A regular series of notes highlighting recent lessons emerging from the operational and analytical program of the World Bank’s Latin America and Caribbean Region

PROTECTING THE POOR THROUGH PROGRAMMATIC ADJUSTMENT LENDING IN PERU, BRAZIL AND COLOMBIA

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Social reforms typically require long-term, incremental policy changes. Traditional World Bank (WB) funding for discrete investments or technical assistance often had little broad policy impact. Even sector adjustment loans tended to be too inflexible and short-term to support ongoing social reforms. Some countries needed new kinds of financial and technical assistance to sustain reforms during crisis and beyond.

Recognizing the need for steady, incremental reforms combined with institution building, the WB introduced Programmatic Structural Adjustment Loans/Credits (PSAL/PSAC) in 1998. In the social arena, this instrument has provided fast-disbursing, flexible, multi-year support to help countries preserve their social safety nets during crises and strengthen them in the long run through capacity-building and institutional reforms. In the Latin America and the Caribbean Region, loans to Peru, Brazil, and Colombia illustrate how the new multi-sector social reform efforts have worked in practice.

The Peru Programmatic Social Reform Loan (PSRL)

Peru’s PSRL in early 2001 was the first programmatic structural adjustment loan to focus entirely on social reforms. Besides supporting education, health, and social protection programs, it brought key players from government ministries together with multidisciplinary World Bank teams to help address social aspects of public spending, increase social program transparency and empower the poor to participate in setting public policy.

The loan was conceived under difficult circumstances. A corruption scandal had led to the downfall of President Alberto Fujimori’s regime at the end of 2000. Political uncertainty fed a severe economic downturn that swelled the federal deficit to 3 percent of GDP in 1999. The country needed a dramatic, quick fiscal adjustment—rationalizing the tax system while significantly cutting expenditures. A transition government, whose mandate was to arrange clean and orderly elections within six to eight months and lay the groundwork for economic recovery, sought WB assistance in addressing the short-term fiscal problems and initiating medium-term social reforms extending beyond the government’s short tenure.

The PSRL, with flexible, medium-term benchmarks and triggers for future financing, was ideal to meet the government’s diverse requirements. Three phases were planned, each financed by a single-tranche loan of $100 million. PSRL I, approved in June 2001 (the end of the transition government’s term), focused on protecting social programs critical to the poor during the difficult fiscal and political transition. Protected programs included basic and secondary education, public health, and basic infrastructure such as rural roads, water supply and sanitation services. The

Table 1 - Investment & Adjustment Lending

The Bank has two basic types of lending instruments: investment loans and adjustment loans. Investment loans have a long-term focus (5 to 10 years), and finance goods, works, and services in support of economic and social development projects in a broad range of sectors. Adjustment loans have a short-term focus (1 to 3 years), and provide quick-disbursing external financing to support policy and institutional reforms. Both investment and adjustment loans are used flexibly to suit a range of purposes, and are occasionally used together in hybrid operations.
government established a budget mechanism that protected an allocation of about $1 billion (1.9 percent of GDP) for the selected social programs despite fluctuations in revenue. Anti-cyclical budgeting for social expenditures is important to protect the poor, but was atypical in Peru until recently.

PSRL I also laid the groundwork for administrative reforms, established benchmarks and financing triggers, and tremendously helped frame a dialogue about social policy with the incoming Toledo administration. It supported improvements in Peru’s integrated financial administration system, development of targeting mechanisms for poverty-alleviation programs, and monitoring and evaluation of selected social programs. The government also agreed to take steps to consolidate duplicative food supplementation programs.

PSRL II built on the earlier loan, encouraging increased social spending, rationalization and enhanced transparency, and refinements to Peru’s social safety net for the poor. Specific targets were set for public expenditures on selected social programs, and a counter-cyclical public works program launched. PSRL II advanced the establishment of a social accountability system that promotes citizen participation in supervising and monitoring public sector performance. And it backed initiation of a participatory budget-preparation process for some regional departments.

