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Public Social Safety Nets and the Urban Poor

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The previous chapters discussed how poor people can try to protect themselves against poverty and vulnerability by building up their asset base or calling on friends and relatives. Other strategies include relying on public mechanisms, such as social assistance or social insurance (unemployment, health, and disability insurance; pensions). Social insurance is usually available only through formal labor markets. As a result, it is out of reach for most poor families—only about 30 percent of the employed urban poor work in the formal sector in Latin America—making social assistance the key public instrument for helping the poor.

Social assistance aims to help the poor cope with poverty and vulnerability when private mechanisms and social insurance cannot—this is why it is commonly referred to as a social safety net.¹ Its design therefore needs to be informed by the availability of social insurance and private schemes. It also needs to respond to what is known about the nature of the deprivation and vulnerability affecting the target population.

This chapter reviews what is “urban” about poor people living in cities, focusing on differences that are relevant to social safety nets. It then discusses whether these differences imply a need for different types of programs or just different design of specific interventions.

Myths and Facts about the Safety Net Needs of the Urban Poor

Before discussing the safety net needs of the urban poor, it is worth tackling two myths about the topic. Both are based on the common misconception

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that urban averages are representative of the conditions of the urban poor. It is also important to review some of the characteristics of urban poverty that are relevant to the design of safety nets.

Myth 1: The Greater Availability of Social Insurance in Urban Areas Makes Social Assistance Less Necessary

Publicly managed social insurance systems providing old age pensions, income support for the disabled, and health insurance are widespread in Latin America, and coverage is generally higher in urban than in rural areas.² These programs are therefore, at least potentially, a critical component of the urban safety net, with the capacity to vastly reduce income vulnerability and poverty in the face of catastrophic illness, disability, and old age.

However, empirical analysis of the determinants of access to social security does not find much evidence of an urban bias (Packard, Shinkai, and Fuentes 2002). Once individual characteristics, such as income, years of education, and type of employment are taken into account, regression analysis finds that the probability of having access to pension systems is greater for the urban population in five countries (Chile, El Salvador, Mexico, Paraguay, and Peru); lower in two countries (Costa Rica and Ecuador); and similar in three countries (Brazil, the Dominican Republic, and Nicaragua). In addition, these results must be interpreted with caution, given the special rules that often apply to rural workers. In Brazil, for example, rural workers are less likely to contribute to social security programs, but since they can benefit after contributing only nine years, they may enjoy some benefits nevertheless.

More important, coverage of these systems is highly regressive, leaving the vast majority of the poor—urban and rural—without coverage. This is mostly due to the fact that social insurance is usually accessed through formal labor markets and formality increases with income (from about 30 percent of employment in the first quintile to 68 percent in the top quintile). Indeed, across Latin America workers earning higher incomes and with more education are more likely to contribute to social security (Packard, Shinkai, and Fuentes 2002). Even in Chile, which has one of the most developed social insurance systems in Latin America, more than half of urban workers below the mean income level are without coverage (World Bank 2002). In countries with less-developed systems, regressivity is even more pronounced, leaving the poor virtually without coverage (Gill, Packard, and Yermo 2004).

A recent study of Peru addresses old-age poverty and the urban social insurance system (World Bank 2003b). It finds that in urban Peru, the share of the employed labor force with access to an old-age insurance

system is significantly lower among workers in the poorest income quintile (3 percent) than among the top quintile (27 percent). Moreover, access has become more regressive in recent years, decreasing for the poorest and remaining constant or increasing for other social groups (table 8.1). The incidence of pension receipts among Peru's population over 65 is regressively distributed, with only about 15 percent of the elderly in the

Table 8.1 The pension system in urban Peru is highly regressive—and has become more so over time
(percent)

