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Colombia Social Safety Net Assessment

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ACRONYMS AND ABBREVIATIONS

CAIP	- Centros de Atención Integral al Preescolar (<i>Centers of Integrated Care for Pre-School Children</i>)
CCF	- Cajas de Compensación Familiar (<i>Compensation Associations</i>)
CICADEP	- Centro Internacional de Capacitación y Desarrollo Agropecuario (<i>International Center for Agricultural Training and Development</i>)
CIE	- Centro de Información para el Empleo (<i>Employment Information Center</i>)
CONPES	- Consejo Nacional de Política Económica y Social (<i>National Council for Economic and Social Policy</i>)
DABS	- Departamento Administrativo de Bienestar Social (<i>Administrative Department of Social Welfare</i>)
DANE	- Departamento Administrativo Nacional de Estadística (<i>National Administrative Department of Statistics</i>)
DAPRE	- Departamento Administrativo de la Presidencia de la República (<i>Administrative Department of the President of the Republic</i>)
DHS	- Demographic and Health Survey
DNP	- Departamento Nacional de Planeación (<i>National Planning Department</i>)
DRI	- Desarrollo Rural Integrado (<i>Integrated Rural Development Plan</i>)
EDS	- Encuesta Nacional de Demografía y Salud (<i>National Demographic and Health Survey</i>)
EU	- European Union
FAMI	- Familia, Mujer e Infancia (<i>Family, Women and Infancy</i>)
FARC	- Fuerzas Armadas Revolucionarias de Colombia (<i>Colombian Revolutionary Armed Forces</i>)
FIP	- Fondo de Inversión para la Paz (<i>Peace Investment Fund</i>)
FSI	- Fondo de Inversión Social (<i>Social Investment Fund</i>)
FSP	- Fondo Solidaridad Pensional (<i>Pension Solidarity Fund</i>)
GOC	- Government of Colombia
HCB	- Hogares Comunitarios de Bienestar (<i>Community Welfare Daycare Centers</i>)
ICBF	- Instituto Colombiano de Bienestar Familiar (<i>Colombian Institute for Family Welfare</i>)
ICV	- Índice de Condiciones de Vida (<i>Conditions of Life Index</i>)
IDIPROM	- Institución para la Protección a la Niñez y la Juventud (<i>Institution for the Protection of Childhood and Youth</i>)
IDP	- Internally Displaced Population
INCORA	- Instituto Colombiano para la Reforma Agraria (<i>Colombian Institute for Agrarian Reform</i>)
INURBE	- Instituto Nacional de Vivienda de Interés Social y Reforma Urbana (<i>National Institute of Social Interest Housing and Urban Reform</i>)
ISS	- Instituto de Seguridad Social (<i>Social Security Institute</i>)
LIL	- Learning and Innovations Loans
M&E	- Monitoring & Evaluation
NBI	- Necesidades Básicas Insatisfechas (<i>Unsatisfied Basic Needs</i>)
NCU	- National Coordinating Unit
PACES	- Programa de Ampliación de la Cobertura de Educación Secundaria (<i>Program for Expanding Coverage of Secondary Education</i>)
PGN	- Presupuesto General de la Nación (<i>National Budget</i>)
PIAGAP	- Programa de Atención Integrada para la Población Adulta (<i>Program of Integrated Care for the Older Adult Population</i>)
RAS	- Red de Apoyo Social (<i>Social Safety Net</i>)
RSS	- Red de Solidaridad Social (<i>Social Solidarity Network</i>)
SSAL	- Social Sector Adjustment Loan
SCD	- SISBEN classification document
SENA	- Servicio Nacional de Aprendizaje (<i>National Training Service</i>)
SE	- Subsidios Educativos (<i>Education Subsidies</i>)
SF	- Subsidios Familiares (<i>Family Health and Nutrition Subsidies</i>)
SISBEN	- Sistema de Selección de Beneficiarios (<i>System of Beneficiary Selection</i>)

Vice President:	David de Ferranti
Country Management/Director:	Olivier Lafourcade
Sector Management/Director:	Ana-Maria Arriagada
Team Leader:	Laura B. Rawlings

Colombia Social Safety Net Assessment

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BACKGROUND PAPERS

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Executive Summary

The recent economic shock provided an incentive for carrying out the analysis of Colombia's safety net of national social assistance. In 1999 Colombia experienced its largest recession in 70 years with GDP falling by 4.3 percent. This situation was the culmination of unsustainable growth in central and local government spending beginning in the early 1990's combined with external macroeconomic shocks in the late 1990's. On the macroeconomic front, the combined public sector deficit rose from 3.8 percent of GDP in the mid-1990's to a high of 5.5 percent of GDP in 1999. On the social front, the historical rate of unemployment doubled during the late 1990's and urban poverty rose by 7 percentage points between 1995 and 1999. The economic recession was accompanied by an intensification of Colombia's internal conflict, the displacement of hundreds of thousands of people, and a general increase in violence and insecurity.

Even though economic growth recovered modestly in 2000, poverty and unemployment remain high and there has been a decline in some key human development indicators. Although the recent economic recession is not the only cause behind the deterioration of many of these indicators, it did exacerbate certain vulnerabilities and place severe fiscal constraints on the government's ability to address those vulnerabilities. It is clear that the deterioration in social indicators is more protracted than the economic recession and has left some groups in a highly vulnerable situation, notably young children, adolescents and the internally displaced population.

How did this situation occur? Colombia did not have an effective safety net in place capable of addressing the social consequences of the crisis. Colombia historically relied on economic growth as a social safety net and emphasized a now unsustainable expansion of social services, notably in health, education and pensions. The social assistance programs that could have been mobilized to provide a safety net during the crisis were limited by structural constraints including a lack of financing, institutional inflexibility, unfocused mandates, and poor targeting in several programs.

These deficiencies led to the introduction of the *Red de Apoyo Social* (Social Support Network, RAS) in 2000, which is based on three programs: workfare, conditional cash transfer and youth training. These programs have provided an important step forward in establishing a counter-cyclical strategy that is beginning to address immediate human development needs in the wake of the crisis, but it took almost two years to develop the programs, secure financing and implement a response and the counter-cyclical approach has yet to be institutionalized. The next step is to evaluate the new programs and to integrate them into a coherent, reformed social safety net that includes a counter-cyclical component designed to address future crises with required agility and effectiveness.

The goal of this analysis is to point out issues and recommend options for reform of the social safety net. The diagnostic provided in this report should be useful to: (i)

inform the Government of Colombia's safety net policy; (ii) foment public dialogue around key safety net issues; and (iii) provide strategic guidance for multilateral development institutions and donors seeking to support Colombia, particularly through the Social Sector Adjustment Loans (SSAL) presently under preparation.

To achieve these goals, this study addresses five key questions, each of which is the subject of a chapter in the report:

- **What motivates and guides the study?** The introduction in Chapter I reviews the particular Colombian context for the safety net study as well as the scope and conceptual framework of the analysis.
- **What can we learn about vulnerability from the recent crisis?** Chapter II explores which groups are in need of priority attention and why, and which social risk management strategies were employed by households to address the recent crisis.
- **What was the Government of Colombia's response to the crisis?** Chapter III describes the new social assistance programs that have been put in place as an answer to the crisis and explores these programs' long-run potential to address future shocks through their incorporation as a permanent feature of a restructured safety net.
- **What are the main characteristics of Colombia's pre-existing social assistance programs?** Chapter IV summarizes available information on the structure, cost, efficiency and effectiveness of Colombia's principal national social assistance programs.
- **What should be done to develop a coherent social safety net able to provide the Government of Colombia with adequate instruments to address key vulnerabilities during normal and crisis times?** Chapter V presents the main conclusions regarding which vulnerable groups are in need of attention and provides options and recommendations concerning specific reforms to the counter-cyclical and structural elements of the safety net, distinguishing between technical reforms that could be implemented immediately, reforms to individual programs and broader strategic reforms.

The following paragraphs summarize the main points from each of the five chapters.

ANALYZING SOCIAL SAFETY NETS IN COLOMBIA

The situation in Colombia today is unique compared to other periods in the country's history. First, Colombia is suffering from an unprecedented economic contraction that has been followed by a sharp and continuing deterioration of key social indicators, as outlined in Chapter II.

Second, Colombia is grappling with a severe fiscal imbalance that will require major reforms, notably to the pension program, before macroeconomic stability can be achieved. It is also clear that the Colombian government's ambitious reforms to promote decentralization and improve the country's social indicators introduced during the 1990s are currently unsustainable in light of the present fiscal crisis. Although Colombia has reached its IMF targets and has recently made important advances in the system of transfers to local governments, in the medium term fiscal solvency is

contingent upon reforming the country's state pension system. Tackling this issue along with the advances already made in the transfer system is a critical pre-requisite to addressing more specific social sector reform issues, including developing a coherent safety net. However, Colombia should take advantage of the ongoing social sector reform discussions to place the creation of a viable social safety net squarely within the ongoing negotiations.

Finally, any analysis of vulnerability and safety nets must take into account the complex and continuously changing socio-economic situation in Colombia exacerbated by the protracted internal conflict. While social safety nets always need to be designed to the particular needs of the country in question, this is especially true of Colombia since it is mired in a internal conflict that is unraveling the country's social fabric. The internal conflict that has developed over the past two decades, its strong link to drug cultivation and trafficking, the historical lack of a state presence in many parts of the country, and the general atmosphere of violence and impunity have been instrumental in fueling the country's dramatic socio-economic disruption and are key factors explaining the continued deterioration in social indicators. As the crisis of displaced persons makes clear, the government must devise effective responses to crises whose roots are both political and economic. Indeed, while it may be a while before Colombia has an economic contraction comparable to what it endured during 1998-99, it is likely that Colombia will face economic disruption due to the internal conflict. In crafting an appropriate safety net, this situation makes it critical to be prepared on two main fronts: (i) to be able to address not only the effects of future macro-economic shocks, but also the effects of internal strife; and (ii) to devise strategies to ensure the delivery of social services to populations affected by the internal conflict.

In sum, the continuing internal conflict combined with needed fiscal reforms implies that future multidimensional shocks are very likely in the near future, underscoring the need for attention to the reform of the social safety net today.

The present situation calls for supporting not only Colombia's macroeconomic stability, but also its institutional viability, by building on Colombia's strengths in the social sectors. A solid safety net reform could contribute to restoring faith in the state and its institutional apparatus, particularly if it is carried out by building upon Colombia's strengths in the social sectors – notable gains in health and education and the availability of day care centers in low-income neighborhoods.

This paper analyzes Colombia's safety net of national social assistance programs, using the recent economic shock as a case study for identifying areas of needed reform. We recognize the critical role of actors outside the central government and of social insurance programs in the social safety net, but a review of these aspects of the safety net was beyond the scope of the study. The focus on the recent crisis was selected in response to the Government of Colombia's interest in (i) addressing the immediate needs of vulnerable affected by the present economic situation and (ii) providing inputs into the design of a social safety that can be implemented counter-cyclically to cushion the poor and vulnerable from the negative effects of future crises. We used available cross-sectional household survey data and a rapid qualitative assessment of social

dimensions of the crisis as the basis for our demand-side assessment of risk and vulnerability; and the limited available information on costs, efficiency and effectiveness for the assessment of Colombia's safety net programs.

This report draws on the social risk management framework (World Bank 2001) for key terms and concepts. The social risk management framework is based on the idea that individuals, households, and communities are exposed to multiple risks from different sources, both natural and man-made, individual and covariant. Poor people are more exposed to risk and have less access to effective risk management arrangements than people who are better off. This vulnerability makes individuals risk-averse and less able to undertake more risky activities with higher payoffs. As a result, the poor have developed coping mechanisms that rely on self-protection (building up assets in good times, diversifying income sources), and the creation of family or community risk pooling strategies. Unfortunately, these coping strategies can be inefficient, leading to the permanent reduction in the human capital of the poor (for example, taking children out of school to work as a response to an income shock).

THE RECENT CRISIS AND VULNERABLE GROUPS

Today, Colombia is recovering from the effects of its most difficult economic period in over 60 years. GDP growth declined from an average of 3-4 percent during the first half of the 1990s to 0.6 percent in 1998 and -4.3 percent in 1999. While Colombia's two year recession in 1998-1999 was not nearly as severe as the economic crises that ravaged Asia, it was still a powerful jolt to a country that thought itself immune to such economic turmoil. A decade of poverty reduction was unexpectedly reversed by the crisis.

Although economic growth recovered in 2000, social indicators have not recovered, suggesting that the shock to income and human capital is of a longer-term nature than the macroeconomic effects of the recession. The crisis brought in new problems and exacerbated existing structural problems, with the combined impact still apparent in the rise in unemployment, the protracted increase in poverty, the erosion of the social fabric, and the rise in vulnerability.

Urban poverty rose dramatically between 1995 and 1999, reversing gains that had been made over the past decade. By 1999 urban poverty reached 55%, 7 percentage points higher than in 1995 and equivalent to 1988 levels. Extreme poverty in urban areas also increased between 1995 and 1999 from 10% to 14%, but without returning the 1988 level of 17%. Poverty rates in rural areas have remained essentially constant at close to 80% between 1988, 1995 and 1999. Rural extreme poverty declined by 11 percentage points between 1988 and 1995, but remained at 37% in 1999.

Unemployment rates are up significantly since the crisis, from 7.8% in 1995 to 16.6% in 2000. The highest rates are in urban areas (19%), among youth (37% for those 15-19 years old), women (23%) and the middle class (25% for those with secondary education). The crisis has also led to a large increase in the informal sector, which, combined with the high unemployment rates, underscores the rigidities in the Colombian labor market.

Those hit by the crisis – both the poor and the middle class – have employed a number of social risk management strategies to address the crisis. The main response of the poor to the crisis has been to reduce consumption and to mobilize available labor, including child labor. The results of the *Encuesta Social* reveal that households hit by an income shock are more likely to pull children out of school, thereby reducing human capital accumulation. Middle income groups have responded to the crisis by selling available assets and reducing consumption, notably by moving their children from private to public schools.

Housing ownership in Colombia is a self-insurance device used widely by the poor in addressing the uncertainty of labor income and unemployment in the recent crisis. In focus groups, individuals reported using their homes to set up small businesses, provide shelter to extended family members and rent floors and rooms to supplement income. The Colombia Poverty Report (Velez et al 2001) reveals that in urban areas people who do not own their own homes are more vulnerable to poverty (63% are poor versus 47% of home owners).

Children and adolescents are the main age-specific vulnerable groups in Colombia today requiring attention from a reformed safety net. Table A at the end of the Executive Summary presents an overview of key risks and social protection programs designed to address those risks. Pre-school and primary school aged children are facing important health and nutrition risks including a sharp decline in vaccination rates and an increase in the percentage of some diseases left untreated (like diarrhea), while youth aged 12-17 have been identified as exceptionally vulnerable due to their exposure to multiple aspects of violence and crime, both in rural and urban areas.

Internally displaced people, a result of Colombia's internal conflict, constitute another critically vulnerable group. The guerrillas' and paramilitaries' drug-related economic and military strength has led to a dramatic increase in violence, deaths, kidnappings, extortion and displacement, especially among the rural civilian population. There is considerable debate regarding the size and characteristics of the internally displaced population (IDP). The Government of Colombia estimates that there are currently 400,000 displaced people while other estimates put the number at close to 2 million. This population has been evicted from areas where they have been engaged in productive economic activities and relocated to urban slums where employment prospects are limited, access to social services constrained and violence and crime are rampant. Available data suggest that most of the displaced are women (56%) and children (55% are under 18), with limited skills and education. In their migration from rural to urban areas, they have abandoned their main asset – their land – and face barriers to accessing jobs and social services. They are concentrated in a few cities in Colombia, which has placed an added strain on limited municipal budgets. This situation has been compounded by a severe lack of financing for Colombia's main national strategy for the internally displaced people.

The internal conflict calls for addressing the needs of populations in conflict areas as well. Since the Government of Colombia has a limited presence in the areas where the guerrillas and paramilitaries are at their strongest, it is difficult to provide the resident

civilian population any substantial government social assistance. Addressing the needs of the populations in these areas calls for creativity, perhaps through building on successful partnerships with non-governmental organizations, to find approaches that would allow the state to function effectively in the provision of social services.

Looking beyond the vulnerabilities of specific groups to focus on households underscores the critical role of the labor market in determining vulnerability. Those households experiencing the largest increase in poverty during the recent recession were those with only self-employed workers or only non-labor income, whereas households composed entirely of wage -earners saw the smallest increase in poverty. Of particular note, unemployment of the household head is catastrophic for poverty risks; in urban areas poverty is 25 percentage points higher if the head of household used to work and is presently unemployed (Velez et al., 2001). Paralleling the findings from the survey data, focus group participants in both rural and urban areas ranked economic insecurity as their principal source of risk, followed closely by violence (González 2001).

THE GOVERNMENT RESPONSE TO THE CRISIS – THE *RED DE APOYO SOCIAL*

Colombia's main social assistance programs were ill-equipped to offer adequate protection to those most affected by the recent crisis. These deficiencies led to the introduction of a new short-term program, the *Red de Apoyo Social (Social Support Network, RAS)*, to mitigate the worst effects of the crisis. Implementation of the RAS programs began in 2001, and the programs are expected to reach full capacity by the end of the year. The RAS programs have appropriately targeted some key vulnerable groups affected by the crisis – notably the unemployed and the young – with income support and cash transfers appropriate to their needs. However, the program took almost two years to implement, underscoring the need for a reformed social safety net that would be able to respond more quickly to future crises.

The RAS safety net is composed of three principal programs promoting human development, employment, and job training. The *Empleo en Acción* community works program (formerly known as *Manos a la Obra*) aims to provide temporary employment to poor, unemployed, low-skilled workers by employing them 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 based on competitive bidding among private firms and public entities. Colombia has committed itself to administering these programs for four years (2001-2004) and to review the results of the impact evaluations at the projects' conclusion to assess the desirability of their continuation as part of a broader safety net strategy.

Notwithstanding the appropriateness of RAS as a short-term program, a strategic review of how it fits into a comprehensive safety net strategy is required since the long-term role of RAS needs to be considered. The effectiveness of the RAS programs will be assessed through strong monitoring and evaluation components designed as part

of each program. Pending the results of the impact evaluations, key strengths and weaknesses of each program's design in view of the program's suitability as part of a long-term safety net can already be derived.

- **The workfare program (*Empleo en Acción*) seems well designed to reach poor areas and intended beneficiaries, but it is unable to self-target effectively due to the legal obligation to pay minimum wages.** A key consideration in assessing the possible continuation of this program would be to find a way to eliminate the requirement that the program pay the minimum wage and benefits, since the present regulations prevent the program from adequately self-targeting.
- **The conditional cash transfer program (*Familias en Acción*) has the strong advantage of addressing a variety of risks –nutritional, health and educational – with a single flexible instrument, a cash subsidy. Its demand-side focus places solutions for addressing those risks in the hands of households directly affected by the crisis.** However, the program will need to be monitored closely to ensure that its administration is efficient and that the health and education systems are able to provide the supply-side services required to make the program effective. Furthermore, the present requirement forcing households to choose between receiving the nutrition subsidy and sending children to *Instituto Colombiano de Bienestar Familiar* (Colombian Institute for Family Welfare, ICBF) day care centers should be re-examined since they are not direct substitutes.
- **The youth training program (*Jovenes en Acción*) presents a social assistance alternative to the *Servicio Nacional de Aprendizaje* (National Training Service, SENA) training institute that does not have a social assistance mandate.** The fact that this new program is operating in parallel to SENA would need to be addressed if the youth training program is continued. One possibility would be to introduce the *Jovenes en Acción* as a substitute for the short courses presently offered by SENA since the new program's focus on targeting the poor and fostering competition for training provision are likely to make it a more responsive and appropriate safety net mechanism than the current SENA short courses.

To develop a comprehensive safety net strategy and system, a review of the RAS programs should encompass existing social assistance programs. In considering the RAS programs' viability as part of an integrated safety net, the following issues need to be considered:

- **RAS programs' performance needs to be judged against the performance of other programs in the social safety net, based on impact evaluations.** Impact evaluations and data on the efficiency of the main permanent social assistance programs should be carried out immediately so that the results are available at the same time as the RAS program evaluation results.
- **Financial support needs to be secured to meet demand and ensure the sustainability of a comprehensive safety net system.** Financing for the RAS programs remains inadequate to meeting existing demands and is unsustainable over time given that its financing is based principally on international borrowing. To meet these needs, a strategy based on expenditure re-allocation, improved targeting and cost-recovery should be implemented.
- **RAS programs should be flexible enough to exploit complementarities,** both across the three RAS programs and with local government initiatives. At present RAS programs are

targeted to specific geographical areas; the cash transfer program operates in geographical areas distinct from the workfare and youth training programs. However, these programs address the vulnerabilities of distinct groups many of which live in the same geographical areas. Furthermore, there are probably synergies across programs that have not yet been explored. In addition, RAS technology and know-how should be made available to municipalities interested in launching their own RAS-type programs and opportunities allowing for greater local involvement in contributing to the strategic direction of the programs, adaptation and co-financing should be explored while avoiding negative incentives for free-riding.

- **The comparative advantages of the 3 RAS programs should be considered explicitly with respect to their capacity for addressing chronic versus transient vulnerability.** Of the three RAS programs, the cash transfer program seems best suited to address structural vulnerabilities, serving risk prevention and mitigation functions during non-crisis periods given structural levels of indigence, demand side barriers to ensuring poor children's access to education and the key role that education plays in breaking the inter-generational transmission of poverty. The workfare and youth training programs seem best suited to the "trampoline" function that is implemented counter-cyclically and allows people to bounce back during a time of crisis, particularly one characterized by high levels of unemployment. During crisis periods, these programs could be activated from a 'simmering' state, using extraordinary financing.
- **Barriers to access need to be removed to reach key vulnerable groups.** Populations in more remote rural areas as well as certain vulnerable groups such as the displaced and the indigenous living in *resguardos* have limited access to RAS programs. If the programs were adopted for general use as part of a reformed safety net, these barriers would need to be addressed.

COLOMBIA'S MAIN SOCIAL ASSISTANCE PROGRAMS

Colombia has historically relied on economic growth to provide a safety net and has not implemented a coherent social safety net policy. Colombia is a lower middle-income country with a population of 41 million people and a per capita GDP of US\$2,300. It has been blessed with historically solid economic growth rates and a stable political party system.

This paper examines Colombia's national social assistance programs, while recognizing the key role that social insurance programs play in the publicly-provided national safety net. As outlined in Table A at the end of this section, the subsidized health regime and pension solidarity fund play key safety net roles for lower-income Colombians.

Social assistance was not included in the dramatic social sector reforms of the 1990's that resulted in increased spending and decentralization for health and education. As a consequence, social assistance programs remain not only ill-suited to respond to large covariant shocks, but also underfunded and centralized. The social sector policy reforms driven by the 1991 Constitution, Law 60 and Law 100 did not include

social assistance.¹ The exclusion of social assistance from these reforms has had two consequences. First, whereas funding for health and education rose from approximately 4% of GDP in the early 1990's to over 8% of GDP by 1996, central government budgeted expenditures on social assistance fluctuated around 1% of GDP during the first part of the 1990's and fell to approximately 0.6% by 2000.² This is a very low level of social assistance spending compared to countries at a similar stage of development, as well as to the needs of specific vulnerable groups that lack access to key social assistance programs. Second, since the decentralization reforms that guided social sector policy did not include social assistance, the main social assistance programs remain highly centralized. The fiscal transfers to local governments that absorb 14% of GDP include no funding for social assistance. Local governments have almost no discretion over how social assistance and SENA (*Servicio Nacional de Aprendizaje*) National Training Service funds are allocated. There is, however, deconcentration of central authority through the presence of a national network of field offices for many programs, including the ICBF (*Instituto Colombiano de Bienestar Familiar*) Colombian Institute for Family Welfare and the SENA training institute.

The economic recession resulted in the leveling off or reduction of spending on social assistance programs, with earmarked programs suffering less dramatic budget cuts than those financed from general revenues. The ICBF family welfare and SENA training institute programs financed through a 5% payroll tax earmarked for those programs were cut less than programs financed through general revenues. The budgets for the *Instituto Nacional de Vivienda de Interés Social y Reforma Urbana* (National Institute of Social Interest Housing and Urban Reform, INURBE) housing program and the *Red de Solidaridad Social* (Social Solidarity Network, RSS) programs for the indigent elderly and internally displaced people were halved during the height of the recession.

Today, there is a willingness and an urgency for implementing a comprehensive reform of the social safety net. In addition to the under-financing, centralization and pro-cyclical or neutral budgets characterized above, the reform should keep in mind the following issues:

- **Undercoverage of key age-specific vulnerable groups, notably pre-school children.** ICBF estimates that only 13 percent of the children in the poorest two deciles are reached by ICBF's two main early childhood development programs, and coverage estimates derived from the 1997 *Encuesta de Calidad de Vida* national household survey are even lower.
- **The lack of a strategic safety net focus is underscored by the fragmentation of programs within institutions and overlapping program objectives across institutions.** Although Colombia has programs in place to address key vulnerabilities, these programs are not

¹ These reforms did make important advances in launching redistributive social insurance systems through the establishment of the subsidized health regime and the pension solidarity fund.

² Social assistance is defined as spending on the three main social assistance programs reported in aggregated budgetary data – the ICBF family welfare institute, the RSS social fund and the INURBE housing institute.

functioning effectively. This is a legacy from successive governments' use of these institutions to achieve a wide variety of policy goals, many of which remain unrelated to safety net objectives. Two agencies in particular, ICBF and the Social Solidarity Network (*Red de Solidaridad Social*, RSS), seem to suffer from fragmentation of programs. RSS notably has too many programs, many of which overlap with those implemented by other agencies, combined with too few resources to be able to fill in key gaps in the safety net for the elderly and the displaced.

- **A lack of flexibility to respond rapidly during a crisis.** It took almost two years for the RAS programs to be launched and spending on social assistance has not been countercyclical.
- **Poor poverty targeting** leading to an overall characterization of the safety net as being “for the poor, but not the poorest.” Existing social programs are primarily designed for formal sector workers (SENA and *Cajas de Compensación*³) and not for the poorest who lack formal affiliation in the labor market. Redistributive social assistance programs are limited in the face of a wide array of social programs, many of which are financed by the formal sector and for the formal sector through “benefit taxes”. The programs that require formal sector affiliation are taking up some of the resources that could be more targeted to the poor. Furthermore, the use of SISBEN⁴, Colombia's proxy means test or other available targeting mechanisms have not been adopted by the main social assistance programs as a way to reach the chronic vulnerable.
- **Very little information overall on the coverage, efficiency, and effectiveness of Colombia's social assistance programs.** 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. Evaluation results are almost non-existent.
- **Complicated 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 not comprehensive and different data sources show markedly different levels of spending on specific social assistance programs. Finally, most aggregated data are available only on an institutional basis, spending on individual programs is not aggregated, and regional social sector budgets are kept in separate accounts. This lack of transparency has complicated the effective management of social sector spending, particularly for social assistance programs.

Several of these issues – namely program fragmentation and overlapping program objectives, the establishment of a countercyclical social safety net and improvements in the SISBEN proxy mean test used to target poor households – are now being implemented, a notable step forward that will require follow-up and expansion by the next administration.

OPTIONS AND RECOMMENDATIONS FOR REFORMING COLOMBIA'S SAFETY NET

Based on the analysis carried out in this study, three types of recommendations for reforming the social safety net have been developed: (i) *technical reforms* in targeting,

³ *Cajas de Compensación (Familiar)* (Compensation Associations)

⁴ *Sistema de Selección de Beneficiarios* (System of Beneficiary Selection)

budgeting, monitoring and evaluation that should be undertaken immediately to improve the tools used to orient social assistance programs; the need for improving these tools is evident, the steps for reform are clearly laid out and implementing changes would not require extensive funding or political support; (ii) *reforms to existing programs* to improve their coverage and quality; and (iii) *longer-term strategic reforms* aimed at improving the composition and operation of the social safety net, the implementation of which will require debate, consensus and political will.

Policymakers in Colombia should take advantage of the current debate on transfers and restructuring social sector spending to place discussions on the need to reform the social safety net on the agenda. This would reverse the traditional oversight of this important, underfunded sector and allow Colombia to better address present vulnerabilities and future shocks. As laid out below, the reform of the social safety net should focus both on establishing a counter-cyclical element to address transient vulnerabilities in time of crisis and on improving the efficiency and effectiveness of the structural element of the safety net that addresses chronic vulnerabilities.

Technical reforms

Colombia's social assistance programs are severely hampered by a lack of accurate information on coverage, costs, and effectiveness. In addition, the SISBEN proxy means test should be improved and its use expanded where appropriate to provide a clearer guide for targeting social assistance to the chronic poor. Information is critical to effectively managing any social safety net. It is needed to guide policymakers' choices concerning the administration of the safety net, to inform the public about available programs and to foster debate, innovation, and accountability. The dearth of accurate information in Colombia has undermined the effective management of the social safety net. Addressing these problems should be a top priority.

The Government of Colombia should immediately introduce three information management reforms critical to the effective management of the social safety net:

- **Conducting a social sector expenditure review aimed at restructuring national accounts and other budgetary data on social sector spending.** The lack of a standard definition of social sector expenditures, the absence of budgetary information on specific programs, and the variable definitions of overhead have contributed to the mismanagement of Colombia's fiscal accounts, complicated the analysis of basic trends, and undermined accountability.
- **Monitoring and evaluating the principal public, national social assistance programs.** Reforms should be considered on three levels: (i) ensuring timely, reliable monitoring data on all social assistance programs, particularly regarding costs and coverage; (ii) introducing participatory monitoring to foster public involvement and accountability in the principal social assistance programs; and (iii) applying structured impact evaluations with treatment and comparison groups that allow for the assessment of causality to the larger, more important programs.

Structured impact evaluations are currently being carried out of the new *Red de Apoyo Social* programs; these should be accompanied by impact evaluations of SENA, ICBF and *Cajas de*

Compensación so that a full review of the present safety net system can be conducted in 2004.

- **Updating SISBEN to address its present design and implementation problems.** The SISBEN proxy means test has the potential to serve as Colombia's principal targeting mechanism for reaching the chronic poor. However, it first needs to be updated and regular applications ensured along the lines suggested in Chapter IV. Certain counter-cyclical programs and those aimed at groups with specific vulnerabilities that are not easily identified using a proxy means test should rely on alternative targeting mechanisms.

Reforms to existing programs

The efficiency of established social assistance programs could be improved through better poverty targeting, the elimination of excessive program overlap and fragmentation and a restructuring of existing program to improve coverage and quality. Colombia's safety net lacks strategic focus and is composed of too many programs with too few resources. The following measures could be introduced to improve its efficiency and allow the present safety net to focus more directly on the problems of the very young, adolescents and internally displaced people:

- **Elimination of program overlap and fragmentation.** The RSS social fund has too many under-funded small programs to sufficiently focus on its core objectives of reducing elderly poverty and assisting the internally displaced population. An obvious solution would be to eliminate or transfer other RSS programs. ICBF should also undergo a review of the multiplicity of programs under its jurisdiction in order to improve quality and efficiency.
- **Improving the quality of day-care and nutrition programs for the poor.** A first priority would be to evaluate the ICBF family welfare agency's CAIPs (the formal day care centers) and HCBs (the community day care centers) to clarify anecdotal evidence that quality of CAIPs was "enormously higher" than quality provided by HCBs. It should not be forgotten, however, that the unit cost of the CAIPs is on average over twice that of the HCBs. It is also possible that—even with a lower quality than the CAIPs—HCBs still provide a sufficient level of service to attain a minimum standard. It may also be feasible to improve the level of care provided in HCBs by low-cost alternatives, such as upgrading the skills of HCB community mothers. ICBF's food production, purchase and distribution system should also be reviewed with an eye to increasing efficiency.
- **Addressing the needs of the Internally Displaced People (IDP).** The displaced, half of whom are estimated to be children, should receive priority attention from a reformed safety net. This focus is warranted by the size of this vulnerable group, the concentration of risks within its population, the probable lack of access to programs to address their needs, and the possibility of increased displacement given the state of conflict in Colombia. The international community and GOC should move beyond humanitarian assistance to address the education, health, and training needs of the IDP. These actions could be concentrated in the regions receiving the bulk of the displaced, under joint action plans developed with those departments and municipalities. Although there may not be a need for the creation of separate programs for the IDP, attention should be directed toward ensuring that there are no barriers to access preventing the IDP from benefiting from critical social assistance, health and education programs. Several types of actions could be considered, including: directly

supporting the GOC action plan, implementing the Social Solidarity Network (*Red de Solidaridad Social*, RSS) programs for the displaced, ensuring that qualifying IDP have access to RAS programs, and mobilizing the education sector.

Many of these initiatives could be supported and explored using the pilot project under the Japanese Social Development Fund. The objective of the fund is to integrate networks of civil society and city governments for the provision of basic services to IDPs in cities with large concentrations of displaced people who do not want to return to their place of origin. A key challenge is to develop ways to mobilize these networks to support IDP's access to existing social assistance programs. The pilot projects could also explore how to make IDPs a focus of future projects funded by multilateral agencies.

- **Addressing the gap in assistance for the elderly.** Although the situation of the elderly is perhaps not as critical as that faced by the two above groups, social assistance coverage for the indigent elderly has been sharply curtailed. The *Revivir* program run by the *Red de Solidaridad Social* covered less than a quarter of the indigent elderly in 1998 and the program has been curtailed and restructured since the crisis.⁵ Plugging this gap could be addressed through a reallocation of funds from programs that are not well targeted to the poor. Another problem is that *Revivir* is allocated among municipalities that already have a program for the indigent elderly of their own. Finally, solid evaluation of the effectiveness of the existing program is needed, preferably including a comparison with the effectiveness of the former cash transfers model.

Strategic reforms

Colombia's social safety net is in need of fundamental reforms that will require political will, a consensus for reform and new policies. An opportunity for implementing these reforms will present itself in 2004 when the present sources of financing for the emergency RAS safety net programs expires. Armed with evaluations of the principal social assistance programs, the Government of Colombia should take this opportunity to engage in a large-scale strategic reform of the social protection sector. The following section sets out an agenda for reform that can serve as the basis for a debate leading to a strategic plan for reform. The debate on these strategic reforms should begin immediately to define the appropriate funding levels, composition and administrative structure for a reformed social safety net.

Three principles guide the proposed recommendations in this section. The first is that current fiscal constraints make it is unrealistic to think of fresh, sustainable sources of funding for social assistance. Therefore, the proposed reforms are focused on re-allocation and cost-recovery. Second, with the inclusion of the new RAS programs, Colombia has programs for addressing the principal risks faced by each of the main age groups, as well as programs for key special circumstances groups (see Table A at the conclusion of the Executive Summary). Therefore, we do not argue for creating new social assistance programs, but present options for how to better structure the system of existing programs, including the RAS. Third, following the conceptual framework laid out in Chapter I, we argue that the social safety net has a role to play in both crisis and

⁵ Ayala, Gaviria, Ortiz and Henao, 2001

non-crisis times to meet the needs of the chronic vulnerable, the transient vulnerable and special circumstances groups.

Two main recommendations are presented below that should serve as a departure point for the debate on restructuring Colombia's social safety net: (i) expanding the budget for social assistance and (ii) reforming the structure and management of the social safety net.

Expanding the budget for social assistance

Colombia's social assistance budget is inadequate to meeting the needs of vulnerable populations, even during normal times, as argued in Chapter IV. Two strategies are recommended for increasing the budget for social assistance under present fiscal constraints: redirecting funds to well-targeted social assistance programs and combining targeting with cost-recovery from less poor groups.

First, Colombia should consider redirecting funding to social assistance programs. For example, a full redirection of funds from the *Servicio Nacional de Aprendizaje* (National Training Service, SENA) to social assistance would bring budgeted expenditures for social assistance from under 0.7% of GDP to close to 1% of GDP -- a bare minimum for a country at Colombia's stage of development, particularly given the vulnerabilities present in Colombia today and the shocks likely to manifest themselves in the near future. This will be particularly critical when financing for the new *Red de Apoyo Social (RAS)* programs runs out in 2004.

Second, poverty targeting should be used to generate cost-recovery from less poor groups being served by social assistance programs. The Government of Colombia cannot afford to subsidize social welfare programs for the non-poor. For programs serving the structural/chronic poor, efficiencies could be gained through applying an improved SISBEN proxy means test. For example, the ICBF family welfare agency could explore using SISBEN to establish poverty rankings for beneficiaries of its daycare programs and apply a sliding-scale fee to generate cost-recovery from the less-poor users of ICBF daycare programs, particularly CAIPS which are not as well-targeted. This would allow the services to remain viable within low-income communities where several studies point to high demand for day care. The savings could be used to increase the quality of the services provided and to expand coverage. However, this should be introduced on a pilot basis to ensure that its administration is not overly complex and that there are no negative social repercussions to variable rates for childcare in low-income communities. In addition, cost recovery and/or variable subsidies could be introduced in other programs.

Reforming the structure and management of the social safety net

The Government of Colombia should engage key stakeholders in a strategic planning exercise to define the appropriate composition, management and administrative structure for the social safety net. Attention to the architecture, role and function of the social safety net has traditionally been ignored in Colombia.

With respect to the management of the reformed safety net, the following scenario could be considered:

- **Overall responsibility for planning and budgeting for the safety net would naturally rest with CONPES**, the National Council for Political and Economic Policy, working under an established set of norms and regulations governing the safety net. There seems to be no compelling reason to establish a new institution to manage the social safety net.
- **A technical secretariat would be responsible for advising CONPES.** This secretariat would have responsibility for supervision of the safety net and information management. Many of these responsibilities are currently coordinated by the National Planning Department working with the Ministry of Education, the Ministry of Health and the Ministry of Labor. The National Planning Department could continue to exercise this role, under specific terms of reference and perhaps with a role for the Ministry of Finance or the central bank. Responsibilities could include:
 - *Use of existing data to monitor macroeconomic trends.* Key macroeconomic performance indicators and data on transmission mechanisms should be monitored regularly to assess needed adjustments to the safety net and establish triggers for the contraction and expansion of safety net programs.
 - *Mobilization of microeconomic data on the evolution of poverty and vulnerability.* Colombia's overall solid system of household surveys needs to be further improved, for instance with the next application of the *Encuesta de Calidad de Vida*, to allow for a better assessment of the effect of the crisis on human capital, provide better measures of vulnerability, and to monitor how the poor are faring under different types of reforms. Panel data and other approaches to measuring vulnerability should be explored.
 - *Engaging in public information campaigns.* Public information campaigns are critical to at least three functions: guiding potential beneficiaries of safety net programs in accessing those programs by making clear their availability and participation requirement; improving public sector transparency and accountability; and building constituencies for reform.
- **There might be a role for increased decentralization.** The management of the main social assistance programs—including ICBF and SENA—is strongly centralized and earmarked. Reforms promoting decentralization and allowing greater autonomy and flexibility to tailor programs and overall safety net responses to the particular needs of local areas should be carefully considered. Options involving the private sector and NGO's should be explored and evaluated as ways to improve efficiency, effectiveness and coverage.

With respect to the structure of the reformed safety net, the following issues should be considered:

- **Determining the programmatic composition of the safety net**, including which programs should be permanent, addressing chronic vulnerabilities, and which should be activated countercyclically during crisis periods.

- **Explicitly considering the long-term role of the new RAS programs.** In determining the programmatic composition of a reformed safety net, the long-term role of the RAS programs needs to be explicitly considered. Several of the main gaps in Colombia's public risk management interventions are being filled by the three new RAS programs. Without income support and cash transfer programs such as those established by RAS, Colombia's safety net would be unbalanced (see Table A below). There is therefore a need to assess which RAS programs should remain as part of the permanent safety net, either as programs to address structural vulnerabilities and/or as cyclical programs implemented during times of crisis. Impact evaluations of both RAS and other social programs with similar objectives (including SENA short-courses and ICBF nutrition programs) should guide the composition of the social safety net, lest the RAS create another overlapping institutional layer within the network of existing programs.
- **Establishing a counter-cyclical element of the safety net.** There is a need to establish a counter-cyclical safety net strategy that would enable the Government of Colombia to respond quickly to the next crisis. A priority area for action is to determine the specific norms and procedures under which the counter-cyclical safety net would operate to meet the needs of affected vulnerable groups during times of crisis. This should include establishing triggers for the immediate expansion of selected, pre-identified programs, when the country is hit by a crisis. Another key step in setting up a counter-cyclical strategy is to determine the institutional and management structure of the strategy. The temptation to establish a separate institute to manage the counter-cyclical element should probably be avoided, given the multitude of existing programs and the existence of organizations responsible for policymaking and analysis in Colombia. Instead, the management structure proposed above should be adapted to address counter-cyclical issues. A third element is the determination of which programs would compose the 'basket' from which the counter-cyclical element would draw for expansion during times of crisis. Finally, financing for countercyclical responses needs to be addressed.

In sum, the diagnosis provided in this report and related recommendations should serve as a point of departure for a thorough debate on how best to establish a solid social safety net in Colombia. This debate should lead to a comprehensive reform of the safety net in 2004 when financing for the RAS emergency programs expires. The Government of Colombia will be well prepared to reform the social protection system, particularly if the technical reforms (specifically the evaluations of the main social assistance programs) argued for above have been implemented. The dialogue has begun, but needs to be broadened and deepened. Several reforms have already been introduced. The rapid application of analytical work to policy has been facilitated by the collaborative, iterative nature of this review, which was carried out as a joint study between the World Bank and the Government of Colombia, with important financial and analytical inputs from the Inter-American Development Bank. However, key changes still need to be implemented to ensure the establishment of an effective social safety net in Colombia. Certain reforms could be instituted in the short-term, while others would benefit from a thorough evaluation of key programs, an extended national debate and planning ahead for a reform in 2004.

TABLE A: SOCIAL RISKS AND SOCIAL PROTECTION PROGRAMS IN COLOMBIA, 2000ⁱ

Type of Risk	Risk Indicator	Prevalence ⁱⁱ		Social Protection Programs		
		# Affected	Percentage	Existing Social Assistance	New Social Assistance	Social Insurance
Ages 0–6 (population 4,873,000 ⁱⁱⁱ)						
Stunted development	Severe chronic malnutrition (age 0-5) ^{iv}	657,000 total 255,000 Q1 154,000 Q2	13.5% total 19.7% Q1 12.5% Q2	ICBF school feeding ICBF CAIP formal day-care / ECD ICBF HCB informal day-care / ECD	RAS <i>Familias en Acción</i> conditional cash transfer (health and nutrition grant)	ISS health insurance (contributory and subsidized regimes)
Limited early childhood development	Pre-school or day-care attendance (age 0-7) ^v	Not attending- 3,562,000 total 1,124,000 Q1 978,000 Q2	Not attending: 54% total 62.9% Q1 58.7% Q2			
Ages 7-11 (population 5,171,000 ^{vi})						
Low human capital development	Net primary school enrollment (ages 7–11)	Not enrolled ^{vii} : 707,000 total 194,000 Q1 184,000 Q2	Enrolled: 83.6% total 84.3% Q1 83.2% Q2	None	RAS <i>Familias en Acción</i> conditional cash transfer (education grant)	ISS health insurance (contributory and subsidized regimes)
	Overage (average years behind) (ages 7–11) ^{viii}		0.20 years total 0.44 Q1 0.24 Q2			
Ages 12–18 (population 6,059,000)						
Low human capital development	Secondary enrollment (ages 12–17) ^{ix}	Not enrolled: 1,901,000 total 608,000 Q1 468,000 Q2	Enrolled: 62.8% total 47.7% Q1 58.3% Q2	PACES voucher program, but being phased out	RAS <i>Familias en Acción</i> conditional cash transfer (education grant)	ISS health insurance (contributory and subsidized regimes)
	Overage (average years behind) 12-17 ^x		0.82 years total 1.37 Q1 1.02 Q2			
Health	Female teenage pregnancy (15-19 years) ^{xi}	420,000 total	19% total (26% rural)			

Type of Risk	Risk Indicator	Prevalence ⁱⁱ		Social Protection Programs		
		# Affected	Percentage	Existing Social Assistance	New Social Assistance	Social Insurance
Low income	Inactivity ^{xii} (ages 12-17)	680,000 total	13.3% total			
		202,000 Q1	17.4% Q1			
		187,000 Q2	16.7% Q2			
	Unemployment as percentage of the economically active population (ages 12-18) ^{xiii}	497,000 total	30.5% total			
		119,000 Q1	28.1% Q1			
		129,000 Q2	34.3% Q2			
	Informal sector as percentage of all employed (only 7 major cities, ages 15-19) ^{xiv}	244,000 total	79.0% total			
46,000 Q1		94.5% Q1				
		49,000 Q2	87.6% Q2			
Ages 19-64 (population 22,261,000)						
Low income	Unemployment as percentage of economically active population ^{xv}	2,705,000 total	15.8% total		RAS <i>Jovenes en Acción</i> youth training	ISS health insurance (contributory and subsidized regimes)
		542,000 Q1	22.0% Q1			
		550,000 Q2	19.1% Q2			
	Informal sector as percentage of all employed (7 major cities, ages 20-59) ^{xvi}	2,999,000 total	57.9% total		RAS <i>Empleo en Acción</i> workfare	
		526,000 Q1	85.7% Q1			
		586,000 Q2	70.4% Q2			
Ages 65+ (population 2,452,000)						
Low income	No pension	2,111,000 total	81.8% total	RSS <i>Revivir</i>	None	Pension system for formal sector employees
		474,000 Q1	98.0% Q1			
		399,000 Q2	97.5% Q2			
	Informal sector as percentage of all employed (7 major cities, age 60+) ^{xvii}	234,000 total	82.7% total			
		38,000 Q1	96.8% Q1			
		39,000 Q2	90.5% Q2			
General Population						
Poor health	Access to health insurance	19,000,000 uninsured	47 % uninsured	<i>Cajas de Compensación</i> Utilities subsidies	None	ISS health insurance (contributory and subsidized regimes)

Type of Risk	Risk Indicator	Prevalence ⁱⁱ		Social Protection Programs		
		# Affected	Percentage	Existing Social Assistance	New Social Assistance	Social Insurance
Low-quality housing	No piped water	5,836,000 total	14.3% total	INURBE/rural housing programs		
		2,637,000 Q1	32.3% Q1			
	1,486,000 Q2	18.2% Q2				
	1,975,000 total	4.84% total				
No electricity		939,000 Q1	11.5% Q1			
		498,000 Q2	6.1% Q2			
		400,000 – 1.9 million ^{xviii}	1% to 5% total			
Violence and displacement	Displacement			RSS program for displaced		

ⁱ This table covers the principal federal social protection programs. Unless otherwise noted, estimates were carried out by DNP's DDS and SES divisions using *Encuesta Nacional de Hogares* data from September 2000. Further information about risk indicators is included in Table 2.7 at the end of Chapter II.

ⁱⁱ Per capita income quintiles using DNP estimates.

ⁱⁱⁱ Population 0-5 years old. DANE.

^{iv} DANE-PROFAMILIA DHS data.

^v ECV 1997, DNP *Misión Social* estimates in "Informe final: ICBF", Fedesarrollo. Estimates include HCB, CAIP and all other pre-school/day-care institutions.

^{vi} Population 6-11 years old.

