

Strategies to combat inequality and eradicate poverty in Latin America and the Caribbean

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Poverty in Latin America and the Caribbean (LAC) had a substantial reduction during the decade of 2000s. The proportion of individuals living in poverty dropped from 43.9% in 2002 to 31.1% in 2010, and extreme poverty rate dropped from 19.3% to 12.1% during the same period. After 2010, however, progress has been slow. Poverty rate decreased to 29.2% in 2015 and extreme poverty slightly increased to 12.4% (ECLAC, 2016). Inequality has also decreased over the last 15 years. During the 2000s the Gini coefficient decreased from 0.52 in the early 2000s to 0.491 in 2015 (ECLAC, 2016). Despite this progress, however, Latin America remains as the more unequal region in the world.

Improvement in social indicators in LAC is partially attributed to social policy. Social spending increased substantially in the last two decades: from 12.8% of GDP in 1990 to 19.5% in 2014 (Cerutti et al., 2014; ECLAC, 2016). Moreover, during the 2000s, spending on social assistance programs substantially increased. Cerutti et al. (2014) show that over a sample of 10 Latin-American countries, spending on social assistance programs increased from 0.4 percent of GDP in 2000 to 1.2 percent in 2010.

Drawing mainly from previous systematic reviews and meta-analyses, this paper focuses on social assistance programs in the region, aimed primarily at poverty eradication. First, I describe those programs that are more prominent in the region because of the amount of spending or the number of beneficiaries. Some of these programs, such as social pensions, aim at alleviating poverty in the short run for a particular population. Other programs, like conditional cash transfers, have the dual goal of alleviating poverty in the short-run and breaking the intergenerational transmission of poverty through accumulation of human capital. Second, I describe a “second generation” of social assistance programs that have an integrated approach to poverty eradication and offer a bundle of services to poor households.

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Many of the programs described in this paper have the potential of contributing to reduce inequality through improvements in human capital. However, combating income inequality requires more than social assistance programs. As Ferreira and Robalino (2010) put it, the region also needs “opportunity ropes” programs that have a direct impact on human development and have the potential to eradicate poverty and reduce inequality in the long term. Thus, this paper also draws attention on interventions in the education sector that have the potential to promote equality of opportunities and reduce poverty and inequality in the long-run.

Social Assistance programs

Following Ferreira and Robalino typology (Ferreira & Robalino, 2010), social assistance programs (or safety net programs) are directly targeted to the poor and include cash transfers (CCTs, family allowances, non-contributory insurance such as social pensions), in-kind transfers (school feeding, food assistance, housing), and workfare programs (public works). Workfare is part of a larger component within the social protection system aimed at improving economic opportunities of the poor and include active labor market programs (ALMP), microcredit and microenterprise programs.

The portfolio of social assistance programs in Latin America is very rich and includes a wide variety of programs, from cash transfers to housing or water and sanitation (Bouillon & Tejerina, 2007). Despite the heterogeneity in the composition of social assistance spending across countries, there are three type of programs that stand out in terms of spending and coverage: conditional cash transfers (CCTs), social pensions and school feeding programs (Cerutti et al., 2014). In addition, youth training programs stand out as the most common program within ALMP programs in the region.

Conditional Cash Transfers

According to the most recent information on social assistance, CCTs are the largest program in terms of spending in most countries in the region. For seven of the 10 LAC countries with available data, CCTs represented at least one third of total social spending. Spending in CCTs represented close to 40% of spending in social assistance for Colombia, Ecuador and Honduras, 54% in Mexico, 39% in Uruguay and 33% in Argentina (Cerutti et al 2014).

CCTs are the most common social assistance program in the region. Overall, close to 35 different CCT programs have been implemented in 19 countries in LAC (Garcia & Saavedra, forthcoming). Moreover, most CCTs programs in LAC (26) have been accompanied by impact evaluations, generating rich information about CCTs effectiveness. Recent systematic evaluations and meta-analysis show that CCTs have a significant effect on increasing school enrollment and attendance, and reducing school dropout (Baird, Ferreira, Özler, & Woolcock, 2014; García & Saavedra, forthcoming; Snilstveit et al., 2015).

The large number of impact evaluation allows to have more nuanced analysis on the program characteristics associated to effect sizes. For instance, Baird et al (2014) show that having more stringent conditions (strict enforcement and monitoring of conditions) is associated with larger effects of CCTs on schooling outcomes. Also, effects for primary enrollment and primary attendance are larger in programs that complement cash transfers with supply side interventions (Garcia & Saavedra, forthcoming).

In contrast to the positive effects on enrolment and attendance, CCTs have a limited impact on educational achievement outcomes such as school completion, school promotion or learning (test scores). The most recent review conducted by 3ie (Snilstveit et al, 2015) found that the average effect on math or language test scores is close to zero. Although this average is estimated using a limited number of studies (10 for math and 8 for language) it does suggests that the effects of CCTs on learning is very limited.

