



Public Spending on Social Protection in Colombia: Analysis and Proposals

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PUBLIC SPENDING ON SOCIAL PROTECTION IN COLOMBIA: ANALYSIS AND PROPOSALS*

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Abstract

This paper studies the main social programs of the Colombian public sector. Traditionally, health and education expenditure have played the lion's share both in the theoretical discussions and in the allocation of social spending in Colombia. I argue that other programs, with more indirect impact on the creation of human capital, should have full citizenship in a country at the level of development of Colombia. Even within the existing non-health and non-education social spending, the current allocation is very skewed towards programs that do not benefit the poor or often do so only marginally. In particular, pensions take up an inordinate share of social spending, and are paid almost exclusively to the top two quintiles of the distribution. This leaves very little room for other programs - mostly programs towards children and families and labor market programs. These programs, in turn, suffer from problems of their own, in particular an almost complete lack of any usable evaluation, an excessive fragmentation into many agencies and subprograms, and - an almost unavoidable consequence - lack of clarity on their goals.

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I. Introduction

Traditionally, health and education expenditure have played the lion's share both in the theoretical discussions and in the allocation of social spending in Colombia. This reflects the widespread view that social policy should be aimed at eradicating the causes of poverty, rather than its manifestations. I argue in this paper that this view has little theoretical content; more importantly, it might be responsible for an attitude that downplays all those social programs geared to the poor which do not contribute, in some way or another, to building human capital. I argue instead that these programs should have full citizenship in a country at the level of development of Colombia.

However, even within the existing non-health and non-education social spending, the current allocation is very skewed towards programs that do not benefit the poor or often do so only marginally. In particular, pensions take up an inordinate share of social spending, and are paid almost exclusively to the top two quintiles of the distribution. This leaves very little room for other programs - mostly programs towards children and families and labor market programs. These programs, in turn, suffer from problems of their own, in particular an almost complete lack of any usable evaluation, an excessive fragmentation into many agencies and subprograms, and - an almost unavoidable consequence- lack of clarity on their goals.

The structure of this paper is as follows. In the absence of a usable comprehensive theoretical framework for an analysis of social expenditure, Section II discusses the key features to be considered in assessing the Colombian social expenditure. Section III places social expenditure in the broader context of fiscal policy, discusses the evolution of poverty in the nineties, and the instruments available for targeting social expenditure. Section IV discusses at length the main social programs in the areas of pensions, families and children, and employment and unemployment. Section V concludes.

II. A Theoretical Framework for Social Spending?

What is public social spending? For expository purposes, it is useful to follow a standard classification (see e.g. World Bank (1997a)) and distinguish between social services (like education and health), social insurance (like old age and invalidity pensions and unemployment insurance), social assistance (cash transfers to the poor, family assistance benefits, maternity benefits, in kind transfers) and employment generating programs.

Most industrialized countries have built their social protection systems around social insurance, leaving social assistance to pick up the uninsured who fell through the cracks and to subsidize large families and maternal leaves. There are three reasons why Latin American countries cannot aspire to the same structure of social protection. First, Latin American countries can rely only on much smaller revenues.¹ Second, because of the widespread rates of informality and of technical problems, it is difficult to keep track of the work and contributory history of individuals; in any case, few workers would have unbroken records of contributions. Third, for many poor individuals it is simply rational to stay out of an insurance system, even if subsidized: poorer individuals have much shorter life expectancies, and they put a high premium on liquidity (see James (1999)).

¹ On average, in the early nineties general government revenues were about 20% of GDP, in OECD countries about 50%.

On the other hand, the experience of industrialized and developing countries alike has shown that universal, untargeted social assistance programs can quickly become very costly. This option too is therefore closed to Colombia.

This leaves two more options: targeted social assistance, or social service spending. So far, Colombia has clearly chosen the latter. A very popular view, in Colombia as well as in the rest of Latin America and in international organizations, is that social expenditure should eliminate the *causes* of poverty rather than its *manifestation*: in other words, it should impact on the *ability to earn* rather than merely on the *current consumption* of an individual. While, as we will see, theoretically this distinction is not entirely clear, its practical implication is clear: public education and other spending promoting human capital are a superior form of social expenditure than social assistance programs.

This view has recently found new life under the "asset approach" to poverty (See e.g. Attanasio and Szekely (1999), Birsdall and Londono (1997), and Florez et al. (1999)). When credit markets are imperfect, individuals with few assets cannot diversify properly, and remain more vulnerable to negative shocks. This, in turn, perpetuates their low asset ownership. The key policy issue is therefore the removal of market distortions that impede asset accumulation by the poor. Social assistance transfers aimed at smoothing consumption have three main problems (see e.g. Attanasio and Szekely (1999)): they are temporary, and therefore cannot have long term effects on asset stocks; they induce distortions, and they can have general equilibrium effects that damage the poor rather than benefiting them. A more productive approach is to remove those market distortions that impede a proper diversification in the first place - chiefly imperfections in credit markets; alternatively, social expenditure should be aimed at promoting directly the accumulation of human capital by spending on education and health.

At one level, it is difficult to disagree with this view. All incomes are returns to some type of assets, hence poverty must be associated with low asset ownership; the correlation between income and education is extremely high; and one can easily think of a variety of reasons why removing credit constraints could enhance the accumulation of physical and human capital.²

But removing credit constraints, if it can ever been achieved, can take a very long time; and it is also easy to think of a myriad of other market failures that will impede asset accumulation by the poor even with smoothly functioning credit markets. Most European countries have free access to education and health, large social insurance systems, and often some of the best developed credit markets in the world. Yet, they also have large social assistance systems, that pick up those individuals who are not dully insured or that, for a variety of reasons, fall through the cracks of the social insurance system.

It is also incorrect to state that temporary transfers cannot have permanent effects on asset accumulation by the poor. Precisely because individuals are credit constrained, even a temporary recession can have a permanent effect on the asset stock of the poor. In Colombia, secondary school enrollment by the poor has fallen dramatically during the current recession. Conversely, and for the same reasons, even temporary transfers can prevent these effects. This is very different from saying that policy uncertainty on the transfer will dampen its effects on asset accumulation: if for political or other reasons the transfer is in place intermittently, and with large changes in eligibility and amounts, then presumably its income smoothing properties will be diminished, and so will its positive effects on accumulation. As to the distortionary effects of transfers, it is difficult to think of

² See e.g. Galor and Zeira (1993).

any social policy, including public spending on education, that does not have a distortionary side effect.

The reality of life is that, while waiting for the removal of all barriers to asset accumulation, every society selects categories of individuals who, for a variety of reasons, it deems appropriate to provide with some form of protection against permanent negative shocks or events, and with some form of consumption smoothing. This is so even though these individuals cannot break away from their dependency or do not accumulate human capital while smoothing consumption, as in the case of the elderly poor, the disabled, and the unemployed.

In the past two decades Colombia has made great progress in education and health. It is not obvious that ever increasing spending on these two functions, and particularly on education, will achieve ever better outcomes. As the recent debate has highlighted, the problems with the Colombian education system might be less its spending per child than the way it is run. The time has come for Colombia to think seriously about setting up a permanent social assistance system. Not everything and everyone can or should be covered. What theoretical guidance is there for this choice? Very little. We do not have a coherent, practical model to guide us in evaluating the trade-offs between the many possible programs; nor do we have a usable social utility function. We must recognize that, ultimately, the set of individuals, risks and events that Colombia wants to cover will be mostly the result of a moral and political choice.

And what empirical guidance is there? Again, very little. Theoretically, the incentives and disincentives effects of each program are well known; but there is very little quantitative evaluation, and virtually no experimental evidence, on their actual magnitude, particularly for the types of programs that the typical Latin American country would consider. For many programs, even basic data on the number of beneficiaries and their characteristics are sorely lacking.

Thus, the reality is that in assessing the Colombian social expenditure system, one must do with a theoretical framework, an amount of information, and a set of feasible alternatives, that are orders of magnitude below the ideal ones, and those available in an industrialized country. In the absence of a full-fledged, comprehensive theoretical framework, here are the guidelines that I will follow.

- It is well known that, in theory, universal social assistance tends to be less distortionary (if taxes are lump-sum). But even industrialized countries are moving away from universal benefits and towards more targeted programs.³ Because of its limited fiscal resources, Colombia just does not have any alternative to targeting.
- Thus, the aim of both the social insurance system (excluding fully funded pension systems) and the social assistance system should be to protect against the risk of extreme poverty. I find it difficult to think of a social utility function that rationalizes the many programs currently aimed at the middle class or the poor, but not the very poor (except in those cases where insurmountable technical or administrative problems prevent reaching the latter).
- One of the most important developments in thinking about social spending in the last two decades has been the notion of "community involvement" in social assistance and employment generating programs. This view has been very influential in Colombia -where it has been one of the defining features of the Red de Solidaridad Social- and in other Latin American coun-

³ Among Latin American countries, Bolivia recently tried to introduce an almost universal pension, set at a very low 11% of the average wage; but it had to quickly abandon the experiment once it became evident that it was financially unsustainable.

tries. It has taken various forms: local residents should initiate and even control the implementation of certain local services (e.g. child care centers in Colombia); they should present the menu of projects for employment and housing programs; and they should help locate the beneficiaries of targeted programs. Unfortunately, a large body of evidence shows that programs relying heavily on community involvement rarely reach the very poor. The reason is simple: the very poor are exactly those that, for a variety of reasons, do not have the ability or the incentives to participate in the community initiatives. For instance, they do not have the financial means and the technical skills required to develop projects for local public employment programs; or they do not have the human capital to participate effectively in local debates and assemblies.

- How well a given amount of fiscal resources can reach this goal depends on the whole structure of fiscal policy. If public spending is concentrated mostly on the remuneration of civil servants, and on programs that benefit them and a minority of formal sector workers, there will be little left for efficient social assistance programs. This is the case, I will argue, of the current Colombian fiscal structure. Thus, social spending has to be evaluated in the broader context of the entire fiscal policy of the government.
- Because the effective use of limited resources, four key factors in assessing a social assistance program will be:
 - its distributional incidence: other things equal, the same objective in terms of poverty reduction and income smoothing can be achieved with less fiscal resources if the program is targeted to the poor.⁴
 - its overlap with other programs in terms of individuals and risks covered
 - its organizational simplicity: many good programs on paper are unmanageable by local governments or agencies with limited organizational resources or information
 - sustainability: the long run costs of a program, when it reaches full membership, may be much higher than the initial costs. An underestimate or neglect of the steady-state costs seem to be the cause of the failure of several well-intentioned programs in Colombia.
- There remains the key question of the disincentive effects of social programs. The fact that we know very little on them should not imply that they should be dismissed lightly. Several industrialized countries, pioneered by the United States and the United Kingdom, have recently moved towards systems of phased tax credit for individuals who get off social assistance, thus mitigating the distortionary effects of these programs. Unfortunately, such move is precluded in a country like Colombia, where the income tax plays a very marginal role for most individuals. But no conceivable program is entirely new. Between them, Latin American countries have accumulated an enormous experience in all types of programs one would want to start. In the absence of experimental evidence, there is nothing wrong with making use of the experience accumulated by other countries and by practitioners in international organizations. Colombia itself has experimented with many programs, on whose experience it should draw when rethinking its current social programs.

⁴ The classic study on the distributional incidence of social spending in Colombia is Velez (1996).

III. Fiscal Policy and Social Spending in Colombia

A. Social Spending in the Broader Context of Fiscal Policy

A discussion of social expenditure cannot start without placing it in the broader context of the whole government expenditure. Table 1 shows that Colombia has, as expected, a much lower incidence of general government primary spending in GDP than advanced European countries: about 20% against almost 50%. Of this expenditure, it devotes more than 80% to total purchases of goods and services, against about 45% of European countries.⁵ Most importantly, it devotes a considerably higher share to the payment of government wages, between 32.7 and 34.7% of total primary spending, against a European average of 26.3%.

In 1995, there were about 935,000 general government employees in Colombia, (excluding those employed in the municipalities not capital of departments); their average salary was about \$5.22mn, or 3.7 times the minimum wage, and 2.82 times GDP per capita. In the same year, there were about 45,000 employees in the Establecimientos Públicos (like SENA, Incora etc.) and 56,000 employees in the Empresas Comerciales y Industriales del Estado (like ISS, Ecopetrol, Telecom), with average salaries of \$6.91mn and 10.53mn, respectively.⁶ By 1999, total public sector employment had grown to 1,194,000 individuals, about 7.8% of total employment (see Acosta (2000)). This share is much lower than in many European countries; yet as we have seen the share of public spending on wages in GDP is only about half that in European countries. The result is a much higher average public sector wage (and this in a country which has already a much higher income inequality).

Is this just the reflection of a different composition of public than private employment? Using household survey data, Panizza and Qiang (2000) show that, controlling for education and experience, Colombia has consistently the highest public sector wage premium among Latin American countries,

Table 1. Fiscal Policy in Colombia and Europe

	Shares of GDP		Shares of Primary Exp.	
	Colombia	Europe-15	Colombia	Europe-15
Primary Exp.	19.9	47.9	-	-
Purchase of goods and services	16.5	21.6	82.9	45.1
cap. exp	5.9	2.4	29.6	5.0
wage exp.	6.5	12.6	32.7	26.3
wage exp.**	6.9	-	34.7	-
non-wage cons.	4.1	7.6	20.6	15.9

Sources: Colombia: Gavin and Perotti (1997) dataset and DNP (1997), except line "**", from Comision Razionalizacion de Gasto (1997a) Europe: EUROSTAR (1999).

⁵ While Colombia devotes a higher share of expenditure to all components of purchases of goods and services, the real difference is in capital expenditure. Note that capital expenditure as a share of GDP is more than twice in European countries, and about six times as a share of primary spending. This difference is clearly implausible, and mostly reflects the generalized tendency in Latin American countries to classify many current expenditures as capital expenditures (see Ayala and Perotti (2000)).

⁶ Source: Comision de Razionalizacion de Gasto (1997a), Cuadros 5 and 6 and Cuadros 10 and 11.

typically between 15% and 20%.⁷ Perfetti (1997) also shows that, controlling for education and experience, in 1994 the public sector premium ranged from 16% to 50%, depending on the size of the private establishment (it is higher for smaller establishments). In addition, government employees enjoy many other benefits, from job security to high pensions with little or no contributions. In fact, Colombia devotes an inordinate share of total pension expenditure to public sector employees: about 60%, against a typical 20% in advanced economies (see section IV.A for more details).⁸

This allocation of resources among the different types of government expenditure has an important implication: it is a very ineffective way of combating poverty. If the average general government employee were the only income earner in his family, this would put his family at about the 65th percentile in the distribution of household income. But because on average other members of the family also earn income, it is likely that the household of the average employee of the general government is at about the 70th-75th percentile in the distribution of income by households. Table 2, from the 1993 CASEN survey, shows that government employees tend to be overwhelmingly represented in the higher quintiles of the distribution of spending. Finally, Ayala, Soto and Hernandez (1998) found that in 1998 in Bogota' 83% of households with a public sector teacher were in the upper 3 deciles of the population. Only 10.5% of households with public sector teachers were in the lower 50% of the distribution. It is likely that these figures would be even more extreme for the country as a whole, because salaries of public sector teachers vary less than household income across the country.