^{viii} Overage is defined as the average number of years children in this age group are behind with respect to their corresponding grade level.

^{ix} Net secondary school enrollment is calculated as the number of children of 12-17 who are in secondary divided by the total number of children of 12-17.

^x Overage is defined as the average number of years children in this age group are behind with respect to their corresponding grade level.

^{xi} Represents women in this age group who are pregnant or have a child.

^{xii} Neither study nor work.

^{xiii} The economically active population is defined as either having worked a certain number of hours recently; or being without work, but having actively pursued employment.

^{xiv} Only data from 7 cities (Bogotá, Barranquilla, Medellín, Cali, Manizales, Bucaramanga y Pasto) are included in this calculation; the total number of people working in the informal sector nationwide is much higher.

^{xv} Only data from 7 cities are included in this calculation; and only people in the age group from 20-59 are included, whereas the definition of 'labor force' typically includes younger and older people. Therefore the total number of people working in the informal sector nationwide is much higher.

^{xvi} Only data from 7 cities; the total number of people working in the informal sector nationwide is much higher.

^{xviii} CONPES memo on displaced population, 2000; CODHES-UNICEF, 1999.

1. INTRODUCTION

1.1 This chapter addresses three themes that set the context for the social safety net study. First, it summarizes two key features of the present situation in Colombia that circumscribe and define areas for action from the social safety net -- the protracted internal conflict and the severe fiscal imbalance. Second, the chapter introduces the social risk management conceptual framework used throughout the study. Finally, the scope of the study is defined and the outline of the remaining chapters presented.

A. THE COLOMBIAN CONTEXT

1.2 **The situation in Colombia today is unique, both as compared to other periods in the country's history and as compared to other countries undertaking safety net assessments. The country is suffering from an unprecedented economic contraction that has been followed by a severe deterioration of key social indicators.** As explored in the next chapter, GDP declined by 4.3 percent in 1999 alone, the historical rate of unemployment has doubled, and urban poverty rose by 7 percentage points between 1995 and 1999. Even though economic growth recovered in 2000, poverty and unemployment are still much higher than before the crisis, and there has been a negative trend in some human development indicators, including an alarming fall in vaccination coverage rates.

1.3 A response to this situation is defined by two constraints --the fiscal imbalance and the internal conflict. Although this analysis is unable to explore either of these themes in depth, they are critical to understanding the role of social safety nets in Colombia and the constraints faced by policymakers in reforming the social safety net.

Fiscal constraints

1.4 **Colombia is grappling with a severe fiscal imbalance** driven by: higher interest payments resulting from the rapid expansion of public expenditures leading to the growth of internal debt, especially in the early 1990s. The rise in public expenditures was driven by higher operating costs, particularly salaries (teachers, justice system); the consolidation of an existing trend to increase transfers to territorial entities (particularly in health and education); and making explicit some of the existing contingent liabilities, particularly obligations in the public pension funds. This fiscal imbalance was long mitigated by large privatizations, and by surpluses in the decentralized sectors (principally social security) and oil, allowing positive consolidated public sector balances in the early 1990s. However, a decline in these revenues, aggravated by the economic recession led to the coming into existence of a gradually increasing combined public sector deficit, reaching 5.5 percent of GDP in 1999.¹

¹ World Bank. 2001c.

1.5 These fiscal difficulties have put the government in a very tight situation, with the need to redress fiscal spending through major reforms, notably to the pension program, the health sector, and the system of fiscal transfers to local governments, before macroeconomic stability can be achieved. Progress on reforming the system of transfers to local governments has been recently achieved.

1.6 The pension reform currently under discussion within the Government of Colombia is perhaps the key structural change in terms of its impact on fiscal and debt sustainability in the longer term. The Colombian pension system is not sustainable in its current form. National government pension payments grew as a percent of GDP from 0.84 in 1991 to 2.26 in 2000. Without reform the annual financing requirements are estimated to reach 6 percent of GDP by the year 2020. In addition, the costs of providing health services in the Social Security Institute (ISS) also outpaced revenues, leading to a deficit of 0.2 percent of GDP in 2000, which, without restructuring of ISS health services, will become a continuous burden on the fiscal accounts.²

1.7 The inflexibility in the system of fiscal transfers to territorial governments, combined with high levels of current expenditures and a lack of incentives to generate their own revenues, resulted in large imbalances. These were willingly financed by the financial system who lent to departments and municipalities without adequate provisioning or safeguards. The result has been a ballooning of territorial debt, the repayment of which has become a problem for both the central and territorial governments. This issue is currently being addressed through legislation.

1.8 Addressing these issues is a critical prerequisite to concentrate on more specific social sector reform issues, including reforming the safety net. However, Colombia should take advantage of the ongoing social sector reform discussions to place the creation of a viable social safety net squarely within the negotiations.

The internal conflict

1.9 The intensification of Colombia's internal conflict and the overall increase in the level of violence, further define the special context for attention to reform the social safety net. Any analysis of the impact of Colombia's economic performance on social welfare cannot ignore the influence of non-macroeconomic factors that comprise this protracted internal conflict, particularly those related to the illicit drug trade and the armed conflict. Since the macroeconomic performance influences the internal conflict (and vice versa) it is difficult to isolate these variables in order to analyze the extent to which each one drives Colombia's socio-economic situation. Although Colombia's poor economic performance in 1998-1999 was instrumental in fueling the country's dramatic socio-economic disruption, these socio-economic factors are also a causal factor in the continued deterioration in social indicators.

1.10 Colombia's history is marked by violence. Today, the presence of armed leftist guerrillas and right-wing paramilitaries has resulted in high levels of violence and socio-economic disruption and has made a traditional state response very difficult in substantial areas of the national territory. Many areas of Colombia have remained outside effective state

² World Bank. 2001c. and World Bank. 2001d.

control ever since Colombia gained independence in the 1820s, but it is only more recently that many of the armed insurgencies (i.e. guerrillas and paramilitaries) have become involved in the narcotics trade. Reports suggest that the FARC (*Fuerzas Armadas Revolucionarias de Colombia*), Colombia's oldest and largest guerrilla insurgency, directly produces 85 tons of cocaine a year, out of Colombia's total production of about 520 tons, and that it has 6,000 hectares of coca under its direct control. The paramilitaries' drug interests are less well documented, but intelligence sources say that both they and the guerrillas derive some 70% of their financing from drug trafficking. The revenues gained from these illicit activities have served to fuel their war-making capabilities. It has been estimated that the FARC alone receives upwards of US\$500 million annually from the drug trade (Chernick, 1999).³

1.11 The guerrillas' and paramilitaries' economic and military strength has led to a dramatic increase in violence, deaths, and displacement, especially among the rural civilian population. There is a great deal of controversy and little data on the size and characteristics of the internally displaced population. The GOC estimates that there are currently over 400,000 displaced people while other estimates place the number at close to 2 million.⁴ This population has been evicted from areas where they have been engaged in productive economic activities and relocated to urban slums where economic prospects are difficult and violence and crime are rampant. Moreover, since the Colombian government has difficulty maintaining effective control over some of the areas where the guerrillas and paramilitaries are at their strongest, the resident civilian populations in these areas have limited access to government social assistance. Indeed, the Colombian state's difficulty to governing these areas will need to be addressed before any lasting social programs can be tailored for these regions.

1.12 Violence is also apparent in many other aspects of Colombian life. In proportion to its population, the country has the world's highest murder rate (approximately 55 homicides per 100,000 population) and the greatest number of kidnappings -- 3,707 kidnappings, or roughly ten every day, in 2000 according to Colombia's national police estimates.⁵

1.13 The economic recession and internal conflict has also greatly affected Colombia's middle class, something that had always been a strength of Colombian society. While multilateral development agencies tend to focus on the impact that economic crises have on the poorest sectors of society, it is instructive to also focus on the how persons in other socio-economic levels fared as their status is an integral part of any comprehensive development strategy. In the case of Colombia, credit expanded explosively in the mid 1990s; it was just as quickly contracted when it became apparent that the fiscal balance had become unsustainable. The overall outcome of this scenario was a "boom and bust" cycle that by 1998-1999 had left a significant portion of the middle and upper-middle classes in a difficult economic situation. And since this sector of society tends to be better educated and more likely to own economic capital, the negative "trickle-down" effect from the economic recession was substantial.

³ The *Economist* reports that guerrillas' earn approximately US\$250-300 million annually from drugs, kidnapping and extortion (*Economist Colombia Survey* -- April 19, 2001).

⁴ *CONPES-DNP Plan de Acción para la Prevención y Atención al Desplazamiento Forzoso*. Document #3057. Bogota, November 1999.

⁵ *Economist* 2001 (ibid).

1.14 Additionally, the combination of economic stagnation and internal conflict has resulted in an out-migration of an estimated 1.1 million people over the past 5 years, mainly middle and upper-class Colombians. The resulting “brain drain” is a severe strain on Colombia’s human capital stock. The qualitative analysis conducted for this study suggests that the Colombian state has lost credibility in the minds of many citizens, given its perceived ineffectiveness in addressing the rampant violence and impunity that plague areas of the country. In what becomes a vicious circle, this crisis in confidence inhibits the Colombian government’s ability to deliver social services as local residents are often already convinced that the services will be ineffective in light of the deep political and social cleavages that define their daily existence.

Parameters for action

1.15 In sum, the lack of resolution to the internal conflict combined with needed fiscal reforms implies that future multidimensional shocks with both economic and political elements are very likely in the near future, underscoring the need for attention to the reform of the social safety net.

1.16 The present situation calls for supporting not only Colombia’s macroeconomic stability, but also its institutional viability, by building on Colombia’s strengths in the social sectors. A solid safety net reform could contribute to strengthening the state and its institutional apparatus, particularly if it is carried out by building upon Colombia’s achievements in the social sectors – notable gains in health and education and the availability of day care centers in low-income neighborhoods.

1.17 Much of the political and social agenda designed to tackle the demands presented by the current situation in Colombia is being addressed as part of Plan Colombia. Beyond the well-known U.S.-financed military assistance package, Plan Colombia has a social development component that includes the three new social safety programs described in Chapter III (see Box 1.1).

Box 1.1: Plan Colombia

In September 1999, U.S. and Colombian officials put together 'Plan Colombia' in order to provide a comprehensive and well-financed solution to Colombia's myriad social and political problems. Plan Colombia components include helping the Colombian government secure effective control over its territory, strengthening democratic institutions, promoting economic development, protecting human rights, and providing humanitarian assistance. The new *Red de Apoyo Social* emergency social safety net programs supporting human development, employment and job training are included as part of the economic development initiative.

The Colombian government originally estimated that the plan would cost US\$7.5 billion over five years. Some US\$3.15 billion will be earmarked from Colombia's central government budget over three consecutive budgets. The remaining US\$4.35 billion is to be raised within Colombia, as well as from the United States and the rest of the international community.

The United States has pledged a total of US\$1.3 billion in support of the plan, making Colombia the third largest recipient of U.S. foreign assistance. The majority of the United States' first US\$ 800 million two-year contribution is focused on fighting drugs, especially in the southern department of *Putumayo*, an area that has seen an explosive increase in the coca production in recent years. The U.S. government estimates that about 90% of the cocaine entering the United States originates in (or passes through) Colombia, and two-thirds of the heroin seized in the United States is of Colombian origin. The plan aims to curb trafficking activity and reduce coca cultivation by 50% over a period of five years. Of the total US\$800 million contribution, roughly US\$250-280 million has been earmarked for broad social development programs. The major components of the social development assistance will support judicial reform, human rights, and illicit crop substitution programs. In early 2001 the Bush administration requested an additional US\$800 million in assistance for the Andean region, with US\$400 million slated for Colombia.

While the final legislation is still being ironed out in the US Congress, initial indications suggest that the aid will be evenly split between military and social assistance.

The International Monetary Fund, World Bank, Inter-American Development Bank and Andean Development Corporation have pledged a total of US\$6.4 billion in loans and credits to Colombia. From this, about US\$900 million have been allocated to social development programs under the Plan Colombia initiative, including the *Red de Apoyo Social* (Social Safety Net Program).

The European Union (EU) member states and other donor countries pledged over \$500 million of their own funding at a meeting in Bogotá in October 2000 and a meeting in Europe in April 2001. Various U.N. programs have pledged a further US\$100 million, however, it remains to be seen how extensive these donors' financial commitment to Plan Colombia will be once all of the negotiations are completed.

Source: Oxford Analytica, Jan. 3. 2000; GOC Web Site <http://www.herramientasparalapaz.gov.co>

1.18 This study outlines an agenda for the reform of the social safety net, recognizing the constraints posed by the current fiscal situation. Correspondingly, the recommendations put forward focus on ways to improve efficiency and reallocate spending without major changes to overall budget levels. In addition, bilateral and multilateral supporters seeking to strengthen Colombia's fraying social fabric should support Plan Colombia's social agenda, including the social safety net components.

B. CONCEPTUAL FRAMEWORK

1.19 We use the social risk management framework and its corresponding concepts of risk management strategies and institutional arrangements to describe the safety net of national social assistance programs in Colombia, households' risk management strategies, and recommended reforms to the safety net (See Box 1.2).

1.20 The social risk management framework (World Bank 2001) can help countries better analyze the mix of policies needed. The social risk management framework is based on the idea that individuals, households, and communities are exposed to multiple risks from different sources, both natural and man-made, individual and covariant. Poor people are more exposed to risk and have less access to effective risk management arrangements than people who are better off. This vulnerability makes individuals risk-averse and less able to undertake more risky activities with higher payoffs. As a result, the poor have developed coping mechanisms that rely on self-protection (building up assets in good times, diversifying income sources), and the creation of family or community risk pooling strategies. Unfortunately, these coping strategies are often inefficient and can lead to the permanent reduction in the human capital of the poor (for example, taking children out of school as a response to an income shock).

1.21 In principle and excluding cost considerations, the best approach is to reduce the risk before it occurs. The next best approach is to mitigate against the impact of a shock. Coping is a residual approach resorted to when the others have failed. As pointed out in the *World Development Report* (World Bank 2001) “the balance needs to shift from policies for coping to those for reducing and mitigating risk. That means ensuring that social safety nets are in place on a permanent basis and can be scaled up when a shock occurs.”

Box 1.2: Social Risk Management: Concepts and Definition

Social risk management strategies

Reduction. These strategies are implemented before a shock occurs and reduce the probability of the risk occurring. They improve welfare through increasing income and reducing income variance. Preventive social protection interventions are typically focused on the labor market and are related to reducing the risk of unemployment, underemployment or low wages resulting from inappropriate skills or malfunctioning labor markets.

Mitigation. These strategies are also implemented before the onset of an adverse outcome. However, whereas prevention strategies reduce the probability of an event occurring, mitigation strategies help individuals reduce the impact of an adverse shock through pooling mechanisms involving individuals, assets and time. Risk mitigation can be achieved through *diversification* (for example of income sources, crops and rotating credits and savings associations) as well as through *insurance* (for example through marriage, market-based disability insurance and pension systems).

Coping. These strategies are implemented after a shock occurs and are designed to relieve the impact of the shock. Individuals' main forms of coping are dis-saving, borrowing or relying on public or private transfers. Governments have an important role to play when individuals or households have not saved enough to cope with adverse events, particularly repeated or catastrophic shocks.

Social risk management arrangements

Informal. These arrangements are carried out by individuals and households using informal or personal means. Although the most common, informal arrangements may not be the most effective in helping households weather adverse events. Examples of informal arrangements include: buying and selling assets (such as cattle and real estate), informal borrowing and crop diversification.

Formal Market-Based. These arrangements are provided by market-based institutions, particularly banks and insurance companies. Their availability is often limited in developing countries and among the poor since their availability is contingent upon functional financial markets.

Formal Public. Governments can provide or mandate social insurance programs for risks such as unemployment, old age, work injury and sickness. These programs are relatively limited in developing countries and are often available only to those in formal employment. These arrangements are particularly useful when market-based systems do not exist or break down. Governments can also provide an array of social assistance programs to help households cope with a shock ex-post including public works programs.

Source: adapted from *Social Protection Sector Strategy: from Safety Net to Springboard*. World Bank 2001.

C. THE ROLE OF SAFETY NETS, SOCIAL ASSISTANCE AND SOCIAL INSURANCE

1.22 **A comprehensive social safety net serves two functions, one structural and one counter-cyclical.** The first function addresses structural, chronic poverty or vulnerability and aims to protect a person or household against the adverse outcomes of a lasting incapacity to work or subsist (the “net” function). The second addresses transient poverty or vulnerability and aims to protect people against a temporary decline in their capacity to work or subsist (the countercyclical “trampoline” function). This latter category is the primary focus of the paper, particularly with respect to the role of safety nets during periods of economic crisis.⁶ A good

⁶ The ‘trampoline’ function of safety nets can also be used to protect specific population groups from other types of covariate shocks such as natural disasters, as well as from idiosyncratic shocks affecting individuals or households such as illness, the death of a family income earner or temporary unemployment. This paper does not consider these

counter-cyclical safety net serves to address not only the immediate consequences of an economic crisis (e.g. a fall in consumption) but also contributes to breaking the cycle of poverty and structural vulnerability through investments in human capital during crisis and non-crisis periods.

1.23 The state has a particular role to play in helping the poor address risks through social insurance and social assistance programs. The definition of social safety nets is evolving, but they are generally thought of as including social assistance programs and often at least elements of social insurance programs. Social assistance programs are those of a redistributive nature that transfer resources to particular at-risk groups, while social insurance mechanisms – such as public pensions and health insurance -- pool risks across population groups. This paper covers social assistance programs, while briefly summarizing the redistributive elements of the Colombian health and pension systems below and in Annex D.

Social insurance programs

1.24 Colombia's social insurance programs -- particularly the redistributive elements of the health and pension systems -- have a key role to play in providing a social safety net. Although this analysis does not consider these programs explicitly because they are being addressed in parallel analytical work being supported by the World Bank, the use of such mechanisms, together with the protection of critical social expenditures during times of economic stagnation or crisis, should be considered part of an effective safety net strategy.

1.25 The Colombian pension system covers only about 25% of the economically active population, well below most of the countries in the region (Table 1.1). Coverage is even lower among the poor, with coverage reaching 3% and 10% of the economically active population in the two bottom quintiles respectively (Henao 2000b). A redistributive mechanism does, however, exist to expand pension coverage among the poorer enrolled workers—the *Fondo de Solidaridad Pensional* (FSP, Pension Solidarity Fund).⁷

other covariate types of shocks or idiosyncratic shocks, and the corresponding response mechanisms. However, it does recognize that the recent shock in Colombia has a strong social and political dimension that makes this crisis more than a pure income shock. These aspects are explored briefly in the discussion on vulnerability in Chapter II.

⁷ Additionally RSS has a social assistance program directed to the indigent, disabled or indigenous elderly, which is explained in more detail in Chapter IV and in the Annex D on social assistance programs.

Table 1.1: Labor force pension coverage for selected Latin American countries

Country	Year	Coverage ¹
Argentina	1989	53.2%
Bolivia	1992	11.7%
Brazil	1989	50.3%
Chile	1992	55.7%
Colombia	1989	23.9%
Costa Rica	1993	54.2%
Ecuador	1989	37.8%
Guatemala	1986	27.0%
Jamaica	1991	39.3%
Mexico	1990	37.9%
Nicaragua	1989	22.7%
Panama	1990	39.6%
Peru	1992	25.7%
Uruguay	1989	68.8%
Venezuela	1990	34.3%

¹ The coverage definition normally used is the number of workers who contributed during the last year to a public or publicly mandated retirement scheme divided by the estimated labor force (persons age 15-64 who are economically active, including the unemployed). *Source:* World Bank 1994b, pp. 26-33 of the Technical Annex.

1.26 The FSP subsidizes the pension contributions of enrolled workers who earn less than the minimum wage and who comply with a number of other criteria. Eligibility is restricted to those who work in the informal sector, are disabled, or who work as community mother within the ICBF community daycare program, HCB.⁸ Currently 400,000 people are affiliated with the program.⁹ Beneficiaries are also required to contribute up to 30 percent of the total insurance, depending on their status. The subsidy is financed by a 1 percent payroll tax on the wages of workers who earn more than 4 times the minimum wage.

1.27 Fedesarrollo points to several factors that keep many of the poor from participating (Henao 2000b). First, after 4 months of non-payment beneficiaries are cut from the program. Since FSP affiliates are low-income, when a shock comes along, often their response is to stop paying their share of the total pension contribution. Second, contributions do not accrue to individual accounts, but are instead based on a pay-as-you-go system. There would be much stronger incentives to affiliate if the contributions were accruing to individual and if workers did not lose their contributions in case they cease contributing. More information on FSP can be found in Annex D on social insurance programs.

1.28 In 1993, Colombia introduced one of the most comprehensive health insurance reforms undertaken in the Latin America region. Since the reform, health insurance coverage has nearly doubled and become much more progressive. According to Velez et al. (2001) coverage went from 31% to 58% of the total population between 1992 and 1997. In the first decile coverage rose from 4% in 1992 to 41% in 1997. Spending on health increased as a

⁸ See the Annex on social assistance programs for more details on ICBF and HCB. Additionally there are age restrictions depending by type (see Annex D on FSP), and the beneficiary must be affiliated with the health system.

⁹ *Consortio Prosperar* in Henao, 2000b.

result of the reform from 3.5% of GDP in 1993 to 5.4% in 1997, after which it fell to 5% in 1999.¹⁰ The introduction of a system of subsidized health insurance alongside the contributory system, with affiliation based on a family's SISBEN status has greatly contributed to the improvement of coverage.

1.29 Despite the substantial progress following the health reform, significant challenges remain. The reform is caught mid-stream, with the simultaneous operation of both the old and new systems contributing to Colombia's fiscal instability. Second, targeting of the subsidized health insurance toward the poor could be improved. About 40% of the population are still without coverage. On the other hand there are substantial leakages with 3 million people from deciles 4 to 10 being covered under the subsidized system, while 6 million people from deciles 1 and 2 were not.¹¹ According to *Henao and Ayala* (2001) a group of approximately 10 million independent workers and their families (the "sandwich population") fall in between the subsidized and the contributory system and therefore are also not covered by any health insurance. Further information on the health system, including an explanation of the subsidized and contributory health insurance regimes, can be found in Annex D.

1.30 Several analysts have raised the absence of unemployment insurance as a critical problem in Colombia given the high unemployment rates and the labor market rigidities. More information can be found in several recent studies supported by the World Bank that have addressed Colombia's labor market issues.¹²

Social assistance programs

1.31 Colombia's new social assistance programs introduced as a crisis-response mechanism are reviewed in Chapter III and the existing social assistance programs in Chapter IV. Annex D and the background papers prepared by *Fedesarrollo* also contain additional information on specific programs.

1.32 Social assistance transfers may take the form of (i) cash or income transfers, such as child allowances; (ii) transfers in kind, such as food subsidies, housing subsidies, energy subsidies, and feeding programs; or (iii) income support to the vulnerable by providing jobs in an emergency situation, through a public works program.

1.33 For the purpose of the study, we define the social safety net as the collection of national social assistance programs while recognizing that in Colombia an important element of the social safety net is provided not by the national government, but instead by local governments, NGO's, the private sector and individuals themselves through informal arrangements. See Box 1.3. A fruitful area for additional research would be to explore the role that local governments and non-governmental actors play in the provision of a social safety net and to explore avenues for effective collaboration between these actors and the central government. This is particularly important in Colombia where local governments control a large portion of the state budget—especially in the social sectors—and because of the central

¹⁰ Henao and Ayala, 2001.

¹¹ Henao and Ayala, 2001.

¹² Kugler & Kugler, 2001. Kugler, 2000. Maloney, W. et al., 2001. López Castaño, 2001.

government's limited presence in a large part of the national territory due to the armed conflict in Colombia.

1.34 The recent economic shock provided an impetus for reviewing Colombia's social safety net, and the crisis is used as a case study for developing recommendations for reform. The worst economic crisis faced by Colombia in over 60 years provides a dramatic and unfortunate opportunity to focus attention on how well the current safety net is functioning in the face of this large, covariate shock. This use of the crisis as a case study was selected in response to the Government of Colombia's interest in: (i) addressing the immediate needs of vulnerable affected by the present economic situation; and (ii) providing inputs into the design of a social safety net that can be implemented counter-cyclically to cushion the poor and vulnerable from the negative effects of future economic crises.

1.35 However, the study is focused not only on the use of safety nets for counter-cyclical protection during times of crises, but also assesses the Colombian system's ability to address structural vulnerabilities in normal times. Although we examine the post-crisis period, many of the vulnerabilities assessed in this review are not a direct result of the recent economic recession, but are related to other issues, including varied forms of violence (political, social and economic), the consequences of reforms such as the restructuring of the health sector, and minimum wage policy.

D. SCOPE AND OUTLINE OF THE STUDY

1.36 This study has three principal limitations. First, data constraints limit the exploration of causal relationships between structural changes in the economy and the impact on human capital. The challenges faced by Walton and Manuelyan (World Bank, 1998) in assessing the social consequences of the East Asia crisis present themselves in assessing the effect of the crisis in Colombia and developing policy recommendations. First, little is known about the inter-relationships between economic shocks and the social fabric. Data limitations exist, as comprehensive surveys have not been conducted to measure the full extent of the crisis. The last comprehensive household survey is from 1997, while the core of the economic crisis developed in 1998-99, and there are no panel data available. In addition, little is known about the distributional impact of choices regarding certain macroeconomic and structural policies. To illuminate these issues, Colombia's surveys of living conditions and vulnerability must be continued and improved, specific policies and programs must be monitored and evaluated and the information produced from these efforts used to inform policy and foment public dialogue.

1.37 Second, little work has been done on the role of actors outside the central government in the social safety net, despite their critical role, and taking on this assessment was beyond the scope of this short-term study. Colombia has a rich history of leadership in social assistance from outside the formal construct of the state. Private sector organizations such as *Fundación Corona* and non-governmental organizations such as *Pastoral Social* are recognized as leaders in providing safety nets. In addition, Colombia's drive toward decentralization has resulted in local governments managing over 30% of the national public expenditures as well a number of their own programs, including a wide array of local safety net programs, such as Antioquia's secondary school voucher program and Bogota's cash transfer program for the elderly. No comprehensive safety net strategy can be carried out without the

involvement of local governments, yet a systematic exploration of their role is beyond the scope of this study.

Box 1.3: The city of Bogotá's Family Welfare Program

This brief overview of the city of Bogotá's family welfare programs provides insight into the role played by local governments in the provision of social safety nets.

Bogotá's Administrative Department of Social Welfare (DABS - *Departamento Administrativo de Bienestar Social*) along with the Institution for the Protection of Childhood and Youth (IDIPROM - *Institución para la Protección a la Niñez y la Juventud*) are important safety net providers for youth and the elderly.

DABS' staff of 1,500 administers 15 different safety net programs with an annual budget of about 100,000 million pesos.¹ About one-third of DABS' budget is used to reach about 26,000 children under 5 through a pre-school program. DABS also operates institutions for about 2,500 homeless children and elderly, attends to close to 1,600 children in high risk situations, and provides programs for about 1,600 mentally handicapped children. The smaller IDIPRON program attends to almost 3,600 homeless youth 9 to 22 years old through a staff of 241 and an annual budget of 25,000 million pesos¹.

A comparison between DABS and ICBF reveals similarities in scope and approach to family welfare programs. DABS' 'Casas Vecinales' pre-school program is similar to the HCB community mothers system, while the 'Jardines' program is similar to ICBF's CAIPs formal daycare system. The ICBF regional childcare budget for Bogotá is 90,000 million pesos, with which about 96,000 children are reached, making the unit cost of ICBF somewhat lower. A comparative coverage study of the local and national programs in Bogotá (Corchuelo, 2000) reveals that the combined coverage of the poorest children under 5 stands at around 60%, of which about 45 percentage points represent ICBF programs and about 15 percentage points DABS programs. Unlike ICBF, DABS pre-school programs use a formal targeting mechanism through a mixture of unmet basic needs neighborhood indices, SISBEN, and household surveys.

DABS' transfer program for the elderly is similar to the former *Revivir* program administered by the *Red de Solidaridad Social* (RSS). The cash transfers are made using SISBEN through the subsidized health regime. The program provides subsidies in cash along with in-kind transfers of food, clothing and housing. In 1999 about 17,000 subsidies were delivered, using 15,000 million pesos of DABS' budget. Comparative coverage data between the RSS and the DABS elderly programs are not available, but in 2000 the RSS national program covered 4 times the number of elderly served through the Bogotá program, underscoring both the relative importance of the Bogotá program and the effect of the budget cuts in RSS.

Source: Ayala and Ortiz. 2001. "Informe ICBF". Fedesarrollo. Bogotá, Colombia.

¹ Equivalent to about US\$ 57 million (with 1:1755 as an exchange rate calculated as the average of the month end exchange rates during 1999).

1.38 Finally, there is very little information on the coverage, efficiency and effectiveness of Colombia's social assistance programs. As is explored in Chapter IV, 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 non-existent. Information management is a clear area for reform, as detailed in Chapter V.

1.39 Chapter II explores transient and chronic vulnerability by examining who has been hit by the crisis and what risk management strategies have been used to cope with the crisis. Then it provides a brief overview of risk and vulnerability using a life cycle approach (Arriagada et al, 2000) to identify vulnerabilities by age groups. Finally, special circumstances vulnerable groups

are briefly examined, with a focus on the displaced population affected by the convergence of the social crisis and economic recession.

1.40 **Chapter III** summarizes the new *Red de Apoyo Social* (RAS) safety net programs being introduced by the Government of Colombia to mitigate the worst social effects of the economic recession. The chapter provides a brief description of the workfare, conditional transfer and youth training programs that compose the RAS and concludes with an analysis of how the RAS programs could be improved to enhance their longer-term viability.

1.41 **Chapter IV** reviews Colombia's existing safety net of national social assistance programs. The chapter explores the magnitude of the safety net as determined by the share of government resources devoted to social assistance programs, a brief overview of targeting mechanisms, and a review of the principal programs in the safety net, particularly regarding their coverage, efficiency and effectiveness based on available data. Annex D provides details on selected social programs, including the primary social assistance programs.

1.42 **Chapter V** presents the main conclusions and provides options and recommendations concerning specific reforms to the counter cyclical and structural elements of the safety net, distinguishing between technical reforms, reforms to individual programs and strategic reforms:

2. THE CRISIS AND VULNERABLE GROUPS

2.1 **The goal of this chapter is to provide an overview of vulnerability in Colombia in order to identify which groups should be targeted by different safety net programs.** This analysis sets the stage for the description of the existing safety net programs and a corresponding identification of its gaps in coverage explored in the next two chapters.

2.2 **Today, Colombia is recovering from the effects of its most difficult economic period in over 60 years.** GDP growth decreased from an average of 3-4 percent in the 1990s until 1997 to 0.5 percent in 1998, and to -4.3 percent in 1999 (GDP registered a positive 3 percent growth rate for 2000).¹³ While Colombia's two year recession in 1998-1999 was not nearly as severe as the economic crises that ravaged Asia, it was still a powerful jolt to a country that thought itself immune from such economic turmoil.

2.3 **This chapter presents an analysis of the status of different groups after the recent economic recession, recognizing that data limitations prevent us from independently assessing the effects of the crisis.** The analysis of the present situation is nonetheless useful in identifying the shortcomings of existing social assistance programs. The data sources for this chapter include Colombia's available household surveys (*Encuesta de Hogares* 1995, 1999, 2000; the *Encuesta de Calidad de Vida* 1997; and the Demographic and Health Surveys from 1990, 1995, and 2000). These surveys have the advantage of being drawn from national samples, are nationally representative and often representative at lower levels of disaggregation. They have not, however, been designed to measure vulnerability and social risk management. To examine these latter issues, the study used a household survey specifically designed to assess the social impact of the crisis (Fedesarrollo's *Encuesta Social* administered in Colombia's 4 largest cities), and commissioned a qualitative study on "Social Dimensions of the Crisis" (Gonzalez 2001) to provide rapid input into this safety net assessment (Box 2.1 and Annex A). To examine changes in human capital, an analysis of cross-sectional time series data preceeding and covering the economic crisis is conducted using the *Encuesta de Hogares* and other nationally representative household surveys. It should be noted also that although some quantitative and qualitative data are available from rural areas, overall the data have an urban bias.

¹³ Source: Government of Colombia, *Dirección de Estudios Macroeconómicos* (G. Piraquive).

Box 2.1: Assessing Vulnerability and Social Risk Management

The *Encuesta Social* household survey and the ‘Social Dimensions of the Economic Crisis’ qualitative study were designed in order to assess the main risks and vulnerabilities that affected certain groups of the Colombian population in the wake of the recent crisis.

The *Encuesta Social* survey was launched in September 1999 in Colombia’s four main cities (Bogotá, Medellín, Cali, and Barranquilla) and includes no data from smaller urban or rural areas. We use results from the second wave of the survey collected during March 2000, comprising 5017 individuals and 1184 households. The *Encuesta Social* includes a risk, vulnerability and risk management module that measures perceptions of risk and vulnerability, self reported income and consumption shocks, households’ use of social insurance and assistance mechanisms, and assessments of risk coping mechanisms. The results of the survey are representative of households within poverty quintiles in the four largest cities.

The “Social Dimensions of the Economic Crisis” qualitative study was conducted between July and October 2000 for five different vulnerable groups from urban and rural areas that were identified ex-ante as likely to have suffered income shocks due to the crisis: (i) construction sector workers, since unemployment has been particularly high in this sector due to a 19% contraction in the construction industry in 1999; (ii) day laborers in the rice and cotton industries where investment and prices obtained on international markets have fallen; (iii) communities displaced by violence and the lack of employment opportunities in rural areas; (iv) micro-entrepreneurs who have faced rising constraints in access to credit as well as rising competition from the growth of the informal sector; and (v) middle-income housing residents facing rising interest rates. Through focus groups and case studies, this rapid assessment explored perceptions of sources of risk and vulnerability and the use of social risk management strategies and arrangements to address the crisis, including publicly provided social assistance programs. The results of this qualitative analysis should be treated as case studies as they are not based on representative samples.

2.4 Wherever possible, we distinguish between three groups: the chronic vulnerable, the transient vulnerable, and the special circumstances groups, as described in Box 2.2.¹⁴ The composition and focus of a safety net should vary according to the characteristics of the risks identified among them. The chronic vulnerable will need assistance, and not only during crises. The transitory vulnerable will need countercyclical social assistance programs, complemented by effective social insurance mechanisms made available through the development of risk prevention and mitigation mechanisms. In addition, the programs for the transient poor have to be designed in such a way that no perverse incentives are created to remain in the program. Special groups may require more targeted assistance (such as social programs for the displaced, or assistance with mental health problems and drug addiction).

¹⁴ This was mainly by using the information provided by the qualitative study. Unfortunately panel data sets generally used to distinguish the chronic from the transient poor (e.g. comparing groups before and after the crisis) are not available for Colombia.

Box 2.2: Different Target Groups for Social Safety Net Programs

- **Chronic vulnerability group**

This group is vulnerable to the adverse outcomes of shocks, even small shocks because of their high poverty levels. This vulnerability is linked to limited access to assets, reflecting a basic overall resource constraint. It very much overlaps with the notion of extreme poverty or indigence. In a country like Colombia where nearly two thirds of the population lives in poverty and nearly a quarter in extreme poverty, probabilistically a large fraction of households must be vulnerable at any time.

- **Transient vulnerability group**

This group lives near the poverty line, and may be vulnerable either (a) because they are exposed to large shocks; or (b) because their poor risk management mechanisms contribute to their vulnerability, possibly on account of experiencing repeated shocks. This is akin to the concept of transient poverty, since many lower income urban residents and formal sector workers may be vulnerable to idiosyncratic or macroeconomic shocks. It is also the hardest phenomenon/group to analyze due to data limitations, since it is often difficult to distinguish this group from the chronic vulnerable particularly with cross-sectional data from one point in time.

- **Special circumstances group**

Some sub-groups of the population are also at risk due to special circumstances. This includes groups that have experienced past shocks that have put them in a particularly vulnerable position, such as the internally displaced people affected by rural violence. In other cases, vulnerability arises from social pathological factors such as their own behavior or the behavior of those around them (street children, drug addicts, victims of domestic violence, victims of discrimination and orphans). In other cases, vulnerability comes from disability (e.g., the handicapped). Finally, certain features of the lives of some sub-groups make them particularly vulnerable, such as ethnic populations that are vulnerable to exclusion and discrimination.

Source: Quality Enhancement Review Report, Colombia and Guatemala. March 2001, processed, World Bank

2.5 Section two of this chapter reviews demographics and poverty trends over time in order to set the context for examining the effects of the crisis. Section 3 focuses on the effect of the crisis on different groups in the population, trying to identify which groups have been the most vulnerable to it. Section 4 discusses the main risk management strategies observed among different groups of the population. The next section adopts a life-cycle approach to vulnerability, summarizing the set of risks faced by different age groups before and after the crisis. Section 6 contains an overview of special circumstances groups with a focus on those internally displaced by the violence, and the last section summarizes the main conclusions.

A. THE CONTEXT: TRENDS IN POVERTY, INEQUALITY AND DEMOGRAPHICS

Poverty trends¹⁵

2.6 The gains in poverty made in Colombia over the past decade have been reversed after the crisis. As shown in Table 2.1, the general improvement in poverty and indigence rates was reversed by the macroeconomic shock of the late 1990's. Between 1995 and 1999, overall poverty rates rose four percentage points and extreme poverty rates rose by two percentage points.¹⁶

2.7 In urban areas, poverty and extreme poverty rates increased dramatically in the wake of the recession of the late 1990's. In urban areas great progress was made in poverty reduction in the early 1990's, bringing the percentage of people under the poverty line from 55% in 1988 to 48% in 1995, a reduction of 7 percentage points in only 7 years. However, by 1999 these gains had been fully reversed and urban poverty rates returned to their 1988 levels. Extreme poverty rates in urban areas followed a similar pattern – the 7 percentage point reduction in urban extreme poverty rates gained between 1988 and 1995 was reversed by 1999 with the extreme poverty rate back up to 14%.

2.8 The economic recession also increased the severity of poverty in urban areas. The poverty gap, which measures the depth of the poverty (i.e. how far the poor are below the poverty line), went from 19% to 26% between 1995 and 1999 in urban areas.

2.9 In a pattern distinct from the rapid economic growth in urban areas that led to decreases in poverty and indigence until the late 1990's, in rural areas poverty did not decline substantially throughout the 1990's, although improvements were made in reducing extreme poverty. In rural areas, important gains in poverty reduction were made between 1978 and 1988 with poverty rates dropping from 94% to 80% and extreme poverty rates dropping from 68% to 48% over the same period. These gains were driven by an expansion in the agricultural sector that raised the incomes of rural households by 19.7% between 1988 and 1991 (Ayala, Barrera, Henao and López. 2000). However, the gains came to a stop in the early 1990's with the contraction of the agricultural sector which resulted in an estimated income loss of 6.6% from 1992-1997 (Ayala, Barrera, Henao and López. 2000). By 1999 the percentage of poor in rural areas still stood at 79%, while the percentage of extremely poor stood at 37%.

¹⁵ Poverty data are from Velez et al, 2001.

¹⁶ Poverty is measured using a consumption based definition of a 'full poverty line' and 'extreme poverty line'. Individuals are classified as poor when they have consumption levels equal or below the 'full poverty line', representing the cost of acquiring the minimum caloric intake recommended for a person of average age and gender in Colombia, plus an allowance for basic non-food necessities. Extremely poor are those individuals that fall below the 'extreme poverty line', which represents a consumption level equal to the cost of acquiring only the recommended minimum caloric intake. These costs are calculated separately for different geographic regions, leading to the existence of a value range for each line for the country as a whole. For additional details, see Velez et. al. (2001).

2.10 The relative stability of the rural poverty headcount measure masks deterioration in the depth of the poverty. The poverty gap rose from 40% to 44% between 1995 and 1999 in rural areas. The recent crisis did not leave rural areas unaffected.

Table 2.1: The evolution of poverty and inequality by geographical area, 1978-1999

	1978	1988	1995	1999
<i>National</i>				
Poverty rate	80%	65%	60%	64%
Extreme poverty rate	45%	29%	21%	23%
Poverty gap	46%	32%	29%	34%
Mean income per capita ¹	112	183	216	210
Gini	0.47	0.49	0.52	0.54
<i>Urban</i>				
Poverty rate	70%	55%	48%	55%
Extreme poverty rate	27%	17%	10%	14%
Poverty gap	35%	23%	19%	26%
Mean income per capita ¹	157	235	295	277
Gini	0.53	0.54	0.56	0.57
<i>Rural</i>				
Poverty rate	94%	80%	79%	79%
Extreme poverty rate	68%	48%	37%	37%
Poverty gap	61%	43%	40%	44%
Mean income per capita ¹	52	90	95	102
Gini	0.45	0.47	0.45	0.50

Source: Colombia Poverty Report (Velez et al., 2001) See Annex Table B.1.2 for additional poverty data.

¹ Thousand 1999 pesos, based on monthly household income.

Inequality trends¹⁷

2.11 Income inequality increased over the past two decades.¹⁸ Table 2.1 shows a gradual increase of the Gini coefficient from 0.53 in 1978 in to 0.57 in 1999. Velez et al. (2001) also looked at six other measures of income inequality, and all show a worsening between 1978 and 1999. A rural-urban decomposition shows that that most of the rise in national inequality during the last two decades is associated with greater inequality within each of the two areas; much more than with an inequality increase between rural and urban areas; ‘between inequality’ explains only one sixth of total inequality and has been relatively stable over time.

2.12 Urban inequality has increased substantially throughout the last two decades, with the bulk of the deterioration occurring during the nineties. The Gini coefficient increased from 0.47 in 1978 in to 0.54 in 1999. According to results from the Sen welfare index, the rising trend in inequality reduced potential welfare gains from 1978 up to 1995 (during a period of high economic growth in Colombia) and aggravated the welfare losses during the recent economic recession. The increase in inequality during the period was responsible for 18% less welfare

¹⁷ Inequality data are from Velez et al, 2001.

¹⁸ For a discussion about the relationship between growth, inequality and poverty, and for some cross-country comparisons of these measures please refer to Ravallion, M. (2001).

gains¹⁹ between 1978 and 1995 in urban areas than would have been the case had inequality remained constant; and for another 5 percent loss between 1995 and 1999 (see Annex B, Section 5).

2.13 An analysis of the sources of the income inequality increase in urban areas over the last two decades finds that education accounts for a sizeable share of inequality. Velez et al. (2001). The education of the household head, or the average education of other household members above 12 years, consistently accounts for a sizeable share of inequality between homogeneous groups of households over the period of analysis, whereas this is not the case for other variables like the household head's gender, experience, age, city of residence and sector of economic activity. The importance of education as a determinant of inequality between homogeneous groups of households has also increased over time. Most of the increase took place between 1995 and 1999, with the recession reinforcing the value of higher education.²⁰

2.14 When looking at types of income as sources of inequality in urban areas, labor income (wage income and self-employment) is the driving force. Shorrocks' inequality decomposition in Annex B, Section 5 shows that until 1995 self-employment was the largest source of inequality, well before wage income, but that this has been reversed after the economic recession. In 1995 self-employment still accounted for 44% of total income inequality and wages for 34%, whereas in 1999 wages accounted for 58% and self-employment for 26%. Together, wage income and self-employment make up 84% of total inequality. Among *other* incomes, pensions and interest income contribute most to inequality. The poor do not benefit much from current pension benefits. The poorest 50% of the population receive less than 10% of total pension benefits, while 65% of pension earnings go to the richest 20% of the households.

2.15 Rural inequality increased from 1978 to 1988, then decreased between 1998 and 1995 back to 1978 levels, but since then has reached unprecedented levels. The Gini coefficient (Table 2.1) jumped from 0.45 to 0.50 between 1995 and 1999. Although income has risen substantially since 1978, a concurrent rise in income inequality has reduced gains in welfare by nearly 20% in rural areas according to the Sen welfare index (see Annex B, Section 5).

Demographic trends

2.16 The crisis has not triggered measurable demographic changes in Colombia. However an analysis of the structure and composition of families can provide important insights into crafting a safety net strategy. We examine the main characteristics of families in

¹⁹ As measured by the Sen index.

²⁰ Velez et al. (2001) find that the rise in skill premia can be partially attributed to the sluggish supply of high-skilled workers. If shortages in higher education persist, wage differentials will further increase, with perverse effects on labor income inequality. On the other hand, if changes in the supply and demand for skills produce an equalization of rates of return to education, there would be substantial income equality gains. To achieve this, however, the cost of substantial increases in the coverage of public tertiary education would be prohibitively high, thus credit expansion should be considered. Currently, investments in higher education have such high real returns that credit, combined with targeted subsidies, would be appropriate in stimulating the supply of tertiary education.

Colombia because: the type of family structure and its composition should affect some features of the safety net, like targeting and benefit levels; demographics are important to understanding the household structure of poor and vulnerable families; and household composition can change as a result of coping strategies (e.g. migration of a family member, or expanding households beyond nuclear family structure).

2.17 Colombia has a relatively young demographic structure, but the population is aging rapidly. According to DANE (2000) the group of children aged 0-11 comprises about 25 percent of the population, while the elderly (aged 65 or more) represent a small percentage of the population (about 6 percent).

2.18 The share of the elderly is growing more than proportionately, especially in urban areas, implying that the elderly poor will become an important group in the future, requiring reinforcements to the safety net to address their needs. While the 0-11 group has experienced a 5 percent contraction in the period 1995-2000, the elderly as a group has grown more than 20 percent in the same period.

2.19 Nuclear, two-parent families constitute the prevailing family structure in Colombia, with variations across quintiles and geographical areas. Nuclear families represent about 49 percent of households, down from 53 percent in 1995. This percentage decreases with income; nuclear families constitute about 51 percent in the lowest quintile and 44 percent in the highest. Extensive families are also more common among the lowest quintiles. According to DNP female headed households are not overly represented among the poor as the proportion of female headed households is somewhat similar in every income quintile.

2.20 Between 1995 and 2000 the average family size has decreased from 4.4 to 4.2 members. The poor have more children and higher dependency ratios. The average number of children is also lower: while in 1995 the average family had 0.66 children less than 7 years of age, in 2000 the average number is 0.58. Both family size and number of children decrease as income rises, and as such we observe the largest number of children in the lowest quintile.

B. WHO WAS AFFECTED BY THE CRISIS? ASSESSING VULNERABILITY

2.21 Vulnerability is based on the expected outcomes of risks and responses to those risks, with the degree of vulnerability determined by the probability that a shock will result in individuals, households or communities falling below a pre-defined welfare threshold, such as poverty (Heitzman, Canagarajah and Siegel, 2002). Even though the data limitations highlighted previously prevent us from using national surveys to assess the causal impact of the crisis, mainly because of the lack of panel data, we used the *Encuesta Social* household survey and the “Social Dimensions of the Crisis” (González 2001) qualitative study to provide insights into which groups suffered the most as a result of the crisis. Although the results from the *Encuesta Social* are generalizable only for the 4 cities where the survey was conducted and the qualitative study is based on in-depth case analyses, these two sources can be triangulated and provide valuable insights into the impact of the crisis and Colombians’ social risk management. Additionally some evidence is available from the *Encuesta de Hogares* in 1995 and 1999 related to unemployment, job loss and poverty in the wake of the crisis, as is presented in Velez et al. (2001).