PSRL II continued the previous loans in some ways, with three important new facets: it linked structural adjustments with medium-term results indicators, many related to the Millennium Development Goals; it facilitated transition from short-term budget protection for social programs to a medium-term public expenditure shift to benefit the poor; and supported a consistent program of social reforms complemented closely by technical assistance and programmatic investment loans in health and education. The government met the agreed triggers and the Board approved the PSRL II $100 million loan in September 2002. The WB and Peruvian government are currently reviewing progress toward the agreed reforms and benchmarks and triggers for PSRL III and are considering a PSRL IV to help in the decentralization of social services in Peru.

The Brazil Programmatic Sector Reform Loan

The Brazil Human Development Programmatic Sector Reform Loan (HD PSRL) was prepared during political and economic upheaval. Facing an unusually adverse external economic environment, the new government needed to act quickly to build credibility and improve Brazil’s access to international markets. Also, the government wanted to prevent market volatility from damaging prospects for economic growth and social equity. President Luiz Inácio Lula da Silva’s administration, which took office in January 2003, saw the WB loan as a way to demonstrate that the country was making prudent choices regarding fiscal, monetary and social policy while building on past reforms that had improved delivery of social services.

Brazil had made great strides toward strengthening its social programs. From 1999 to 2002, it moved aggressively to decentralize service delivery, place a floor under basic education and health spending, reduce inequalities among states and municipalities, and develop mechanisms to target assistance to poor communities. The WB supported those efforts with a Special Sector Adjustment Loan in 1999, which selected 22 core human development programs for protection and evaluation. The first PSRL supported a subset of these programs, and others that had proved effective during the country’s political transition. A complementary companion Technical Assistance Loan (under preparation), will help Brazil build a base of knowledge needed to advance the reform agenda and improve basic social programs and outcomes.

The new HD PSRL continues support for Brazil’s social policy innovations, and the new administration’s commitment to continue, improve and expand them, and helps protect budgets and monitoring of social policies during transitions and instability. It is part of a long-term strategy to help the country improve targeting, resource allocation, and human development spending efficiency. Putting special emphasis on results-oriented policies, it focused on strengthening governance by clarifying institutional roles, establishing transparent financing mechanisms, and developing evaluation tools and communications systems. It was innovative in pursuing a multisector strategy with crosscutting themes and strongly integrated outcomes. And it was developed quickly, in cooperation with outgoing and incoming administrations, because of the need for prompt action.

Social Sector Operations in Colombia

The WB also has used a programmatic approach in Colombia, developing with the government a series of investment and adjustment operations addressing the social consequences of economic crisis and providing a basis for continued reforms in the social sectors.

In 1999 Colombia experienced its largest recession in 70 years. GDP fell 4.3 percent, and public sector debt rose to nearly 50 percent of GDP by 2000. The social consequences
were severe: the unemployment rate doubled, inequality increased, and poverty rose dramatically. Urban poverty increased 7 percentage points between 1995 and 1999, reversing a decade of progress. Internal conflict intensified, hundreds of thousands of people were displaced, and violence and insecurity increased.

The WB and Inter-American Development Bank (IDB) worked with President Andres Pastrana’s administration to respond to the crisis with a coordinated set of short-term, emergency safety net operations to protect vulnerable groups. These included a temporary employment program (the Community Works and Employment Project) and a conditional cash transfer program (the Human Capital Protection Project) for eligible poor families.

The Social Sector Adjustment Loan (SSAL) was prepared at the end of President Pastrana’s administration, when the peace process had collapsed and economic and social crisis was deepening. In coordination with the IDB and building on research done collaboratively with Colombia’s government, the loan had three overarching objectives, to:

- build a foundation for consolidating critical education, health, and social protection reforms and continuing progress toward social equity and efficiency;
- encourage the new administration to continue the reforms;
- provide financing and support for social measures to complement fiscal reforms under a WB-supported Structural Fiscal Adjustment Loan.

