

# The World Bank

## Human Development Network



Latin America and the Caribbean Region

Contact: Alejandra Viveros (202) 473-4306  
[Aviveros@worldbank.org](mailto:Aviveros@worldbank.org)

### SOCIAL PROTECTION IN LATIN AMERICA AND THE CARIBBEAN

*“We help people help themselves in breaking the cycle of poverty, by improving their access to social protection programs and investing in human capital.”*

In Latin America and the Caribbean (LAC), the absolute number of poor barely decreased in the 1990s and income distribution remains the most unequal of any region in the developing world. (Poverty fell from 39.7 percent in 1992 to 35.8 percent in 1998, but 180 million people still lived with less than US\$2 per day in 1998 and the poorest 30 percent of the population received only 8 percent of income.)

Given that LAC’s volatility remains high, countries need to strengthen defenses against economic shocks and need to build effective safety nets to protect the poor in the event of sudden losses of income.

As part of the Human Development network, which also invests in health and education, the World Bank currently has a Social Protection (SP) portfolio of US\$730 million in 12 different LAC projects, in addition to the SP components included in adjustment loans, environmental projects and technical assistance.

LAC is the number one region regarding social protection. Between 1991 and 1999, it received US\$5.46 billion or 36 percent of the total World Bank’s SP lending.

SP total lending in LAC has increased from US\$50 million in 1990 to US\$640.6 million in 2000 –a total increase of 128 percent.

Specifically, the Social Protection sector in LAC works on:

- **Safety Nets** targeted to the poor, through cash transfers, social assistance and work-fare programs
- **Social Funds** that work as financial intermediaries to provide for investments chosen by poor communities, such as clinics or schools.

- **Pensions**, in order to improve access by the poor and guarantee the fiscal sustainability of government obligations, through adjustment lending, project lending, and technical assistance.

## **Safety Nets**

**Argentina's *Trabajar***.- The World Bank has provided US\$484 million to support Argentina's public works program, *Trabajar*, to finance small scale projects that provide temporary employment and income to poor workers and improve social and economic infrastructure in poor communities, hit by the economic recession. Since March 1996, *Trabajar* has created about 730,000 temporary jobs. About 80 percent of its beneficiaries are from the country's 20 percent poorest households. The most common projects undertaken under the program are to improve drainage and sewers, roads and urban infrastructure, build or rehabilitate classrooms, day-care, community and sports centers.

**Colombia's *Manos a la Obra***.- The World Bank approved in May, 2000 a US\$100 million loan for Colombia to support the Community Works and Employment Project, also known as *Manos a la Obra*, to help mitigate the impact of the economic crisis on the country's poorest families. It aims to create about 90,000 jobs in a small-scale infrastructure works, such as construction, repairs and expansions of schools, clinics, health facilities, roads and bridges, and community centers, benefiting indirectly some 171,000 persons.

## **Social Funds**

The Bolivian government established the first social fund in 1987, and now more than 50 countries have embraced them. Social funds serve as financial intermediaries to create investment funds to finance projects conceived by the local communities, such as clinics, the rehabilitation of schools, or even pilot programs to improve the living conditions of ethnic minorities. The World Bank has financed social funds in Belize, Argentina, Saint Lucia, Chile, Peru, Bolivia, Guatemala, Nicaragua, Honduras, Jamaica and Panama. After the devastation of Hurricane Mitch in 1998, these funds played an important role in helping rebuild both the physical and social infrastructure in Central America.

**Honduras Social Investment Fund**.- In December 2000, the World Bank approved an International Development Association US\$60 million credit to Honduras for the Fifth Social Investment Fund Project to increase access among the poor to small scale social and economic infrastructure and develop social assistance programs for disadvantaged groups. The preceding US\$22.5 Fourth Social Investment Fund Project, approved in 1998, proved instrumental following Hurricane Mitch, as it assumed the leading role in responding to communities' urgent needs for restoring access to water and sanitation systems, roads, schools and health centers. To ensure that indigenous and Afro-Honduran communities are among the main beneficiaries, the project includes a program called *Nuestras Raíces*, which aims at improving living conditions and abilities to preserve cultural values and heritage.

**Nicaragua's Social Investment Fund**.- In November 1998, the World Bank approved a US\$45 million credit to Nicaragua for the Third Social Investment Fund. Project. The Fund,

created in 1990, was originally designed to mitigate the effects of the economic stabilization program following many years of civil war. Its mandate has now grown from generating employment and providing small-scale social and economic infrastructure to playing a key role in improving the living conditions and local development opportunities among the poorest segments of the country's population. Between 1998 and 2000, the Fund has benefited about 700,000 people, financed more than 3,000 projects, mainly in the areas of education, health and water, generating an average of 16,500 jobs per year.

## **Pensions**

The World Bank's first loans with pension components supported four structural adjustment and technical assistance operations in Panama, Costa Rica, and Uruguay in the mid-1980s. Since then, there have been an additional 23 loans in the region.

**Brazil's Pension Reform.**- The World Bank has contributed US\$1.2 billion in two Social Security Special Sector Adjustment Loans (S/SECALS) to increase coverage among the poor and achieve the balance of the pension system both fiscal (when total contribution revenues match total pension benefits being paid) and actuarial (relates an individual's expected benefits to the same individual's past contributions.) By reducing imbalances, collateral inefficiencies and facilitating growth of funded pension schemes, the pension system for private sector workers will achieve fiscal balance in about 2003 with a surplus rising to almost 1 percent of GDP by 2010, instead of a deficit of 2 percent of GDP without the reform. The year 2000's US\$ 500 million Second Social Security Sector Adjustment Loan, which followed the 1999's US\$757.57 million First S/SECAL, includes a provision to protect women and rural workers in particular, through the Old Age Pension scheme.

**The Social Risk Management Surveys.**- The World Bank has initiated a region-wide research effort to identify the economic and institutional barriers that have excluded large segments of the working population and the poor from coverage under formal social security systems. The research on coverage was started with a Social Risk Management Survey (Encuesta sobre Previsión de Riesgos Sociales or PRIESO in Spanish) of 2,278 workers in Santiago, Chile in January 2000. The survey explores both institutional strategies as well as informal or traditional strategies taken by households in the face of income risks arising from the inability to work in old age, disability, work injury, and the death of income earning spouse. The results from the PRIESO in Chile are expected in the summer of 2001, and similar surveys are planned in other countries in the region that have undertaken reform of their public pension systems.

**Capacity Building in Designing Reforms of Public Pension Systems.** - The World Bank has conducted training sessions in the use of its *Pension Reform Options Simulation Toolkit* (PROST), for social security officials from Brazil, Ecuador, El Salvador, Costa Rica, Nicaragua, and Paraguay. Through this training, the Bank has equipped these countries with a state-of-the-art actuarial tool to simulate not only the fiscal impacts of pension reforms, but also their impact on equity. The PROST model is a versatile and powerful tool for quantitative analysis of reforms to public pension systems and is currently being used in over 46 countries around the world, including members of the European Central Bank

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