Evidence from the *Encuesta de Hogares*²¹

2.22 Velez et al. (2001) find that household members' employment status was critical in determining their poverty status. The results also underscore the effects of labor market rigidities in Colombia. Those households experiencing the largest increase in poverty were those with only self-employed workers or only non-labor income, whereas households composed entirely of wage-earners saw the smallest increase in poverty during the recession.

2.23 Unemployment of the household head is catastrophic for poverty risks; in urban areas poverty is 25 percentage points higher if the head used to work and is presently unemployed. On the other hand, when household members other than the head work, the household is much less likely to be poor. Velez et al. (2001) confirm that a higher employment rate within the household remains the most effective insurance against poverty, even though this effect diminished during the recession. The labor force participation of spouses and other household members is an increasing function of years of schooling and a decreasing function of the presence of young children.

2.24 The effects of the crisis in urban areas were most acute for households headed by individuals with limited education. Velez et al. (2001) conclude that low-skilled headed households incurred the largest income losses and poverty increase, both through wage reductions and job losses. Also, a high school education has been losing some of its protective power and therefore insulates less against poverty.

2.25 The presence of children increases the risk of poverty, while the presence of elderly produces the opposite effect. Velez et al. (2001)²² show that in 1999 households with one more young child than average face a nearly 11 percent higher poverty risk. The presence of people older than 65 years of age slightly decreases the probability of being poor (2.4 percent in 1995, 3.6 percent in 1999), probably through the effect of wealth accumulation and/or secure pension income. The increase might point at an enhancement of the protective role of fixed income sources in a recessive period.

2.26 Female-headed households remain consistently worse off in urban areas than male-headed ones, although the difference has declined during the crisis period. Contrary to the descriptive statistics, when controlling for other household characteristics, the multivariate analysis²³ shows that female-headed households are more vulnerable than male-headed ones. A female headed household with the head under 36 years of age is still 23.7% more likely to be poor than a male headed household with the head between 58 and 67 years of age. However, between 1995 and 1999 this risk differential decreased seen it was still 30.6% in 1995; presumably associated with the gains on gender wage differentials. Also, the chance of being poor for males between 28 and 35 in 1995 was only 8.3% higher than for males in the reference group of 58 to 67 years of age; whereas in 1999 it was 17.3% higher, pointing out that the age of the household head was also an important factor during the crisis.

²¹ See also Table B.1.2, Table B.1.3 and Table B.1.4 of Annex B, taken from Velez et al. (2001). Table B.1.4 shows the results of a multivariate analysis about the marginal effects of selected variables on the probability of being poor in urban Colombia. An important caveat here is that a number of the main risk factors to increase poverty are rather structural in nature than directly related to the economic recession.

²² Table B.1.4 in Annex B.

²³ See Velez et al. (2001) as can be found in Table B.1.4 in Annex B.

2.27 Housing ownership in Colombia is a self-insurance device used widely by the poor in addressing the uncertainty of labor income and unemployment in the recent crisis. Complementing the data from focus groups, in which individuals reported using their homes to set up small businesses, provide shelter to extended family members and rent floors and rooms to supplement income, the Colombia Poverty Report (Velez et al 2001) reveals that in urban areas people who do not own their own homes are more vulnerable to poverty (63% are poor versus 47% of home owners).

2.28 In rural areas the analysis of vulnerability and key determinants of poverty leads to conclusions similar to the urban case, except for much weaker impact of homeownership as a poverty protection device.

Qualitative evidence from the “Social Dimensions of the Crisis” study

“The crisis has made us open our eyes and tighten our belts”

-focus group member, “Social Dimensions of the Crisis”

2.29 The crisis has affected all socioeconomic groups, albeit differentially. The chronic poor in the lowest economic strata are subject to “accumulated vulnerabilities” meaning that the current crisis typically accentuated existing vulnerabilities, while further adding new ones. Additionally, the coping mechanisms they invoke to counter the current crisis have increased their vulnerability to future shocks, mainly due to the depletion of existing assets (see Section D).

2.30 Middle income groups are subject to more specific vulnerabilities, of a transitory nature such as the UPAC (*Unidad de Poder Adquisitivo Constante*) debtors, low-middle income groups who accumulated housing debt (see Gonzalez 2001); although some of them might also run the risk of falling into an accumulation of vulnerabilities. Table 2.2 summarizes the vulnerabilities of different socio-economic groups as reported by the focus groups interviewed in the qualitative study.

2.31 Focus groups uniformly assessed the crisis as multidimensional, involving political, economic, and social factors and affecting all levels of Colombian society (see Table 2.2). Highlighted are the lack of social safety nets or the exclusion from its benefits, especially affecting children and adolescents; and the migration typically from rural to urban areas increasing competition for fewer jobs and overburdening social services in receptor municipalities. The general perception of economic insecurity is further intensified as the crisis is perceived as long-lasting by many groups.

Table 2.2: Perceptions of Vulnerabilities by Socio-Economic Level

<i>Extremely Poor</i>	<i>Poor</i>	<i>Middle class</i>	<i>Upper class</i>
Less financing available from formal public social insurance and services (pensions, health)			
Informal workers (urban and rural): Decrease in labor demand. Wage decrease. Reduction in or total loss of access to public services. Increase in social insecurity.		Functionaries (urban and rural): Dismissals at private companies and public institutions.	Landowners (rural): Reduced international competitiveness (commercial opening). Reductions in international prices for key exports. High transaction costs. Insecurity as a result of 'boleteo' (Colombian expression to indicate bribery, blackmail and/or economic threats or death threats), and as a result of the guerrillas, of narcotrafficking and of the armed conflict.
Marginalized and unemployed people (urban): Exclusion from social benefits. Participation by other groups in the informal labor market, legally or illegally. Immigration by groups from the rural areas increases labor supply, and thus competition. This increased labor supply has the tendency to drive down salaries.	Day laborers (rural): Unemployment. Reduction of agricultural prices. Problems with ensuring food provision. Ecological and environmental problems. High transaction costs. Inflation. Informal workers (urban) Rural to urban migration increases labor supply, reduces salaries and reduces labor demand. Regulation and prohibition of informal work like street selling (for instance the plans related to public or recreational spaces in the cities).	Workers (urban and rural): Unemployment. Reduction or loss of public social services. Reduction in human capital accumulation as a result of the loss of or more limited access to social services and benefits. Increase in social insecurity, including that of kids, youngsters and the elderly.	Business owners (urban): Market fluctuations. Price drops at international level. Low competitiveness. Increase in the price of imported production input materials. Increase in transaction costs. Insecurity caused by robberies and 'boleteo' (a Colombian expression to denominate bribe, blackmail, economic threats and/or death threats).

Source: González 2001.

2.32 In a risk ranking exercise, focus groups participants ranked economic insecurity as their principal source of risk, followed closely by violence. Table 2.3 shows the main problem areas mentioned by the focus groups participants in the study, and the scores assigned by each group (1 being the most pressing problem). It identifies income loss and the related uncertainty as the most important problem in each group. The second most acute problem is violence and for some groups –the displaced and construction workers– family disintegration. The issue of violence is identified as a combination of crime and armed conflict, which are perceived as two distinct but interrelated problems. Fear of losing assets, in particular the family home, also ranks high in the list of problems. Health and nutrition are next, while education, nutrition, and social capital are the last of the problems commonly indicated. Annex D provides summary risk rankings from focus groups in each of the three regions (Cali, Bogotá and rural) where the study was conducted, and reasons for the risk rankings selected, as explained by focus group participants.

2.33 The low importance given to education as an acute problem in face of the crisis is a somewhat surprising result. However it could be explained by the low opportunity cost of education, as it is hard for children and young adults to find jobs. In addition, education may not be seen as a short term solution to alleviate the hardship, because even those adults with some education or up to complete secondary education are subject to high unemployment rates. It

should also be noticed that the aggregate indicators for education show a high enrollment rate, which has not changed significantly after the crisis. The risk however is that the short run focus on coping strategies and away from education and nutrition endangers long run human capital accumulation.

Table 2.3: Ranking of Problems Faced by Different Vulnerable Groups

Group	Income	Family disintegration	Violence	Housing	Health	Education	Environment	Nutrition	Social capital
Rural	1		2		3	5		4	6
Displaced	1	1-2	2	3	5	7	4	6	8
Urban micro-entrepreneurs	1		2			4		5	3
Urban Middle Income	1		3	2	4	5		6	7
Construction workers	1	1-2	2	3	5	7	4	6	

Source: González (2001).

2.34 Independent of their poverty status, all the focus groups agree that there is a strong correlation between the economic and political dimensions of the crisis, particularly regarding the effects of violence and the absence of the state in key areas of public life. A common perception among those interviewed has to do with not only a lack of good governance, but with a perceived lack of state presence. The absence of the state is seen as particularly acute with respect to its failure to protect citizens against violence and the armed conflict. Annex C provides detailed information about risk rankings by different groups in the qualitative study.

Evidence from the *Encuesta Social* survey

2.35 The *Encuesta Social* household survey was used to analyze which type of households were affected by the recent economic recession. The survey assessed whether, in 1999, a household had experienced a drop in consumption, a drop in income, and whether the household had access to savings and credit.²⁴

2.36 Since data on income and expenditure before and after the crisis were not available, a negative income shock was defined as a self-reported change in one of the following: a drop in labor income in the household, a drop in income from business, bankruptcy, or job loss.

2.37 The study also examined changes in consumption. The measure of consumption used in the *Encuesta Social* is based on questions pertaining to changes in consumption, not a direct measure of consumption as is often used in more extensive investigations such as the Living Standard Measurement Surveys. In the analysis, a drop in consumption is registered when a

²⁴ The study analyzed if the probability of a negative income shock varied by income quintile. As explained in Gaviria, A. (2000), to avoid endogeneity problems, the quintiles were defined using proxies that are less susceptible to suffering from transitory changes. The procedure resembles Filmer and Pritchett (1998). Among the variables used to construct a socioeconomic status index are the presence in the household of phone lines, refrigerator, color t.v., computer, and if the household has a second house or apartment.

household reports a change in each and every one of the following for 1999: abstaining from the purchase of non-essential goods; an effort to buy less expensive products; and a reduction in expenses on leisure activities.

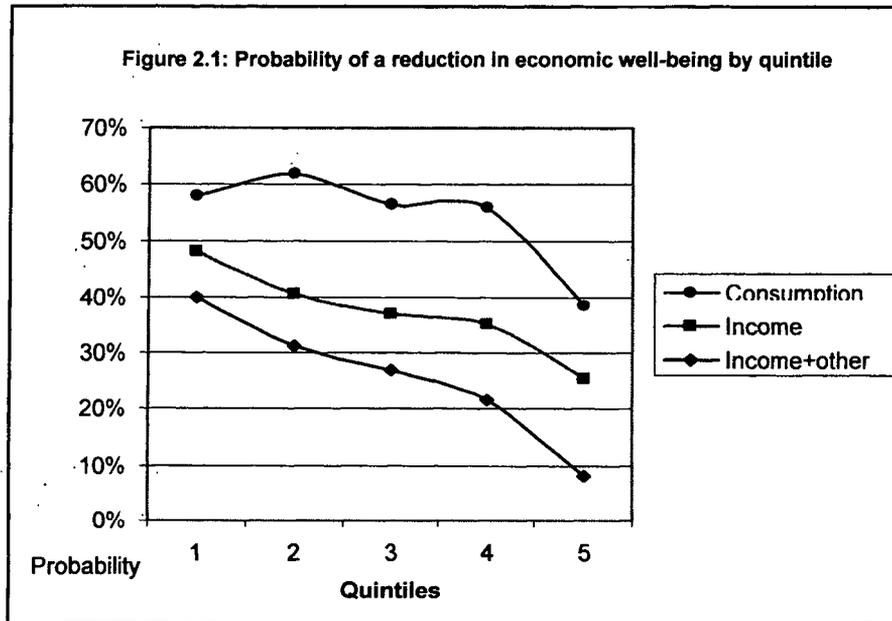
2.38 Finally, the *Encuesta Social* also contains questions regarding households' access to savings and credit. Specifically, the household head is asked whether the household had any savings and whether the household acquired debt during 1999.

2.39 **In 1999, the year in which the economic recession was strongest, the survey results suggest that many Colombians experienced a drop in well-being:** 37% of the households in the sample registered a negative income shock, 54% modified their consumption habits, 21% reported having savings available to draw upon in the face of income reductions and 17% acquired some type of debt. (Gaviria 2000).

2.40 **It was found that poor households are more vulnerable, in that they are more likely to be affected by negative income or consumption shocks. Poorer households are also less likely to have access to savings and credit (Gaviria 2000; Figure 2.1).**

2.41 **The probability of a negative income shock is at least 20 percentage points higher in the poorest households as compared to the richest (Gaviria 2000).** As Figure 2.1 shows the probability of a negative income shock is also nonlinear in income, as there is a kink between the fourth and fifth quintile, and similar results occur when using different proxies of well being like consumption. The probability of a shock is also higher in female headed households but the difference is not significant. The average income in female headed households is slightly lower than that in male headed households, and there is no difference in education levels of household heads. These results suggest that female headed households in urban areas do not seem to be a particularly vulnerable group, a result distinct from those of the Colombia Poverty Assessment (Velez et al., 2001).

Figure 2.1: Probability of a Reduction in Economic Well-being by Quintile



Source: Gaviria, 2000.

2.42 The probability of a reduction in consumption is also approximately 20 percentage points higher for the four lowest quintiles as compared the wealthiest quintile. However, there are no significant differences in the probability of reporting a reduction in consumption among the four poorest quintiles.

2.43 Finally, wealthier households are in a better position to manage risk because of greater access to savings and credit that translates into a lower loss of well-being in the face of an income shock. Figure 2.1 reports data on those households that, in addition to reporting a negative income shock, also reported that they had no savings nor accessed credit in 1999 (the “income + other” variable). Whereas 40% of the families in the poorest quintile experienced income shocks that they were unable to address through savings or credit, less than 10% of families in the wealthiest quintile were in this situation. This analysis of changes in well-being that takes into account household access to social risk management instruments reveals greater heterogeneity among middle income groups than a direct analysis of changes in income and consumption. As is evident in Figure 2.1, the probability of an income loss is the same for households in quintile three and four, but the capacity of households in the fourth quintile to manage that income loss is greater.

C. HOW HAVE COLOMBIANS MANAGED RISK?

2.44 The concept of managing social risk comes from the notion that certain groups in society are vulnerable to unexpected shocks that periodically threaten their livelihood and/or survival. Yet others live in a chronic state of impoverishment which places their livelihood in a constant state of risk. Social risk management involves policies aimed at reducing key risks, breaking inter-generational cycles of poverty and vulnerability. Risk management consists of choosing the appropriate risk prevention, mitigation and coping strategies to minimize the adverse impact of social risks. In general, it is less costly to society to prevent risk than to cope with it afterwards. First-best solutions enable individuals and households to self-protect, rather than turn to the government for assistance. Incorporating an insurance approach based on risk pooling can also facilitate effective social risk management (Ehrlich and Becker, 1972; De Ferranti et al, 2000).

2.45 In Colombia, households used three clearly identifiable strategies to manage income risks presented by the recent economic recession: mobilizing available labor (including child labor), reducing and/or diversifying consumption, and using available physical assets, particularly housing.

2.46 The use of household labor is a common strategy for achieving income diversification. The *Encuesta Social* reveals that households that have experienced an income shock are more likely to incorporate other members of the family into the labor force or increase the number of hours worked by the household head than those that have not experienced a shock (Table 2.4). The Colombia Poverty Assessment (Velez et al., 2001) shows that a higher employment rate within the household (beyond just the household head) remains the most effective insurance against poverty, with poverty risks decreasing by 13 percent for each additional household member employed.

Table 2.4: Social Risk Management Strategies

	Increasing labor market participation	Increasing work hours	Selling assets
Income Shock	21%	24%	25%
No Income Shock	7%	10%	10%
Difference	14%	14%	15%

Source: Encuesta Social, Fedesarrollo 2000.

2.47 Colombians resorted to pulling children out of school as a strategy for increasing income and decreasing consumption in the face of an economic shock.²⁵ In 1999, when the recession was at its peak about 6.5 percent of households reported that at least one family

²⁵ The World Development Report (World Bank, 2001b.) points to links between macroeconomic downturns and a deterioration in education indicators. For instance, in the Philippines secondary school enrollments increased only 0.9 percent between the 1997/98 and 1998/99 academic years, after growing at an average annual rate of 2.6 percent in the previous five years before the Asian crisis. In Mexico the proportion of each graduating class that enrolled in the next education level declined during the 1980s debt crisis, particularly among high school and university students. In Argentina and Mexico growth in gross primary enrollment slowed after the 1995 crises in these 2 countries. Finally, a study in South India found that children are often taken out of school in response to adverse shocks.

member has dropped out of school; furthermore, the probability that a member of a household drops out of school is 8 percentage points higher in those households that reported a negative income shock than in those that did not, controlling for economic status (Gaviria 2000). In addition, wealthier and poorer families alike shifted children from private to public schools as a strategy for reducing consumption in the face of the recent crisis. Between 1996 and 2000 private secondary school enrollment as a percentage of total enrollment fell by close to 20% in all except the richest quintile. These coping strategies can have lasting negative effects on human capital accumulation.

2.48 **Illegal strategies employed for social risk management were also reported.** In focus groups, households reported increasing the illegal use of basic services such as water and electricity as consumption rationing mechanisms as well as collaborating with armed groups, selling drugs and engaging in prostitution as a means of augmenting income (see Table 2.5).

Table 2.5 Households' Use of Legal and Illegal Social Risk Management Strategies

Income Diversification	Consumption Rationing	Protection against Violence
<i>Legal Strategies</i>		
<p>Mobilizing Human Capital</p> <ul style="list-style-type: none"> - Head of households with 2 or more jobs (formal or informal) - Production diversification - Informal micro-entrepreneurship - Permanent and temporary migration - Incorporating spouse, children and adolescents into the work force <p>Mobilizing Physical Capital</p> <ul style="list-style-type: none"> - Renting and selling land - Renting rooms in the family home - Using property to run a business - Sharing a the residence among multiple households - Sale of assets or home due to payment problems - Selling and /or pawning goods <p>Mobilizing Financial Capital</p> <ul style="list-style-type: none"> - Use of savings - Family remittances - Use of loans through financial institutions/neighbors - Credit based credit and saving mechanisms called "cadenzas" <p>Mobilizing Social Capital</p> <ul style="list-style-type: none"> - Organization of community enterprises 	<p>Disinvesting in Human Capital</p> <p><u>Nutrition</u></p> <ul style="list-style-type: none"> - Reduction of number of meals per day - Reduction in number of ingredients - Substitution of ingredients (types/quality of meat, adding more carbohydrates to diet) <p><u>Health</u></p> <ul style="list-style-type: none"> - Substitution of private for public health services - Reduction in using health services - Self-medication - Natural Medicine <p><u>Education</u></p> <ul style="list-style-type: none"> - Substitution of education for work among children and teenagers - Reduction of education to only elementary school <p>Reducing the Consumption of Basic Services</p> <ul style="list-style-type: none"> - Reduction of consumption of basic utilities (water, electricity, gas, etc.) 	<p>Mobilizing Human Capital</p> <ul style="list-style-type: none"> - Internal migration - International emigration. - Hiring of private protection services - Informal systems established within the family and among neighbors to ensure the protection of family members, businesses, and dwellings
<i>Illegal Strategies</i>		
<p>Mobilizing Human Capital</p> <ul style="list-style-type: none"> - Illicit coca and poppy farming - Robbery and delinquency - Participation in armed groups in exchange for money - Informal work as street vendors - Prostitution. - Commercialization of drugs 	<p>Reducing the Consumption of Basic Services</p> <ul style="list-style-type: none"> - Subversive appropriation of utilities (water, electricity, gas, etc.) 	<p>Mobilizing Human Capital</p> <ul style="list-style-type: none"> - Contract work with paramilitary forces, death squads and "sicarios" (hired assassins). - Salaried employment with groups participating in the armed conflict in exchange for protection - Working with gangs and drug traffickers in exchange for money and

Mobilizing Financial Capital - Tax evasion - Double accounting - Bribery/fraud - Securing informal loans through moneylenders		traffickers in exchange for money and protection
--	--	--

Source: Gonzalez 2001

2.49 Households also report using formal social services, particularly subsidized health insurance and ICBF daycare centers as means to diversify consumption and take advantage of available labor. These programs are valued but seen as needing improvements, as outlined in Table 2.7 in Section D.

2.50 The availability of physical assets, notably housing, played an important role in risk prevention and mitigation in the recent crisis. In focus groups, individuals reported using their homes to set up small businesses, provide shelter to extended family members and rent floors and rooms to supplement income. The Colombia Poverty Report (Velez et al 2001) reveals that in urban areas people who do not own their own homes are more vulnerable to poverty (63% are poor versus 47% of home owners, see Annex Table B.1.3). Wealthier households are in a better position to manage risk because of greater access to savings and credit that translates into a lower loss of well-being in the face of an income shock. An analysis of the *Encuesta Social* reveals that whereas 40% of the families in the poorest quintile experienced income shocks that they were unable to manage through savings or credit, less than 10% of families in the wealthiest quintile were in this situation. In addition, although the probability of an income loss is the same for households in quintile three and four, the capacity of households in the fourth quintile to manage that income loss is greater because of their greater access to assets (Gaviria 2000).²⁶

2.51 Households also reported using multiple strategies to manage social risk in the wake of the crisis, such as promoting the migration of older children to increase income in the family through transfers, rationing consumption among remaining family members, and increasing security as the migrant is removed from an area of conflict (see Box 2.3 for an example of the use of multiple risk management strategies).

²⁶ Although not examined as part of this study, other research reveals that inter-household transfers and support networks make a significant contribution to the survival and development of low-income households. In a study conducted in Cartagena, Colombia, transfers were found to be crucial for the survival of certain vulnerable groups such as female-headed households. Networks provide not only short-term assistance in times of crisis but also intergenerational transfers that act as a source of regular support for aged parents or children (Bamberger, Kaufmann and Velez, 1999).

Box 2.3: Successfully Overcoming Sequential Idiosyncratic and Covariate Shocks – The Case of the Jaramillo Family

"You have to know how to manage the little that you have!" -- Angela Jaramillo, Cali

This case is drawn from the qualitative fieldwork conducted as part of the "Social Dimensions of the Economic Crisis" study commissioned for this report. It illustrates the case of the Jaramillo family (whose names have been changed to ensure anonymity) which successfully overcame two difficult shocks -- the death of the main income earner followed by multiple impacts of the crisis.

Angela Jaramillo is a resident of Cali and the head of her four person family. She spoke freely about the crises that have affected her family and the strategies that she used to successfully manage the risks brought about by two shocks. The first shock was the sudden death of her husband.

"I became a widow in 1983 when I lost my husband in a car accident. Since then I have had to take care of my three children alone. At the time of the accident my oldest son was only 5 years old. Becoming a widow meant that I had to get a job even though I had no previous experience or training."

After several short-lived attempts at various jobs, Angela joined forces with a neighbor, engaging in informal risk pooling by setting up a small business that they were able to establish legally and expand.

"I decided to set up an informal association with a neighbor, selling clothes, shoes, and jewelry. Later we turned it into a formal business and also set up a small food shop."

After formalizing their business, Angela was able to present the required guarantees to financial institutions to obtain a housing loan in 1996. This case illustrates the role that legalization and formalization of informal businesses can play in effective social risk management. Credit was available based on the collateral provided by the family business. At the same time the household mobilized a multitude of effective private risk reduction and mitigation strategies.

"Milton, my oldest son, finished high school and started working in a gasoline station. Additionally, we rent out the first floor of our house." The family lives under one roof, even though the children are now adults. As Angela emphasized, the family has adopted a culture of saving and consumption rationing: "One has to take advantage of the good times and save ...you need to have a plan in mind, have a long term vision."

The multiple risk prevention and mitigation schemes -- diversification of jobs within the family, savings, living together, renting the bottom floor of the house -- have allowed the Jaramillo family to overcome the difficulties brought on by the economic recession which has resulted in a fall in sales in the family business and an increase in the installments required on the housing loans.

"What happens is that there is no culture of saving, nor of risk management; and people tend to take on debts and financial responsibilities that they cannot cover with their income. Therefore, I make sure not to be behind with the payment of installments [on their home] nor have I allowed the crisis to make my family go under!"

Source: adapted from Gonzalez (2001) and related field reports.

2.52 The use of effective social risk management strategies is strongly conditioned by the presence of markets for using available assets. One conclusion of the qualitative study is that assets held by the poor serve as useful coping mechanisms only as long as there are opportunities to mobilize them. A number of focus groups reported that having assets has not helped them to cope with the crisis, as the opportunities to dissave have been limited by the extent and nature of the crisis. For example, many groups reported that available labor, even qualified labor, has not

been of much help as a risk management strategy given the high unemployment rates, particularly among those with some education.

2.53 Location is another strong conditioning factor defining opportunities for social risk management. Land owners also reported that they have not been able to sell their land. Some focus groups reported a stigma created by living in “dangerous” neighborhoods, or in areas populated by displaced populations and specific racial groups like Afro-Colombians. Some assets –small businesses, properties– are difficult to mobilize as social risk management instruments in the violent areas in which the focus group members live (see Box 2.4).

Box 2.4: Accumulated Social Vulnerabilities – The Case of a Displaced Family

This case is drawn from the qualitative fieldwork conducted as part of the "Social Dimensions of the Crisis" study commissioned for this report. It illustrates the case of the Gomez family (whose names have been changed to ensure anonymity) which is typical of families facing accumulated vulnerabilities because of displacement, for whom traditional risk management approaches have failed.

Mariela Gomez is a single head of household with 2 dependents: a 7-year-old son and a 66-year-old mother. Both are sick and lack health care coverage. The household moved to Bogotá 2 years ago, displaced from the town of Mesetas (in the department of Meta) where they had worked on a farm. A guerrilla group had sent death threats to both the owner of the farm and his employees including the Gomez family. The farm owner fled and his workers lost their jobs.

"Although the land is rich, the armed conflict has reduced our quality of life, safety, and economic conditions. Now we are in Bogotá, suffering social exclusion, as a result of the government's incapacity to protect the civilian population."

After displacement, the Gomez family implemented a familiar social risk management strategy -- acquiring land and mobilizing labor. They bought a small piece of property and family members set up an informal coffee shop. However, their small business is failing, a victim of the rampant insecurity and violence in Ciudad Bolívar, a marginal urban settlement on the outskirts of Bogotá that is home to many internally displaced people. It is clear that traditional risk reduction and mitigation strategies have been ineffective in this precarious new environment.

"We invested our savings in a plot of land in Ciudad Bolívar. The insecurity in the neighborhood is high. There are a lot of gangs and drunks, who destroyed the small coffee shop that we set up... There is no work here in Bogotá for farmers like us. Even though I finished secondary school, this hasn't helped at all."

Displacement has also cut the Gomez family off from traditional risk coping channels that they would have relied on under other circumstances, including social capital and remittances from family members.

"The rest of the family can't help consistently, because they have also been hurt by the crisis. I cannot get a job, because I don't know anybody who can help me, who can supply me with contacts."

Finally, the lack of access to key social services and the lack of income is having negative repercussions on family member's human capital -- particularly the young son and the older mother.

"We have no income and cannot pay for my mother's and son's medical treatment. My son is malnourished and has pneumonia; therefore he is not performing well in school. The income we have is not enough for the medical treatment that costs 10,000 Col. Pesos (approximately \$5 dollars), which is for me very expensive, even though they tell me in the hospital that this is cheap."

Source: adapted from Gonzalez (2001) and related field reports.

D. AGE-SPECIFIC RISKS AND VULNERABILITIES

2.54 The evidence provided by data from Colombia as well as international experience show that there are specific risks and vulnerabilities associated with different age groups. This section uses quantitative data from Colombia's household surveys and qualitative evidence from focus groups conducted for the study to assess these age-specific risks and vulnerabilities.

2.55 The quantitative data from national household surveys are summarized in a social risk matrix by age group at the end of the chapter (Table 2.8). The matrix presents the incidence and percentages for the total population and by quintile for each of the quantitative risk indicators within a certain age group. All values are derived from official statistics provided by the Government of Colombia.

2.56 The qualitative data are summarized in Table 2.7, showing the rankings of reported risks by age group. The table is a summary that combines the information on the ranking of risks provided by each of the focus groups interviewed in the qualitative study, both in urban and rural areas.

Comparative risks and vulnerabilities

2.57 **Children and teenagers are the most vulnerable age groups in Colombia.** These vulnerabilities are confirmed by quantitative data and qualitative assessments. This situation is particularly pressing given the current demographic structure in Colombia, where 41 percent of the population is under the age of 18.

2.58 **Children under 14 show the highest incidence of structural vulnerability, as determined by their poverty and indigence rates over time, although this age group has also been affected by the recent crisis.** In 1999, over 69% of Colombian children under 14 lived in poverty in urban areas, up from about 62% in 1995 and well above the urban average among all ages of 55%. As many as 87% of the children in this age group living in rural areas were poor, a much higher rate than the rural average among all ages of 79%, but largely unchanged from 1995. (see Table B.1.3 in Annex B).

2.59 **Focus groups in rural areas identified the most vulnerable groups as children 0-6, followed closely by youth 12-17.** Five out of the twelve focus groups interviewed in the qualitative study conducted for this report noted that children in the 0-6 age group are the most vulnerable. In rural areas both men and women coincided in their rankings of vulnerable age groups.

2.60 **In urban areas, the age groups 12-17 and 18-59 were identified in focus groups as the most vulnerable.** Vulnerability among youth is related to physical insecurity, violence, drugs, and delinquency. In contrast to rural areas, none of the groups consulted in urban areas considers children 0-6 as the most vulnerable group. The identification of the economically active population as a high risk age group is directly related to the risk of unemployment and urban households' dependence on labor income.

Risks by age groups

- **Pre-school children (under age 7): The main risks in this age category are related to poverty, malnutrition and health.** Poverty for children under 2 has increased from 63% to 72% between 1995 and 1999 in urban areas, and for children 2 to 6 it increased from 63% to 69%, whereas the urban average poverty rate is 55%. In rural areas there was no similar marked increase over the same period, but the poverty rate within this age group is still a staggering 86-87%, whereas the rural average stands at 79%.²⁷ Malnutrition is another risk. Because of the crisis many families also had to reduce their consumption. As reported in the qualitative study, many households have reduced the number of meals per day, serving sizes, and/or the number of ingredients used in the preparation of meals. The results from the *Encuesta Social* also point to reductions in consumption as a result of the crisis (Figure 2.1). In 2000 severe chronic malnutrition affected 657,000 children age 0-5, or 13.5% of the total population of that age group. Within the poorest quintile 19.7% of the children were affected. A third risk is poor health, particularly as a result of a sharp drop in vaccination coverage rates and respiratory infections.²⁸ As additional members in the household have to look for jobs the lack of child care centers is also becoming a problem. The focus groups participants suggested improving upon the existing *Hogares Comunitarios de Bienestar*, the community day care centers administered by ICBF, described in Chapter IV– which female focus group members report using extensively.

2.61 The deterioration in the health status of children under 7 is observed in the following:

- **Roughly half of all children in Colombia have not been vaccinated against basic communicable diseases, a decrease in coverage of over 10 percentage points in only 5 years. The proportions for specific vaccines are in general lower in 2000 than in 1995, but the most striking difference is in the proportion of children who have received all the vaccines, 52 percent for the national average in 2000 compared to 65.5 in 1995.** However, the proportion of children aged 12 to 23 months old with vaccination cards increased significantly between 1995 and 2000 (from 62 to 75 percent as observed in Table B.2.1 in Annex B).
- **Male and urban children have better vaccination coverage.** Male children have a significantly higher vaccination rate than female children (54 percent versus 49 percent). And vaccination rates are higher in urban than in rural areas, a difference that has deepened in 2000.

There are a number of alternative explanations for this drop in vaccination coverage. First, a supply side factor. During the 1990s Colombia embarked on an ambitious health reform that decentralized health services from the National government to departments and municipalities. This may have created confusion as to the shared responsibilities,

²⁷ Poverty data are from Velez et al, 2001, and are also to be found in Table B.1.3 of Annex B.

²⁸ As reported by the focus groups in the qualitative study, the health status of the poor population has been affected by the crisis. However there is very little updated information on health status, and the most reliable source to make comparisons over time is the *Encuesta Nacional de Demografía y Salud* (EDS), Demographic and Health Survey which contains information about health outcomes for 1990, 1995, and 2000. Unfortunately this survey does not report health outcomes by socioeconomic status.

operation, and financing of vaccines across levels. Second, there has been a decrease in real terms in the national budget for immunization during the 1997-1999 period. Finally, after the passing of law 100 in 1993 that created two different health plans, an individual plan financed through contributions and a collective one financed through the government, the responsibilities regarding the provision of vaccines was not clearly established.

- **Between 1995 and 2000 the percentage of children with diarrhea left without treatment has gone up from 12 to 19 percent in urban areas.** The prevalence of diarrhea and respiratory infections differs significantly by region, with diarrhea prevalence oscillating between 10 and 16 percent and respiratory infections between 9 and 19 percent. In general rates are down when compared with 1995 figures. However, regional disparities have widened in this five year period. Prevalence is similar in rural and urban settings, but not surprisingly the proportion of the population receiving attention in health centers is 32 percent in urban areas and only 22 percent in rural areas. This result could be related to the economic recession. Even though prevalence rates are down compared to 1995, when children do have diarrhea, families may not have enough resources to have children treated or to go to health care centers to get treatment.
- **Impact on consumption.** As reported earlier, about 40% of households in urban areas surveyed in the 1999 *Encuesta Social* reported a drop in consumption during the last 6 months, confirming the results of the qualitative study. These drops in consumption were more pronounced in the lower socioeconomic strata (20 percent of households in the highest stratum reported a drop in consumption, compared to 44 and 38 percent in middle and lowest strata, respectively).
- **Children 7-12: Education was ranked as the most important concern by focus groups participants in both rural and urban areas,** although nutrition and health are still concerns in this age group. Children in this age group were reported as being exposed to dropping out of school in order to work in the informal sector or to take care of younger siblings, freeing older family members to work. The focus groups suggested providing educational grants, creating vocational training centers, and increasing the coverage of school feeding programs as partial solutions. Available quantitative data point to similar conclusions:
 - **As presented earlier, results from the *Encuesta Social* reveal that the probability of a household member dropping out of school is 8 percentage points higher in those households that reported a negative income shock than in those that did not** (Gaviria 2000). Although these data are not nationally representative and there has been no significant change in total enrollment (public and private) during the 1995-2000 period (net enrollment in primary schools is around 83 percent on average -- see Table 2.7), this higher probability of dropout points to a worsening of investments in human capital as a result of the crisis.
 - **Private school enrollment as a percentage of total enrollment has declined in the wake of the crisis.** The crisis seems to be forcing families to change their behavior with respect to education. One possibility is to move children from private to public schools as these are cheaper. Private schools are used extensively in Colombia for both primary and

secondary education and at all levels of the income distribution. Close to 50 percent of children from the highest income quintile attending school are enrolled in private schools. This is true at both the primary and secondary levels. The rates of enrollment in private schools decrease significantly as income levels go down.

Table 2.6: Private School Net Enrollment as % of Total Enrollment

% Private in Primary	Q1 ¹	Q2	Q3	Q4	Q5	National
Sep-96	5.3	10.0	16.8	25.4	55.0	17.4
Sep-00	4.1	8.2	14.9	27.1	48.0	16.0
% Private in Secondary						
Sep-96	10.4	16.0	22.1	34.1	54.0	27.8
Sep-00	8.1	13.2	18.2	26.1	53.4	23.0

Source: SES-DDS calculations using the *Encuestas de Hogares*, DANE.

¹ Per capita income quintiles (equal number of individuals in each quintile).

2.62 In Table 2.6 the shift from private to public school is observed across all income levels. For example between 1996 and 2000 the national average enrollment in private secondary schools as a percentage of total enrollment has gone down from almost 28 percent to 23 percent.

- According to Velez et al. (2001), school enrollment rates within this age group improved in both urban and rural areas until 1995. Between 1995 and 1999 no further overall improvements occurred, while for poor children in urban areas there was a drop in enrollment from 95.3% to 93.9%. (See Annex Table B.4.1).
- **Age group 13-18: This group is exposed to a congruence of risks, with security risks related to the high levels of violence in Colombia emerging as paramount, although health, nutrition, and education problems remain present.**
 - **The main risk reported by focus group members for this age group has to do with increased perception of physical insecurity.** Focus groups reported that juvenile delinquency and street robbery have increased dramatically in the last few years, and moreover, focus groups report that teenagers are being recruited by force to participate in the armed conflict. Participation in illegal activities is also recognized as a social risk in this age group.²⁹ Solutions proposed by the interviewees include establishing recreation centers, increasing public vigilance, providing educational subsidies and vocational training, and expanding reproductive health programs.
 - **Teenage pregnancy and exposure to sexually transmitted diseases also represent a major risk.** According to the Demographic and Health Survey (1995, 2000) teenage pregnancy is on the rise. About 19 percent of female teenagers in the 15 to 19 years old group were pregnant or had had a child by the time of the survey, as compared to 17

²⁹ Two studies on violence in Colombia (Moser and McIlwaine, 2000 and Moser et al., 2000) echo communities' perceptions of increased exposure to different types of violence especially among teenagers and young adults. These studies also underscore the need for a targeted intervention toward this group as critical to overcoming violence-related problems. For example, national homicide rates – already the highest in the world-- increased by 13.5 percent between 1980-1995 for males aged 15-44. In addition, a high proportion of both the perpetrators and victims of urban economic and social crimes are minors.

percent in 1995. The rate is much higher in rural areas (26 percent) and is inversely related to education.

- **Focus groups reported that dropout rates in this age group are high and youth with incomplete education face substantial difficulties in finding employment.** As explored earlier, the *Encuesta Social* results also point to a higher probability of dropout among households experiencing a negative income shock (Gaviria 2000).
- **National household survey data analyzed by the National Planning Department show that national net enrollment rates in secondary school have remained relatively steady between the years immediately before and after the crisis.** Net enrollment has even slightly increased overall, and particularly so in the rural areas.³⁰ **However, from the Colombia Poverty Assessment (Velez et al., 2001) it becomes clear that the enrollment of the urban poor has been affected during the crisis period.** As can be seen in the Annex Table B.4.1 the enrollment for urban poor children went down from 83.1% to 79.6% between 1995 and 1999. It is therefore clear that general enrollment rates are a very aggregate measure, which can hide specific tendencies for certain groups. The numbers from the national household survey could also be masking decreases in quality in general, and a transfer from private to public education. In 2000 only 14.5% of all children within the age group were enrolled in private schools, while this was still 17% in 1996.
- **The percentage of youth aged 12 to 17 who neither work nor study has increased from 10.5 to 13.3 percent between 1995 and 2000, while the percentage of those who only work has decreased from 14% to 11.3% over the same period.**³¹ This movement is relatively common to all income quintiles. This rise in idleness is more pronounced in the urban areas – reflecting the concentration of unemployment in urban areas -- while in rural areas the stronger trend has been the shift from working only to a studying only.³²

A study by Ayala, López Henao, and Barrera (2000) simulates a number of policies that would be necessary to reduce unemployment to about 10 percent in six years. Among other things they suggest that returning half of those that are working in this age group to the classroom would result in the equivalent of reducing labor supply by about 300,000 people. In drawing recommendations from this study for an emphasis on returning secondary school age youth to the classroom, it would seem advisable to (i) include rural areas since youth employment is 25% versus only 7% in urban areas, and (ii) include both poor and middle class children since the phenomena of youth employment is over 12% in all quintiles except the highest.

- **Age groups 19-59: Volatility of income is the main risk for those in this economically active age group.** Low demand for labor, high unemployment, and low wages were cited by

³⁰ Net enrollment among 12-17 year olds in rural areas has increased from 30.6% to 39.8% between 1996 and 2000. Source: SES-DDS calculations based upon household surveys, DANE.

³¹ Source: Household surveys, DANE.

³² In the rural areas the percentage of 12-17 years old children who are only working went down from 27.6% to 22.8% while that of those only studying increased from 49.9% to 53.2%. The percentage of those who do not work nor study only went up from 16.4% to 17.6% over the same period of time. Source: Household surveys, DANE.

focus groups as sources of risk for this age group. Unemployment for the economically active population is directly related to welfare levels. DNP estimates that unemployment of the household head increases the probability of being below the poverty line by 62% and is the single best predictor of poverty.³³ The economically active population in urban areas has been particularly affected by the impact of the recent crisis.³⁴

- **According to Velez et al. (2001) unemployment peaks for the young (18 to 25) and those with intermediate skills both in rural and urban areas.** More than one third of young adults face unemployment in urban areas, whereas this is the case for 20 percent in the rural areas (still almost twice the average rural rate). In urban areas college graduates face the lowest rates of unemployment (9.1 percent), while college dropouts face more than twice this rate. Individuals with intermediate education (high school dropouts and graduates) display the highest unemployment rates, at 23 percent (6 percentage points above unskilled workers). All groups but college graduates saw their rates worsen by 10 percentage points between 1988 and 1999. In rural areas high school graduates faced an alarming 24 percent unemployment rate in 1999, more than twice the rural average.
- **The Colombian Poverty Assessment (Velez et al., 2001) also finds that the recent drop in the university-age population's enrollment is especially worrisome:** 36 percent of 18-22 year olds were enrolled in 1999, a dramatic decline from a peak of 41 percent in 1995. As can be seen in Annex Table B.4.1, the reduction is especially pronounced among the urban poor, whose enrollment rates went from 30.6% in 1995 to 24.9% in 1999. The 64 percent of young adults who are not enrolled in school belong mostly to the economically active population, and face rates of unemployment twice as high as the rest of the adult population, a fact that reveals their diminishing chances of avoiding poverty in the long run.

Box 2.5: Summary of Trends in Unemployment After the Crisis (for details see Annex B.4)

The crisis has had a severe impact on unemployment that has not abated in the wake of renewed economic growth. As seen in Table B.3.1 in Annex B unemployment doubled in the wake of the crisis from 7.8% in 1995 to 16.2% in 1999.

Unemployment is concentrated in urban areas and is higher among youth and women. In urban areas, unemployment reached 24% in 2000, more than double the rate in rural areas. Among those 15-24 years old unemployment is double the national average and female unemployment has been twice male unemployment throughout the later half of the 1990's. These results point to a clear need to provide options for youth to return to school, and for apprenticeship programs to be targeted to young unemployed workers.

³³ DNP Social Development Unit estimate, Employment and Income Division, using the September 1998 *Encuesta de Hogares* (DANE).

³⁴ A more detailed analysis of the relationship between unemployment, wage loss and poverty was included earlier in the chapter under point 3.

The rate of unemployment for those over 50 years old has tripled since 1995. Although the incidence of unemployment is not as high as in other age groups, older members of the workforce have experienced the highest increment in the rate of unemployment since the crisis.

Education has not protected people from unemployment. Between 1995 and 2000 the unemployment among those with completed secondary education rose from 12 to 25 percent. This is the greatest percentage point increase in unemployment, as well as the highest incidence of unemployment both before and after the crisis. Those with incomplete secondary and incomplete tertiary education have been hit almost as hard. And unemployment among those with no formal education nearly quadrupled from 3 percent to 11.4 percent.

Informal sector employment has increased dramatically in the wake of the economic recession, reversing the trend in the late 1980's and early 1990's. The percentage of the labor force working in the informal sector grew from 53% of the labor force in 1994 to 60.5% in 2000.¹ **The youngest and oldest in the labor market reveal higher rates of informality, particularly after the crisis.** Informality among the elderly over 65 grew from 75% in 1984 to 83% in 2000, placing them above the youngest as the group with the highest concentration of informality. **The rise in informality has affected individuals at all levels of education.** Informality decreases strongly with education. But it has increased over time for all education levels, especially since 1996.

- **Age group 60+:** this group is also vulnerable to income volatility, in particular the loss of income generated by retirement. The elderly are exposed to many age-specific risks, particularly health. The main concern is the lack of an efficient safety net to help mitigating those risks. This is particularly preoccupying in light of the lack of coverage of the formal pension system. As the risk matrix at the end of this chapter shows, the rate of coverage of the formal pension system is extremely low, particularly in the poorer quintiles. Less than 3 percent of the elderly population in the poorest 2 quintiles receive a pension.

Table 2.7: Reported Risks and Risk Management Strategies by Age Group

Age group	Type of Risk	Effect of the crisis	Coping strategies	Existing Social Risk Management Arrangements	Proposal of groups consulted
0-6	<ul style="list-style-type: none"> • Nutrition • Health • Education pre-school care (guarderías) 	<ul style="list-style-type: none"> • Malnutrition, decreased consumption of food • Gastrointestinal and respiratory infections. Not enough doctors to handle demand. High rates of mortality and morbidity. Hospitals and medical centers far away. Some areas have no public health services or services are very slow. Lack of medicine • Not enough pre-school care centers, low stimulation for preschoolers 	<ul style="list-style-type: none"> • Consumption rationing • Reduce consumption in order to save for medicine purchases • Leave children with family and neighbors 	ICBF, FAMI for pregnant women ICBF, SISBEN medical centers	<ul style="list-style-type: none"> • Improving programs for pregnant women • Training for ICBF's "Madres comunitarias" in care for children in this age group • Strengthen SISBEN in order to increase coverage, improve service, and provide better medicine and easier access • More pre-schools
7-12	<ul style="list-style-type: none"> • Education • Nutrition • Health 	<ul style="list-style-type: none"> • Increase in dropout rates. High school costs, few teachers and/or have instable contracts, low coverage and bad quality. Some areas acknowledge trade-off work-school, other realize there is no such trade-off as jobs are hard to find • Respiratory and intestinal infections still the most common. Sometimes little medical attention 	<ul style="list-style-type: none"> • Reduce size of servings and number of ingredients to keep same number of meals per day 	SISBEN, ICBF, FAMI for pregnant women	<ul style="list-style-type: none"> • Scholarships program • Vocational training • Provide better food in schools • Increase rate of job creation • Revise the health intermediaries • Improve SISBEN programs for this age group

13-18	<ul style="list-style-type: none"> • Security • Nutrition • Health • Education • Income • Social 	<ul style="list-style-type: none"> • Danger of being co-opted into delinquent groups. Addictions, illegal activities • Higher risk of being robbed, raped • Lower food consumption. Risk of Anemia. Women, particularly pregnant women are at risk • Main risks associated to reproductive health and work-related injuries. Early pregnancy, high rate of STDs, poor access to reproductive health care, low quality of service at health care centers, low awareness of importance of preventative health care • Feeling that only low human capital is generated for life. But on the other hand also idea that having secondary education is not helpful in the job market • Stay at home to take care of younger siblings, thereby freeing up others. Boys often more vulnerable because have more chances in the labor market than girls • Need to work and study simultaneously or drop out of school, early participation in labor market, poor access to vocational training, low productivity, asset-capital constraints, low and irregular income • Family disintegration 	<ul style="list-style-type: none"> • Substitute education for occasional work to increase family income 	Youth clubs	<ul style="list-style-type: none"> • Recreation centers • Increase public vigilance • Create nutritional programs for this age group • Create programs for reproductive health • Technical and vocational training, which in rural areas should be aligned for their needs and opportunities • Community centers for recreation • Educational subsidies
19-59	<ul style="list-style-type: none"> • Income • Health • Social 	<ul style="list-style-type: none"> • Low, volatile income flows • Low labor demand, unemployment • Lack of access to credit, and no financial assets available • In some areas little access to informal markets due to geographic isolation • Poor levels of protection in case of sickness, maternity, old age, and death • Risk of complications during pregnancy • Women vulnerable to unwanted pregnancies and STDs • Limited access to social programs 	<ul style="list-style-type: none"> • Income diversification (2 jobs, have wife and children work) • Consumption rationing 		
60+	<ul style="list-style-type: none"> • Income • Safety nets coverage • Nutrition • Health • Insecurity 	<ul style="list-style-type: none"> • Sharp decrease of income • Few financial assets, lack of credit access • Lack of medical protection • Disability and old age • Absence of a family safety net • Bad nutrition, leading to faster physical deterioration • Typical chronic diseases • Physical and emotional abuse 	<ul style="list-style-type: none"> • Taken care of by family • Work to increase income 	<ul style="list-style-type: none"> • Subsidies from the solidarity network (RSS) • SISBEN 	

Source: adapted from González 2001.

