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The Expansion of Non-Contributory Transfers in Uruguay in Recent Years[1]

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I. Introduction

During the first half of the 20th century, Uruguay was able to establish an institutional system of universal social policies in the areas of education, labour and health which involved the coverage of most of the population (Filgueira, 1994). In the context of social protection, a system of contributory cash-based transfers was created which aimed to protect workers in the formal sector—and through them their families—and to provide them with an adequate retirement to replace their income. With regard to non-contributory transfers, in 1919 a social pension scheme for elderly and disabled people was created, targeting those people over 70 years of age considered socially vulnerable. In 1942 the system of contributory Family Allowances (*Asignaciones Familiares*) came into force, consisting of monthly cash benefits to workers in the formal sector with children.

Uruguay's pension system, including its non-contributory component, reached almost universal coverage among elderly people, in part due to laxity in the requirements to receive the contributory benefits. The social security system started to run deficits that widened as a result of a plebiscite in 1989 by which the contributory pensions became indexed to the national average wage index. In a context of declining inflation, the real values of benefits went up sharply. At the same time, the government's expenditure on pensions represented more than 90 per cent of its income transfers.

During the 1990s, the liberalisation reforms that the country experienced led to a strong inter-sectoral restructuring of the economy and an increase in the unemployment rate. The bias of the social protection system toward elderly people contributed to widen the intergenerational income gap, as shown by the high incidence of poverty in households with children under the age of 18 compared to households with an elderly person.

In an unfavourable regional environment, the Uruguayan economy entered in a recession in 1999 that culminated in a severe economic crisis in 2002. The contraction of economic activity translated into high levels of unemployment and a strong decrease in real household income. The intergenerational differences in the risks mentioned above were further exacerbated, but the government did not take additional measures to address the large decline in household income, except for protecting in-kind (food) and cash transfer programmes from fiscal adjustments. Afterwards, in 2004, the Family Allowance benefit was expanded to households with an income lower than three times the national minimum wage (39 U$ a month), irrespective of the contributory status of the beneficiaries. However, due to the low value of the benefits, this change did not lead to significant improvements in household welfare.

In those years, Uruguay, a country with high level of human development and—in the context of Latin America—with low levels of inequality and poverty, experienced a deterioration of its social indicators. Between 2001 and 2003, real household income decreased almost 25 per cent, and the incidence of poverty increased from 25 to 40 per cent of total population (Graph 1, Panel a). Inequality, which was on the rise since the 1990s, remained at high levels (the Gini index reached 0.45 in 2002, up from 0.41 in the early 1990s) (Graph 1, Panel b). See Graph 1, next page.

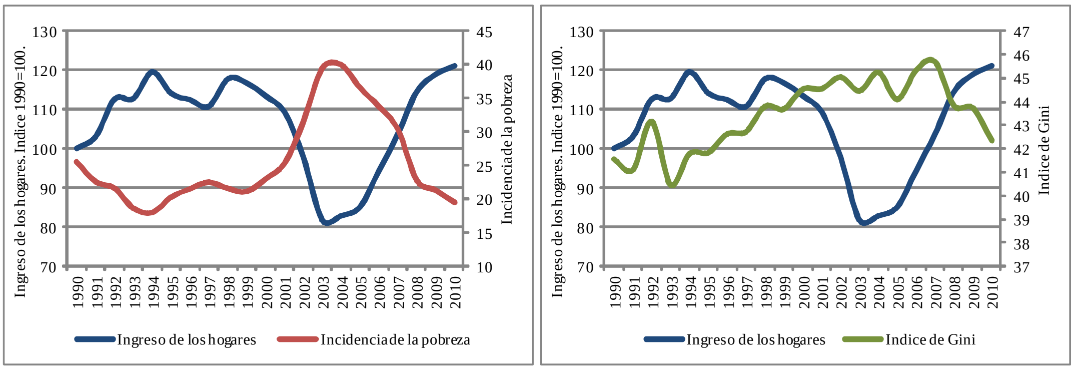
Towards the end of 2003, the country returned to the path of economic growth. In the following years, its economic expansion was sustained, driven by a significant growth in global demand for commodities. However, the levels of poverty only began to decrease in 2005 and from 2008, for the first time in 15 years, the Gini index declined over three successive years. Thus, in 2010 poverty declined to 19.5 per cent and the Gini index to 0.42.

