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## Argentina Income Support Policies towards the Bicentennial

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### CONTEXT AND BACKGROUND

As Argentina approaches its bicentennial as an independent republic, it has a window of opportunity in social protection policy (see Box 1). As growth has returned and social indicators have recovered to pre-2001/2002 crisis levels, there is an opening to move from emergency income support programs to a more comprehensive, long-term and sustainable strategy for social protection.

A recent report<sup>1</sup> aims to contribute to the discussion of options for social protection. Specifically, it focuses on non-contributory income support in Argentina through discussion of the current set of programs, their coverage, effectiveness, costs and sustainability. It looks at the potential impact of the government's new social protection programs – *Seguro de Capacitación y Empleo* and *Familias* – which are in the early stages of being rolled-out and specifically at the institutional set-up for social protection and the potential role of provinces in Argentina's federal system. The report follows an intensive two year process of analysis, dialogue and partnerships focused on income support in Argentina. The work was carried out between July 2006 and June 2008 by a World Bank team in collaboration with a wide range of partners in Argentina.

### Responding to Crisis 2001-2002

Following the most serious economic crisis in its history during 2001-02, the country mobilized an unprecedented and highly effective effort to provide income support to the population in need. The program *Plan Jefes y Jefas*

*de Hogar (Jefes)* provided benefits to nearly 2 million households in a period when poverty affected more than half the population and unemployment reached record levels. The number of beneficiaries slowly declined after 2003, and was at nearly one-third of its peak value by early 2008. This reduction was achieved by the reentry of beneficiaries into the formal labor market, the loss of eligibility (in most cases, when children turned 18 years old), and the shift of beneficiaries to *Familias* and *Seguro de Capacitación y Empleo* – the successor programs to *Jefes*.

As the crisis has passed, the policy debate has shifted towards the future of social protection over the longer term. The improvement in overall economic conditions since 2003 has resulted in a decline in unemployment, poverty and inequity, and a recovery of formal employ-

#### Box 1 - What is Social Protection?

Social protection is defined as the set of programs that help individuals and households manage social risks, cope with their impacts, and overcome structural poverty. Risks and shocks can include those such as job loss, health, childbirth, old age, droughts and floods. The objectives of social protection are: poverty relief, employment opportunities and consumption smoothing. Social protection programs range from contributory social insurance benefits, including pensions and other benefits linked to formal employment, as well as non-contributory social assistance and social safety net benefits and services targeted at the poor. Income support refers to the set of social protection programs that, through cash and in-kind transfers (contributory and noncontributory) help households manage income-related risks and shocks.

<sup>1</sup> "Argentina- Income Support Policies towards the Bicentennial", June 24 2008, Report No. 44194-AR, World Bank

ment and real salaries to pre-crisis levels. These positive trends have generated space to consider longer term and structural issues, including a debate over the future of these types of non-contributory social policies, based on income transfers to households and individuals.

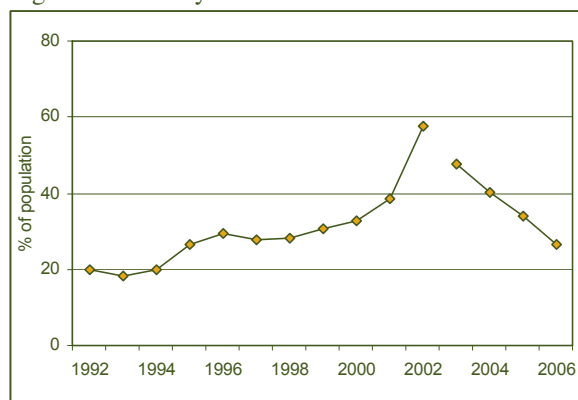
There is a strong preference in Argentina for social programs that will expand employment opportunities. National opinion research and stakeholder consultations that were conducted for the report found that people favor programs that yield tangible labor market outcomes. Among potential beneficiaries, people prefer benefits accompanied by training, access to employment services, or job placements, even if it would mean a smaller monetary benefit. The challenges lie in program design, and equally, if not more importantly, ensuring effective implementation. Policies will need to be coordinated across multiple agencies and government levels, respond to concrete demands from beneficiaries, and ensure that an adequate set of incentives and opportunities are available for beneficiaries to become self sufficient within the labor market.

The challenge is to design and fully implement a social protection system that has adequate coverage and benefits, and is integrated and sustainable. The model of income transfer programs currently under implementation in Argentina, with *Seguro* and *Familias*, combined with more direct interventions at the community level – such as the *Centros de Integración Comunitarios (CICs)* – to promote faster and stronger building of human and social capital has the potential to fill this niche. However challenges include: covering all vulnerable groups including those in the informal and formal sectors, ensuring that benefits are adequate to meet the programs’ objectives, avoiding gaps and overlaps between programs, institutions, and levels of government, and ensuring that the overall social protection system is fiscally and politically sustainable.

