS, ISSSTE, programs of the national Health Secretariat) that provide similar, and sometimes identical, services. The horizontally segmented design creates inefficiencies and inequities, including: cost-benefit differentials between sub-systems; inappropriate allocation of subsidies; limited portability of insurance coverage; lack of a unified information (IT) system and patient records, among other things. There are concerns that current design of Mexico’s health system – with parallel contributory and subsidized systems – also creates incentive for informality which in turn, results in inequality in health care financing and lower coverage of certain populations. Vertical integration of Mexico’s healthcare sub-systems creates inefficiencies and inequities in access and financing. Under the current structure, the finance and provision of services are supervised and maintained by the same entity, resulting in a lack of an output-based financing system, inequality of geographic access to services, and limited choice of providers. Current discussions on the “integration agenda” thus focus on series of measures – similar to those specified under the ISSSTE reform (noted above) – that would improve long-run efficiency of Mexico’s healthcare system, as well as address the inequities and perverse labor market incentives generated under the current system.

CONCLUSIONS: LESSONS FOR COLOMBIAN POLICYMAKERS FROM RECENT REGIONAL EXPERIENCE

It is still relatively early days in Latin America with respect to country’s efforts to better integrate their social protection systems. More progress has probably been made with respect to integrated approaches to social assistance/social promotion, as evidenced by successful and/or promising efforts in such countries as Mexico, Chile, Jamaica, and El Salvador – although Chile and Mexico have also made some progress toward integration in the area of social insurance. Interestingly, Colombia has already taken – or is taking – on board several of the lessons on integrating social promotion emanating from Mexico and Chile, as reflected by developments related to Familias en Acción, on one hand, and to the nascent Red Juntos program on the other.

For example, as in the cases of Mexico and Chile, social promotion in Colombia is organized strategically around a small number of “flagship” programs, based on effective service delivery models. Specifically, Colombia’s Familia en Acción program, which rigorous impact evaluation has shown effective, has come to represent the strategic cornerstone of the country’s system of social promotion, with program eligibility being based on an objective set of criteria as operationalized through the SISBEN targeting system. Moreover, through the development of its Red Juntos program (drawing on the

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11 The World Bank has recently commissioned analysis of the labor market incentive effects of Mexico’s subsidized health regime to understand if there are informality impacts of the program and, if so, how important they are economically.
lessons from Chile Solidario), the country is moving toward a more integrated system of support services to help the country’s poor pull themselves out of poverty.

At the same time, Colombia still faces many challenges with respect to creating a more integrated social protection system for which the country experiences documented here may provide some valuable lessons. For example, in the context of developing the Red Juntos program, Colombia will face a critical challenge of ensuring coordination and provision of the supply of basic services so that the poor can indeed obtain “preferential access” to those services, as specified in the program concept. This will be all the more important to the extent that the social workers (gestores sociales) are successful in “activating” demand for services on the part of poor families. Ensuring an adequate supply of basic services will require strong inter-institutional support across a number of different agencies with different mandates, not only at the national level, but across levels of government, since the municipalities are responsible for direct service provision in a number of key areas.

In this context, several of the country experiences highlighted above may be instructive. For example:

- The case of El Salvador highlights the importance of developing high-level political commitment and a framework coordination across various sectoral ministries and agencies for implementing effective social promotion. Such cross-cutting strategic vision and commitment to cross-sectoral collaboration will be increasingly important as Colombia begins to implement the Red Juntos, to ensure that the supply of basic human and social services are well articulated with the increases in demand created not only by Familias en Acción but also by the gestores sociales under the Red Juntos program.

- Here, the Chilean experience under Chile Solidario that has focused on strengthening systems and institutions that were not originally designed with an integrated, multi-sectoral intervention, is instructive. Specifically, Colombia could benefit from learning from the Chilean’s experience of developing a shared institutional framework and a common information network to facilitate coordination among service providers and ensuring preferential service access to the poor.

- Part of the coordination challenge for Colombia will be to ensure that service delivery – a significant portion of which is implemented at the municipal level – is well articulated with activities led and implemented at the central government level. In this regard, there are potentially important lessons from the Brazil Bolsa Familia program. Here, the Brazilian experience, with its combined use of formal contracts between the federal and municipal governments, financial and related incentives to municipalities, training and capacity building among municipal program officials, and a system of audits to support, can provide some useful lessons as Colombia moves forward.
And, finally, the emerging lessons from Jamaica’s new Steps-to-Work pilot program may be worth following. A key challenge, already well understood by Colombian policymakers is how to support the poor in moving from participation in social promotion efforts to more effective outcomes in the labor market – both in terms of employment and income generation. While it is still too early to know the outcomes of the Jamaican pilot, the Government of Jamaica’s efforts to link its conditional cash transfer program to strengthen young people’s human capital (on one hand) and its program to promote greater employability among the poor through training, labor intermediation services, and business development (on the other hand) appears quite promising.