Between the acute economic crisis of 2002 and the encouraging social indicators of 2009, relevant changes occurred in the country's social protection matrix. The centre-left coalition, Frente Amplio, began its mandate in March 2005, promoting a series of redistributive measures. This occurred in a context of sustained economic growth, which certainly proved to be a decisive factor in improving social indicators. In the following section we analyse the recent policies directly targeting people living in poverty and, specifically, the cash transfer programmes and their impacts.

Graph 1

Evolution of Average income, Inequality and Poverty in Uruguay. INE's Poverty Line (2006) Localities of 5000 Inhabitants or More

a) Average Income and Poverty b) Average Income and Inequality



Source: Elaborated on the basis of INE's Encuestas Continuas de Hogares *(Continuous Household Survey).*

II. From PANES to the Equity Plan

The National Assistance Plan of Social Emergency (*Plan de Atención Nacional a la Emergencia Social* – PANES), a programme aimed at improving the income and living conditions of beneficiary households in the short run and provide them with tools to facilitate their social inclusion, was implemented between April 2005 and December 2007. It was originally designed as a temporary plan, and yet it meant a major departure from the contributory and stratified model of social protection that characterised the Uruguayan system. The plan comprised a set of interventions, including transfers (*Ingreso Ciudadano* –cash transfer—and *Tarjeta Alimentaria*—a cash transfer provided through a magnetic card to purchase food and hygiene products), educational and social reinsertion programmes (*Rutas de Salida* (Exit Doors) or graduation programmes and adult literacy), housing subsidies and public works (*Trabajo por Uruguay*).

PANES targeted the bottom 20 per cent of all households living below the poverty line, which accounted for eight per cent of the total population. This was a modest goal given that poverty reached 36.5 per cent of the total population in 2005.

At the same time that PANES was launched, the institution in charge of its implementation, the Ministry of Social Development (Ministerio de Desarrollo Social, MIDES), was also established. This entailed an important change in the institutional organisation of social protection, as the new ministry became responsible for coordinating all social benefits provided by the State, which were previously dispersed and not coordinated.

The newly established ministry had to rely on the institutional structure of the Social Security Bank (Banco de Previsión Social, BPS) in the implementation of PANES. This body, responsible for the country's social security, has branches across the country and a strong administrative capacity, which paved the way for the implementation of the programme and the payment of transfers. Its experience in the payment of social benefits was of vital importance.

In addition to handling the contributory Family Allowances, it was also responsible for other social benefits such as pensions and the unemployment insurance scheme. The BPS was responsible for generating the database of PANES applicants and conducting the payment of Citizens' Income (*Ingreso Ciudadano*). In parallel to that, MIDES requested technical assistance from Universidad de la República to work out a tool to select the programme's beneficiaries, which included the following tasks: to design the form for data collection; to conduct the first phase of the field work to identify the beneficiaries of the programme; to create a catalogue of the existing social programmes; and to design and implement the programme's impact evaluation (Amarante and Vigorito, 2012).

Households could apply to PANES through two mechanisms: MIDES enumerators visited areas with serious deficits in infrastructure that were considered to have a very low socioeconomic level, and an on-demand system was set up for those who wanted to apply but did not live in the areas selected. The first stage of the process was to verify that household income was lower than the threshold of US$70 per capita, using the household's declarations to PANES enumerators and information from the applicants' work history (formal workers) and from BPS contributory benefits. In practice, very few households were rejected on the grounds of their incomes. Once it was established that the household met the income criterion, a score (proxy means test) was estimated based on a set of variables that reflected certain characteristics including the household's assets. The research that evaluated the targeting performance of PANES suggests that it has achieved its goal of reaching its intended target population with low errors of inclusion and exclusion (World Bank, 2007).