Note: SISBEN is a misnomer used by the focus groups to refer to the subsidized health care program. It was kept the way it was reported by the interviewees.

E. SPECIAL CIRCUMSTANCES VULNERABLE GROUPS – A FOCUS ON THE DISPLACED

2.63 At least three special circumstances groups can be considered to be of particular interest in a vulnerability assessment of Colombia, due to their social, economic and cultural conditions: the indigenous peoples, the Afro-Colombian communities and the internally displaced population. Although the recent crisis has had a negative impact on each of these three groups, the vulnerabilities of the indigenous and Afro-Colombians are primarily

defined by accumulated historical factors and high levels of structural poverty.³⁵ A thorough exploration of the vulnerabilities faced by these two groups -- that compose 1.8% and 20% of the Colombian population respectively -- should be undertaken in the near future, taking into account the considerable advances in the institutional and legal frameworks developed to address their particular needs. However, such a review is beyond the scope of this analysis given its focus on reform of the social safety net in light of the current economic recession.

2.64 The population displaced by the current armed conflict is one of the most vulnerable groups in the country and a population in need of focused attention from a social safety net.

We focus the analysis of special circumstances groups on this population because of its size, the multiple risks faced by this vulnerable group, the relative lack of attention that has been given to this population and the risk of expansion of this vulnerable group because of the ongoing civil strife and economic recession in Colombia. Internally displaced populations suffer from multiple risks and high vulnerability: loss of private and public assets, inadequate work skills, violence, and social and political risks.

2.65 This section presents a brief analysis of the internally displaced populations (IDPs) in terms of size, geographical location, basic characteristics and exposure to vulnerability and risks. The institutional and legal frameworks governing public policy toward the IDPs as well as the main government programs addressing their needs are presented in Annex D. This section focuses on the people internally displaced by violence and political conflicts, however, internal migration is also driven by economic factors and it is difficult to separate one factor from another in assessing the size and characteristics of the internally displaced population.

Context of the displacement

2.66 **While the origins of the conflict have deep roots in Colombia's political history, today the continuation of the conflict is fueled by extortion and links to the illicit drug industry.** The narco-traffickers have been known to pay money to guerrillas and paramilitary

Figure 2.2: Displaced population 1985-1999
(annual number of displaced)

1985	27,000	1992	64,000
1986	36,000	1993	45,000
1987	59,000	1994	78,000
1988	105,000	1995	89,000
1989	119,000	1996	181,000
1990	77,000	1997	257,000
1991	110,000	1998	308,000
		1999	288,000*

source: CODHES Boletín no. 28, February 2000
*data are from the first semester of 1999 only

³⁵ A high percentage of the indigenous groups are located in the Pacific and Atlantic regions of the country, which concentrate the majority of the poor and extreme poor of Colombia. Data from 1995 prior to the erosion of some national gains in poverty reduction in the later half of the 1990's show poverty indicators above the national average for the Atlantic and Pacific regions. (Banco Mundial, La Pobreza en Colombia. 1996, Bogotá, Tercer Mundo Editores). The general inequality that affects the poor in Colombia is particularly acute among the Afro-Colombian population. The most vulnerable groups are women, youth and children who in general suffer from lack of opportunities. The illiteracy rate reaches 43% in the rural area and 20% in the urban area, twice the national average. The coverage of primary education is 60% in the urban area and 41% in the rural areas against the national average of 87% and 73% respectively. In the Pacific region, of every 100 black youth finishing secondary school only two enter higher education. About 95% of the families cannot afford the cost of higher education. (Plan Nacional de Desarrollo, Cambio para Construir la Paz, 1998-2002).

groups for protection, and armed groups themselves extort petroleum, mining, cattle and timber interests. A recent analysis highlights a statistically significant correlation between departments with the most forced displacement and (a) petroleum royalties and (b) large land holdings by narcotraffickers.³⁶ This finding is consistent with analyses of internal conflict in other countries pointing to competition over valuable natural resources as a key element in internal conflicts.

Size and geographical location

2.67 Many Colombians have been forced to flee their homes during the last 15 years due to the ongoing violence. They abandoned largely rural areas caught in the crossfire between paramilitary armies, drug lords, guerrilla groups and attempts by the armed forces to re-establish their legitimacy.

2.68 It is hard to estimate the number of those displaced over time, those who have returned, those who have been relocated or those who remained internally displaced. The lack of a uniform methodology to track and classify this mobile population has led to varying conclusions regarding the size and characteristics of the internally displaced population. In addition, studies vary in terms of coverage, zones of study, periods of time. Finally, the displaced are often reluctant to identify themselves as victims of displacement given the political circumstances surrounding their migration. Therefore, the data are not comparable and the estimates on the number of displaced do not necessarily coincide.

2.69 The Government of Colombia estimates that there are about 400,000 people currently displaced.³⁷ CODHES, a respected NGO working with the displaced, estimates that between 1985 and the first semester of 1999, about 1.9 million Colombians were forced out of their homes due to the ongoing violence, and that the numbers of displaced grew dramatically in the late 1990's.³⁸ Finally, the United Nations High Commission on Refugees estimates that 1.7 million people were displaced over the same time frame.³⁹ Data on the number and characteristics of the displaced are presently being collected through a Unified National Registry being coordinated by the *Red de Solidaridad Social*, the government agency responsible for policies for the IDPs.⁴⁰

2.70 The phenomena of displacement is geographically concentrated and characterized by a migration from rural to urban areas. The armed conflict over territories and resources is concentrated on specific regions of the country. The rural population of those regions are highly vulnerable to displacement because of threats, assassinations, forced disappearance, direct attacks or military confrontation in small towns and rural hamlets. Although the process of forced population displacement is linked to the armed conflict, which covers a considerable part

³⁶ Medellín Lozano, F. "Los Desafíos de la Política de Reasentamiento de Población Desplazada por la Violencia," in *Reasentamiento en Colombia*, W. Partridge, editor. Bogotá: Banco Mundial, Alto Comisionado de las Naciones Unidas para los Refugiados, Red de Solidaridad Social y Corporación Antioquia Presente. 2000.

³⁷ Internal Note from DNP: *Recomendaciones para la contextualización del estudio de Redes de Protección Social*, n.d. This is information reported by RSS in its *Sistema de Estimación de Población Desplazada*, for the first semester of 2000.

³⁸ *Un País que Huye*, CODHES-UNICEF, Bogotá, June 1999.

³⁹ United Nations High Commissioner for Refugees 2000 'Global Appeal: Funding and Donor Relations', ATAR Roto Presse S.A., Geneva.

⁴⁰ See Annex D for a description of the RSS and policies and programs for the displaced.

of the country, most of the displacement has been concentrated in relatively few municipalities. In 1999, displacement was recorded in 139 of Colombia's 1.101 municipalities. 80 municipalities only expelled populations, 40 both expelled and received IDPs and 19 only received.⁴¹ However, by 2001 displacement has spread to 478 municipalities – 158 expelled, 162 both expelled and received, and 158 only received.⁴² The municipalities are clustered in four main regions of the country: (1) the departments of *Antioquia* and *Choco*, (2) *Magdalena Medio*, South of Bolivar and parts of *Norte de Santander*, (3) *the Sierra Nevada de Santa Marta* and parts of *Cesar* and *Magdalena* departments, and (4) the region called *Macizo* Colombian which includes parts of the departments of *Cauca*, *Caqueta*, *Putumayo* and *Nariño*.

2.71 Whereas expulsion is taking place in largely rural areas of these regions, municipalities that only receive internally displaced population (IDPs) are all urban centers. The most important in terms of refugee flows are Bogotá, Medellín, Cali, Barranquilla and Cartagena. The IDPs have settled in the slums on public lands surrounding the cities, often unstable lands subject to flooding or landslides and historically not occupied.

Characteristics, vulnerability and risks

2.72 **Who are the displaced? The armed conflict in Colombia has displaced an overwhelmingly young, rural civilian population with limited skills and education.** Data on the number and characteristics of the displaced are presently being collected through a Unified National Registry coordinated by the RSS, however, partial available data suggest the following profile: 55% are under 18 years old versus a national average of 41% of the population, 1 out of every 3 is a child under 10 years old versus 1 out of every 4 nationally, the majority are female, and three quarters of the displaced heads of household have less than a primary education.⁴³

2.73 **Indigenous and Afro-Colombian communities are also disproportionately affected by the conflict and forced displacement.** Although these two groups make up just over 20% of the national population, they comprise, according to various sources, between 16.7% (*Conpes* Document of November 1999) and 36% (Internal note from DNP) of the displaced.

2.74 **The living conditions of this population changed dramatically as a result of displacement, resulting in a loss of assets and reduced access to social services.** The most immediate consequence of displacement is the high level of unmet basic needs of the population and the loss of assets, often mobilized as social risk management mechanisms. Home ownership and access to state services decreases substantially after displacement: before displacement 55% owned homes they occupied, 25% rented and 20% reported other arrangements. After displacement, only 12% owned the homes they lived in, 49% rented and 39% reported other arrangements. Coverage of social services is limited: 39% report receiving no type of social

⁴¹ CONPES 3057, 1999.

⁴² CONPES 3115, 2001.

⁴³ The data on the displaced, provided in this section was collected by *Consultoria para el Desplazamiento Forzado y los Derechos Humanos* (CODHES) in their 1996 Sistema de Información de Hogares Desplazados por Violencia en Colombia (SISDES) survey of displaced people.

assistance; 74% of heads of household report receiving health services, but 87% report needing medical attention and 10% report needing psychological services.⁴⁴

2.75 The Colombia Poverty Assessment (Velez et al., 2001) reveals that recent migrants to urban areas have a far higher poverty rate (64%) than the average urban population (55%). Although the data do not permit the cause of migration to be established, there is a correlation between the increase in poverty rates among recent migrants between 1995 and 1999 (see Annex Table B.1.3) and the growth in internal displacement. Regardless of the reason for migration, the Colombia Poverty Assessment clearly establishes that recent migrants have become a particularly vulnerable group.

2.76 Most of the IDPs come from a rural background and possess agricultural skills of limited use in an urban environment. According to CODHES survey of the displaced, before displacement, half of the displaced were agricultural producers or employees, less than 8% of household heads were unemployed, and less than 3% were street vendors. After displacement, over 30% reported being unemployed, only 9% remained in agriculture, and approximately 15% became street vendors.⁴⁵

2.77 The social stigma of displacement increases the vulnerability of this population. The consequences of displacement include not only a loss of private assets, employment opportunities and state services but also of political and social influence. Their powerlessness makes them dependent on welfare that is often unavailable or at best aimed at temporarily addressing immediate needs through the provision of humanitarian relief. In addition, once displaced, the population is exposed to stigmatisation because they are seen as part of the conflict. This is one of the reason that explains the low level of inscription in the official registry. They fear stigmatisation and its consequences and thus prefer to keep a low profile.

2.78 Finally, this large flow of people presents significant challenges for both the displaced and the local government. The displaced have difficulty finding adequate employment at a time of an acute general unemployment in the country, and accessing basic social services. Local governments are unable to meet the needs of their own citizens, much less those of the displaced population due to the fiscal crisis and tight budgets. In the cities where they live now the IDPs are largely dependent on the informal economy, humanitarian assistance provided by the *Red de Solidaridad Social (RSS)*—which has been severely curtailed because of the fiscal crisis, highly important charity work of the Catholic Church, and other religious and secular non-governmental national and international organizations.

F. CONCLUSIONS

2.79 The assessment of the effects of the economic recession reveals that although the recession and the intensification of the internal conflict have affected all socio-economic groups in Colombia, the consequences have been most severe among the poorest. Results from the *Encuesta Social* suggest that in the four main cities, their main response to the crisis has been to reduce consumption and to mobilize available labor, including child labor. This has resulted in pulling children out of school, thereby reducing human capital accumulation. Middle

⁴⁴ Ibidem.

⁴⁵ Ibidem.

income groups have also been affected, and have responded by selling available assets and reducing consumption, notably by moving their children from private to public schools as a coping strategy. The situation in rural Colombia has resulted in the migration of large numbers of internally displaced people to urban areas, seeking jobs and safety. Some groups traditionally thought of as vulnerable, like the female headed households, do not show clear signs of being especially at risk in the current Colombian context. Female headed households did not incur a larger drop in income on average than male headed households, and there is no significant difference in the education level of heads.

2.80 The *Encuesta Social* and focus group members in the qualitative fieldwork reveal that the crisis has affected poor and middle income households' consumption. However, national data on malnutrition rates reveal that these were lower in 2000 than in 1995 and 1990, as measured by available Demographic and Health Surveys, pointing to the difficulty of picking up changes in malnutrition over the short-term using anthropometric data as well as the lack of comparability between the various data sources.

2.81 Unemployment rates have increased significantly after the crisis, and in spite of recent positive trends in growth, the unemployment rate has not declined. Unemployment is higher in urban areas and for youth and women. It is also particularly high among those with some education, while those with complete secondary school present the highest unemployment rate.

2.82 Taking a life-cycle perspective, children and adolescents are the main age-specific vulnerable groups in Colombia today requiring attention from a reformed safety net.

- **Pre-school and primary school age children face important health and nutrition risks.** In rural areas, this age group is at risk of malnutrition as over 85% are poor. Some health indicators are also preoccupying, particularly the decrease in vaccination rates, increase in prevalence of some diseases like diarrhea among children, and increase in the percentage of children receiving no medical treatment.
- **In both rural and urban areas youth age 12-17 have been identified as exceptionally vulnerable due to their exposure to multiple aspects of violence and crime.** This age group is at risk of dropping out of school, joining gangs or paramilitary groups, and engaging in prostitution or the narcotics trade. Gaviria (2000) shows an increase in the probability of children dropping out of school among the poorest households in the four major cities when households suffer an income shock.
- **The elderly are particularly exposed to risks because they do not receive any significant source of protection from the current safety net,** as explored in Chapter IV.

2.83 Internally displaced people constitute another critically vulnerable group. The approximately 1.9 million Colombians forced out of their homes between 1985 and 1999 constitute 5% of the Colombian population. Migration is mainly from rural to urban areas and the available data suggest that most of the displaced are women (56%) and children (55% are under 18), with limited skills and education. This flow of people presents new challenges for municipalities, the international community and the central government in providing social services, particularly health, education and training. Since the Government of Colombia has a limited presence in the areas where the guerrillas and paramilitaries are at their strongest, the

resident civilian populations are basically cut-off from any substantial government social assistance. Addressing the needs of the populations in these areas calls for creativity, perhaps through building on successful partnerships with non-governmental organizations, to find approaches allowing the state to function effectively in the provision of social services.

2.84 Looking beyond the vulnerabilities of specific groups to focus on households underscores the critical role of the labor market in determining changes in poverty status. Those households experiencing the largest increase in poverty during the recent recession were those with only self-employed workers or only non-labor income, whereas households composed entirely of wage-earners saw the smallest increase in poverty. Of particular note, unemployment of the household head is catastrophic for poverty risks; in urban areas poverty is 25 percentage points higher if the head used to work and is presently unemployed (Velez et al., 2001). Paralleling the findings from the survey data, focus groups participants in both rural and urban areas ranked economic insecurity as their principal source of risk, followed closely by violence (González 2001).

2.85 In sum, these results point to the pernicious effects of labor market rigidities in Colombia and the high vulnerability of children and youth, who constitute a disproportionate share of the population of internally displaced people. Labor market reforms facilitating greater access to employment, particularly in the formal sector, are critical to addressing vulnerability in Colombia. Improvements in the coverage and quality of safety net programs is also required for children, youth and the internally displaced population.

TABLE 2.8: SOCIAL RISKS IN COLOMBIA, BY INCOME QUINTILE, 2000

Type of Risk	Risk Indicator	Prevalence		Indicator values by quintiles ⁴⁶				
		# affected	% of total	Q1	Q2	Q3	Q4	Q5
<i>Ages 0-6:</i>								
Stunted development	• Severe Chronic Malnutrition (age 0-5) ⁴⁷	657,000	13.5%	19.7%	12.5%	9.8%	6.2%	4.8%
Limited early childhood development	• Pre-School or daycare attendance (age 0-7) ⁴⁸ (includes HCB, CAIP, and also all other pre-school/daycare institutions)	3,562,000 not attending	46% attending	37.1% attending	41.3%	51.0%	53.6%	65.1%
Health: Gastrointestinal and respiratory infections ⁴⁹	• Incidence of diarrhea (ages 0-5)	662,000	13.6%	16.9%	14.3%	9.8%	10.5%	7.6%
	• Incidence of cough (ages 0-5)	2,294,000	47.1%	45.7%	48.7%	49.5%	43.6%	48.8%
<i>Ages 7-11</i>								
Low human capital development	• Net Primary school enrollment (ages 7-11) ⁵⁰	Not enrolled: 707,000	83.6%	84.3%	83.2%	83.8%	84.1%	82.0%
	• Overage (extra-edad) (ages 7-11) ⁵¹		0.20	0.44	0.24	0.15	0.01	-0.04
<i>Ages 12-18</i>								
Low human capital development	• Secondary enrollment (ages 12-17) ⁵²	Not enrolled: 1,901,000	62.8%	47.7%	58.3%	64.7%	74.3%	78.9%

⁴⁶ Per capita income quintiles (equal number of individuals in each quintile).

⁴⁷ DANE-PROFAMILIA, Calculations DNP-DDS, year 2000.

⁴⁸ ECV, Calculations 'Mision Social', DNP, year 1997, in "Informe final: ICBF", Fedesarrollo.

⁴⁹ DANA-PROFAMILIA, Calculations DNP-DDS, year 2000.

⁵⁰ The Net primary school enrollment is calculated as the number of children of 7-11 who are in primary school divided by the total number of children of 7-11. Calculations SES-DDS based upon household surveys, DANE.

⁵¹ Overage is defined as the average number of years children in this age group are behind the their corresponding grade level. If there is a negative value this means that on average children in this group are ahead of their grade level. Calculations by SES-DDS-DNP based upon Household Survey, DANE.

Type of Risk	Risk Indicator	Prevalence		Indicator values by quintiles ⁴⁶				
		# affected	% of total	Q1	Q2	Q3	Q4	Q5
Health	• Overage (extra-edad) 12-17 ⁵³		0.82	1.37	1.02	0.73	0.48	0.30
	• Hours worked (ages 12-14) ⁵⁴		34.7 hours	34.6 h	32.7 h	37.1 h	38.0 h	24.6 h
	• Hours worked (ages 15-18)		42.0 hours	39.6 h	43.3 h	39.6 h	46.2 h	40.4 h
	• Female teenage pregnancy (15-19 years)		19% total; 26% rural ⁵⁵					
Low income	• Inactivity ⁵⁶ (ages 12-17)	680,000	13.3%	17.4%	16.7%	12.9%	9.1%	6.1%
	• Unemployment as percentage of the active population (ages 12-18) ⁵⁷	496,895	30.5%	28.1%	34.3%	32.4%	30.7%	24.2%
	• Informal sector (ages 15-19) ⁵⁸	243,611	79.0%	94.5%	87.6%	81.9%	69.0%	68.1%

Ages 19-64

Low income	• Unemployment as percentage of active population in age group ⁵⁹	2,704,734	15.8%	22.0%	19.1%	16.7%	14.4%	10.8%
	• Informal Sector (as % of all employed) (ages 20-59) ⁶⁰	2,998,831	57.9%	85.7%	70.4%	62.6%	51.5%	41.4%
Low skills	• Years of schooling of the household head ⁶¹		6.62 years	4.06	5.07	6.01	7.34	10.60
	• Years of schooling of spouse ⁶²		6.80 years	4.21	5.55	6.42	7.92	10.95

⁵² The Net secondary school enrollment is calculated as the number of children of 12-17 who are in secondary divided by the total number of children of 12-17. Calculations SES-DDS based upon household surveys, DANE.

⁵³ Overage is defined as the average number of years children in this age group are behind the their corresponding grade level. If there is a negative value this means that on average children in this group are ahead of their grade level. Calculations by SES-DDS-DNP based upon Household Survey, DANE.

⁵⁴ Only the ones considered 'occupied', i.e. who reported a minimum amount of hours worked during a specific recent period, are included. Household surveys, DANA, year 2000.

⁵⁵ Represents women in this age group who are pregnant or have a child.

⁵⁶ Neither study nor work.

⁵⁷ The active population is defined as either having worked a certain number of hours recently; or being without work, but having actively pursued employment.

Calculations SES-DDS based upon household surveys, DANE, data for Sept. 2000.

⁵⁸ It is important to note that only data from 7 cities (Bogotá, Barranquilla,

Medellin, Cali, Manizales, Bucaramanga y Pasto) are included in this calculation. Therefore also the total number of people working in the informal sector nationwide is much higher. Calculations by SES-DDS, based upon data from household surveys, DANE.

⁵⁹ Source: Household Surveys, DANE.

⁶⁰ It is important to note that only data from 7 cities (Bogotá, Barranquilla, Medellín, Cali, Manizales, Bucaramanga y Pasto) are included in this calculation, and that only people in the age group from 20-59 are included, whereas the definition of 'labor force' typically includes also still younger and older people. Therefore also the total number of people working in the informal sector nationwide is much higher. Calculations by SES-DDS, based upon data from household surveys, DANE.

⁶¹ DANE National Household Survey – DDS (Alejandro Mateus), year 2000. The data here are for the whole working age population, not just the 19-64 age group.

Type of Risk	Risk Indicator	Prevalence		Indicator values by quintiles ⁴⁶				
		# affected	% of total	Q1	Q2	Q3	Q4	Q5
Ages 65+								
Low income	• No pension ⁶³	2,110,595	81.8%	98.0%	97.5%	91.0%	77.9%	59.7%
	• Informal Sector (as % of all employed (age 60+) ⁶⁴	233,736	82.7%	96.8%	90.5%	91.6%	76.6%	71.0%
General Population								
Low-quality housing	• No piped water ⁶⁵	5,836,000	14.3%	32.3%	18.2%	11.9%	6.2%	3.0%
	• No electricity ⁶⁶	1,975,000	4.84%	11.5%	6.1%	3.1%	2.1%	1.3%
	• Crowding (number of people per room in household) ⁶⁷		1.29 (people per room)	1.78	1.59	1.36	1.11	0.83
	• Dependency ratio ⁶⁸		42.77	62.68	50.14	38.31	32.08	27.98

⁶² DANE National Household Survey – DDS (Alejandro Mateus), year 2000. The data here are for the whole working age population, not just the 19-64 age group.

⁶³ Calculations by DDS-SES, based on data from EHN, DANE.

⁶⁴ It is important to note that only data from 7 cities (Bogotá, Barranquilla, Medellín, Cali, Manizales, Bucaramanga y Pasto) are included in this calculation. Therefore also the total number of people working in the informal sector nationwide is much higher. Calculations by SES-DDS, based upon data from household surveys, DANE.

⁶⁵ DANE National Household Survey – DDS (Alejandro Mateus), year 2000.

⁶⁶ DANE National Household Survey – DDS (Alejandro Mateus), year 2000.

⁶⁷ DANE National Household Survey – DDS (Alejandro Mateus), year 2000.

⁶⁸ The dependency ratio refers to the ratio of number of dependents to the total working age population (12-65 years), with the dependents being the children between 0 and 11 years, and the elderly over 65 years. DANE National Household Survey – DDS (Alejandro Mateus), year 2000.

3. GOVERNMENT RESPONSE TO THE CRISIS

3.1 **This chapter reviews the short-term safety net strategy that the Government of Colombia launched in 2001 to mitigate the worst effects of the economic recession.** It begins by reviewing the rationale behind the decision to implement an emergency safety net program, describes the three programs that constitute the new *Red de Apoyo Social* (RAS) social assistance strategy and concludes by reflecting upon the appropriateness of the RAS approach in the context of the need for establishing a long-term safety net.

A. THE GOVERNMENT OF COLOMBIA'S CRISIS-DRIVEN SAFETY NET STRATEGY

3.2 To address the underlying causes of the economic recession and mitigate its social consequences, the Government of Colombia developed a two-part strategy:

3.3 **First, the Government implemented fiscal adjustments and economic reforms to achieve stability and sustainable growth.** This objective is fundamental to poverty reduction and the long-term improvement of living standards of the poor. It is also critical to the government's ability to strengthen, expand and maintain an adequate social safety net in the long run. The core of this strategy is set out in the September 2000 agreement reached with the IMF establishing a 2.7 billion dollar, three-year Extended Fund Facility. Under the agreement reached with the IMF, the government set new macroeconomic targets through 2002 that include decelerating inflation, a reduction of the current account and fiscal deficits and a resumption of growth.⁶⁹

3.4 **Second, acknowledging the urgency of alleviating the social consequences of the economic recession and fiscal adjustments and the inability of existing programs to do so, the Government launched a temporary social assistance safety net called the *Red de Apoyo Social* (RAS) to cushion their impact on the welfare of the poor and vulnerable population.** The RAS complements the objectives and social policies established in the *National Development Plan 1999-2002*, which seeks economic and social changes that would promote the establishment of peace in Colombia. The RAS is also supported by the aforementioned IMF agreement which provides for public spending of an *additional* 0.3 percent of GDP per year (about US\$250-\$300 million annually), over and above current public social expenditures, to be targeted to the provision of social safety net programs through 2004. Implementation of the RAS programs began in 2001 and the programs are expected to reach full capacity by the end of the year.

⁶⁹ The targets include: inflation: 8% for 2001 and 6% for 2002; consolidated public sector deficit: 2.5% of GDP for 2001 and 1.5% for 2002; current account deficit: 3.3% of GDP in 2001 and 3.0% in 2002; and growth: 3.8% for 2001 and 4.8% for 2002.

3.5 The RAS safety net is composed of three principal programs: (i) the *Empleo en Acción* community works program (formerly known as *Manos a la Obra*), which aims to provide temporary employment to poor, unemployed, low skilled workers by employing them in labor intensive social and economic investment programs such as school expansion and road repair; (ii) a conditional cash subsidy program for poor families, *Familias en Acción*, that provides cash assistance aimed at protecting investments in children's health, education and nutrition by providing cash conditional on keeping children in school and providing them with basic preventive health care; and (iii) *Jovenes en Acción*, a training/apprenticeship program for young adults based on competitive bidding among private firms and public entities. Colombia has committed itself to administering these programs for four years (2001-2004) and to review the results of the impact evaluations at the programs' conclusion to assess the desirability of their continuation as part of a broader safety net strategy. Each of these programs is described in greater detail below.

3.6 The Office of the President has overall responsibility for the *Red de Apoyo Social* programs, through the Peace Investment Fund (DAPRE-FIP). The day-to-day operations for each program are handled by a National Coordinating Unit (NCU) set up under DAPRE-FIP, but operating with relative autonomy. The National Planning Department (DNP) is responsible for monitoring and impact evaluation of each of the RAS programs that will include a comparative review of their effectiveness as social safety net interventions.

3.7 The design of the RAS programs began in 1999 with the collaboration of the World Bank and the Inter-American Development Bank. The RAS programs were launched in 2001.

B. OVERVIEW OF THE RED DE APOYO SOCIAL SAFETY NET PROGRAMS

The *Empleo en Acción* community works program

3.8 The *Empleo en Acción* program is expected to generate several benefits. First, it would provide temporary employment for unskilled workers in the bottom income quintile and income to their families. Second, by employing workers in socially productive activities, the program could help restore the self-esteem of unemployed workers, reduce their frustration, and prevent violence. Finally, the public works financed by the program would help improve basic services to poor communities and offer the opportunity to build their social capital.

3.9 **Program description.** The program finances the salaries of low-skilled workers to participate in labor-intensive community works programs, and some of the materials needed to carry out these public works programs in low-income municipalities. In order to maximize the number of workers benefited and to discourage employment of better-off workers, the weekly subsidy per worker would be limited to 70 percent of normal job hours per week. The program was unable to set the wage below the minimum to encourage self-targeting because of Colombia's labor laws that prevent hiring workers

for less than the minimum wage. Total program costs amount to US\$290 million including IDB, World Bank and Government of Colombia contributions.

3.10 Program implementation. The program targets urban areas where post-crisis unemployment is concentrated and will be available in 78 of Colombia's largest municipalities, including Colombia's seven principal cities. The small-scale public works programs are co-financed by municipalities, with the program principally financing labor costs and municipalities financing material. Many aspects of the program would be carried out through outsourcing arrangements with several national and sub-national entities. These include FINDETER, a public development bank, that will manage the selection of sub-programs; NGO's and workers' cooperatives that sponsor programs and pay workers; and a Management Information System company for keeping track of subprograms and workers. Projects can be proposed by local governments (either municipal or departmental), NGO's, labor cooperatives and public services entities.

3.11 Beneficiaries and targeting mechanism. Eligibility is limited to workers in SISBEN categories 1 and 2 (equivalent to the bottom income quintile). Furthermore, the public works to be financed by the program are located in communities in the first and second quintiles of the *Indice de Calidad de Vida (ICV)*, a new methodology for classifying neighborhoods within municipalities according to socio-economic characteristics. This methodology is more accurate than the current approach based on *Servicios Públicos* strata (see Chapter IV for a description of poverty targeting mechanisms in Colombia).

3.12 Monitoring and Evaluation (M&E). A monitoring and evaluation system will be implemented to assess the program's success in achieving the desired outcomes and impacts. The results of the M&E efforts will be used to manage the program and to inform decisions regarding the continuation of the workfare program, since at present it is designed as a temporary safety net. A crucial aspect of the M&E work is the household level impact evaluation which will rely on an agreement reached with the GOC that will encourage infrastructure program administrators to randomly select workers from a pool of qualified applicants in cases of excess demand for the jobs being offered. This will allow for an experimental design to be applied to the evaluation, adding to the robustness of the evaluation. To ensure objectivity, the impact evaluation will be carried out by an external agency, under the supervision of the National Planning Department (DNP).

3.13 Anticipated benefits. The employment effect of the program, both direct and indirect (multiplier) effects, have been calculated. The indirect employment effects consist of the additional demand for labor generated by the increase in the consumption expenditures of workers as a result of wages earned from subprograms.

3.14 The number of full-year jobs with six hours of work per day to be created is estimated at 90,000, assuming that the cost of materials is fully financed by subprogram proponents. This implies a three percentage-point reduction in the unemployment rate of the bottom income quintile (from 18.1 percent to about 15.1 percent). Considering the estimated amount available for workers' salaries (US\$90 million) and factoring in

possible indirect Keynesian multiplier effects (assuming multipliers between 2 and 4) the workfare program could generate approximately 105,000-154,000 jobs (Maloney 2000).

3.15 In addition, the investments in public social and economic infrastructure financed by the program are expected to raise productivity and welfare in the low-income communities where the public works are carried out.

The *Familias en Acción* conditional cash transfer program

3.16 The goal of the program is to ameliorate the impact of Colombia's current economic recession on the poor. Its objective is to protect and promote human capital formation of poor children (aged 0-17) by supporting families' investments in their health, nutrition, and education in the face of sharply reduced incomes.

3.17 **Program description.** The program finances two kinds of grants. The first is an education grant equivalent to the direct cost borne by low-income families to send their 7-17 year old children to school (US\$6 per child per month in primary school and US\$12 per child per month in secondary school) and the second is a health and nutrition grant equivalent to the cost of raising the poorest families' consumption to the indigence line for eligible families with 0-6 year old children (US\$20 per family per month). Total program costs amount to \$US455 million including IDB and World Bank financing primarily for grants and Government of Colombia financing primarily complementary supply-side inputs in health and education. A key feature of the program is the delivery of the grants to the mother of family, a mechanism designed to ensure that the money is used to invest in the children and as an incentive for empowering women within their communities.

3.18 **Program implementation.** The program targets urban and rural areas not benefiting from the *Empleo en Acción* program that meet the eligibility criteria, including the presence of a bank and adequate health and education services. Under these criteria, the program is concentrated in municipalities with under 100,000 people, but will be unable to reach remote rural areas. As with the other RAS programs, overall responsibility lies with the DAPR-FIP and day-to-day operations are handled by a National Coordinating Unit (NCU). Crucial to the implementation is the involvement of Colombia's ICBF family welfare institute that administers the program through its network of local and regional offices. Program staff responsible for selecting beneficiaries and monitoring their compliance with the program's requirements work out of the ICBF offices throughout Colombia. Municipal governments are responsible for ensuring adequate coordination with schools and health centers and for working with the program to ensure its successful local implementation. Banks deliver the grants to beneficiaries through local accounts set up for program beneficiaries.

3.19 **Beneficiaries and targeting mechanism.** The program finances the provision of two kinds of conditional grants to families classified as SISBEN 1 under Colombia's proxy means testing system. The nutrition grant is provided to eligible families with 0-6 year old children who are not in the community nutrition and pre-school program (*Hogares Comunitarios de Bienestar*) of the *Instituto Colombiano de Bienestar*

Familiar (ICBF, Colombian Institute of Family Welfare). The family would receive the grant in cash for as long as it complies with agreed health/nutrition requirements, which require families to bring their children to health clinics for scheduled growth monitoring, where the clinic would additionally provide basic health services, including immunization. The education grant is provided to each eligible child aged 7-17 years registered in school (primary grades 2-5 and secondary grades 6-11), maintaining an attendance rate of not less than 80 percent and not repeating more than one grade.

3.20 Monitoring and Evaluation (M&E). The program relies heavily on a dynamic monitoring system that will verify overall implementation, including beneficiaries' compliance with schooling and health conditions. Another key component of the M&E system is an external impact evaluation which will assess the effect of the program on household welfare primarily through the use of household surveys of treatment and comparison groups to collect baseline and follow-up data on the program's targeting and impact. A community monitoring and social control system will allow for participatory monitoring by beneficiary communities and spot checks will be conducted on a sample basis to verify the accuracy of the monitoring data.

3.21 Anticipated benefits. The program is expected to raise the future productivity and, hence, earnings of over a million beneficiary children due to increased years of education and improved health and nutrition status. This would occur through both the direct income effect of transferring the cash grant to the families and the price or incentive effect that affects future earnings by conditioning receipt of the grants on school attendance and health center visits.⁷⁰

3.22 The economic analysis conducted during program preparation estimates that improvements in educational outcomes would likely lead to about 0.3 and .35 additional years of educational attainment for primary and secondary school beneficiary children, respectively. It is further estimated that a year of completed schooling would have a net present value of \$2,360 and \$3,230 for primary and secondary education levels. The effect of the health/nutrition grant is hard to measure, as many of the spillovers of better nutrition are difficult to capture. Moreover, due to lack of relevant information, it is difficult to estimate and value the expected effect of the grant on child mortality, morbidity and cognitive ability. For these reasons, the economic analysis concentrates on the benefits of decreasing the rate of malnutrition on stunting, recognizing that as in education this will only provide a lower bound of the benefits of the program and that the other aforementioned beneficial effects are not being captured. The net present value of reducing stunting for a child that would have suffered this problem is about \$1,187. The expected aggregate net present value of the benefits are estimated at \$390 million (*Dulitzky and Lopez-Acevedo, 2001*).⁷¹

⁷⁰ The number of program beneficiaries are estimated to be 126,000 children per year for the primary school grants, 113,000 a year for the secondary school grants, and 14,575 children per year benefiting from reduced stunting because of the effect of the health and nutrition grants.

⁷¹ These figures are conservative estimates. They are based on the cost of US\$325 million for the grants component, including the cost of managing and transferring the grants to beneficiaries as well as the

The *Jovenes en Acción* youth training program

3.23 The youth training program aims, in the short-term, to provide practical training and financial support to unemployed, low-income youth. In the medium term the program aims to improve low-income youth's labor market prospects and earnings. The program is based on the Chile *Joven* program that mobilizes the private sector to invite competition between public and private sector training providers and to ensure relevance to labor market demand.

3.24 **Program description.** The first phase of the program is a three to five month long training course provided by a private sector firms and/or training specialists, selected in a competitive process, in a departure from the public sector training provided by SENA. The second phase is a three month internship. Participants receive a scholarship during both the training and internship periods. The scholarship is equivalent to approximately US\$63 per month for women with children under 7 and US\$44 per month for others. Training will not be provided to any young person without an accompanying internship, a mechanism designed to ensure labor market demand for the skills provided in the training. The program is supported by a US\$70 million loan from the IDB.

3.25 **Program implementation.** The program has an urban focus as it targets youth living in the 7 principal Colombian cities of *Bogotá, Medellín, Cali, Barranquilla, Bucaramanga, Manizales* and *Cartagena*. As with the other RAS programs, overall responsibility lies with the DAPR-FIP and day-to-day operations are handled by a National Coordinating Unit (NCU). Training can be provided by either public or private entities meeting program eligibility requirements.

3.26 **Beneficiaries and targeting mechanism.** This program is expected to serve approximately 100,000 low-income, unemployed youth between the ages of 18-25. Their low-income status will be verified using SISBEN and only those in SISBEN level 1 and 2 will be allowed to participate in the training program.

3.27 **Monitoring and evaluation.** As with the other RAS programs, the *Jovenes en Acción* program will benefit from an external impact evaluation carried out by an international firm under the supervision of the National Planning Department. The impact evaluation will rely on comparison groups to assess program impact, particularly labor market outcomes.

3.28 **Anticipated benefits.** In the short-term, the program aims to provide income support to low-income, unemployed youth and to develop their labor market prospects. In the long term, this program hopes to improve the efficiency and effectiveness of

additional costs of materials and staff time dedicated to meet expected additional demands for health and education services. The estimates do not include certain productivity effects (private and external). They also exclude the direct consumption benefits that would be derived by poor families from the grants.

Colombia's training system by demonstrating how public financing can support the private provision of training through the use of a transparent, competitive process that responds to the actual labor market demands of Colombian firms.

C. THE APPROPRIATENESS OF THE RAS SAFETY NET PROGRAMS

3.29 The RAS safety net strategy is appropriate to meeting its objectives of helping those most affected by the crisis cope with the principal negative social consequences of the crisis – unemployment and the deterioration of human capital. As detailed in Chapter II, the crisis has been characterized by unprecedented levels of unemployment that have been concentrated in urban areas, among youth and within the construction industry. The workfare and youth training programs are designed to address these specific vulnerable populations and fill gaps left by current programs. This mandate is accomplished since –as explained in Chapter IV-- the national training agency, SENA, is predominantly oriented toward serving a skilled, older and higher income population group and there are no current workfare programs designed to address the needs of the unemployed.

3.30 The crisis has also been characterized by declining investments in human capital, particularly lower investments in schooling and falling consumption levels. Again the RAS programs fill a needed void. As discussed in Chapter II, the Gaviria analysis establishes the link between income shocks to poor households and their propensity to withdraw children from school and the *Encuesta Social* results point to a drop in food consumption as a result of the crisis. Each of these effects of the crisis is addressed by the conditional cash transfer program.

3.31 The time period required for the design and implementation of the program – close to two years – undermined its responsiveness and ability to function as an effective counter-cyclical tool. Even though established institutions were used to administer the programs, it took time to craft the procedures, instruments and norms governing program implementation. In addition, the limited experience both in Colombia and in the World Bank in particular with new instruments such as the conditional cash transfer program posed time constraints in order to gain the political will and establish the technical basis for carrying out these programs. Clearly, having pre-established counter-cyclical programs, norms and financing mechanisms would have enabled a faster response. As argued in Chapter V setting up such a system should be a key objective of a strategic safety net reform.

3.32 The effectiveness of the RAS will be assessed through the strong monitoring and evaluation components designed as part of each program. The impact evaluation will allow not only for the effects of each individual program to be assessed, but also for a comparative assessment across the 3 RAS program regarding their effectiveness as a safety net in preserving human capital. Ideally, the results of the RAS programs would also be compared to impact evaluations of the main established social assistance programs.

3.33 Pending the results of the impact evaluations, key strengths and weaknesses of each program's design can already be identified that need to be reviewed in considering whether these programs should be continued in the long-term, and, if so, what modifications may need to be introduced. These suggestions are explored below.

The *Empleo en Acción* workfare program

3.34 The workfare program seems well designed to reach poor areas and users of the investments provided, but it is unable to self-target effectively due to the obligations to pay minimum wages (see Box 3.1). A key consideration in assessing the possible continuation of this program would be to find a way to eliminate the requirement that the program pay the minimum wage and benefits. Given international experience in other workfare programs, revisions may need to be made to ensure that it reaches an adequate number of female workers, perhaps through the program selection formula by weighing sub-programs that are likely to employ more females more heavily and/or through program promotion strategies. For instance in South-Asia, paying by finished product as opposed to hourly rates, establishing on-site child care and providing latrines were important in raising women's participation.

Box 3.1: Characteristics of a Good Workfare Program
-- How does Empleo en Acción Measure up?

- Wage rate no higher than the prevailing market wage for unskilled manual labor

In its present form, the Colombian workfare program pays the minimum wage to those hired by the program and its legal obligation to pay the additional benefits that are standard in labor contracts (equivalent to an additional 45% over the minimum wage) is being examined. Particularly if the additional benefits are paid, the cost of hiring a worker under the workfare program would be higher than the prevailing wage for unskilled manual labor, undermining the effectiveness of the program.

- No restrictions on eligibility

Because it is obliged to pay the minimum wage (and possibly benefits), the present program is not able to self-target to those most in need of the program by offering comparatively low wage rates for unskilled labor, along the lines of Argentina's *Trabajar* and other workfare programs. Due to its inability to use a self-targeting mechanism, *Empleo en Acción* uses instead the SISBEN proxy means test to limit eligibility to those classified as levels 1 and 2 (equivalent to the lowest income quintile). However, as discussed in Chapter IV SISBEN coverage is not universal and requires more frequent updating than has been practiced.

- Targeting to poor areas

The Colombian workfare program is targeted to poor areas since it only finances programs in low-income neighborhoods, taking advantage of the neighborhood poverty stratifications commonly used in the poverty map applied in urban areas of Colombia. The program also provides higher levels of co-financing for non-labor costs to municipalities that have been hit hardest by the economic recession.

- High labor intensity

The menu of sub-programs eligible for program financing is designed to ensure high levels of labor intensity. In addition, the program provides limited financing for non-labor costs, providing an incentive for municipalities to co-finance labor intensive programs. Finally, sub-programs that are more labor-intensive are given preference in the sub-program selection formula.

- Assets created targeted to poor

The menu of eligible sub-programs seeks to ensure that the assets created will be targeted to the poor. Experience from social funds reveals that the poverty levels of the users of assets created by investing in small scale social infrastructure programs varies greatly according to the type of sub-program financed, with latrines being very well targeted and sewerage systems often poorly targeted (Rawlings, Sherburne-Benz and Van Domelen 2001).

Source: adapted from Martin Ravallion, *Appraising Workfare Programs*, World Bank, August 1998.

The *Familias en Acción* conditional cash transfer program

3.35 The conditional cash transfer program has the strong advantage of addressing a variety of risks with a single instrument and using demand-side subsidies to place solutions for addressing those risks in the hands of those directly affected by the crisis. However, as described in Box 3.2 the program will need to be monitored closely to ensure that the program administration is efficient and that the health and education systems are able to provide the supply-side investments required to make the program effective.

Box 3.2: Characteristics of a Good Conditional Cash Transfer Program – How does *Familias en Acción* Measure Up?

- Value of transfers set at appropriate levels

The value of the health and nutrition transfer was set using available data on Colombia's extreme poverty line compared and the income distribution of households living in the lowest income decile. The extreme poverty line was set at US\$35 per capita per month in September 1999 and defines the level below which households do not have enough income to meet their basic consumption needs. The value of the health and nutrition transfer was set with reference to the amount needed to bridge the gap between the income of an average household living below the extreme poverty line and the extreme poverty line. The value of this transfer is set at a level that would allow indigent families to feed their children. The value of the education subsidy was set based on the cost of direct out-of-pocket expenses for sending children to school.

- Transparent and efficient transfer delivery mechanism

The administrative system is designed to be efficient but delays in processing compliance data and issuing grants have been common in similar systems such as Mexico's *Progresa* program and the PACES educational voucher system in Colombia. The administrative efficiency of the program will need to be closely monitored and is a key element of the process evaluation being applied to the pilot program.

- No perverse incentives

In order to not provide double subsidy for nutrition, the program makes eligible families choose between either receiving the health and nutrition transfer or using the community nutrition and pre-school program (*Hogares Comunitarios de Bienestar*). However, these are not exact substitutes as the latter allows mothers to participate in the labor market. If the cash transfer program is kept, alternatives for ensuring access to childcare for low-income mothers should be considered given that the mobilization of the labor force within the household is one of the principal coping strategies that has been used during the recent economic recession.

- Adequate link with supply side investments

The success of demand-side interventions is predicated upon the supply of quality supply side services in health and education. As explored in Chapter II there are issues regarding both quality and supply capacity in these sectors that will need to be monitored and evaluated during the implementation of the cash transfer program. Among these are the capacity of the health care system to ensure the provision of vaccines and the capacity of the education system to ensure available school spaces, particularly in public secondary schools given the large shift from private to public schools.

- Effective targeting mechanism

The use of the SISBEN system to select individuals and the implementation of the program in municipalities with established banks were deemed to be pre-requisites to rapidly establishing an effective, transparent transfer program. However, adaptations to the existing model for selecting recipients and delivering the transfer – particularly to access internally displaced people or poorer areas without banks – should be considered if the program is kept and used to address structural poverty.

Source: adapted from the Operations Manual for the "*Familias en Acción*" Conditional Cash Transfers Program.

The *Jovenes en Acción* youth training program

3.36 **The *Jovenes en Acción* youth training program presents an interesting social assistance alternative to the SENA training institute that does not have a social assistance mandate or an accompanying strategy for reaching vulnerable populations.** The fact that this new program is operating in parallel to SENA would need to be addressed if the youth training program is proven to be successful. One possibility would be to introduce the *Jovenes en Acción* program as a substitute for the short courses presently offered by SENA, ensuring that the important program design elements are kept. This would allow Colombia to have a youth training program with an explicit safety net focus. The results of the impact evaluation, however, will be crucial since training programs have often been plagued by performance problems resulting in limited long-term impacts and a lack of articulation with labor market demand. In addition, the need for a training program as part of the overall, structural safety net would need to be assessed in light of the other demands for social assistance. A youth training program may be more appropriate as a counter-cyclical strategy.

