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# Social Protection, Poverty and Inequality

## A Comparative Perspective

Simone Cecchini

*Over the last thirty years, economic growth, job creation and poverty reduction rates in Latin America and the Caribbean (LAC) have been much lower than in East Asia. However, thanks to democratization, the end of structural adjustment policies and renewed economic growth since 2002, LAC has succeeded in reducing poverty and inequality, one of the region's seemingly intractable problems. Growing public social investment and the extension of social protection have both supported this development. Social protection measures have included innovative poverty reduction programmes, such as conditional cash transfers and non-contributory pensions for the elderly and disabled. Today, building on this progress, several LAC countries are moving towards comprehensive social protection systems, which entail the adoption of universal policies and safeguarding citizens' social and economic rights. Given the challenges that many Southeast Asian countries are still facing in this respect, it is thus worth assessing the extent to which social protection has contributed to reducing poverty and inequality in LAC.*

**Keywords:** Social protection, conditional cash transfers, poverty reduction, inequality, Latin America and the Caribbean, Southeast Asia, economic and social rights.

### I. Introduction

Latin America and the Caribbean (LAC) and East Asia and the Pacific (EAP) are worlds apart, separated by history, geography and size. EAP, with 1.97 billion inhabitants, accounts for 28 per cent of the world's population, while LAC's population (589 million) represents only 8 per cent of the total. However, in an increasingly globalized world, these two regions share many traits and partake in similar trends. For instance, they are both rapidly

increasing trade and foreign direct investment. Beyond the economic sphere, these regions have recently also had success in improving the living conditions of their populations. Policy-makers, academics and civil society representatives from the two regions similarly worry about the persistence of problems such as poverty, inequality and social exclusion.

This paper aims to share the Latin American and Caribbean experience with poverty and

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inequality reduction, focusing in particular on the social protection measures that have sustained this process. The results obtained in reversing a trend of growing income inequality and the policy of reaching out to millions of poor and extremely poor people via public cash transfers and social services may prove relevant to Southeast Asian countries. There, apprehension with respect to inequality, social exclusion and the need to share more fairly the fruits of economic growth is increasing (ADB 2012; ESCAP 2013; Cook and Pincus, this issue).

This is an exceptional moment for LAC. Today, the region is governed by democratic political regimes to an extent unprecedented in its history, and the playing out of democratic life has placed renewed emphasis on economic and social rights in policy-making. This has led to a substantial rise in public social expenditure — with the implementation of cash transfers to the poor, progress on the right to healthcare, greater universal social security with solidarity components, and a greater focus on gender, ethnic, cultural, territorial and age-related inequalities (ECLAC 2010a, pp. 38–39).

In this paper, social protection is conceived as comprising three components: contributory social protection (generally known as social security); non-contributory social protection (generally known as social assistance); and labour market regulation, which deals with the protection of the individual and collective rights of workers, highlighting the need to promote decent work (Cecchini and Martínez 2012). Accordingly, social protection seeks to: ensure an adequate level of household income; foster decent work; and identify unmet demand for social services.<sup>1</sup>

In the sections that follow, this paper compares the economic and social performance of the LAC and EAP regions (section II), reveals contrasting trends in inequality (section II.1), and analyses the main factors behind the reduction in poverty and inequality in LAC (section II.2). It then analyses the main features of social protection systems in LAC countries (section III). Subsequently, it discusses non-contributory social protection (section IV) and summarizes findings on the impact

of non-contributory social protection programmes, especially conditional cash transfers, on poverty and inequality (section V). Finally, it concludes with a call for rights-based social protection policies to promote equality.

## **II. Economic and Social Performance in Latin America and the Caribbean and East Asia and the Pacific over the Last Thirty Years<sup>2</sup>**

Over the last thirty years, EAP has consistently performed better than LAC in terms of economic growth and poverty reduction. Although both regions have experienced great volatility in their economic growth rates, gross national income (GNI) growth over the last three decades has been consistently higher in EAP. Between 1980 and 2011, GNI grew at an annual average rate of 8.4 per cent in EAP, while in LAC it only grew at 2.8 per cent. At present, growth continues to be higher in EAP than in LAC, but the gap is smaller and growth in both regions has decelerated recently, reflecting global trends.

The growth differential between the two regions is even wider in per capita than in absolute terms. Over the last thirty years, average annual population growth was higher in LAC (1.7 per cent) than in EAP (1.2 per cent). Thus, from 1980 to 2011, GNI per capita grew at an average rate of 7.1 per cent per annum in EAP and 1.2 per cent in LAC. During this period, both regions consistently reduced their dependency ratios — the percentage of people younger than fifteen or older than sixty-four over the working-age population — and the demographic bonus survives to the present. EAP reduced dependency ratios from 71.7 per cent in 1980 to 41.4 per cent in 2011, and LAC from 78.9 per cent to 53.1 per cent over the same period. In 2011, the total fertility rate was 1.8 children per woman in EAP (a rate that has fallen below the replacement rate since 1998) and 2.2 children per woman in LAC.

Growth volatility has been affected by the frequency of economic crises in the two regions, with more serious and long-term consequences in LAC. During the 1980s — the so called “lost decade” — rates of per capita economic growth

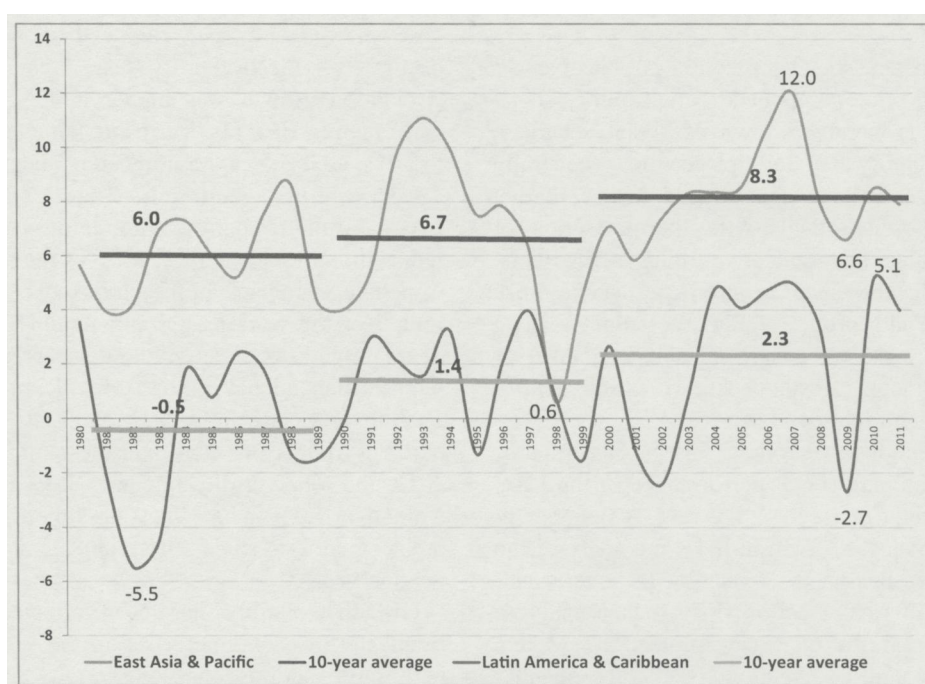
in LAC were negative. It took the region fourteen years to return to the pre-1982 debt crisis levels of income per capita and twenty-five years to return to the pre-crisis levels of poverty (ECLAC 2010b). While EAP as a whole did not experience negative per capita growth rates in the aftermath of the 1997–98 Asian Financial Crisis (AFC) (see Figure 1), hard-hit countries in Southeast Asia like Indonesia (–16.9 per cent of GNI per capita in 1998), Malaysia (–9.8 per cent) and Thailand (–12.3 per cent) were severely affected.