The conclusion is that Colombia is facing a hard choice: simply put, it is devoting an extraordinary amount of resources to a pampered government sector, and to a few private workers in the formal sector who have access to the pension system.

B. Social Conditions in Colombia

1. The Evolution of Poverty in the Nineties

This section sketches the main elements of the evolution of poverty in the nineties. For the previous period, see World Bank (1994). There are two basic definitions of poverty in Colombia: that based on

Table 2. Govt. Employees in the Distribution of Income

	Urban	Rural
Q1	4.0	2.1
Q2	5.9	3.4
Q3	8.7	4.6
Q4	10.8	5.9
Q5	14.9	7.9
Poor	5.0	2.5
Non-poor	11.9	5.7

Source: Leibovich and Nuñez (1999), based on Encuesta Calidad de Vida (1993). Distribution of income is by families. Definition of "Government employee" is not specified.

⁷ In addition to education and experience, Panizza and Qiang control for rural/urban employment, and sector classification for private sector employees.

⁸ Cross-country data on the share of pensions accruing to government employees are possible only for a few countries.

the DANE poverty line calculated annually from the Encuesta Nacional de Hogares⁹, and that based on the index of Unmet Basic Needs, also calculated by DANE on the basis of census data in census years and the ENH in non-census years.¹⁰

a. *DANE Poverty and Indigence Lines*¹¹

Table 3 shows that, after increasing sharply in 1992 (the year of the agrarian crisis), poverty fell steadily until 1997, getting back to the 1991 level. However, this pattern masks a marked difference between urban and rural areas; in the former, the reduction in poverty after 1992 was substantial, so that poverty in 1997 was below its 1991 level. In the latter, poverty increased after 1992, so that poverty in 1997 is higher than in 1991. In both urban and rural areas, poverty increased sharply in 1999, the worst recession in the last thirty years, so that in urban areas it is back nearly to its 1991 level. The evolution of indigence displays a similar pattern.¹²

CEPAL (1998), using a similar definition of the poverty and indigence line but based on its own elaboration of the available household surveys in Latin America, presents a slightly different view: poverty and indigence increased throughout the nineties in both the rural and the urban sectors.

Despite these differences, there is a common message: rural poverty has not declined or it has even

Table 3. Percentage of Population Below Dane Poverty and Indigence Lines

	Poverty line			Indigence line		
	National	Urban	Rural	National	Urban	Rural
1991	57.7	47.3	68.4	23.6	13.8	35.2
1993	56.4	43.6	70.7	23.3	11.6	37.7
1996	52.8	42.8	77.4	18.7	9.9	40.3
1997	50.3	39.1	78.9	18.1	8.3	42.9
1998	51.5	39.1	75.8	17.8	8.3	37.4
1999	55.0	45.2	79.7	20.9	11.0	45.9

Source: DNP-UDS-DIOGS, in DNP (2000), based on ENH. various years.

⁹ The indigence line is defined as the cost of a food basket that satisfies the minimum nutritional requirements of a household. It was first measured in 1984 for 13 cities and the rural areas. The poverty line is defined as twice the indigence line in urban areas and 2.3 times the indigence line in rural areas. The indigence line is updated yearly using some price index, usually a food price index (but one should keep in mind that estimates of the CPI for rural areas do not exist).

¹⁰ According to this definition, a household is poor if it meets one of the following criteria: 1. Inadequate housing (for instance, dirt floor in urban areas); 2. Housing without basic services; 3. Crowded housing, i.e. with more than three people per room; 4. High economic dependence (more than three persons per earner); 5. At least one school aged child between 7 and 11 not attending school. A household is in "misery" if it meets two or more of these criteria.

¹¹ Different studies provide different answers on the extent and evolution of indigence and poverty because they use different methodologies to update the indigence line, and because they have different approaches towards correcting the sampling problems of the ENH (chiefly the underreporting of income and the truncation problem; see Sanchez and Nunez (1999a)).

¹² According to Sanchez and Nunez (1999b), there was a diverging evolution of indigence and poverty in rural areas. Rural indigence has decreased substantially between 1991 and 1995, even if rural poverty has not. The reason is that agricultural salaries and income have increased during this period mostly in the lowest quintile, the relevant one for the indigence line. It will be important to bear in mind this difference between poverty and indigence line when discussing social policies in the rural sector.

increased in the nineties. In fact, CEPAL (1998) shows that Colombia and Venezuela are the only two countries that have not been able to reduce rural poverty during the nineties.

The causes of the increase in rural poverty are not entirely clear. As we show below, unemployment started increasing only in 1997; and rural wages increased in the early nineties. It would also be important to assess whether the increase in rural poverty in the nineties has been caused by the phenomenon of displaced populations in areas affected by the guerrilla, or by more fundamental economic developments. The policy implications would be very different in the two cases. Note also that in many Latin American and industrialized countries, poverty has increased mostly among female-headed single parent families. This does not appear to be the case in Colombia.

b. NBI Indices of Poverty and Misery

The picture changes substantially if one uses the NBI index (Table 4). This shows a large and steady fall in both urban and rural poverty and misery between 1993 and 1996 or 1997, even larger than the fall between 1985 and 1993. Rural poverty increases slightly in 1998, but misery keeps falling.

One should bear in mind that the NBI index has been widely criticized (see e.g. the World Bank (1990) and (1994)) for being heavily biased towards housing, and therefore against rural areas: for instance, in rural areas lack of electricity need not indicate poverty. In addition, the correlation between the NBI index and the income of households is not high: in 1991 in urban areas the NBI index would miss about 66% of indigent individuals, and conversely, 80% of those classified as poor according to the NBI index are above the indigence line. In fact, in 1991 the average income of the NBI poor households was about three times the average income of households below the indigence line (see World Bank (1994)).

2. Comparison with Latin America

International comparisons of poverty are extremely difficult; it is therefore not surprising that different sources give somewhat contrasting answers on the extent of poverty in Colombia relative to other Latin American countries.

According to the World Bank headcount of poverty (defined as the share of population with income below \$2 per day, PPP adjusted), Colombia is doing quite well relative to the other Latin American countries; on the other hand, the ratio of rural to urban poverty is the highest in Latin America. However, CEPAL (1998), based on national household surveys, gives almost the opposite

Table 4. Percentage of Population in Poverty and Misery According to NBI Index

	Poverty line			Indigence line		
	National	Urban	Rural	National	Urban	Rural
1991	57.7	47.3	68.4	23.6	13.8	35.2
1985	45.6	32.3	72.6	22.8	12.6	44.4
1993	37.2	26.8	62.5	14.9	9.0	30.3
1996	26.0	16.9	48.6	8.9	4.1	20.7
1997	25.9	17.8	46.5	8.6	4.5	19.1
1998	26.0	17.4	47.8	8.2	4.1	18.6

Source: DNP-UDS-DIOGS, in DNP (2000), based on ENH. various years.

picture: poverty in Colombia is quite high, but the ratio of rural to urban poverty is not an outlier by Latin American standards (Table 5).

Because of the discordant pictures from these two international comparisons, it is difficult to assess how serious the incidence of rural poverty is in Colombia relative to other Latin American countries. But there are indications that the World Bank view might be more correct.¹³ For instance, the percentage of households with access to safe water in Colombia is higher than the Latin American average in urban areas, but lower in rural areas (Table 6).¹⁴

3. Participation Rates, Employment and Unemployment

Participation rates. After being flat between 1990 and 1997, the participation rate of women increased substantially starting in 1997. Among the likely reasons are the declining incomes, urban migration and the phenomenon of displaced families. In contrast, the participation rate of men increased very little after 1997, and it is now lower than in 1996 or 1991.

Employment. Employment of women increased, at a rate of 4.1% in 1991-1995 and 2.5% in 1995-1999; employment of men initially kept pace with female employment, increasing at a rate of 3.6% in 1991-1995, but then it decreased at a rate of -.9% in 1995 and 1999.¹⁵

Table 5. Cepal: Poverty in Latin America

	Year	National	Urban	Rural
Argentina	1997	-	13	-
Bolivia	1997	47		
Brazil	1996	29	25	46
Chile	1996	20	19	26
Colombia	1997	45	39	54
Costa Rica	1997	20	17	23
Ecuador	1997	-	50	-
El Salvador	1997	48	39	62
Guatemala	1990	-	-	72
Honduras	1997	74	67	80
Mexico	1996	43	38	53
Nicaragua	1997	-	66	-
Panama	1997	27	25	34
Paraguay	1996	-	40	-
Peru	1997	37	25	61
Rep. Dom.	1997	32	32	34
Uruguay	1997	-	6	-
Venezuela	1994	42	41	48
Am. Latina	1997	36	30	54

Source: Panorama Social de America Latina, 1998.

¹³ There are likely to be some problems with the CEPAL measurements. Notice, for instance, that this publication gives an incidence of poverty in Brazil of only 29%, much lower than in Colombia, and close to the Costa Rican value of 20%. Echevarria (1996) uses its own elaboration of the household surveys for Brazil, Chile, Costa Roca, Ecuador, El Salvador, Mexico, Nicaragua, Paraguay, Peru, and Venezuela, and the CEPAL numbers for the other countries; while it is still true that Colombia has a higher overall poverty rate than the average, now it has a ratio of rural to urban poverty above the average.

¹⁴ Lopez and Valdez (1996) also argue that access to education, health, and credit in rural areas are below those of similar countries.

¹⁵ The data on employment refer to the 7 main cities.

**Table 6. Households with Access to Safe Water, 1992-1997
(Latest years)**

	National			Urban			Rural		
	70-75	80-85	92-97	70-75	80-85	92-97	70-75	80-85	92-97
Colombia	64	91	75	86	100	90	33	76	32
Lat. Am.	-	-	36	-	-	83	-	-	36

Source: World Development Indicators, 1999.

Employment rates. Hence, despite the increase in the participation rate, the employment rate of women did not increase over the nineties, except briefly in 1998. The employment rate of men did decrease substantially, by almost 10 percentage points, between 1995 and 1999.

Unemployment rates. As a consequence of the developments in the participation and employment rates, the unemployment rates of both women and men have started increasing after 1995, but for different reasons. Unemployment among women increased because participation rates increased more than employment; unemployment among men increased because participation rates did not change, but employment rates fell.

Composition of employment changes. Almost all the difference in the dynamics of male and female employment between 1995 and 1999 can be explained by two types: "empleo domestico" and "self-employment", both of which have high rates of informality. Using an alternative disaggregation, by sectors rather than by functions, the key difference between male and female employment was in two sectors: "comercio" and "servicios comunales, sociales y personales". Overall, 64% of employment growth in 1991-99 was in "self-employment", and 65% was in "comercio" and "servicios comunales, sociales y personales". These figures are important because all these sectors are characterized by high levels of "informalidad".

Age structure of unemployment. It is important to note that the age structure of unemployment is different from that of most industrialized countries. Unemployment is highly concentrated among the very young, 15 to 19 years, followed by 20-29 years, and it falls steadily as age increases, reaching a low 4.4% among individuals over 60. These figures might imply that well designed training programs could be effective in reducing unemployment, for two reasons: they reduce the participation rate of individuals with the highest unemployment rate, and build human capital in individuals most affected by unemployment. At this stage, it is not clear whether there are a lot of discouraged workers in the older cohorts, and whether unemployment figures have any meaning in an economy with very high rates of informal employment.

Unemployment by income levels. Unemployment is mostly concentrated among the poor: it is much higher, and has increased much more, in the first quintile. One possible reason is that a considerable part of the recent unemployment is due to the crisis in the construction sector.

C. Tools for Targeting Social Expenditure

As argued in section II, Colombia has no alternative to targeting its social expenditure. A key determinant of the effectiveness of social expenditure is thus the effectiveness of the targeting tools currently in use.

1. Geographic and Individual Targeting

For programs like infrastructure, public utilities, water and sanitation, geographic targeting works well in identifying the areas to subsidize. In Colombia, the most widespread such index is the "index of socioeconomic stratification", mostly based on housing characteristics. In urban areas it allows identification of manzanas or cuartos, in rural areas and small towns, of individual viviendas. Those in levels 1 or 2 are usually classified as poor. In principle, by December 1994 all urban municipalities and by May 1995 all rural municipalities should have adopted this stratification (decreto 2220, 5 november 1993). 50% to 60% of municipalities in 1994 had a socioeconomic stratification, obtained through various methodologies, and mostly to be used by public utilities. Municipalities with more than 40,000 inhabitants can also use the Mapa de Pobreza based on the NBI index.¹⁶ Other municipalities can use different indices, such as those prepared by ICBF, or by utility companies etc. In practice, the NBI index is still widely used, particularly in allocating program funds across municipalities or departments. Recently, a new index has been developed, the ICV index, based on the results of the 1997 Encuesta de Calidad de Vida (see Sarmiento and Gonzalez (1998) and Cortes, Gamboa and Gonzalez (1999) for a description). It is a standard of living index based on 12 categories, and structurally similar to SISBEN, to which we turn next.

In the last decade Colombia has developed a system of classification of households patterned after Chile's CASBEN. The SISBEN system is a proxy-means test based on the results of the 1993 CASEN survey of 25,000 households. Information on 15 household characteristics - mostly ownership and characteristics of assets and durables¹⁷ - are collected in a host interview to fill the Ficha de Caracterizacion Socioeconomica; a simple software then transforms the 15 scores, one for each category, into an aggregate score.¹⁸ The households are then classified into 6 strata (each social program has different cutoff points); levels 1 and 2 are usually considered poor. In a first round, the municipality takes a survey, trying to target the areas which are most likely to have the most needy persons. In a second round, the survey can be initiated by the community, NGO's, or individual households who believe they might be classified in the first 3 levels of SISBEN but who have been overlooked in the first round. Usually, rural municipalities survey more marginalized areas first.

As of June 1997, 98% of municipalities were using SISBEN, with 6,200,000 persons surveyed in the urban sector and 6,500,000 in the rural sector, corresponding to about 38% of the population.¹⁹ By 1996, SISBEN was used mostly to determine eligibility in the Regimen Subsidiado de Seguridad Social en Salud (82% of municipalities with SISBEN)²⁰ and eligibility for programs in the Red (62% of muni-

¹⁶ DANE publishes "La Pobreza en Colombia", which gives the NBI index for every municipality; it allows the identification of the poorer areas in the cities with more than 40,000 inhabitants and in metropolitan areas.