Almost all of the selected households received the cash transfer, Citizens' Income; some 80 per cent received the Food Card, and about 20 per cent participated in *Rutas de Salida* and *Trabajo por Uruguay*.

Payment of Citizens' Income was conditional on the fulfilment of certain conditionalities, such as enrolling children between 6 and 14 years old in the educational system and attending health check-ups.[2] However, the verification of these conditionalities faced various difficulties, particularly at the inter-agency level, so when PANES ended, MIDES acknowledged publicly that it had not been able to carry out the monitoring of conditionalities.

During the time that PANES was in force, the contributory and non-contributory strands of the system of Family Allowances continued to exist. In many cases, access to PANES facilitated the household's access to Family Allowances. A household could receive both PANES (Citizen's Income) and the Family Allowance benefit, as the values of the Family Allowance benefits and of the old-age pension were not considered in the household income calculation to determine eligibility for PANES.

During the period that PANES was in force (2005–2007) the government established the National Council for Social Policy (*Consejo Nacional de Políticas Sociales*) under MIDES. Composed of key state institutions in the social area, it was responsible for formulating and implementing the Equity Plan (*Plan de Equidad*), which encompassed a set of policies to be implemented after PANES ended (Midaglia and Vigorito, 2011).

The Equity Plan was conceived as a public strategy for reducing poverty and social inequality on a structural or permanent basis. It was a comprehensive plan that included tax and health care reforms, which were implemented in the last five years.

The Equity Plan's cash transfers were reorganised based on the old system of Family Allowances. The most important complementary interventions included food transfers (the food card, *Tarjeta Alimentaria,* was maintained after the end of PANES); an expansion of coverage in early childhood services (*Centros de Atención a la Infancia y la Familia* – CAIF, infant and family care centres); an increase in non-contributory old-age pensions and lowering of the qualifying age; and a set of relatively new social programmes but with limited coverage. These new social programmes encompassed those that promoted reintegration into the labour market (micro-business, social cooperatives, temporary employment) and those that supported a return to education for young people and/or the improvement of school achievement, as well as adult literacy.

The cash transfers component was implemented through the reform of the Family Allowances that, as mentioned above, consisted basically of a contributory social security benefit directed mostly to workers in the formal sector with children, to which a non-contributory component was added in 2004. Its regulations were revised with the objective of adjusting it to the purposes of the Equity Plan and to reach socioeconomically vulnerable households. To this end, the contributory Family Allowance was maintained as before, with a range of between US$8 and US$16 per child, depending on household income and the eligibility criteria.

The Equity Plan Family Allowance is targeted at minors below 18 years who live in a vulnerable household. Vulnerability is determined according to a new proxy means test score developed by the Universidad de la República (Amarante et al., 2008) and implemented by the BPS. Just like for PANES, the score is also combined with an income threshold that, in practice, is verified by cross-checking formal-sector wages from the applicant's employment history and social security allowance records. In January 2008, when PANES ended, those households that applied to PANES (beneficiaries and rejected applicants) were directly transferred to the new system of Family Allowances if their socioeconomic conditions did not exceed the new threshold established. By April 2008, registration for other households was opened.

The old regime of non-contributory Family Allowances disappeared gradually, and the old beneficiaries from this system were told to apply for the new Family Allowance (AFAM) from the Equity Plan, given that the benefits of this new allowance were significantly higher. The value of the transfers varies with age and educational level completed. By the end of 2011, children aged 0 to 5 years and primary school children received U$866 (US$43) a month, and adolescents enrolled in high school an additional U$365 (US$18) a month—a total of U$1231, approximately US61.

The amount per beneficiary varies according to household composition, since it is adjusted using an equivalence scale. The total transfer per household is determined within these parameters, and, although it does not have an upper ceiling, it rarely exceeds for a specific household the amount of the national minimum salary, which increased significantly since 2005 and reached US$360 per month in 2012.

