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Social Safety Net Assessment

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ACRONYMS AND ABBREVIATIONS

CAIP	- Centros de Atención Integral al Preescolar (<i>Centers of Integrated Care for Pre-School Children</i>)
CCF	- Cajas de Compensación Familiar (<i>Compensation Associations</i>)
CICADEP	- Centro Internacional de Capacitación y Desarrollo Agropecuario (<i>International Center for Agricultural Training and Development</i>)
CIE	- Centro de Información para el Empleo (<i>Employment Information Center</i>)
CONPES	- Consejo Nacional de Política Económica y Social (<i>National Council for Economic and Social Policy</i>)
DABS	- Departamento Administrativo de Bienestar Social (<i>Administrative Department of Social Welfare</i>)
DANE	- Departamento Administrativo Nacional de Estadística (<i>National Administrative Department of Statistics</i>)
DAPRE	- Departamento Administrativo de la Presidencia de la República (<i>Administrative Department of the President of the Republic</i>)
DHS	- Demographic and Health Survey
DNP	- Departamento Nacional de Planeación (<i>National Planning Department</i>)
DRI	- Desarrollo Rural Integrado (<i>Integrated Rural Development Plan</i>)
EDS	- Encuesta Nacional de Demografía y Salud (<i>National Demographic and Health Survey</i>)
EU	- European Union
FAMI	- Familia, Mujer e Infancia (<i>Family, Women and Infancy</i>)
FARC	- Fuerzas Armadas Revolucionarias de Colombia (<i>Colombian Revolutionary Armed Forces</i>)
FIP	- Fondo de Inversión para la Paz (<i>Peace Investment Fund</i>)
FSI	- Fondo de Inversión Social (<i>Social Investment Fund</i>)
FSP	- Fondo Solidaridad Pensional (<i>Pension Solidarity Fund</i>)
GOC	- Government of Colombia
HCB	- Hogares Comunitarios de Bienestar (<i>Community Welfare Daycare Centers</i>)
ICBF	- Instituto Colombiano de Bienestar Familiar (<i>Colombian Institute for Family Welfare</i>)
ICV	- Índice de Condiciones de Vida (<i>Conditions of Life Index</i>)
IDIPROM	- Institución para la Protección a la Niñez y la Juventud (<i>Institution for the Protection of Childhood and Youth</i>)
IDP	- Internally Displaced Population
INCORA	- Instituto Colombiano para la Reforma Agraria (<i>Colombian Institute for Agrarian Reform</i>)
INURBE	- Instituto Nacional de Vivienda de Interés Social y Reforma Urbana (<i>National Institute of Social Interest Housing and Urban Reform</i>)
ISS	- Instituto de Seguridad Social (<i>Social Security Institute</i>)
LIL	- Learning and Innovations Loans
M&E	- Monitoring & Evaluation
NBI	- Necesidades Básicas Insatisfechas (<i>Unsatisfied Basic Needs</i>)
NCU	- National Coordinating Unit
PACES	- Programa de Ampliación de la Cobertura de Educación Secundaria (<i>Program for Expanding Coverage of Secondary Education</i>)
PGN	- Presupuesto General de la Nación (<i>National Budget</i>)
PIAGAP	- Programa de Atención Integrada para la Población Adulta (<i>Program of Integrated Care for the Older Adult Population</i>)
RAS	- Red de Apoyo Social (<i>Social Safety Net</i>)
RSS	- Red de Solidaridad Social (<i>Social Solidarity Network</i>)
SSAL	- Social Sector Adjustment Loan
SCD	- SISBEN classification document
SENA	- Servicio Nacional de Aprendizaje (<i>National Training Service</i>)
SE	- Subsidios Educativos (<i>Education Subsidies</i>)
SF	- Subsidios Familiares (<i>Family Health and Nutrition Subsidies</i>)
SISBEN	- Sistema de Selección de Beneficiarios (<i>System of Beneficiary Selection</i>)

Vice President:	David de Ferranti
Country Management/Director:	Olivier Lafourcade
Sector Management/Director:	Ana-Maria Arriagada
Team Leader:	Laura B. Rawlings

Colombia Social Safety Net Assessment

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REFERENCES

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BACKGROUND PAPERS

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Colombia Social Safety Net Assessment

Executive Summary

The recent economic shock provided an incentive for carrying out the analysis of Colombia's safety net of national social assistance. In 1999 Colombia experienced its largest recession in 70 years with GDP falling by 4.3 percent. This situation was the culmination of unsustainable growth in central and local government spending beginning in the early 1990's combined with external macroeconomic shocks in the late 1990's. On the macroeconomic front, the combined public sector deficit rose from 3.8 percent of GDP in the mid-1990's to a high of 5.5 percent of GDP in 1999. On the social front, the historical rate of unemployment doubled during the late 1990's and urban poverty rose by 7 percentage points between 1995 and 1999. The economic recession was accompanied by an intensification of Colombia's internal conflict, the displacement of hundreds of thousands of people, and a general increase in violence and insecurity.

Even though economic growth recovered modestly in 2000, poverty and unemployment remain high and there has been a decline in some key human development indicators. Although the recent economic recession is not the only cause behind the deterioration of many of these indicators, it did exacerbate certain vulnerabilities and place severe fiscal constraints on the government's ability to address those vulnerabilities. It is clear that the deterioration in social indicators is more protracted than the economic recession and has left some groups in a highly vulnerable situation, notably young children, adolescents and the internally displaced population.

How did this situation occur? Colombia did not have an effective safety net in place capable of addressing the social consequences of the crisis. Colombia historically relied on economic growth as a social safety net and emphasized a now unsustainable expansion of social services, notably in health, education and pensions. The social assistance programs that could have been mobilized to provide a safety net during the crisis were limited by structural constraints including a lack of financing, institutional inflexibility, unfocused mandates, and poor targeting in several programs.

These deficiencies led to the introduction of the *Red de Apoyo Social* (Social Support Network, RAS) in 2000, which is based on three programs: workfare, conditional cash transfer and youth training. These programs have provided an important step forward in establishing a counter-cyclical strategy that is beginning to address immediate human development needs in the wake of the crisis, but it took almost two years to develop the programs, secure financing and implement a response and the counter-cyclical approach has yet to be institutionalized. The next step is to evaluate the new programs and to integrate them into a coherent, reformed social safety net that includes a counter-cyclical component designed to address future crises with required agility and effectiveness.