¹⁷ Thus, SISBEN overcomes an important limitation with several income-based measures of poverty: the seasonality of income. Income is still present in SISBEN, but probably it will be dropped in the next version, mainly because its reporting is subject to considerable misrepresentation.

¹⁸ See Sarmiento, Gonzalez and Rodriguez (1999) for a description of SISBEN and an evaluation and Velez, Castano and Deutsch (1999) for an economic interpretation.

¹⁹ See DNP-UDS (1997).

²⁰ By law, levels 1, 2 and 3 should be enrolled in the Regimen Subsidiado. Lack of funding has so far prevented full coverage of level 3.

cialities with SISBEN), in particular for REVIVIR. Only 17% and 16% of municipalities were using SISBEN for eligibility in education and nutrition subsidies, respectively (see DNP-UNDP (1996)).

However, there is a large variance in the degree of coverage of the population by SISBEN; in 1996 the share of population covered by SISBEN ranged from 16.3% in Cundinamarca, 20.1% in Cauca, 25.6% in Cesar, 33.2% in Magdalena, to 65.7% in Huila, 67.7% in San Andres, and 72.2% in Casanare. If there is a negative correlation between the average income of a municipality and SISBEN coverage, this might introduce a perverse mechanism whereby the poorest municipalities have a higher tendency to undersample the poor.

Unfortunately, very little information is available on the percentage of poor individuals who have not been sampled by SISBEN. One might worry that the very poor are also the least informed about SISBEN. But even at the village level there are usually either local organizations of citizens or informational networks that advise families initially forgotten by SISBEN to request an evaluation.²¹ On the other hand, of the 47% municipalities that contracted out the SISBEN evaluation, 35% stated that they had problems with coverage, because not all marginalized areas had been covered (see DNP - PNUD (1996))

Some suggestive evidence can be gathered by comparing SISBEN results with evidence from surveys, like ENH. In Cali', SISBEN covered 41.1% of urban areas and 98.7% of rural areas. The percentage of individuals in SISBEN levels 1 and 2 was 28.3% in urban and 23.7% in rural areas. Using the NBI index, in 1993 estimates of the poverty rate were 20.3% in urban and 32.4% in rural areas (see Zarta (1998)). This comparison should obviously be taken with great caution, because the main reason for developing SISBEN was precisely the alleged inadequacy of NBI to capture the notion of poverty. Yet, because the discrepancy between urban and rural areas is so large, it might suggest that a higher percentage of poor was not sampled in rural than in urban areas.²²

2. Evaluation and Proposals

SISBEN is an inexpensive instrument²³ to target social spending properly. It has been argued for a long time that income and the NBI index are inadequate instruments for targeting; the former because it can be highly seasonal and is prone to be misrepresented, the latter because it does not capture

²¹ Personal conversation with Maria Teresa Zarta.

²² A similar exercise consists in estimating how often individuals who are poor according to another classification are not considered poor by SISBEN. Sarmiento, Gonzalez and Rodriguez (1999) have performed such an exercise, using data from the 1997 Encuesta de Calidad de Vida to estimate both the number of individuals in SISBEN levels 1, 2 and 3 and the number of poor individuals according to the alternative definition of poverty. Thus, define the "PL poor" all individuals below the DANE poverty line, and the "SISBEN poor" all individuals in levels 1, 2 or 3 of SISBEN. Then in 1997 the PL poor who were not considered SISBEN poor were about 15% of all the LP poor. Similarly, define the "decile poor" as those individuals below the 5th decile of the distribution of income; then the decile poor who were not considered SISBEN poor were about 19% of all decile poor. Note that this exercise has two limitations. The first is conceptual: SISBEN captures a different notion from the Poverty Line or income, therefore one should not expect a close correspondence between the two. The second limitation is empirical: the results above are based on calculations from the Encuesta Calidad de Vida 1997, hence they are based on a limited sample and not on actual results. Therefore, they have little to say on the actual number of poor individuals who are not sampled by SISBEN.

²³ SISBEN is very cheap: it costs about \$2.25 in 1996 dollars per questionnaire, or about .5 on average per person. This is equivalent to about .5% of total Regimen Subsidiado spending, and unit costs would be even lower if it were used more effectively for other programs.

adequately the difference urban and rural areas.²⁴ SISBEN overcomes these difficulties, and is a very advanced tool, such as few Latin American countries currently possess.²⁵

The key issue is why, despite its low cost and good properties, the use of SISBEN is so erratic outside the Health Ministry. All existing array of targeting tools is currently used: socio-economic stratification, NBI, ICV, and other local indices. In Chile, the use of CASBEN for education and health subsidies was discontinued because the administering agencies did not have ready access to CASBEN classification in municipalities. This mistake should be easily avoided in Colombia, where the SISBEN scores are held by municipalities and there is an obligation for the latter to make them readily available to interested agencies.

But SISBEN suffers from three different problems. First, there is often mistrust on the part of agencies regarding the possible manipulation of SISBEN scores by municipalities. For instance, there is anecdotal evidence that some RED programs avoided using SISBEN because they feared some municipalities had inflated the ranks of levels 1 and 2. Conversely, there are accusations that some programs avoided SISBEN in order to be able to allocate funds more freely to their political clientele. Both these claims are likely to be true to some extent, but a quantification of their incidence is currently impossible.

The second problem is that SISBEN lacks a centralized system for keeping tracks of the scores. For instance, an agreement was signed recently between the Cajas de Compensacion Familiar and ICBF to use some funds from the former in order to revamp HCB in Bogota' and its department. Use of SISBEN to allocate the funds between the capital city and the rest of the department proved unfeasible because it was impossible to determine how many SISBEN 1 and 2 individuals were present in the two areas, and again it was feared that self-reporting by the different localities would be subject to strategic misrepresentation.

The third problem is more speculative in nature. It might be the case that some programs avoided using SISBEN in some areas because they feared that not all poor individuals had been evaluated.

To make SISBEN fully operational, a centralized information system keeping track of SISBEN scores in the different municipalities seems essential. Due to the high mobility of the poorer population in some areas, such a system should use cross-checks to follow migrant families.²⁶ A nationwide system should also be used to prevent abuse of SISBEN, whereby some families ask to be evaluated in more than one municipality in order to increase the probability of being given a score of 1 or 2. Although such abuse is known to exist, at present there is no estimate of how widespread it is.²⁷ A nationwide system is also a prerequisite for the use of SISBEN to allocate resources of a program within departments and across departments. Finally, it is essential to form a clear idea of the reliability of SISBEN, particularly in rural areas, in terms of coverage of all poor individuals.

The alternative to SISBEN involve using other tools for individual targeting, like income, or to resort to geographic targeting, like using the NBI index or the socio-economic stratification. Both alternatives are costly. In particular, geographic targeting always implies some leakage of resources to individuals who are not the prime target of a program.

²⁴ On this last point see World Bank (1994), which several years ago argued against the use of the NBI index and in favor of its replacement with SISBEN.

²⁵ Chile es the only country that has a similar system already operating; Argentina, Ecuador and Venezuela are in the process of establishing one.

²⁶ Currently, SISBEN does not cover desplazados, and all individuals living in "hogares colectivos", such as prisons, ancianados, and orphanages.

²⁷ Some municipalities now have a system to detect "duplicaciones de censimiento".

A debate has arisen recently on the relative merits of SISBEN and ICV. Both are proxy-means tests, and conceptually very similar, with ICV including a few less variables than the current version of SISBEN. This debate seems to reflect to a large extent both a highly theoretical diatribe²⁸ and some institutional partisanship, with DNP seemingly supporting ICV against SISBEN.

It is important to be clear about the different properties of the two indices. ICV is based on a survey, therefore it cannot be used for individual targeting; by contrast, in principle SISBEN covers all individuals who belong to its levels 1 or 2.²⁹ Thus, ICV covers the whole country, while SISBEN could be used for geographic targeting only by exclusion (that is, if all households that are not in levels 1 or 2 are excluded from the subsidy in question). Besides this, the two indices are very similar, and much of the superiority of ICV is academic. SISBEN has proved to be an excellent tool, and for individual targeting it has no alternative. It is much more appropriate to devote intellectual and financial resources to make it fully operational.

D. Social Spending in Colombia

Social expenditure plays a key role in the Colombian Constitution and in the policy debate. Art. 350 of the Constitution states that "public social spending will have priority over any other spending". But what is Social Expenditure? By art. 41 of the Estatuto Organico de Presupuesto, public social spending is "any expenditure whose objective is the satisfaction of unsatisfied basic needs in health, education, environment, drinkable water, housing, and those aiming at the general well-being and the improvement of the quality of life of the population". Thus, Colombia combines a very loose definition of social expenditure with a very strong constitutional mandate to protect it. The result is, inevitably, confusion. In fact, there are currently at least 3 different definitions of social expenditure circulating in Colombia (see Restrepo (1998)), in addition to the many definitions used by individual researchers: the Budget, DNP, and Plan Nacional de Desarrollo definitions.³⁰

Given this, it should come as no surprise that they generate widely different estimates of the size of social expenditure in GDP (see Table 7). Depending on what definition one uses, in 1997 social expenditure would range from a minimum of 7.8% of GDP to a maximum of 15% (under the DNP definition).

Table 7. Social Expenditure, Alternative Definitions

	1995	1996	1997	1998
DNP	13.7	15.5	15.0	15.9*
Budget	10.6	12.6	13.1	13.3*
PND	7.0	8.0	7.8	7.5*
IMF	6.1	7.6	7.8	7.9

*: budgeted
Sources: CGR (1997) and IMF (2000).

²⁸ Velez, Castano and Deutsch (1998) argue that SISBEN is an index of utility, while Sarmiento and Gonzalez (1998) and Cortes, Gamboa and Gonzalez (1999) argue that it is an index of standard of living. The latter also argue that, as an index of standard of living, the ICV index is superior.

²⁹ Theoretically, SISBEN should cover level 3 also, but lack of funding has so far prevented an extension of its coverage.

³⁰ The PND definition refers to "El Salto Social".

Clearly, one definition is as good as any other, as long as they are explicit. But as a result of the current confusion it is often difficult to know what someone is referring to when using the notion of social expenditure. This is not without practical consequences, given the overwhelming importance attached to the notion of social spending in the Colombian policy debate. International comparisons become of little value when social expenditure is defined so loosely.³¹ In addition, in many ways the current definitions are misleading. By its nature, the budget definition can only cover spending by the Central Government, therefore it has only a limited coverage of pension spending because ISS is outside the budget. Items like "sport, recreation and culture" or "environment", which do not belong in any reasonable definition of social spending, appear in all definitions only because they are cited in the Constitution. And presumably for a similar reason the most comprehensive definition, by DNP, includes items like "contributions to trade unions and religious events", "public parks and botanic gardens" etc. And because the Colombian Constitution does not allow the share of public social spending in total spending to fall from one year to the next, over time the Budget definition of social spending has included more and more items only in order to satisfy this constitutional mandate (see Ayala and Perotti (2000)). This fact, however, is never recognized in policy debates, which routinely make time series comparisons of this definition of public social spending.

To organize the discussion around a well-tested scheme, we will use the classification that EUROSTAT has applied for several decades to European countries.³² It consists of the following items: i) sickness / health care; ii) disability; iii) old age; iv) survivors; v) family/children; vi) unemployment; vii) housing; viii) other spending on social exclusion not elsewhere classified.

This classification has three advantages. First, it distinguishes explicitly the different functions, each obeying a clear economic rationale (the nature of the risk or event covered). Second, it is the outcome of a long process by several social scientists, and was not constrained by data availability. Third, it allows meaningful international comparisons, not so much with Latin American countries, but also with industrialized countries. Even though in the short run a country like Colombia cannot afford the same level of social spending as the typical European country, it is still useful to compare the composition of its social spending to that of a group of countries whose mature welfare states cover more or less all risks and event.³³

To reflect data availability, we combine some categories in the EUROSTAT classification and end up with the following classification of social expenditure: i) policies towards the elderly and the disabled; ii) families, children, and other social exclusion;³⁴ iii) unemployment and employment generation programs; iv) housing; v) health.

Note that the EUROSTAT definition we adopt excludes expenditure on education, on water and sanitation, and on rural programs. The latter are fairly small programs in Colombia, although they

³¹ For instance, using the widest definition of social expenditure DNP has argued that Colombia belongs to the group of Latin American countries with the highest share of public social spending in GDP. It is not clear what to make of a comparison that shows Peru as having a 2% share of public social spending in GDP in 1990, clearly an implausible number.

³² A similar classification is used by the OECD.

³³ Of course, social and demographic conditions are very different in Colombia and in Europe; but if these differences can somehow be controlled for, then it is still useful to highlight large deviations from the composition of more mature welfare systems.

³⁴ We combine "Other social exclusion" (like drug rehabilitation and policies towards minor with criminal offenses) with policies towards "Children and families" because they are all carried out mostly by the same agency, ICBF, and are mostly geared to minors.

can have substantial redistributive power. We will also have very little to say on health expenditure, a sector that, together with education, has received more attention in Colombia than all the other sectors combined; we believe it is important to redress the imbalance.

IV. Sectoral Social Policies in Colombia

A. Policies Towards the Elderly and the Disabled

1. Institutional Features and Distribution of Pension Spending

The institutional features of the Colombian pension system, its problems, and reform proposals have been the subject of a large literature (see Acosta and Ayala (1998), Ayala (1999), and Comision de Razionalizacion de Gasto (1997b) for surveys). For this reason, here I will focus mainly on distributive issues, and on the role of pension spending in the context of public social expenditure.

Schematically, Colombia now has a three-pillar policy toward the elderly. The first is the state-run, defined benefit pension scheme (or Prima Media). The second is the private sector, defined contribution system of AFP's, Chilean-style. In contrast to other countries, like Argentina, these two pillars are mutually exclusive for an individual. Together they make up the "social insurance" component of the policies towards the elderly. The third pillar is a purely redistributive scheme for the elderly poor that are not entitled to a social insurance pension. At present this pillar is represented by a small program, REVIVIR, and by many small programs run by municipalities. This is the "social assistance" component of the policies towards the elderly.

There has been a lively debate recently about the financial viability (or lack thereof) of the first pillar. Estimates of the unfunded pension liabilities vary widely, but tend to be invariably staggering, especially given the limited tax base.³⁵ A related problem, but a much less discussed one, is that of the annual pension spending. Exact figures are hard to come by, but the best estimate is that in 1998 Colombia spent between 4.5 and 5% of GDP in pensions, against a European average of 14.5% of GDP (see Table 8).