With respect to social insurance – particularly with respect to pensions and health insurance – the Government of Colombia also faces important challenges with respect to better integration of the systems. With regard to both pensions and health insurance, the Government of Colombia operates multiple programs – contributory, partially subsidized, and non-contributory.12

In the case of pensions, the Government is also contemplating the addition of a new program of Periodic Economic Benefits (BEP) to help close the coverage gap. This focus on using multiple programs to attain higher (or universal) coverage raises questions regarding how well existing programs are integrated – in terms of the coherence of their design (e.g., consistency and incentive compatibility of rules, portability of benefits, etc.) and the adequacy of their “institutionality” (e.g., coordination among relevant entities, adequacy and interconnectivity of information systems, enforcement, etc.).

Here, while in general the Latin America region is still in the early stages of attempts to integrate, the recent Chilean and Mexican experiences in reforming parts of their social insurance systems may still be instructive. The early lessons from Mexico relate to creating better consistency and integration of rules across programs and institutions. The ISSSTE reform, for example, focused on harmonizing the rules of the game across institutions and creating portability of benefits from one job/sector to another. These lessons may prove useful to Colombia as it works to create a unified pension administrator, Colpensiones. The early lessons from Chile are not only institutional, but related to creating greater incentive compatibility in the size and structure of benefits across the fully subsidized, partially subsidized and the purely contributory portions of the new system. Indeed, the system is designed such that even the partially subsidized part of the system (for those in the middle of the earnings distribution) maintains consistent, positive incentives for additional old-age savings at the margin (see Annex 6 for details).

12 While the old-age transfer programs, Programa de Protección Social al Adulto Mayor (PPSAM) and Programa Nacional de Alimentación para el Adulto Mayor “Juan Luis Londoño de la Cuesta”, are not technically part of the pension system, they are de facto an integral part of a system of old-age security.
In the case of health, as noted earlier, the Government of Colombia has done well in raising health insurance coverage, with significant expansion of the subsidized regime to complement coverage via the contributory (formal sector) regime. At the same time, there is some indication that while the subsidized regime has contributed significantly to higher coverage, it also creates at least some incentives for informality. While it is probably too early to learn much from Mexico’s nascent integration efforts in health, the current dialogue on integration in Mexico is probably instructive. The discussion is currently focused, among other things, on harmonization of the rules of the game across institutions – to promote portability of benefits across currently segmented institutions – as well as re-thinking the content and relative levels of benefits associated with the different health insurance programs. Seeking greater consistency and incentive compatibility across pieces of the health insurance system, consistent with early discussions in Mexico may help Colombia to balance the gains in coverage with possible undesirable effects on the labor market.

References


ANNEX 1: MEXICO’S PROGRESA/OPORTUNIDADES PROGRAM

Mexico’s Oportunidades Program, formerly called Progresa, is less fragmented, better targeted and more effective than the numerous food and food subsidy programs it replaced. Launched in the mid-1990s, Progresa/Oportunidades is a conditional cash transfer program, focused on providing demand-side subsidies to poor households contingent upon households undertaking specific “co-responsibilities, including sending their children to school, undertaking preventive health visits and nutritional monitoring for children, and mothers’ participation in health and nutritional trainings.

Prior to the mid 1990s, the Mexican government had 15 food-subsidy programs (four were broad based, 11 targeted to specific vulnerable groups), under ten different Secretariats (i.e., Ministries) and agencies, that varied in coverage and scope. Some of the main problems experienced by this multiplicity of programs were: (i) the food-subsidy programs were unequal with 75 percent of the budgets going to urban areas, where only 40 percent of the poor lived; (ii) about half of the combined budgets were spent on generalized food-subsidies for bread and tortillas (a staple food for Mexicans); (iii) inefficient distribution of food-subsidies, especially to the rural poor, given the dispersion of the population; (iv) very high administrative costs by the Secretariats and agencies; (v) little coordination among Secretariats and agencies resulted in overlapping efforts; and (vi) will little exceptions, food-subsidies and programs related to health and nutrition worked independently and were not focused on the most vulnerable members of the family (in general, children less than 2 years old and pregnant and lactating women). In general, most food-subsidy programs then, were not actually nutrition programs but instead a mechanism for income transfer to the poor.