The goal of this analysis is to point out issues and recommend options for reform of the social safety net. The diagnostic provided in this report should be useful to: (i)

inform the Government of Colombia's safety net policy; (ii) foment public dialogue around key safety net issues; and (iii) provide strategic guidance for multilateral development institutions and donors seeking to support Colombia, particularly through the Social Sector Adjustment Loans (SSAL) presently under preparation.

To achieve these goals, this study addresses five key questions, each of which is the subject of a chapter in the report:

- **What motivates and guides the study?** The introduction in Chapter I reviews the particular Colombian context for the safety net study as well as the scope and conceptual framework of the analysis.
- **What can we learn about vulnerability from the recent crisis?** Chapter II explores which groups are in need of priority attention and why, and which social risk management strategies were employed by households to address the recent crisis.
- **What was the Government of Colombia's response to the crisis?** Chapter III describes the new social assistance programs that have been put in place as an answer to the crisis and explores these programs' long-run potential to address future shocks through their incorporation as a permanent feature of a restructured safety net.
- **What are the main characteristics of Colombia's pre-existing social assistance programs?** Chapter IV summarizes available information on the structure, cost, efficiency and effectiveness of Colombia's principal national social assistance programs.
- **What should be done to develop a coherent social safety net able to provide the Government of Colombia with adequate instruments to address key vulnerabilities during normal and crisis times?** Chapter V presents the main conclusions regarding which vulnerable groups are in need of attention and provides options and recommendations concerning specific reforms to the counter-cyclical and structural elements of the safety net, distinguishing between technical reforms that could be implemented immediately, reforms to individual programs and broader strategic reforms.

The following paragraphs summarize the main points from each of the five chapters.

ANALYZING SOCIAL SAFETY NETS IN COLOMBIA

The situation in Colombia today is unique compared to other periods in the country's history. First, Colombia is suffering from an unprecedented economic contraction that has been followed by a sharp and continuing deterioration of key social indicators, as outlined in Chapter II.

Second, Colombia is grappling with a severe fiscal imbalance that will require major reforms, notably to the pension program, before macroeconomic stability can be achieved. It is also clear that the Colombian government's ambitious reforms to promote decentralization and improve the country's social indicators introduced during the 1990s are currently unsustainable in light of the present fiscal crisis. Although Colombia has reached its IMF targets and has recently made important advances in the system of transfers to local governments, in the medium term fiscal solvency is

contingent upon reforming the country's state pension system. Tackling this issue along with the advances already made in the transfer system is a critical pre-requisite to addressing more specific social sector reform issues, including developing a coherent safety net. However, Colombia should take advantage of the ongoing social sector reform discussions to place the creation of a viable social safety net squarely within the ongoing negotiations.

Finally, any analysis of vulnerability and safety nets must take into account the complex and continuously changing socio-economic situation in Colombia exacerbated by the protracted internal conflict. While social safety nets always need to be designed to the particular needs of the country in question, this is especially true of Colombia since it is mired in a internal conflict that is unraveling the country's social fabric. The internal conflict that has developed over the past two decades, its strong link to drug cultivation and trafficking, the historical lack of a state presence in many parts of the country, and the general atmosphere of violence and impunity have been instrumental in fueling the country's dramatic socio-economic disruption and are key factors explaining the continued deterioration in social indicators. As the crisis of displaced persons makes clear, the government must devise effective responses to crises whose roots are both political and economic. Indeed, while it may be a while before Colombia has an economic contraction comparable to what it endured during 1998-99, it is likely that Colombia will face economic disruption due to the internal conflict. In crafting an appropriate safety net, this situation makes it critical to be prepared on two main fronts: (i) to be able to address not only the effects of future macro-economic shocks, but also the effects of internal strife; and (ii) to devise strategies to ensure the delivery of social services to populations affected by the internal conflict.

In sum, the continuing internal conflict combined with needed fiscal reforms implies that future multidimensional shocks are very likely in the near future, underscoring the need for attention to the reform of the social safety net today.

The present situation calls for supporting not only Colombia's macroeconomic stability, but also its institutional viability, by building on Colombia's strengths in the social sectors. A solid safety net reform could contribute to restoring faith in the state and its institutional apparatus, particularly if it is carried out by building upon Colombia's strengths in the social sectors – notable gains in health and education and the availability of day care centers in low-income neighborhoods.

This paper analyzes Colombia's safety net of national social assistance programs, using the recent economic shock as a case study for identifying areas of needed reform. We recognize the critical role of actors outside the central government and of social insurance programs in the social safety net, but a review of these aspects of the safety net was beyond the scope of the study. The focus on the recent crisis was selected in response to the Government of Colombia's interest in (i) addressing the immediate needs of vulnerable affected by the present economic situation and (ii) providing inputs into the design of a social safety that can be implemented counter-cyclically to cushion the poor and vulnerable from the negative effects of future crises. We used available cross-sectional household survey data and a rapid qualitative assessment of social

dimensions of the crisis as the basis for our demand-side assessment of risk and vulnerability; and the limited available information on costs, efficiency and effectiveness for the assessment of Colombia's safety net programs.

This report draws on the social risk management framework (World Bank 2001) for key terms and concepts. The social risk management framework is based on the idea that individuals, households, and communities are exposed to multiple risks from different sources, both natural and man-made, individual and covariant. Poor people are more exposed to risk and have less access to effective risk management arrangements than people who are better off. This vulnerability makes individuals risk-averse and less able to undertake more risky activities with higher payoffs. As a result, the poor have developed coping mechanisms that rely on self-protection (building up assets in good times, diversifying income sources), and the creation of family or community risk pooling strategies. Unfortunately, these coping strategies can be inefficient, leading to the permanent reduction in the human capital of the poor (for example, taking children out of school to work as a response to an income shock).

THE RECENT CRISIS AND VULNERABLE GROUPS

Today, Colombia is recovering from the effects of its most difficult economic period in over 60 years. GDP growth declined from an average of 3-4 percent during the first half of the 1990s to 0.6 percent in 1998 and -4.3 percent in 1999. While Colombia's two year recession in 1998-1999 was not nearly as severe as the economic crises that ravaged Asia, it was still a powerful jolt to a country that thought itself immune to such economic turmoil. A decade of poverty reduction was unexpectedly reversed by the crisis.

