COLOMBIA: REFORMING THE SOCIAL SAFETY NET

Laura B. Rawlings

The Economic Crisis

In 1999, Colombia experienced its most severe recession in 70 years, fueled by unsustainable growth in government spending beginning in the early 1990s and external macroeconomic shocks in the late 1990s. Compounding the economic downturn, Colombia’s internal conflict intensified, hundreds of thousands of people were displaced, and violence and insecurity increased. The social consequences included a doubling of the historical rate of unemployment in the late 1990s, a continued rise in inequality, and a dramatic increase in poverty that reversed a decade of progress in poverty reduction.

Historically, Colombia’s “safety nets” were economic growth and a now unsustainable expansion of social services, notably in health, education, and pensions. Social assistance (SA) was not included in the dramatic social sector reforms of the 1990s, implying that the social safety net did not benefit from increased spending, decentralization and the strategic prioritization afforded to other social sector areas. SA remains under-funded compared to national demands and international norms (Box 1). Furthermore, the SA programs that could have provided a safety net during the crisis were hampered by structural constraints, including poor poverty targeting in certain programs, institutional inflexibility, and unfocused mandates.

The Government of Colombia asked the World Bank and Inter-American Development Bank (IDB) to help craft and finance a response to the crisis. As part of this effort, Colombia’s social safety net was reviewed and a number of steps taken, including: (i) rapid crafting of a short-term emergency safety net investment program called the Social Support Network (Red de Apoyo Social, RAS); (ii) a poverty assessment and a social safety net assessment; and (iii) implementation of two social sector adjustment operations focused on medium term reforms of the social safety net, health and education systems.

The Colombia Social Safety Net Assessment included: (i) a risk and vulnerability assessment based on the analysis of new and existing household survey data as well as a rapid qualitative study and (ii) an institutional analysis of Colombia’s new and existing federal social assistance programs. With the Colombia Poverty Assessment, this analytical work provided an empirical basis and a participatory process for outlining priorities for reforming the social protection system.

Vulnerable Groups and Risk Management

Despite a modest economic recovery, poverty, inequality and key social indicators continue to deteriorate, suggesting that the shock to income and human capital is longer-term than the macroeconomic effects of the recession. Quantitative and qualitative analysis confirm that certain groups remained highly vulnerable and in need of attention (see Table A, back page):

Box 1 - International Comparisons

Colombia’s level of social assistance spending at 0.6 percent of GDP is very low compared to countries at a similar stage of development. Each of nine Latin America and Caribbean region countries included in a recent social protection expenditure review devotes a higher share of GDP to social assistance, including Argentina (0.9 percent), Mexico (1.1 percent), Peru (1.4 percent), Uruguay (3.4 percent) and Venezuela (1 percent).

Source: Dulitsky, Gragnaloti, and Lindert 2001
• Children and adolescents are the main age-specific vulnerable groups who should benefit from a reformed safety net. Preschool children are the age group most prone to poverty: 70 and 90 percent in urban and rural areas, respectively, are under the poverty line (Colombia Poverty Report, 2001). Roughly half of all Colombian children have not been vaccinated against basic communicable diseases, a decrease in coverage of 10 percent in 5 years (Profamilia 1995, 2000). Adolescents are particularly vulnerable to unemployment. Male adolescents represent a disproportionate share of perpetrators and victims of crime and violence. Teen pregnancy has increased.

• People displaced by Colombia’s internal conflict are another key vulnerable group, lacking access to assets and social services, notably education and housing. People in conflict areas also need attention.

• As a cross cutting challenge, the labor market plays a critical role in determining vulnerability. Facilitating access to employment—particularly formal sector employment—is an effective, but elusive, poverty-reduction strategy.

The qualitative study of risk and vulnerability revealed a sophisticated knowledge of the complex challenges facing Colombian society by focus group participants. Participants uniformly assessed the crisis as multidimensional, involving political, economic, and social factors. They attributed their rising vulnerability to the economic recession and to larger structural problems, such as the drop in international prices for coffee and other commodities, and the way the break-up of local drug-cartels and corresponding money laundering activities (mainly in construction) had contributed to rising unemployment.

Focus groups highlighted the lack of social safety nets and exclusion from benefits which especially affects children and adolescents. Migration, typically from rural to urban areas, was also a key issue, as it increases competition for scarce jobs and overburdens social services in receptor municipalities. Economic insecurity—which emerged as paramount for all groups—was perceived as long-lasting by many groups.