The value of the benefit is adjusted every six months in line with the Consumer Price Index (CPI) variation to keep its purchasing power. The Equity Plan's coverage target, particularly for AFAM, was to cover children from households in the first quintile of the 2008 income distribution, estimated at 300,000, and to reach the total number of children living in poverty, estimated at 500,000, by the end of 2009 (*Plan de Equidad*, 2007), which would cover all children living below the poverty line at the time. This population represented around 45 per cent of the children under the age of 18 living in the country. The effective coverage of the Equity Plan's Family Allowances is shown in Table 1.

In the meantime, the Food Card did not change much. This benefit continued after PANES ended, expanding to former recipients of a food basket distributed by the Instituto de Alimentación (Food Institute), but without opening an application process for potential new beneficiaries.

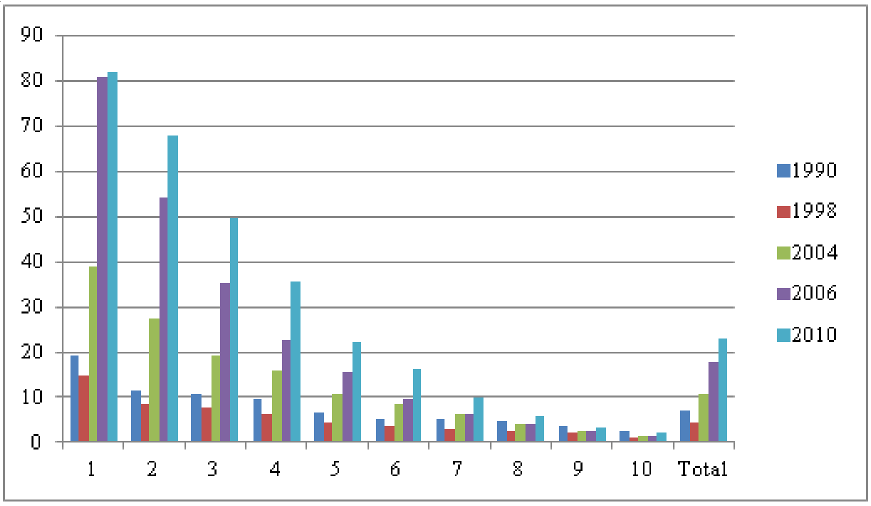
Table 1
Number of Children Receiving Family Allowances

	2006	2007	2008	2009	2010
Contributory/former non contributory regime-household lower income (*)	544,820	553,151	293,830	198,091	168,532
Equity Plan	0	0	274,512	363,814	401,644
Total	544,820	553,151	568,342	561,905	570,176

(*) This programme was phased out in 2009.
Source: BPS (2011).

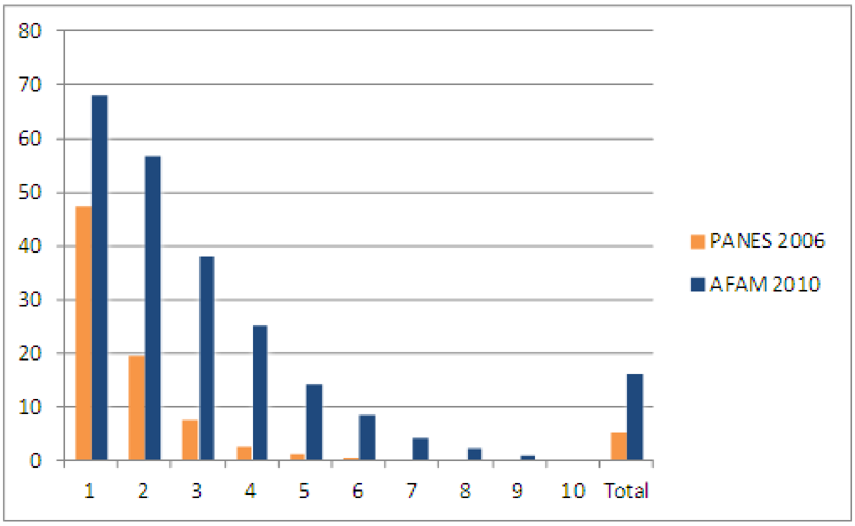
The implementation of PANES and the Equity Plan has changed the configuration of the social protection system in Uruguay. The proportion of households receiving non-contributory benefits has increased markedly in the past few years (see Graph 2). Both PANES and the Equity Plan's AFAM have had a high incidence among the lowest income deciles (see Graph 3).