Looking at more recent events, we can observe that growth in both regions slowed as a result of the 2008–09 Global Financial Crisis (GFC). However, the effect was less severe in EAP, with a deceleration of GNI per capita growth to 6.6 per cent, while LAC experienced a negative rate of growth (–2.7 per cent). Nevertheless, LAC entered the GFC in a stronger position with regard to

fiscal, economic and social policy than in the case of previous crises (see section IV). LAC countries were able to put in place counter-cyclical policies that reduced the impact of the crisis in terms of unemployment, poverty and inequality, and successfully jump-started growth. Consequently, GNI per capita grew by 5.1 per cent in 2010, the highest rate in thirty years (see Figure 1).

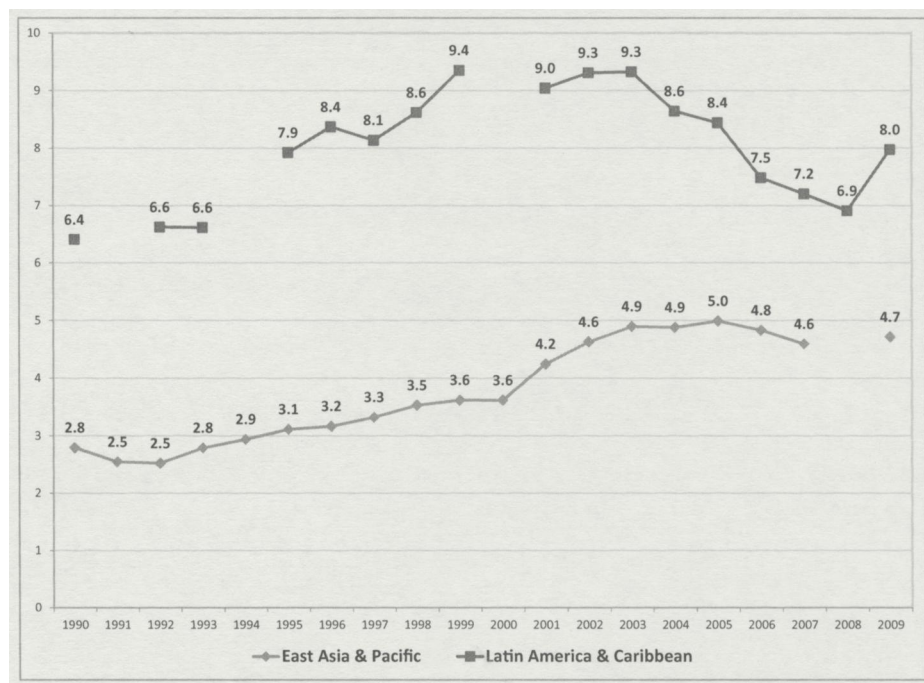
LAC also displays systematically higher rates of unemployment than EAP. Unemployment in LAC stood at 8 per cent of the economically active population in 2009 compared to 4.7 per cent in EAP (see Figure 2). Furthermore, in 2011, EAP had an employment-to-population ratio of 69.8 per cent, higher than LAC's 61.8 per cent. East Asian countries have been more successful at creating jobs and have sustained higher labour participation rates, especially among women. In 2011, EAP's labour participation rate (73 per

FIGURE 1  
Gross National Income Per Capita, Annual Rate of Growth, 1980–2011



SOURCE: Prepared by the author, on the basis of the World Development Indicators.

FIGURE 2  
Unemployment Rate, 1990–2009



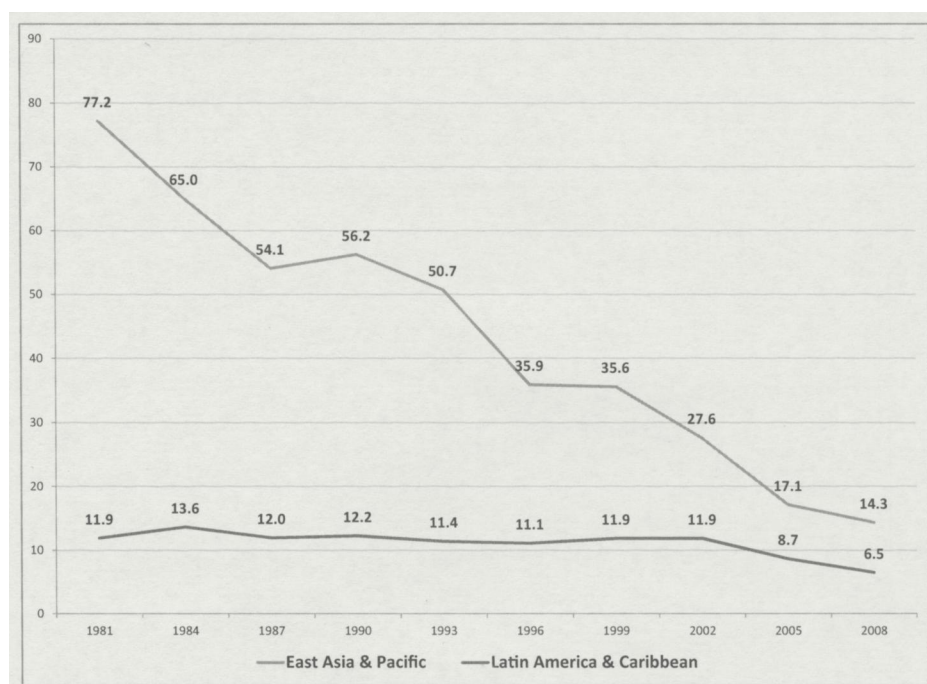
SOURCE: Prepared by the author, on the basis of the World Development Indicators.

cent) was 6.5 percentage points higher than in LAC (66.5 per cent), but the differential between female labour participation rates between EAP (65.1 per cent) and LAC (53.6 per cent) was 11.5 percentage points. However, it is encouraging to observe that female labour participation rates in LAC have been increasing since the late 1990s, with important effects on poverty reduction (see section II.2).

As a consequence of its impressive rates of labour-intensive economic growth, EAP succeeded in reducing extreme poverty at an average annual rate of –3 per cent between 1981 and 2008, bringing down the percentage of the population living on less than US\$1.25 PPP (purchasing power parity) a day from 77.2 per cent to 14.3 per cent. At the same time, LAC brought down extreme poverty from 11.9 per cent of the population in 1981 to

6.5 per cent in 2008, at an annual average rate of –1.7 per cent. As a result, in 2008, the poverty rate in the EAP region was only 2.2 times higher than that in the LAC region, while in 1981 this ratio stood at 6.5 (see Figure 3). With respect to the other international threshold for measuring poverty (US\$2 PPP a day), we observe similar trends. In 1981, poverty was almost universal in EAP (reaching 92.4 per cent of the population), but in 2008 only a third of the population (33.2 per cent) lived on less than US\$2 PPP a day.<sup>3</sup> During the same period, LAC succeeded in halving poverty, which decreased from 23.8 per cent of the population in 1981 to 12.4 per cent in 2008. However, rates of extreme poverty and poverty are higher for specific groups of the population in LAC, such as those living in rural areas, children, women and indigenous peoples.