D. THE RAS PROGRAMS IN THE CONTEXT OF AN INTEGRATED SAFETY NET

3.37 **The RAS programs must also be judged against the backdrop of the reforms required for establishing a viable social safety net in Colombia. Were the RAS programs to be considered as components of an integrated safety net, the following issues would need to be considered:**

- *Financial support would need to be secured to meet demands and ensure sustainability*

3.38 Financing for the RAS programs is inadequate to meeting existing demands and is unsustainable over time. The RAS programs are presently meeting only a fraction of the demand for the type of assistance required. *Fedesarrollo* estimates that: (i) the cash transfer program will reach 300,000 poor households out of a total demand of 1.95 million; (ii) the youth training program will enroll 100,000 youth out of a total of 305,000 in need of assistance; and (iii) the workfare program will generate up to 154,000 short-term jobs next to the need for 810,000.⁷² In addition, financing for the present RAS strategy has only been secured through 2004 using international lending. If any of the RAS programs are extended or re-instated at a later date, their sustainability will have to be ensured either through new lending or the re-allocation of existing budgets. These options are reviewed in Chapter V.

- *Flexibility allowing for local adaptation and increased co-financing from non-central government sources should be introduced to achieve complementarities among programs and allow for local initiative.*

3.39 There is good complementarity among the three programs vis-à-vis target populations in that they serve different groups with established and distinct

⁷² Ayala, Gaviria, Ortiz and Henao, "*Hacia una Red de Protección Social Para Colombia*" *Fedesarrollo*, April 2001.

vulnerabilities (i.e. children and unemployed). However, the cash transfer program is being implemented in geographical areas separate from the workfare and youth training programs due to budget constraints – thus the complementarity is not being exploited. For the complementarities to be achieved, the present geographical restrictions would need to be relaxed.

3.40 Flexibility is also needed to allow for the programs to be adapted by interested municipalities. The demand for adaptation has already presented itself in the case of Bogotá, whose recently-elected mayor has expressed an interest in introducing a version of the conditional cash transfer program. Given that local governments have resources available for directly financing or co-financing programs, efforts to accommodate RAS programs in the overall safety net reform should focus on giving local governments more flexibility in the use of their funds and local adaptation of the model, drawing first on lessons from the municipality of Cundinamarca that is participating in the pilot program and providing additional resources for its implementation. These adaptations could create avenues for enhanced local participation, including from the private and NGO sectors.

- *The comparative advantages of the 3 RAS programs should be considered explicitly, particularly with respect to their capacity for addressing chronic and/or structural vulnerability.*

3.41 In considering the two functions of safety net programs outlined in Chapter I, of the three RAS programs, the cash transfer program seems best suited to address both cyclical and structural vulnerabilities, serving risk prevention and mitigation functions during non-crisis periods, given structural levels of indigence and demand side barriers to ensuring poor children's access to education. However, it should be recognized that in its present form the cash transfer program is not ideally suited for addressing key issues of structural poverty and vulnerability. The reliance on SISBEN in its present out-of-date form, the need for a network of banks and the dependence on adequate supply side investments excludes many remote rural areas as well as certain vulnerable groups, such as the displaced and the indigenous living in *resguardos* from accessing the program. In addition, the present program relies very little on local governments for strategic direction, adaptation and co-financing. If the program is kept to address structural vulnerability, a mechanism allowing greater local involvement should be established.⁷³

3.42 The workfare and youth training programs seem best suited to the “trampoline” function that is implemented counter-cyclically and allows the transient vulnerable to

⁷³ The reform of the transfers laws established as part of the 1991 Constitution governing the allocation of social sector financing to local governments provides a possible opportunity for safety net reform. At present, these transfers provide health and education financing, but virtually no financing for social assistance programs. Given that the levels of these transfers are generally considered to be unsustainable, their reform presents an opportunity for introducing a social assistance component to the package of services delivered to local governments. These transfers could be structured to ensure equity by providing varying amounts based on need and co-financing capacity. Including a social assistance component in the transfers to local governments would allow for unmet needs to be addressed and would provide an avenue for greater local involvement in the design and execution of social assistance programs.

bounce back during a time of crisis, particularly one characterized by high levels of unemployment – a feature likely to present itself in future fiscal crises in Colombia given their labor market and exchange rate policies. These programs could be activated from its ‘simmering’ state during crisis periods, using extraordinary financing. However, as pointed out above, this function could be achieved more efficiently and at a lower administrative cost if these programs were able to self-target though offering below-market wages, without relying on SISBEN.

- *Administrative arrangements would need to be secured while avoiding the creation of another institutional layer.*

3.43 If any one of the RAS programs is kept, it would need a institutional home. However, there is understandable reluctance in Colombia to creating another institutional layer such as setting up a social fund to administer these programs, given the plethora of existing institutions and mandates. A more feasible approach might involve using the RAS programs to focus and transform existing institutions, including RSS, ICBF and SENA making them explicitly responsible for administering the safety net program (in coordination with local entities), while a small policymaking body retained responsibility for overall policy direction.

4. COLOMBIA'S MAIN SOCIAL ASSISTANCE PROGRAMS

4.1 **The goal of this chapter is to describe Colombia's safety net of social assistance programs and identify areas for needed reform.** Colombia, like many other countries at its income level, lacks a well-defined safety net that reaches the most poor and fails to adequately cover some key vulnerable groups. Historically, Colombia has relied on economic growth as a substitute for a formal safety net and most of its social assistance programs are tied to formal sector employment, thus excluding a significant fraction of the population who are employed in the substantial informal sector. Several of the social assistance programs in Colombia were described as “for the poor, but not for the very poor” by officials responsible for these programs, reflecting the formal sector bias of the safety net in Colombia.

4.2 Using the social risk management framework, the role for formal, public interventions can be grouped into the three main categories: risk reduction, risk mitigation, and risk coping (see Box 1.2). Colombia's social safety net contains elements which fit into each of these categories, and includes some unique elements, such as the large-scale public provision of daycare with a focus on early childhood development (ECD). Except for early childhood development, little attention has been paid to risk reduction items, particularly on the labor market side, where the informal sector flourishes and there are no strong labor market or child labor policies. With the notable exception of health insurance, risk mitigation elements are not well-developed for Colombia—the pension system essentially covers only workers in the formal sector (except for a limited number of FSP affiliates) and there is no unemployment insurance. Many of Colombia's social assistance programs are oriented toward risk coping, addressing risk after they occur.

4.3 **This analysis is focused on national social assistance programs, while acknowledging that social insurance programs, particularly components of the health and pension systems, also have a key role to play in an overall social safety net,** as outlined in the Introduction chapter. In this study we define the principal national social assistance programs as the following: (i) the family welfare programs run by the Colombian Institute for Family Welfare (ICBF), including school feeding and daycare/early childhood development programs; (ii) the Social Solidarity Network (RSS) social fund programs; (iii) housing programs, notably those run by the National Institute of Social Interest Housing and Urban Reform (INURBE); (iv) the various programs run by the Compensation Associations (*Cajas de Compensación*), notably the Family Subsidy Program; (v) the utilities subsidies program; and (vi) the PACES (*Programa de Ampliación de la Educación Secundaria*) education subsidies (see Table 4.1). Annex D and the background papers commissioned from *Fedesarrollo* for this study describe these

programs in more detail, along with the SENA training institute (which has often been mistaken as a social assistance program) and the two targeted social insurance programs, the “Pension Solidarity Fund” that provides a pension subsidy to low-paid workers and the subsidized health insurance scheme. Regional and local governments, NGOs and the private sector are also very important sources of social protection in Colombia, but an analysis of these institutions is beyond the scope of this study. We do not include the new *Red de Apoyo Social* safety net programs in this analysis, since they are considered temporary programs and were the focus of the previous chapter.

4.4 From the perspective of social risk management, as identified in Chapter II, there are three groups of the Colombian population that are not adequately covered by the existing panorama of social assistance programs: the very young (under the age of 5), the internally displaced population and the elderly (over the age of 65). Although programs exist for these groups, these programs do not cover all the members of the risk groups, and the budget for the program covering the elderly has been significantly reduced in recent years, leading to a sharp reduction of coverage of this group. Additionally, there is a group of adolescents who are also at risk, but these risks are more difficult to quantify and ameliorate.

4.5 This chapter begins by reviewing trends in social sector spending, which resulted in increased spending and decentralization in health and education, but not social assistance. Next it reviews the main characteristics of the social safety net, drawing on the descriptions of programs summarized in Annex D. Using limited available data it concludes with a review of gaps and costs to address issues of efficiency.

Table 4.1: Colombia's Main Social Assistance Programs

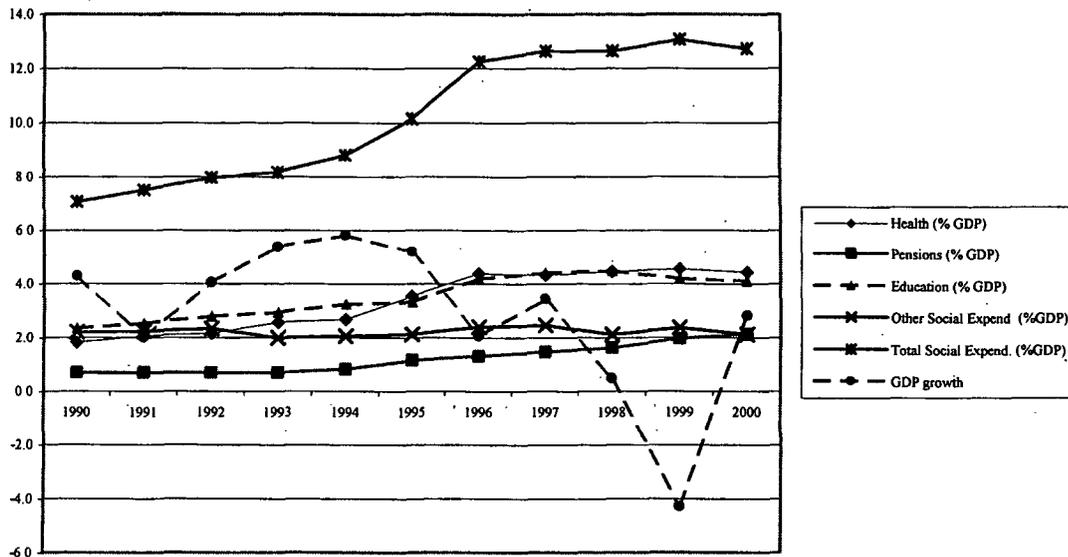
Program	Type of Assistance	Risks Addressed	Administration	Financing
<p><i>Instituto Colombiano de Bienestar Familiar</i></p> <p>(ICBF, the Colombian Institute for Family Welfare)</p>	<p>ICBF directly administers three main <u>in-kind transfer</u> programs: formal day care/ECD (early childhood development), informal home-based day care/ECD, school feeding</p> <p>ICBF is also responsible for regulating child welfare</p>	<p>Chronic malnutrition</p> <p>ECD coverage</p> <p>Preschool attendance</p>	<p>Central government agency</p>	<p>3% payroll tax on all formal sector employees</p>
<p><i>Red de Solidaridad Social</i></p> <p>(RSS, the Social Solidarity Network)</p>	<p>RSS is a social fund that finances a wide range of programs, including: <u>income support</u> employment program; <u>in-kind transfers</u> for housing; and <u>cash transfers</u> to the elderly</p>	<p>Elder poverty</p> <p>Internal displacement</p>	<p>Central government agency</p>	<p>General public revenues</p>
<p><i>Instituto Nacional de Vivienda de Interés Social y Reforma Urbana</i></p> <p>(INURBE, the National Institute of Social Interest Housing and Urban Reform)</p>	<p>INURBE provides <u>in-kind transfers</u> in the form of subsidies for the construction and purchase of housing</p>	<p>Poor housing</p>	<p>Central government agency</p>	<p>General public revenues</p>
<p><i>Subsidio Familiar and Cajas de Compensación</i></p> <p>(SF and CC, Family Subsidy and Compensation Associations)</p>	<p>The <i>Cajas de Compensación</i> administer the family subsidy <u>income support</u> scheme and a variety of <u>in-kind transfers</u></p>	<p>Low income for formal sector workers</p>	<p>Self-financed autonomous organizations</p>	<p>4% payroll tax paid by the employers based on the salaries of workers earning over four times the minimum wage</p>
<p><i>Programa para la Ampliación de la Educación Secundaria</i></p> <p>(PACES, Private School Vouchers)</p>	<p>PACES is an <u>in-kind transfer</u> program that provides vouchers for students to attend private secondary schools</p>	<p>Secondary school drop-out</p> <p>Public sector supply constraints</p>	<p>Ministry of Education program administered through a sub-contract by ICETEX (the national scholarship institute)</p>	<p>General public revenues</p>
<p><i>Subsidios de Servicios Básicos</i></p> <p>(Basic Service Subsidies – Water, Sewerage, Electricity and Gas)</p>	<p>This <u>in-kind transfer</u> is a system of subsidies that makes the consumption of these basic services more affordable to residents of poor neighbourhoods</p>	<p>Low income</p>	<p>This system is not a formal program, but a legal mandate implemented by municipalities and departments responsible for basic service provision</p>	<p>Cross-subsidization from richer to poorer neighbourhoods through the application of progressive tariffs</p>

A. SOCIAL SECTOR SPENDING IN COLOMBIA: A FOCUS ON SOCIAL SERVICES AND DECENTRALIZATION

4.6 Colombia has historically relied on economic growth and an expansion of social services as substitutes for implementing a social safety net, particularly during the 1990's. Solid economic growth allowed for a dramatic expansion in social sector spending through the late 1990's. Following a period of almost complete stagnation through the 1970s and 1980s, public expenditure (primarily on health,

education, and pensions) in Colombia began to grow dramatically from 1990 onwards. Between 1990 and 1997, overall public expenditure rose by 60% increasing its share of GDP from 27% to 43%. (Velez and Foster 2001). Total social spending (defined as health, education, pensions, and other social spending) increased sharply from 1993-1996, led by increases in health and education, and steady growth in pensions. Spending for social assistance remained at low levels throughout the 1990's and did not increase with onset of the crisis.

Figure 4.1: Trends in Social Expenditures and GDP, 1990 - 2000



Source: DNP data, author calculations. "Other social expenditures" includes spending on ICBF, SENA, housing, water and sanitation, and other social programs. Health figures include contributions made by employees to the contributory regime.

4.7 The 1990's were also characterized by dramatic growth in expenditure decentralization. Between 1990 and 1997, regional governments increased their control of public expenditures by 80%, accounting for 14% of GDP (versus 30% for central government expenditures). Overall, increasing funding to regional governments accounted for 30% of the overall growth in public expenditure during the period. Most of the additional resources destined to regional governments were assigned to health and education programs, and to a lesser extent basic sanitation. Thus the growth in public social expenditures and the growth in regional government spending are two aspects of the same trend, both of which were underpinned by Colombia's solid economic growth.

4.8 The main impetus for the growth in social expenditure and the shift toward decentralization came from the social sector policy reforms introduced in the 1991 Constitution, Law 60 and Law 100.

- **The 1991 Constitution** mandated substantial increases in social spending, particularly in the areas of human capital and promoted decentralization both by increasing fiscal transfers from central to local government as well as enhancing alternative sources of financing for local government expenditures.

- **Law 60** introduced in 1993 sought to promote autonomy in decision-making at the regional level. The expectation was that this would improve the efficiency and equity of public expenditure.
- **Law 100** introduced in 1993 increased the pension liabilities of the state towards public sector employees, both by raising pension contributions to 13.5% of salary and by raising the employers contribution to 75% of the total. Furthermore, the state was required to assume the pension liabilities of a number of state owned enterprises that went into liquidation at around this time.

4.9 However, social assistance was not included in the dramatic social sector reforms of the 1990's that resulted in increased spending and decentralization for health and education. As a consequence, social assistance programs remain underfunded, centralized and lack a strategic focus.

4.10 First, social assistance programs did not benefit from the expansion of social sector spending described above. Whereas funding for health and education doubled from approximately 4% to 8% of GDP over the period 1990-2000, central government expenditures on "other social expenditures", including spending on the main social assistance programs and SENA, were essentially constant at approximately 2% of GDP (Figure 4.1).

4.11 Compared to other countries, public social spending in Colombia in 1996 as a percentage of GDP was slightly below the average of the selected Latin American countries (Table 4.2). Spending on social security and welfare (4.9%) was below the Latin American selected country average of 7.1%, whereas spending on education, health and housing was closer to regional averages.

Table 4.2: Level of Total Public Social Spending (PSS) and Spending by Sector in Selected LAC and Far Eastern Countries, 1996 – Share of GDP

	Education	Health	Social Security and Welfare	Housing	Total
Argentina	3.5	1.8	8.0	0.8	14.1
Bolivia	7.4	2.2	4.5	0.2	14.3
Brazil	3.0	1.7	11.0	0.6	16.2
Chile	3.2	2.5	7.1	1.2	14.0
Colombia	5.4	2.0	4.9	0.7	13.0
Costa Rica	5.1	6.8	6.3	0.1	18.2
Dominican Republic	2.0	1.7	0.7	2.1	6.5
Indonesia	1.3	0.4	1.1	3.0	5.7
Korea	3.7	0.2	2.2	0.5	6.5
Malaysia	5.0	1.4	1.5	1.4	9.3
Mexico	3.8	0.5	3.0	0.5	7.8
Panama	4.6	5.6	5.7	1.2	17.1
Philippines	3.4	0.5	0.5	0.3	4.7
Turkey	3.5	0.7	1.4	0.4	5.1
Uruguay	2.1	1.9	19.4	0.5	23.9
Latin American Average*	4.0	2.7	7.1	0.8	14.5
Far Eastern Average*	3.4	0.6	1.3	1.3	6.6

* Average for the selected countries included in the table.

Source: Castañeda et al., 2000, based on Government Finance Statistics Yearbook (1998) of the IMF.

4.12 **Second, since the decentralization reforms that guided social sector policy did not include social assistance, the main social assistance programs remain highly centralized.** The fiscal transfers to local governments include no funding for social assistance. Local governments have almost no discretion over how social assistance and SENA training institute funds are allocated. There is, however, de-concentration of central authority through the presence of a national network of field offices for many programs, including the ICBF family welfare agency and the SENA training institute.

4.13 **Finally, the strategic focus and policy directives established for most social sector programs as part of the reforms were not applied to social assistance.** The safety net remains composed of an array of social assistance programs that constitute an “institutional archipelago” that is fragmented, unfocused and largely outside of the reach of those in the informal sector.

4.14 **The onset of the economic recession in 1998 curtailed Colombia’s ability to continue its expansion of social sector spending, thereby undermining Colombia’s de-facto safety net.** As outlined below, the social assistance programs that could have been mobilized to provide a counter-cyclical safety net during the crisis were hampered by structural constraints, including a historic lack of financing (particularly during times of crises), institutional inflexibility, unfocused mandates, and poor targeting. As a response to the crisis, a new set of safety net programs were introduced as the *Red de Apoyo Social* (RAS) to provide short-term emergency assistance until 2004, but without engaging in a broader strategic reform of the safety net. A pending issue on Colombia’s policy agenda is the need to evaluate the new RAS programs’ performance and decide on their future role. This should be done as part of a overall safety net reform resulting in the establishment of an agile, efficient and effective social risk management system with specific functions in crisis and non-crisis periods.

B. CHARACTERISTICS OF COLOMBIA’S SOCIAL ASSISTANCE PROGRAMS

4.15 **Colombia, like many other countries at its income level, lacks a well-defined safety net that reaches the most poor and adequately covers key vulnerable groups.** Although the three new RAS social safety net programs detailed in the previous chapter have correctly identified and are beginning to address some critical gaps in the safety net, the main social assistance programs also merit a review. This sections outlines the main features of the network of social assistance programs, focusing on areas of needed reform:

Underfinancing and pro-cyclicality

4.16 **Social assistance spending in Colombia is at a very low level compared to other countries in the region (Table 4.3) and to the needs of key vulnerable populations, as outlined in Chapter 2.** In 2000, Colombia’s spending on the four main social assistance programs – ICBF family welfare, INURBE housing, the RSS social fund

and water and sewerage subsidies – was less than .7% of GDP, the lowest rate of social assistance spending of the countries reviewed. From 2001-2004 the implementation of the RAS programs will raise spending on social assistance by an additional .3% of GDP, bringing total social assistance spending to 1% of GDP, more in line with regional allocations. Nonetheless, without reforms or continued international borrowing, the sustainability of this additional spending beyond 2004 cannot be assured.

Table 4.3: Latin America and the Caribbean: Cross-country Comparison of Total Public Social Assistance Spending

Country	SA Spending	Main Types of SA Programs (% of SA Spending)
Argentina	0.9% of GDP	Some 60 federal programs, including: housing and social infrastructure (38%), income transfers (27%), social and community development programs (8.7%), training and employment (7.9%), education-based programs (7.5%), health-based programs (6%), food and nutrition (5.4%)
Colombia	0.6% of GDP**	National programs only, including the Colombian Institute for Family Welfare (ICBF) programs which provide primarily early childhood development and school feeding (86%); the <i>INURBE</i> housing program (7%); <i>Red de Solidaridad</i> social social fund, including workfare and elderly programs (7%)
Dominican Republic	1.14% of GDP	Housing Programs (25%); food assistance programs (29%); school lunch program (23%); health-based assistance (<i>Promese</i> , 7%), elderly assistance (3.5%), programs for youth and small children (1%), other programs (12%)
Jamaica	1.16% of GDP	Income support programs (30%), including: food stamps (15%), poor relief (11%), Economic and Social Assistance (4.4%); School-based welfare programs (24%), of which school feeding (16%) and school fee assistance (5.4%), etc. Variety of other programs (46%): community-based, labor-market, subsidized drugs, housing, feeding programs, etc.
Mexico	1.1% of GDP	Sectoral social assistance (30%); income transfers/subsidies (28%) – including PROGRESA (18%) and food programs (9.6%); income generation (29%); social infrastructure (4.2%), natural disaster protection (9%)
Nicaragua	1.1% of GDP	Programs for children and adolescents (under MIFAM, 65%); programs for hurricane Mitch victims (18%); community employment programs (6%); social assistance under social fund (9.2%); natural disaster program (2%), etc.
Peru	1.44% of GDP	“Programas de alivio a la pobreza extrema”: FONCODES, gasto social basico, numerous feeding programs, school feeding (vaso de leche), etc.
Uruguay	3.4% of GDP*	Health-based in-kind transfers (60%), 4 different cash transfer programs (23%), housing programs (12%), numerous feeding programs (3%), and ECD program (1.6%)
Venezuela	1% of GDP	Cash transfers to poor families, numerous subsidies (food, medicine, transport), school feeding programs, school uniform programs, health-based programs, child care programs, employment and training programs

* Figures on total Social Protection Spending differ by source. Disaggregated information not available for all programs.

**Estimates do not include spending on the SENA training program which was equivalent to 0.3% of GDP in 2000 but cannot be considered a social assistance program. From 2001-2004 social assistance spending will increase by 0.3% of GDP per year as part of the *Red de Solidaridad Social* emergency social safety net program.

Source: adapted from Dulitzky, Gagnaloti and Lindert “Social Protection Expenditure Review” August 2001, World Bank, processed.

4.17 Financing of social safety net programs has been historically pro-cyclical – the opposite of what is desirable in an effective safety net. A retrospective public social expenditure review reveals that for each peso of reduced GDP, social assistance spending fell by 9 pesos, making social assistance the most pro-cyclical component of social sector spending (CRECE 2001).⁷⁴

4.18 This pro-cyclical was underscored in the recent recession of the late 1990's which resulted in reduced spending on social assistance programs, with programs earmarked from payroll taxes such as the Colombian Institute for Family Welfare (ICBF) and the National Training Service (SENA) suffering less dramatic budget cuts than those financed through general revenues including the Social Solidarity Network (RSS) programs for the indigent elderly and internally displaced people whose programmed budgets were halved during the recession (see Table 4.5).

4.19 Earmarking in payroll taxes seems to have insulated programs from counter-cyclical budget cuts. The aggregated data in Table 4.4 show the impact of the recent economic recession on four of Colombia's main social programs. Total budgeted expenditures for all four institutions were lower in 2000 than in 1999, and execution of the budget (through November) was sharply reduced in 2000 for the three institutions excluding ICBF. Those expenditures derived from earmarking a portion of payroll taxes (SENA and ICBF) seem to have been insulated from the dramatic reduction in budgeted expenditures compared to programs whose source of funding is derived from general revenues. The budgets from general revenues allocated to RSS (which administers, among other programs, *Revivir*, the social assistance program targeted to the indigent elderly and the programs for the Internally Displaced People) and INURBE (which administers urban housing programs) were reduced by 50% as a share of GDP from 1999 to 2000.

⁷⁴ This study defined social assistance as RAS programs, ICBF family welfare programs, and other programs for the elderly, children and handicapped.

Table 4.4: Budget for Selected Social Programs, 1997 – 2000
(Millions of 1997 Pesos [1] and as % of GDP of Corresponding Year)

	1997		1998		1999		2000	
	Pesos	%GDP	Pesos	%GDP	Pesos	%GDP	Pesos	%GDP
Budgeted Expenditures [2]								
ICBF	692,683	0.52%	680,879	0.51%	631,068	0.49%	622,950	0.47%
RSS	138,200	0.10%	78,543	0.06%	110,764	0.09%	57,157	0.04%
SENA	448,943	0.34%	363,122	0.27%	454,443	0.35%	384,779	0.29%
INURBE	155,750	0.12%	86,056	0.06%	113,662	0.09%	46,651	0.04%
Total	1,435,576	1.08%	1,208,600	0.90%	1,309,937	1.02%	1,111,537	0.84%
Execution of the Budget [3]								
ICBF	...	...	614,522	0.46%	614,888	0.48%	560,872	0.42%
RSS	...	...	52,807	0.04%	93,345	0.07%	22,009	0.02%
SENA	...	...	296,994	0.22%	365,677	0.28%	192,406	0.15%
INURBE	...	...	37,419	0.03%	107,287	0.08%	19,812	0.01%
Total			1,001,742	0.75%	1,181,197	0.91%	795,099	0.60%
Expenditures as reported in National Income Accounts [4]								
ICBF	634,723	0.48%	592,469	0.44%	...	...	...	...
RSS	136,830	0.10%	53,743	0.04%	...	...	...	...
SENA	338,783	0.25%	332,135	0.25%	...	...	...	...
INURBE	202,534	0.15%	202,393	0.15%	...	...	...	...
Total	1,312,870	0.98%	1,180,740	0.88%				

Sources: Data related to GDP are taken from data compiled by *Dirección de Estudios Macroeconómicos (G. Piraquive)* in February 2001. For other data, see the specific references below.

[1] End of previous year CPI used as deflator (i.e. end Dec 1996 is baseline).

[2] *Ministerio Hacienda & Crédito Público. Ley de Presupuesto General de la Nación 2000.*

[3] Calculated by *Departamento Nacional de Planeación (DNP)* from the database of the *Contraloría General de la República*. Data for 2000 are through November only.

[4] Calculated by DNP from the data base Register F-400 National Income Accounts of DANE.

4.20 Social protection programs in Colombia are primarily financed by earmarked payroll taxes (Table 4.1 and 4.5). The tax burden increased substantially from 1990 to 1996, and is very high, creating incentives for the informal sector and decreasing the competitiveness of Colombian formal sector firms. The formal sector is over-protected, with high severance payments, vacations, 13th month salary and other benefits (see Table 4.5), resulting in incentives for a large informal sector and high unemployment. When considering the reform of the social safety net in Colombia, this high tax burden should be kept in mind, particularly since the poor bear a disproportional burden of unemployment and informality (see Table 2.7). Kugler and Kugler (2001) have estimated that a 10% decrease in payroll taxes lowers unemployment by about 4% and several other analysts have pointed to the pernicious effects of these and other labor regulations on labor market outcomes.⁷⁵ A strong case

⁷⁵ See, for example, James Heckman and Carmen Pages (2000), "The Cost of Job Security Regulations: Evidence from Latin American Labor Markets" and Hugo Lopez (2001), "*Mercado Laboral Colombiano: Funcionamiento y Barreras Institucionales*".

could be made to engage in labor market reform by lowering the tax burden through the elimination of taxes on social programs that are not targeted to the poor and securing alternative sources of revenue to finance a progressive, strengthened social safety net. However, this would need to be done carefully, as recent data reveal that earmarking served to protect social assistance spending from dramatic budget cuts. This situation underscores the importance of a comprehensive, strategic social safety net reform, as argued in the next chapter.

Table 4.5: Total Labor Costs (as percent of wage)

	1990	1996
Separation Payments	8.3	8.3
Retroactive Separation Payments	4.2	4.2
Vacations	6.7	6.7
13th Month's Salary	8.9	8.9
Pensions (worker)	2.2	3.4
Pensions (employer)	4.3	10.1
Health (worker)	2.3	4.0
Health (employer)	4.7	8.0
Training (SENA)	2.0	2.0
Family Welfare (ICBF)	3.0	3.0
Compensation Funds	4.0	4.0
Pension Solidarity Fund (FSP)		1.0
Professional Risk Insurance	2.0	2.0
Total	52.6	65.6

Source: Giugale et al "Policy Note on Pension Reform" Prepared for structural Fiscal Adjustment Loan, 2001. Processed. World Bank.

Good mix of programs, undermined by the lack of a strategic focus

4.21 With the present inclusion of the new RAS programs, Colombia has a network of social assistance programs in place designed to meet the needs of the main vulnerable groups. There is hardly a need identified in Chapter II that does not have a corresponding social assistance program designed to address it (see Table A in the Executive Summary). However, as argued earlier, it is clear that improving risk prevention and mitigation social insurance strategies needs to be addressed, including reforming the pension system and considering the establishment of an unemployment insurance scheme. Furthermore, key reforms are needed in the social service provision areas of health and education.⁷⁶

4.22 However, the efficiency and effectiveness of these programs is undermined by the fragmentation of programs within institutions, overlapping program objectives across institutions and an insufficient budget to address key needs. The lack of a strategic focus is a legacy from successive governments' use of these institutions to achieve a wide variety of policy goals, many of which remain unrelated to safety net objectives. As a consequence, although Colombia has the programs in place to address key vulnerabilities, these programs are not functioning effectively. Annex D and

⁷⁶ See Ayala et al 2001 for a discussion of the need for establishing an unemployment insurance program; see Velez et al 2001 and the background papers for the proposed World Bank Structural Fiscal Adjustment Loan for a review of needed reforms in the pension, health and education areas.

the background papers commissioned for this study summarize each of Colombia's main social assistance programs and provide details on the objectives, portfolio of programs, targeting mechanisms and available coverage and evaluation data from each program.

4.23 Two agencies in particular, ICBF and RSS, seem to suffer from fragmentation of programs, too many programs with too few resources to be able to fill in the gaps in the safety net and a dearth of information regarding program coverage and effectiveness. RSS finances at least 14 separate programs, ranging from employment generation to urban housing to sports and artistic scholarships (see Annex D for details). Although it is not unusual for social funds to finance a wide range of programs, the lack of results based on evaluations, tight budgets and overlap with other agencies' responsibilities calls for an examination of the scope of RSS activities and a transfer or elimination of programs that are not meeting the objectives of the RSS. The RSS should concentrate its efforts on expanding the *Revivir* program (over and above what is needed to overturn the recent cutback) and the programs for the internally displaced since these are two key vulnerable groups and RSS is the government program vested with responsibility for these groups.

4.24 *Sarmiento's* observation of ICBF holds true today "the first impression of ICBF is of a institution with a tremendous variety of programs. Complexity arises from the mix of programs, their objectives and target populations...there are 105 separate activities: 22 programs for families, 20 for adults over 18 and 63 for youth and children less than 18 years old."⁷⁷ ICBF is responsible for the formulation of laws and policies for youth and families, the implementation of related programs, and their monitoring and evaluation. As such, ICBF is both a provider of social assistance for youth and families as well as Colombia's child welfare agency, with its latter responsibilities encompassing interventions in juvenile delinquency, abused or abandoned children, guardianship and adoptions. These programs encompass approximately 16% of ICBF's 'investment' costs and can not be reasonably eliminated.⁷⁸ The administration of social assistance programs (HCB and CAIP daycare/ECD centers and school feeding programs) encompasses 66% of ICBF's 'investment' costs. Finally the production, purchasing and distribution of food and oral rehydration salts encompasses another 12% of 'investment' costs.⁷⁹

4.25 The ICBF's HCB program that subsidizes child care and early childhood development in neighborhood homes is the major vehicle for the Government of Colombia to provide early childhood stimulation and nutritional intervention. The HCB program is widespread and has created a certain constituency of community mothers running the HCB centers out of their homes who might not otherwise be employed. Perotti (2000) argued that the HCB program did not provide the level of care and early childhood stimulation than that found in the CAIPs but this should be formally explored with an impact evaluation of the two programs. Perotti (2000) also argued that the HCB

⁷⁷ Alfredo Sarmiento (1990) "*El Instituto Colombiano de Bienestar Familiar*" *La Deuda Social en los 80*. Volume 2, OIT-PREALC, Bogotá, as cited in Ayala and Ortiz 2001.

⁷⁸ In Colombia, 'investment' costs encompass both investment and recurrent costs, but not administrative costs.

⁷⁹ Ayala and Ortiz, 2001, background paper on ICBF prepared for this study.

should be replaced with a program of food stamps or conditional cash transfers, but this argument relies on the judgment that HCBs are not providing other benefits (such as early childhood stimulation and freeing mothers for productive labor) and are an inefficient way of delivering a nutritional intervention. ICBF officials do not concur with Perotti's arguments that HCBs do not provide valuable services to children and mothers, an assessment supported by the results of the qualitative study conducted as part of this review. Furthermore, it is not clear what would happen to the one-quarter of Colombia's preschool children who are being cared for in HCBs should the program be eliminated, nor is it clear how setting up a different distribution network for nutritional fortification in kind would be any less costly than the existing HCB network.

Box 4.1: A Comparative Review of Early Childhood Development (ECD) Programs

A comparative review of ECD programs in Colombia, India, Jamaica, Kenya, Mauritius, and the Philippines highlights some of the particularities of the Colombian system.

Of the countries reviewed, only the Colombian and Indian programs are highly centralized both in terms of financing and administration, with limited participation from local governments. These programs were also the largest in the review with respect to overall budgets and the number of ECD centers. The Colombian program's financing through an earmarked portion of payroll taxes is unique to the 6 programs reviewed. Other programs, such as those in Kenya and the Philippines, are far more decentralized and depend upon financial contributions by local governments.

On the other hand, the Colombian program's design is along the lines of the others reviewed with respect to its integrated focus on nutrition, health (growth and weight monitoring) and learning. In all but one of the cases reviewed the national agencies are responsible for setting program standards and training the providers. The remuneration to the service providers in Colombia (65% of the per capita GNP) is within the range of payments provided by other programs, with the exception of Jamaica (95%).

Source: Wilson. 1994. "ECD Programs: Lessons from Developing Countries." World Bank. Processed.

4.26 Given the lingering effects of the economic recession, the high levels of poverty and vulnerability among the very young and poor, and the relative effectiveness of ICBF daycare/ECD targeting (notably the HCB program; see Table 4.7), ICBF program levels should not be reduced. However, efficiencies could be gained through streamlining and expanding the more successful programs, as guided by a strong impact evaluation of the main programs. Additionally it is likely that efficiency could be gained by further streamlining or outsourcing elements of the food and oral rehydration salt production, purchase and distribution system.

4.27 **When combined with limited budgets, many programs seem to be left barely subsisting and unable to address the needs of their constituencies.** This is particularly true for the RSS social fund designed to address the needs of the internally displaced population (IDPs) and the elderly poor. As explained in Annex D, the Action Plan for the IDPs was essentially never implemented because of a lack of financing.

4.28 **Underfinancing has also led to high administrative costs, especially for those programs whose budgets were cut severely in the wake of the economic recession** (Table 4.6). Administrative costs are relatively low in ICBF and SENA, accounting for 10-13 percent of total expenditures. Higher administrative costs in RSS probably reflect not only reduced overall budgets, but also the provision of case-work services to elderly

clients (such as home visits). There is no immediately evident reason why administrative costs have fluctuated so much for INURBE, unless it reflects the relatively constant costs for administration as a percent of overall spending which fluctuated sharply in real terms. To a lesser extent, RSS also exhibited this fluctuation. Also, the higher administrative costs of INURBE and RSS could reflect bureaucratization, whereby administrative costs cannot be cut significantly even when the overall budget is reduced.

*Table 4.6: Administrative Costs for Selected Social Programs, 1997-2000
(percent of total expenditures)*

	1997	1998	1999	2000
Budgeted Administrative Costs 1/				
ICBF	11.9	12.7	13.5	12.2
RSS	24.1	31.5	22.2	41.8
SENA	8.9	11.6	9.0	8.6
INURBE	13.6	20.0	14.9	34.2
Executed Administrative Costs 2/				
ICBF	...	13.0	13.5	10.3
RSS	...	34.1	25.5	33.7
SENA	...	11.7	10.2	12.0
INURBE	...	36.5	13.3	41.2

1/ *Ministerio Hacienda & Crédito Público. Ley de Presupuesto General de la Nación 2000.*

2/ *Calculated by DNP from the database of the Contraloría General de la República. Data for 2000 are through November only.*

4.29 There is a need for rationalization within the safety net to be able to address key needs, without cutting overall funding for social assistance. As argued in the next chapter, a review of the efficiency and effectiveness of the main programs should be a priority for the near future, based on solid monitoring and evaluation and a reform of accounting practices.

A lack of flexibility to respond rapidly during a crisis

4.30 As detailed in the previous chapter, it took almost two years for the RAS programs to be launched and spending on social assistance has not been counter-cyclical (see Table 4.5). The establishment of an effective counter-cyclical response mechanism is a clear area for reform, as outlined in the next chapter.

Poor poverty targeting for many programs, despite the availability of instruments

4.31 **Poorly-designed poverty targeting has led to an overall characterization of the safety net as being “for the poor, but not the poorest.”** The existing system of social programs is primarily designed for formal sector workers (SENA, CC) and not for the poorest who lack formal affiliation in the labor market or who are not able to

contribute to the Pension Solidarity Fund (FSP). These social programs are generally financed through 'benefit taxes' and are not strongly redistributive, nor is their stated objective necessarily oriented toward redistribution. Finally, although Colombia's SISBEN proxy means test is a promising targeting tool for reaching the structural poor, its use has not been mainstreamed in the social safety net.

4.32 A review of the incidence of selected social programs is found in the Colombia poverty study (Velez et al. 2001), in the form of the share of subsidy received by quintile. As can be seen from Table 4.7, public social expenditures as a whole are neutrally distributed, strongly favoring neither the poor nor the rich and resulting in very little impact on income distribution. Each quintile receives close to 20 percent of the total subsidies.⁸⁰ However, there is wide variation in the distributional incidence of specific social programs. The ICBF programs are clearly progressive, having negative concentration coefficients, with HCB being strongly progressive and CAIP modestly progressive. Water and sewerage subsidies are slightly regressive. The SENA training program and the Family Subsidies are clearly regressive.

Table 4.7: Distributional Incidence of Selected Social Programs, 1997

	Subsidy Targeting					
	Share by quintile (%)					Concentration coefficient ⁸¹
	1	2	3	4	5	
Childcare						
HCB	35	31	22	9	3	-0.35
CAIP	18	30	20	19	13	-0.09
Total	28	31	21	13	7	-0.24
Training (SENA)	12	17	24	26	20	0.11
Family subsidy (<i>Cajas de Compensación Familiar</i>)	7	13	27	32	21	0.19
Utilities ¹						
Water	15	18	23	26	18	0.06
Sewerage	14	18	23	26	18	0.06
Total PSE ²	23	20	21	19	16	-0.06

Source: 1997 ECV survey, taken from Velez et al. 2001

¹ Urban areas only.

² Only those public sector expenditure items reviewed in the Colombia poverty assessment (Velez et al. 2001) are included, which is about one third of total PSE.

4.33 There are two main methodologies that are used to target social assistance programs in Colombia, but each social assistance program appears to have its own idiosyncratic formula for targeting. The two main methodologies are the SISBEN system

⁸⁰ It is worth noting however, that these estimates only consider the gross distributional incidence of subsidies, without netting out the incidence of tax contributions.

⁸¹ The concentration coefficient measures the benefit incidence of programs and ranges from 1 (the wealthiest receive all the benefits) to -1 (the poorest receive all the benefits).

(used exclusively for health and as a component in targeting criteria of several other programs) and the NBI criteria. An additional targeting mechanism, the ICV, does not appear to be used by any of the principal social assistance programs in Colombia, although it is used in the *Empleo en Acción* workfare program described in the previous chapter. Each of these three approaches is described briefly below. Additional information on SISBEN and other targeting mechanisms, including the minimum wage criteria used by the *Cajas de Compensación* are discussed in Velez et al. (2001).

- ***Sistema de Selección de Beneficiarios (SISBEN, System of Beneficiary Selection)***

4.34 Colombia's SISBEN is a standardized method of evaluating potential beneficiaries for some of Colombia's social programs that has been applied mainly to determine eligibility for the subsidized health care regime. It was introduced in part to facilitate the financial and administrative decentralization of many social programs to municipalities, especially in the health sector. As a result, SISBEN is purposefully designed to be simple and cost effective, in order to facilitate local (municipality) level implementation.

4.35 The methodology for applying SISBEN is straightforward. Each potential beneficiary is administered a simple questionnaire designed to capture information related to the well being of the applicant. It includes questions on household demographic composition and marital status, education, employment, income, possession of goods and assets, and dwelling characteristics. Using this information, an index score is calculated for the family, and the family is given an identification card with its index score and SISBEN category or "strata" of 1-6.

4.36 Each family is assigned an index score (*puntaje*, ranging from 0 to 100) based on its socioeconomic characteristics. In practice, each characteristic is assigned a weight, and these weights are added up to arrive at the total point score for the family. For example, in urban areas, a family receives 5 points if its principal earner has incomplete secondary education, and receives only 3.4 points if s/he has completed primary school. Similarly, this family would receive 7.7 points if it lived in a house with brick walls, but only 0.2 points if the walls were made of zinc. Lower point scores mean that the household is more likely to qualify for the benefit.

4.37 The key information required for assessing family welfare, as well the relative weights for each characteristic were chosen using a national household survey in 1993. Using this survey, a statistical analysis (Qualitative Principal Components) was done to determine the factors most strongly associated with poverty, and the relative contribution of these factors to welfare. The SISBEN point score and survey questionnaire was derived based on this analysis.

4.38 In 1995-96 a massive data collection campaign was launched to administer the SISBEN questionnaire to poor and vulnerable households throughout the country. In this first phase, approximately 70 percent of the target group of potentially poor and vulnerable households were surveyed and entered into SISBEN. Subsequent data collection efforts were coordinated by local municipal authorities who identified

groups of households that had been left out of the initial phase. In addition, any household who would like to apply for benefits under Colombia's social programs can request a SISBEN survey in order to calculate its index score. The SISBEN point score is valid for 3 years. At the end of the third year families are to be interviewed again and a new point score calculated.

4.39 Estimates regarding SISBEN's accuracy in poverty targeting vary, but several studies point to SISBEN's good potential compared to alternative targeting mechanisms available in Colombia (Velez et al. 2001 and Perotti 2000). However, SISBEN has not been without problems. Evidence on its errors of exclusion and inclusion is mixed. Perotti (2000) finds low errors of exclusion—about 15 percent of those who were poor according to the 1997 Survey of Quality of Living were not found to be SISBEN poor. According to Velez et al. (2001), SISBEN accurately identifies the poorest 40 percent 63 percent of the time. However, they further find that there is a big gap between eligibility and actual inclusion in a SISBEN administered program, with only 30 percent of that same poorest group actually having been issued a SISBEN classification document which is required to take up any service delivered based upon SISBEN level.

4.40 The Velez et al. findings underscore issues of irregular application of SISBEN across localities in Colombia. Additional limitations include the fact that the three-year assignment period for the point scores does not allow for flexibility for families to move into or out of receipt of benefits quickly if their life situations change. Housing characteristics are critical for determining the poverty score, so that every time a family changes residence a new SISBEN survey needs to be applied. This is however not always done, as the municipality of destination may not be applying SISBEN at that time, or may not have the funds to finance the social program in which the family was enrolled in the municipality of origin. Additionally, the original variables and weights were obtained from a sample that is now eight years old, some of the weights may be outdated, especially in light of the economic recession of the past few years.

4.41 Administrative confusion has also arisen from the practice of using SISBEN strata in combination with other criteria for determining program eligibility. For example, in INURBE housing subsidy programs, the household's SISBEN strata accounts for 37 percent of the household's eligibility score.

4.42 To improve the SISBEN system some actions will be required and the following actions could be considered:

- Selection of variables and calculation of weights using more recent household survey data.
- Upgrading of the SISBEN data entry application software to take advantage of the new technological advances such as internet connections and on-line verification of duplicates and elimination of mistakes.
- Improving communications of municipalities and departments and the central level for standardizing updates, quality and communication channels regarding data bases.

- Establish protocols to improve the portability of SISBEN and benefits especially of families who are subject to forced displacement.
- Establish standard reports to be submitted by localities.
- Establish a concurrent auditing of SISBEN databases nationwide to guarantee quality, reliability of data.
- Ensure regular applications and updating so that families' changes in welfare status are reflected.
- More community participation may improve the transparency and legitimacy of the selection process, which is under the jurisdiction of municipal governments.⁸²

• ***Necesidades Básicas Insatisfechas (NBI, unsatisfied basic needs)***

4.43 The NBI criteria are an alternative form of designating a household as poor (Table 4.8). A household is considered to be poor according to the NBI criteria if its housing is constructed of substandard materials, if it lacks access to safe water or sanitation, if the housing is overcrowded, if there is a high dependency rate, or if a child aged 7-11 is not attending school. If any of these criteria are flagged, the household is considered to be NBI poor. If two or more NBI criteria are flagged, the household is determined to be in “NBI misery” or extreme poverty.

4.44 Colombia has made significant progress towards reducing the number of NBI poor, which was 88 percent of all households in 1973 but had declined to 44 percent in 1999 (Ramirez et al. 2000). Neighborhoods are classified according to whether they are NBI poor or extreme poor, and this classification is used in the targeting formula of some social assistance programs (CAIPs, school feeding programs).

Table 4.8: NBI Criteria

NBI Criteria	Condition
Inadequate housing	Cabecera municipal: dirt floor. Others: dirt floor or flimsy walling
Housing without services	Cabecera municipal: without water from aqueduct or without connection to sewage or a septic field. Others: Water for consumption from river or other unsafe sources or lacking sanitation
Overcrowding	Greater than 3 persons per room
High economic dependency	Households with head having less than 3 years of primary education and three or more dependents for every working member
Lack of school attendance	Child aged 7-11 who does not attend school

Source: Ramirez et al. 2000.

⁸² The finding that many eligible households do not possess an Sisben documentation card (SDC), and that in the majority of the municipalities some households of SISBEN level 3 have an SDC while not all households of SISBEN levels 1 and 2 have one (Velez et al 2001), suggests that the process for identifying eligible households may need improvement.