Graph 2
Proportion of Households that Receive Non-contributory Transfers According to Income Decile
Towns with 5000 Inhabitants or More



Source: Author's own calculation based on INE's Encuestas Continuas de Hogares *(Continuous Household Surveys).*

Graph 3
Proportion of Households that receive PANES (2006) or AFAM (2010) According to Income Deciles
Towns with 5000 Inhabitants or More



Source: Author's own calculation based on INE's Encuestas Continuas de Hogares *(Continuous Household Surveys).*

III. The Socioeconomic Impact of PANES

Both PANES and the Equity Plan were funded from budgetary resources from the Uruguayan government. As a whole, PANES cost US$80 million annually, which represented 0.41 per cent of GDP in 2005–2007 and approximately US$2500 per annum for each beneficiary household.

No estimates for global costs are available for the Equity Plan except for its transfer component. According to the information provided by the Ministry of the Economy and Finance, the AFAM (contributory and non-contributory) represented about 0.9 per cent of GDP in 2010.

By the end of 2007, PANES had 83,000 beneficiary households (5 per cent of the total number of households and approximately 10 per cent of the total population of the country). According to data from the Continuous Household Surveys, the Citizen's Income component of PANES represented about 30 per cent of the income of beneficiary households.

In 2009 the Equity Plan AFAM had almost 364,000 beneficiaries. According to the Planning and Budget Office (OPP, information disclosed in 2010), in 2009 the AFAM covered 76 per cent of destitute children and 68 per cent of children living in poverty. If the coverage of Family Allowances granted to formal workers is added, it reaches almost the totality of households in the first quintile and of those living in poverty. While this implies that the programme's

Table 2
Contribution of Citizen's Income and Equity Plan AFAM to Poverty Reduction, Extreme Poverty and Inequality INE National Extreme Poverty and Poverty Lines (2010)

	Indigence		Poverty		Gini (*)
	Fgt (0)	Fgt (1)	Fgt (0)	Fgt (1)	
2006	**2.6**	**0.6**	**27.7**	**9.5**	**45.3**
2006 without Citizen's Income	3.7	0.9	28	10.2	45.7
Variation (by Citizen's Income)	-30%	-33%	-1%	-7%	-1%
2010	**1.14**	**0.3**	**18.6**	**9.4**	**44.3**
2010 without PE Family Allowances	1.9	0.6	19.8	10.3	45.3
Variation (by Family Allowances)	-40%	-50%	-6%	-9%	-2%
2010 without Food Card	1.52	0.4	19.0	9.7	44.7
Variation (by Food Card)	-25%	-25%	-2%	-3%	-1%

(*) Household per capita income (December 2010 est.).
Source: Author's own calculation based on INE's Encuestas Continuas de Hogares *(Continuous Household Surveys).*

coverage is close to that projected when it was established, in absolute terms, as shown in Table 1, the coverage of the programme is lower than originally planned.[3] Dean and Vigorito (2011) examine the underlying causes of insufficient coverage of households that constitute part of the target population of the Equity Plan AFAM and conclude that the main reasons lie in the population not recognising itself as the target population, already receiving the contributory allowance and not being willing to perform the procedure to change to the Equity Plan AFAM; lack of knowledge about the programme; and drop-outs from schools.

A simulation that does not take into account potential changes in behaviour such as changes in labour supply shows that the Citizen's Income generated a 30 per cent reduction in the levels of incidence of extreme poverty. However, it had a minor effect on poverty reduction, as the beneficiaries were far below the poverty line (see Table 2).