FIGURE 3  
Extreme Poverty Headcount, US\$1.25 PPP a day line, 1981–2008



SOURCE: Prepared by the author, on the basis of the World Development Indicators.

### *II.1 Inequality in Latin America and the Caribbean: The World's Highest, but Declining*

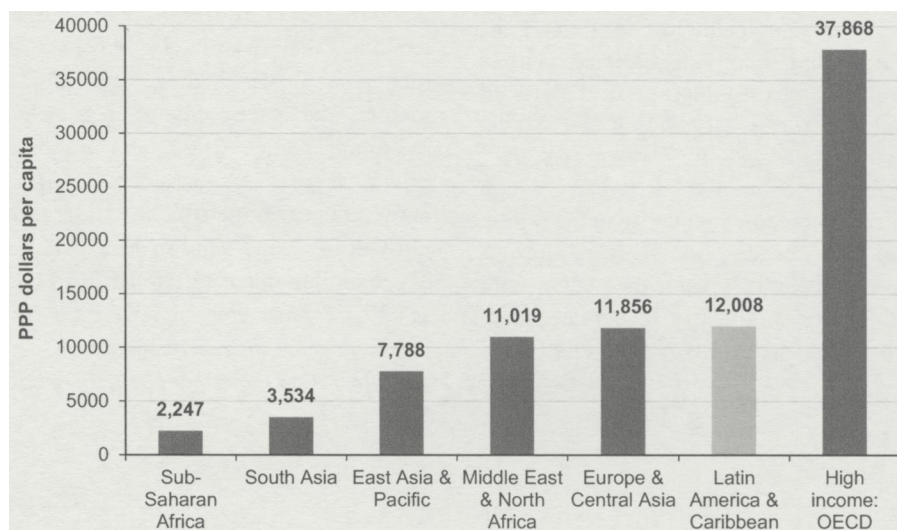
LAC, with a per capita income of US\$12,008 in 2012 (in PPP terms), can be considered the “middle class” of the world, as its population is about five times richer than that of Sub-Saharan Africa, the poorest region in the world, and three times poorer than the Organization for Economic Co-operation and Development (OECD) countries (see Figure 4). At the country level, income per capita ranges from a low of US\$1,171 in Haiti to a high of US\$25,073 PPP in Trinidad and Tobago. In comparison, the developing countries of EAP have a lower per capita income (US\$7,266 PPP). At the country level, income per capita in developing EAP countries ranges from a low of US\$2,230 in Cambodia to a high of US\$15,650 PPP in Malaysia.<sup>4</sup>

In LAC, great income disparities exist not only between countries, but also within them: the poorest quintile of the income distribution in LAC countries receives, on average, only 2.9 per cent of income. LAC is also the most unequal region in the world in terms of income distribution: the average Gini stands at 0.501 (see Figure 5). In comparison, the average Gini coefficient for EAP countries is only 0.415 and that of the rich OECD countries is 0.306.

However, recent years have seen a reversal of this long-standing pattern. Between 2002 and 2011, income inequality fell in fifteen out of eighteen Latin American countries; in nine of them the Gini coefficient fell by at least 1 per cent per year. These improvements in distribution took place in a context of rising average income for virtually all population groups, but the decrease in inequality means that income for the wealthiest



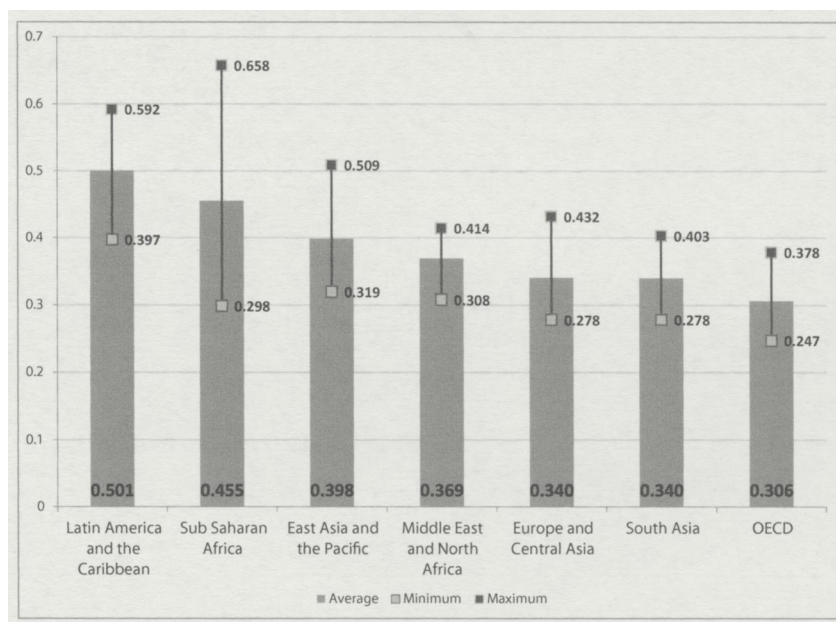
**FIGURE 4**  
Gross Domestic Product Per Capita (in US\$PPP), by World Regions and Groupings, 2012



NOTE: Data for Middle East and North Africa corresponds to 2011.

SOURCE: Prepared by the author, on the basis of the World Development Indicators.

**FIGURE 5**  
Gini Coefficient, by World Regions and Groupings, 2011



SOURCE: Prepared by the author, on the basis of the: ECLAC database; OECD Income Distribution and Poverty database; and World Development Indicators.

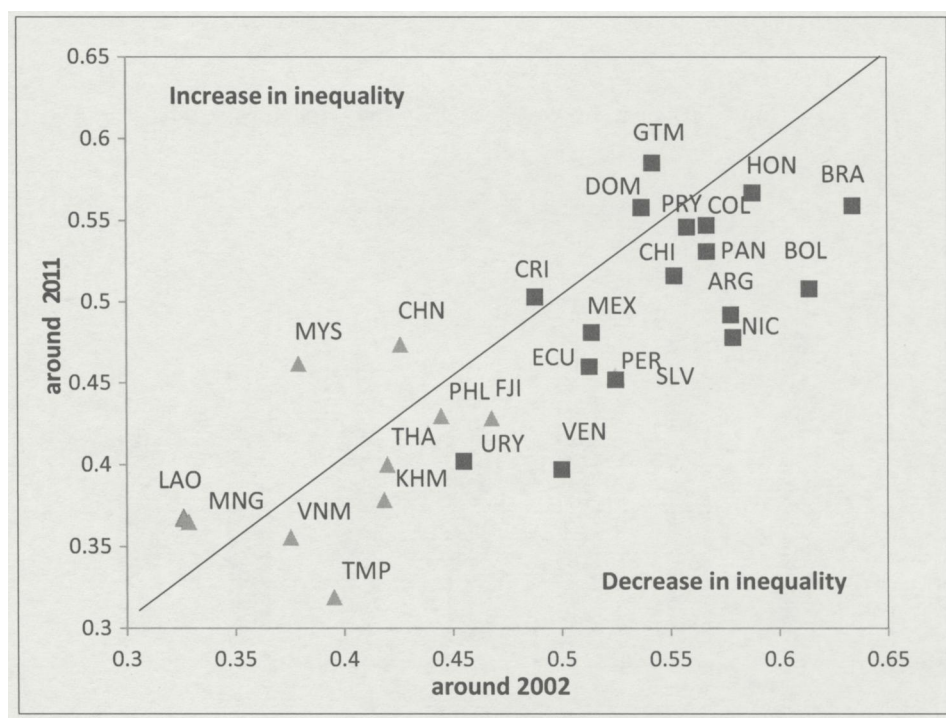
grew more slowly than income for those who earn less (ECLAC 2013b).