Similarly, in the 1990s, the impact of health and education services in Mexico was uneven. There were persistent notable differences in health and nutrition indicators at all income levels. There was also inequality in the access to reproductive health services which significantly impacts poverty. In general, there was inadequate access to preventive health care services, insufficient information, and low utilization of existing health services. Since many health issues can better be addressed with better nutrition and preventive services, policy makers were looking to stimulate demand for services while improve their provision. In education, poor households lagged in a number of indicators including school attendance, desertion rates, and gender differences. Education indicators, as with health indicators had significant implications in poverty. Furthermore, deficiencies in education had negative effects on health indicators.

Another factor that shaped Progresa/Oportunidades was the critical mass of studies in multidisciplinary fields that stressed the importance of strengthening human capital and the links and interconnectedness between nutrition, health, and education. These studies showed that to address the needs of the poor, an integrated approach to nutrition, health, and education could have more impact and be more efficient than using isolated strategies. Consequently, Progresa/Oportunidades incorporated and acknowledged several links: (i) between food supply, nutrition and health; (ii) between infant mortality, birth rate, and health; (iii) between family size, education, and health; and (iv) between low-income and risk-aversion (higher among the poor).

The motivation for change and catalyst for intervention was perhaps the December 1994 economic crisis –the largest in five decades-- which resulted in a 6 percent drop in GDP in 1995.
The Finance Secretariat (Secretaría de Hacienda) at the national level maintained that existing programs were not adequate to protect the poor during the crisis. Faced with the crisis and the advent of a new government, there was an opportunity for a new focus and the political climate for change. The challenge consisted in designing a rapid short-term response to the crisis with the existing instruments and at the same time form the foundation for more long term social protection. This implied a short-term moderate expansion of existing programs and for the new government, the design of a new program for food subsidies particularly and more generally for other poverty alleviation programs. The new approach required the reallocation of budgets destined to other poverty-alleviation programs; an administrative reorganization of programs, a new emphasis on impact evaluations, and the development of a new political relationship between beneficiaries and the federal government.

The creation of a new program implied a significant reallocation of responsibilities among Secretariats and other federal agencies that required strong political commitment. The comprehensive nature of the program also required a coordinated and collective response which resulted in increased budgetary control by the Secretaría de Hacienda. In Mexico, this was possible due to the leadership and involvement of the President Ernesto Zedillo; solely dismantling general food-subsidies, especially for tortillas, in place for over 30 years, and abolishing federal organizations would have been impossible. In addition, the executive branch had to provide guarantees to the legislature, that the process would not be manipulated for political dividends, prior to approving the financing of the program. Finally, a long-term understanding for program continuity, critical for its impact on people’s life cycle, was ensured through transparency, accountability, and strict adherence to the rules of the program that required breaking the perception that the program would be used for political benefit in the long-run.

Progresa/Oportunidades was implemented in the broader context of an overall strategy for poverty alleviation, working in conjunction with other programs aimed at developing employment and income opportunities and at facilitating the formation of physical capital. Deliberately favored for its better targeting of the poor, the program has been well-funded while other programs have had their funding reduced. The program has been particularly good at targeting the poorest households within selected localities where poor households are more likely to be found. Overall, the administrative costs employed in getting transfers to poor households appear to be small relative to the costs incurred in previous programs and for targeted programs in other countries.

By around the year 2000, Progresa/Oportunidades covered nearly 2.6 million families in 72,345 localities in all 31 states, about 40 percent of all rural families and one-ninth of all families in Mexico. By the mid-2000s, Oportunidades had expanded both in size and in scope. In addition to providing a conditional cash transfer to the poor in rural areas conditional on ensuring family investments in basic education, health and nutrition, the program was extended into urban areas. Moreover, Oportunidades was expanded to include educational grants for high school education, along with a savings plan for participating high school students, called “Youth with Opportunities”. Currently, about 5 million families benefit from Oportunidades, 3.4 million in rural areas and 1.6 million in urban areas. This is up from around 2.5 million families in total in 2000.
It is worth noting that *Progresa/Oportunidades* has been the subject of a series of rigorous impact evaluations. These evaluations have shown that the program has had positive impacts on poor children’s enrollment, attendance, and persistence in school. The program has also been found to increase food consumption, growth and nutritional monitoring, and reduce the incidence of illness of poor children (see, for example, Rawlings and Rubio 2005, Skoufias 2005). The program has served as a model for poverty reduction and social protection programs in a number of countries in Latin America and beyond, including Colombia, El Salvador, Honduras, Nicaragua, and Argentina, among other countries.
ANNEX 2: THE CHILE SOLIDARIO PROGRAM