Although economic growth recovered in 2000, social indicators have not recovered, suggesting that the shock to income and human capital is of a longer-term nature than the macroeconomic effects of the recession. The crisis brought in new problems and exacerbated existing structural problems, with the combined impact still apparent in the rise in unemployment, the protracted increase in poverty, the erosion of the social fabric, and the rise in vulnerability.

Urban poverty rose dramatically between 1995 and 1999, reversing gains that had been made over the past decade. By 1999 urban poverty reached 55%, 7 percentage points higher than in 1995 and equivalent to 1988 levels. Extreme poverty in urban areas also increased between 1995 and 1999 from 10% to 14%, but without returning the 1988 level of 17%. Poverty rates in rural areas have remained essentially constant at close to 80% between 1988, 1995 and 1999. Rural extreme poverty declined by 11 percentage points between 1988 and 1995, but remained at 37% in 1999.

Unemployment rates are up significantly since the crisis, from 7.8% in 1995 to 16.6% in 2000. The highest rates are in urban areas (19%), among youth (37% for those 15-19 years old), women (23%) and the middle class (25% for those with secondary education). The crisis has also led to a large increase in the informal sector, which, combined with the high unemployment rates, underscores the rigidities in the Colombian labor market.

Those hit by the crisis – both the poor and the middle class – have employed a number of social risk management strategies to address the crisis. The main response of the poor to the crisis has been to reduce consumption and to mobilize available labor, including child labor. The results of the *Encuesta Social* reveal that households hit by an income shock are more likely to pull children out of school, thereby reducing human capital accumulation. Middle income groups have responded to the crisis by selling available assets and reducing consumption, notably by moving their children from private to public schools.

Housing ownership in Colombia is a self-insurance device used widely by the poor in addressing the uncertainty of labor income and unemployment in the recent crisis. In focus groups, individuals reported using their homes to set up small businesses, provide shelter to extended family members and rent floors and rooms to supplement income. The Colombia Poverty Report (Velez et al 2001) reveals that in urban areas people who do not own their own homes are more vulnerable to poverty (63% are poor versus 47% of home owners).

Children and adolescents are the main age-specific vulnerable groups in Colombia today requiring attention from a reformed safety net. Table A at the end of the Executive Summary presents an overview of key risks and social protection programs designed to address those risks. Pre-school and primary school aged children are facing important health and nutrition risks including a sharp decline in vaccination rates and an increase in the percentage of some diseases left untreated (like diarrhea), while youth aged 12-17 have been identified as exceptionally vulnerable due to their exposure to multiple aspects of violence and crime, both in rural and urban areas.

Internally displaced people, a result of Colombia's internal conflict, constitute another critically vulnerable group. The guerrillas' and paramilitaries' drug-related economic and military strength has led to a dramatic increase in violence, deaths, kidnappings, extortion and displacement, especially among the rural civilian population. There is considerable debate regarding the size and characteristics of the internally displaced population (IDP). The Government of Colombia estimates that there are currently 400,000 displaced people while other estimates put the number at close to 2 million. This population has been evicted from areas where they have been engaged in productive economic activities and relocated to urban slums where employment prospects are limited, access to social services constrained and violence and crime are rampant. Available data suggest that most of the displaced are women (56%) and children (55% are under 18), with limited skills and education. In their migration from rural to urban areas, they have abandoned their main asset – their land – and face barriers to accessing jobs and social services. They are concentrated in a few cities in Colombia, which has placed an added strain on limited municipal budgets. This situation has been compounded by a severe lack of financing for Colombia's main national strategy for the internally displaced people.

The internal conflict calls for addressing the needs of populations in conflict areas as well. Since the Government of Colombia has a limited presence in the areas where the guerrillas and paramilitaries are at their strongest, it is difficult to provide the resident

civilian population any substantial government social assistance. Addressing the needs of the populations in these areas calls for creativity, perhaps through building on successful partnerships with non-governmental organizations, to find approaches that would allow the state to function effectively in the provision of social services.

Looking beyond the vulnerabilities of specific groups to focus on households underscores the critical role of the labor market in determining vulnerability. Those households experiencing the largest increase in poverty during the recent recession were those with only self-employed workers or only non-labor income, whereas households composed entirely of wage -earners saw the smallest increase in poverty. Of particular note, unemployment of the household head is catastrophic for poverty risks; in urban areas poverty is 25 percentage points higher if the head of household used to work and is presently unemployed (Velez et al., 2001). Paralleling the findings from the survey data, focus group participants in both rural and urban areas ranked economic insecurity as their principal source of risk, followed closely by violence (González 2001).

THE GOVERNMENT RESPONSE TO THE CRISIS – THE *RED DE APOYO SOCIAL*

Colombia's main social assistance programs were ill-equipped to offer adequate protection to those most affected by the recent crisis. These deficiencies led to the introduction of a new short-term program, the *Red de Apoyo Social* (Social Support Network, RAS), to mitigate the worst effects of the crisis. Implementation of the RAS programs began in 2001, and the programs are expected to reach full capacity by the end of the year. The RAS programs have appropriately targeted some key vulnerable groups affected by the crisis – notably the unemployed and the young – with income support and cash transfers appropriate to their needs. However, the program took almost two years to implement, underscoring the need for a reformed social safety net that would be able to respond more quickly to future crises.

The RAS safety net is composed of three principal programs promoting human development, employment, and job training. The *Empleo en Acción* community works program (formerly known as *Manos a la Obra*) aims to provide temporary employment to poor, unemployed, low-skilled workers by employing them in labor-intensive social and economic investment projects such as school expansion and road repair. A conditional cash subsidy program for poor families, *Familias en Acción*, aims to protect investments in children's health, education, and nutrition by providing cash to families conditional on keeping children in school and providing them with basic preventive health care. *Jovenes en Acción* is a training/apprenticeship program for young adults based on competitive bidding among private firms and public entities. Colombia has committed itself to administering these programs for four years (2001-2004) and to review the results of the impact evaluations at the projects' conclusion to assess the desirability of their continuation as part of a broader safety net strategy.

Notwithstanding the appropriateness of RAS as a short-term program, a strategic review of how it fits into a comprehensive safety net strategy is required since the long-term role of RAS needs to be considered. The effectiveness of the RAS programs will be assessed through strong monitoring and evaluation components designed as part

of each program. Pending the results of the impact evaluations, key strengths and weaknesses of each program's design in view of the program's suitability as part of a long-term safety net can already be derived.