In comparison, data for EAP countries show an increase in income inequality in four (Laos and Malaysia among them) out of ten countries over the same period (see Figure 6). This is in line with findings from the Economic and Social Commission for Asia and the Pacific (ESCAP) and the Asian Development Bank (ADB), which highlight the rise in income inequality in the region over the past two decades. In OECD countries, the trend has also been of greater inequality, with the Gini coefficient rising nearly 10 per cent from 0.29 in the mid-1980s to 0.316 in the late 2000s (OECD 2011).

## II.2 Factors Explaining the Reduction of Poverty and Inequality in LAC over the Last Decade

A combination of recent and long-term factors explains the decline in poverty and income inequality in LAC since 2002. Among recent factors, the pace of job creation is the most important. Since 2002, the region's GNI has grown at an average rate of 4.5 per cent, well above the average for the last three decades. Growth has gone hand in hand with job creation. The unemployment rate fell from 11.1 per cent in 2002 to 6.4 per cent in 2012, and many workers found jobs in formal occupations. This contrasts with the Asian experience, where decline in formal

FIGURE 6  
Gini Coefficient, LAC and EAP Countries, Around 2002 and 2011



NOTE: The Gini coefficients for LAC countries are calculated on the basis of the per capita income distribution of the population.

SOURCE: Prepared by the author, on the basis of the ECLAC database and the World Development Indicators.



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employment and the rise in vulnerable employment are contributing to growing inequality through the falling shares of wages to GDP (ESCAP 2013).

Workers also experienced significant increases in real labour incomes, boosted by lower rates of inflation. Indeed, ECLAC (2013*b*) found that labour income was the most influential factor in the variation of income for poor households, accounting for half or more of the change in per capita income. Labour income rose mainly because of an increase in pay received by employed persons, followed by an increase in the percentage of employed persons in each household. Public and private transfers also contributed to the increase in the incomes of poor households, albeit to a lesser degree.

Higher taxes and social investment have also reduced poverty. Having left behind the structural adjustment policies of the 1980s and 1990s, governments in LAC are playing a more active role and have succeeded in increasing tax revenues and social investment. Tax revenues in LAC are still low for the region's level of development and the tax structure is still skewed towards consumption and other indirect taxes, which are regressive compared to direct taxes. Furthermore, non-compliance is high. However, over the last decade, most countries in the region witnessed a substantial increase in tax revenues as a percentage of GDP, together with far-reaching structural changes, including consolidation of the value added tax (VAT) and a significant improvement in the share of direct taxes in total tax receipts. The tax burden in the region thus increased from 12.7 per cent in 2000 to 15.7 per cent of GDP in 2011 (ECLAC 2013*a*). In comparison, developing Asian economies have the lowest tax burden of any developing region in the world (Park 2012) and tax-to-GDP ratios have been stagnating over the last decade (ESCAP 2013).

Greater availability of public resources and a focus on social policies have increased LAC's social investment from an average of 15.2 per cent of GDP in 2000–01 to 19.2 per cent in 2010–11. The largest social spending increases have taken place in social security and welfare followed by education, where additional funds were directed to

primary education in the poorest countries and to secondary education in the rest (ECLAC 2013*b*). Social protection programmes, especially those of a non-contributory nature such as conditional cash transfers (CCTs) and social pensions, have had a statistically significant impact on poverty and inequality (see section V) (Cruces and Gasparini 2012).

In addition to enhanced fiscal capacity, LAC governments have made more effective use of counter-cyclical macroeconomic policies. In the face of the GFC, LAC countries adopted a broad range of measures to avoid the previous pattern of pro-cyclical spending cuts in the face of slowing economic growth (ECLAC 2012).

Long-term changes also played an important role. As in East and Southeast Asia, LAC countries have similarly benefited from a drop in the demographic dependency ratio — lower dependency ratios imply that the burden of meeting the income needs of children and the elderly is lighter for each working age person. This “demographic bonus” enables households to increase per capita incomes (Cecchini and Uthoff 2008). Furthermore, households in the region have also experienced an increase in incomes due to higher labour participation rates by women. Both phenomena also occurred in lower income households. Another important long-term trend was a gradual improvement in access to education, health, nutrition and basic services. However, great disparities continue to exist with respect to access and quality of service depending on race, ethnic origin, gender and social class (ECLAC 2010).

### **III. LAC Countries Are Strengthening Their Social Protection Systems**

While labour income has been the main driver behind the reduction of poverty and inequality in LAC, the strengthening of social protection systems has proved particularly important in guaranteeing incomes that make it possible to sustain a basic quality of life and in ensuring basic rights to food, health, education and housing. Although Table 1 shows that dramatic coverage gaps still exist in LAC with respect to pensions and unemployment

TABLE 1  
Public Social Security Expenditure and Coverage, LAC and ASEAN, Latest Available Year

<i>Indicator</i>	<i>Latin America and the Caribbean</i>	<i>ASEAN</i>
Public social security expenditure (percentage of GDP)	9.8	3.4
Active contributors to a pension scheme (percentage of working-age population)	36.6	24.6
Population in receipt of a pension (percentage of population above legal retirement age)	50.3	23.3
Population receiving unemployment benefits (percentage of unemployed)	9.8	3.4

NOTE: Regional averages weighted by population.

SOURCE: Prepared by the author, on the basis of the ILO World Social Security Report 2010/11.

insurance, the LAC indicators fare better than those for ASEAN countries.

In order to finance social protection, LAC countries mostly use taxes and contributions by employees and employers. When social protection systems do not meet the needs of the population, as is often the case, families have to pay to access social services such as health, either by direct payments (“out-of-pocket expenditures”) or by purchasing insurance. In the poorest countries, social protection is also supported by international cooperation agencies and international financial institutions.

Given the great social, economic and political differences that exist among LAC countries — a heterogeneous panorama shared with Southeast Asia — we do not observe today a single model of social protection. This diversity reflects different historical processes as well as contrasting views about the role of the state in ensuring access to social protection. However, it is possible to identify common characteristics of recent social protection policies in LAC:

- Recognition of the importance of reducing inequalities and realizing social, economic and cultural rights.

- Recognition of the role of the state in correcting market asymmetries. Democratic governments have broken with the idea of social protection as a residual intervention designed to offset sudden drops in income, and have intervened in correcting asymmetries in social protection, by building public non-contributory pillars in pensions and health.
- Increase of social investment and its maintenance at times of economic crises.
- Adoption of comprehensive poverty reduction policies, associated with the strengthening of human capacities and the implementation of direct cash transfers.
- Focus on different policy subjects, beyond the male-breadwinner model, and consideration of disparities based on gender, age and ethnicity.