Chile’s Chile Solidario Program started in 2002, under the Ministry of Planning (MIDEPLAN), as a social protection program that supports the poorest families in Chile, tackling the core of extreme and persistent poverty unaffected by conventional social sector programs. The program provides comprehensive support and multiple services to families, and provides all the monetary subsidies to which these families are entitled. The main components of Chile Solidario include: (i) psycho-social support to extremely poor families; (ii) monetary subsidies/transfers in support of eligible families; and (iii) preferential access by Chile Solidario beneficiaries to basic social programs – both public and private provided – offered by a variety of entities working in health, education, labor, housing and justice. Indeed, MIDEPLAN implements the program in coordination with the network of public and private social service providers at the national, regional, and local levels.

In working towards an integrated system of social promotion and protection, the Chile Solidario program has sought to overcome longstanding shortcomings in Chile’s systems of public services, such as the lack of a shared institutional framework, as well as the lack of a shared information network that facilitates coordination among social service providers, provides consistency in program eligibility and preferential access to social services. The lack of coordination among public sector institutions and programs has been a particular challenge, considering that in 2003 there were some 400 social programs involving 80 different institutions (forty of which were classified as social protection programs). Since then, however, a management control system has been developed and strengthened, and the use of performance indicators, program evaluations, comprehensive management reviews, and competitive funds for financing public sector investments have become more prevalent.

Chile Solidario’s national network system requires the coordination of the networks of public providers of services for the poorest families and individuals, so that these providers can meet the specific needs of every family working with them. This has meant the public sector has had to be re-organized and re-structured to optimize the impact of existing fiscal resources. Indeed, this has implied a significant shift in the type of activities performed by the public sector. Changes have included a shift in some functions to the private sector, particularly dramatic in the sphere of social services provision, combined with stronger regulation, oversight functions and subcontracting of services. Recent efforts have been centered not only on spending within a given budget constrain, but on making management systems and procedures more effective to increase the efficiency in public spending on poverty reduction and social protection.

These efforts to better integrate the provision of services to the poor has required the establishment of a cross-cutting institutional structure. In that regard, a Presidential Advisory Commission was created in 2002 to advise the President of the Republic on the implementation, coordination and coherence of the programs of the Ministries and other public agencies in the framework of the Chile Solidario program. The Commission is comprised of the Minister of Planning and Cooperation (who is also the head), the Minister of the General Secretariat of the Presidency, the Minister of Labor and Social Security, the Director of Budget, the Sub-Secretary of Regional Development and Administration, and the Executive Director of the Fund of Solidarity and Social Investment (FOSIS).
The Commission’s main responsibilities are to: (i) propose the measures necessary for the implementation and adequate functioning of Chile Solidario; (ii) coordinate the distinct organs of the government administration, with the goal of optimizing the use of public resources - human, financial, and technical - directed to individuals and families in extreme poverty; (iii) serve as the coordinating body for the authorities and agencies involved in the implementation of Chile Solidario, as well as for the measures, actions, and programs that are carried out within that framework; (iv) propose legal or administrative changes aimed at benefiting individuals and families in extreme poverty; (v) ensure the fulfillment of the sectoral program initiatives that are intended to benefit the extremely poor population; (vi) make specific proposals on the requirements of Chile Solidario, on financial matters, and on the management of resources and communications; (vii) supervise the goals, actions and related time periods defined for the implementation of the program; and (viii) and inform the President of the Republic periodically, through the Ministry of Planning and Cooperation, regarding the progress on the program and the fulfillment of its commitments.

An Executive Secretariat, located in the Ministry of Planning and Cooperation, is responsible for providing technical and operational support to the Commission. The Secretariat reports directly to the Minister of Planning and Cooperation. The Executive Secretariat can carry out activities in the regions, through the respective Regional Secretary of Planning and Cooperation. The Ministry of Planning and Cooperation is responsible for providing the technical and administrative support necessary for the effective functioning of the Commission and the Executive Secretariat of Chile Solidario.
**ANNEX 3: “PATH” AND THE FORTHCOMING “STEP-TO-WORK” PROGRAM IN JAMAICA**

The PATH Program replaced three (effectively four, considering the old food stamps program was effectively bifurcated) programs run by two ministries, with one program. Although Jamaica has made significant gains in reducing poverty with a marked decline in poverty from 30 percent in 1989 to 16 percent in 2004, inadequate coverage is persist while the social protection system is unsustainable. Launched in 2002, PATH has become the country’s flagship social assistance program providing cash transfers to thousands of beneficiaries.