### Why Does Argentina Need Social Protection?

The 2001-02 crisis marked one of the most significant shocks to incomes and employment in Argentina’s history. However, due to the emergency response and resumption of growth, social indicators have been improving during the last six years. While the poverty rate leapt 28 percentage points to 57.5 percent in 2002, by the end of 2006 it had declined to 26 percent (see Figure 1). Between 2002 and 2006, approximately

Figure 1 - Poverty 1992-2006



Source: Rofman & Lucchetti (2006), World Bank staff, CEDLAS and INDEC

11,200,000 Argentines emerged from poverty. Similarly, unemployment reached a historical peak in 2002 at 20 percent and has since declined to under 10 percent. Informality also spiked to 48.5 percent during the crisis, but has declined more slowly than poverty and unemployment. Recent estimates suggest that the rate of informal employment persists at 43 percent (second semester 2006).

Despite the recovery, social needs persist and coverage of current social protection programs is limited. Gaps are also found in the coverage of social insurance programs. Close to 3.3 million salaried workers and a very high number of the self-employed continue to be excluded from the social security system, and around nine million Argentines lack access to health care coverage through social security.

### What is the Status of Social Protection in Argentina?

Argentina has a rich history to build on in the area of income support. From the outset, programs have been mainly tied to formal employment. Formal sector social insurance programs, including pensions, family benefits and unemployment evolved from early efforts by trade unions to cover their members. Non-contributory social assistance programs have evolved more recently, notable *Jefes*. This experience, along with the set of existing social protection programs, provides an important starting point for a future social protection strategy.

*Jefes* largely succeeded in targeting the poor population and mitigating the impact of the social and economic crisis. Around 80 percent of the benefits were received by the poorest 40 percent of the population. In terms of targetting, this compares well with other programs in the region. In the absence of the program, nearly 10 percent of the beneficiaries would have fallen below

the poverty line. The coverage was also quite efficient, since the program reached a third of the population in the lowest quintile. The program was also fundamental in improving the income distribution during the first stage of economic recovery in Argentina [May 2002-May 2003]. Many *Jefes* beneficiaries have since transitioned out of the program because they got a formal job (close to 550,000) or because they moved into new programs (326,000 beneficiaries). As a result, the total number of *Jefes* beneficiaries, which peaked at 2 million in 2003, was around 800,000 at the end of 2007.

More recently, the Government has launched two new programs to gradually replace *Jefes*. *Familias* seeks to offer a basic income to households with 3 or more children. At the same time, *Seguro de Capacitación y Empleo* is a non-contributory unemployment benefit accompanied by training and employment services.

Expanding the coverage of these new non-contributory income support programs remains a challenge. Both *Seguro* and *Familias* have operated as transition strategies for the beneficiaries of *Jefes*, as they have not been opened to new beneficiaries who were not participants in *Jefes*. This represents an important coverage gap, as nearly 1.8 million households in the country meet the eligibility criteria of *Jefes* but are not receiving it, because they did not apply in 2003.

In addition to the the Government's new programs of income support, changes in the social security system have allowed many older individuals to receive a pension regardless of their contributory history. Many workers are moving into jobs, or into the new programs. Questions remain about the future of those in *Jefes* and the pace of transition, given the phased roll-out of *Seguro*. The challenge is not just to move people from one program to another, but to contribute to the development of an integrated and equitable system which meets the needs of those coming from the formal and informal sectors.

Argentina also has a strong social insurance system. Its main programs are pensions (including old age, survivors and disability), family allowances, and a contributory unemployment insurance. To be eligible for a contributory old age pension, men need to be older than 65 years old, and women 5 years younger, both with at least 30 years of contributions. Family allowances are restricted to children of formal salaried workers with low and medium wage levels. Unemployment Insurance can only be claimed by formal workers with at least 6 months of con-

tributions, and has a limit of 1 year of benefits.

Federal social protection policies in Argentina go beyond income transfers. Other programs include in-kind transfers but, more importantly, efforts to promote stronger community development. Among those, a large, and growing program to build community centers (CICs) in poor neighborhoods around the country. The Ministry of Social Development has actively supported this program, resulting in more than 250 centers built by 2007. The centers are managed by local community councils, with participation of municipal authorities, and provide multiple services, such as basic health controls, training, social activities, child care, etcetera.