<i>Year/Area</i>	<i>Share of employed labor force 14–65 contributing to a pension system</i>			<i>Share of elderly (65+) receiving pension benefit</i>		
	<i>Quintile 1 (poorest)</i>	<i>Quintile 5 (richest)</i>	<i>All</i>	<i>Quintile 1 (poorest)</i>	<i>Quintile 5 (richest)</i>	<i>All</i>
<i>1999</i>						
All urban	4	26	16	22	41	32
Metropolitan Lima	8	29	18	40	47	40
Rest of urban Peru	2	24	15	9	35	25
<i>2000</i>						
All urban	3	29	18	14	45	33
Metropolitan Lima	6	31	20	23	52	40
Rest of urban Peru	2	27	16	6	37	27
<i>2001</i>						
All urban	3	27	16	15	44	32
Metropolitan Lima	5	30	19	27	53	40
Rest of urban Peru	1	23	14	6	32	22
<i>Change between 1999 and 2001</i>						
All urban	-25.6	1.1	-0.6	-32.1	7.0	-0.9
Metropolitan Lima	-33.8	3.4	4.4	-33.1	11.5	1.5
Rest of urban Peru	-18.8	-0.8	-6.2	-38.0	-10.0	-10.4

Source: World Bank 2003b.

bottom quintile but 44 percent of the elderly in the top quintile receiving a pension. The distribution is also heavily skewed toward metropolitan Lima, with far lower coverage rates in other urban areas. Regressivity has worsened over time, probably as a result of the regionwide increase in informality (chapter 2).

In sum, although Latin America is characterized by relatively well-developed social insurance systems that favor the urban working population, the vast majority of the urban working poor have little to no access to these programs. In addition, informality is increasing throughout Latin America, so that increased coverage of social insurance is unlikely in the near future, at least in the absence of major reforms.

A Second Myth? Social Assistance Is More Easily Accessible in Cities

There is often a presumption that the urban poor are better served by safety nets than the rural poor. This perception is partly associated with the fact that access to social insurance as well as to health and education services is indeed much greater. However, one of the first in-depth analyses of safety nets broken down by urban and rural populations, carried out for Mexico, finds that social assistance actually favors rural populations.³ Mexico has only recently begun developing an urban poverty program, and expanding its flagship antipoverty program, Oportunidades, into urban areas.

Lacking a more general analysis of safety nets across Latin America, it is not possible to say whether Mexico is representative of Latin American safety nets. The evidence from Mexico does show, however, that an urban bias in safety nets is not automatic. More generally, many of the programs available in urban areas are poorly targeted and therefore fail to address the needs of the urban poor, so that even if there is an urban bias, it may not favor the poor (box 8.1).

Fact 1: Greater Integration into the Market Economy affects the Risks and Vulnerability of the Urban Poor

The urban poor are much more integrated into the market economy than their rural counterparts. This has several implications that are relevant to the design of safety nets.

First, greater market integration implies that lower income urban households are more susceptible to macroeconomic shocks and fluctuations in the growth rate.⁴ (Seen positively, it implies that the urban poor have more opportunities to escape poverty when the economy does well.)

Box 8.1 Does Social Protection Address the Needs of the Urban Poor in Latin America and Caribbean?

Social protection in Latin America and the Caribbean consists of a wide range of programs operated by different ministries and levels of government. Almost all countries have some type of school feeding program, and many are developing school-based cash transfers. Workfare programs are also common, and most countries have some type of old-age pension and disability program. Despite significant expenditures on social protection, however, almost none of the countries in the region has explicitly matched key risks and poverty groups with appropriate programs. The table illustrates the mismatch between typical interventions for addressing risks and the circumstances of the region's urban poor.

Source: Adapted from World Bank 2001a.

Mismatch between objectives of national assistance programs and circumstances of the poor in Latin America and the Caribbean

<i>Objective of national assistance program</i>	<i>Assistance type</i>	<i>Program characteristics</i>	<i>Circumstances of the poor</i>
Raise employment	Job creation	Job targets often in the formal sector	Usually in the informal sector
Improve job skills	Training	Literacy required	Often illiterate or have very poor reading skills
Increase primary education	Elementary school assistance	Serve designated age groups before entering labor market	Eligible age groups often already in labor market
Provide credit	Loans for businesses	Serves small holders with collateral	Possess little or no material collateral
Provide social security	Medical and unemployment insurance	Serves formal sector businesses and firms	Typically work in the informal sector

Source: Campbell 2003.