However, the underlying demographics are very different (see Table 9): the European dependency ratio (the ratio of population older than 60) is about three times as high as that of Colombia, 20.6% against 6.5%. And while pension coverage of individuals above 60 is almost universal in most industrialized countries, in Colombia only about 30% of individuals above 60 perceive a pension. As a consequence, only about 2% of the population perceive a pension in Colombia, against about 16.5% in European countries. The result is an extremely high average pension in Colombia: in 1997, about 2.7 times the minimum salary, i.e. about 2 times the GDP per capita.

Thus, controlling for demographics, Colombia has a European style pension system but with much lower total tax revenues and a much higher rate of informality. The result is a much higher share of pension spending in total spending, controlling for the different dependency ratios, and a much higher concentration of pension spending on a few individuals.

2. Redistribution to the Higher end of the Distribution of Income

As we emphasized above, it is important to set out clearly what are the redistributions involved in the Colombian pension system. We are not aware of studies that have quantified these flows; but the

³⁵ According to estimates by the Finance Ministry, the net debt position of the pension system was 140% of GDP in 1997.

Table 8. Share of Pensions in GDP, 1998

ISS	1.38
Teachers' Fund	0.19
Other entities	1.36
Cajanal	0.00
Caprecom	0.17
Military	0.27
Police	0.32
Ferrocarriles	0.09
Colpuertos	0.44
Fonprenor	0.00
Congress	0.07
Capresub	0.00
Law 100 Funds	1.13
Public pension fund (FOPEP)	0.81
FSP	0.05
Fondo prestacion salud	0.04
Revivir	0.03
Other institutions	0.20
Telecom	0.05
Ecopetrol	0.05
Funds of territorial entities	0.30
Total	4.46

Source: Ayala and Acosta (1998). except last three lines that are rough estimates of the author.

Table 9. Pensions in Colombia and Europe

	Colombia	Europe
pensions	about 800,000	-
pop.> 60 / pop.	6.5	20.6
pensioners / pop.> 60	31.7	about 80% (Ger, Usa, UK)
pensioners / pop.	2.1	about 16.5
pensioners / active pop.	48.1	
public pens. Exp. / total pe exp.	50	25 (USA)
	-	17 (Ger)

Source: IADB (1997), World Bank (1995), and author's calculations.

main qualitative features seem clear. In this section, we begin with those flows that favor individuals already in the upper end of the distribution of income.

a. Redistribution to all Prima Media Participants

For virtually all participants, the Prima Media system is more than actuarially fair. This per se implies a flow of resources from outside the system to the system. But it is hard to argue that this serves any redistributive purpose: like in all Latin American countries, the system is mostly intended for public sector workers and urban workers in the formal sector. The resulting distribution of pension spending is highly skewed. It is impossible to obtain precise figures, but a (crude) proxy can be obtained by looking at the distribution of ISS contributors in 1995 (likely to be an underestimate, because it excludes many public sector workers, who earned on average 3.69 the minimum wage in 1995 and

had replacement rates close to 100% of the last salary). Only 10% of individuals who contributed to ISS in 1995 earned less than 1 minimum wage; because the latter was equal to about 93% of per capita GDP in 1995, and because the poorer workers are unlikely to contribute for long enough to qualify for a pension, it is safe to assume that very few individuals in the first three quintiles of the distribution of income earn any pension at all. As a comparison, it is useful to look at the distribution of (equivalised) per capita pension spending by quintiles in Europe (Table 10). As one can see, the first three quintiles perceive a higher pension, as a share of their pre-pension income, than the upper quintiles. There are countries, like Denmark, where the absolute amount received as pensions are higher in the lower quintiles; thus, state pensions there are used exclusively to protect individuals from poverty.

A skewed pension spending is actually a common feature to all Latin American countries. But Colombia's replacement rates, and the resulting actuarial imbalances, are very high by international standards. For instance, the replacement rate for a person who has worked for at least 28 years is at least 85% of the average of the last 10 years of salaries. Given an expected lifetime of 15 years for men at 60, and assuming a return on reserves of 5%, the social security tax that would make this profile actuarially fair is 16.5%, far above the current 13.5% (see Ayala (1999)).

Moreover, the replacement rates are particularly generous for three categories of individuals: men (women) who were under 40 (35) in 1994 or who had contributed for at least 15 years in 1994, because they can use the pre-1993 reform rules; public sector workers, who contribute little or nothing at all; and poor workers with income close to the minimum wage, who benefit from the minimum pension guarantee and the supplements of the Fondo de Solidaridad Pensional.

Thus, the system has a built in adverse selection mechanism, whereby all the young individuals with a long contributory life ahead are better off in the fully funded system, while individuals with low or no contributions are better off in the Prima Media system.

b. Redistribution to Public sector Workers

A second distinctive feature of the Colombian pension system is that it is highly geared towards public sector employees: probably about 60% of total pension spending in Colombia accrues to public sector pensioners, against 17% in Germany and 25% in the USA. In addition, in 1996 about 483,000 workers, or about 52% of the 935,000 general government employees (see section III.A), belonged to the to the system of unreformed funds, i.e. those funds that were not affected by the 1993 reform, and whose benefits are even more generous relative to contributions. In what follows, we try to give an idea of the types of redistribution involved via the pension system, to several types of public sector workers.

Table 10. Distribution of Pensions in Colombia, Europe and Denmark, 1994

	Colombia		Europe		Denmark	
	Values	% of Incom	Values	% of Incom	Values	% of Income
Q1	0.00?	0.00?	1113	51,6	2117	97,7
Q2	0.00?	0.00?	1946	42,0	1642	27,2
Q3	0.00?	0.00?	2107	29,1	933	10,1
Q4	?	?	2050	18,9	1043	8,7
Q5	?	?	3159	16,6	1841	10,0

Source: EUROSTAT (1999), Table C1.0E. Figures are in thousands of Purchasing Power Standards.

The pension policy for teachers is extremely generous: about 26,000 active teachers in 1999 received 2 pensions, in addition to their salary (see Acosta 1999). Acosta and Borjas (2000) give a detailed account of the various pension privileges of teachers. The usual justification for the exemption of teachers from the 1993 reform is that the more generous system of pensions and cesantias can be interpreted as a compensation for lower salaries. But there is no evidence of a wage penalty for teachers. Using data from Bogota', Ayala, Soto and Hernandez (1999) found that in 1994, public sector teachers earned considerably less per hour than private sector teachers and other public and private sector professionals with the same characteristics in terms of education, age, and sex. We will focus on the other private sector professional as the comparison group. In 1998, the gap between male public sector teachers and other male private sector professionals with same years of education was reduced to 10% for 25 year-old individuals, and 5% for 40-year old individuals. The gap for women was still at about 30%.

However, the estimated gap refers to monthly salaries, and do not take into account differences in hours worked. For instance, a survey by Fecode in 1994 showed that teachers are in school for 27.3 hours a week, and prepare classes for 9 hours, thus working about 75% of the contractual 48 hours. After adjusting for this factor, Ayala, Soto and Hernandez find that male and female public sector teachers earn more (and males considerably so) than other comparable private sector professionals. A similar picture emerges in Liang (1999), who also allows for interesting international comparisons. After controlling for shorter hours (according to this source, in Colombia teachers work for an average of ³⁶ 8 hours a week, against 50.3 hours for non-teachers), the hourly wage premium of Colombian teachers is 20%, the second highest in Latin America. If one also controls for longer vacations, the premium rises to 35%.³⁶ Without controlling for shorter hours, Acosta and Borjas (2000) found that in 1998 public sector teachers earned about the same monthly salary as private professionals with the same characteristics. If one controlled for shorter hours, public sector teachers would show a considerable (about 25%) premium.

In addition to teachers, ECOPTEROL workers and members of the army and police enjoy a very generous pension treatment. For instance, the average pension of ECOPEPETROL workers is very high, at 6.9 minimum salaries in 1996. Yet, ECOPEPETROL workers are entirely exempted from any contribution. This extremely large redistribution via the pension system accrues to workers who in 1995 earned, on average, 17.32mn, or 12.2 times the minimum wage and 9.36 times per capita GDP (source: Comision de Razionalizacion de Gasto (1997a)).

A fourth case of "perverse redistribution" concerns public sector employees in the reformed sector. For them, the Prima Media system is still very generous: many did not contribute at all, others contributed much less than their benefits in PDV terms; in 1996 about 250,000 -between active and passive members- belonged to the system of territorial cajas, which provide generous benefits with minimal or no contributions. But unfortunately very little is known of the aggregate pension expenditure and obligations of these cajas. One piece of information is revealing, however; the average pension in the 222 cajas which had been liquidated and transferred to ISS (111,000 workers) and to the Fondo Pensiones Territoriales (62,000 pensioners) was 3.4 minimum salaries in 1996 (Gestion Fiscal, 1998).

³⁶ These numbers are obtained as the coefficient of the teacher dummy variable in wage regressions that control for gender, schooling, experience, private sector, rural/urban employment, unionization.

3. Redistribution to the Lower end of the Distribution of Income: Within the Social Insurance System

A second, more standard pattern of redistribution is toward the lower end of the spectrum. It is both towards individuals within the system and towards elderly individuals outside the system, in the form of social assistance pensions. Both programs are currently extremely small (about .03% and .05% of GDP, respectively); hence they are interesting not so much for their effects in the present arrangements, but rather for the lessons they can provide in the case the Colombian pension system re-orient itself away from the upper end of the distribution and towards the more needy individuals.

We will consider first redistribution within the system. Both the Prima Media and the AFP systems redistribute resources towards contributors close to the minimum wage, in two ways. Ley 100 establishes a lower floor on all old age pensions. Second, the Fondo de Solidaridad Pensional supplements contributions to the Prima Media system by individuals who cannot temporarily contribute.

a. The Minimum Pension Guarantee

There are at least two trade-offs in a minimum pension guarantee. The higher the minimum pension, the higher the incentives to contribute for those who expect to qualify for the minimum pension only, but also the higher the burden on the budget. Also, the higher the guaranteed minimum pension, the smaller the step increases for any additional year after the minimum length of contributions for the minimum pension. Hence, a higher minimum pension increases the incentives to contribute for the minimum required number of years, and to stop contributing thereafter (see James (1999)).

As with most trade-offs, it is not obvious what is the optimal point. But, at a minimum, one should be aware that, in most respects, Colombia has made widely different choices from most other Latin American countries who have recently reformed their social security systems.

The minimum guaranteed pension in Colombia is equal to the minimum wage at the moment it starts, and afterwards it increases by the greater of the ICP inflation rate or the increase in the minimum wage. But the minimum wage is extremely high in Colombia. In 1994, it was about 72% of the average salary of a worker in the 7 main cities, hence an even larger share of the average salary in the country (see Ferne' and Lupia (1996)). In the same year, it was equal to 68% of the average urban income, 160% of the urban poverty line, 123% of the average rural income, and 190% of the rural poverty line (DNP (1998a))! In addition, the minimum pension requires only 10 years of contribution, after which there is little incentives to continue contributing for low wage workers who cannot realistically expect to ever get anything more than the minimum pension.

Most other Latin American countries have made different choices, with much lower minimum guaranteed pensions and much higher minimum contributory periods (See James (1999) and Ayala (1995) for a detailed comparison with Latin American countries).

b. The Fondo de Solidaridad Pensional

The goal of the Fondo de Solidaridad Pensional (FSP) is to subsidize the contributions to the Regimen General de Pensiones (RGP) of certain poor workers who cannot temporarily contribute, in order to avoid breaks in their record of contributions. Specifically, the target population is those workers who earn less than a minimum salary (1.5 minimum salaries if self-employed) and also belong to one of the following categories (see DNP-UDS (1996)): 1. Workers in informal urban and rural sector; 2. Community mothers; 3. Disabled workers; 4. Workers of cooperatives.

The program is cross-subsidized by a surcharge of 1 percentage point on the contributions of workers who earn more than 4 minimum salaries, up to 20 minimum salaries. The eligibility criteria have changed little since the inception of the program. Besides decreasing the age at which the subsidization becomes available for some workers, the main changes are the increase in the rate of subsidization for rural workers from 70% to 90%, starting in 1998, and the abolition of the requirement of 500 weeks of contributions for urban workers, starting in 1997, as it was quickly realized that virtually no worker in the informal sector would satisfy this criterion.

It should be noted that the target population excluded individuals earning less than 2/3 of the minimum wage (except if community mothers), or belonging to SISBEN 1, as it was felt that they would not have enough resources to complement the FSP contribution (see Florez, Moreno and Barrios (1994)).

The problem has suffered from **low membership**, relative to its target. Membership in 1997 was 242,480 individuals, with the following breakdown: 25% community mothers, 40% workers in urban informal sector, 33% rural workers, and 2% disabled workers. This figure is still short of the pool of potential members. Among the reasons for the low membership are:

- It appears that many workers were not aware of the existence of the program, despite an advertisement budget of \$880mn. For instance, only about 3% of the 8880,000 rural workers earning less than the minimum salary were affiliated, and only 62% of community mothers.
- There has been some confusion about eligibility. According to article 26 of ley 100 1993, the beneficiaries of FNP must be affiliated to the Regimen General de Seguridad Social en Salud (RGSSS). But a self-employed individual who earns less than a minimum salary or less does not have enough resources to be affiliated to an EPS, and therefore can only be affiliated to the Regimen Subsidiado. But the latter was not properly set up in 1996; hence according to CONPES the affiliation to RGSSS would be considered satisfied if a person was entitled to the benefits of that regimen according to SISBEN. It is not clear whether this decision has actually been implemented.
- Rural workers also have low membership, for two reasons. First, in rural areas, campesinos often cannot pay the contributions because of the limited network of ISS offices; as a consequence, in 1996 7.5% of members could not contribute for two or more months in a row, which automatically caused their elimination from the rosters (see DNP-UDS (1997)). Second, some argue that many potential rural clients of the program still had problems paying their 30% share of the contribution, partly because of the seasonality of their earnings. From 1998, the rate of subsidization for rural workers increased at 90%; in addition, CONPES recommended that the organizations of campesinos be allowed to pay contributions in lump - sum, anticipated, to ISS. But it was not clear whether ISS would allow this.

We do not know whether these problems have been successfully addressed. Conpes has stopped publishing its yearly review of the Fondo de Solidaridad Pensional after 1998, possibly indicating diminished interest in this program.

The program has also suffered from a number of **administrative problems**. In 1997, 67% of individuals were at least two months late in their payments, and according to Ley 100 should have been dropped from the benefits of the FSP. There appears to be three main reasons for this situation:

- Many individuals had difficulty paying their contributions, because as of December 1997 only BCH branches would accept payments, but BCH had a limited network of branches (see DNP-

UDS, 1997). Conpes decided that, from 1998 on, an individual would be dropped from the list of beneficiaries if 4 or more months late in the payments. No information has been provided on whether this measure has had any effect.