- **The workfare program (*Empleo en Acción*) seems well designed to reach poor areas and intended beneficiaries, but it is unable to self-target effectively due to the legal obligation to pay minimum wages.** A key consideration in assessing the possible continuation of this program would be to find a way to eliminate the requirement that the program pay the minimum wage and benefits, since the present regulations prevent the program from adequately self-targeting.
- **The conditional cash transfer program (*Familias en Acción*) has the strong advantage of addressing a variety of risks—nutritional, health and educational -- with a single flexible instrument, a cash subsidy. Its demand-side focus places solutions for addressing those risks in the hands of households directly affected by the crisis.** However, the program will need to be monitored closely to ensure that its administration is efficient and that the health and education systems are able to provide the supply-side services required to make the program effective. Furthermore, the present requirement forcing households to choose between receiving the nutrition subsidy and sending children to *Instituto Colombiano de Bienestar Familiar* (Colombian Institute for Family Welfare, ICBF) day care centers should be re-examined since they are not direct substitutes.
- **The youth training program (*Jovenes en Acción*) presents a social assistance alternative to the *Servicio Nacional de Aprendizaje* (National Training Service, SENA) training institute that does not have a social assistance mandate.** The fact that this new program is operating in parallel to SENA would need to be addressed if the youth training program is continued. One possibility would be to introduce the *Jovenes en Acción* as a substitute for the short courses presently offered by SENA since the new program's focus on targeting the poor and fostering competition for training provision are likely to make it a more responsive and appropriate safety net mechanism than the current SENA short courses.

To develop a comprehensive safety net strategy and system, a review of the RAS programs should encompass existing social assistance programs. In considering the RAS programs' viability as part of an integrated safety net, the following issues need to be considered:

- **RAS programs' performance needs to be judged against the performance of other programs in the social safety net, based on impact evaluations.** Impact evaluations and data on the efficiency of the main permanent social assistance programs should be carried out immediately so that the results are available at the same time as the RAS program evaluation results.
- **Financial support needs to be secured to meet demand and ensure the sustainability of a comprehensive safety net system.** Financing for the RAS programs remains inadequate to meeting existing demands and is unsustainable over time given that its financing is based principally on international borrowing. To meet these needs, a strategy based on expenditure re-allocation, improved targeting and cost-recovery should be implemented.
- **RAS programs should be flexible enough to exploit complementarities,** both across the three RAS programs and with local government initiatives. At present RAS programs are

targeted to specific geographical areas; the cash transfer program operates in geographical areas distinct from the workfare and youth training programs. However, these programs address the vulnerabilities of distinct groups many of which live in the same geographical areas. Furthermore, there are probably synergies across programs that have not yet been explored. In addition, RAS technology and know-how should be made available to municipalities interested in launching their own RAS-type programs and opportunities allowing for greater local involvement in contributing to the strategic direction of the programs, adaptation and co-financing should be explored while avoiding negative incentives for free-riding.

- **The comparative advantages of the 3 RAS programs should be considered explicitly with respect to their capacity for addressing chronic versus transient vulnerability.** Of the three RAS programs, the cash transfer program seems best suited to address structural vulnerabilities, serving risk prevention and mitigation functions during non-crisis periods given structural levels of indigence, demand side barriers to ensuring poor children's access to education and the key role that education plays in breaking the inter-generational transmission of poverty. The workfare and youth training programs seem best suited to the "trampoline" function that is implemented counter-cyclically and allows people to bounce back during a time of crisis, particularly one characterized by high levels of unemployment. During crisis periods, these programs could be activated from a 'simmering' state, using extraordinary financing.
- **Barriers to access need to be removed to reach key vulnerable groups.** Populations in more remote rural areas as well as certain vulnerable groups such as the displaced and the indigenous living in *resguardos* have limited access to RAS programs. If the programs were adopted for general use as part of a reformed safety net, these barriers would need to be addressed.

COLOMBIA'S MAIN SOCIAL ASSISTANCE PROGRAMS

Colombia has historically relied on economic growth to provide a safety net and has not implemented a coherent social safety net policy. Colombia is a lower middle-income country with a population of 41 million people and a per capita GDP of US\$2,300. It has been blessed with historically solid economic growth rates and a stable political party system.

This paper examines Colombia's national social assistance programs, while recognizing the key role that social insurance programs play in the publicly-provided national safety net. As outlined in Table A at the end of this section, the subsidized health regime and pension solidarity fund play key safety net roles for lower-income Colombians.

Social assistance was not included in the dramatic social sector reforms of the 1990's that resulted in increased spending and decentralization for health and education. As a consequence, social assistance programs remain not only ill-suited to respond to large covariant shocks, but also underfunded and centralized. The social sector policy reforms driven by the 1991 Constitution, Law 60 and Law 100 did not include

social assistance.¹ The exclusion of social assistance from these reforms has had two consequences. First, whereas funding for health and education rose from approximately 4% of GDP in the early 1990's to over 8% of GDP by 1996, central government budgeted expenditures on social assistance fluctuated around 1% of GDP during the first part of the 1990's and fell to approximately 0.6% by 2000.² This is a very low level of social assistance spending compared to countries at a similar stage of development, as well as to the needs of specific vulnerable groups that lack access to key social assistance programs. Second, since the decentralization reforms that guided social sector policy did not include social assistance, the main social assistance programs remain highly centralized. The fiscal transfers to local governments that absorb 14% of GDP include no funding for social assistance. Local governments have almost no discretion over how social assistance and SENA (*Servicio Nacional de Aprendizaje*) National Training Service funds are allocated. There is, however, deconcentration of central authority through the presence of a national network of field offices for many programs, including the ICBF (*Instituto Colombiano de Bienestar Familiar*) Colombian Institute for Family Welfare and the SENA training institute.

The economic recession resulted in the leveling off or reduction of spending on social assistance programs, with earmarked programs suffering less dramatic budget cuts than those financed from general revenues. The ICBF family welfare and SENA training institute programs financed through a 5% payroll tax earmarked for those programs were cut less than programs financed through general revenues. The budgets for the *Instituto Nacional de Vivienda de Interés Social y Reforma Urbana* (National Institute of Social Interest Housing and Urban Reform, INURBE) housing program and the *Red de Solidaridad Social* (Social Solidarity Network, RSS) programs for the indigent elderly and internally displaced people were halved during the height of the recession.