### *III.1 Historical Overview of Social Protection in LAC*

Historically, LAC countries have regarded Europe as a source of inspiration in terms of social protection policies and — even though their socio-economic conditions were very different with respect to urbanization, industrialization and the consolidation of formal labour markets — imported

the Bismarckian model of social security from Europe (Tokman 2006; Filgueira 2007). Today it is thus particularly striking to see that many LAC countries are taking steps to strengthen their social protection systems even as the welfare state in Europe has entered a long phase of “retrenchment” (Nullmeier and Kaufmann 2010).

In the case of East Asia, many scholars contend that the welfare state was sacrificed for the sake of rapid industrialization and aggregate growth, as well as for a reality of weak unions and a preference for the market and family-based social provision. This “productivist” welfare regime has meant that the state has tended to play a much smaller and leaner fiscal role in providing and financing social protection compared to Latin America (Hort and Kuhnle 2000; Peng and Wong 2010). However,

others view the trajectory of social protection in East Asia after World War II — with respect to its welfare outcomes — more favourably, especially when compared to Latin America (Wood and Gough 2006).

Social protection policies currently in place in LAC represent a true epochal change compared to the structural adjustment policies adopted in the region after the 1982 debt crisis. In the 1980s and 1990s, social security underwent great transformations. In order to face the fiscal sustainability problems of pensions based on a pay-as-you-go (PAYG) model, individual capitalization systems were created, assuming that the formal labour market and labour stability would allow workers to raise sufficient funds for a decent retirement and financing of health

TABLE 2  
Approaches to Social Protection in Latin America and the Caribbean, around 2009

<i>Approach</i>	<i>Main Characteristics</i>	<i>Countries</i>
1. Assistance and access to social promotion	Non-contributory social protection targeted to the poor (CCT programmes)	Ecuador, Guatemala, Honduras, Jamaica, Paraguay, Peru, Dominican Rep., Trinidad and Tobago
2. Intermediate between assistance and access to social promotion and social guarantees	Non-contributory social protection targeted to the poor (CCT programmes) Beyond CCTs, include other non-contributory social protection policies (targeted and universal, pensions and health) and attempt to progressively link different components	Plurinational State of Bolivia, Colombia, El Salvador, Mexico and Panama
3. Social guarantees	Include various transfers and services as part of non-contributory social protection; Growing linkages between contributory and non-contributory social protection policies; Attempt to create comprehensive social protection systems	Argentina, Brazil, Chile, Costa Rica and Uruguay

SOURCE: Cecchini and Martínez (2012).

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insurance for themselves and their families. By 2003, twelve countries had introduced structural reforms to their pension systems and in 2002, 56 million workers — about a third of the region's labour force — were affiliated to private pension systems (Mesa-Lago 2004).

However, the basic premise of embedding social protection in a formal labour market that was expected to expand steadily is a promise that has been largely unfulfilled in LAC. Labour markets failed to become a gateway to universal social protection. Today, only about half the working population is integrated into the formal labour market and has some kind of contributory social protection (Cecchini and Martinez 2012).

Given the limitations of contributory social protection, non-contributory social protection has expanded in recent years and has become a central component of welfare systems in the region. This facilitates the inclusion of families with adults working in the informal sector, children, older persons and persons with disabilities. Non-contributory social programmes are also good at reaching women, many of whom work in the informal sector, in the unpaid care economy, or do not have a continuity of contributions in the formal sector because of childbirth.

Most non-contributory programmes are targeted, although this is not seen as an end in itself, but rather as a means towards universalization. This notion of moving incrementally can be observed in countries like Chile, where the new solidarity-based pension system has almost doubled the number of beneficiaries between 2008 (560,000) and 2012 (1.1 million) or Brazil, with the expansion of the CCT programme, Bolsa Família, which grew from 3.6 million families in 2003 to 13.8 million in 2012.

### *III.2 Rights-based Social Protection*

With the return to democracy, several Latin American countries made significant progress on the legal and constitutional recognition of social rights. However, this recognition should neither be construed as synonymous with the implementation of rights-based policies, nor as a guarantee of their

immediate incorporation. For example, Brazil's 1988 Constitution enshrined a normative vision of social protection and its components (Sposati 2009; De Castro and Ribeiro 2003), which defined growing state responsibility for financing the system and postulated universal coverage of social services (Guimarães de Castro 2006). However, this constitutional recognition did not translate into concrete policies in the 1990s (Sposati 2009; De Castro and Ribeiro 2003). Similarly, even though Colombia's 1991 Constitution safeguards rights to social security and assistance, analysis has revealed significant gaps among the different groups of beneficiaries (Mesa-Lago 2009). Secondly, the integration of a rights-based approach to social protection policies in the region has not necessarily resulted in the formal expression of social guarantees for the various components. While there are exemplary cases, such as Chile, with its universal access to health care with explicit guarantees, the incorporation of such proposals into a rights-based approach to social policy and its extension to social protection for all citizens is still a slow process.

The minimum legal protection requirements that states are obliged to meet are defined by the international system of human rights. With respect to social protection, the ILO Social Security Convention 102 of 1952 establishes minimum standards for social security benefits — from medical care to unemployment insurance — and conditions of entitlement to them, which can be determined in accordance with countries' wage levels. To date, only eight countries in LAC have ratified Convention 102, but many more have statutory programmes: in thirty-three LAC countries, an average of 6.4 out of eight branches are covered.<sup>5</sup> In contrast, the situation in East Asia is more critical, as only Japan has ratified Convention 102. Furthermore, EAP countries have more limited statutory social security coverage than LAC countries: in nineteen developing EAP countries, only five out of eight branches are covered by at least one programme (family allowances and unemployment insurance being the weakest areas). In Southeast Asia, Thailand and Vietnam are exceptions, having what the International Labour Organization (ILO) deems,

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respectively, a “comprehensive” and “semi-comprehensive” social security statutory coverage (see Appendix A).

#### **IV. Non-contributory Social Protection**

In LAC, the coverage of contributory social protection — connected to the growth of formal and salaried occupations — has increased at a very slow pace: the percentage of workers covered by social security has increased from 52.4 per cent in 1990 to 53.2 per cent in 2009. In contrast, non-contributory social protection has grown steadily. The percentage of the population participating in CCT programmes has increased from 5.7 per cent in 2000 to 21.1 per cent in 2012; and investment in CCTs has increased from 0.19 per cent of GDP in 2000 to 0.36 per cent of GDP in 2011. Coverage of social pensions has also increased.

However, in most LAC countries, contributory and non-contributory social protection are not integrated as part of a comprehensive system and thus many informal workers — as is the case in Southeast Asia — continue to be excluded from both pillars. As a consequence, in 2009, 36 per cent of households in the region were neither covered by the traditional type of employment-based social security system nor did they receive public welfare transfers (ECLAC 2012).