The PATH consolidates several overlapping administrative systems into one central system with standardized poverty indicators. The new system allows administrators to provide better service to more beneficiaries while reducing administrative costs by 10 - 30 percent according to PATH administrators (Mathematica). Overall, PATH has also been successful in targeting its benefits to the poorest households with 58% of benefits going to the poorest quintile of the population; a better performance than other social program in Jamaica in reaching the poorest; it also compares very favorably with similar programs in Brazil, Chile and Mexico.

As part of the ongoing social safety net reforms, an inter-agency Steering Committee was commissioned by the Planning Institute of Jamaica (PIOJ) in 2007 to develop a Steps-to-Work Program to promote the economic self-sufficiency of poor households, including those in the PATH beneficiary households which comprise the majority of welfare recipients; enabling youth and adults from poor families (especially those in the PATH) to have better access to the labor market. The Steps-to-Work program aims to engage working-age members of PATH households through a voluntary basis, in a set of initiatives aimed at greater “employability” (or job readiness), skills and competencies building, job matching, and business development.

Experience in Chile and Brazil suggests that efforts to link (“bridge”) beneficiaries of CCT programs to other complementary services can be an effective way to lift them out of poverty.

The program, to be piloted by the Ministry of Labor and Social Security (MLSS) for a period of two years beginning 2008 and will draw on the relevant interventions by other agencies including: HEART/National Training Agency, Jamaica Foundation for Lifelong Learning, National Youth Service, National Center for Youth Development, Early Childhood Commission, and Jamaica Social Investment Fund to provide in a structured manner, job search assistance and labor market intermediation, remedial education, skills and competencies training, on-the-job training and apprenticeship, business development, micro-enterprise support, and care support services to meet poor working families’ needs. Steps-to-Work will be assessed at the end of the piloting period and if effective, the Program could be scaled up to serve the entire PATH working age adult population.

The MLSS will have overall project execution responsibility and will be the implementing agency for the PATH and Steps-to-Work components. In terms of other initiatives concurrent with PATH, the Ministry of Finance and Public Services (MFPS) will be the implementing agency for pension reform and the PIOJ will implement develop a Social Protection Strategy.
El Salvador’s *Red Solidaria* program is an integrated social protection program that combines traditional demand-side conditional cash transfer (CCT) interventions with investments to strengthen the supply of education and health services in poor areas, citizen “registration” to enhance people’s legal access to basic services, and support for small-scale productive projects in the country’s poorest rural areas. Despite consistent growth in the 1990s and early 2000s, many poor Salvadorans were not able to benefit from the broad socio-economic progress due to low levels of human capital; the incomes of the poorest 20 percent grew very little and access to social protection services remained limited. To help strengthen the ability of the poor to take better advantage of the country’s development, the Red Solidaria focuses on the poorest 100 municipalities, providing comprehensive support to poor families, focused primarily but not solely on developing the human capital and capabilities of the poor. The program’s main objective is to improve the living conditions of families in extreme poverty (with an emphasis on rural areas), by helping to strengthen household demand for investments in human capital, by improving the network of basic services, through economic development initiatives and microfinance. Specific activities seek to mitigate extreme poverty and hunger and to reduce malnutrition rates among children less than 5 years old; achieve universal primary education; reduce infant mortality, and promote gender equity.

*Red Solidaria* is designed to be an integrated, multi-sectoral strategy that addresses both demand- and supply-side issues simultaneously. The program has three main prongs: (i) Family Solidarity Network; (ii) Network of Basic Services; and (iii) Family Sustainability Network.

- **Prong 1:** Family Solidarity Network is a conditional cash transfers (CCT), paid to the mother of the family, in return for fulfillment of “co-responsibilities” (sending school-age children to school, completing some preventive health and nutrition measures, and attend training).

- **Prong 2:** Network of Basic Services, complements and enhances the efficacy of CCT program by strengthening basic education, health, and nutritional services. It includes investments in electricity, potable water and sanitation facilities, and in strategic infrastructure.

- **Prong 3:** Family Sustainability Network: consists of small scale productive projects and micro-credit programs to support poor agricultural producers in 100 municipalities that seek to increase their economic productivity and incomes, diversify their incomes sources, and improve their economic management.