Today, there is a willingness and an urgency for implementing a comprehensive reform of the social safety net. In addition to the under-financing, centralization and pro-cyclical or neutral budgets characterized above, the reform should keep in mind the following issues:

- **Undercoverage of key age-specific vulnerable groups, notably pre-school children.** ICBF estimates that only 13 percent of the children in the poorest two deciles are reached by ICBF's two main early childhood development programs, and coverage estimates derived from the 1997 *Encuesta de Calidad de Vida* national household survey are even lower.
- **The lack of a strategic safety net focus is underscored by the fragmentation of programs within institutions and overlapping program objectives across institutions.** Although Colombia has programs in place to address key vulnerabilities, these programs are not

¹ These reforms did make important advances in launching redistributive social insurance systems through the establishment of the subsidized health regime and the pension solidarity fund.

² Social assistance is defined as spending on the three main social assistance programs reported in aggregated budgetary data – the ICBF family welfare institute, the RSS social fund and the INURBE housing institute.

functioning effectively. This is a legacy from successive governments' use of these institutions to achieve a wide variety of policy goals, many of which remain unrelated to safety net objectives. Two agencies in particular, ICBF and the Social Solidarity Network (*Red de Solidaridad Social*, RSS), seem to suffer from fragmentation of programs. RSS notably has too many programs, many of which overlap with those implemented by other agencies, combined with too few resources to be able to fill in key gaps in the safety net for the elderly and the displaced.

- **A lack of flexibility to respond rapidly during a crisis.** It took almost two years for the RAS programs to be launched and spending on social assistance has not been counter-cyclical.
- **Poor poverty targeting** leading to an overall characterization of the safety net as being “for the poor, but not the poorest.” Existing social programs are primarily designed for formal sector workers (SENA and *Cajas de Compensación*³) and not for the poorest who lack formal affiliation in the labor market. Redistributive social assistance programs are limited in the face of a wide array of social programs, many of which are financed by the formal sector and for the formal sector through “benefit taxes”. The programs that require formal sector affiliation are taking up some of the resources that could be more targeted to the poor. Furthermore, the use of SISBEN⁴, Colombia's proxy means test or other available targeting mechanisms have not been adopted by the main social assistance programs as a way to reach the chronic vulnerable.
- **Very little information overall on the coverage, efficiency, and effectiveness of Colombia's social assistance programs.** Basic monitoring data on the numbers of program beneficiaries and budgets are often either lacking or unreliable, complicating simple estimates of unit costs and reviews of program efficiency. Evaluation results are almost non-existent.
- **Complicated and inconsistent social sector budgetary data.** There is no accepted definition for social spending or social assistance in the national income accounts or in the budget. Budgetary data are not comprehensive and different data sources show markedly different levels of spending on specific social assistance programs. Finally, most aggregated data are available only on an institutional basis, spending on individual programs is not aggregated, and regional social sector budgets are kept in separate accounts. This lack of transparency has complicated the effective management of social sector spending, particularly for social assistance programs.

Several of these issues – namely program fragmentation and overlapping program objectives, the establishment of a countercyclical social safety net and improvements in the SISBEN proxy mean test used to target poor households – are now being implemented, a notable step forward that will require follow-up and expansion by the next administration.

OPTIONS AND RECOMMENDATIONS FOR REFORMING COLOMBIA'S SAFETY NET

Based on the analysis carried out in this study, three types of recommendations for reforming the social safety net have been developed: (i) *technical reforms* in targeting,

³ *Cajas de Compensación (Familiar)* (Compensation Associations)

⁴ *Sistema de Selección de Beneficiarios* (System of Beneficiary Selection)

budgeting, monitoring and evaluation that should be undertaken immediately to improve the tools used to orient social assistance programs; the need for improving these tools is evident, the steps for reform are clearly laid out and implementing changes would not require extensive funding or political support; (ii) *reforms to existing programs* to improve their coverage and quality; and (iii) *longer-term strategic reforms* aimed at improving the composition and operation of the social safety net, the implementation of which will require debate, consensus and political will.

Polymakers in Colombia should take advantage of the current debate on transfers and restructuring social sector spending to place discussions on the need to reform the social safety net on the agenda. This would reverse the traditional oversight of this important, underfunded sector and allow Colombia to better address present vulnerabilities and future shocks. As laid out below, the reform of the social safety net should focus both on establishing a counter-cyclical element to address transient vulnerabilities in time of crisis and on improving the efficiency and effectiveness of the structural element of the safety net that addresses chronic vulnerabilities.

Technical reforms

Colombia's social assistance programs are severely hampered by a lack of accurate information on coverage, costs, and effectiveness. In addition, the SISBEN proxy means test should be improved and its use expanded where appropriate to provide a clearer guide for targeting social assistance to the chronic poor. Information is critical to effectively managing any social safety net. It is needed to guide policymakers' choices concerning the administration of the safety net, to inform the public about available programs and to foster debate, innovation, and accountability. The dearth of accurate information in Colombia has undermined the effective management of the social safety net. Addressing these problems should be a top priority.

The Government of Colombia should immediately introduce three information management reforms critical to the effective management of the social safety net:

- **Conducting a social sector expenditure review aimed at restructuring national accounts and other budgetary data on social sector spending.** The lack of a standard definition of social sector expenditures, the absence of budgetary information on specific programs, and the variable definitions of overhead have contributed to the mismanagement of Colombia's fiscal accounts, complicated the analysis of basic trends, and undermined accountability.
- **Monitoring and evaluating the principal public, national social assistance programs.** Reforms should be considered on three levels: (i) ensuring timely, reliable monitoring data on all social assistance programs, particularly regarding costs and coverage; (ii) introducing participatory monitoring to foster public involvement and accountability in the principal social assistance programs; and (iii) applying structured impact evaluations with treatment and comparison groups that allow for the assessment of causality to the larger, more important programs.

Structured impact evaluations are currently being carried out of the new *Red de Apoyo Social* programs; these should be accompanied by impact evaluations of SENA, ICBF and *Cajas de*

Compensación so that a full review of the present safety net system can be conducted in 2004.