Both the quantitative and qualitative work reveal that households use three strategies to manage income risks presented by the recent economic crisis: (i) mobilizing available labor; (ii) reducing and diversifying consumption; and (iii) using available physical assets, notably housing. These strategies can have negative consequences, such as reduced consumption, child labor, and illegal activities including prostitution, gang membership, drug trafficking, and extortion.

Colombia’s New Social Assistance Strategy

Colombia’s new Social Support Network (Red de Apoyo Social, RAS) comprises three principal programs promoting human development, employment, and job training. The Empleo en Acción community works program provides temporary employment to poor, unemployed, low-skilled workers in labor-intensive social and economic investment projects such as school expansion and road repair. A conditional cash subsidy program for poor families, Familias en Acción, aims to protect investments in children’s health, education, and nutrition by providing cash to families conditional on keeping children in school and providing them with basic preventive health care. Jovenes en Acción is a training–apprenticeship program for young adults that uses competitive bidding among private firms and public entities. Colombia is committed to administering these programs for four years (2001–04) and reviewing their results to assess whether they should continue as part of a broader safety net strategy.

These programs are a step toward establishing a countercyclical strategy that is targeted to vulnerable groups affected by the crisis—notably the unemployed and the young—with income support and cash transfers. The next steps are to evaluate the new RAS programs and integrate them into a coherent, reformed social safety net that will include a countercyclical component to address future crises with greater flexibility and effectiveness. If the RAS programs are not assessed as part of a broader safety net reform, they risk becoming another institutional layer within the diffuse collection of social assistance programs.

Institutional Analysis of Existing Programs

A key challenge facing the new administration is to make the social safety net an adaptable agent of social risk management in crisis and non-crisis periods, drawing on social assistance and social insurance programs. Although the new RAS safety net programs have provided social assistance for the main types of risks faced by vulnerable groups, the overall system is in need of reform.

Whereas funding for health and education rose from approximately 4 percent of GDP in the early 1990s to over 8 percent by 1996, central government budgeted expenditures on social assistance fluctuated around 1 percent of GDP during the first part of the 1990s, and fell to close to 0.6 percent by 2000. Compounding this problem, social assistance is the most procyclical component of social sector spending: a retrospective public social expenditure review reveals that for each peso fall in GDP, social assistance spending fell by nine pesos (CRECE 2001). The new RAS programs financed by international borrowing equivalent to 0.3 percent of GDP through 2004 was an important first step in establishing a counter-cyclical safety net in Colombia and raising social assistance spending. However, these programs took nearly two years to be designed and launched, remain temporary in nature, and would require sustainable financing to be maintained past 2004.

Colombia’s most important social assistance agencies, The Colombian Family Welfare Institute (Instituto Colombiano
The Policy Recommendations almost nonexistent. Too few resources are available to fill gaps in safety net for key vulnerable groups (e.g., pre-school children, the elderly poor and the internally displaced). The ICBF and RSS management of social public expenditures is complicated by partial and inconsistent social sector budgetary data. There is no accepted definition for social spending or social assistance in the national income accounts or in the budget. Budgetary data are partial, and different sources report markedly different levels of spending on specific programs; most data are available only on an institutional basis and not by program (Alesina 2000). This lack of transparency has complicated effective management of social sector spending, particularly for SA programs.

Coverage and targeting are also a problem. ICBF estimates that only 13 percent of children in the poorest two deciles are reached by their two main early childhood development programs; coverage estimates derived from the 1997 Encuesta de Calidad de Vida national household survey are even lower. Poor poverty targeting has led to a safety net “for the poor, but not the poorest.” Existing social programs are primarily designed for formal sector workers and not for the poorest who lack formal affiliation in the labor market. Redistributive social assistance programs are limited.

Finally, basic monitoring data on the numbers of program beneficiaries and budgets are often either lacking or unreliable, complicating simple estimates of unit costs and reviews of program efficiency. Impact evaluation results are almost nonexistent.

Policy Recommendations

The Colombia Social Safety Net Assessment put forward a series of recommendations, developed through extensive analysis and consultation with government and civil society. A reformed, better funded social risk management system would improve Colombia’s ability to address present vulnerabilities and the negative consequences of future shocks. The existing system needs technical reforms, including updating the SISBEN proxy-means testing system, evaluating the impact of the main social protection programs, and more transparent national accounting. Also, the quality and coverage of key programs should be improved for better early childhood development, support for the elderly poor, and assistance for displaced persons. Additional analysis of social insurance programs (pensions, health and unemployment) was also proposed.