- There was a juridical debate on the cumulability of contributions to regimen contributivo and regimen subsidiado. ISS would not accept the cumulability (see DNP-UDS (1997)). There is no information on the outcome of this debate.

Still in 1997, many of the entities that exact the 1% surcharge on behalf of FSP (like pension funds, AFP's, ISS, Fondo del Magisterio, etc.) failed to turn over the proceeds regularly to the FSP. This is further indication that the FSP is not fully operational yet. Because the FSP has currently a large surplus, this does not seem a major problem at the moment, but it will become more serious when and if FSP gets into its steady state.

4. Redistribution to the Lower end of the Distribution of Income: Outside the Social Insurance System (Social Assistance)

Redistribution to elderly individuals outside the Prima Media system is accomplished essentially by one program, REVIVIR, which is part of the Red de Solidaridad Social. REVIVIR was established by Ley 100 of 1993 to pay up to 50% of minimum salary to indigent elderly individuals older than 65 (50 if handicapped). Decree 1135 of 1994 issued the provisions to operationalize the program, determined the cofinancing by territorial entities, and established a pilot program for 1994 and 1995.

To qualify, an elderly individual must belong to level 1 of SISBEN, or have at least two unmet basic needs; additional requirements are (see DNP-UDS-DEI (1996)):

- A monthly income below the amount of the subsidy
- Live in families with household income below the minimum salary or
- Live in institutions or not be attached to any household

Priority had to be given to this last category. The requirements for a municipality to participate in the program were

- Use SISBEN
- Have some program for elderly people
- Contribute at least 50% of expenditure

The program is administered by FOSES, while municipalities identify the beneficiaries. It is part of the RED de SOLIDARIDAD. The monthly subsidy is equal to the difference between poverty and indigence line according to DANE. It appears the subsidy can be given in any combination of cash and provision of goods and services. In 1997, the breakdown of the assisted population was: "Abuelos en la calle" 6%; "Abuelos in ancianados" 11%; "Abuelos qui viven solos" 29%; "Abuelos qui viven en familia" 54%. CIDER (1998) argues that this breakdown is evidence of insufficient targeting. Still, the sum of the first three categories is 46%, which is not necessarily bad targeting for social programs. But clearly a more rigorous evaluation of the program is needed.

In a survey of 115 municipalities, the alcaldes ranked it above the other main RED programs, namely the two vivienda programs, the employment program and the apoyo alimentario.

Like the FSP, REVIVIR suffers from **low membership**. In 1999, its coverage was 90,310 individuals, little changed since 1997. But a DANE survey in 1993 had located a pool of potential beneficiaries of 320,638 elderly in SISBEN 1, of whom 98,658 disabled individuals over 50 and 221,980 indigent individuals over 65.

Also like FSP, REVIVIR has suffered from administrative problems: 53% of the 675 interviewed participants report interruptions in the subsidy. It is not clear how serious this problem is.

5. Evaluation and Proposals

The key problem of the current pension system is clear: it spends too much on too few people. For a country like Colombia, with limited fiscal resources, pensions must be used to protect elderly individuals from poverty, not to ensure the continuation -or the improvement, as in the case of teachers- of their living standards into old age.

A second, related problem is the remarkable complication of the current system, with its large numbers of special regimes, each obtained by small groups bargaining for special treatment. A consequence of this fragmentation is that the system is to a large extent unable to keep track of contributors and pensioners. But no effective reform can be achieved without this type of information.

The pension reform proposal that was due to be discussed by Congress in April went in the right direction, compatibly with the many vetoes engrained in the system.³⁷ The proposal was far reaching, and covered many more issues than discussed here. The discussion that follows is not meant to be exhaustive of the issue, rather it concentrates mostly on a few salient distributive aspects.

The FSP and the social assistance components of the pension system are small, and usually attract very limited attention. Yet, a byproduct of reducing spending on standard pensions should be freeing up resources for other social programs. Social assistance old age pensions and a well-thought FSP should be two of them. The experience of industrialized countries shows that the eradication of old age poverty has been probably the most remarkable achievement of their social security systems in the post-war era. But, besides their limited size, the implementation of these components in Colombia has so far been flawed.

The key problem is that the minimum wage is too high in Colombia, and legally and politically it is difficult for the government to pay less than the minimum wage. Thus, both the minimum wage guarantee and the FSP pay too high a pension, equal at least to the minimum wage.

The Fondo de Solidaridad Pensional also has gone beyond its initial purpose. As emphasized by Ayala (1999), the FSP has subsidized the contribution of individuals with very little or no incentives of their own to enter the system. This was not meant to be the original mission of the FSP, which should have taken care of temporary situations to ensure a continuing record of contributions. In other words, the current operation of FSP creates little or no incentives for individuals to contribute their share, and could create an adverse selection problem with individuals in search of an invalidity or survivors pension. This is likely to be the case, for instance, with community mothers, 95% of whom in 1993 earned less than 2/3 of minimum salary (see Florez, Moreno and Barrios (1994)).

It is well known that in Latin America there are powerful incentives for poor individuals to stay outside the formal pension system (see Holzman, Packard and Questa (1999) and James (1999)). But

³⁷ Unfortunately, its discussion has been delayed, and at this stage it is not clear what the fate of the proposal will be.

the requirement that FSP be linked to affiliation to the Regimen General de Seguridad Social en Salud has clearly exacerbated the problem. It is not clear what is the rationale for this requirement.

But what should one do of those individuals who are not covered by the FSP, i.e. the poorest individuals? Colombia should start thinking about a well devised social assistance program. REVIVIR was just a half-hearted attempt, with too limited financial and organizational resources to be effective. But it also had some design flaws.

Its heavy emphasis on decentralization and municipal cofinancing defies the purpose of a redistributive program directed precisely at the poorest: presumably the poorest municipalities are also those with the highest incidence of elderly indigent. In general, decentralizing social assistance program might make sense in countries, like the US, where local governments have a sufficient tax base and a sufficiently diversified population to be able to sustain and administer the program by themselves. It makes much less sense in countries where local government vary enormously in their tax bases and administrative capabilities.

The pension component of REVIVIR does not need flexibility. A social pension is the same everywhere, and it can be managed nationally. Other services to indigent elderly should be adaptable to local needs. But at the same time, it is not clear that many municipalities have the technical and, later on, the financial ability to run this program by themselves. Perhaps the program should be run by a nationwide agency with good local ramification and flexibility.³⁸ Of course, such a step should be undertaken only after making sure that it will not strain the working of the agency.

Related to this last point, it does not seem appropriate to link participation in this program to the fulfillment of the requirement that a municipality should have a program for the elderly indigent of its own. There must be a high correlation between the technical capabilities of a municipality and the level of poverty in that municipality, including old-age poverty. Therefore, REVIVIR might miss the target population exactly in the areas where it is needed the most.

Making this program part of the Red de Solidaridad Social, with little organization of its own, has further exacerbated the problem: according to CIDER (1998), in only 38% of the municipalities is REVIVIR run by an agency that also runs similar programs.

Decentralization also impinges on the sustainability of the program: only 32% of the municipalities claim to be able to financially support the program if financing from the RED is discontinued. In fact, in 1998 the share of municipal financing in total REVIVIR spending was only 25%, half the statutory share.

The targeting effectiveness of REVIVIR is also a matter of dispute. According to CIDER (1998), based on interviews with 675 elderly participants in the program, REVIVIR enrolled 67% of participants into the Regimen Subsidiado en Salud, gave access to health services to 33% of participants, obtained "visual and mobility aids" for 16% of the interviewed participants, and promoted the "institutional attention" for 11% of the interviewed individuals. However, these claims are mostly qualitative, thus hard to evaluate.

There remain two key, connected issues: the financial sustainability of the program and its disincentive effects. It is hard to know what a far reaching program would cost: a rigorous quantitative evaluation of REVIVIR does not exist, even though in 1998 Conpes had instructed an evaluation of the program to be made. But a back of the envelope calculation is relatively easy. Based on current costs and enrollment, it would take about .2% of GDP to pay the current level of benefits to the 321,000 individuals that qualify for REVIVIR according to DANE.

³⁸ CIDER (1998) proposes ICBF; however, as discussed in section 4.2, ICBF itself has problems of excessive centralization.

Second, a social assistance pension could certainly have effects on the saving propensity and labor market attachments of the poor, via a wealth effect. While this effect should not be dismissed off hand, we must recognize that we have absolutely no idea about its possible magnitude.

B. Policies Towards Families and Children

1. The Institutional Framework

At present, policies towards families and children are run mostly by ICBF, a central government agency with a 1998 total budget equal to about .5 of GDP (.6% with municipal participation), and funded with the proceeds of a 3% payroll tax. A few programs are run by the RED de Solidaridad Social, often in coordination with ICBF. The present system contains elements of several different types of programs:

- day care
- food distribution and nutrition help
- school feeding
- help for mothers heads of families
- preventive and health care
- in-kind support for children in school age
- various programs for adolescents and minors. Table 11 describes all the programs and their budgets.

2. Programs for Preschoolers, Infants, Pregnant and Lactating Women: Theory

Why are programs for preschoolers so important in developing countries? There are several reasons. First, malnutrition and health problems among preschoolers are a higher risk in these countries. Second, these programs could help foster the personal development of a child. According to studies of the US Perry Preschool Program for disadvantaged children, former participants in the program have earnings at 27 that are higher by up to 60% than non-participants, have much higher rates of high-school graduation, and lower delinquency and teen age pregnancy rates (see Barnett (1990) and (1993)). A Rand study estimates large net social benefits from these programs.

However, this and other type of evidence come from sophisticated programs in the richest countries in the world. In essence, we do not have reliable estimates of the long-run benefits on development for developing countries.³⁹ However, it may well be that in these countries pre-school programs could work mainly via more basic effects on nutrition and health. A variety of experiences in Latin American countries suggest that well designed programs, linking child care to nutrition and health, might be very effective in fostering the health of small children (see Deutsch (1999) and Myers (1999)). We will return to these effects later.

A third important effect of pre-school programs might consist in freeing up the time of parents attached to the labor force. A study on data from the favelas of Rio de Janeiro found that earnings of poor mothers with access to child care facilities increased by up to 20%.⁴⁰

³⁹ Van der Gaag and Tag (1998), using data from Bolivia, estimate social returns ranging from 1.4 to 2.1. But the data and the empirical methodology are questionable.

⁴⁰ Like most other studies in this field, this study too was however plagued by endogeneity problems.

Table 11. ICBF and Red Programs for Families and Children, 1998

	Budget	Beneficiaries
Children under 7		
Atencion al menor de 7 años	81,312	406,623
CAIP - Tradicional	-	130,892
CAIP - No convencional	-	4,444
Lactantes y preescolares	-	20,363
Jardines comunitarios	-	4,607
Intervención nutricional materno infantil	259,776	1,380,40
Hogares comunitarios de Bienestar		
HCB	-	916,725
FAMI	-	463,725
Apoyo alimentario (RED)	55,293	916,725
Bono alimentario para niños en edad preescolar no cubiertos en HBI - área rural (RED)	6,414	85,069
Minors between 7 and 18		
Restaurantes escolares	-	2,537,327
Asistencia nutricional al escolar y adol	69,309	2,473,977
Atención complementaria al escolar y ado	11,382	63,350
Subsidio escolar (RED)	9,196	149,984
Clubes juveniles	3,775	42,003
Menor autor de infracción penal	21,409	27,487
Protección menor de 18 años	22,781	191,687
Menor abandonado en peligro	49,920	62,692
Protección menor y familia	1,676	-
Protección de la familia	10,250	1,030,292
Talentos deportivos (RED)	1,202	3,030
Compra y distribución de alimentos	28,026	-
Formación, administración, información	9,558	-
In millions of pesos		

There is a fourth potentially important effect of preschool programs that is almost always neglected. These programs typically provide an implicit subsidy to families, via their nutrition component and in some cases by implicit subsidizing the work effort of mothers. In a recession, in the typical Latin American country the participation rates of women increases, via a negative wealth effect. This has been the case during the current recession in Colombia, where the participation rate of women increased from 46.9 in 1997 to 53.3 in 1999. Thus, pre-school programs could provide a countercyclical social policy, since the value of their subsidy increases in times of recessions.

Lastly, pre-school programs tend to have good self-targeting properties in developing countries, where poor families tend to have a much larger size than rich families.

Using this surrogate theoretical framework, I will now turn to assess the Colombian system of pre-school programs and their effectiveness.

3. Programs for Preschoolers, Infants, Pregnant and Lactating Women: Institutions

Programs for pre-schoolers are run mostly by ICBF. The historical mission of ICBF is to run child-care centers. There are three basic types of child-care programs: CAIP, the older one, HCB, and Jardines Comunitarios de Bienestar; in 1997 the former represented 12.5% of all spending by ICBF, HCB 41%, and Jardines Comunitarios a small .1%.

CAIP has two; "modalities" Traditional and Non-Conventional. Traditional CAIPs are standard child-care centers, run by professional staff, in ICBF premises (if more than 90 children) or community premises (if less than 90 children). A CAIP provides day-care, supplemental feeding, health care and pre-school education for children under 7. Non conventional CAIPs are run by trained community personnel, and are characterized by more flexible hours than Traditional CAIPs; their schedules and locations are determined by the community.

There are two "modalities" - of HCB ("Hogares Comunitarios de Bienestar"): the original type, with child-care centers for children between 0 and 7 years, started in 1987, and FAMI (Familia, Mujer e Infancia), started in 1991.

HCB is the largest program of ICBF. It covered about 900,000 children in 1998 and 1999. An HCB consists of a day-care center for children under 7, run by a "community mother", a person chosen by the community who need not have any qualification (except having completed nine grades of school, a requirement that is often not enforced - see below). She receives some rudimentary training by ICBF in child care and nutrition. ICBF also helps community mothers obtain subsidized loans to upgrade their facilities, and pays a community mother a monthly salary: as we have seen, 95% of community mothers earn less than 2/3 of the minimum wage. In addition, ICBF provides 80% of the daily nutritional requirements by distributing directly a nutritional supplement, called Bienestarina.

Another defining feature of HCBs is that they are meant to involve heavily the community: in principle, each family must "cooperate" with the community mother at least once every 15 days.

A HCB serves a maximum of 15 children. Priority is given to marginal neighborhood, and to children under 7 with at least 2 unsatisfied basic needs (NBI). The budget of an HCB is executed by Asociaciones de Padres de Familia. Each Association administers between 15 and 20 HCBs, and each operates a Junta de Padres de Familia. The bulk of the funds come directly from ICBF; in addition, each family is required to pay a monthly fee equal to 25% of a daily minimum salary - in 1992, this was equal to 7% of the monthly cost per child.