- **Updating SISBEN to address its present design and implementation problems.** The SISBEN proxy means test has the potential to serve as Colombia's principal targeting mechanism for reaching the chronic poor. However, it first needs to be updated and regular applications ensured along the lines suggested in Chapter IV. Certain counter-cyclical programs and those aimed at groups with specific vulnerabilities that are not easily identified using a proxy means test should rely on alternative targeting mechanisms.

Reforms to existing programs

The efficiency of established social assistance programs could be improved through better poverty targeting, the elimination of excessive program overlap and fragmentation and a restructuring of existing program to improve coverage and quality. Colombia's safety net lacks strategic focus and is composed of too many programs with too few resources. The following measures could be introduced to improve its efficiency and allow the present safety net to focus more directly on the problems of the very young, adolescents and internally displaced people:

- **Elimination of program overlap and fragmentation.** The RSS social fund has too many under-funded small programs to sufficiently focus on its core objectives of reducing elderly poverty and assisting the internally displaced population. An obvious solution would be to eliminate or transfer other RSS programs. ICBF should also undergo a review of the multiplicity of programs under its jurisdiction in order to improve quality and efficiency.
- **Improving the quality of day-care and nutrition programs for the poor.** A first priority would be to evaluate the ICBF family welfare agency's CAIPs (the formal day care centers) and HCBs (the community day care centers) to clarify anecdotal evidence that quality of CAIPs was "enormously higher" than quality provided by HCBs. It should not be forgotten, however, that the unit cost of the CAIPs is on average over twice that of the HCBs. It is also possible that—even with a lower quality than the CAIPs—HCBs still provide a sufficient level of service to attain a minimum standard. It may also be feasible to improve the level of care provided in HCBs by low-cost alternatives, such as upgrading the skills of HCB community mothers. ICBF's food production, purchase and distribution system should also be reviewed with an eye to increasing efficiency.
- **Addressing the needs of the Internally Displaced People (IDP).** The displaced, half of whom are estimated to be children, should receive priority attention from a reformed safety net. This focus is warranted by the size of this vulnerable group, the concentration of risks within its population, the probable lack of access to programs to address their needs, and the possibility of increased displacement given the state of conflict in Colombia. The international community and GOC should move beyond humanitarian assistance to address the education, health, and training needs of the IDP. These actions could be concentrated in the regions receiving the bulk of the displaced, under joint action plans developed with those departments and municipalities. Although there may not be a need for the creation of separate programs for the IDP, attention should be directed toward ensuring that there are no barriers to access preventing the IDP from benefiting from critical social assistance, health and education programs. Several types of actions could be considered, including: directly

supporting the GOC action plan, implementing the Social Solidarity Network (*Red de Solidaridad Social*, RSS) programs for the displaced, ensuring that qualifying IDP have access to RAS programs, and mobilizing the education sector.

Many of these initiatives could be supported and explored using the pilot project under the Japanese Social Development Fund. The objective of the fund is to integrate networks of civil society and city governments for the provision of basic services to IDPs in cities with large concentrations of displaced people who do not want to return to their place of origin. A key challenge is to develop ways to mobilize these networks to support IDP's access to existing social assistance programs. The pilot projects could also explore how to make IDPs a focus of future projects funded by multilateral agencies.

- **Addressing the gap in assistance for the elderly.** Although the situation of the elderly is perhaps not as critical as that faced by the two above groups, social assistance coverage for the indigent elderly has been sharply curtailed. The *Revivir* program run by the *Red de Solidaridad Social* covered less than a quarter of the indigent elderly in 1998 and the program has been curtailed and restructured since the crisis.⁵ Plugging this gap could be addressed through a reallocation of funds from programs that are not well targeted to the poor. Another problem is that *Revivir* is allocated among municipalities that already have a program for the indigent elderly of their own. Finally, solid evaluation of the effectiveness of the existing program is needed, preferably including a comparison with the effectiveness of the former cash transfers model.

Strategic reforms

Colombia's social safety net is in need of fundamental reforms that will require political will, a consensus for reform and new policies. An opportunity for implementing these reforms will present itself in 2004 when the present sources of financing for the emergency RAS safety net programs expires. Armed with evaluations of the principal social assistance programs, the Government of Colombia should take this opportunity to engage in a large-scale strategic reform of the social protection sector. The following section sets out an agenda for reform that can serve as the basis for a debate leading to a strategic plan for reform. The debate on these strategic reforms should begin immediately to define the appropriate funding levels, composition and administrative structure for a reformed social safety net.

Three principles guide the proposed recommendations in this section. The first is that current fiscal constraints make it is unrealistic to think of fresh, sustainable sources of funding for social assistance. Therefore, the proposed reforms are focused on re-allocation and cost-recovery. Second, with the inclusion of the new RAS programs, Colombia has programs for addressing the principal risks faced by each of the main age groups, as well as programs for key special circumstances groups (see Table A at the conclusion of the Executive Summary). Therefore, we do not argue for creating new social assistance programs, but present options for how to better structure the system of existing programs, including the RAS. Third, following the conceptual framework laid out in Chapter I, we argue that the social safety net has a role to play in both crisis and

⁵ Ayala, Gaviria, Ortiz and Henao, 2001

non-crisis times to meet the needs of the chronic vulnerable, the transient vulnerable and special circumstances groups.

Two main recommendations are presented below that should serve as a departure point for the debate on restructuring Colombia's social safety net: (i) expanding the budget for social assistance and (ii) reforming the structure and management of the social safety net.

Expanding the budget for social assistance

Colombia's social assistance budget is inadequate to meeting the needs of vulnerable populations, even during normal times, as argued in Chapter IV. Two strategies are recommended for increasing the budget for social assistance under present fiscal constraints: redirecting funds to well-targeted social assistance programs and combining targeting with cost-recovery from less poor groups.

First, Colombia should consider redirecting funding to social assistance programs. For example, a full redirection of funds from the *Servicio Nacional de Aprendizaje* (National Training Service, SENA) to social assistance would bring budgeted expenditures for social assistance from under 0.7% of GDP to close to 1% of GDP -- a bare minimum for a country at Colombia's stage of development, particularly given the vulnerabilities present in Colombia today and the shocks likely to manifest themselves in the near future. This will be particularly critical when financing for the new *Red de Apoyo Social (RAS)* programs runs out in 2004.