Similarly, for health outcomes, CCTs have shown positive impact in health care utilization (such as prenatal care, immunizations) but more limited impact on health outcomes (Filmer & Schady, 2009). In nutrition, positive effects in Mexico and Nicaragua, mixed in Brazil and Colombia (for some age groups only) and no effects in Honduras (Bouillon & Tejerina, 2007; Filmer & Schady, 2009).

In terms of long-term outcomes such as educational attainment. Molina-Millan et al (2016) review evidence from Latin America and report effect sizes ranging from 0.5 to 1 additional years of schooling. However, some of these estimates have a high risk of internal validity due to attrition bias (Molina-Millan et al, 2016). In addition, evidence on other long-term outcomes such as access to tertiary education, participation in the labor

market and earnings is still very limited. Thus, as Molina-Millan et al (2016) suggest, the long-term effects of CCTs is still inconclusive.

School feeding programs

School feeding programs represent an important portion of social assistance spending in some countries in the region (particularly Honduras and Peru where it represent of 30% of social assistance spending). More importantly, these programs reach a large proportion of vulnerable children. In Chile, Costa Rica, El Salvador and Panama, school-feeding programs coverage among school-age children in the poorest quintile is over 85% (Cerutti et al., 2014). Notwithstanding its relevance in the region, evidence on the effectiveness of school-feeding programs in LAC is still limited. A recent review from 3ie (Snilstveit et al., 2015) reports impact evaluation results for school feeding programs in 5 LAC countries, all targeting primary-school children: Chile, Peru, Argentina, Guyana and Jamaica. Evidence on the effectiveness of these programs is mixed. School feeding programs had positive effect on school enrollment in Guyana but no effect in Chile. Positive effects were also found on school attendance for Guyana, Peru and Jamaica, but no impact for Chile. In terms of impacts on achievement outcomes, most programs had no effect on cognitive development or test scores. Only Guyana's program had positive effect on both math and language test scores, and Jamaica's program had a positive impact on math test scores only.

Although average effect sizes for cognitive development are close to zero, both in Peru and Jamaica school breakfast had a positive effect on cognitive development for children at risk / undernourished (Bouillon & Tejerina, 2007), suggesting the need for a better targeting of these programs.

Social pensions

Non-contributory pensions (or social pensions) are increasing in terms of both spending and number of beneficiaries, particularly in those countries with the largest elderly population such as Brazil, Uruguay and Chile. In 2010, these programs represented close to 60% of social assistance spending in Brazil, 50% in Uruguay and 33% in Chile (Cerutti et al., 2014). In other countries like Mexico or Colombia, social pensions represent a smaller portion of social assistance spending (15% and 6% respectively). However, amounts had substantially increased over time. In both countries, social pensions almost

doubled between 2010 and 2014 -- from 0.11 to 0.21% of GDP in Mexico, and from 0.08 to 0.14 % of GDP in Colombia (World Bank, 2017).

Evidence on the effectiveness of social pensions is much more limited compared to CCTs or school feeding. Impact evaluation results from Mexico shows positive effects on physical and mental health among beneficiaries, as well as increased consumption expenditures among beneficiaries' households (Aguila, Kapteyn, & Smith, 2015; Galiani, Gertler, & Bando, 2016). Also, there are no negative effects on labor force participation of other adults in the household (Galiani et al., 2016). In contrast, evidence from Brazil shows no impact on household consumption and a reduction in labor supply of other adults in the household (Kassouf & Oliveira, 2012). In terms of labor supply of beneficiaries, social pensions reduce their of labor-force participation in Mexico and Brazil (Galiani et al, 2016; Kassouf & Oliveira, 2012) but there are positive effects for younger adults (less than 70 years old) in Colombia (Pfütze & Rodríguez-Castelán, 2015).

Youth training

Among active labor market programs (ALMP), training programs are the more prevalent in Latin America. In a recent meta-analysis of 44 ALMP programs in Latin America (Kulve, 2016), over 80% of programs are skills training programs. Moreover, the majority of these programs are youth training programs.

Youth training programs have been implemented in at least 10 Latin American countries (Dominican Republic, Colombia, Uruguay, Chile, Peru, Panama, Argentina, Venezuela, Paraguay and Haiti). The pioneer country of this type of program was Chile with *Chile Joven*. These programs are targeted to individuals aged 16 to 29 and have in common 2 main features: 1) the type of training is demand driven and depends on the needs of the productive sector, and 2) training includes not only classroom instruction but also on-the-job training through an internship. In contrast to other regions, youth training programs in Latin America have shown positive effects in employment and earnings, particularly for women (Ibarrarán & Rosas-Shady, 2009; Urzúa & Puentes, 2010). Kluve (2016) meta-analyzes training programs in Latin America and shows that programs with short duration (4 months or less) have smaller effects and that having more components is not associated with larger effects, suggesting that program duration is key in the design of these programs.