A critical feature of the *Red Solidaria* program has been that the Government of El Salvador has used the program as a vehicle for better “articulating” and coordinating its social protection and poverty reduction policies. To facilitate this, the program has been coordinated out of the Technical Secretariat of the Presidency, with strong cross-sectoral links to the different responsible ministries and agencies, including the ministries of education, health, agriculture, and water and public works, as well as El Salvador’s social fund (FISDL) and the civil registry, which provides legal identification and documentation (see organizational chart, below). Through high-level political support and coordination, the *Red Solidaria* program has helped
facilitate the re-prioritization and alignment of public strategies and investments in education, health, water, and local development around the Government’s commitment to effective poverty reduction. Specifically, this high level coordination has helped to ensure that supply-side investments are well coordinated with the development and expansion of the demand-side interventions via the CCT program.

Figure A4.1: Organizational Structure of the Red Solidaria

Implementing a Conditional Cash Transfer Program in a Decentralized Context

Brazil’s Bolsa Família Program (BFP) is the largest conditional cash transfer in the developing world. BFP was created in October 2003, through the merger of four pre-existing cash transfer programs – consolidating and inheriting their systems from four separate ministries – in an effort to improve efficiency and coherence of the social safety net and to scale up assistance to provide universal coverage of Brazil’s poor. The program provides monthly cash transfers to poor families. Like other conditional cash transfer programs, the BFP seeks to help: (a) reduce current poverty and inequality; and (b) break the inter-generational transmission of poverty by conditioning these transfers on beneficiary compliance with human capital requirements (e.g., school attendance, vaccines, and pre-natal visits). The Program also seeks to help empower BFP beneficiaries by linking them to complementary services.

BFP has been promoted as “unifying force” for social policy in Brazil: BFP consolidated programs in many ways: vertically by unifying transfer programs across levels of government) and horizontally by linking the BFP with complementary actions and services at all levels of government. Program evaluations highlight its success: results of the annual household survey (PNAD 2004) show that the BFP accounted for a significant share (20-25 percent) of Brazil’s recent (and impressive) reduction of inequality and 16 percent of the recent fall in extreme poverty. Today, with 11.1 million beneficiary families (about 46 million people), BFP covers virtually all of Brazil’s poor.

Overview of Institutional Roles under the BFP. An important feature of the BFP is its implementation in a highly decentralized context. While the BFP is managed by the Ministry of Social Development, numerous other agencies, both centralized and decentralized, are involved in various aspects of program implementation complemented with detailed manuals and regulations that spell out the specific roles and responsibilities of each agency. In terms of the main responsibilities, the Ministry of Social Development is the program’s policy and supervision agency. It is a relatively new ministry, and was created in January 2004 as a merger of the (former) Ministry of Social Assistance, the (former) Ministry of Food Security, and the Bolsa Familia Executive Secretariat.

Municipalities carry out many aspects of program implementation and are responsible for maintaining a local coordinator for the program, registering potential beneficiaries in the Cadastro Único, and monitoring health and education. Then, the Caixa Econômica Federal, has been contracted as the program’s operating agent that consolidates and manages the national registry database for social programs, assigns registered individuals the unique Social Identification Number (NIS), and makes payments. Other stakeholders include the Ministries of Health and Education which establish technical and operational guidelines regarding school attendance (Ministry of Education, MEC) and health conditionalities (Ministry of Health, MS), and consolidate conditionality compliance information. State Governments provide technical support and training to municipalities (particularly for smaller municipalities) and provide basic and complementary services, along with the municipalities. Finally, three controls agencies – the General Controllers Office (CGU), the Federal Audits Court (TCU), and the Office of the Public Prosecutor (MP) – are responsible for formal oversight and controls of the BFP.
BFP has expanded very rapidly due to Government high expectations for visible social progress. This expansion was facilitated by the fact that the BFP was launched as a reform program – and could build on the beneficiary base and registry of the pre-reform programs with much of the initial expansion attributed to the “migration” of beneficiaries from the pre-reform programs. Migration from pre-reform programs was conducted gradually and during this time, pre-migrant beneficiaries continued to receive the benefits of the former programs. In all, 63 percent of the total number of current beneficiaries was “migrants” from the pre-reform programs, with 37 percent representing new beneficiaries. From a budgetary perspective, the rapid expansion of the BFP represented a significant increase in social assistance expenditures compared with the overlapping coverage of its predecessors; spending on CCTs increased from 0.18 percent of GDP in 2002 (pre-reforms) to 0.36 percent in 2005. It is worth noting that while important in a social policy context, public spending on the BFP is dwarfed by public spending on Brazil’s regressive social insurance programs (i.e., social security and unemployment insurance).