Second, poverty targeting should be used to generate cost-recovery from less poor groups being served by social assistance programs. The Government of Colombia cannot afford to subsidize social welfare programs for the non-poor. For programs serving the structural/chronic poor, efficiencies could be gained through applying an improved SISBEN proxy means test. For example, the ICBF family welfare agency could explore using SISBEN to establish poverty rankings for beneficiaries of its daycare programs and apply a sliding-scale fee to generate cost-recovery from the less-poor users of ICBF daycare programs, particularly CAIPS which are not as well-targeted. This would allow the services to remain viable within low-income communities where several studies point to high demand for day care. The savings could be used to increase the quality of the services provided and to expand coverage. However, this should be introduced on a pilot basis to ensure that its administration is not overly complex and that there are no negative social repercussions to variable rates for childcare in low-income communities. In addition, cost recovery and/or variable subsidies could be introduced in other programs.

Reforming the structure and management of the social safety net

The Government of Colombia should engage key stakeholders in a strategic planning exercise to define the appropriate composition, management and administrative structure for the social safety net. Attention to the architecture, role and function of the social safety net has traditionally been ignored in Colombia.

With respect to the management of the reformed safety net, the following scenario could be considered:

- **Overall responsibility for planning and budgeting for the safety net would naturally rest with CONPES**, the National Council for Political and Economic Policy, working under an established set of norms and regulations governing the safety net. There seems to be no compelling reason to establish a new institution to manage the social safety net.
- **A technical secretariat would be responsible for advising CONPES.** This secretariat would have responsibility for supervision of the safety net and information management. Many of these responsibilities are currently coordinated by the National Planning Department working with the Ministry of Education, the Ministry of Health and the Ministry of Labor. The National Planning Department could continue to exercise this role, under specific terms of reference and perhaps with a role for the Ministry of Finance or the central bank. Responsibilities could include:
 - *Use of existing data to monitor macroeconomic trends.* Key macroeconomic performance indicators and data on transmission mechanisms should be monitored regularly to assess needed adjustments to the safety net and establish triggers for the contraction and expansion of safety net programs.
 - *Mobilization of microeconomic data on the evolution of poverty and vulnerability.* Colombia's overall solid system of household surveys needs to be further improved, for instance with the next application of the *Encuesta de Calidad de Vida*, to allow for a better assessment of the effect of the crisis on human capital, provide better measures of vulnerability, and to monitor how the poor are faring under different types of reforms. Panel data and other approaches to measuring vulnerability should be explored.
 - *Engaging in public information campaigns.* Public information campaigns are critical to at least three functions: guiding potential beneficiaries of safety net programs in accessing those programs by making clear their availability and participation requirement; improving public sector transparency and accountability; and building constituencies for reform.
- **There might be a role for increased decentralization.** The management of the main social assistance programs—including ICBF and SENA—is strongly centralized and earmarked. Reforms promoting decentralization and allowing greater autonomy and flexibility to tailor programs and overall safety net responses to the particular needs of local areas should be carefully considered. Options involving the private sector and NGO's should be explored and evaluated as ways to improve efficiency, effectiveness and coverage.

With respect to the structure of the reformed safety net, the following issues should be considered:

- **Determining the programmatic composition of the safety net**, including which programs should be permanent, addressing chronic vulnerabilities, and which should be activated countercyclically during crisis periods.

- **Explicitly considering the long-term role of the new RAS programs.** In determining the programmatic composition of a reformed safety net, the long-term role of the RAS programs needs to be explicitly considered. Several of the main gaps in Colombia's public risk management interventions are being filled by the three new RAS programs. Without income support and cash transfer programs such as those established by RAS, Colombia's safety net would be unbalanced (see Table A below). There is therefore a need to assess which RAS programs should remain as part of the permanent safety net, either as programs to address structural vulnerabilities and/or as cyclical programs implemented during times of crisis. Impact evaluations of both RAS and other social programs with similar objectives (including SENA short-courses and ICBF nutrition programs) should guide the composition of the social safety net, lest the RAS create another overlapping institutional layer within the network of existing programs.
- **Establishing a counter-cyclical element of the safety net.** There is a need to establish a counter-cyclical safety net strategy that would enable the Government of Colombia to respond quickly to the next crisis. A priority area for action is to determine the specific norms and procedures under which the counter-cyclical safety net would operate to meet the needs of affected vulnerable groups during times of crisis. This should include establishing triggers for the immediate expansion of selected, pre-identified programs, when the country is hit by a crisis. Another key step in setting up a counter-cyclical strategy is to determine the institutional and management structure of the strategy. The temptation to establish a separate institute to manage the counter-cyclical element should probably be avoided, given the multitude of existing programs and the existence of organizations responsible for policymaking and analysis in Colombia. Instead, the management structure proposed above should be adapted to address counter-cyclical issues. A third element is the determination of which programs would compose the 'basket' from which the counter-cyclical element would draw for expansion during times of crisis. Finally, financing for countercyclical responses needs to be addressed.

In sum, the diagnosis provided in this report and related recommendations should serve as a point of departure for a thorough debate on how best to establish a solid social safety net in Colombia. This debate should lead to a comprehensive reform of the safety net in 2004 when financing for the RAS emergency programs expires.

The Government of Colombia will be well prepared to reform the social protection system, particularly if the technical reforms (specifically the evaluations of the main social assistance programs) argued for above have been implemented. The dialogue has begun, but needs to be broadened and deepened. Several reforms have already been introduced. The rapid application of analytical work to policy has been facilitated by the collaborative, iterative nature of this review, which was carried out as a joint study between the World Bank and the Government of Colombia, with important financial and analytical inputs from the Inter-American Development Bank. However, key changes still need to be implemented to ensure the establishment of an effective social safety net in Colombia. Certain reforms could be instituted in the short-term, while others would benefit from a thorough evaluation of key programs, an extended national debate and planning ahead for a reform in 2004.