CCT programmes are a well-known Latin American innovation. They were linked to the idea of improving the living conditions of the poorest families by means of short-term income transfers and long-term strengthening of the human capital of children. CCT programmes stand out within the set of non-contributory social protection strategies as they perform the strategic role of being access points to the social protection system for vulnerable groups. Today these programmes are present in twenty LAC countries. In 2012, they covered 127 million people or 77 per cent of the population living below the poverty line.<sup>6</sup> The impact on poverty and inequality varies widely between countries, and depends on the programmes’ coverage, the quality of targeting mechanisms and the amount of transfers (see section V). Since the mid-2000s, CCTs have

also been adopted in some Southeast Asian countries, such as Cambodia, Indonesia and the Philippines. In Indonesia, the Program Keluarga Harapan (PKH) covered about 1.5 million or 2.5 per cent of the country’s total households in 2012 (Nazara and Rahayu 2013). In the same year, in the Philippines, the Pantawid Pamilyang Pilipino Program (4P) covered 3 million or 15 per cent of the country’s total households (Chaudhury, Friedman and Onishi 2013).

Social pensions seeking to prevent poverty in old age are another important form of non-contributory social protection that has been adopted in twelve LAC countries. Today, social pensions cover about 18 million elderly or disabled Latin Americans — about 41 per cent of the population aged sixty-five and above — at a cost of about 0.37 per cent of regional GDP (ECLAC n.d.). In Southeast Asia, six countries have adopted social pensions for the elderly: Indonesia, Malaysia, the Philippines, Thailand, Timor-Leste and Vietnam, covering a total of approximately 6.9 million older adults (Pension Watch n.d.).<sup>7</sup>

#### **V. The Impact of Non-Contributory Social Protection Programmes<sup>8</sup>**

Depending on their level of coverage, benefits and effectiveness, CCTs have significant and positive impacts on “intermediate” human capacity indicators (such as improved access to schools and health services) and on some “final” human capacity indicators (evidence is mixed with respect to child nutrition or learning). CCTs and social pensions also have an impact on poverty indicators such as the poverty gap and severity, and depending on coverage of the poor and scale of benefits, on the incidence of poverty and on income inequality.

##### *V.1 Impact of CCTs on Human Capacities*

The basic common structure of CCTs consists of transferring monetary and non-monetary resources to families living in poverty or extreme poverty, who have one or more school-age children, on the condition that they fulfil certain commitments

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aimed at enhancing their human capacities. The commitments required by CCTs mainly relate to education, health and nutrition. For example, the children of beneficiaries must attend school or fulfil preventive health actions in health centres.

With respect to education, the effects of CCTs are usually concentrated in increases in school enrolment and assistance. The increases tend to be greater in countries where the base levels are lower, in transitional school grades with high dropout rates (such as from primary to secondary school) and in the poorest households and locations. Impact evaluation studies provide scant information on child learning.

Alan de Brauw and John Hoddinott (2008) report that the educational component of the Mexican CCT programme, Oportunidades (previously known as Progresá), generated a significant difference in the probability of attending school. In addition, Oportunidades has practically eliminated the gender gap in secondary school enrolment, especially in rural areas. It also has had a positive impact on enrolment and grade promotion rates for indigenous children. Similarly, school attendance increased as a consequence of the implementation of CCTs in Cambodia, Colombia, the Dominican Republic, Jamaica, Paraguay and the Philippines. In Indonesia, an impact evaluation did not show significant differences in educational status between children who participated in the PKH and those who did not, possibly because enrolment and participation rates in elementary schools are quite high, at more than 95 per cent (Nazara and Rahayu 2013).

As for the health and nutrition components of CCTs, increased coverage is generally observed for child growth monitoring, vaccinations and preventive medical tests. Evidence about the impact on children's health and nutritional status is more uneven.

Impact evaluations from Brazil, Indonesia and Peru suggest that children participating in CCTs are more likely to get vaccinations (de Brauw et al. 2012; Nazara and Rahayu 2013; Perova and Vakis 2009; Sánchez and Jaramillo 2012). In the Philippines and El Salvador, however, this did not happen, most probably because of

a lack of supply at health centres (IFPRI 2010; Chaudhury, Friedman and Onishi 2013). In the Philippines, child growth monitoring increased by 15 percentage points (Chaudhury, Friedman and Onishi 2013), while it increased by 5 percentage points in Indonesia (Nazara and Rahayu 2013).

In El Salvador, the CCT Comunidades Solidarias (previously known as Red Solidaria) succeeded in significantly increasing the percentage of births attended by skilled personnel (16.5 percentage points), as well as the percentage of births in a health facility (17 percentage points) between 2006 and 2007 (de Brauw and Peterman 2011). The explicit health conditionality of this CCT is attending pre-natal controls, rather than giving birth in a health facility or with skilled personnel. Thus, as highlighted by de Brauw and Peterman (2011), the impact pathway is not immediately obvious, and it may depend on a combination of the income effect, the effect of other conditionalities, women's participation in health training, supply-side improvements and gains in women's decision making.

CCT programmes do not have conditions tied to the nutritional status of children, but sometimes include specific benefits to improve child nutrition, such as training and health counselling for parents. Programmes that include nutritional benefits, such as Oportunidades, Families in Action and Bolsa Família have resulted in improved nutritional indicators for pre-school children. In the Philippines, 4P lowered the rate of severe stunting among poor children six to thirty-six months old by 10.1 percentage points (Chaudhury, Friedman and Onishi 2013). However, Tekoporá in Paraguay and the Family Allowance Programme (PRAF) in Honduras show no such positive effects.

With respect to the impact on child illnesses, reduced prevalence of diarrhoea and of acute respiratory diseases have been found for children participating in Families in Action. In Mexico, the Secretariat of Social Development observed a significant fall in the number of sick days for children participating in Oportunidades (SEDESOL 2008), while an evaluation by Lia Fernald, Paul Gertler and Lynnette Neufeld did not find a



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significant decrease in children's illness rates as a result of the implementation of Oportunidades (Fernald, Gertler and Neufeld 2008).

It should thus be borne in mind that it is not easy to measure the impact of CCTs on outcomes over which they only have an indirect effect. For instance, when CCTs are credited with nutritional improvements thanks to the increased intake of nutritious food, it is worth asking whether the characteristics of CCTs alone are responsible for increased consumption of these foods or if national food and nutrition policies play a role in this result. CCTs should thus be considered within the wider context of each country's social policy, and more specifically as part of actions aimed at laying the foundations for an inclusive and comprehensive social protection system to achieve combined effects on human capacities.

## *V.2 Impact on Income Poverty and Inequality*

The impact of CCTs on the incomes of recipient families can be substantial, although this varies from one programme to another. According to ECLAC (2010*b*), conditional transfers and other public welfare transfers represent an average of 10.3 per cent of the per capita income of recipient households. Furthermore, this type of monetary benefit may double pre-transfer income in the first decile of income distribution.

One way of appreciating the potential impact of CCTs on household incomes is to measure the percentage represented by cash transfers in comparison with the extreme poverty line in each country. Information collected for a total of fourteen LAC countries shows that, in rural areas, transfers average 12 per cent of the extreme poverty line, while in urban areas they are equivalent to 11 per cent. Analysing the maximum amount of cash transfers that can be received by families participating in CCTs according to the programmes' rules of operation, the regional average for rural areas is for transfers (in monthly per capita terms) to represent 35 per cent of the extreme poverty line, while in urban areas the figure is 29 per cent. In Brazil, the maximum amount of all transfers represents 53 per cent of

the rural extreme poverty line, and in Mexico it represents 63 per cent of that line.