After 1991, ICBF slowed down the expansion of standard HCBs in order to improve quality. It started a new "modality" of HCB, Familia, Mujer e Infancia (FAMI), with target population pregnant women, lactating mothers and children under 2 in extreme poverty. The home is still run by a "community mother" elected by the Association of Hogares Comunitarios; she supervises two groups of 15 women, in two daily sessions, giving advice on nutrition and health and making home visits.

The third type of child care center, Jardinos Comunitarios, was started to involve the community more closely. Its target is children between 2 and 5 years of age, who have at least one parent with little or no labor force attachment. Each Jardin Comunitario is composed of 120 children divided in two groups of 60 children who attend every other day. Each Jardin is headed by a professional educator; each group is run by a community mother, and further subdivided into 4 groups of 15 children, each under the supervision of a volunteer parent.

Besides child-care centers, there are other programs directed at pre-school children, financed by the RED and usually managed by or in close cooperation with ICBF. i) *Apoyo alimentario a niños de edad preescolar*: part of the RED, but administered by ICBF with cofinancing from municipalities. Its goal is to improve the nutrition of children in HCBs by taking their rations from 60% to 73% of daily calories need. It covers automatically all children in HCBs only. ii) *Bono alimentario a niños de edad preescolar no cubiertos por HCB (area rural)*. Also part of the RED, but administered by ICBF with cofinancing from territorial entities. It distributes high-calories food to poor children in rural areas using the network of suppliers organized by ICBF. The coverage in 1998 was 85,000 children. This program has always been very small, and it seems to be one of the programs that the RED is about

to discontinue: it does not appear in the accounts of ICBF after 1997. iii) *Programa de Atencion Materna Infantil (PAMI)*. This program, part of the RED, had two components: build or rehabilitate health centers, especially in the 11 departments with infant mortality rates above average, and attach to the Regimen Subsidiado women and children under 1. It was executed by the Ministry of Health, with cofinancing from municipalities; the Red de Solidaridad Social also had a role, consisting in locating needy women in poorest areas, and in promoting the program. By end 1995, in its first component it had built 140 health posts in 128 municipalities; in the second component, it had affiliated to Regimen Subsidiado de Seguridad Social 82,000 mothers and 64,000 children under 1 (82% of plan). There are no signs of this program in recent years. Finally, there are two ICBF programs on which no information is available: iv) *Asistencia al menor en recuperation nutricional*; v) *Intervencion nutricional materno infantil*.⁴¹

4. Child care Programs for Pre-schoolers: Costs and Usage

From now on, I will focus on the child-care components of ICBF, HCB and CAIP, the only programs on which information is available. By universal agreement, the quality of care offered by CAIPs is much higher than that of HCBs. Yet, in the last decade the Government has made a conscious effort to redirect resources away from CAIP and towards HCB. There are two reasons for this change in policy. First, and mostly under the influence of UNICEF, HCB was perceived as a more community-oriented program, involving the active participation of parents; CAIPs, by contrast, were viewed as typical «charity», with no involvement by parents or the community. Under the prevailing ideology of the time, this perceived feature of CAIP was a considerable handicap. The second reason was that CAIP was perceived as a rather costly program, directed mostly at the urban middle class.

To evaluate this policy, and its possible alternatives, one needs at least three pieces of information: i) what are the effects of CAIP vs. HCB; ii) what are their relative costs; iii) and who uses the two programs.

a. Effects of CAIP and HCB

There is virtually no information on this issue. The last comparison of the two programs was made in 1993 (Florez and Mendez (1993)). Although very careful, it was not meant to contain any experimental evidence, and it focused mostly on issues of usage and costs, rather than on their effects. A non-experimental attempt at evaluating some effects of HCB was made in 1996 (ICBF (1997)), but it covered only HCB. In fact, since 1993 there is virtually no information -besides program appropriations and payments, and number of beneficiaries- on any ICBF program other than HCB. Still, from anecdotal evidence and from conversations with experts in the field, it is safe to assume that the quality of care provided by CAIP is enormously higher than that of HCB.

b. Relative costs of CAIP and HCB

The key issue then becomes their relative costs. Costs per child depend crucially on actual enrollment, a controversial figure. Official data on enrollment are obtained by multiplying the number of HCBs

⁴¹ This program is listed as having 155,147 children beneficiaries, but 0 budget allocation for 1999.

by 15, there maximum number of children. Yet, as Florez and Mendez (1993) showed, actual enrollment is likely to be on average less than 13 children per HCB; and from survey data, the actual HCB enrollment could have been as low as 50% of the official enrollment. Based on official enrollment, in 1999 the cost per child of CAIP was about 170% that of HBI.⁴² Yet, World Bank (1997b) shows that , while in 1987 the cost per child at CAIP was 2.6 times that at an HBI home, in 1996 the ratio was only 1.2.

If this were indeed the case, there seems to be little doubt that the policy of promoting HCB against CAIP is misguided, given their widely different qualities. But any progress on this fundamental issue will always be impossible unless the question is settled once and for all. And it should not be difficult: it does not take many resources to sample 100 HCBs and 100 CAIPs in rural and urban areas.

c. Usage of CAIP and HCB

But who uses CAIP and HCB? It is not possible to answer this question in recent years. But a detailed answer is possible⁴³ based on the 1992 survey. The conventional wisdom is that HCB and especially CAIP are mostly urban programs. Yet, data on usage are not entirely consistent with this view. Table 12 shows that, according to the 1992 ENH, usage of HCB was more frequent in rural areas, where 12.4% of families with children aged 2 to 6 used HCB, against 6.3% in large cities, 10.5% in intermediate cities, and 11.3% in small cities. In contrast, CAIPs are used slightly more in large cities, by 9% of households with children aged 2 to 6, than in rural areas, by 7.1% of the same type of households. But the 1993 CASEN survey gives a much higher relative usage of HCB in both rural and urban areas.⁴⁴

Users of HCB do tend to be of lower socio-economic standing than users of CAIP. But the difference is mostly visible in rural areas. Table 13 shows that, among families with children aged 2 to 6,

Table 12. Usage of CAIP and HCB by Households: Colombia, Urban and Rural

	Colombia	Large cities	Interm. cities	Small cities	Rural
ENH					
HCB	10.0	6.1	10.5	11.3	12.4
CAIP	7.8	9.0	4.9	8.6	7.1
CASEN					
HCB	-	-	18.6	-	25.4
CAIP	-	-	6.3	-	2.9

Source: "ENH": Florez and Mendez (1993), Cuadro 2.11 on 1992 ENH; universe is families with children 2 to 6. "CASEN": Laibovitch and Nuñez (1999) CASEN; universe is all households.

⁴² These figures are obtained by dividing the allocation for 1999 by the official number of beneficiaries. It is likely that the overestimate of the official figure of beneficiaries is higher for HCB than for CAIP, hence the relative cost of CAIP per children is likely to be lower than 170%.

⁴³ Since then, relative attendance probably has changed, reflecting the gradual phasing out of CAIP. But the figures that follow are still useful to understand the patterns of demand for the two types of child care when both programs were still supported by ICBF.

⁴⁴ The CASEN survey also gives much higher rates of usage of both HCB and CAIP. This is probably due to the fact that the survey asked if the household used the services of these two programs at some point in the past.

**Table 13. Usage of CAIP and HCB by Householdseith Children 2 to 6:
Colombia, Urban and Rural**

	Colombia		Urban		Rural	
	CAIP	HCB	CAIP	HCB	CAIP	HCB
D1	6.8	17.5	12.0	9.5	5.5	18.7
D2	9.2	10.4	8.5	7.6	6.5	16.6
D3	7.1	11.1	8.9	8.9	8.7	12.8
D5	7.6	8.2	10.5	12.6	6.9	10.7
D10	5.8	2.2	4.9	2.2	9.7	11.4
Total	7.8	10.3	9.0	6.1	7.1	12.4

Source: Florez and Mendez (1993), Cuadro 2.11, based on ENH 1992. Urban: major cities. Each cell represents the percentage of each decile of households with children between 2 and 6 whose children are enrolled in CAIP or HCB.

in urban areas the first three deciles were about equally likely to send their children to CAIPs as to HCBs; but in rural areas, the first three deciles used HCBs much more frequently than CAIPs, with the difference tapering off at higher deciles. In both areas, however, richer individuals are more likely to send their children to CAIPs than to HCBs. Because the average income in rural areas is much lower than in urban areas, the first three deciles encompass most poor in urban areas but only part of the poor in rural areas. Another perspective on the same issue can be gained by looking at the usage of HCB and CAIP by poor individuals (defined as those with income below 2 US dollars per day, in PPP at 1985 prices) in urban and rural areas (see Table 14, based on the 1993 CASEN survey). Like in the previous table, poor individuals do tend to use HCB much more than CAIP in rural areas; but now this is true also in urban areas.

What is the actual breakdown by income of users of HCB and CAIP? Table 15 shows that the poor are the largest users of HCB in rural areas (where they make up about 60% of the households), but their proportion in CAIPs is only marginally smaller. Table 16 shows that this difference is accounted for mostly by the first decile; from the third decile on usage of HCB and CAIP in rural areas is similar. In urban areas the poor make up only about 20% of all households, but again there is not much difference between CAIP and HCB in terms of usage by the poor. The CASEN survey, however, shows a larger difference in usage of CAIP and HCB by the poor in both areas.

Table 14. Usage of CAIP and HCB by Poor and Non-Poor Urban and Rural

	Urban		Rural	
	CAIP	HCB	CAIP	HCB
Poor	6.2	30.8	2.3	27.3
Non-poor	6.3	15.6	3.7	23.0
All	6.3	18.6	2.9	25.4

Source: Leibovich and Nunez (1999), based on Encuesta CASEN 1993 Each cell represents the percentage of poor or non-poor households who have enrolled their children in HCB or CAIP "Poor": households with less than US\$2 per capita in PPP. 1985 prices.

Table 15. Usage of CAIP and HCB by Poor and Non-Poor Urban and Rural

	Urban		Rural	
	CAIP	HCB	CAIP	HCB
ENH				
poor	38.2	47.3	69.7	84.4
non-poor	61.8	52.7	30.3	15.6
CASEN				
poor	19.7	33.0	48.2	64.0
non-poor	80.3	67.0	51.8	36.0

Source: "ENH": Assumed first 2 deciles in urban and first 6 deciles in rural are poor (from distribution of all households in CASEN survey); "CASEN": computed from table 4.2.4 Each cell represents the percentage of enrollment in HCB or CAIP attributable to "poor" or "non-poor" households; "Poor": households with less than US\$2 per capita in PPP, 1985 prices.

Table 16. Share of CAIP and HCB enrollment by Deciles: Colombia, Urban and Rural

	Colombia		Urban		Rural	
	CAIP	HCB	CAIP	HCB	CAIP	HCB
D1	14.2	27.5	23.6	27.7	9.7	18.8
D2	18.6	15.9	14.6	19.4	14.5	20.9
D3	12.1	14.6	13.0	19.3	17.0	14.2
D5	10.0	8.1	12.3	4.5	10.6	9.7
D10	3.1	0.9	2.4	1.6	4.5	3.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Florez and Mendez (1993), Cuadro 2.13, based on ENH 1992. Urban: major cities.

5. Child-care Programs for Pre-schoolers: Incidence

Who benefits from HCB and CAIP spending? I will focus here on the only program whose incidence has been studied, HCB. Based on the 1992 ENH, in urban areas the net subsidy⁴⁵ of HCB represented a negligible share of the income of all families with children aged 2 to 6, at most 1% for the first decile of the distribution of household income. But in rural areas, the HCB net subsidy is equal to 6.3% of the income of the first decile of all households, and 2.9% of the second decile. Thus, HCB has good targeting properties; unfortunately, no information of this sort is available for the other programs.

6. Child care Programs for Pre-schoolers: Evaluation

How well do programs for pre-schoolers fulfill the tasks briefly set out in section II.D.2 in the absence of experimental evidence and longitudinal data, it is difficult to make a rigorous assessment. But one can attempt an informed guess from the available evidence.

⁴⁵ The net subsidy is computed by Florez and Mendez (1993) as total costs per child less the small flat fee less the 3% payroll tax, under various assumptions about its incidence.

The quality of the care provided by community mothers is obviously questionable. From the 1996 survey, 57% did not take the standard measurements of children upon enrollment, and less than 10% could interpret the individual and collective growth curves. 55% of HCBs in rural areas did not have teaching material, 58% did not have toys. From this and anecdotal evidence collected in visits by experts, it is safe to argue that HCBs in rural areas have little impact on the psychological and cultural development of children.

A second potential benefit of HCBs, we have seen, is the implicit subsidization of the mother's work. But 58% of spouses of household heads who use HCBs were not attached to the labor force in 1993 (Florez and Mendez (1993)). However, this percentage is much higher in rural areas, 64%, than in large cities, 47%; and it is higher among the poor (for example, it is 81% in the first decile of the rural distribution) than among the rich. The case of CAIP might be different, as they were designed in part to satisfy the needs of working parents. They require less (or no) involvement, and tend to have more flexible hours, partly because in many cases they are contracted out by ICBF. Yet, the extra flexibility of CAIP might not be enough: except for the last decile, on average the rate of inactivity of spouses in households that use CAIP is very similar to that of HCB users. Several studies have argued that hours flexibility is the key to the effectiveness of child cares in increasing the income of users; and that in many studies private child care centers outperform public ones exactly for this reason. Hence, flexibility might be one of the key directions for reform of child care policy.

In summary, HCB and CAIP do not seem to have an important role in freeing up working time for mothers. As we have seen, the use of HCBs is more common among the poor and in rural areas, where there is evidence that limited supply constrains usage further (see Table 17). Yet, the poor in rural areas are exactly those who have more time available. Why, then, do these families send their children to HCBs? Not for their educational role, nor -to a large extent- because they have to go to work. The remaining possibility is the implicit food subsidy they provide.⁴⁶ If this is the case, then one should think of more efficient ways of conveying the food subsidy to families, an issue that we will take up again later.⁴⁷

Table 17. Reasons for not Using HCB, Urban and Rural

	Large cities	Interm cities	Small cities	Rural	Colombia
Using HCB	6.1	10.5	11.2	12.6	10.4
Reasons for not using HCB:					
No facility nearby	2.7	3.1	3.6	36.6	18.8
No space	6.0	6.4	7.0	5.0	5.8
Too costly	8.0	7.8	6.2	3.6	5.6
Other	37.8	41.7	49.6	30.0	36.7
Total	100	100	100	100	100

Source: Florez and Mendez (1993), Cuadro 2.11

⁴⁶ This possibility was supported in a private conversation by a leading academic expert on HCBs.