Implementation of the BFP in a Decentralized Environment. While the BFP is managed at the federal level, many aspects of BFP implementation are carried out by Brazil’s 5,564 municipalities. In this regard, the BFP has developed numerous innovative mechanisms to promote incentives for quality implementation, many of which merit documentation for potential adaptation for other countries with decentralized federal structures.

Brazil’s decentralized context posed particular challenges – and opportunities – for the implementation of federal social programs. The inherent challenges include: (i) the Principal-Agent Dilemma for “Third Party Implementation” with the need to develop management mechanisms to oversee and promote quality in implementation by actors other than the Federal Government (namely 5,564 municipalities); (ii) Heterogeneous Quality of Implementation where the 5,564 municipalities vary significantly in their administrative and financial capacities to implement the BFP; and (iii) Interactions Between the BFP and Other Local Programs where given Brazil’s long history with municipal CCTs and other social programs, the BFP needs to avoid potential duplications with sub-national CCTs, promote cross-fertilization of local level innovations across municipalities (knowledge sharing), and promoting links between the BFP and other complementary services.

These challenges have spurred a development of a number of innovative performance-based management tools and incentives to strengthen the ability to successfully implement the BFP in a highly decentralized environment. The main tools and incentives, outlined in Table A5.1, below, provide both carrots and sticks to support productive collaboration between the federal and municipal authorities. For example, to address the principal-agent problem, formal joint management agreements have been established, which are signed by both MDS and municipalities. These agreements are used to clarify and formalize the respective roles and responsibilities of the different levels of government, and to establish minimum standards for program operation. Signature of these agreements is also a prerequisite for receipt of financial incentives. Performance-based financial incentives have also been put in place to create incentives for quality implementation of the program on the part of municipalities. Targeted training and capacity building programs are also available to selected municipalities to improve their quality of program implementation on the federal-municipality agreements. Incentives are also provided annual BFP “innovation awards” that have been designed to highlight and
disseminate good practice in program implementation at the municipal levels. Finally, in addition to formal agreements and a system of incentives, audit functions have been put in place to strengthen oversight, control and enforcement functions, at points in the system where there principal-agent issue could be important.

Table A5.1: Management Solutions to Implementation Challenges in a Decentralized Context

<table>
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<th>Challenges</th>
<th>Solutions</th>
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| Principal/agent dilemma for executing federal programs via autonomous municipalities | • Formal joint management agreements (Termos de Adesao) established and signed by MDS and all municipalities in order to:  
  • Formalize municipal implementation roles and responsibilities  
  • Establish minimum standards for program operation  
  • Signature of these agreements is also a prerequisite for receipt of financial incentives  
  • Audits under the oversight and controls network also cover the activities of municipalities  
| Heterogeneity in quality of municipal implementation due to differences in capacity | • Assessing municipal quality of implementation via a quantifiable “Index of Decentralized Management” (IGD) based on four key quality aspects.  
  • Providing performance-base financial incentives (administrative cost subsidies) for quality implementation based on IGD scores.  
  • Targeting training and capacity building to municipalities with low IGD scores.  
| Principal/agent dilemma for operation of payments and registry (Cadastro Único) database by the Caixa (operating agent). | • Performance-based contract for the Caixa with enforceable sanctions for inadequate quality standards. Audits under the oversight and controls network also cover the activities of the Caixa. |
| Potential duplication with sub-national CCTs                               | • Vertical integration of sub-national programs with the BFP via joint cooperation agreements (Termos de Cooperacao).  
| Need for mechanisms to promote cross fertilization and sharing of experiences and innovations across municipalities | • The annual “BFP Innovations Award” (Premio), which was started in 2006, is aimed to promote a sharing of municipal experiences, including field visits as part of the award process. Innovative experiences will also be disseminated and published as case studies. |

ANNEX 6: CHILE’S NEW PENSION REFORM

In December 2007, the Chilean Congress approved a law to reform the country’s pension system. The reform contains a broad set of measures, including the substitution of the existing targeted social assistance pension (PASIS) by a new solidarity pillar, extension of coverage to self-employed workers, norms to promote gender equity, and several norms aimed at improving the performance and supervision of the individual accounts pillar. It is an ambitious and comprehensive proposal that builds on the existing system.