The Government recently implemented a strategy to expand pension coverage among the elderly. This was called the "Pension Inclusion Plan," and aimed at including most of the elderly in the pension system. The Plan allowed individuals who met the minimum retirement age, but not the minimum contribution requirements, to receive a pension, a one time opportunity that closed in 2007. This provided for the one-off inclusion of approximately 1.7 million new beneficiaries into the contributory system, although it is not clear how many of them were already receiving other benefits. By the end of 2007, the National System was paying slightly over 4 million benefits, to an unknown number of beneficiaries.

Finally, provincial governments play an important role in social protection. Provincial authorities in Argentina have the power to implement their own social protection programs, including income transfers. Until the early 1990s, most of their social protection spending was on pensions, but since 1990 the resources spent on other transfers has grown consistently. By 1998 non-pension spending at the provincial level reached 0.5 percent of GDP, and in 2007 reached almost 1 percent. Most programs at the sub national level are focused on basic social assistance, nutrition and in-kind transfers, but it is also interesting to note that employment programs have grown and nowadays make up 0.1 percent of GDP.

### What Does the Future Hold for Income Support in Argentina?

*As economic growth has returned and poverty and unemployment have declined since the crisis, there is a window of opportunity to develop a long term strategy. An integrated social protection strategy needs to encompass three objectives: poverty relief; earning opportunities; and consumption smoothing (insurance). While*

Argentina has a range of programs in place at the national and provincial levels, there are challenges ahead to ensure that each of these objectives is addressed in a coordinated, equitable and efficient manner.

In order to understand what a national program aimed at poverty relief would entail, the report includes simulated impacts of four different policies. The scenarios indicate that alternative income transfer programs could be cost-effective and have an important impact on welfare. For example, a family allowances program aimed to children in the first and second quintiles could result in a dramatic reduction of extreme poverty levels, to below 3 percent of the population. Other alternatives, such as universal unemployment insurance or a transfer targeted to poor households would also be effective. Instead, expanding coverage of the elderly in addition to the family allowances would have little effect, mostly because the moratoria has already reached near universal coverage for that age group. Of course, the exercise of the simulations masks the complexity of implementation and the political economy involved in any reform of existing programs.

## Final Reflections

- **Coverage** - there is an important need to reduce gaps in coverage – both between formal and informal workers, and between regions, as some programs are offered in a few areas but not in others. *Familias* and *Seguro*, as defined today, do not cover all individuals and households in need of support. The constraints are not legal, but rather the consequence of a demanding implementation process and short term fiscal restrictions.
- **Adequacy of benefits** - *Jefes* benefits have been fixed since the program's creation in 2002, resulting in a loss of real value of more than 50 percent. The new programs provide higher benefits (around AR\$ 225, on average) but there have been no increases since their creation and no adjustment mechanism is defined for them.
- **Integration** is a challenging issue. Ensuring coherence across programs, levels of government and institutions requires particular atten-

tion. Social protection programs in Argentina seem to work, in most cases, as independent systems with little interaction among them. This occurs across jurisdictions, as some provinces have schemes that replicate or overlap those at the national level, but also between national agencies, and even within specific programs.

- **Sustainability** has not been a critical issue in recent years, but is potentially fragile. Pension expenditures in Argentina have been below 8 percent of GDP since the mid 1990s. The introduction of *Jefes* in 2002 and *Familias* and *Seguro* later on had a small impact, as their consolidated cost barely reached 1 percent of GDP, in 2003, to then decline to half that figure in a few years. The simulations showed that an additional 0.5 percent of GDP could yield high impacts on welfare and coverage. On the other hand, the recent reforms in the pension system created a potential fiscal pressure, which might end up crowding out other programs.
- **The 2002 crisis showed how important is to have a social protection system able to respond effectively to short term shocks.** The response to the crisis was effective, but most policies and programs were not in place and had to be designed and implemented in a hurry, resulting in unnecessary delays and problems. This experience provided an important lesson for policymakers in Argentina. Rapid response to critical situations is very difficult to implement, unless institutions, programs, and instruments are already in place, providing poverty alleviation to those in need of it, and able to scale up the programs if necessary.
- **The combination of positive trends in macroeconomic and social indicators and the consensus across society about the need to advance in structural policies has opened a window of opportunity for the social protection sector.** The strong economic growth of recent years and the effect of several policy initiatives have relaxed pressures on the sector, as fiscal restrictions relaxed and demands for urgent interventions diminished. This context, together with a growing awareness among policymakers, analysts, and the population in general about the need to advance in the implementation of long term policies is creating a rare window of opportunity for authorities to discuss, design and implement consistent reforms to address the issues of coverage, adequacy, integration and sustainability.

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