While short-term impacts of Latin-American youth training programs are larger than medium-term impacts (Kluve, 2016), there are specific programs showing significant long-term effects. In particular, *Juventud y Empleo* from Dominican Republic has shown sustained impact on job quality (formal employment), particularly for men (Ibarraran, Kluve, Ripani, & Rosas-Shady, 2015). Also, *Jóvenes en Acción* has demonstrated a positive long-term effect on formal employment and earnings (Attanasio, Guarín, Medina, & Meghir, 2015). These programs, in addition to technical skills training and in-job training, have a soft-skills component.

Comprehensive approach to poverty alleviation

Previous evidence has shown that comprehensive programs that combine supply-side interventions with demand-side interventions have a greater impact. For instance, combining microcredit with training has a larger effect on income than providing microcredit alone, or accompanying sanitation infrastructure with better education has a larger effect on health than sanitation alone (Bouillon & Tejerina, 2007). Also, CCTs have a larger effect on primary school attendance when a supply-side component is combined with the CCT program (Garcia & Saavedra, forthcoming). Although this evidence is still limited, it does suggest the need for having a more comprehensive approach to poverty eradication. In the case of CCTs it is important to make sure that higher levels of enrollment and attendance (achieved as a consequence of CCTs) translate into more learning and achievement, and in the long run, better employment and wages. There are limited previous experiences that match supply-side improvements along with social assistance programs that incentivize use of services. This needs the coordination between the education and health sectors with the social welfare sector, which in many cases are isolated.

CCTs were created with the promise of alleviating poverty in the short term and, in the long term, breaking the intergenerational transmission of poverty. However, in the short-run CCTs are not addressing income-generating capabilities for the adults (which will add more fiscal pressure for social pensions in the near future). There is the need for an integrated approach that not only seeks synergies between different components (such as microcredit and training) but also takes into account the needs of the household as a whole,

making sure that basic capabilities are developed so that households are lifted out of poverty and enter a cycle of sustained prosperity.

There are some efforts in Latin America to offer a more integrated package of social services to poor households. The pioneer of this type of program was Chile with *Chile Solidario*, followed by Colombia (with *Juntos/Unidos*), Brazil (*Brasil Sem Miseria*) and Mexico (*Prospera*). These programs have a multidimensional and multi-sectorial approach. In addition to cash transfers, households receive preferential access to social programs, depending on their needs. Main services include education, health, nutrition and services to enhance economic opportunities of adults. In the case of Chile and Colombia, households work on a plan accompanied by a social worker. Conceptually, these programs are the “next generation” of CCTs and have the potential to produce positive results. However, there is empirical evidence of the effectiveness only for Chile. In the short-run *Chile Solidario* demonstrated a significant impact on reducing extreme poverty (Martorano & Sanfilippo, 2012) and small effect on employment of the head of the household (de la Guardia, Hojman, & Larranaga, 2011). However, long-term results show that improvements in employment outcomes are not sustained over time (Carneiro, Galasso, & Ginja, 2015).

Another type of multifaceted programs in the region are the “ultra-poor gradation” programs that have been tried in Africa and Asia. These programs have a multicomponent approach and provide households with cash transfers, asset transfers, training, microfinance and health services. In Latin America, this model was piloted in Peru and Honduras and results are not very encouraging. In contrast to the positive impact that these programs demonstrated in other countries such as India or Ethiopia, for Peru and Honduras these programs had small (or zero) effect on income, consumption, food security or assets (Banerjee et al., 2015).

The small or null effects of multi-sectoral programs in Latin America should be interpreted with caution. Evidence so far comes from a limited number of countries and cannot be extrapolated to other countries in the region. Also, given the multicomponent nature, these programs face complex implementation challenges. The right services (training, asset transfers, banking, schools, etc.) should be in place at the right time and

with a minimum standard of quality. More research is needed to provide evidence on the right bundle of services and the right mechanisms to provide them efficiently.

Escaping poverty and reducing inequality

Ultimately, sustained poverty eradication requires that the current generation of children and youth acquire the necessary skills that would prevent them to fall into poverty in the future. This requires a strong educational system that guarantees access to good quality education to all, particularly for vulnerable children and youth. The region has proven to be effective at getting children to school. Now is the time to take the next step and make that more attendance will indeed make children and youth better learn. Evidence suggests that to be effective at student learning, interventions need to improve teacher instruction (Murnane & Ganimian, 2014). There are some promising interventions such as structured pedagogy that include instructional materials and teacher training and are aimed directly at improving classroom practices (Snilstveit et al., 2015). In countries like Chile or Colombia, these type of interventions are targeted to low performing schools. If effective, these programs can contribute to reduce inequality in quality of education. Despite its promising results, however, these interventions alone will not fix the structural inequality of school quality. A more comprehensive and aggressive educational policy is needed. One that guarantees good quality educational inputs, particularly teachers, for all children and youth.

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