The reform will create a new solidarity pillar that provides benefits to individuals in the lowest 60 percent of income distribution who have either not contributed to the system or who have low contribution levels. Those who have not contributed will receive a pension of 75,000 pesos (approximately 142 dollars) per month. Those who have low contribution levels would receive a supplementary payment, such that the sum of their self-financed pension and the supplement will be no less than Ch$75,000 and no more than Ch$200,000 (approximately 380 dollars) a month. The size of the supplementary payment declines with the size of pension that is self-financed such that workers who can self-finance a pension of 200,000 or more receive no supplement (see Box Figure, below). Until that point, however, the total pension increases as the self-financed pension does, so that workers receiving the supplement still have positive incentives to continued contributions.

The participation of self-employed workers in the existing pension system has been voluntary in Chile, and only about 5 percent of the self-employed have chosen to participate. The proposed reform will extend to same program benefits to the self-employed as to salaried workers, including the solidarity benefits. Over time, participation of self-employed workers will become mandatory, unless the person explicitly opts out. It is worth noting that even though Chile currently has low coverage of self-employed workers, as in other Latin American countries, it does not have as high levels of informality among the self employed (since most of them are registered and pay other taxes). As such, the enforcement challenges associated with
expanding coverage among the self-employed in Chile appears to be a relatively less difficult challenge than in other countries in the region.

The reform also seeks to promote reductions in the commissions charged by the pension fund administrators and to increase the return of the investments. Current commissions are considered high and are attributed to the lack of sufficient competition. The Superintendent of Pensions will annually organize auctions of new affiliates based on the level of the commission. The administrator that offers the lowest commission will get the new affiliates. The administrator will be required to keep the commission offered to new affiliates for at least 18 months and extend this rate to all its affiliates. The reform also seeks to raise the return of the funds by providing more flexibility to choose the composition of the portfolio. Special provisions also aim to promote greater gender equality and to create incentives for savings among younger workers.

The reform will also modify the institutional structure for managing and supervising the new system. Specifically, a new Social Security Institute (Instituto de Previsión Social) would be in charge of the system of solidarity pensions while a Superintendent of Pensions (Superintendencia de Pensiones) would supervise the whole system, including the Social Security Institute. In undertaking the reform, the Government of Chile envisions a transition period, with a progressive roll-out of the solidarity pillar, of five years. The fiscal implications of the reform, while not trivial, appear manageable. The presidential advisory commission overseeing reform of the social security system estimates that the new solidarity pillar will cost around one percent of GDP in 2025. The total fiscal cost of pensions in that year would thus grow from a projected 1.6 percent of GDP in the absence of the reform to 2.5 percent of GDP with reform.

The pension system envisioned in under the Chile reform represents a movement away from what is predominantly a single savings pillar to a more balanced multi-pillar – or multi-tier – system. The proposal strengthens and better integrates the assistance and redistributive components with the individual savings component of the system. It improves the capacity of the pension program to protect the less fortunate, without neglecting incentives and avoiding strong fiscal impacts. The proposal also represents a valuable contribution in terms of the policymaking process. For example, there were extensive consultations with stakeholders conducted by the commission appointed by the Government to develop the preliminary set of proposals. In addition, the Government chose to build its reforms on the existing system. The result is a balanced project that improves the existing system without disregarding the achievements made under previous reforms.
Box A5.1: Documents produced by the World Bank as part of the NLTA to the Government

This box contains a list of the technical notes and papers produced by the World Bank as part of the NLTA to the Government of Colombia. This volume contains the five papers and the Technical Note 3 (Social Protection). Technical Notes 1, 2, and 4 are available upon request.

Technical Notes:
1. Diagnosis of the constraints to income and employment generation among Colombia’s poor
2. The role of Education and Training in Income Generation for the Poor
3. Toward more Integrated Social Protection in Colombia: Emerging lessons from recent experiences in Latin America
4. Review of international experiences in access to irrigation, land, technical assistance, and entrepreneurial capacity

Papers:
1. Tendencias recientes en la creación de empleo en el sector rural en Colombia (Fedesarrollo)
2. Integrating the Poor into labor markets. Policy Recommendations for Colombia (Maria Laura Sanchez – Puerta and Olga Susana Puerto)
3. Oportunidades, desafíos y barreras de la movilidad laboral en Colombia: reflexiones para la población en pobreza extrema y moderada (Fedesarrollo)
4. Experiencias de servicios de apoyo a emprendimientos y microempresas de hogares pobres: bases para el diseño de un programa en Colombia. (Miguel Cabal)
5. Intermediación laboral como mecanismo de apoyo a grupos vulnerables (Juan Carlos Guataqui)