The impact on the poverty gap was also moderate, contributing to a 7 per cent decrease in this indicator, while it had no significant effects on the levels of inequality. The low take-up rate of the labour reinsertion programmes included in PANES leads to conjecture that their final impact on poverty and extreme poverty was almost negligible.

The Equity Plan AFAM and Food Card also play an important role in reducing levels of extreme poverty. Their contribution to poverty and inequality reduction is more significant than that of PANES. Amarante et al. (2011) observe that the joint contribution of Equity Plan AFAM and Food Card to reducing inequality is of equal magnitude to that of income tax. This is striking, because the available evidence for some developing countries indicates that transfers have a lower redistributive potential than direct taxation (Paulus et al., 2009). This result suggests that the tax reform that recently took place in Uruguay was actually moderate.

In addition to its effects on inequality, poverty and extreme poverty, the impact evaluation of PANES, using regression discontinuity design, shows a positive impact on the number of medical consultations, on birth weight, and no effects on the probability of school attendance, including for secondary school, where there was significant potential to expand enrolment and attendance (Amarante et al., 2008; Amarante et al., 2012; Amarante, Ferrando and Vigorito, 2012). It also clearly showed that receiving this benefit did not lead to changes in labour supply and hours worked for people older than 14 years. One of the potential adverse results of the programme was that it might have slightly stimulated the informality (Amarante et al., 2011; Amarante et al., 2012), which could be linked to the fear of losing the benefit if one crosses the income threshold. Also, greater optimism and support for the government were found among the beneficiaries (Manacorda et al., 2011). There are still no available impact evaluations of the Equity Plan AFAM.

IV. Future Challenges

The Uruguayan case illustrates the expansion of the non-contributory transfer system over a short period of time, starting with a temporary programme and expanding later with the establishment of the Equity Plan. During this experience the social protection system was strengthened by the creation of new programmes, the scale-up of existing programmes and overcoming the initial distinction between contributory and non-contributory transfers.

The implementation of these plans generated a strong incentive for the creation and consolidation of institutional capacities of public organisations (MIDES) and represented an important step forward in the exercise of new state functions (evaluation, monitoring, establishing a social information system) and the implementation of inter-institutional collaboration and coordination strategies (Midaglia and Vigorito, 2011).

To improve Equity Plan AFAM interventions, it is necessary to undertake concrete actions in terms of information collection and monitoring to reach segments of the population that did not apply for AFAM. It is also important to assess and discuss the advantages and disadvantages of the school attendance conditionality, as this might exclude the most vulnerable households. In addition, it is necessary to think about cash transfers for households without children.

On the other hand, one of the lessons emerging from the evaluation of PANES is that the conditional transfer proved to be insufficient to generate by itself a significant increase in secondary school attendance. It is not clear to what extent this was due to the amounts of the transfers or to the existence of other factors unrelated to income that are important when taking the decision to stay in school or return to it. However, it is clear that the Equity Plan should reinforce and develop complementary interventions to the transfers to succeed in its objective of increasing secondary school attendance.

Organisational and institutional linkages between targeted social protection services and those of universal social policies such as education and health need to be strengthened.

This is important not only for implementing effective controls in the conditionalities of the programme but mainly for coordinating efforts to design more effective policies to reduce poverty and inequality in the long term.

Another aspect to be discussed in the future is the potential stimulus for informal employment as a result of a rigid income threshold such as the one established by PANES. Evaluation of the Equity Plan Family Allowances would allow us to clarify whether this problem has been corrected by the coexistence of the contributory with the non-contributory system, or if greater flexibility in the existing rules is required. ■

1. The authors would like to thank the comments and suggestions provided by Fabio Bertranou, Simone Cecchini and Fabio Veras.

2. In Uruguay, primary and secondary school are compulsory. Historically, compliance with this regulatory requirement has been observed for primary education, maintaining high enrolment rates of the child population attending educational establishments, between 97 per cent and 98 per cent.

3. This difference is due to the strong decrease in poverty rates already mentioned and to the lack of a recent census to allow an accurate estimation of the number of beneficiaries to be covered by the system.

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