- **Indice de Condiciones de Vida (ICV, Conditions of Life Index)**

4.45 The *Indice de Condiciones de Vida* (ICV, Conditions of Life Index), is another welfare index promoted by DNP's *Misión Social División* (Cortéz, Gamboa and González 1999). It is a weighted average of 12 variables grouped into 4 factors, with the weights developed by regression analysis. The variables are: sanitation, water source, trash collection, cooking source, average schooling of household members 12 and over, schooling of the household head, school attendance for children aged 12-18, crowding, proportion of children under age of 6, school attendance children aged 5-11, housing material--walls, and housing materials--floors. Perotti (2000) suggested that the ICV is not appreciably superior to SISBEN, which is also based on a combination of many of the ICV variables, and this assessment seems to be shared by Colombian officials who have not adopted the ICV for general use in targeting.

4.46 **In conclusion, SISBEN seems to have the potential to be used more extensively for targeting social assistance programs to the structurally poor and vulnerable.** Perotti (2000) suggested that SISBEN should be used as the primary targeting mechanism in Colombia, and such an outcome would be superior to the current patchwork system where many programs use the SISBEN strata as one of the criteria in rationing benefits to recipients. SISBEN is relatively cost-efficient,⁸³ and according to Velez et al. (2001), SISBEN targeting is acceptable when the needed SISBEN documentation cards are distributed according to eligibility. This review concludes that alternative targeting devices have too much leakage, although in urban areas the 'double the minimum wage' criterion minimizes leakage relatively well. Efforts should be made to improve SISBEN along the lines suggested above and its implementation should be explored within the principal social assistance programs to improve efficiency and transparency in programs requiring individual means testing (instead of self-targeting) to achieve proper targeting. With a more extensive use of SISBEN the additional effort to ensure that all eligible households obtain an SISBEN documentation card would also become even more cost effective.

A dearth of information on coverage, efficiency and effectiveness

4.47 **There is very little information overall on the coverage, efficiency, and effectiveness of Colombia's social assistance programs.** 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. Evaluation results are almost non-existent.

4.48 **Additionally, significant discrepancies exist between official data on participation in programs and data from the ECV 97 survey.** According to the World Bank's Colombia poverty report (Velez et al. 2001) the number of beneficiaries of social programs as reported in the *Encuesta de Calidad de Vida* 1997 (ECV97) often diverges substantially from the official statistics and the direction of divergence is not uniform. In

⁸³ The cost per SISBEN interview is estimated at US\$2.30 (Velez et al. 2001).

some cases, the ECV97 gives a higher number of beneficiaries than the official data and vice versa in other cases.

4.49 Particularly the discrepancies recorded for ICBF and SENA are very substantial and give cause for concern. In both cases, the survey suggests only half as many beneficiaries as those recorded by official statistics. For example, in the case of ICBF, it is striking that the ECV97 suggests 0.7 million beneficiaries as against 1.3 million according to the official statistics. A similar phenomenon occurs with the SENA, where the ECV97 records only half as many participants as those reported in official statistics. In some of the cases, the problem may be one of survey respondents misclassifying themselves between short-term versus long term courses.

4.50 As argued in the next chapter, the establishment of reliable monitoring systems and the evaluation of the principal social assistance programs should be a top priority for the near future.

Poor budgetary data

4.51 Social sector budgetary data are complicated and inconsistent, particularly with respect to social assistance. There are three sources of aggregated data of social spending: budget data from the Ministry of Finance, execution of the budget data from the Controller's Office, national income accounts from the Department of Statistics. There are several problems with these data.⁸⁴

4.52 First, there is no accepted definition for "social assistance spending" or the "social safety net" in Colombia's national income accounts or in the budget.

4.53 Second, available data are not comprehensive, and different data sources show markedly different levels of spending on specific social programs. These three sources of aggregated data described above provide information on budgets for three main social assistance providers: ICBF, RSS, and INURBE as well as for SENA (Table 4.5). Data on the three other main social assistance programs (SF/CC, FSP, and SE) are not available from aggregated sources, making the budget incomplete. Finally, data from the institutions themselves do not match data from the national income accounts although they generally match exactly the budget figures from the Ministry of Finance.

4.54 Third, most aggregated data (such as from the Ministry of Finance on the budget) are available only on an institutional basis without spending on programs disaggregated, making it difficult to track how the resources are being spent. In addition, regional social sector budgets are kept in separate accounts.

4.55 Finally, paralleling the three different sources of program expenditure information, each of three providers of aggregated budgetary data uses a separate

⁸⁴ Alesina's (October 2000) review of budget institutions in Colombia provides an overview of problems with budget practices in Colombia ("Institutional Reforms in Colombia", Harvard University, processed, 2000).

definition of administrative costs. The classification used by the national income accounts is problematic because it counts only expenditures on physical capital as non-administrative cost. Even the payment of actual benefits is classified as an administrative cost. As a consequence, 90-99 percent of the programs costs for the four main programs are classified as administrative and are therefore not reported in this study. The classifications used by the Ministry of Finance and the Comptroller's Office lead to essentially similar rates of administrative cost in the four programs (Table 4.5).

4.56 The lack of available, reliable budgetary data on Colombia's social assistance programs has undermined the effective management of social safety net. Social assistance budgets are not monitored in the national income accounts. Reliable program costs are not available from national accounts to review how much of the budget is being spent on key programs for vulnerable groups. Finally, the variability in information on administrative costs makes it difficult to evaluate institutional efficiency.

C. ADDRESSING GAPS BY IMPROVING EFFICIENCY

4.57 Colombia's social protection (SP) policies are oriented towards reactive public measures with a focus on the formal sector affiliation of those protected, and there are whole categories of social risk that are not covered by the existing Colombian safety net, mainly risk reduction and mitigation approaches.

4.58 With respect to risk mitigation and coping oriented social assistance programs, as argued earlier, the problem is not a lack of programs, but the ineffective functioning of existing institutions because of underfunding and inefficiency which has led to gaps in coverage, particularly for the poor. Looking at individual programs, it becomes clear that many social programs in Colombia, although having a stated goal of reaching the poorest, do not in fact achieve this goal. These coverage issues are considered in Annex D on individual programs.

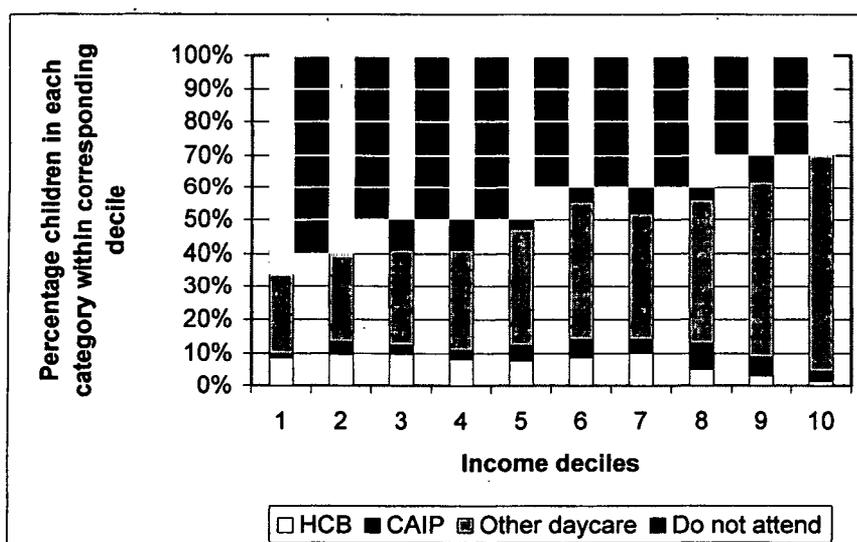
4.59 Overall, the social safety net in Colombia has gaps, most obviously for pre-school children. Velez and Foster (2001) conclude that the childcare sector has been largely neglected throughout the 1990s. Childcare is one of the sectors with the highest levels of unsatisfied demand, yet the number of places in childcare shrank by 4 % between 1992 and 1997 and the coverage rate fell by 7 %, with a significant decrease in each of the 5 quintiles. Velez and Foster point to childcare as the highest priority public social service for expansion.

4.60 Adolescents and young adults are also vulnerable to multiples risks, particularly those related to violence, as outlined in Chapter II, although data on these vulnerabilities are often difficult to obtain. Finally, the indigent elderly and internally displaced populations do not have effective social protection as programs have been severely curtailed.

4.61 The data presented in Annex D and the background papers commissioned for this study on individual social assistance programs can be summarized as follows:

- *Pre-school children – ICBF day care coverage.* Coverage estimates for ICBF’s two main programs – community (HCB) and formal (CAIPs) day care programs – varies widely according to the sources consulted. ICBF estimates that about one-quarter of all preschool children are reached by their two main programs and only 13 percent of the children in the poorest two deciles. *Misión Social* estimates from an analysis of the 1997 Quality of Life Survey (Figure 4.2.) point to HCB coverage fluctuating between 8 to 10 % for the first 7 deciles, and then declines rapidly for the 3 highest deciles. CAIP covers between 1 and 3 percent of the first 4 deciles and 4 to 8 percent of the higher deciles, with the exception of decile 10. Other types of day care systems, including those administered by local governments play a very important role. However, many poor children remain uncovered, particularly the poorest.

Figure 4.2: Children Age 0 to 7 Attending HCB, CAIP, or other Daycare



Source: ECV-1997, Calculated by *Misión Social*, DNP.

- *Pre-school children – Poverty targeting of ICBF daycare.* In their review of public social expenditures in Colombia, Velez and Foster (2001) find that ICBF childcare programs are among the most progressive social programs in Colombia, but that ICBF targeting deteriorated from 1992 to 1997. The concentration coefficients of both CAIP and HCB programs decreased from -0.22 and -0.44 in 1992 to -0.09 and -0.35 in 1997 respectively.⁸⁵ This study and the *Misión Social* coverage data reported above point to the better targeting of HCB programs compared to CAIP.
- *School-age children – ICBF school feeding coverage.* ICBF-sponsored school feeding programs were budgeted to reach 2.3 million children in 2000. Coverage estimates vary dramatically. A recent study by ICBF of 8 municipalities found that 21% of the school-age population was covered by school feeding programs. However, Leibovitch and

⁸⁵ Concentration coefficients measure the benefit incidence of programs and range from 1 (the wealthiest receive all the benefits) to -1 (the poorest receive all the benefits).

Nunez (1999) found that in urban areas 3.5% of poor households and 2.9% of non-poor households had access to school feeding programs.⁸⁶

- *Internally displaced population – RSS program.* The three-year US\$465 million Action Plan developed in 1998 for the Internally Displaced Population (IDPs) has obtained less than 20% of required financing due to the fiscal crisis and lack of support from the international community because of the controversy over Plan Colombia.
- *Poor elderly – RSS program.* The poor elderly will continue to not be served by any safety net program, since *Revivir* has been cut back so substantially during these crisis years and is barely functioning as a program.

4.62 The estimated unit cost for the different programs provides an indication of the comparative efficiency of different social programs currently in place. Table 4.9 presents the executed budget for 2000 for the different programs, and the estimated number of beneficiaries are used to calculate the annual program cost per beneficiary. Because of the discrepancies in data on both costs and coverage, the estimates in Table 4.9 should be interpreted as rough calculations.

⁸⁶ Ayala and Ortiz 2001.

Table 4.9: Estimated Costs and Coverage of Selected Social Programs, 2000

Program	Budget (Millions current Col. Pesos)	Budget (Millions current USD [1b])	Number of Beneficiaries	Annual Unit Cost (current Col. Pesos) [1a]	Annual Unit Cost (current USD) [1a]	Time Period of Program Coverage
ICBF [2]						
HCB	378,500	181.46	1,308,235	289,321	139	1 year [4]
Kindergarten /CAIPs	103,734	49.73	152,913	678,385 [3]	325	44 weeks
School Feeding	98,986	47.45	2,226,605	44456	21	120-190 days
RSS						
'Revivir'	20,577	9.86	71,029	290,000	139	1 year
'Desplazados' (displaced persons)	13,222	6.34	30,448	434,248	208	
SENA [6]						
long courses	83,997	40.27	109,568	766,623	368	1-3years
Short courses	161,626	77.49	806,896	200,305	96	20h and 500 h
Housing						
INURBE	126,737	60.76	22,108	5,732,630	2,748	Lifetime
Rural housing	46,645	22.36	12,345	3,778,452	1,811	Lifetime
CCF [7]	119,750	57.40	20,069	5,966,914	2,860	Lifetime
FSP (social pension fund)	184,228	88.32	434,752	423,754	203	1 year
Education						
Subsidies primary educ.	15,837	7.59	60,863	242,575 [8]	116	1 academic year
PACES scholarships	3,772	1.81	13,688	277,398 [8]	133	1 academic year
Health						
Subsidized Health Regime	1,241,259	595.07	9,510,566	155,520 [9]	75	1 year

Source: DNP calculations.

The housing related subsidy is given only once in life to each beneficiary.

The education related subsidies are given for the whole academic year (9 months/year), and throughout the complete cycle of 9 years of basic education and 6 years of secondary education.

[1a] From a general point of view the difference that exists sometimes between the unit cost indicated in the table and the mere division of budget by number of beneficiaries is due to the inappropriateness of the latter methodology because no complexities are taken into account. For instance the time period of the programs is not always a whole year, for which recalculation is required. Also for instance in the case of ICBF the budget is used partially for a fixed contribution per location independent of the number of children, and is partially used as a contribution per child.

[1b] The conversion is done with an exchange rate calculated as the average taken from the average monthly exchange rates during 2000.

[2] For the ICBF programs no data are available on the exact number of beneficiaries. The indicated numbers are nominal estimates.

[3] This is only a broad average. The actual expenditure per beneficiary in this program can vary significantly.

[4] The HCBs are only effectively open during 210 days in the year. (Source: Andrés Humberto Morales – DNP) However, the average cost for a year can still be calculated with the budget and the number of beneficiaries seen 1 beneficiary is enrolled in the program for the year or not.

[6] Source: Hugo Enrique Navarro – DNP. For the short term courses unit cost calculation the assumption is made that 1 beneficiary represents 1 person who can take a program only once a year, i.e. 1 person cannot be twice a beneficiary in a year.

[7] Source: Ministerio de Desarrollo – Alejandro Bayona – DNP.

[8] The unit cost would not be correct if calculated as a simple average, because the subsidies are different depending on the region. The adjusted value represents a weighted average taking into consideration these regional differences. Source: Julio César Jiménez – DNP

[9] The unit cost would not be correct if calculated as a simple average, because the subsidies are different depending on the region. For instance some regions like the old national territories, Urabá Antioqueno and Guajira receive subsidies that are 25% higher for reasons of the violence. The adjusted value represents a weighted average taking into consideration these regional differences. Source: Diana Isabel Cárdenas – DNP.

4.63 Although reform might be difficult, some programs stand out because of their high cost and lack of strategic focus. SENA stands out in this respect since it is costly and focused on educated workers, as do the *Cajas de Compensación* programs. SENA's long courses of one-three years duration are clearly not aimed at the poor who can not subsist without earnings (see Annex D and Henao 2001b background study), nor is the formal sector *Cajas de Compensación* program targeted to the poor (Table 4.7). Although these social programs were not set up as redistributive social assistance mechanisms, it is worth considering their role in Colombian social policy, particularly in light of the social assistance needs.

4.64 To get a sense of financial resources required to extend coverage of existing safety net programs to the most vulnerable groups identified earlier, the rough estimates of unit costs in Table 4.9 and the unit costs of the RAS programs presented in Chapter III were used to assess the cost of covering indigent children, the indigent elderly, and the IDPs with existing programs for one year:

- Supplying all indigent children 0-6 years with the nutrition component of the RAS '*Familias en Acción*' program would require US\$257 million.⁸⁷
- Covering all indigent children under the primary education component (7-12 years) or the secondary education component (13-17 years) of the RAS '*Familias en Acción*' program would require respectively US\$97 million and US\$176 million.
- Implementing the RSS *Revivir* program for all indigent elderly 65 and over would cost about US\$70 million.
- Addressing the needs of the about 500,000 internally displaced people who are expected to enroll in the Unified National Registry through the Government of Colombia's Action Plan would cost US\$155 million a year, a first installment in a 3-year program.

4.65 In the next chapter we present some suggestions for trade-offs between programs using available resources and point out opportunities for cost-recovery. Realizing the limitations of working within a fiscally constrained environment, it is important to evaluate how the current spending level in the area of social assistance programs could be used to concentrate efforts on the most vulnerable groups.

⁸⁷ All the amounts indicated here also include the money currently already spent on these programs. In other words, the indicated amounts are NOT additional to the already existing spending to bring the program to part of the target population as is done at present. Coverage gaps based on DNP estimates of poverty and indigence by age groups.

5. OPTIONS AND RECOMMENDATIONS FOR REFORMING COLOMBIA'S SOCIAL SAFETY NET

5.1 The present situation calls for the need to reform Colombia's social safety net, both the counter-cyclical element to address transient vulnerabilities in times of crisis and the structural elements to address chronic vulnerabilities. The proposals put forward in this section aim to provide a roadmap for increasing equity and efficiency without raising overall costs to the Government of Colombia.

5.2 The proposals in this chapter address the problems identified in the previous chapters, namely: (i) a few key groups are underserved by current programs, notably young children, adolescents and the internally displaced population; (ii) the current social safety net is underfunded and inefficient; and (iii) there is a need for a countercyclical strategy for the safety net that could be implemented rapidly in the face of future crises, not just the one-shot approach currently represented by the new RAS programs.

5.3 These proposals also recognize that the Colombian government's ambitious reforms to promote decentralization and improve the country's social indicators introduced during the 1990s are currently unsustainable in light of Colombia's present fiscal crisis and need to be addressed. Although Colombia reached its IMF targets last year, in the medium term fiscal solvency is contingent upon reforming both the system of transfers to local governments (which is presently being addressed) and the country's state pension system. Addressing these two issues are a critical pre-requisite to addressing more specific social sector reform issues, including reforming the safety net, and a debate is currently taking place to craft viable solutions to this challenging situation.

5.4 Policymakers in Colombia should take advantage of the current debate on restructuring social sector spending to place the creation of a viable social safety net squarely within the negotiations. This would reverse the traditional oversight of this important, underfunded sector and allow Colombia to devise a comprehensive and sensitive safety net strategy that could better address present vulnerabilities and future shocks.

5.5 Finally, any analysis of vulnerability in Colombia and development of recommendations regarding the design and implementation of a social safety net must take into account the complex and continuously changing socio-economic situation in Colombia. While social safety nets always need to be designed to the particular needs of the country in question, this is especially true of Colombia since it is mired in a internal conflict that is unraveling the country's social fabric. Indeed, as the crisis of displaced persons makes clear, the government must devise effective responses to crises whose roots are often more political than economic in nature. Indeed, while it

may be a while before Colombia has an economic contraction comparable to what it endured during 1998-99, it is likely that many Colombians will face formidable economic disruption due to the internal conflict. In crafting an appropriate safety net, this situation makes it critical to be prepared on two main fronts: (i) to be able to address not only the effects of future macro-economic shocks, but also the effects of internal strife; and (ii) to devise strategies to ensure the delivery of social services to populations affected by the conflict.

5.6 Based on the analysis carried out in this study, three types of recommendations for reforming the social safety net have been developed: (i) *technical reforms* that should be undertaken immediately to improve the tools used to orient social assistance programs, including targeting, budgeting, monitoring and evaluation; the need for improving these tools is evident, the steps for reform are clearly laid out and implementing changes would not require extensive funding or political support; (ii) *reforms to existing programs* to improve their coverage and quality without extensive restructuring or crafting new laws; and (iii) *longer-term strategic reforms* aimed at improving the composition and operation of the social safety net, the implementation of which will require debate, consensus and political will. These strategic reforms should be planned for 2004 when the RAS emergency programs expire, and the Government of Colombia should ensure that needed information, as outlined in the technical reforms, is available to inform the strategic reform.

A. TECHNICAL REFORMS

5.7 The Government of Colombia's ability to provide effective social assistance to its most vulnerable groups is severely hampered by a lack of accurate information on the coverage, cost, and effectiveness of its main programs. In addition, the SISBEN proxy means test is out-of-date and underutilized. The role of information is critical to effectively managing any social safety net, both in terms of informing policymakers' choices concerning the administration of the safety net as well as to inform the public about available programs and to foster debate, innovation, and accountability. The dearth of accurate information in Colombia has led to a lack of transparency and accountability and undermined the effective management of the social safety net. Addressing these problems should be a top priority.

5.8 The Government of Colombia should immediately introduce three information management reforms critical to the effective management of the social safety net:

Conducting a social sector expenditure review aimed at restructuring national accounts and other budgetary data on social sector spending

5.9 A reform of Colombia's social sector accounting procedures is needed to lend transparency and consistency to these critical sources of information. As established in Chapter IV, the lack of a standard definition of social sector expenditures, the absence of budgetary information on specific programs, and the variable definitions of overhead

have contributed to the mismanagement of Colombia's fiscal accounts, complicated the analysis of basic trends, and undermined accountability.

Monitoring and evaluating the principal public, national social assistance programs.

5.10 **A priority for Colombia should be the establishment of effective monitoring and evaluation systems for its principal social assistance programs.** The current weak state of monitoring and evaluation for the majority of programs needs to be addressed for effective management to take place.

5.11 Reforms should be considered on three levels:

- *Ensuring timely, reliable monitoring data* on all social assistance programs, particularly regarding costs and coverage;
- *Introducing participatory monitoring* to foster public involvement and accountability in the principal social assistance programs; and
- *Applying structured impact evaluations* with treatment and comparison groups that allow for the assessment of causality to the larger, more important programs. The Government of Colombia through the National Planning Department should ensure that the strong monitoring and evaluation components designed for the new *Red de Apoyo Social* programs are applied and used as a basis for building monitoring and evaluation capacity within the public sector.

5.12 **Structured impact evaluations are currently being carried out of the new *Red de Apoyo Social* programs; these should be accompanied by impact evaluations of SENA, ICBF and *Cajas de Compensación* so that a full review of the present safety net system can be conducted in 2004.**

Updating SISBEN to address its present design and implementation problems and considering its expanded use

5.13 Colombia is fortunate to have an internationally recognized proxy-means test, SISBEN. The SISBEN means testing system should be reviewed and updated as envisioned by the National Planning Department. Questions regarding its accuracy need to be resolved by reviewing in greater detail the results of recent evaluations. Key operational reforms also clearly need to be made to this system including:

- *Addressing the gap between eligibility and inclusion* in a SISBEN administered program, especially to ensure access across geographical areas and among vulnerable groups that are difficult to reach like the IDPs.
- *Performing regular updates* to ensure that families' changes in welfare status are reflected.
- *Ensuring better information management and dissemination* through database consolidation, improving data entry opportunities and quality, concurrent auditing of databases, and an increase in community participation that may improve the transparency and legitimacy of the selection process.

5.14 **The SISBEN proxy means test has the potential to serve as Colombia's principal targeting mechanism for reaching the chronic poor.** It appears that every social program in Colombia –apart from the self-targeting ones- has created its own idiosyncratic targeting mechanism, while using SISBEN or NBI as a component in the scoring formula. Other targeting mechanisms such as the ICV seem to be restricted to analytical uses—there is no established program that uses ICV proper or as a component in a scoring formula. Once updated, the expanded use of SISBEN should be considered, particularly for programs aimed at reaching the chronic poor. The World Bank (1994) and Perotti (2000) strongly suggested that a regularly updated SISBEN should be used as the primary targeting mechanism in Colombia. SISBEN is relatively cost-efficient,⁸⁸ and according to Velez et al. (2001) SISBEN targeting is acceptable when the needed SISBEN documentation cards are distributed according to eligibility.

5.15 Nonetheless, counter-cyclical programs designed for groups affected by temporary income shocks and those aimed at groups with specific vulnerabilities that are not easily identified using a means test should rely on alternative targeting mechanisms.

B. REFORMS TO EXISTING PROGRAMS

5.16 **The efficiency of established social assistance programs could be improved through the elimination of excessive program overlap and fragmentation, better poverty targeting, and a restructuring of existing programs to improve their coverage and quality, particularly vis-à-vis the very young, adolescents and internally displaced people.** As established in Chapter IV, the present safety net is characterized by too many programs with too few resources. Furthermore, as established in Chapter II, the following vulnerabilities need to be addressed as part of a reformed safety net:

- **Pre-school and primary school age children are vulnerable to malnutrition and communicable diseases because of the drop in vaccination rates and lack of access to medical care.** The high indigence rates among young children in rural areas point to the need to expand nutrition services, particularly in rural areas. The decrease in vaccination rates is an alarming indicator of vulnerability. The international community, central government and local governments should ensure the supply and distribution of vaccines as a priority risk prevention measure. The increase in the percentage of children receiving no medical treatment points to the need to ensure the implementation and expansion of the conditional cash transfer program as well as ensuring the completion of the health reform.
- **Youth age 12-17 in both rural and urban areas have been identified as exceptionally vulnerable due to their exposure to multiple aspects of violence and crime.** This age group is at risk of dropping out of school, joining gangs or areed groups, and engaging in prostitution or the narcotics trade. These risks point to the need for a focus on youth issues, both in schools and in communities.

⁸⁸ The cost per SISBEN interview is estimated at US\$2.30 (Velez et al. 2001).

- **The internally displaced people, a result of Colombia's unique context of internal conflict, constitute another critically vulnerable group.** The guerrillas' and paramilitaries' military and economic strength has led to a dramatic increase in violence, deaths, and displacement, especially among the rural civilian population. The Government of Colombia estimates that there are currently 400,000 displaced people. This population has been evicted from areas where they have been engaged in productive economic activities and relocated in urban slums where employment prospects are limited, access to social services constrained and violence and crime are rampant. Available data suggest that most of the displaced are women (56%) and children (55% are under 18), with limited skills and education. These multiple vulnerabilities concentrated in one population make this group in need of priority attention from innovative interventions that will not add to their social stigmatization.

5.17 In light of the above, the following should be considered priority areas for action:

Improving the quality and coverage of day-care and nutrition programs for the poor

5.18 As established in the previous chapter, ICBF estimates that about one-quarter of preschool children are reached by the ICBF's HCB and CAIPs programs and 13 percent of the children in the poorest two deciles, and other coverage estimates are lower. In a study of 8 municipalities, school feeding programs were found to reach under 4 percent of poor households in both rural and urban areas. In addition, although there has never been a rigorous impact evaluation carried out of the ICBF daycare programs, there is a generalized concern about the quality of care offered by these programs, particularly the HCB community daycare program. The following actions should be considered:

- *Carry out an impact evaluation of the main daycare programs.* A first priority would be to evaluate the ICBF family welfare agency's CAIPs (the formal day care centers) and HCBs (the community day care centers) to clarify Perotti's (2000) assessment that quality of CAIPs was "enormously higher" than quality provided by HCBs and to examine his recommendation that the CAIPs model be adopted in place of HCB. It should not be forgotten that the unit cost of the CAIPs is on average over twice that of the HCBs. It is also possible that—even with a lower quality than the CAIPs—HCBs still provide a sufficient level of service to attain a minimum standard. Finally, the present low quality of HCBs may be a factor affecting their relative success in poverty targeting (see Annex C). It may also be feasible to improve the level of care provided in HCBs by low-cost alternatives, such as upgrading the skills of HCB community mothers.
- *Establish a basic monitoring system.* Part of the difficulty in evaluating the HCBs and CAIPs is that basic data on how many children are actually enrolled in HCBs are lacking. There is a glaring need for reliable monitoring data to be able to ascertain the actual level of enrollment in HCBs and CAIPs and assess the cost-effectiveness of these programs. Basic monitoring data should also be complemented by solid impact evaluations of the main ICBF programs, especially for child care and nutrition, including school feeding programs since international evidence suggests that these are often poorly targeted.
- *Consider the role of childcare functions in the mobilization of household labor.* A wholesale elimination of HCBs and CAIPs would be a mistake. There is an important

issue of the provision of a public good (day-care). If Colombia eliminated the HCBs and CAIPs as some have suggested (Perotti 2000) then there is an immediate issue of who would take care of the more than 1.5 million children who are placed there, which program would be available to meet the high unmet demand for places in HCBs particularly in rural areas and what options would be available to poor women forced to withdraw from the labor market because of child care duties. The data reviewed for this study points to the mobilization of labor as a key risk management response in Colombia – a response aided by the availability of low-cost daycare.

- *Review the range of quality and cost issues.* Other issues on the quality of day-care include the high turnover rate of community mothers -- the average length of service is only two years (Perotti 2000) and questions about the quality of their training. Just under one-third of community mothers use the home-improvement loans for purposes other than those approved by ICBF, and when a community mother leaves the program, she keeps the equipment and furniture.

Addressing the needs of the Internally Displaced People (IDP)

5.19 The international community and GOC should move beyond humanitarian assistance to address the education, health, and training needs of the IDP. It is already clear that the IDP problem is neither short-term nor resolvable through a combination of humanitarian assistance and relocation of the IDP to their areas of origin. Efforts to resolve the conflict and stem the flow of IDP need to be combined with actions concentrated in the regions receiving the bulk of the displaced, under joint plans developed with those departments and municipalities. Although there may not be a need for the creation of separate programs for the IDP, attention should be directed toward ensuring that there are no barriers to access preventing the IDP from benefiting from critical social assistance, health and education programs. This would be consistent with the need for implementing a long-term solution to addressing the needs of the IDP. Several types of actions could be considered, including:

- *Directly supporting the GOC action plan,* including: community reconstruction to allow for the return of populations to their homes, building on efforts secured under the Magdalena Medio and Peasant Enterprise Zones projects; slum upgrading in urban areas for those who choose to remain where they are; and resettlement operations for those wishing neither to return nor remain in the slums. Particular attention must be given to greater consistency between legislation and implementation in order to convert policies into action, a recognized weakness of Colombian state and government agencies. Initiatives calling for the establishment of a common methodology for estimating the size and characteristics of the IDP population should also be implemented.
- *Implementing the Social Solidarity Network (Red de Solidaridad Social, RSS) programs for the displaced.* The RSS programs have not been fully implemented because of a lack of funding. Presuming that the programs remain a sound strategy for addressing the needs of the IDP, securing this funding should be made a priority and the programs evaluated to assess their effectiveness. However, given allegations of their misuse in other countries, the need for the types of individual lists of IDP used by the RSS as the basis for providing assistance to this population should be reviewed, and, if their use is deemed necessary, their security should be ensured.

- *Ensuring that qualifying IDP have access to RAS programs.* One of the most powerful contributions to resolution of the IDP crisis could be channelling some portion of the current social safety net project resources towards that population. Without changing the fundamental structure of the project, measures could be undertaken to reach IDPs such as outreach campaigns and updating the targeting mechanisms used in RAS to allow for recently displaced families to participate in the program. This could be done by facilitating the access of IDP to SISBEN and prioritizing the availability of RAS programs in areas with high concentrations of IDP.
- *Mobilizing the education and health sector.* Schools should be used more aggressively to address the needs of school-age IDPs and to sensitise recipient communities to the need for developing and implementing solutions for young IDPs. The health needs of IDP should also be addressed, perhaps through the priority incorporation of the IDP into the subsidized health insurance regime.

5.20 Many of these initiatives could be supported and explored using the pilot project under the Japanese Social Development Fund. The objective of the fund is to integrate networks of civil society and city governments for the provision of basic services to IDPs in cities with large concentrations of displaced people who do not want to return to their place of origin. A key challenge is to develop ways to mobilize these networks to support IDP's access to existing social assistance programs. The pilot projects could also explore how to make IDPs a focus of future projects funded by multilateral agencies.⁸⁹

Addressing the gap in assistance for the elderly

5.21 **Although the situation of the elderly is perhaps not as critical as that faced by the other groups mentioned before, coverage for the indigent elderly has been sharply curtailed.** The *Revivir* program run by the *Red de Solidaridad Social* covered less than a quarter of the indigent elderly in 1998, but the program was curtailed in the wake of the crisis. Plugging this gap would require a reallocation of funds from programs that are not well targeted to the poor (such as SENA). Another problem is that *Revivir* is allocated among municipalities that already have a program for the indigent elderly of their own. Perotti (2000) points out that since the capacity to have a program for the indigent elderly is likely to be found in the better-off areas, precisely where there is little problem with poverty or extreme poverty, that *Revivir* is likely to miss the target population in areas where it is most needed. Another problem with *Revivir* is that it is located in the RSS, which has too many underfunded small programs to sufficiently focus on core objectives such as reducing elderly poverty or assisting the displaced.

⁸⁹ Two opportunities should be kept in mind, building on existing efforts: (1) the consolidation and expansion of the Peasant Enterprise Zones experience to include protection of more civilian peasant communities on the frontier as well as recuperation, consolidation and protection of the afro-Colombian collective communities and indigenous reserves in ecologically sensitive regions; and (2) replication of the *Magdalena Medio* model of conflict resolution and consensus building in other urban areas where social conflict, urban crime and a culture of violence could be addressed by generating partnerships in relation to productive investments among civil society, private sector and local government interests.

5.22 An obvious solution would be to cut back or eliminate other RSS programs (and relocate housing to INURBE) except for the core objectives of the indigent elderly and the displaced. Finally, solid evaluation of the effectiveness of the existing program is needed, preferably including a comparison with the effectiveness of the former cash transfers model. Many Colombians argue that the former cash transfers model was more effective and that a return to this model should be contemplated. A solid evaluation of the existing program is therefore needed to inform this choice.

Elimination of program overlap and fragmentation

5.23 The RSS social fund has too many under-funded small programs to sufficiently focus on its core objectives of reducing elderly poverty and assisting the internally displaced population. An obvious solution would be to eliminate or transfer other RSS programs. ICBF should also undergo a review of the multiplicity of programs under its jurisdiction in order to improve quality and efficiency.

C. STRATEGIC REFORMS

5.24 **Colombia's social safety net is in need of fundamental reforms that will require political will, a consensus for reform and new policies. The following section sets out an agenda for reform that can serve as the basis for a debate leading to a strategic plan for reform. The debate on these strategic reforms should begin immediately to define the appropriate funding levels, composition and administrative structure for a reformed social safety net.**

5.25 **Three principles guide the proposed recommendations developed in this section.** The first is that current fiscal constraints make it is unrealistic to think of fresh, sustainable sources of funding for social assistance. Therefore, the proposed reforms are focused on re-allocation and cost-recovery. Second, with the inclusion of the new RAS programs, Colombia has programs for addressing the principal risks faced by each of the main age groups, as well as programs for key special circumstances groups (see Table A at the conclusion of the Executive Summary). Therefore, we do not argue for creating new social assistance programs, but present options for how to better structure the system of existing programs, including the RAS. Third, following the conceptual framework laid out in Chapter I, we argue that the social safety net has a role to play in both crisis and non-crisis times to meet the needs of the chronic vulnerable, the transient vulnerable and special circumstances groups.

5.26 Two main recommendations are presented below that should serve as a departure point for the debate on restructuring Colombia's social safety net:

Expanding the budget for social assistance

5.27 **Colombia's social assistance budget is inadequate to meeting the needs of vulnerable populations, even during normal times, as argued in Chapter IV.** The Government of Colombia should immediately consider increasing the budget for social assistance. Given the fiscal constraints posed by the present situation, it is unrealistic to

think of fresh, sustainable sources of funding for social assistance. Two strategies are therefore proposed:

5.28 First, Colombia should consider redirecting funding to social assistance programs to bring levels up to at least 1% of GDP. Spending not directed to the provision of critical social services (health and education), social insurance or social assistance should be examined. For example, full redirection of the *Servicio Nacional de Aprendizaje* (National Training Service, SENA) would bring budgeted expenditures for social assistance from 0.6% of GDP to close to 1% of GDP -- a bare minimum for a country at Colombia's stage of development, particularly given the vulnerabilities present in Colombia today and likely to manifest themselves in the near future. This will be particularly critical when financing for the new *Red de Apoyo Social* programs runs out in 2004.

5.29 SENA provides mainly short and long courses. The provision of the long courses is questionable on social equity grounds—why should scarce fiscal resources be used to support the non-poor to get training? The long courses of one-to-three years duration are clearly not aimed at the poor who cannot subsist without earnings. Eliminating the long courses offered by SENA would reduce overall expenditures on training⁹⁰. This can have a significant impact, since the resources devoted to SENA are approximately half those allocated to ICBF, which serves many more clients than SENA. The resources should be shifted to well-targeted social assistance programs and/or used to finance a counter-cyclical stabilization fund.

5.30 In addition, the new youth training program being introduced under the RAS is a close substitute for the short courses offered by SENA. The impact evaluation being applied to the new program should contain an explicit comparison to SENA's short courses. Only one program should be kept, only if there is a need for the instrument and only if used for social assistance.

5.31 Applying some of the rough estimates provided in Chapter IV, if the current SENA budget⁹¹ were redirected it would be possible to fund: nearly half of the nutrition component of the RAS program for all indigent children; or more than 40 percent of the combined primary and secondary education program within RAS; or three quarters of the planned government action plan for the IDPs. As another alternative, the redirection of 60 percent of the SENA budget would be enough to reach all of the indigent elderly with the RSS program for the elderly.

5.32 Cajas de Compensación along with other less well targeted social programs and non –social programs should be examined for their potential for re-allocation based on a review of their cost-effectiveness. There is no reason why the re-allocation of resources toward an effective safety net needs to be limited to the re-allocation of financing within the social sectors.

⁹⁰ Another alternative would be to stimulate private sector initiative to fund such courses, which would also increase the probability of the courses being targeted to concrete industry needs.

⁹¹ Programmed budget of about 118 million USD in 2000.

5.33 Second, poverty targeting should be used to expand existing cost-recovery from less poor groups being served by social assistance programs. The Government of Colombia cannot afford to subsidize social welfare programs for the non-poor. In particular, the ICBF family welfare agency should consider using the SISBEN proxy means testing system to establish poverty rankings for beneficiaries of its daycare programs and apply a sliding-scale fee to generate cost-recovery from the less-poor beneficiaries of ICBF daycare programs. This could be particularly appropriate for the formal CAIP programs whose poverty targeting is substantially worse than the HCB community program. This type of cost recovery would be preferable to making the services available to only the poorest families. It could be important in allowing the services to remain viable within communities where many studies point to high demand for day care from poor and non-poor families, but where potentially too few children would participate for it to be economically efficient if only the poor could attend. The savings as a result of the cost recovery could be used to increase the quality of the services provided and to expand coverage. However, this type of cost-recovery should be introduced on a pilot basis to ensure that its administration is not overly complex and that there are no negative social repercussions to variable rates for childcare in low-income communities. Furthermore, cost recovery should be explored in other areas, notably SENA courses if these are kept as part of social expenditures.

5.34 Using the rough estimates of unit costs and targeting provided in the previous chapter, if full cost-recovery were applied to the participating non-poor in the HCB and CAIPs daycare programs and 20% cost-recovery were applied to the poor who are not indigent, it would be possible to completely fund over half a million indigent children participating in HCB or more than 200,000 indigent children participating in CAIPs. These numbers represent additional indigent children who could participate, beyond the ones already enrolled. Alternatively this money could be used to reach more than 25 percent of all indigent children under 7 with the nutrition component of the RAS program.

Defining the structure and management of a reformed social safety net

5.35 The Government of Colombia should engage in a strategic planning exercise to define the appropriate composition, management and administrative structure for the social safety net. Attention to the architecture, role and function of the social safety net has traditionally been ignored in Colombia.

5.36 With respect to the management of the reformed safety net, the following scenario could be considered:

- *Overall responsibility for planning and budgeting for the safety net would naturally rest with CONPES, the National Council for Political and Economic Policy, working under an established set of norms and regulations governing the safety net. There seems to be no compelling reason to establish a new institution to manage the social safety net.*
- *A technical secretariat would be responsible for advising CONPES. This secretariat would have responsibility for supervision of the safety net and information management.*

Many of these responsibilities are currently coordinated by the National Planning Department, working with the Ministries of Education, Health and Labor. The National Planning Department could continue to exercise this role, under specific terms of reference and perhaps with a role for the Ministry of Finance or the central bank. Responsibilities could include:

- *Use of existing data to monitor macroeconomic trends.* Key macroeconomic performance indicators and data on transmission mechanisms should be monitored regularly to assess needed adjustments to the safety net and establish triggers for the contraction and expansion of safety net programs.
- *Mobilizing microeconomic data on the evolution of poverty and vulnerability.* Colombia's solid system of household surveys needs to be maintained and improved. Improvements could be introduced to the next application of the *Encuesta de Calidad de Vida* to allow for a better assessment of the effect of the crisis on human capital, provide better measures of vulnerability and to monitor how the poor are faring under different types of reforms. One possibility would be to collect panel data to provide for a pre and post-crisis assessment. If panel data are not collected, a cross-sectional approach could include questions allowing for the transient and chronic poor to be distinguished from one another as was done in Indonesia (Suryahadi and Sumarto 2001), building from the experience in assessing vulnerability and risk management established by the *Encuesta Social*. Colombia should also work on reversing the traditional urban orientation of its data, since many issues that need better investigation are concentrated in rural areas. Finally, it would be worthwhile to investigate more closely the situation of specific vulnerable groups including the indigenous, Afro-Colombians, populations living in conflict areas and the internally displaced population.
- *Engaging in public information campaigns.* Public information campaigns are critical to guiding potential beneficiaries of safety net programs in accessing programs by making clear their availability and participation requirements. The qualitative study undertaken for this research pointed to a need for enhancing the public's access to information on available government programs. Public information is also critical to improving transparency and accountability – a needed resource in a country characterized by high levels of mistrust of the public sector. Finally, public information campaigns are needed to build constituency for reform.

5.37 There might also be a role for increased decentralization, given the centralized nature of the current safety net and the lack of flexibility in the social assistance programs. The management of the main social assistance programs—including ICBF and SENA—is strongly centralized and earmarked. This centralization goes against the spirit of the social sector reforms introduced in the 1990's and governing the health and education services. However, there is no strong evidence that decentralization would improve the efficiency and effectiveness of Colombia's safety net. Therefore, reforms promoting decentralization and allowing greater autonomy and flexibility to tailor programs and overall safety net responses to the particular needs of local areas could be carefully considered through pilot testing. Consideration should also

be given to finding ways to make key social assistance programs more effective, including joint ventures with the private sector and NGO's.

5.38 **With respect to the structure** of the reformed safety net, the following issues should be considered:

- *Determining the programmatic composition of the safety net*, including which programs should be permanent, addressing chronic vulnerabilities, and which should be activated countercyclically during crisis periods.
- *Explicitly considering the long-term role of the new RAS programs*. **The new RAS programs seem to be well-suited for meeting the post crisis needs of some key vulnerable groups.** Two important findings of the qualitative study were that (i) programs providing income were prioritized by the economically active population; and (ii) the young were identified as a vulnerable group. Generalizable, quantitative evidence from household surveys support these perceptions, as explored in Chapter II. These results point to the appropriateness of the RAS strategy in addressing immediate, post-crisis needs since all three programs provide income support and two specifically target the young.

5.39 An examination of the composition of Colombia's safety net of social assistance programs points out that several of the main gaps in Colombia's public risk management interventions are being filled by the three new social assistance programs. With the RAS programs included, Colombia can point to established as key special circumstances groups (see Table A in the Executive Summary). Without income support and cash transfer programs such as those established by RAS workfare, conditional cash transfer and youth training programs, Colombia's safety net would probably be unbalanced.

5.40 There is therefore a need to: (i) explicitly consider the role of programs such as those provided by RAS play in the overall social safety net, either as programs to address structural vulnerabilities and/or as cyclical programs implemented during times of crisis; and (ii) assess the RAS programs' success, particularly against established programs with similar objectives. The former should take place as part of a review of the programmatic composition of the social safety net. For the latter, impact evaluations of both RAS and other social programs with similar objectives (including SENA short-courses and ICBF nutrition programs) should guide the composition of the social safety net, lest the RAS create another overlapping institutional layer within the network of existing programs. As discussed in Chapter III, the youth training program and conditional cash transfer program in particular have potential as permanent features of the structural safety net and should be considered as part of the permanent institutional landscape if proven effective by the impact evaluations being applied, while both of these programs along with the workfare program could be considered as part of the 'basket' of counter-cyclical programs to be expanded during crisis periods.

Establishing a counter-cyclical element of the safety net

5.41 **The analysis in this paper points to a clear need for a counter-cyclical safety net strategy to be in place that would enable the Government of Colombia to**

respond quickly to the next crisis. The need for this type of mechanism is motivated by the fact that it has taken several years after the onset of the crisis for the RAS (*Red de Apoyo Social*) program to deliver urgently needed assistance to the poor and unemployed and the program, as currently designed, is temporary in nature.

5.42 A priority area for action is to determine the specific norms and procedures under which the counter-cyclical safety net would operate. This includes determining which indicators would serve as ‘triggers’ for activating countercyclical elements of the safety net and directing operations to specific population groups.

5.43 The operation of the countercyclical safety net should be based on an assessment of the type of crisis and affected group(s). To meet the needs of specific vulnerable populations during times of crisis, it would be worth exploring the use of pre-established ‘triggers’ that would inform not only the activation of a countercyclical strategy, but also the use of the funds to reach specific population groups affected by a given crisis. These sets of triggers governing not only the activation of the fund, but also the destination of its resources could enhance transparency in the management of the fund and help ensure that the fund is used for its intended purpose.

5.44 Another key step in setting up a counter-cyclical strategy is to determine the institutional and management structure of the strategy. The temptation to establish a separate institute to manage the counter-cyclical element should be avoided, given the multitude of existing programs.

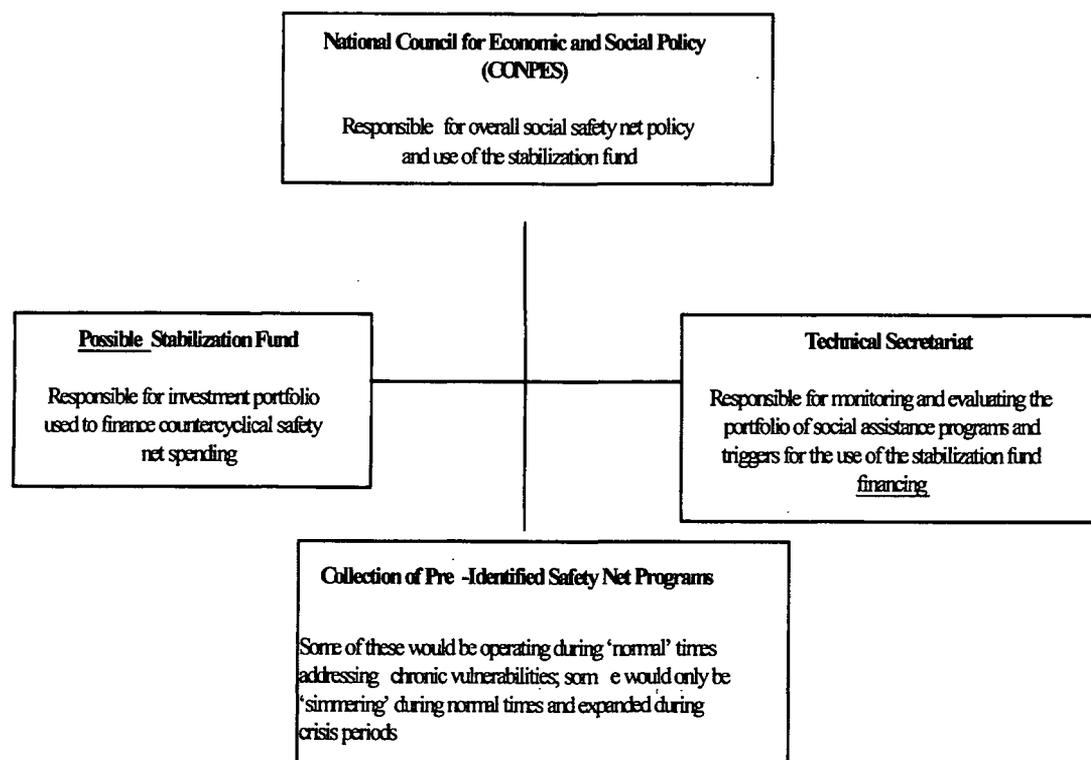
5.45 Consistent with the administrative structure presented above, CONPES (Consejo Nacional para Política Económica Social) the National Council for Political and Economic Policy, would be responsible for managing the countercyclical aspects of the safety net, working under an established set of norms and regulations governing. CONPES would determine when to activate the countercyclical safety net and which programs to expand given the nature of the crisis, its transmission mechanisms and resulting affected populations. There may also be a role for the central bank, the Ministry of Finance or other technical agencies.