⁴⁷ A prominent nutritional role for HCB does not mean that there are no problems with its performance in this area. In the First Evaluation Survey of 1996, malnutrition was found to be marginally higher among children who attend HCB, even after controlling for socio-economic level. This seems to be due to the fact that parents think their children get the full ration, while they get at HCB only 50% to 70% of the daily ration. Another reason could be that only about 10% of the HBIs complied with the ICBF diet requirements in 1996 (World Bank (1997b)). However, the difference in malnutrition levels was not statistically significant.

The nutritional aspect of child-care programs is particularly important for children under 2, because malnutrition is particularly severe in this age group, and because there is evidence (mostly anecdotal) that the returns to intervention by 2 years of age are very high (see Deutsch (1999)). In 1996, only 12.2% of children enrolled in HCB were in this age group; but this number per se does not indicate whether there was unmet demand for the services to children under 2, and how effective the current level of service is. The specific program targeted at this age group and their mothers, FAMI, by 1998 had about 465,000, half the official users of HCB's. FAMI was intended mostly for poor families. However, results from the 1993 CASEN survey show that in rural areas poor and non-poor families were about equally likely to use FAMI. Usage at that time was very limited, however; it might be that numbers have changed by now. However, no recent information is available on this program.

7. Child care Programs for Pre-schoolers: Proposals

To summarize, the evidence shows that HCBs are heavily used in rural areas as well, where there are also indications of high unmet demand; the educational functions of HCB is extremely limited, and the quality of care provided is highly inferior to that of CAIP; there are concerns about the effectiveness of ICBF programs for children 0 to 2; flexibility is the key for childcare to be of use to working mothers.

Based on this (admittedly tentative) evidence, the following is a possible set of proposals that address these issues.

- ICBF should think about moving back to the CAIP model. If costs are a problem, it should think about more cost recovery, with fees on a sliding scale, e.g. based on the SISBEN classification.
- Despite lack of any evaluation, there are concerns that FAMI is not doing a good job in addressing the need of pregnant and lactating women and children under 2, mostly because FAMI community mothers are not sufficiently well trained. ICBF should consider shutting down FAMI (subject to some evaluation of the program).
- All existing programs by the ICBF or RED which duplicate efforts, such as PAMI, should be scrapped entirely. Similarly for those programs with minuscule clientele, like Jardinos Comunitarios.
- ICBF should enhance the flexibility of its programs, particularly of HCBs. World Bank (1990) already observed that in 1990 ICBF was administering directly 97% of HCB's, and "no agency can single handedly manage between 30000 and 60000 day care centers (depending on estimate)". In dispersed areas, where as we have seen HCB might have a natural market, the ideal size of an HCB is much smaller than 15. There are currently two obstacles to increased flexibility. There are currently two obstacles to increasing flexibility. First, the high degree of centralization of ICBF. By all accounts, ICBF is run in Bogota', where even the departmental managers are appointed. ICBF needs decentralization; but this has to be done carefully, in order not to provide the wrong incentives to local administrations. Complete decentralization, i.e. local financing of welfare programs, would penalize poorer localities. But centralized financing with decentralized decision on the allocation of funds would produce fiscal irresponsibility. Second, the increasing bargaining power of community mothers. By many accounts, community mothers are now a well organized, unionized force, with many high-ranking political supporters. Although no quantitative evidence can be obtained on this point, many actors in the field acknowledge that community mothers are increasingly a factor of rigidity.

- But community mothers pose problems in other respects as well. As we have seen, their training is often extremely inadequate. There is also continuing concern about the effectiveness of the home-improvement loans for furniture and equipment. 28% of the community mothers used these subsidized loans for purposes other than in the ICBF guidelines.⁴⁸ In addition, the turnover rate of community mothers is high (the average tenure is 2 years); when a community mother leaves she keeps equipment and furniture, leaving the community to pick up the costs. World Bank (1994) recommended that ICBF should pick up these costs, or find ways to recover the material, but not much has been done so far.
- If, as I have argued, child care programs largely fulfill a nutrition subsidization role, there are more efficient ways of conveying food subsidies to the poor. Colombia should consider a system of food stamps, which has been used successfully in Honduras and Jamaica (see Ezemeneri and Subbarao (1998)). Delivery of food stamps should be linked to the use of health care facilities by pregnant and lactating women and children under 2. This would automatically address health problems in this population, by providing strong incentives for poor mothers to use health facilities. The experience has shown that nutritional training classes for pregnant and lactating women will not be well attended, without further incentives (during a strike of food distributors in Jamaica, attendance in preventive care classes dropped to 30%). A few administrative issues to be considered carefully are:
 - By itself, the feeding program in clinics is not preventive in nature. To contain some preventive element, it must be combined with some form of targeting based on health risk. As in Chile's PNAC, the programs could select women according to health and nutritional status, in addition to SISBEN; in order not to overburden clinics, it could give normal rations to all women, and weigh every 3 months, and stronger rations to children at risk, and weigh every month.
 - Operationally, the experience of several countries has shown that, when clinics have been put in charge of food stamp programs, the demand for some of their services (baby weighing, health check ups in general) can increase up to 5 times (as in Honduras). This has put a strain on their normal operations; more importantly, doctors and nurses have resisted acting as distributors of food stamps (Jamaica). The solution adopted in Chile was to weigh babies at risk every month, and the other babies every three months. This should be adopted in Colombia as well, but one must be aware that it imposes stronger organizational and record-keeping requirements.
 - Where should eligible pregnant women collect food stamps? A practical solution is to have clinic perform only pre- and post-natal care; weighing; and high micronutrients food, as in Mexico's PROGRESA. Indigent women still collect food-stamps as before. This also has the advantage that it does not burden the clinic with excessive duties, and provide extra help for pregnant and lactating women. In addition, it keeps the incentive to use health clinics.⁴⁹

⁴⁸ The size of the loan fund in 1996 was about US \$10m.

⁴⁹ Note that in Jamaica, handicapped, elderly, and indigent individuals pick up food stamps at the post office etc.; pregnant and lactating women pick up stamps at clinics. But it would seem that an indigent woman can pick up stamps twice, unless there is a sophisticated system of record keeping in place.

Food stamps should also be extended to the rest of the pre-school population belonging to, say, SISBEN levels 1 and 2; they should be usable in HCBs. As in Jamaica, they should also be used for other vulnerable groups, such as the elderly indigents.

Food stamps have several advantages besides providing incentives for usage of other services. They tend to enjoy considerable support, because they are perceived as targeted to the poor.⁵⁰ Contrary to cash transfers, they do not require an extensive network of rural banks to be cashed; this is a big advantage in a country like Colombia, with large rural areas that are not served by banks. Thus, in the recent government proposal of the "Red de Apoyo Social", the two requirements for the conditional cash grant was that the municipality have a bank branch and a rate of immunization higher than 85%: this reduced the number of eligible municipalities to 450 out of 1,070. On the other hand, they have two problems. They pose security concerns, since food stamps are not personalized. And they can generate rents for retailers, who might refuse to accept them at face value. In Jamaica, this problem has been mitigated by making food stamps cashable by retailers at no discount in a bank; still, the problem might persist if a local store is a near monopolist in the area.⁵¹

8. Non child-care Programs for Pre-schoolers, Infants, and Pregnant and Lactating Women

Of the five other programs directed at pre-schoolers, no information is available on the first two: "Asistencia al menor en recuperacion nutricional" and "Intervencion nutricional materno infantil". "Apoyo alimentario" is closely linked to HCB, since it is essentially a subsidy from the RED to each child enrolled in HCBs, but not CAIPs. "Apoyo alimentario" and "PAMI" seem to have disappeared from the RED and ICBF accounts. Hence, it is practically impossible to evaluate these programs as well.

9. Other Programs for Minors and Families

As Table 11 shows, ICBF and the RED administer a large number of other programs, amounting to about 50% of the ICBF budget. The two largest groups of programs are school feeding programs ("Restaurantes escolares") and programs to support minors with legal problems ("Menor autor de infraccion penal"). It should be noted that these programs, like most others, include a plethora of sub-programs. The other programs range from a school subsidy to buy uniforms and books to children of female-headed households ("Subsidio escolar", run by the RED), to a program to subsidize young sport talents without means ("Talentos deportivos"), to a small program for pregnant adolescents (a subprogram of "Menor abandonados en peligro").

⁵⁰ However, between 1975 and the early eighties Colombia had a food stamp program (PAN) that, by all accounts, was considered successful (although we do not know of any evaluation of costs and incidence). It was discontinued because the new Betancour administration shifted its emphasis towards food production and increasing the income level in the countryside (thus funding more the DRI plan). In addition, it was operated by the Ministry of Agriculture, whose constituency and interests lie elsewhere (mainly in food production). Although it can be popular, food stamp program needs the support of the administration to survive. A second, more recent experiment is a pilot program called Plan DIA, started experimentally in 1994 in some areas. The program used health centers to distribute food stamps to 75,000 poor pregnant and lactating women and to children under 5. It was run jointly by the Ministry of Agriculture and Health. Since this program was so close to the one advocated here, any evaluation of its outcome would be extremely helpful; unfortunately, it has not been possible to find one.

⁵¹ Concerns about rents and corruption are the motivation for the government opting to use cash grants in the conditional grant proposal of the Red de Apoyo Social.

The only evidence available, and a limited one, is one school feeding programs, *Restaurantes Escolares*. Table 18 shows that the non-poor tend to use it much more frequently than the poor, particularly in rural areas. This pattern confirms well known properties of school feeding programs, i.e. that they are much less targeted than food stamps or well designed programs for preschoolers (see Subbarao (1989)); they are less cost-effective, because malnutrition is typically more widespread among children aged less than 5. Virtually no other information of scientific use is available on any of these programs. For instance, in evaluating the programs of the RED in this sector during the 1994-1998 period, DNP (1998) writes: "Regarding the program *Subsidio Escolar*, we suggest an evaluation of its impact, as well as increasing the value of the subsidy to students. The *Bono Alimentario* program must improve the administrative programs and contracting with mayors, in order to guarantee the execution of appropriations and the achievement of its objectives. The *Bono Alimentario* program must continue improving the nutritional level of the population attended by HCBs" (p. 35).

10. Other Programs for Minors and Families: Evaluation and Proposals

ICBF and the RED are clearly involved in too many programs in this sector. Some of them have a minuscule constituency, like "*Talentos Deportivos*", have a minuscule constituency. There is little doubt that some programs are just the result of an ideological commitment to the notion of "community involvement". This is the case, for instance, of *Jardinos Comunitarios*, which as we have seen are predicated on a utopistic degree of involvement of parents. The notion of "community involvement" is also in high fashion in international organizations; but from the point of view of incidence it is a dangerous one, because the very poor are also those who, for cultural and economic reasons, are least able to organize. HCB itself is potentially subject to this problem: ICBF merely ratifies the existence of an Association of Parents; without the latter, no HCB can be established.

Other programs are the result of a well intentioned desire to cover urgent needs. But there is no question that this has led to excessive fragmentation. The most frequently cited problem in the 1999 *Evaluacion de Gestion* was "The large number of programs and low operating capacity". An important consequence of this fragmentation is that, especially for the minor programs, it impedes the development of specific expertise, as a limited amount of human resources must be spread thinly over many different programs.

In principle, the large number of programs could be the optimal response to different demands in different parts of the country. But in this case it would be better to decentralize the operations of ICBF; and great care would have to be exercised in order to provide the right incentives to the territorial entities.

A second consequence of this fragmentation is the host of administrative problems that ICBF has suffered in the past, such as long delays in acting on the caseload. Much publicity has been given to the establishment of the *Sistema de Evaluacion Gerencial*, funded in part by the World Bank. There

Table 18. Use of *Restaurantes Escolares* by Poor and Non-Poor

Urban		Rural	
poor	non-poor	poor	non-poor
3,46	2,87	3,74	8,04

Source: Leibovich and Nunez (1999), from *Encuesta CASEN 1993*. Each cell is the percentage of poor or non-poor households who have used *Restaurantes Escolares*.

are several other programs, including the Evaluacion de Gestion y Resultados, the Sistema de Control Interno, and the Sistema de Evaluacion de Gestion. This latter program was meant to give an idea about the performance of the main regional agencies in 5 ICBF programs (HBI, Menor abandonado, adoptions, Menor infractor, and Extrajudicial), by ranking regional offices according to 16 indicators of performance. Unfortunately, the practical usefulness of this program seems limited. The choice of the 5 programs does not seem to respond to any rationale (adoption is an extremely limited program, with less than 5,000 beneficiaries, while FAMI, CAIP, Restaurantes escolares, and other important programs are left out). More importantly, a regional office is considered "problematic" according to a given indicator if its performance in that indicator is below the average. But of course in general a all regional offices, or none, could be problematic, and this "absolute" evaluation would be more useful. In addition, not all the indicators are helpful in guiding policy; for instance, only two indicators refer to the largest program of all, HCB, and they measure the fraction of children attended out of the target population, and the fraction of associations with "pago oportuno". Thus, we make the following proposals:

- ICBF should drop most of its programs for minors above 7, and concentrate on a core of key programs. If there is a need for some of the programs it currently runs, it could provide cofinancing and technical advice for interested municipalities.
- It should consider a nationwide program of food stamps (or cash grants) for families of primary and secondary school students, where disbursement of the subsidy is conditional on the children remaining in school. Like the previous proposal for preschoolers, this program has the advantage of combining a targeted subsidy with incentives to build human capital. This program would be patterned after the PROGRESA program in Mexico, which is being established on a large scale and is among the few existing programs whose participation has been randomized and can therefore be evaluated experimentally.⁵² PROGRESA seems to have good targeting properties in terms of food consumption (see Hoddinot and Skoufias (2000)), and possibly some effect on enrollment rates: Schultz (1999) estimates that it increased primary enrollment rates by 2.2 percentage points, and secondary enrollment rates among the poor by perhaps up to 6 percentage points.
- Except for HCB and, in part, CAIP, there is virtually no usable public information available on ICBF. It is significant that in the last ten years only two evaluations have been attempted, and both on HCB. It is simply unacceptable that an agency which manages .6% of GDP does not have any ground on which to base its choices. Thus, external evaluation of all major ICBF programs and the surviving RED programs should be a high priority.

C. Employment and Unemployment Policies

Colombia does not have formal unemployment insurance. Because of the high rate of informality and the difficulties in keeping records of the work history of individuals, a formal, well working unemployment insurance system is virtually impossible in a country like Colombia. In fact, few Latin American countries have one, and it is almost invariably limited to very few individuals (for instance, little

⁵² A program of conditional grants with similar characteristics is part of the emergency package included in the «Red de Apoyo Social». However, it is explicitly intended to last only for three years; it excludes the poorest municipalities (all those without a bank branch and with immunization rates below 85%), and it amounts to less than .1% of GDP per year.

more than 100,000 in Argentina). Furthermore, as Mazza (1999) shows, they are typically geared towards young individuals at the top of the wage distribution. Thus, for the time being Colombia should continue without a formal unemployment insurance system. This leaves two other types of programs: training and employment generation programs.