Because the current fiscal constraints make it unrealistic to think of fresh, sustainable sources of funding for social assistance, the proposed reforms are focused on reallocation and cost recovery. If the RAS programs are included, Colombia now has programs for addressing the principal risks faced by each of the main age groups, and high risk groups in special circumstances, so the report found no compelling reason to create new social assistance programs. Rather, the assessment presents options for better structuring the system of existing programs, and for addressing the critical relationship with social insurance institutions.

Increased central allocations for social protection to 1 percent of Gross Domestic Product (GDP) could be accomplished by reallocating resources from less effective and unfocused programs for the unemployed in the formal sector to programs with effective targeting of vulnerable groups. Also, a countercyclical strategy that accumulates funds during periods of growth and draws them down during times of recession would improve the social safety net’s effectiveness in meeting the needs of the transient vulnerable during crisis periods.

Impact of the Assessment

The main impact of the Colombia Social Safety Net Assessment was substantial reform of Colombia’s social safety net. Combined with the Bank and IDB lending operations and the Poverty Assessment, it helped establish the three RAS emergency safety net programs for vulnerable people hit by the recent recession (a conditional cash transfer program, a workfare program, a youth training program). The analysis supported the Government’s developing legislation for a counter-cyclical fund to finance future safety net operations. Reforms in the proxy-means testing system were promoted, and successfully used to target the poor for selected social assistance and insurance programs. Finally, regular monitoring and evaluation of social programs is now part of a renewed focus on results-based management of the system.

About the Author

Laura Rawlings is a Senior Monitoring & Evaluation Specialist with the Social Protection Unit of the Human Development Department in the Bank’s Latin America and the Caribbean Region.

References


Table A. Social Risks and Social Protection Programs in Colombia, 2000

<table>
<thead>
<tr>
<th>Group/Risk Indicators</th>
<th>No. Affected</th>
<th>Percentage</th>
<th>Social Protection Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 0-6</td>
<td>Population = 4,873,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stunted development</td>
<td>657,000</td>
<td>13.5%</td>
<td>(E) ICBF school feeding; formal day-care informal day-care (N) RAS Familias en Acción conditional cash transfer (health and nutrition grant) (SI) ISS health insurance (contributory and subsidized regimes)</td>
</tr>
<tr>
<td>Limited early childhood development</td>
<td>Not attending: 3,562,000</td>
<td>Not attending: 54%</td>
<td></td>
</tr>
<tr>
<td>Age 7-11</td>
<td>Population = 5,171,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low human capital development</td>
<td>Not enrolled: 707,000</td>
<td>Enrolled: 83.6%</td>
<td>(N) RAS Familias en Acción conditional cash transfer (education grant) (SI) ISS health insurance (contributory and subsidized regimes)</td>
</tr>
<tr>
<td>Age 12-18</td>
<td>Population = 6,059,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low human capital development</td>
<td>Not enrolled: 1,901,000</td>
<td>Enrolled: 62.8%</td>
<td>(E) PACES voucher program, but being phased out (N) RAS Familias en Acción conditional cash transfer (education grant) (SI) ISS health insurance (contributory and subsidized regimes)</td>
</tr>
<tr>
<td>Age 19-64</td>
<td>Population = 22,261,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low income</td>
<td>680,000</td>
<td>13.3%</td>
<td>(N) RAS Jovenes en Acción youth training (N) RAS Empleo en Acción workfare (SI) ISS health insurance (contributory and subsidized regimes)</td>
</tr>
<tr>
<td>Age 65+</td>
<td>Population = 2,452,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low income</td>
<td>2,705,000</td>
<td>15.8%</td>
<td>(E) RSS Revivir (SI) Pension system for formal sector employees</td>
</tr>
<tr>
<td>General Population</td>
<td>Population = 42.3 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor health</td>
<td>19,000,000</td>
<td>47% uninsured</td>
<td>(E) Cajas de Compensación development funds (E) Utilities subsidies (E) INURBE rural housing programs (E) RSS program for displaced (SI) ISS health insurance (contributory and subsidized regimes)</td>
</tr>
<tr>
<td>Low-quality housing</td>
<td>5,836,000</td>
<td>14.3%</td>
<td></td>
</tr>
<tr>
<td>Violence and displacement</td>
<td>400,000 - 1.9 million</td>
<td>1.5%</td>
<td></td>
</tr>
</tbody>
</table>

Note: This Table covers the principal federal social protection programs. Unless otherwise noted, estimates were carried out by Departamento Nacional de Planeación’s DDS and SES divisions using Encuesta Nacional de Hogares data from September 2000. **(E): Existing Social Assistance; (N): New Social Assistance; (SI): Social Insurance**