A second and more precise way of evaluating the potential impact of CCTs on the income of extremely poor families is to compare transfers to the monthly resource deficit of the population, which refers to the distance between the incomes generated by these families and the poverty or extreme poverty lines. As a regional average, the minimum transfer represents 28 per cent of the mean monthly resource deficit of the extremely poor population in urban areas, and 31 per cent of the deficit in rural areas. The proportion of the mean monthly deficit of those in extreme poverty covered by the maximum transfer is 81 per cent in urban areas and 98 per cent in rural areas.

Transfers from the region's two largest programmes (Bolsa Família and Oportunidades), as well as from Chile Solidario, can bring extremely poor families above the extreme poverty line. In these programmes, the maximum transfers cover more than 100 per cent of the resource deficit of the extremely poor population. At the other extreme, with a very limited impact on the income of the extremely poor population, is PRAF in Honduras. Indeed, CCT programmes have been found to work fairly well in large upper middle-income countries such as Brazil and Mexico. But this does not mean that the CCT model can be exported to all countries, especially the poorest.

In Indonesia, the PKH has been found to increase average monthly household consumption by 10 per cent (Nazara and Rahayu 2013). In the Philippines, however, beneficiary households did not increase their consumption levels, most probably because of the small size of the transfer.<sup>9</sup> Poverty rates decreased in the localities where the 4P operates, but this decrease was not significantly different from that in localities not covered by the programme (Chaudhury, Friedman and Onishi 2013).

The impact of transfers on poverty at the country level is visible mostly in indicators that lend greater weight to the lower areas of income distribution, since transfers tend to focus on the poorest groups. Transfers do not always, however, represent a large amount, so they can raise the

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recipients' status closer to the poverty line without necessarily exceeding it. Information on the positive impacts of CCT programmes on poverty at the national level comes from countries where the programmes have considerable scope and effectiveness, and the amounts of the transfers are significant. In countries where the coverage and amounts are lower, there is no major impact on poverty. In the case of Honduras, Rafael Guerreiro Osório (2008) concludes that the modest amount of the transfers under the PRAF has led to a decline in poverty by only 0.02 per centage points.

In terms of the impact of non-contributory social protection on income distribution, results vary from country to country. The effect is small in the case of Chile Solidario, as the Gini coefficient dropped by a mere 0.1 points. In Oportunidades and Bolsa Família, in contrast, the results are more significant, with a reduction in inequality by around 2.7 points in both cases. The key to understanding the difference lies in the proportion of total income represented by the transfers; this is higher in Mexico and Brazil, and too small to impact inequality in the case of Chile (representing less than 0.01 per cent of total family income) (Soares et al. 2007). More recently, Lustig et al. (2012) found that direct transfers — including CCTs and social pensions — have reduced the Gini coefficient for six Latin American countries by 2 per cent (Bolivia and Peru) to 8.5 per cent (Argentina).

It is also vital to take account of the sustainability of poverty and inequality-reduction effects over time (Bastagli 2009). To assess whether the impact of CCTs is sustainable, it is not enough to measure the proportion of total family income represented by transfers and to analyse the extent to which this brings people above extreme poverty/poverty lines or enables them to maintain basic income levels in times of crisis. For programmes to have an impact on poverty, the timeframe during which transfers are provided must also be considered, because guaranteeing them beyond the short term will place recipient families in a better position to invest in children's capacities and small enterprises, and improve their economic inclusion (Hulme, Hanlon and Barrientos 2010). In particular, it is difficult

to see how the impact of CCTs on income will continue after the transfers stop if the programmes are not supplemented with others aimed at building the capacities of and enabling the autonomy of households.

## VI. Final Remarks

In concluding this paper, I argue that the social protection policy experience in LAC can represent a source of inspiration for other developing regions. Southeast Asian countries, in particular, could examine the gradual shift of social protection away from the dual approach catering mainly to two groups — those with a stable job in the formal sector and those living in extreme poverty — towards a more inclusive and rights-based model that guarantees access to social protection for all citizens.

Most of the reduction in poverty and inequality in LAC over the last decade is explained by growth and the more equitable distribution of labour income. Nonetheless, social protection policies and programmes have also played an important role, contributing to the building of fairer and more inclusive societies, and guaranteeing a minimum standard of living for all. Increased public social investment and focus on the realization of the economic and social rights of the population, together with programme innovation, inter-sectoral coordination and the modernization of beneficiary targeting and registry systems, are all part of a push to build more comprehensive social protection systems in the region.

The goal of providing universal social protection through interlinked contributory and non-contributory systems designed from a citizen-centric and inclusive perspective is a realistic one that should be pursued in developing countries, including those in Southeast Asia. At the global level, the ILO has proposed extending non-contributory social protection by adding a second level of compulsory contributory benefits and, finally, for those who need or want high levels of protection, a top level of voluntary private insurance (ILO 2009). This does not mean shelving actions and resource allocation in

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favour of the neediest; instead, this suggests that protection measures need to be rethought from a broader perspective.

Among the main challenges to building inclusive, rights-based and comprehensively managed social protection systems is creating the right conditions to ensure sufficient financial resources and stable funding sources. Countries aspiring to move decisively towards this goal will need to amass resources and manage them effectively, as well as maintain a long-term perspective in order to tackle the many challenges and difficulties they will encounter along the way. Any move towards an inclusive protection model would increase demand, and thus greater efforts will be required. This means increased fiscal investment, the injection of new resources and a more efficient use of available ones (ECLAC 2010b; Lo Vuolo 2009).

At the same time, the LAC experience shows that a comprehensive social protection system needs to be sustained by key institutional features. Institutional backgrounds, cultures and traditions have been found to play a major role in social protection reforms. This implies recognizing the need for coordination among different state institutions and sectors when designing new social policy systems. Coordination is required at the political, technical and operational level. At the political level, it is central for the sustainability of the system that the highest government authorities are committed to its development and share a clear vision concerning social policy and its role. At the technical level, those in charge of implementing programmes and projects should coordinate to overcome obstacles due to the different priorities, as well as organizational cultures of their ministries and entities. Finally, at the operational level, it is extremely important for the professionals dealing with the target population on the ground to be supported by common beneficiary selection and

information management systems in order to coordinate different programmes and benefits.

A comprehensive social protection system must also create sustainable linkages between the demand for social protection on the part of individuals, families and communities and the supply of social protection policies and programmes on the part of the state. On the supply side, social protection systems must articulate the different policy sectors (social development, labour, health, education, etc.) as well as the different administrative levels involved in their implementation. In turn, on the demand side, social protection systems need to find solutions for the different requirements of the population, in terms of their area of residence, income level, participation in the labour market and life cycle (from childhood to old age).

CCT programmes are effective instruments if they act as gateways into the social protection system and not merely as isolated and short-lived interventions. Even though beneficiaries may exit from these programmes, this should not require them to waive their right to protection. Additionally, CCT programmes should not become a kind of “Christmas tree” on which new benefits are hung mechanically, together with more and more requirements, leading to an all-encompassing but not very effective structure that tends to become independent of sectoral public policy management and of specific policy objectives.