The improvements supported were achieved with little or no additional budget allocations, a key consideration given fiscal constraints. Specific policy reforms supported included:

- Increased transparency and citizen oversight of social programs through independent impact and performance evaluations, and expanded public monitoring of the government’s main social programs;
- Development of a comprehensive social risk management strategy to improve Colombia’s ability to assist the poor during crises and strengthen social assistance and insurance for the chronically poor during normal times;
- Improvements in social services for vulnerable Colombians. People displaced by violence gained better access to state-supported social programs, the size and characteristics of this group were analyzed, and quality and coverage of early childhood development services were improved.
- Expanded and more efficient health insurance coverage improved the health status of poor Colombians, and reduced financial risks associated with illness.
- The public education regulatory framework was improved. To improve children’s educational status through increased efficiency and equity in resource allocation, the program supported a new law basing resource transfers on poverty levels and student numbers and introducing alternatives to traditional public education, including contracting out to the private sector and providing scholarships to high performing economically poor students.

The SSAL was approved in August 2002, just before Colombia’s current president, Alvaro Uribe was inaugurated. It bridged the two governments, and facilitated a smooth transition, providing timely financial support, ensuring continuity in Colombia’s social sector development, and giving the newly elected government an opportunity to commit itself to key social reforms.

Today, the new government is expanding and deepening reforms in education, health, and social protection along the lines envisioned in the loan. These include a new labor reform law and establishing a Ministry of Social Protection, merging health, labor, and social assistance agencies. Both are key elements of a more efficient, equitable, and coherent social risk management system. Two new Programmatic Labor Reform loans reflect the government’s strong commitment to a medium-term reform agenda. Over the next four years, these loans will support sustained implementation of an integrated social risk management system and related reforms in education, health, and labor.

**Continuing Challenges**

To ensure that programs are measurably increasing people’s welfare and reducing poverty, World Bank teams worked with government counterparts to identify indicators of social progress, determine which could serve as benchmarks for assessing the program impact, and agree on minimum outcomes to be achieved to trigger future lending. Determining indicators, benchmarks and triggers is especially important and challenging in programmatic lending, which often addresses systemic issues and serves more diffuse groups of beneficiaries than project loans. Existing data
collection and information systems provide useful information for this task. But difficult technical and conceptual issues remain, including with data quality. In Brazil, a Technical Assistance Loan is helping improve data availability and quality.

Peru, Brazil, and Colombia’s experiences with social sector programmatic structural adjustment loans show that achieving reform objectives requires years of gradual progress in adjusting and building institutional capacities. Many reforms, such as those involving civil service or pensions, need a long time to build consensus. A close partnership among government (finance and sectoral ministries and agencies), other constituents, and the World Bank is crucial to ensure that reform agendas move forward.

The social programmatic loans have placed social issues prominently on agendas of finance ministries—an important achievement. A survey of government officials in Peru indicated that the loans have raised the profile of social issues and emphasized that social reforms require long-term policy changes, facilitated by consensus building and phased availability of program loan funding.

While challenges remain, the three countries are constructing systems that increase access of the poor and disadvantaged to basic education, health, and social protection programs. Their social programs are being strengthened by increased accountability, better coordination of state and municipal policies, greater transparency in budget planning procedures, and increased consumer voice. Continuing improvements and development of counter-cyclical policies and programs will better position these countries to deal with crises, enhance poor people’s access to social services, and make efficient use of scarce fiscal resources allocated to human capital development.

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Volatility, Risk, and Innovation: Social Protection in Latin America and the Caribbean

Spectrum Fall 2003

This regional focus takes us to the birthplace of social funds, one of the first crisis-response tools forged in the social protection toolkit 15 years ago in Bolivia. What’s more, it gives an overview of how approaches to social protection have evolved in this diverse, dynamic region to include such tools as workfare, conditional cash transfers (which also had their genesis in the region), and multisector reform programs. This edition also explores new analytical approaches, describes new programs and emerging priorities, and grapples with the continuing challenge of finding effective ways to improve the capacity of individuals, households, and communities to manage risk.

We believe social protection tools and strategies have a key role to play in reducing poverty and improving human development. They address the needs of vulnerable populations, generate tools for risk management through social insurance, and provide a springboard for poor people to improve their lives in the face of crisis. As important, the multisector, dynamic nature of social protection allows for integrated approaches to key areas of development, including health, education, finance, and infrastructure. Finding such synergies is crucial if we are to address extreme poverty and hunger, achieve universal primary school completion, and tackle a multitude of health challenges, all key elements of the Millennium Development Goals endorsed by the international community in 2000.

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