1. Training Programs

Training in Colombia is the realm of SENA, the state training agencies patterned after Brasil's SENAI. SENA is a large organization, with a budget in 1998 equal to about .3% of GDP. It provides training both for youths entering the labor force and for displaced workers.

The only available evidence is on the distribution of attendance by quintile, from the 1993 CASEN survey. The SENA training is highly geared towards the upper quintiles. This is not just a reflection of the fact that it is mostly an urban program: even among urban individuals, the poor enroll in SENA less frequently than the non-poor. The emergency training program of the RED, also managed by SENA, was concentrated in the top decile of the distribution of municipalities by revenue per capita; in fact, it concentrated in just 18 municipalities (see Alarcon (1997) and CEDER (1998)).

Training programs can be of long or short duration. The former effectively replace technical schools, that in much of Latin America are in dire straits. The latter are mostly used as countercyclical policies in times of high or rising unemployment. Since the last evaluation of SENA seems to have been made in 1980, little information is available on its longer training programs; hence, in what follows I will focus on the shorter programs.

Unemployment in Colombia is highly concentrated among the youths: for instance, the unemployment rate among individuals in the 18-24 age group is 25.7%, against 6% in the 50-59 group. As emphasized by Marquez (1999), training programs tend to be effective exactly in situations of high youth unemployment rate. A large body of evidence shows that training of displaced adult workers very rarely provides the necessary skills to return to the labor market, while short training programs might be adequate to provide young adults entering the labor force with job search skills.

However, there is a growing consensus that SENA, like most training agencies in Latin America, is a highly rigid institution, very reluctant to change and to adapt to the changing labor market. Programs like Chile Joven in Chile essentially outsource training programs, inviting bids from private providers and from the national training institution. This puts pressure on the national training institution to adapt to the market demand for its services. Chile Joven typically provides scholarships to its students and an internship period in a private firm. The first feature, like the conditional grants proposed in section 4.2 for mothers and school children, provides a cash incentive for a human-capital enhancing activity.⁵³

2. Employment Creation Programs: Theory and Latin American Experience

Latin America has a long experience with employment creation programs. Starting with the famous Bolivian Social Investment Fund in the early eighties, virtually every Latin American country has had at least one in the after the debt crisis.

⁵³ The second component of the Red de Apoyo Social is a training program for youths (the first component is the conditional grant mentioned in section 4.2). However, this component too is very limited (less than .1% of GDP) and limited to a maximum of three years.

Opinions on the performance of the first wave vary. The available evidence suggests that in many cases they did not reach the very poor, for two main reasons: they were not always labor intensive, and they paid high wages. The recent consensus in international organizations is built around three pillars: employment generation programs should pay much less than the minimum wage, in order to build in a self-targeting mechanism; they should employ highly labor intensive technologies; and they should be demand driven, i.e. local communities and NGO's should propose the menu of projects to implement (see e.g. Ravallion (1998)).

Two problems that have plagued Social Investment Funds since their inception are the sustainability of projects and the political use of these programs. Because investment by Social Investment Funds is, by their very nature, of an emergency nature, they rarely budget enough for maintenance, which in any case is usually assumed to be the task of local governments. The result is that a large fraction of projects financed by employment creation programs decay at a very quick rate and are not maintained.

There is little doubt that employment programs are used for political purposes, in Latin America and elsewhere. Some evidence on Peru shows that Social Investment Fund spending was heavily concentrated in marginal electoral districts. It is interesting to note that two of the countries which pioneered public employment programs in the past, Chile and Peru, have not had any such program for a while.

3. Colombia's Experience with Employment Creation Programs

Colombia has had a limited experience with employment generation programs in the recent past, in the form of two programs administered by the RED, one for urban areas and one for rural areas.

The urban employment program (Empleo Urbano)⁵⁴ is one of the few RED programs that has been the object of some quantitative evaluation (see Caro (1998), Contraloria General de la Republica (1997), and REUNIRSE (1998)). It had a limited size, generating the equivalent of 8,700 full-time employment in 1996, roughly equivalent to .73% of total unemployment in urban areas.

A striking characteristic of this program is the extremely high wage it paid: in infrastructure projects, on average in 1997 it was about 170% of that offered in the private construction sector; in services, it was about 150% of that offered in the "communal service" sector.

The program also privileged infrastructure projects against service projects,⁵⁵ on the premise that infrastructure projects are more useful to the community. However, this premise is unproven, because many emergency projects are undertaken only in order to dispense money in times of unemployment. Moreover, service projects have a lower wage, making them more self-targeting,⁵⁶ generate more employment, and, according to many participants, allow participation by less organized individuals and even teach them some useful labor market skills.⁵⁷

⁵⁴ Empleo Urbano has three components: employment generation proper, training, and support for microenterprises. The last one was extremely small -less than 1% of the budget, covering only 56 projects in 26 municipalities- and will be ignored. Training received about 13% of the budget in 1996, and has been discussed in section 4.3.1. The remaining 86% of the budget was spent on employment creation programs. This

⁵⁵ Service projects are defined as maintenance of infrastructure, parks and "green areas", protection of areas at environmental risk, and collection and treatment of garbage and waste.

⁵⁶ In 1996, the percentage of MONC ("Mano de Obra No Calificada") was 58% in services and 38% in Infrastructure.

⁵⁷ According to REUNIRSE (1998), 69% of participants in service projects attended a course or received some form of training during the execution of the project, against 31% for infrastructure projects.

Like all programs that are part of the RED, Empleo Urbano emphasized community participation and initiative. One of the most heralded innovations of the RED was its reliance on the "Mesas de Solidaridad", meetings at the municipal and departmental level where citizens, their grass-root organizations and NGO's were invited to provide the criteria for selections of the process, developed by the same actors. As discussed above, this position reflects a highly ideological position, both within the administration and in international organizations, with a highly populist tone. But the reality is that this attitude can easily prove counterproductive, because very poor individuals do not have the skills to participate in these processes. In fact, all evidence on participation at the Mesas is highly disappointing (see Jaramillo (1999) and Cardenas et al. (1999)): according to REUNIRSE (1998), in 1996 only 35% of all beneficiaries stated that someone represented them in the Mesas, and only 5% participated directly (although 30% did in 1997).

Perhaps not coincidentally, Empleo Urbano was highly concentrated in the richer municipalities. The top two deciles of municipalities in terms of own revenues per NBI person received almost 45% of total Empleo Urbano funds, against 16% of the bottom 3 deciles (see Alarcon (1997)). One could argue that the distribution of spending on a well designed employment creation program should be related to the number of unemployed individuals. This has not been the case with Empleo Urbano.⁵⁸ The completion rate in the 234 projects in departmental capitals surveyed by the Contraloria General in 1998 was disappointing: for instance, in Bogota' it was 55%.

These numbers confirm that the rhetoric of public employment programs creating useful and needed infrastructure projects can be misplaced: especially if hastily arranged, they often amount to little more than pure subsidization of unemployment, by another name.

4. Employment Creation Programs: Evaluation and Proposals

The employment generation programs of the RED have been widely criticized for being merely "conjunctural" and not tackling the underlying structural causes of unemployment (see e.g. Caro (1998)). This criticism -a manifestation of the "asset approach" to social spending- misses the whole point of employment creation programs. They are (or should be) an emergency anti-poverty device, designed to provide some relief to unemployment in countries that, for technical or other reasons, cannot afford a formal unemployment program.

Still, the small employment creation program of the RED were liable to a number of different criticisms. In fact, in most respects they were almost the opposite of what current conventional thinking on employment creation programs would prescribe. This is probably the result of political concessions to populist pressures, which eventually undermined the usefulness itself of the program as an emergency anti-poverty device.

The third component of the "Red de Apoyo Social" (see sections IV.B and IV.C.2 for the first two components) is a relatively small program (about .1% of GDP) of public employment in infrastructure, with two subcomponents. The first is called Mano a la Obra (about \$300mn in three years, 2/3 of which from the central government and 1/3 from the local governments), directed at poor individuals

⁵⁸ In 1995, the three departments with the largest number of urban unemployed were Bogota', Valle and Antioquia, with 290,000, 223,000, and 216,000 unemployed, respectively; the three departments with the lowest number were Sucre, Caqueta' and Choco, with about 7,000, 9,000 and 10,000, respectively. In the same year, Empleo Urbano spending in the first three departments was 1,524, 1,928 and 1,068 millions, in the latter three departments it was 645, 529, and 277 millions (see Contraloria General de la Republica (1998)).

in SISBEN levels 1 and 2, and concentrated in the 78 largest municipalities. The second is called Vias para la Paz (about \$ 210mn over three years) is aimed mostly at building roads in the poorest rural areas. In the urban program, each project will be funded by FIP (Fondo de Inversion para la Paz) based on a convention between FIP and the entity that will propose and manage the project (local governments, NGO's, community organizations). The central government will fund labor costs and materials in poor municipalities, contributing about \$180,000 per month for each non-qualified person (the minimum wage is currently \$ 260,000 per month). However, local governments will be free to subsidize this contribution, hence the actual wage paid might be higher than \$ 180,000. Like Empleo Urbano, Mano a la Obra and Vias para la Paz place a heavy emphasis on infrastructures, which are unlikely to be maintained properly. In fact, the Red de Apoyo Social explicitly prohibits the use of its funds for maintenance purposes.

In addition, the target seems unrealistic. Mano a la Obra should fund 250,000 5-month spells of employment with a budget of \$ 290mn. As a comparison, in 1996 Empleo Urbano generated about 8,200 full employment yearly jobs (at 260 working days per year, about 19,700 5-month spells) with a budget of about \$ 33mn of that year. Based on Empleo Urbano costs, one would need about \$ 650mn (current pesos) to generate 250,000 5-month spells in 2000. Even allowing for a slightly lower wage, the target of Mano a la Obra seems unrealistic.

In times of emergency with rising unemployment, it might be difficult to resist political pressure for some public employment programs. But at least one should consider carefully whether the emphasis on infrastructure projects that are unlikely to be maintained is well placed, or whether more emphasis on labor intensive services would not be more appropriate for the purpose.

V. Conclusions

Rather than summarizing the main proposals, it might be useful to focus on three typical features of social policy-making in Colombia: its fragmentation, its "fire-fighting" approach, and its frequent resort to pomposity.

A. The Fragmented Approach to Social Policy

The Red de Solidaridad Social is perhaps the best example of the fragmented approach to social policy. Although it existed before (under a different name) it was given a decisive push under the Samper administration. In its intentions, it should have been the main tool for reaching the very poor, largely through a heavy emphasis on the notion of "community involvement" that we have discussed above. As it is typical of Social Investment Funds, it was not subject to the authority of line ministers, and placed instead directly under the Presidency; this should have enhanced its flexibility. But it dispersed its intervention on too many programs (16 at some point), some of which with a minuscule target population, and others with a target population that would have been difficult to characterize as top priority under any reasonable approach to poverty reduction. Eventually, under the new administration, it lost political support, and funding for many programs has been cut drastically recently. Thus, while its programs have now mostly an historical interest, the Red with its fragmented approach to a social safety net still offers important lessons.

- It is important to build a constituency for social programs; devolving them to an independent agency directly under the Presidency, in the style of Social Investment Funds, might not be an effective way of achieving this.

- Fragmentation leads to a substantial overlap between programs, with potential waste of resources, and to confusion. It also becomes impossible to form an idea of what the government is doing and what needs to be done. In turn, this makes it difficult to have an idea of the trade-offs involved.
- Fragmentation also leads to little accountability, as many programs are fairly hidden and not known to the media, or discussed only occasionally.
- Too many agencies are involved, leading to lack of coordination, waste of organizational resources, and again lack of accountability since often it is not clear who is responsible for each program.
- Another consequence of the fragmentation of the social safety net is a fundamental ambiguity inherent in many programs: in principle, they are usually open-ended, but in practice they are based on a queuing mechanism, as funding is insufficient and often erratic. Not only is queuing against the principle of horizontal equity; it also implies that some individuals with "higher priority" will not receive subsidy, while other individuals with "lower priority" will receive another subsidy. This situation is partly an unavoidable consequence of limited resources; but also of too many fragmented programs which compete for these limited resources.

B. The "Fire-Fighting" Approach to Social Policy

The "Red de Apoyo Social", the new package of emergency social policies recently unveiled by the administration as part of the Plan Colombia, exemplifies the "fire-fighting" approach to social policy-making.

Two of the three programs it contains (conditional grants to families and youth training programs) would make perfect sense as components of a well thought permanent safety net. However, the package is designed not to build a permanent social safety net, but rather to cope with the (hopefully) temporary recession.⁵⁹ Partly because of this, and partly because they have been arranged hastily, these programs represent little more than Keynesian money thrown in a recessionary economy.

Institutionally, the Red de Apoyo Social is very similar to the Red de Solidaridad Social. It is inscribed to the Presidency, and it has its own, very complex, bureaucracy. But the Red de Apoyo Social does not replace the Red de Solidaridad Social and its programs: it merely adds on to them. Interestingly, all three programs of the Red de Apoyo Social, training, public employment, and conditional family grants, were also present, in more or less similar form, in the Red de Solidaridad Social, and formally survive there. In this fashion, programs accumulate, with the old programs receiving less and less funding, but remaining formally alive, together with their bureaucracy. The accumulated cobweb of programs becomes nearly inextricable. As the recession ends and the sense of urgency disappears, many programs fall into oblivion, but again without disappearing entirely.

C. Pomposity

Although as we have seen data on most social programs are sorely lacking, there is no shortage of words. Indeed, the attitude towards social expenditure fully reflects the "planning" attitude that per-

⁵⁹ It explicitly relies on temporary labor contracts outside the Government in order not to generate permanent labor relationships.

meates fiscal policy making in Colombia (see Ayala and Perotti (2000)), and which privileges grand discourses over hard facts. A typical example, among the many possible, is Pacto por la Infancia, a national guide for similar pacts that should have been signed by territorial entities (Conpes 2917). By end 1997, 32 departments and 3 cities had signed Pactos por la Infancia to coordinate actions on children between different agencies. To accomplish this, 1600 persons were detached with supervision tasks, together with a network of 1,300 functionaries of Ministries, agencies and territorial entities to watch over the realization of the Pactos (Conpes 3002). It is not clear what the concrete goals and the achievements of these Pactos have been; in any case no mention of Pactos por la Infancia can be found in recent documents. It is likely that progress is hampered, rather than furthered, by this attitude towards pomposity and endless coordination of more and more agencies.

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