5.46 A technical secretariat should be responsible for advising CONPES on the general functioning of the safety net and on when and how to activate the countercyclical safety net. The technical secretariat would be responsible for producing periodic monitoring and evaluation reports on progress on achieving coverage targets and impact of programs, monitoring ‘triggers’ for the countercyclical element of the safety net and generally advising CONPES on safety net policy. The ‘triggers’ should be based on a combination of macroeconomic indicators to monitor economic cycles as well indicators reflecting how the crisis is affecting certain populations so that these indicators can orient the assistance toward specific population groups.

5.47 As a third element, it will be necessary to determine which programs would compose the ‘basket’ from which the counter-cyclical element would draw for expansion during times of crisis. The assessments of the type of crisis and affected groups would govern the use of specific social assistance programs. Some of these programs -- such as the ICBF family welfare program -- would be operating during ‘normal’ times addressing the needs of the chronic poor and helping those facing idiosyncratic shocks. Other programs -- such as the *Empleo en Acción* workfare program—would be operating at very low levels in ‘normal’ times and be activated only to address large covariate shocks.

5.48 Figure 5.1 presents a possible institutional structure for establishing a countercyclical safety net that would draw on Colombia's existing social assistance programs, while incorporating key reforms proposed in this analysis.

Figure 5.1: Possible Institutional Arrangements for a Counter-cyclical Safety Net



5.49 **Fourth, the financing norms of the countercyclical safety net elements would need to be established.** The establishment of a stabilization fund as an element of the countercyclical strategy is currently being debated.⁹² Stabilization funds provide a market insurance mechanism managed by the state that accumulate assets during times of strong economic growth and use them when the economy slows down or contracts.⁹³ International experience with the use of stabilization funds has been mixed and the establishment of such a mechanism should be studied thoroughly before a commitment is

⁹² In Colombia, the fund could be used to expand the coverage and/or level of benefits of a set of pre-identified and pre-evaluated social assistance programs when the country is hit by an economic recession, as argued above. Should the Government of Colombia decide to explore the establishment of a stabilization fund, the following steps would need to be considered: determining the institutional and management scheme under which the stabilization fund will operate, establishing clear savings and spending rules, identifying the sources of financing for the fund, establishing guidelines for the financial management of the fund, and applying the necessary legal modifications to enable the fund to be established. Experience with Colombia's oil stabilization fund set up in 1993 should be reviewed for lessons.

⁹³ See De Ferranti, Perry, Gill and Servén (2000) for a discussion of market insurance functions.

made to setting it up (Box 5.1). Alternative market insurance options could also be examined such as establishing credit lines that could be activated during crises.

Box 5.1: International experience with savings and stabilization funds

A review of 6 countries' oil and copper savings and stabilization funds points to the mixed success of these mechanisms in meeting their objectives. The review focused on the use of stabilization funds in countries/states that derive substantial revenue from exhaustible resources and have set up stabilization funds to (i) ensure revenues for future generations from a valuable non-renewable resource (the savings function), and/or (ii) to calibrate government spending against the often large and unpredictable price and revenue fluctuations in these primary commodities (the stabilization function).

In his review of the operational modalities and experience with these funds in Norway, Chile, the State of Alaska, Venezuela, Kuwait and Oman, Fasano concludes the following:

Funds have been set up with a variety of objectives and used for multiple purposes, sometimes unrelated to their original mission. The Norwegian State Petroleum Fund is both a savings and stabilization fund; reserves can be drawn upon in the short-run to aid stabilization in the face of revenue drops or in the long-run to finance social expenditures as oil production declines. In Chile, the Copper Stabilization Fund was set up with a stabilization function, but revenues were used to pay foreign debt. Kuwait has two funds: the General Revenue Fund addresses stabilization functions and the Reserve Fund for Future Generations that was set up as a savings fund, but was tapped to cover government expenditures and finance reconstruction during the 1990-1991 regional crisis.

There are challenges inherent in adhering to established rules. Good policy stems from clear savings and spending rules, but these have often been undermined through rapid changes to these rules or abandonment of the established rules. The case of Chile and Kuwait summarized above illustrate that fund revenues can be used successfully (ie without undermining the overall viability of the fund) to finance extraordinary expenditures not contemplated under the fund operations. However, Fasago warns that "in Venezuela and Oman the experience with stabilization funds has been less than successful because of frequent changes to the fund's rules and deviation from its intended purposes."

The institutional set-up is critical to sound management of the fund. Funds need clear managerial responsibilities for their core areas of operation. For example, in each of the funds reviewed there are specific institutions responsible for managing investment assets, ranging from the Ministry of Finance (Oman), to the central bank (Chile), to independent entities (such as the Kuwait Investment Authority). In Norway, the Ministry of Finance formulates the overall investment guidelines and establishes performance benchmarks while the central bank serves as the fund's operational manager.

The country or state's fiscal discipline is critical to the success of the fund. Stabilization funds cannot substitute for sound fiscal management and the success of stabilization funds can be attributed as much to fiscal discipline as to the funds' management. Ensuring an overall fiscal surplus lessens temptations to draw from the fund to finance general budget deficits. In most cases reviewed stabilization funds have also contributed to enhancing the effectiveness of fiscal policy by making budget expenditures less driven by revenue availability. By channeling a portion of revenue away from the budget in good times, the funds may have lessened spending pressure.

Source: Adapted from Ugo Fasano "Review of the Experience with Savings and Stabilization Oil Funds in Selected Countries" IMF Working Paper, Middle Eastern Department, June 2000.

5.50 Finally, it is worthwhile to consider a broader role for the countercyclical safety net. Recent experience in addressing post-earthquake reconstruction in the Armenia region of Colombia and the continued social and economic disruption from Colombia's internal conflict and related violence suggest that a 'countercyclical safety

net' that is normally related to economic factors might also be triggered due to political variables, natural disasters or other types of covariate shocks affecting the welfare of large numbers of people.

5.51 In sum, the diagnosis provided in this report and related recommendations should serve as a point of departure for a thorough debate on how best to establish a solid social safety net in Colombia. This dialogue has begun, but needs to be broadened and deepened. Several reforms have already been introduced. The rapid application of analytical work to policy has been facilitated by the collaborative, iterative nature of this analytical work that was carried out as a joint study between the World Bank and the Government of Colombia, with important financial and analytical inputs from the Inter-American Development Bank. However, key changes still need to be implemented to ensure the establishment of an effective social safety net in Colombia. Certain reforms could be instituted in the short-term, while others would benefit from a thorough evaluation of key programs and an extended national debate.

ANNEXES

ANNEX A: DESCRIPTION OF DATA SOURCES

A.1 GENERAL HOUSEHOLD SURVEYS

This study used three sets of national household survey data collected on a regular basis in Colombia: the biannual *Encuesta de Hogares* labor market survey, using the years 1995, 1999, 2000; the *Encuesta de Calidad de Vida* poverty survey last fielded in 1997, and the Demographic and Health Surveys from 1995 and 2000. To examine changes in human capital, we use cross-sectional time series data from a period before the crisis through the crisis period, defining the crisis as the period of negative GDP growth, beginning in the third quarter of 1998 and ending in the first quarter of 2000.⁹⁴

A.2 THE ENCUESTA SOCIAL SURVEY

The *Encuesta Social* is a survey conducted by *Fedesarrollo*, a Colombian think tank, designed to measure the effect of the crisis on different population groups. The survey was launched in September 1999 in Colombia's four main cities (Bogotá, Medellín, Cali, and Barranquilla) and includes no data from smaller urban areas or rural areas. We use results from the second wave of the survey collected during March 2000, comprising 5017 individuals and 1184 households. The *Encuesta Social* includes a risk, vulnerability and risk management module that measures perceptions of risk and vulnerability, self reported income and consumption shocks, households' use of social insurance and assistance mechanisms, and assessments of risk coping mechanisms, particularly with respect to those that impact human capital such as school enrollment and labor market participation. To avoid endogeneity problems, the population is divided into poverty quintiles using wealth proxies that are less susceptible to suffer from transitory changes. Robustness checks are currently being performed on the construction of these quintiles.

A.3 THE QUALITATIVE STUDY: SOCIAL DIMENSIONS OF THE CRISIS

This study was conducted between July and October 2000 for five different vulnerable groups that were identified ex-ante as likely to have suffered income shocks due to the crisis. The study covered groups in both urban and rural areas, including groups with characteristics of structural vulnerability, although the emphasis in the study was on identifying the transient vulnerable affected by the economic crisis in order to understand households' perceptions of sources of risk and vulnerability and households' use of social risk management strategies and arrangements to address the crisis (including the use and

⁹⁴ GDP growth was -1.3% in the first quarter of 1998, reached a low of -7.2% in the second quarter of 1999, was -3% in the last quarter of 1999 and registered a positive 2.5% growth rate in the first quarter of 2000.

perception of publicly provided social assistance programs). The following groups were interviewed: (i) construction sector workers, since unemployment has been particularly high in this sector due to a 19% contraction in the construction industry in 1999, (ii) day laborers in the rice and cotton industries where investment and prices obtained on international markets have fallen; (iii) communities displaced by rural violence and by the lack of employment opportunities in rural areas; (iv) micro-entrepreneurs who have faced rising constraints in access to credit as well as rising competition from the growth of the informal sector; and (v) low-income housing residents facing rising interest rates. The study was conducted in 11 sites in urban areas of Bogotá and Cali and rural areas and smaller towns in Codazzi and Tolima.

The qualitative study used both focus groups and case studies of households and social risk management arrangements. The focus groups participated in a number of exercises related to identifying the onset of the crisis (time and events), ranking vulnerabilities and the main impact of the crisis overall and by age group, discussing the main risk management strategies employed to deal with the crisis and finally assessing which household, community and national level risk management arrangements were available and utilized. Given the nature of the qualitative study, the results are not statistically representative of any population.

ANNEX B: STATISTICAL APPENDIX

B.1 DEMOGRAPHICS AND POVERTY INDICATORS

Table B.1.1: Estimated Population Size by Age Group in 1995, 1999, 2000

Age Group	1995		1999		2000	
	Population	Share of Total %	Population	Share of Total %	Population	Share of Total %
0-5	4.83	12.7	4.83	12.0	4.87	11.9
6-11	4.93	12.9	5.16	12.8	5.17	12.6
12-14	2.46	6.4	2.52	6.3	2.51	6.1
15-18	3.35	8.9	3.46	8.6	3.54	8.6
19-24	4.03	10.7	4.38	10.9	4.54	11.2
25-44	10.92	28.8	11.47	28.5	11.56	28.4
45-59	4.32	11.4	4.85	12.0	4.95	12.2
60-64	1.00	2.7	1.17	2.9	1.19	2.9
65 +	2.05	5.5	2.41	6.0	2.45	6.1
Total	37.93	100	40.25	100	40.81	100

Source: *Departamento Nacional de Planeación (DNP)*.

Table B.1.2: Poverty and inequality indicators, 1978-1999

	1978	1988	1995	1999
National				
Poverty rate	80%	65%	60%	64%
Poverty gap	46%	32%	29%	34%
FGT P(2) ¹	32%	20%	17%	22%
Extreme poverty rate	45%	29%	21%	23%
US\$ 2 per day poverty ²	54%	15%	11%	13%
Mean income per capita ³	112	183	216	210
Gini	0.53	0.54	0.56	0.57
Urban				
Poverty rate	70%	55%	48%	55%
Poverty gap	35%	23%	19%	26%
FGT P(2) ¹	21%	13%	10%	15%
Extreme poverty rate	27%	17%	10%	14%
US\$ 2 per day poverty ²	34%	5%	3%	5%
Mean income per capita ³	157	235	295	277
Gini	0.47	0.49	0.52	0.54
Rural				
Poverty rate	94%	80%	79%	79%
Poverty gap	61%	43%	40%	44%
FGT P(2) ¹	44%	29%	25%	29%
Extreme poverty rate	68%	48%	37%	37%
US\$ 2 per day poverty ²	82%	32%	25%	26%
Mean income per capita ³	52	90	95	102
Gini	0.45	0.47	0.45	0.50

Source: Colombia Poverty Report (Velez et al., 2001).

¹ Foster-Greer-Thorbecke index.

² Based on Purchasing Power Parity Convertors from WDI database.

³ Thousand 1999 pesos, based on monthly household income.

Table B.1.3: Poverty Count for Different Sub-groups of the Population 1978 - 1999

	1978	1988	1995	1999
URBAN Colombia	70%	55%	48%	55%
Children under 2 years	80%	71%	63%	72%
From 2 to 6 years	81%	70%	63%	69%
From 7 to 13 years	80%	70%	62%	69%
From 14 to 17 years	73%	61%	55%	64%
Over 65 years old	52%	42%	35%	37%
Migrants / just moved ¹	NA	50%	50%	64%
Migrants <5% ²	NA	51%	46%	60%
Migrants <10% ³	NA	49%	43%	54%
Migrants <25% ⁴	NA	50%	42%	44%
Women	69%	55%	48%	55%
Non home owners	77%	64%	57%	63%
Home owners	62%	46%	40%	47%
Disabled	69%	68%	60%	60%
Pensioners	37%	32%	20%	24%
RURAL Colombia	94%	80%	79%	79%
Children under 2 years	97%	86%	88%	86%
From 2 to 6 years	98%	88%	87%	87%
From 7 to 13 years	97%	88%	87%	87%
From 14 to 17 years	93%	81%	81%	80%
Migrants / just moved ¹	NA	79%	74%	79%
Migrants <5% ²	69%	80%	72%	76%
Migrants <10% ³	76%	74%	73%	75%
Migrants <25% ⁴	59%	78%	69%	73%
Women	94%	80%	80%	80%
Non home owners	93%	81%	82%	79%
Home owners	94%	79%	77%	79%
Disabled	93%	NA	84%	78%
Pensioners	NA	NA	33%	29%

Source: Colombia Poverty Report (Velez et al., 2001).

¹ Refers to people who lived less than 1% of their lives in the current city.

² Refers to people who lived less than 5% of their lives in the current city.

³ Refers to people who lived less than 10% of their lives in the current city.

⁴ Refers to people who lived less than 25% of their lives in the current city.

Table B.1.4: Marginal Effects of Selected Variables on the Probability of Being Poor, Urban Colombia

	1978	1988	1995	1999
<i>Head's education¹</i>				
High school dropout	-4.8%**	-15.1%**	-7.2%**	-5.6%**
High school	-15.1%**	-32.4%**	-19.7%**	-17.9%**
College dropout	-15.5%**	-52.8%**	-38.8%**	-29.1%**
College graduate	-30.4%**	-78.0%**	-65.1%**	-45.9%**
<i>Number of individuals by age cat.</i>				
Younger than 7 years	6.9%**	23.1%**	10.0%**	10.8%**
From age 7 to 11	7.4%**	22.2%**	13.0%**	10.9%**
From age 12 to 65	1.5%**	5.5%**	0.9%**	2.8%**
Older than 65	-4.3%**	-2.3%	-2.4%	-3.6%**
<i>Head's age and gender²</i>				
<i>Males</i>				
Younger than 28 years	9.8%	10.3%*	5.8%	21.4%*
From 28-35 years	0.0%	4.4%	8.3%	17.3%**
From 36-42 years	-3.8%	2.0%	8.7%*	12.8%**
From 43-47 years	-4.0%	0.9%	5.9%	11.1%**
From 48-57 years	-3.7%	2.8%	3.0%	6.3%**
Older than 67	-1.9%	3.3%	0.0%	7.6%**
<i>Females</i>				
Younger than 36 years	15.5%*	17.7%**	30.6%**	23.7%*
From 36-47 years	11.2%*	17.1%**	23.5%**	20.0%**
From 48-57 years	4.4%	14.0%**	25.4%**	16.0%**
Older than 57	3.0%	8.4%**	17.1%**	12.7%**
<i>Household labor market characteristics</i>				
Employment rate ³	-18.1%**	-60.5%**	-41.9%**	-27.2%**
Head unemployed first time	20.2%	11.6%	26.4%	3.7%
Head unemployed but worked before	18.5%**	54.8%**	36.3%	25.0%**
Pensioner	-1.8%	3.5%	-3.4%	0.6%

¹Base category is heads with primary education.

²Males 58 to 67 years old is the base category.

³Employment rate = number of people employed other than the head / number of people 12 years old & older apart from the head.

* Significant at 10% level or less.

** Significant at 5% level or less.

Source: Velez et al. (2001).

B.2 HEALTH INDICATORS

Table B.2.1: Percentage of Children 12-23 Months Old with Vaccination Card Who Received Each Vaccine at Any Time, According to the Vaccination Card or Mother's Report, by Selected Characteristics

	1995					2000				
	BCG	DPT3	Polio3	Measles	All	BCG	DPT3	Polio3	Measles	All
Sex of Children										
Male	95.7	79.4	80.3	86.3	68.7	92.9	75.1	70.5	72.1	54.7
Female	90.8	75.2	72.6	81.8	62.0	93.9	78.5	72.2	69.4	49.1
Location										
Urban	95.6	80.8	79.7	86.0	68.1	94.8	78.9	73.5	71.6	54.8
Rural	89.3	71.1	71.1	80.8	60.8	90.4	72.3	66.8	69.0	46.0
Education of Mother										
No formal education	78.1	62.0	63.6	64.8	47.0	77.6	50.6	48.3	44.4	26.7
Primary	91.2	70.8	70.5	80.2	59.6	91.1	73.4	67.6	67.6	46.9
Secondary	97.5	82.8	80.8	88.3	70.7	95.6	77.9	73.8	73.0	55.5
University	92.1	92.9	95.0	94.7	80.6	96.6	92.7	81.2	80.3	62.1
National average					65.5					52.0

Source: Profamilia. Encuesta Nacional de Demografía (EDS) 1995, 2000.

Table B.2.2: Prevalence and Treatment of Selected Diseases for Children less than Five Years Of Age

	Diarrhea			Respiratory
	Prevalence (percent)	Percent taken to Health Center	Percent no treatment	Prevalence (percent)
Year 2000				
Urban	13.2	32.3	19.0	13.2
Rural	15.6	22.2	18.3	11.4
Male children	15.2	30.2	18.3	13.7
Female children	12.7	27.1	19.3	11.5
Atlántica	11.6	30.5	13.4	19.1
Oriental	15.0	25.0	12.4	9.2
Central	15.4	28.1	21.1	10.3
Pacífica	16.3	23.6	24.0	13.3
Bogotá	10.9	43.3	24.7	10.3
Year 1995				
Urban	16.4	36.7	11.8	24.3
Rural	17.2	27.4	15.6	24.3
Male children	17.5	35.5	13.1	23.8
Female children	15.8	30.7	13.4	24.8
Atlántica	17.6	42.3	10.9	26.1
Oriental	13.9	42.4	7.9	21.2
Central	18.2	24.3	16.7	24.0
Pacífica	17.0	29.6	13.4	23.3
Bogotá	15.4	26.7	17.4	26.7

Source: Profamilia. Encuestas Nacional de Demografía (EDS) 1995, 2000.

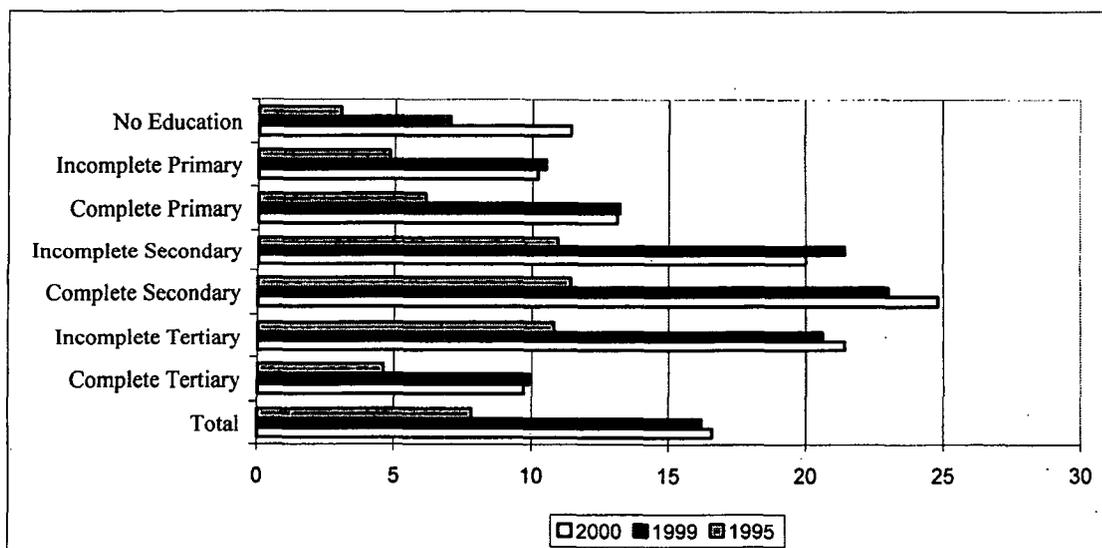
B.3 EMPLOYMENT INDICATORS

Table B.3.1: Unemployment by Age, Location and Gender

	1995	1999	2000
Total	7.8	16.2	16.6
MALE	5.4	12.4	12.5
FEMALE	11.8	22.3	22.6
Urban (Cabecera)	9.3	18.7	18.9
Rural (Resto)	4.1	9.5	10
12-14 years	7	12.9	19.4
15-19	17	33	36.6
20-24	14.8	29.2	27.2
25-29	9.0	18.3	18.2
30-34	6.5	13.9	13.2
35-39	5.3	11.5	11
40-44	4.3	11.3	9.6
45-49	3.6	9.3	9.9
50-54	2.8	8.7	9
55-59	2.7	8.3	10.9
60-99	2.2	5.2	8.7

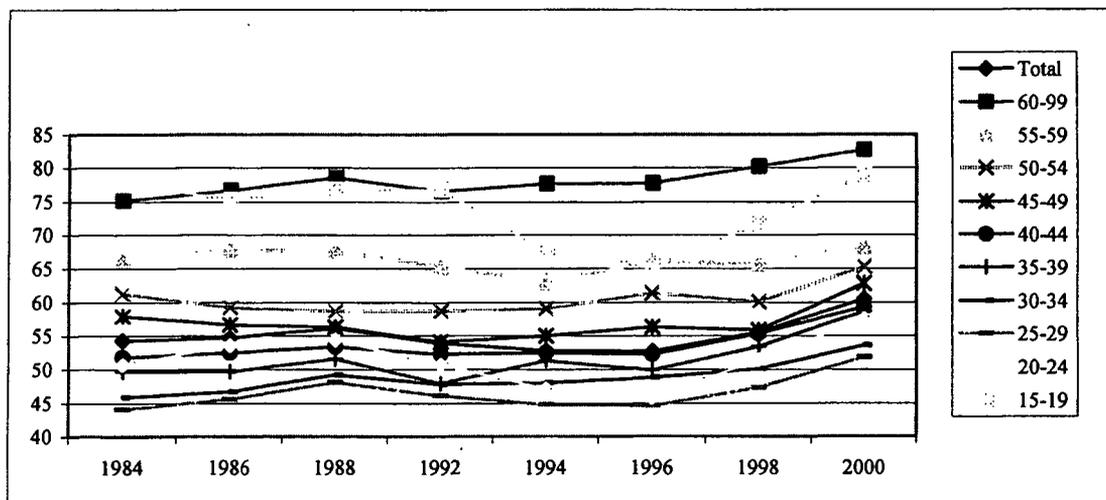
Source: DNP, September unemployment figures.

Figure B.3.1 Percentage of unemployment by education level



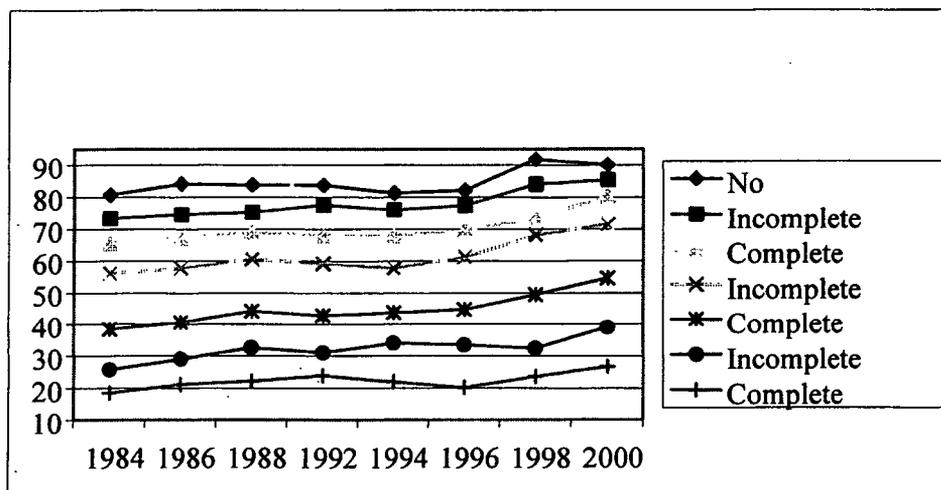
Source: DNP.

Figure B.3.2: Percentage of people working in the informal sector, by age (1984-2000)



Source: DEI-DDS-DNP, based on ENH-DANE (june 1984, 1986, 1992, 1994, 1996 y 1998) applied in Santafé de Bogotá, Barranquilla, Cali, Medellín, Bucaramanga, Manizales, and Pasto.

Figure B.3.3: Percentage of people working in the informal sector, by education level (1984-2000)



Source: DEI-DDS-DNP, based on ENH-DANE (june 1984, 1986, 1992, 1994, 1996 y 1998) applied in Santafé de Bogotá, Barranquilla, Cali, Medellín, Bucaramanga, Manizales, and Pasto.

B.4 EDUCATION INDICATORS

Table B.4.1: School Enrollment Rates Between 1978 and 1999

	1978	1988	1995	1999
Ages 7 to 11				
Urban non-poor	96.4%	98.2%	98.6%	98.3%
Urban poor	90.8%	93.3%	95.3%	93.9%
Rural all	66.2%	85.4%	90.1%	90.5%
Ages 12 to 17				
Urban non-poor	78.5%	83.7%	86.1%	87.1%
Urban poor	76.3%	78.7%	83.1%	79.6%
Rural all	43.5%	57.2%	63.7%	66.0%
Ages 18 to 22				
Urban non-poor	40.4%	44.2%	48.1%	48.6%
Urban poor	25.9%	26.7%	30.6%	24.9%
Rural all	9.0%	14.6%	19.2%	20.6%

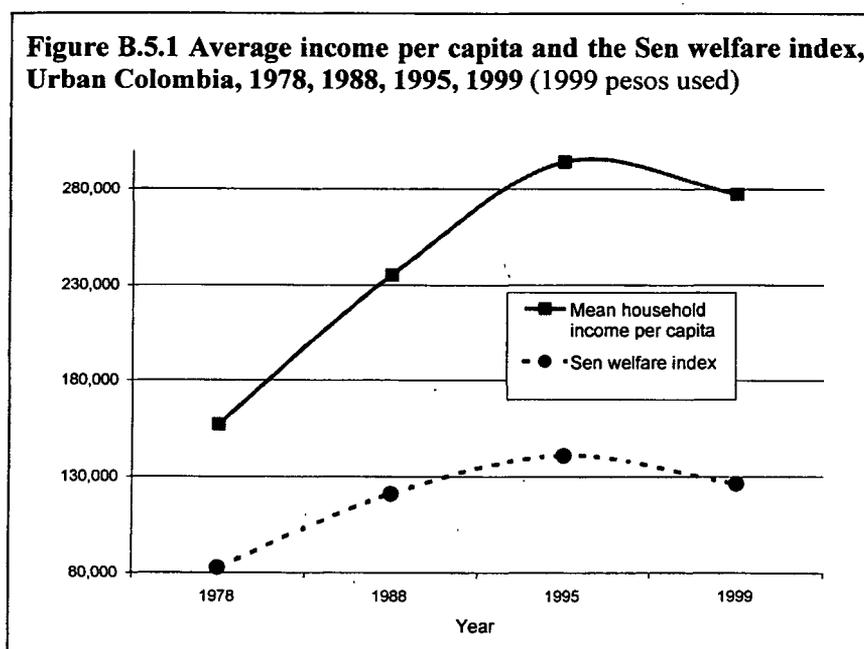
Source: Velez et al., 2001.

B.5 Inequality indicators

Sen Welfare Index

The Sen welfare index is used to adjust mean income per capita to account for the changes in welfare due to income inequality. This index is defined as $S=u(1-G)$, where u is the sample mean income per capita and G is the Gini coefficient. Therefore S is a fraction of mean income u , which itself is the welfare of the average individual. The index S has a simple intuitive and relevant interpretation. S is equal to the expected welfare of the worst off individual taken from any couple of individuals chosen at random.

Figure B.5.1 depicts the evolution of the mean household per capita income in urban Colombia during the last two decades, along with the Sen welfare index, S . Average income increased by 88 percent between 1978 and 1995, and has decreased during the second half of the 1990s. Had inequality remained constant, the Sen welfare index would have increased proportionally with income. However, the increase in inequality during the period was responsible for 18 percent less welfare gains⁹⁵ between 1978 and 1995 than would have been the case had inequality remained constant; and for another 5 percent loss between 1995 and 1999.

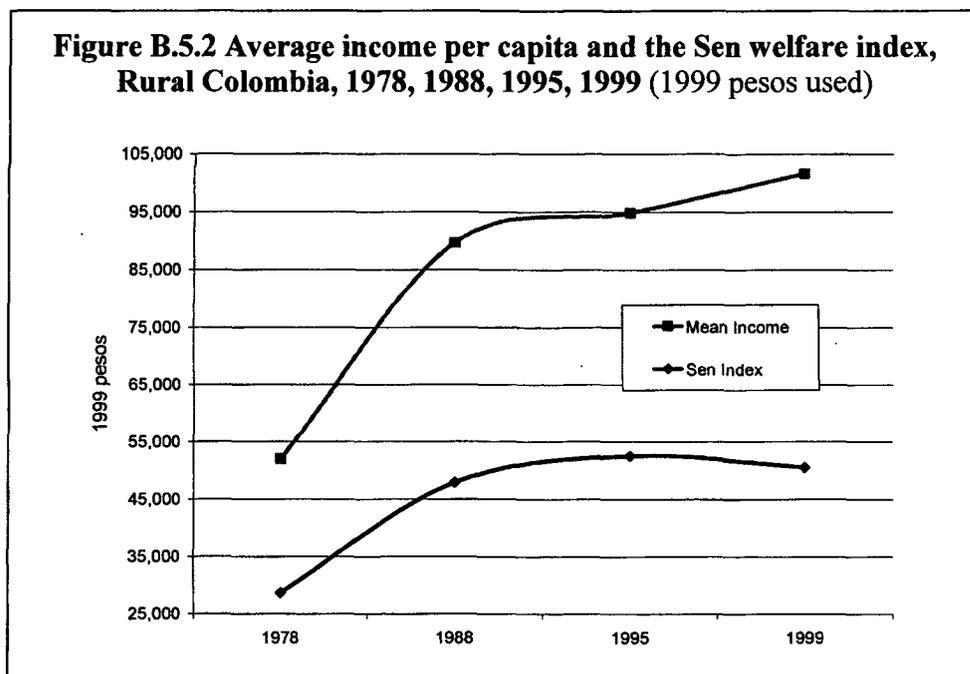


Source: Velez et al. (2001).

Figure B.5.2 shows the evolution of rural welfare measured by mean household income per capita and the Sen welfare index. As in the urban case, rising inequality has

⁹⁵ As measured by the Sen index.

diminished potential welfare gains. The increase in mean income between 1978 and 1999 was 95 percent, but the simultaneous increase in inequality resulted in 19 percent less welfare gains according to the Sen welfare index. In the recessive period of the late nineties the Sen welfare index actually fell due to a combination of strong inequality increase and only modest average income gains.



Source: Velez et al. (2001).

Table B.5.1: Shorrocks's inequality decomposition by factor components of household income, Urban Colombia 1978-1999¹

	1978		1988		1995		1999	
	<i>Share of Inequality</i>	<i>Income</i>						
Wages	36%	57%	24%	51%	34%	47%	58%	48%
Self-employment	47%	24%	49%	25%	44%	30%	26%	28%
Other	10%	9%	21%	14%	19%	14%	12%	13%
Imputed rents	7%	10%	5%	10%	3%	9%	5%	10%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: Velez et al. (2001).

¹ The table presents measures of the relative contributions of the different types of income to total income and to total income inequality, according to the methodology proposed by Shorrocks.

ANNEX C: RISK RANKINGS FROM THE QUALITATIVE STUDY –

C.1 RISK RANKINGS BY CONSULTED VULNERABLE GROUPS

Table C.1.1: Codazzi and Tolima Regions (rural)

<i>Importance (1- highest)</i>	<i>Codazzi Day laborers</i>	<i>La miel Displaced Farmers</i>	<i>Venadillo Day laborers</i>
1	<p>Economic: Drop in price of cotton, generation of unemployment and poverty, trade reduction. It is an old crisis that exacerbated in 1995 by the structural policy measures.</p>	<p>Fact of being displaced Violence: their situation of being displaced is a result of general violence and of the armed conflict, because of which they had to change their lives radically.</p> <p>National crisis Political: As a general characteristic there is the lack of governance due to which it is impossible to guarantee the rights and duties of Colombians in relation to security, work, health and education. Added to this there is the issue of corruption.</p>	<p>Economic: Crisis based on the effects of the economic opening of the 1990s, which manifested itself in a critical form between 1996 and 1999, by unemployment, closure of companies, high interest rates, high cost of living, high cost of the family basket of products, tax increase, and increase in the price of raw materials. As rice day laborers, what has affected them most is the decrease in demand for manual labor, represented by unemployment and the new form of hiring, which is not permanent.</p> <p>Violence: presents itself as the consequence of the economic crisis, and both are interdependent.</p>
2	<p>Violence: Two types of violence were identified: economic violence or also street violence; and political violence. Started to worsen in the 1990s.</p>	<p>Crisis of being displaced Economic: Manifests itself by the reduction of their capital; loss of land and because they had to leave their property behind.</p> <p>National context Economic: The opening of the economy in the 1990s.</p>	<p>Political crisis: is less important than the economic crisis and than the violence, seen the political crisis already always was present and did not affect them to such a degree as the other two. The political crisis is characterized by bad governance, both at town level (Venadillo) as well as at the regional level (Tolima), and also by the corruption that goes along with it. For this group, this is a crisis that has always existed in the history of the Colombian people, but that has become worse over the last 2 years.</p>
3	<p>Social: already existed from before and worsened by the economic crisis that affects the region. The decrease in labor demand produced a considerable reduction of the households' income, leading them to invest less in alimentation and education. These effects have been felt stronger since 1995.</p>	<p>Socio-cultural: <i>First</i> by having to live frightened and feeling persecuted. <i>Second</i> by feeling rejected by the people in the cities, which damages their self-confidence and their dignity. <i>Third</i> by the cultural change, posed by the risk of losing their cultural identity.</p>	

Table C.1.2: Bogotá

<i>Importance (1 highest)</i>	<i>Construction workers (El Vergel neighborhood – strata 2)</i>	<i>Displaced people and economic migrants (Lucero Alto neighborhood – strata 1 and 2)</i>	<i>Urban Micro entrepreneurs (Suba – strata, 3)</i>	<i>Urban middle income (Parques de Milenia – strata 4)</i>
1	<p>Economic: caused by drug traffickers.</p> <p>Political: a result of corruption by bad public officials.</p>	<p>Economic: Are victims of unemployment because they do not possess the qualifications or education to work in the city. They do not have the required documents, nor recommendations either. The crisis in the coffee sector left the people from the Andean zone without work.</p>	<p>Economic: bad macroeconomic conditions (inflation, unemployment, decrease in aggregate demand...), economic opening. There are no options for adults to find work.</p>	<p>Crisis of values and political corruption: these are the generators of the rest of the problems. The bad example set by the justice system, i.e. the impunity, negatively influences the rest of the society.</p>
2	<p>Violence: Originates with the inconformity of the people with the bad governments.</p>	<p>Violence: The decomposing of the society always existed, but the war in the rural areas worsened with the current government. Fear reigns, fear of being killed or of their children being taken by the guerrilla.</p>	<p>Crisis of values: The absence of orientation and authority multiplies the distrust among the people, the society fails to unite. They prefer what is foreign, there is denigration of the own culture.</p>	<p>Economic: Explained by the drug traffickers, the bad state governance, embezzlements by financial entities, economic opening, bad measures by the state to confront the problems.</p>
3	<p>Family related: Increase in discussions at home related to lack of money; there is a change of roles which affects the household atmosphere.</p>		<p>Violence: There are occult interests, the government is not interested in having the guerrilla or drugs ended; the government corruption.</p>	<p>Crisis of authority and cooperation: There is no leadership nor unity within society to confront the problems collectively. This is a result of the state that is interested in maintaining its power of pressure over the country. The bad justice administration leads people to distrust it, and solidarity is lost.</p>

Table C.1.3: Cali

Importance (1-highest)	Urban Micro entrepreneurs	Migrants (Charco Azul)	Urban middle income	Workers (DESEPAZ)
1	<p>Political: the political situation is the cause of the other crises. Corruption is part of the political crisis, along with bad public administration. The guerrilla, the paramilitaries, and the government are the guilty ones for 'being at war'.</p>	<p>Economic: Unemployment is the most important manifestation of the economic crisis. The cause of the crisis is the economic opening, which led many companies to reduce their production. The persecution of narcotrafics led to the closure of many of its "façade companies" (set up for money laundering), which also contributed to further unemployment. Also the prohibition of informal market sales increased unemployment.</p>	<p>Political: The main manifestation is the war, which is felt more at the countryside than in the city. The state cannot control the different actors in the conflict. The economic crisis and the corruption lead to the war and to common crime. Narcotraficking contributed to the erosion of values and to the war.</p>	<p>Economic: The most important manifestation is the unemployment, which increased with the economic decline. Also the reduction in labor demand contributes to more unemployment. Cost of living increased considerably.</p>
2	<p>Insecurity: The political and economic crisis generate a permanent state of insecurity. Businessmen leave and this generates unemployment, which increases the economic insecurity and decreases quality of life.</p>	<p>Social (racial discrimination): Because in Charco Azul a high percentage of the population is black, it is perceived as being dangerous. A lot of companies reject and discriminate against the black population.</p>	<p>Corruption: Bad public administration that manifests itself through social injustice.</p>	<p>Political: The most important manifestation is the bad administration and the corruption of the politicians, who invest less and less in social programs for the community.</p>
3	<p>Economic: One of the causes of the economic crisis is the persecution of narcotrafics. Before the decade of the 1990s, narcotraficking, with its money laundering companies, was one of the principle sources of employment financial revenue for Cali.</p>	<p>Violence: Manifests itself through an increased intra family violence during the economic crisis, and through street violence that increased with the unemployment and the lack of opportunities. Youngsters are the most affected.</p>	<p>Economic: Manifests itself in unemployment, as a result of the economic opening, increasing the transaction costs of companies, which therefore had to lay off people massively. The fear of kidnapping (insecurity) makes business owners leave, also contributing to unemployment. Also the persecution of narcotrafics further leads to the closure of companies.</p>	<p>Violence: Mainly caused by the rebel groups. Unemployment generates violence, and the most affected are youngsters, who opt for criminal acts because of a lack of other opportunities.</p>

ANNEX D: SELECTED SOCIAL PROGRAMS

As already indicated in Chapter I, the definition of social safety nets is evolving, but they are generally thought of as including social assistance programs and often at least elements of social insurance programs. The study covers social assistance programs and the redistributive elements of the Colombian social insurance mechanisms related to health and pensions. This Annex contains background information on the programs analyzed throughout the paper, with relation to their nature, their goals, their budgets, and their coverage. The programs are assigned to one of three groups: the social assistance programs (Colombian Institute for Family Welfare – ICBF, Social Solidarity Network – RSS, Cash and in-Kind Transfer – *Cajas de Compensación*, Housing – INURBE, Education Subsidies - PACES); the redistributive elements social insurance programs systems (Pension Solidarity Fund – FSP, Subsidized Health Insurance); and then the training program (National Training Service – SENA) which -in its current form- is not seen as part of the social assistance programs in this study.

D.1 SOCIAL ASSISTANCE PROGRAMS

D.1.1 Colombian Institute for Family Welfare - *Instituto Colombiano de Bienestar Familiar* (ICBF)

ICBF was created in 1968 to coordinate child welfare policy, to guarantee the rights of minors, and to assure their protection. Now, it is the head of a consortium of regional and local governmental organizations, non-governmental organizations (NGOs), and social and community organizations which comprise the *sistema nacional de bienestar familiar* (SNBF, the national family welfare system). The main principles of the SNBF are: social participation (allowing and facilitating participation); co-responsibility (the family, society, and state are responsible for holistic protection of the child and the family); and decentralization (transfer of responsibility and power to regional entities).

ICBF has three main programs—two day-care programs, one school feeding program—and many smaller child welfare programs, including children at risk, guardianships and adoptions, since ICBF is the national child welfare agency in Colombia. Also, within the rubric of the day-care programs and school feeding program, ICBF contracts for the provision of a nutritional supplement (*bienestarina*), soy supplements, and oral salts to the day-care centers and day-care households and the school feeding programs.

Day-Care programs

In 1971, ICBF became responsible for day-care centers for children aged 0-7, originally called the *Centros de Atención Integral al Preescolar* (CAIP, Centers of Integrated Attention for Pre-School Children). Now ICBF is using the terminology “*Hogares Infantiles*” (Infant Households) to describe the CAIPs. The CAIPs were financed with a 2 percent payroll tax. Although the CAIPs were generally found to have been effective, their coverage was limited. Expansion of day-care coverage was effected through the 1988 institution of the *Hogares Comunitarios de Bienestar* (HCB, Community Welfare Households), financed by a 1 percent payroll tax. Both programs also use a system of co-financing by the participating households.⁹⁶ The level of co-payment by the household is to some extent related to the level of household income. For HCB the average monthly contribution is 3,590 Col. pesos, and for CAIP it is 8,751 pesos; with a range between 1,511 pesos (decile 1) to 6,828 pesos (decile 7) for HCB, and a range between 1,439 pesos (decile 2) to 16,250 pesos (decile 10) for CAIPs.

Formal day-care: Centers of Integrated Attention for Pre-School Children (CAIPs)

The CAIPs are day-care centers which provide care for children aged 3 months to 5 years 40 hours a week and are staffed by day-care professionals. The CAIPs are non-profit organizations which contract with ICBF to provide places for children. A variation on the CAIP is the *jardines comunitarios* (community kindergartens), established in 1993, which are directed by a day-care professional and consist of 2 groups of 60 children which attend every other day. Each group of 60 is further subdivided into 4 groups of 15 children each, with each group guided by a parent volunteer. The CAIPs are intended to give “priority” to the children of working parents with NBI, while *jardines comunitarios* are “to be directed” towards children aged 2-5 from SISBEN strata 1 or 2. However, in practice, the eligibility criteria are not verified (*Henao et al. 2000*) so parents of non-poor households could benefit.

The CAIPs in their various incarnations are not widespread throughout Colombia, and have been sharply reduced during the economic crisis. For example, in 1997, there were 264,400 children in CAIPs according to the 1997 Survey of the Quality of Life (quoted in *Henao et al. 2000*), but by 2000, the number of places in CAIPs had declined to 153,000 (ICBF web page), or under 3 percent of the number of children aged 0-7. In spite of declining enrollment, CAIPs still account for a significant share of ICBF expenditures—approximately 11 percent of 2000 budgeted expenditures were for CAIPs.

Informal day-care: Community Welfare Day-Care (HCB)

Created in 1988⁹⁷ to increase participation in the delivery of child-care, the HCB are the largest ICBF program. In 2000, HCB accounted for 43 percent of budgeted expenditures and provided space to 1.4 million children, or 21 percent of children aged 0-

⁹⁶ Ortiz and Ayala. 2001. “Informe final: ICBF” Fedesarrollo.

⁹⁷ According to Ayala and Ortiz, 2001. Perotti (2000) stated the HCB program started in 1987.

7. The HCB are intended to reach the poorest children, those in families with SISBEN strata 1 or 2.⁹⁸ However, in practice, HCBs provide places to children from all decile groups, even the highest (Henao et al. 2000).

HCBs are child-care centers managed by a community mother who can care for a maximum of 14 children in her home. Community mothers are chosen by the community or by the local association of parents, and must have at least a 9th grade education and have attended 40 hours of training provided by SENA in child-care and nutrition.⁹⁹ Community mothers receive a “scholarship” per child that is financed from a contribution from the parents whose children are enrolled in the HCB. ICBF provides for 80 percent of the children’s nutritional requirements by supplying the HCBs with the nutritional supplement *bienestarina*.

In 1991, a new type of HCB was created, the *Familia, Mujer e Infancia* (FAMI, Family, Woman and Infancy). The FAMIs were intended to reach pregnant and lactating mothers and children under the age of 2 from the poorest families (SISBEN strata 1 and 2). The FAMI is managed by a community mother who supervises 2 groups of 15 mothers in two daily sessions, including providing advice on nutrition and health and conducting home visits.

Evaluation of ICBF day-care programs

The CAIPs have never been formally evaluated, although Perotti (2000) found on the basis of “anecdotal evidence and from conversations with experts” that the quality of care provided in the CAIPs was “enormously” higher than that provided in HCB. Henao et al. (2000) cited a 1987 evaluation of HCB which found that although the HCBs achieved their objective of protection and targeting the most poor, they did not satisfy ICBF norms for quality of attention provided. Nonetheless, ICBF has reduced expenditure on CAIPs in favor of HCBs, which are viewed as more participatory.

Costs are clearly higher for children in CAIPs than in HCB, but how much higher is debated. Flores and Mendez (1993 cited in Henao et al. 2000) found that actual HCB enrollment was likely to average less than 13 children per HCB, and could have been as little as 50 percent of official enrollment. Survey data from the 1997 Survey of Quality of Life suggest that only 553,000 children were actually enrolled (as against HCB official enrollment of 882,000 children). Thus, comparing cost per child as calculated by budget allocation divided by official enrollment could understate the true cost of the HCBs. However, in the absence of data on actual enrollment in both CAIPs and HCBs, a comparison of costs in 2000 reveals that CAIPs average 2.4 times as much as HCB per child (official budget, enrollment for 2000 from ICBF web page).