TABLE A: SOCIAL RISKS AND SOCIAL PROTECTION PROGRAMS IN COLOMBIA, 2000ⁱ

Type of Risk	Risk Indicator	Prevalence ⁱⁱ		Social Protection Programs		
		# Affected	Percentage	Existing Social Assistance	New Social Assistance	Social Insurance
Ages 0–6 (population 4,873,000 ⁱⁱⁱ)						
Stunted development	Severe chronic malnutrition (age 0-5) ^{iv}	657,000 total 255,000 Q1 154,000 Q2	13.5% total 19.7% Q1 12.5% Q2	ICBF school feeding ICBF CAIP formal day-care / ECD	RAS <i>Familias en Acción</i> conditional cash transfer (health and nutrition grant)	ISS health insurance (contributory and subsidized regimes)
Limited early childhood development	Pre-school or day-care attendance (age 0-7) ^v	Not attending-3,562,000 total 1,124,000 Q1 978,000 Q2	Not attending: 54% total 62.9% Q1 58.7% Q2	ICBF HCB informal day-care / ECD		
Ages 7-11 (population 5,171,000 ^{vi})						
Low human capital development	Net primary school enrollment (ages 7–11)	Not enrolled ^{vii} : 707,000 total 194,000 Q1 184,000 Q2	Enrolled: 83.6% total 84.3% Q1 83.2% Q2	None	RAS <i>Familias en Acción</i> conditional cash transfer (education grant)	ISS health insurance (contributory and subsidized regimes)
	Overage (average years behind) (ages 7–11) ^{viii}		0.20 years total 0.44 Q1 0.24 Q2			
Ages 12–18 (population 6,059,000)						
Low human capital development	Secondary enrollment (ages 12–17) ^{ix}	Not enrolled: 1,901,000 total 608,000 Q1 468,000 Q2	Enrolled: 62.8% total 47.7% Q1 58.3% Q2	PACES voucher program, but being phased out	RAS <i>Familias en Acción</i> conditional cash transfer (education grant)	ISS health insurance (contributory and subsidized regimes)
	Overage (average years behind) 12-17 ^x		0.82 years total 1.37 Q1 1.02 Q2			
Health	Female teenage pregnancy (15-19 years) ^{xi}	420,000 total	19% total (26% rural)			

Type of Risk	Risk Indicator	Prevalence ⁱⁱ		Social Protection Programs			
		# Affected	Percentage	Existing Social Assistance	New Social Assistance	Social Insurance	
Low income	Inactivity ^{xii} (ages 12-17)	680,000 total	13.3% total				
		202,000 Q1	17.4% Q1				
		187,000 Q2	16.7% Q2				
	Unemployment as percentage of the economically active population (ages 12–18) ^{xiii}	497,000 total	30.5% total				
		119,000 Q1	28.1% Q1				
		129,000 Q2	34.3% Q2				
	Informal sector as percentage of all employed (only 7 major cities, ages 15-19) ^{xiv}	244,000 total	79.0% total				
		46,000 Q1	94.5% Q1				
49,000 Q2		87.6% Q2					
Ages 19–64 (population 22,261,000)							
Low income	Unemployment as percentage of economically active population ^{xv}	2,705,000 total	15.8% total		RAS <i>Jovenes en Acción</i> youth training RAS <i>Empleo en Acción</i> workfare	ISS health insurance (contributory and subsidized regimes)	
		542,000 Q1	22.0% Q1				
		550,000 Q2	19.1% Q2				
	Informal sector as percentage of all employed (7 major cities, ages 20-59) ^{xvi}	2,999,000 total	57.9% total				
		526,000 Q1	85.7% Q1				
		586,000 Q2	70.4% Q2				
Ages 65+ (population 2,452,000)							
Low income	No pension	2,111,000 total	81.8% total	RSS <i>Revivir</i>	None	Pension system for formal sector employees	
		474,000 Q1	98.0% Q1				
		399,000 Q2	97.5% Q2				
	Informal sector as percentage of all employed (7 major cities, age 60+) ^{xvii}	234,000 total	82.7% total				
		38,000 Q1	96.8% Q1				
		39,000 Q2	90.5% Q2				
General Population							
Poor health	Access to health insurance	19,000,000 uninsured	47 % uninsured	Cajas de <i>Compensación</i> Utilities subsidies	None	ISS health insurance (contributory and subsidized regimes)	

Type of Risk	Risk Indicator	Prevalence ⁱⁱ		Social Protection Programs		
		# Affected	Percentage	Existing Social Assistance	New Social Assistance	Social Insurance
Low-quality housing	No piped water	5,836,000 total	14.3% total	INURBE/rural housing programs		
		2,637,000 Q1	32.3% Q1			
	No electricity	1,486,000 Q2	18.2% Q2			
		1,975,000 total	4.84% total			
Violence and displacement	Displacement	939,000 Q1	11.5% Q1	RSS program for displaced		
		498,000 Q2	6.1% Q2			
		400,000 – 1.9 million ^{xviii}	1% to 5% total			

ⁱ This table covers the principal federal social protection programs. Unless otherwise noted, estimates were carried out by DNP's DDS and SES divisions using *Encuesta Nacional de Hogares* data from September 2000. Further information about risk indicators is included in Table 2.7 at the end of Chapter II.

ⁱⁱ Per capita income quintiles using DNP estimates.

ⁱⁱⁱ Population 0-5 years old. DANE.

^{iv} DANE-PROFAMILIA DHS data.

^v ECV 1997, DNP *Misión Social* estimates in "Informe final: ICBF", Fedesarrollo. Estimates include HCB, CAIP and all other pre-school/day-care institutions.

^{vi} Population 6-11 years old.

^{viii} Overage is defined as the average number of years children in this age group are behind with respect to their corresponding grade level.

^{ix} Net secondary school enrollment is calculated as the number of children of 12-17 who are in secondary divided by the total number of children of 12-17.

^x Overage is defined as the average number of years children in this age group are behind with respect to their corresponding grade level.

^{xi} Represents women in this age group who are pregnant or have a child.

^{xii} Neither study nor work.

^{xiii} The economically active population is defined as either having worked a certain number of hours recently; or being without work, but having actively pursued employment.

^{xiv} Only data from 7 cities (Bogotá, Barranquilla, Medellín, Cali, Manizales, Bucaramanga y Pasto) are included in this calculation; the total number of people working in the informal sector nationwide is much higher.

^{xvi} Only data from 7 cities are included in this calculation; and only people in the age group from 20-59 are included, whereas the definition of 'labor force' typically includes younger and older people. Therefore the total number of people working in the informal sector nationwide is much higher.

^{xvii} Only data from 7 cities; the total number of people working in the informal sector nationwide is much higher.

^{xviii} CONPES memo on displaced population, 2000; CODHES-UNICEF, 1999.