Finally, social protection policies need to strengthen their linkages with active labour market policies. This entails actions for increasing the employability and earnings of those finding it hardest to enter the labour market and for enhancing the welfare of workers and their families, especially women, young people and groups that have traditionally been the furthest removed from formal employment, such as indigenous peoples and those living in poverty.

APPENDIX A  
Overview of Social Security Statutory Provision

Country	Number of branches covered by at least one programme			Existence of a statutory programme							
	Number of branches covered by at least one programme	Number of social security branches covered by a statutory programme / Strict definition		Sickness	Maternity	Old age	Invalidity	Survivors	Family allowance	Employment injury	Unemployment
<b>Latin America and the Caribbean</b>											
Antigua and Barbuda	5	Limited statutory provision	5 to 6	X	X	X	X	X	None	None	None
Argentina	8	Comprehensive social security	8	X	X	X	X	X	X	X	X
Bahamas	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Barbados	7	Semi-comprehensive	7	X	X	X	X	X	None	X	X
Belize	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Bolivia	7	Semi-comprehensive	7	X	X	X	X	X	X	X	▲
Brazil	8	Comprehensive social security	8	X	X	X	X	X	X	X	X
British Virgin Islands	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Chile	8	Comprehensive social security	8	X	X	X	X	X	X	X	X
Colombia	8	Comprehensive social security	8	X	X	X	X	X	X	X	X
Costa Rica	7	Semi-comprehensive	7	X	X	X	X	X	X	X	▲
Cuba	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Dominica	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Dominican Rep.	7	Semi-comprehensive	7	X	X	X	X	X	X	X	None
Ecuador	7	Semi-comprehensive	7	X	X	X	X	X	None	X	X
El Salvador	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Grenada	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Guatemala	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Guyana	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Haiti	4	Very Limited statutory provision	1 to 4	None	▲	X	X	X	None	X	None

Honduras	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Jamaica	6	Limited statutory provision	5 to 6	Δ	X	X	X	X	X	X	None
Mexico	7	Semi-comprehensive	7	X	X	X	X	X	X	X	▲
Nicaragua	7	Semi-comprehensive	7	X	X	X	X	X	X	X	None
Panama	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	▲
Paraguay	6	Limited statutory provision	5 to 6	X	X	X	X	X	▲	X	None
Peru	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	▲
Saint Kitts and Nevis	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Saint Lucia	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Saint Vincent and the Grenadines	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Trinidad and Tobago	7	Semi-comprehensive	7	X	X	X	X	X	X	X	None
Uruguay	8	Comprehensive social security	8	X	X	X	X	X	X	X	X
Venezuela, Bolivarian Rep. of	7	Semi-comprehensive	X	X	X	X	X	X	None	X	X

***East Asia and Pacific***

China	7	Semi-comprehensive	7	X	X	X	X	X	None	X	X
Fiji	4	Very limited statutory provision	1 to 4	None	None	X	X	X	None	X	None
Indonesia	4	Very limited statutory provision	1 to 4	Δ	None	X	X	X	None	X	None
Kiribati	4	Very limited statutory provision	1 to 4	None	None	X	X	X	None	X	None
Korea, Dem. Rep.	...	...	...	...	...	...	...	...	...	...	None
Lao PDR	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Malaysia	5	Limited statutory provision	5 to 6	X	...	X	X	X	None	X	None
Marshall Islands	3	Very limited statutory provision	1 to 4	Δ	Δ	X	X	X	None	None	None
Micronesia, Fed. Sts	3	Very limited statutory provision	1 to 4	None	None	X	X	X	None	None	None
Mongolia	8	Comprehensive social security	8	X	X	X	X	X	X	X	X
Myanmar	...	...	...	X	X	▲	▲	▲	None	X	None

*continued on next page*

APPENDIX A — *cont'd*

Country	Number of branches covered by at least one programme			Existence of a statutory programme							
	Number of branches covered by at least one programme	Number of social security branches covered by a statutory programme / Strict definition		Sickness	Maternity	Old age	Invalidity	Survivors	Family allowance	Employment injury	Unemployment
<b>East Asia and Pacific</b>											
Palau	3	Very limited statutory provision	1 to 4	None	None	X	X	X	None	None	None
Papua New Guinea	4	Very limited statutory provision	1 to 4	▲	None	X	X	X	None	X	None
Philippines	6	Limited statutory provision	5 to 6	X	X	X	X	X	None	X	None
Solomon Islands	5	Limited statutory provision	5 to 6	None	None	X	X	X	None	X	X
Thailand	8	Comprehensive social security	8	X	X	X	X	X	X	X	X
Timor-Leste	...	...	...	...	...	...	...	...	...	...	None
Vanuatu	3	Very limited statutory provision	1 to 4	▲	▲	X	X	X	None	None	None
Vietnam	7	Semi-comprehensive	7	X	X	X	X	X	None	X	X

NOTES:

X = One statutory programme at least; ▲ = Limited provision (e.g. labour code only); Δ = Only benefit in kind (e.g. medical benefit);

The number of branches covered by at least one programme is the sum of the social security branches that exist for that programme through national legislation in a given country. This indicator can take the value 0 to 8 according to the total number of branches covered by one or several statutory provisions. These eight branches are taken into consideration: sickness; maternity; old age; invalidity; survivors; family allowances; employment injury and unemployment. A programme or a scheme can be of several types: social insurance; social assistance; universal; employer liability; or mandatory private. The number of branches covered by at least one programme provides an overview of the scope of legislated social security provisions.

SOURCE: ILO World Social Security Report 2010/2011.

NOTES

1. Social protection is one among several areas of social policy and welfare provision and thus does not encompass the direct management or provision of education, housing or health services, as this requires sector-specific knowledge (although it can deal with improving access to these services) (Cecchini and Martínez 2012).
2. This analysis focuses on the regional level, thus leaving aside national variations. Following the World Bank's definition, the EAP region corresponds to twenty-four developing countries and therefore includes all ASEAN member states except Brunei and Singapore. The LAC region corresponds to twenty-nine developing countries.
3. However, the incidence of poverty at the US\$2 PPP a day threshold is still in excess of 40 per cent of the population in the largest Southeast Asian countries (Cambodia, Indonesia, Laos, the Philippines and Vietnam).
4. This is excluding developed countries such as Japan (with a US\$35,330 PPP per capita income) or South Korea (US\$30,370 PPP).



5. The Convention covers nine social security areas: (i) medical care; (ii) sickness benefit; (iii) unemployment benefit; (iv) old age benefit; (v) benefits for work accidents and occupational diseases; (vi) family benefit; (vii) maternity benefit; (viii) disability benefit; and (ix) survivors' benefit. Appendix A illustrates the monitoring of legal coverage in eight branches.
6. Without considering the programmes' inclusion and exclusion errors.
7. Thailand's universal non-contributory allowance for older people is one of the broader social pension schemes in Southeast Asia, covering 5.7 million people.
8. This section is mostly based on Cecchini and Madariaga (2011) and ECLAC (2011).
9. Although programme transfers are designed to be at approximately 23 per cent of household per capita income of the poor, an impact evaluation found that beneficiaries were receiving only 11 per cent of household per capita consumption (Chaudhury, Friedman and Onishi 2013).

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