⁹⁸ Perotti (2000) that priority was given to marginal neighborhoods and children in households with at least 2 unsatisfied NBI.

⁹⁹ Perotti (2000) claimed that the education requirement is “often not enforced.”

Coverage of both CAIPs and HCBs is low, but has increased since 1993. In 1993, 10 percent of households with children aged 2-6 used HCBs and 8 percent used CAIPs (*Flores and Mendez* 1993). In 1997, for children under 6 years of age, 13.7 percent were attending a HCB or CAIP (*Henao et al.* 2000 based on 1997 Survey of Quality of Life).¹⁰⁰ In 2000, approximately 23 percent of children aged 7 and under were covered by official enrollment in a HCB or CAIP, with HCBs accounting for the majority (21 percent of eligible children). However, the Colombia Poverty Assessment (*Velez et al.*, 2001) shows a decline in the overall coverage for childcare (including non-ICBF centers) between 1992 and 1997. It concludes that the number of places in childcare centers has shrunk by 4 percent and that the coverage rate has fallen by 7 percentage points.

Information on the coverage of HCBs and CAIPs by decile is available from the 1997 Survey of the Quality of Life (*Henao et al.* 2000). These data demonstrate that **on average, 13.5 percent of children under the age of 6 in the first five deciles are covered by a CAIP or HCB**, and this percentage increases to 14 percent for children in the upper five deciles. Another way of understanding these data is that in the poorest two deciles, almost 90 percent of children are not served by a CAIP or HCB. Of the children served by a CAIP or HCB, 67 percent are in the first five deciles and 33 percent are in the five highest deciles.

However, the 1997 Survey of the Quality of Life was not designed to capture program participation of CAIPs and HCBs, and Fedesarrollo (*Henao et al.* 2000) cautioned that estimates of coverage from this source of information could be “underestimated or could have a large margin of error and would not be representative.” This issue was already noted above, when coverage rates for 1997 were compared between the Survey and the official ICBF enrollment figures. Using the official enrollment figures would lead to a higher estimate of coverage (nearly double), but still would leave at least 75 percent of the poorest children without access to a CAIP or HCB.

School feeding

In 2000, 2.3 million children were budgeted to receive the school feeding program (*restaurantes escolares*). ICBF’s target population for school feeding program is children aged 5-18¹⁰¹ who are SISBEN strata 1 or 2 in school or out of school, or who are NBI, in both urban and rural areas. The priority children are under 14, from female-headed households, displaced or children with a degree of malnourishment. However, there is no mechanism for verifying whether children who receive the school feeding program are in these targeted groups. Schools are selected for inclusion in the program based on geographical selection from a poverty map. Individual students are assigned a slot in the feeding program based on the opinion of the teacher, and “therefore, targeting

¹⁰⁰ Ayala and Ortiz (2001) cautioned that the 1997 Survey of the Quality of Life could underrepresent attendance in CAIPs and HCBs since it was not designed to capture enrollment in these facilities.

¹⁰¹ Children up to the age of 7 who are enrolled in HCBs or CAIPs are reached by the ICBF provision of food to these organizations.

is not efficient” (Henao et al. 2000). Additionally, the program is criticized for failing to reach the out-of-school population.

The school feeding program is limited in scope. According to an ICBF (2000) study of 8 municipalities, only 21 percent of the school-age population was covered by the school feeding program. *Leibovich and Núñez* (1999 cited in *Henao et al. 2000*) found that in urban areas, only 3.5 percent of poor households had access to the school feeding program while 2.9 percent of non-poor households also had access. In rural areas, 3.7 percent of poor households and 8 percent of non-poor households had access to the school feeding program. However, the school feeding program accounted for 11 percent of the ICBF budget in 2000.

Other programs

ICBF has experimented with other programs. For example, *Perotti* (2000) described two small feeding programs that seem to have been supplanted by a program designated for the rural population in areas of low population density (*Henao et al. 2000*). Also, ICBF is in the process of developing a program for children from displaced households.

D.1.2 Social Solidarity Network - *Red de Solidaridad Social* (RSS)

The *Red de Solidaridad Social* (RSS) is a social fund that emerged within the framework of social policy of the Development Plan “*El Salto Social*” (the Social Leap) of 1994 as a temporary program which was converted to a permanent program in 1997. The mission of the RSS is the strengthening of community participation in the design, implementation, and oversight of RSS programs. The enabling decrees which created the RSS management structure were not passed until 1999. It is the Colombian equivalent of a social fund.

The RSS has a complicated management matrix to ensure participation at all levels. It consisted of a national council (*Mesa Nacional de Solidaridad*) with sectoral committees, several departments on the national level, and municipal level participation through municipal councils, municipal technical committees, and municipal beneficiary assemblies. According to a Controller’s report, in practice, the management matrix tends to be hierarchical (*Ortiz and Henao 2000*) and the national council was replaced by a 5 person junta. The central level predominates in the initiatives and distribution of resources to RSS projects.

The RSS programs are quite diverse and the majority of them are paid for and executed by other entities (not the RSS), while the RSS coordinates. Only a few programs (such as the emergency urban employment program and *Revivir*) are paid for by the RSS budget and executed by the RSS.

The RSS budget has fluctuated more in 1997-2000 than other programs, and registered a sharp decline from 1999 to 2000 (Chapter IV - Table 4.5). Data on individual programs are only available for the period 1995-1997 (*Ortiz and Henao 2000*).

RSS programs

1. Employment solidarity (3 subprograms)

- **Emergency rural employment plan.** This program is executed by the Ministry of Agriculture through the Integrated Rural Development Plan (DRI) with counterpart funding from territorial entities. Its objective is to generate rural employment by financing small-scale social investment (roads, aqueducts, etc.). The 1995-1997 budget was Pesos 52 million from the DRI and Pesos 23 million from counterpart funding for a total of Pesos 75 million. There were approximately 48,000 beneficiaries of the program, but there is no information available on how the number of beneficiaries was calculated.
- **Emergency urban employment plan.** This program is executed by the RSS and territorial entities and its goal is to generate temporary manual labor employment opportunities. The 1995-1997 budget totaled Pesos 94 million, of which Pesos 37.5 million were counterpart funding. There were 85,000 beneficiaries.
- **Training for Work.** This program was executed by SENA with budget resources from SENA, and covered the "sustenance allowance" provided to poor youth lacking employment characteristics (see the section on SENA for more detail on the sustenance allowances).

2. Food assistance. There were two very small food programs in 1995-1997, the first executed by the Ministry of Health and the second by ICBF. Their budget totaled less than Pesos 19 million in 1995-1997.

3. Support to female household heads with school-age children. This program provided a school benefit to female household heads to ensure primary school attendance of their children. The RSS coordinated this program while financing was provided by the *Fondo de Inversión Social* (FIS, Social Investment Fund). Between 1995-1997, Pesos 21 million comprised the budget and there were 128,700 beneficiaries.

4. Rural housing program. This program consisted of subsidies for the construction or improvement of housing for rural families with income below twice the minimum wage. The program was executed by the *Agrarian Caja** and co-financed by municipalities. Between 1995 and 1997, a total of Pesos 133 million were budgeted for this program, including Pesos 19 million from counterpart funding. The program only reached 65,900 beneficiaries, although its goal was 230,000.

5. Urban housing and environmental improvement. This program provides for demand-side subsidies through INURBE for households with income less than two times the minimum wage and also collective subsidies for improving housing in subnormal zones. The 1995-1997 allocation for this program was pesos 186 million and reached only 104,208 beneficiaries or 31 percent of the target number.

6. Recreation. This very small program is executed by RSS and cofinanced by territorial entities. It is dedicated to the construction of parks and recreation areas in marginal areas, and Pesos 7.7 million were allocated for 1,119 beneficiaries.

7. Sport and artistic talents. This program is executed by *ICETEX*, an entity associated with the Ministry of Education. It is intended for poor children aged 12-18 who are especially talented in sports or the arts, and provides for a scholarship to allow the children to cover the costs of their studies. No information was available on costs or number of beneficiaries.

8. Program for the elderly – *Revivir* (To Live Again). This has historically been the main program of the RSS and is described in more detail in what follows.

A 1993 law established a program for assistance to indigent elderly to provide income support (up to the level of the minimum wage) for those who were physically or mentally disabled, including those who lived in institutions. The program age limits are 60 and over for the indigent elderly, and 50 and over for the disabled elderly. Based on this law, the national government created the *Revivir* (to live again) program within the RSS. *Revivir* consisted of two programs which were separately budgeted: the indigent elderly program, and the program for indigenous elderly. These were subsequently combined.

The objective of the *Revivir* program was to improve the level of living of indigent elderly, or indigenous elderly and the disabled elderly who are also indigent. The subsidy provided was both in kind and in cash, and at least 10 percent of the subsidy was to be delivered in cash (as long as the recipient was of sound mental health).¹⁰² For delivery of the subsidy, the RSS had agreements with the municipality or with non-profit agencies.

The *Revivir* program was evaluated in 1998 (Ortiz and Henao 2000 based on a 1997 sample of 675 elderly in the program). It was found that 38 percent of recipients received their subsidy exclusively in kind and 60 percent received a combination of cash and kind. In kind articles provided included food, clothing, wheelchairs, crutches, glasses, etc. According to this survey, 10 percent of *Revivir* recipients lived in institutions, 5 percent on the street, 26 percent lived alone and the remaining 59 percent lived with their families. *Revivir* recipients are supposed to be affiliated with the subsidized healthcare program, but only 64 percent were so affiliated in 1997, so the *Revivir* program had to cover health expenses that should have been covered by the subsidized healthcare program (Ortiz and Henao 2000).

¹⁰² However, in some municipalities do not agree to supply the subsidy in cash, claiming that the recipients would spend it on non-essential items such as alcohol.

Table D.1: Revivir Program, 1994-1998

Year	Amount of Subsidy (current pesos)	Number of Beneficiaries
1994	38,000	42,110
1995	45,600	78,549
1996	52,440	78,549
1997	61,879	78,874
1998	70,000	79,162

Source: RSS 2000.

From 1998, the *Revivir* program was reoriented to encompass an integrated approach to the elderly, which encompassed: (i) supplying the elderly with their basic necessities; (ii) decentralizing and strengthening community organizations to participate in the identification, co-financing, and formulation of Projects of Integrated Attention for the elderly population in municipalities; and (iii) promoting the participation of the elderly themselves in the action and decisions of the municipality. The *Revivir* program was formally renamed the Program of Integrated Attention For the Older Adult Population (PIAOAP), but in practice the name *Revivir* continued to be used to describe the program.

However, the substance of the program was significantly changed in 1998 and the subsidies in cash were de-emphasized (*Red de Solidaridad Social* 2000). Instead, the PIAOAP provided primarily subsidies in kind for basic services, consisting of:

- Drugs and movement aids (wheelchairs, crutches) not covered by the Obligatory Subsidized Health Plan;
- Nutrition (meals served, rations)
- Housing (payment of rent or for household goods)
- Other (clothing, funeral expenses, cash allotments)

Additionally, the PIAOAP emphasized “complementary actions” which were programs supported financially by the RSS and municipalities. **The criteria for complementary actions was the strengthening of management, participation, and social insertion of the older adults into local life.** “The RSS will not support co-financing of the construction of infrastructure or physical space” (*Red de Solidaridad Social* 2000) and the small improvements or repairs needed will be supported by the municipality. Five types of projects for complementary actions were envisioned:

- **Urban or Rural Life Centers.** Centers open during the day for the elderly that provide services and daily activities including educational, cultural, recreational programs. The centers permit the elderly who live alone or with families to receive attention during the day, to minimize the risk of abandonment or institutionalization. The Life Center could be affiliated with the municipality, the (regional) department, or an NGO.
- **Dormitories & Dining.** A public or public/private center designed to provide services such as room & board, health, recreation, and culture.
- **Shared Housing Guardianships.** Permanent housing provided by the municipality which also provides goods and services.

- **Network of Home Support.** NGOs, civic associations, volunteers, churches, elderly organizations and clubs, Red Cross, etc.
- **Substitute Households.** Foster homes for the elderly.

No information is available on the aggregate distribution of projects by type, although the RSS did provide a list of more than 300 projects financed by the RSS in 2000. Information is available on the regional distribution of these 300 plus projects. There has been no evaluation of the PIAOAP.

9. Program for the Internally Displaced Population (IDP). The RSS has an institutional mandate to address the needs of this vulnerable group. This sub-program is described in Annex E

D.1.3 Compensation Associations - *Cajas de Compensación Familiar* (CCF)

The cash and in-kind transfer program *Cajas de Compensación Familiar* (CCF, compensation associations) are non-profit organizations that are regulated by the superintendent of the *subsidio familiar* (SF, family subsidy), and which provide certain benefits to low-paid affiliated workers. The SF and CCF have a long history in Colombia, dating back to 1949 and 1954 respectively. The CCF are financed by a 4 percent payroll tax paid by the employers based on the salaries of workers who earn more than four times the minimum wage. **The CCF provide a subsidy in cash to workers (the SF) who earn less than four times the minimum wage, based on the number of dependents the worker supports. The CCF also provide subsidies in kind** (medications, orthopedic devices, milk and enriched food, schoolbooks, etc.) and services such as recreation, education and libraries, health, housing, and credit to low-paid workers.

In 1999, approximately 174,000 enterprises made contributions to CCFs on behalf of 3.3 million workers, or approximately half of the salaried workforce (SSF presentation). Enrollment in the CCF has fallen by about 200,000 during the financial crisis years of 1999 and 2000 as enterprises have cut back on this fringe benefit.¹⁰³ Approximately 9.2 million people were covered by the SF in December 1999, or approximately 22 percent of the Colombian population. Previously, only formal sector workers could affiliate with a CCF in order to receive the SF and other benefits in kind, but since a legal change in December 2000, independent workers can now affiliate with a CCF, but they are not eligible for the SF. Pensioners can affiliate with a CCF for a fee equal to 2 percent of their monthly pension, and do not have the right to receive the SF, but can receive the other benefits in kind.

Data from the Survey of the Quality of Life in 1997 (cited in *Henao 2000a*) demonstrated that the SF is distributed very regressively, with 61 percent of the households who reported receipt of the SF being located in the fourth and fifth quintiles

¹⁰³ Cutbacks were observed in the smaller enterprises (1-49 employees) as well as the larger employees as a result of the economic difficulties (Henao, 2000a).

and only 2.5 percent of the SF paid to households in the lowest quintile. It is not clear why these targeting outcomes are so poor.

D.1.4 The National Institute of Housing in the Social Interest and of Urban Reform - *Instituto Nacional de Vivienda de Interés Social y Reforma Urbana*, INURBE)

Colombia has the highest level of deficit in housing among four Latin American countries and there are 1.3 million households that lack housing in Colombia.¹⁰⁴ Before 1991, the central government was involved in constructing housing, but since 1991, subsidies have been offered on the demand side only, leaving the private sector to construct housing. The *Instituto de Crédito Territorial*, which had been constructing housing, was transformed into the *Instituto Nacional de Vivienda de Interés Social y Reforma Urbana* (INURBE, National Institute of Housing in the Social Interest and of Urban Reform). INURBE was tasked with the providing of demand-side subsidies for housing and the State abandoned the direct construction of housing. In addition to INURBE, several other organizations are involved in providing demand-side subsidies for housing, notably the *Cajas de Compensación Familiar* (CCF),¹⁰⁵ a smaller *Caja* for members of the Armed Services, the National Savings Fund, and Savings and Housing corporations.

A general requirement to qualify for a housing subsidy from INURBE is that the household's income must be less than four times the minimum wage. Demand for housing subsidies has proved to be much greater than the supply afforded by the limited resources of INURBE and CCF, and rationing systems have been set up. Since 1998, INURBE uses a point system that is a weighted average of several factors, including the household's SISBEN strata, the number of household members, whether the household is female-headed, the type of housing, savings, duration of savings, and number of times applied. An individual CCF gives housing subsidies as a first priority to their affiliates with income less than four times the minimum wage, secondly to affiliates of other *Cajas*, and only a third place priority to those who are not affiliated to a CCF.

Between 1991 and 1997, a total of 538,000 housing subsidies were provided, of which 66 percent by INURBE and 31 percent by CCF. Only 73 percent of subsidies assigned were actually delivered, because there were difficulties for recipients to actually find housing or they could not meet the conditions of the savings organizations for the loan. In particular, the poorest lack the ability to generate the savings necessary.

INURBE's targeting formula seems to work reasonably well. Of the INURBE subsidies, 27 percent were received by households with a SISBEN 0 rating, 41 percent with rating of 1 and 29 percent of rating 2, and only 2 percent went to households with ratings 3 or above.¹⁰⁶

In 1994, the *Red de Solidaridad Social* (RSS) became involved in housing subsidies for households with income less than twice the minimum wage, and also in

¹⁰⁴ Henao. 2001a

¹⁰⁵ See section on CCF.

¹⁰⁶ SISBEN levels 0,1, and 2 are the poorest. Data from untitled draft Fedesarrollo paper.

increasing community participation in housing subsidies. Generally, the RSS was involved in programs for improving existing housing (kitchens, bathrooms). From 1994-1997, 74 percent of RSS subsidies went to households with incomes less than twice the minimum wage, and the remaining 27 percent went to households with incomes more than twice the minimum wage but less than 4 times.

D.1.5 The PACES education subsidies

Colombia is in the process of winding down its program of education subsidies (vouchers). Students who entered the subsidy program in school year 1997-1998 can continue to receive the education subsidy but this will be financed by the local/municipal budget, not from the national budget, which paid for 80 percent of the cost of the subsidy in 1993-1995. The national subsidy program closed in 1996-1997. Once this cohort completes secondary school in 2000-2001, there are no further obligations on the part of localities, although provinces and municipalities that can afford to, still are permitted to offer their own self-financed subsidies. The vouchers were used to cover the cost of a student's place in a private school. In 1996, the national subsidy program covered 1,744 schools in 211 municipalities (out of 1,067 in Colombia), reaching just under 3 percent of students in private secondary schools. In 1996, the national subsidy program covered 1,744 schools in 211 municipalities (out of 1,067 in Colombia), reaching just under 3 percent of students in private secondary schools.

The World Bank supported the secondary education reform program, PACES (*Programa de Ampliación de la Cobertura y Mejoramiento de la Calidad*, Program for Expansion of Coverage and Improvement of Quality) including the provision of 5,500 vouchers in the four project years 1994-1997. The Government of Colombia financed 25,000 vouchers annually in 1993-1995 (cutting back sharply from the program's inception level of 72,000 vouchers in 1992) and none in 1996-1997.

Resource constraints seem to be the reason behind the roll-back of the education subsidies programs, since several evaluations of the program found it to be effective in its goal of promoting secondary school enrollment at a lower cost than would have been required to expand spaces in public schools (King et al. 1997, *Calderón* 1996, *Ortiz* and *Ayala* 2001). Slight increases in years of school completed, scores on standardized tests, and in the probability of completing the 8th grade were found in an evaluation of the program (*Angrist* et al. 2001).

Estimates of the cost of the education subsidy versus the cost of providing space in a public school varies according to the cost definition of private school, with the education subsidy costing 25 percent less than a place in a public school (King et al. 1997) to 40 percent less (*Calderón* 1996) to 45 percent less (*Angrist* et al. 2001). According to *Ortiz*

and Ayala (2001), a place in the subsidized private school cost 26-30 percent less than public school in 1995-1996.¹⁰⁷

The quality of schooling received in the PACES subsidized private schools was found to be equal to that provided in public schools by several studies (King et al. 1997, Calderón 1996, Tenjo (1997) cited in Ortiz and Ayala 2001). There was also some evidence that scholarship recipients were less likely to work, marry or cohabit (Angrist et al. 2001).

The education subsidy program was intended for 6th grade students, less than 16, living in neighborhoods with SISBEN classification of 1 or 2, and who were admitted into a private school participating in the program. The program seems to have been targeted to the poor. According to Tenjo (1997 cited in Ortiz and Ayala 2001), 91 percent of students in Bogotá who received education subsidies were from SISBEN strata 1 or 2, and this share was 83 percent in Barranquilla, Medellín, and Cali.

D.2 SOCIAL INSURANCE PROGRAMS

D.2.1 The Pension Solidarity Fund (*Fondo de Solidaridad Pensional*, FSP)

Less than 30 percent of the economically active population of Colombia contributes to any pension fund (public or private), and only 3 percent of those employed with incomes in the bottom quintile contribute to the national pension fund (Henao 2000b). As such, the national pension system is not designed for the poorest, who are unable to make contributions. Since the national pension system does not provide for the poorest or those without contribution history, the pension system itself is beyond the scope of this study on social assistance. However, it is worth noting briefly that the national pension system does have a redistributive component—the *Fondo de Solidaridad Pensional* (FSP, Pension Solidarity Fund). The FSP is designed to provide incentives for informal workers, disabled, and others to affiliate with the general pension system.¹⁰⁸

The FSP is redistributive within the enrolled group of workers, who admittedly are not the poorest (which are those who can not afford to make any contributions to the pension system or the health system). The FSP pays a subsidy to the pension contributions of enrolled workers who earn less than the minimum wage and who are: workers in the informal sector (urban and rural), disabled workers, and community mothers.¹⁰⁹ There are age restrictions by type (Table D.2). This subsidy is financed by a 1 percent payroll tax on the wages of workers who earn more than 4 times the minimum

¹⁰⁷ Ortiz and Ayala also reported an outlier for 1994, when the cost of public space was estimated to be 86 percent higher than the voucher. This result seems too extreme to be likely and is well outside the range of the other estimates.

¹⁰⁸ Worker contributions are not kept in individual retirement accounts (direct contributions) but are part of the general revenue of the national pension system, and benefits are paid out of the general pay-as-you-go national pension system.

¹⁰⁹ Community mothers of the ICBF program HCB. See section on ICBF for more details.

wage.¹¹⁰ Before the economic crisis, the national budget also contributed an amount equal to that collected from the better-off workers to the FSP, but this was curtailed in 1998.

Table D.2: FSP Age Limits

	Age/Other Limits	Number of Weeks Subsidized (with transition/without transition).
Community Mothers	Any age, at least one year of service	480 or 600 weeks.
Disabled Workers (at least 50 percent lost work ability)	Greater than 20, less than 65	480 or 800 weeks.
Urban informal sector workers	Men: greater than 40, less than 65. Women: greater than 35, less than 55.	500 weeks.
Rural informal sector workers	Men: greater than 35, less than 65. Women: greater than 30, less than 55.	480 or 800 weeks.

Source: *Fondo Solidaridad Pensional*.

Additionally, the beneficiary must be affiliated with the health system. The FSP subsidy must be matched by direct contributions from the beneficiary. In 2000 and 2001, the FSP subsidy provided for 70 percent of the total contribution of urban informal sector workers, 90 percent for rural informal sector workers, 95 percent for disabled workers, and 80 percent for community mothers.¹¹¹

FSP officials identified two problems with the current system. The first problem is that the requirement that the beneficiary be affiliated with the health system meant that many did not qualify. The second problem is that people are initially quite interested in the subsidy when they first hear about it, but since they are low-income, when a shock comes along, their response is to stop paying their share of the total pension contribution (even though their share is highly subsidized). After four months of non-payment, the beneficiary is cut from the program. FSP did not have information available on how many people had enrolled from the program but were subsequently dropped due to non-payment, but they noted that the financial crisis which began in 1999 had affected total enrollment, but that enrollment had increased from 1999 to 2000 (Table D.3).

Table D.3: FSP Enrollees, 1996-2000

	Number Enrolled	Of which Community Mothers	Urban Informal Workers	Rural Informal Workers	Disabled Workers
1996	72,256				
1997	220,004				
1998	445,440				
1999	389,634				
2000	434,752	30,598	259,382	138,282	6,490

SOURCE: FSP, UNDATED PRESENTATION

¹¹⁰ These are called "contributions" but are mandatory, not voluntary.

¹¹¹ From a presentation of the FSP, Untitled, Undated.

Henao (2000b) identified several problems with the FSP. The first one is the lack of adequate record-keeping on the contributions and work history of FSP affiliates, as evidenced by the inability of the FSP to state how many workers had been enrolled and subsequently dropped for non-payment. A second problem is that the FSP perpetuates the general pay-as-you-go system by lumping in FSP contributions to general revenues of the national system, and by paying benefits out of general revenues. There would be much stronger incentives for individual workers to affiliate if their contributions were accruing to individual accounts, and if they did not lose their contributions if they cease contributing to the FSP. A third problem is that the financing of the FSP is strongly procyclical—when the wages of the higher-paid workers decline in real terms, so do the payroll tax revenues of the FSP. Fourth, due partly to the inadequacy of financing the FSP, and partly to demand (there are simply more workers who would like to affiliate with the FSP than the FSP can finance out of its 1 percent payroll tax revenues), the FSP has resorted to rationing participation based on age-limits and whether the applicant is affiliated with the national health system.

D.2.2 Subsidized health insurance¹¹²

In December 1993, Colombia introduced a radical health sector reform through the passage of Ley 100 (Law 100). The new system provides universal health insurance involving cost-sharing between the employee and the employer on the financing side, and a pluralistic system of provision involving both private and public providers on the supply side for both health insurance and health care. One of the main tenets of Ley 100 is solidarity: every citizen, regardless of financial means, should have access to basic health services through an income-related contribution, with the low-income population being subsidized by a combination of redistribution of relatively higher incomes' contributions and government subsidies.

Main characteristics of health insurance after the reform: The contributory and the subsidized regime

The Colombian health care system operates on two levels, contributory and subsidized. Those who have the ability to pay are enlisted in the contributory regime, while the poor and indigent are covered by the subsidized regime. Affiliation to the contributory regime is based upon the payment of a monthly contribution equal to 12 percent of wage income, of which the employee pays 4 percent and the employer 8 percent. Self-employed individuals pay the total 12 percent of the contribution. In the subsidized sector, contributions are drawn from fiscal and subsidized sources. The latter take the form of transfers from the contributory to the subsidized regime.¹¹³

Affiliates of the subsidized system have access to a basic benefit package known as *Plan Obligatorio de Salud Subsidiado* (Mandatory Subsidized Health Plan – POSS),

¹¹² Primary source: Velez et al. (2001).

¹¹³ One percentage point of the 12 percent wage tax applied to those in the contributory regime is transferred to the subsidized regime.

which covers health promotion and education, primary health care, basic hospital services and treatment for a number of high-cost diseases. The POSS family coverage also offers full coverage for maternity and child-care. The POSS covers fewer services than the basic benefit package of the contributory regime known as Plan Obligatorio de Salud (Mandatory Health Plan – POS); however, one of the goals of Ley 100 is the convergence of the two packages by 2001.¹¹⁴

Affiliation to the subsidized sector is based on the proxy-means test SISBEN, administered by local governments. The *Consejo Nacional de Seguridad Social de Salud* (National Council of Social Security in Health – CNSSS) has defined households that belong to SISBEN levels 1 and 2 as those whose members are eligible for the subsidized regime. Members of households at SISBEN levels 1 and 2 have the right to subscribe to one of the insurance entities in the subsidized regime known as *Administradoras de Régimen Subsidiado* (Administrators of the Subsidized Regime – ARS). In turn, the ARS signs a contract with the relevant departmental health authority for each of its affiliates. After this contract is signed, the individual is considered an official member of the subsidized regime. However, if either parent in the family is employed under contract, receives a pension or is self-employed and has a monthly salary higher than twice the monthly statutory minimum wage, the household must join in the contributory regime regardless of its SISBEN level. After complete coverage of the population at SISBEN levels 1 and 2, further beneficiaries come from the SISBEN level 3 population, starting with the households of lower to higher SISBEN scores. Households seeking medical attention under this subsidized system still are liable for co-payments that represent 5 or 10 percent of the value of service, with a cap depending on the household SISBEN level.

The health sector has experienced a rise in funding during the last decade. Per capita spending on health increased from 20,891 pesos in 1980 to 85,526 in 1999 (both measured in constant 1996 pesos). Expressed as a percentage of GDP, total public spending went from 3.5% in 1993 to 5.4% in 1997, after which it reduced to 4.9% and 5% of GDP in 1998 and 1999 respectively.¹¹⁵

Spending on subsidized health insurance increased by 14% between 1997 and 1998, and by 4.6% during the next year, but decreased from 1999 to 2000 by 14% from 3,018 million pesos to 2,587 million.¹¹⁶ Currently 53% of the resources to the subsidized regime are supply side subsidies, i.e. are paid directly to public hospitals, and 47% are demand side subsidies directly received by the population; whereas the idea was by 2001 to have all supply side subsidies converted into demand side subsidies.¹¹⁷

¹¹⁴ However, according to Fedesarrollo (Henao and Ayala, 2001) the value of the POSS from the subsidized regime currently only 53% of the value of the POS from the contributory regime.

¹¹⁵ Source: Fedesarrollo in Henao and Ayala, 2001, p. 10.

¹¹⁶ Source: Fedesarrollo in Henao and Ayala, 2001, p. 11.

¹¹⁷ Source: Fedesarrollo in Henao and Ayala, 2001, p. 13

Evaluation of the reformed health care system

Since the introduction of the health sector reform in 1993, health insurance coverage almost doubled and became much more progressive –with increasing participation of the private sector (Table D.4). Velez et al. (2001) find that as a result of the reform, health insurance coverage has increased from 31 to 58 percent of the population between 1992 and 1997. Furthermore, these increases in coverage have been concentrated in the lower income deciles where, for example, insurance coverage in the first decile has risen tenfold from 4 percent in 1992 to 41 percent in 1997. In addition, twice as many individuals are insured with private providers than with the public provider ISS. In another study, Fedesarrollo (Henao and Ayala, 2001) finds 54% coverage at present, representing 22.6 million people, of which 13.7 million are covered by the contributory system and 7.9 million by the subsidized system, and about 1 million –typically public sector employees and their families- are covered under an ‘exceptional regime’.

Coverage seems to be falling as a result of the recent crisis. Preliminary information indicates that during the first trimester of 2000 subsidized regime coverage decreased by about 500,000 persons (Henao and Ayala, 2001). The ranks of the poor are growing while available funding for the subsidized regime has been diminished, both because of rising unemployment (leading to reduced revenues from the contributory regime) and the overall fiscal crisis.

Treatment rates are even higher and more progressive than insurance rates. Velez et al. (2001) find that while the overall coverage of health insurance is still only 58 percent, 74 percent of respondents to the ECV97 reported that they received healthcare when they became sick. The gap between coverage rates and treatment rates is larger among lower income groups. For example, in the first decile only 40 percent have insurance coverage; however, 65 percent report receiving treatment when it was required. Meanwhile, in the tenth decile, coverage rates and treatment rates were about equal at 80 percent of the population. The existence of people who receive treatment without coverage provides indirect evidence about the group known as ‘*vinculados*’¹¹⁸ who have access to public hospitals as long as they can cover a certain percent of the charges.

¹¹⁸ These are poor who have the right to be affiliated through the subsidized health regime, but as of yet are not. Henao and Ayala (2001) find however that there is no clear regulation as to what services at which cost these people receive in public hospitals.

Table D.4: Change in Coverage Rates from 1992 to 1997

Change	Health Insurance	Health Treatment
• Quintile 1	0.35 ¹	0.00
• Quintile 2	0.31	-0.04
• Quintile 3	0.28	-0.08
• Quintile 4	0.21	-0.10
• Quintile 5	0.15	-0.13
Total	0.27	-0.08

¹ Reflects a 35 percentage points increase.

Source: Velez et al. (2001).

Targeting of the subsidized health insurance toward the poor could be improved. *Fedesarrollo*¹¹⁹ finds that in 1997, 3 million people from the deciles 4 to 10 were covered under the subsidized system, whereas 6 million people from deciles 1 and 2 were not covered. The concentration coefficient for public spending on the subsidized health system is -0.3244 .¹²⁰ This negative value implies that overall the distribution of the subsidy is progressive with the poor receiving a proportionally larger share of the subsidy.

A group of approximately 10 million¹²¹ independent workers and their families fall in between the subsidized and the contributory system and therefore are not covered by any health insurance. This ‘sandwich population’ of independent workers are not poor enough to be covered by the subsidized system, but earn less than twice the minimum salary which is the lower limit to participate to the contributory system on an independent base. A partial subsidy system for this group might be an appropriate solution.

Affiliation and/or possession of a SISBEN card seems to have eased the financial burden of the poor in the event of illness. In addition to the value of the health services received when sick, poor individuals in households with a SISBEN classification document (SCD) appear to have lower out-of-pocket health expenditure than those in households with no SCD. In case of illness, health expenses are equivalent to a considerable adverse income shock. For the poor the impact of this event is more significant and of a similar magnitude to unemployment of one household member. Estimates based on the *Encuesta de Calidad de Vida* (1997) show that for the poorest 20 percent hospitalization expenses are equivalent to one and a half months of per capita income, and that relative to their level of income, they spend 75 times more in hospitalization than individuals in the fourth quintile facing the same event. In medical consultation the situation is analogous because the poorest 20 percent (first quintile) spend 42 percent of their per-capita income, while the rest are below 9 percent. This result provides additional evidence of the positive change that the health reform has

¹¹⁹ Henao and Ayala, 2001.

¹²⁰ Concentration coefficients range from 1 (the richest receive the entire subsidy) to -1 (the poorest receive the entire subsidy) with 0 indicating a neutral distribution.

¹²¹ See Henao and Ayala, 2001, p. 19 for a calculation of this number.

brought to the lives of the poor in Colombia and how the subsidized health insurance performs as a social protection device.

Extending availability of SISBEN and the subsidized health insurance should reduce under-coverage problems. Although targeting of the subsidized regime is relatively accurate (3 out of every 5 SISBEN classification document holders belong to the poorest 40 percent of the population) seventy percent of the eligible population do not hold an SCD. Therefore extension of the SISBEN coverage should be promoted in order to expand health insurance and care coverage. On the other hand, leakages in the system should be prevented. In the majority of the municipalities where households of SISBEN level 3 have an SCD not all households of SISBEN levels 1 and 2 have one. This result suggests that it is not easy to control the procedure of households acquiring an SCD.¹²²

D.3 TRAINING PROGRAM

D.3.1 The National Training Service (*Servicio Nacional de Aprendizaje, SENA*)

SENA was established in 1957. SENA is Colombia's national training institute and it provides two types of courses which are offered free of charge: long courses (1-3 years duration) and short courses. SENA is financed by a payroll tax of 2 percent (0.5 percent for national government and territorial entities). SENA operates 114 training centers in the 32 departments of Colombia, and 1999, 2.3 percent of the Colombian population received some form of SENA training (Table D.5).

Table D.5: SENA Training Courses

(Number of Students)	1997	1998	1999
Long Courses, total	82,360	98,897	109,678
Qualified Worker	55,169	54,567	60,144
Technician	17,838	27,565	29,324
Technologist	4,179	4,925	6,152
Young Baccalaureates	5,174	11,840	14,058
Short Courses, total	858,068	779,580	823,975
Total trained	940,428	878,477	933,653
Memorandum Items			
Population			40,251,417
Share of Population Trained			2.32

Source: SENA web page (www.sena.edu.co)

¹²² A more detailed discussion on the benefits and difficulties of using SISBEN is included in Chapter IV.

Long courses

Long courses are directed principally towards youth who are linked with a business place and who have a training contract that guarantees them a payment of 50% of the minimum wage during the theoretical part of the course, and 100% of the minimum wage during the practical application phase (conducted in the work place). Approximately 23 percent of those who matriculate in the long courses have such a training contract. Many enterprises try to evade such contracts because they oblige the enterprise to pay its own minimum wage which is much higher than the legal minimum wage. According to a 1999 decree, SENA is required to pay a “sustenance support” to students in long courses who do not have a training contract with an enterprise and who are SISBEN stratas 1,2, or 3 (*Henao et al. 2000*). This support equals the legal minimum wage. In the past few years, SENA has provided such “sustenance supports” to approximately 25 percent of students in the long courses.

In Colombia during the crisis years 1997-present, the rate of youth unemployment (aged 15-19 and 20-24 especially) has been much above the average unemployment rate. In 1997, SENA instituted a new program for unemployed youth with baccalaureate degrees. The objective of the program was to train young baccalaureates in technical and technology courses to facilitate their insertion into the labor market. Youth who are SISBEN strata 1 and 2 are eligible for a “sustenance support” equal to the legal minimum wage. In 1997 and 1998, 60 percent of the enrollees received the “sustenance support,” but owing to budget cuts, in the second semester of 1998, none of the students enrolled were provided with the “sustenance support.”

According to the 1996 tracer study, the vast majority of SENA students enrolled in long courses had completed secondary education or had even more education (83 percent of students in agriculture, 93 percent in industry, 99.8 percent in business, and 98 percent in services). Since the poorest in Colombia lack secondary education and an affiliation with a formal enterprise that would offer a training contract, it is clear that the long course program is not targeted to the poor.

Short courses

Short courses are intended both for workers in medium and large enterprises as well as workers of small landholdings. However, SENA does not provide a disaggregation of short courses by type, and has not evaluated their effectiveness. Information on type of course or duration is also lacking for courses intended for specific target groups (such as the displaced, disabled, indigenous, female household heads, etc.).

Targeting

SENA is not designed to reach the poorest, although it does claim to be “redistributive” in the sense that parafiscal resources are obtained from the better-off areas

(*Cundinamarca, Antioquia, and Valle*) and spent in the poorer areas (*Chocó*). Furthermore, 43 percent of *SENA* beneficiaries are from rural areas. Of course, these arguments do not mean that the poorest in the poor or rural areas are reached by *SENA*, and other information suggests that the program is poorly targeted (Table D.6), including the education levels of participants in the long courses. For example, only 11 percent of *SENA* trainees are from the bottom two income deciles, and the concentration coefficient for the distribution of *SENA* training across income is positive, indicating that *SENA* training is regressive. At the same time, other training courses in Colombia (those provided by enterprises themselves, NGOs, the Compensation Associations, or universities) are more regressively distributed than *SENA* (Henao et al. 2000).

Table D.6: Targeting of *SENA*, 1997

Decile	Number Trained	Percent of Total Trained
1	20,290	4.0
2	35,394	6.9
3	33,287	6.5
4	58,990	11.5
5	57,395	11.2
6	64,795	12.7
7	52,311	10.2
8	86,029	16.8
9	53,604	10.5
10	49,605	9.7
Total	511,700	100.0
MEMORANDUM ITEM		
Concentration Ratio		0.1255

Source: Fedesarrollo (Henao et al. 2000), calculated from the 1997 ECV

Other services

SENA also operates a “labor intermediation” or job matching/information service. Approximately 19 percent of the unemployed who registered at a *SENA* job information center (*Centro de Información para el Empleo, CIE*) in large cities and 23 percent of the registered unemployed in medium-sized cities use the *SENA* job information service.

ANNEX E: THE INTERNALLY DISPLACED POPULATION¹²³

Government attention to the needs of the displaced has historically been insufficient. Only in 1997 a law was enacted that specified measures for the protection, humanitarian assistance and socio-economic re-settlement of internally displaced persons (IDPs).¹²⁴ However, the law remained largely inoperative. As stated in the CONPES Document of November 1999, responsibility was divided among 19 federal agencies, most of which had no operational capacity, nor experience with marginalized populations. Thus, the vast majority of the measures mandated never went beyond the planning stage.

The present administration upon taking office in 1998 evaluated the lack of progress under the law and enacted important changes aimed at addressing the needs of the IDPs. First, it assigned planning and coordination of execution responsibilities for IDPs to a single agency: the *Red de Solidaridad Social* (RSS or Social Solidarity Network) in the Office of the Presidency. Second, it established a new policy and an action plan for its implementation.¹²⁵ Third a three-year (2000-2002) US\$465 million budget was approved by the Cabinet to finance the implementation of an action plan centered on giving IDPs three options: return, resettlement or consolidation of existing refugee settlements.¹²⁶ Implementation of the action plan is to be accomplished through strategic partnerships with civil society and the private sector.

E.1 GOVERNMENT POLICIES AND PROGRAMS FOR THE IDP

The Action Plan adopted by the government entails several important initiatives: (i) attention to the IDPs is conceived as an element of the peace process, which is the core strategy of Colombia's *National Development Plan*; (ii) implementation of the action plan components, such as humanitarian assistance, return or resettlement, is to be accomplished through strategic partnerships with civil society and the private sector; and, (iii) in contrast to the prior policy which provided only for return, the IDPs are to be

¹²³ Primary source for this section: Partridge and Arboleda. 2001.

¹²⁴ Law 387 of 1997, Measures for the Prevention of Forced Displacement, Attention, Protection, Consolidation and Socio-economic Re-establishment of Population Internally Displaced by Violence in the Republic of Colombia.

¹²⁵ Republic of Colombia. Office of the President Strategic Plan for the Management of Forced Internal Displacement Due to the Armed Conflict. November 1999.

¹²⁶ Republic of Colombia. Office of the President, National Planning Department, Ministry of Interior and Social Solidarity Network. CONPES Document 3057: Action Plan for the Prevention of and Attention to Forced Displacement. November 1999 (Updated April 2000).

provided with a choice among alternative re-establishment options: return, resettlement or consolidation of existing refugee settlements.

This action plan represents an advance in policy definition, planning and capacity building. In addition, the present administration's policy to assist the IDPs as an explicit element of its national development strategy - which is to create conditions that will favor the peace negotiations process - is a noteworthy innovation. The integrated plan of action has three components: prevention, humanitarian assistance, return/resettlement and economic stability.

*Table E.1: Estimated Costs of Government of Colombia Action Plan for IDPS
(US\$ million)*

	Total	2000	2001	2002
Emergency Humanitarian Assistance	61.80	23.08	19.36	19.36
Re-establishment, Resettlement, Consolidation	390.04	156.01	156.01	78.01
Protection and Prevention	7.79	4.07	1.31	1.39
Institution Building, Local Capacity Strengthening	3.49	1.46	1.37	0.64
Information System: Registry, Early Warning	5.61	2.29	2.07	1.24
Totals	465.25	185.47	179.76	100.00

Source: Republic of Colombia. Office of the President, National Planning Department, Ministry of Interior and Social Solidarity Network. CONPES Document 3057: Action Plan for the Prevention of and Attention to Forced Displacement. November 1999 (Updated April 2000).

The prevention component includes four strategies: security, strengthening of recipient and expelling municipalities, promotion of day-to day peace, and communications for prevention. The humanitarian component includes emergency services, attention to children, economic activities for female heads of household, attention to handicapped, attention to ethnic groups, emergency health and education services. The return, resettlement and economic stability component includes access to land, rural and urban housing, alternative economic opportunities, protection of the re-established population.

However, execution of the action plan has been delayed for two reasons. First, less than 30% of the year 2000 budget estimate was actually made available for implementation of the plan by the end of the year. This was largely because of the current fiscal crisis and the controversy over the *Plan Colombia* which resulted in the government's failure to secure expected support from the international community.

Second, despite the options outlined in the action plan, the IDP strategy must be seen in the context of the government's objectives set out in *Plan Colombia* peace initiative and the *National Development Plan*. These efforts are centered on the removal of the root causes of the ongoing conflict through massive investment in social and economic development in the zones of the country where the conflict is concentrated. In this context, the return of the population displaced by the conflict to their homes is seen as a component of a much more ambitious strategy of creating conditions for peace.

These two factors have resulted in limited actions being taken by the national government to address the needs of the IDPs, except in the area of humanitarian assistance where limited coverage has been achieved. **The bulk of the limited resources that have been made available by the national government go to the provision of humanitarian assistance (emergency food, shelter, health care, etc.) in the large and medium-sized cities where the bulk of the IDPs are found. This assistance has been provided through governments contracts with NGOs including the Colombian Red Cross, the network of local Catholic Church parishes coordinated by Pastoral Social in several cities, and others.**

However, coverage is limited since under terms of the contracts signed by the RSS and these NGOs, IDP benefits beyond the initial 15 day period are available only to those in the National Registry. While today there are about 104,000 people registered, it is expected that when completed, the Unified National Registry will cover about 500,000 people the government believes will require emergency assistance.

The international community has provided limited support to IDPs mainly through contributions to UN agencies and NGO's. Several governments, primarily European, are supporting international NGOs and UN agencies working with IDP's such as the World Food Programme, the Food and Agriculture Organization, the International Committee of the Red Cross, the Panamerican Health Organization. In almost all cases, the donations are channelled through counterpart Colombian NGOs, such as the Colombian Red Cross, CINEP, *Fundación Carvajal*, CODHES, *Pastoral Social*, *Justicia y Paz*, *Programa para la Paz*, *Fundación Social*, *La Comisión de Reconciliación*, *ARCOIRIS*, *Vamos Mujer*, and others. Almost all of this support is for humanitarian assistance and advocacy of human rights.

The World Bank has no specific projects for IDPs although some projects have a direct or indirect effect on the them. There is no project or component of a project within the current portfolio of the World Bank that deals explicitly with the issue of internally displaced population. Furthermore, none of the analytical work conducted to date for the Country Assistance Strategy or for lending operations development has addressed the special characteristics of the IDPs. There is clearly scope for the IBRD to become better informed on the issue.

Notwithstanding the foregoing, there are several World Bank operations underway in Colombia that may have direct or indirect impacts affecting the IDPs. Such impacts have two dimensions: contributions to the prevention of forced displacement and contributions to re-establishment of people who have been displaced. Three projects are of particular interest: two Learning and Innovations Loans (LIL) to address the needs of populations living in conflict areas; and the *Choco* Natural Resources Management Project which addressed the needs of ethnic groups also living in areas affected by the armed conflict.

Although the financial support for these initiatives is limited, the projects represent innovative solutions to reaching vulnerable groups through the use of civil society organizations leveraging national funds that should be further explored given the difficulties in bringing social assistance programs to conflict areas.

The World Bank also obtained for the government a Japanese grant intended to integrate a network of city-based partnerships between government and civil society organizations for the provision of basic services needed by IDPs during this time of budget restraint. The network will also lead the way to institutionalizing the protection of IDPs once fiscal sustainability allows for the maintenance of extended safety nets.

The *Red de Apoyo Social* safety net projects will address the needs of a portion of this population as part of their broader efforts to target the poor. However, most of the IDPs will be excluded from the benefits of these projects if they do not have the proper documentation, or if they were not registered in SISBEN in the recipient city before December 1999.

The current institutional and legal frameworks, as well as the government policy and programs reflect an important effort to meet the humanitarian and development needs of this population. Humanitarian assistance and the creation of an information registry system are two areas where the national government's attention to IDPs called for under the law is working. They involve good collaborative arrangements among civil society and government in the case of the former and strengthened cooperation among institutions of government together with the international community as concerns the latter.

In contrast, few re-establishment, prevention and protection projects – where the efforts in addressing the needs of the IDPs were to be concentrated under the action plan -- are underway at the moment, leaving the larger needs of the IDPs unaddressed, including the provision of basic social services. Thus, the agenda set out by the GOC for meeting the medium to long term needs of the IDPs has not been implemented and as a consequence the displaced, half of whom are estimated to be children, remain a critical vulnerable group whose human development needs should receive priority attention.

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