It implies that faced with macroeconomic shocks, households that had been getting by may be plunged into poverty (box 8.2). Such poverty, even if only transient, can have long-lasting consequences. The cognitive potential of young children may be permanently reduced, for example, by inadequate nutrition in their first years of life.

Box 8.2 How Do the New Poor and the Chronic Poor Cope with Macroeconomic Crisis?

The 2002 crisis in Argentina affected both the structurally poor and many in the middle class, who became known as the “new poor.” A study of urban areas finds that the two groups coped with the situation differently. The new poor engaged in new forms of generating income, such as trading products and services, organizing informal markets to sell objects, starting homemade production and microenterprises, putting new members of the household into the labor force, and replacing costly products with cheaper ones. The structurally poor resorted to increased participation of women and children in subsistence activities, such as cardboard collection, increased home-made production for self-consumption, and community purchases at wholesale stores. The structurally poor reduced their consumption of basic products, such as milk and meat; made illegal use of electricity; and substituted natural gas with bottled gas or firewood.

Source: World Bank 2003d.

This has important implications for the design of safety nets in urban areas: first because programs that deal with transitory poverty face specific targeting challenges (see below) and second because a major goal is to reduce households’ vulnerability by helping them partake of the opportunities offered by thicker urban labor markets. This can involve job search and job placement assistance programs, as well as measures to free up additional household members to join the labor market (a two-income household is inherently less vulnerable). These measures include child care and security of tenure, so that there is no need for someone to be at home to ensure that the claim on the property is constantly established (see chapters 2 and 3).

Second, for the urban poor the transmission of a macroeconomic shock is usually through the labor market. The loss of work is typically one of the most devastating shocks that can affect an urban household. But depending on the conditions of the local labor markets, a recession need not always translate into higher unemployment. Instead it may result in falling real wages—as happened during Mexico’s 1994–95 Tequila crisis and Argentina’s 2002 crisis.⁵ In Argentina three-quarters of the overall decline in household labor income was due to a fall in real wages for workers staying in the same job; only 10 percent was due to job losses. The importance of these labor market adjustments suggests that workfare programs can play an important role in helping households cope with the effects of the shocks. Indeed, Argentina’s *Plan Jefes y Jefas de Hogar Desocupados* (unemployed heads of households) had a significant impact on both aggregate unemployment and extreme poverty (box 8.3).

Box 8.3 How Effective Was Argentina's Jefes Program During the 2002 Crisis?

Following the crisis that hit Argentina in late 2001, the proportion of the population living in poverty rose from 37 percent in October 2001 to 58 percent a year later.^a In response to the crisis, the government launched a major work program, *Jefas y Jefes de Hogar Desocupados* (unemployed heads of households). The program provides 150 pesos (about \$50) a month to unemployed household heads or their spouses in exchange for 20 hours a week of community service work, job training, or work as a temporary employee of a private company. Eligible households are those with at least one child under the age of 18, a pregnant woman, or a member with a disability. Either the husband or the wife can participate in the program, provided that the spouse is not working.

Program eligibility criteria were not tightly enforced: about one-third of those receiving the program did not satisfy eligibility criteria. In particular, the aim of targeting only unemployed heads of households was clearly not realized, given that about half of participants were women who were previously inactive. The program is estimated to have reduced Argentina's unemployment rate by about 2.5 percentage points, a smaller impact than originally believed. Nevertheless, the effect on poverty, particularly extreme poverty, was significant: close to 10 percent of the participants would have fallen below the food poverty line without the program.

The extent of participation by people who were not formally eligible may not have been a bad thing, given the evidence that a fall in real wages, rather than unemployment, was the significant factor behind the decline in living standards. The fact that beneficiary unemployment status is hard to verify in economies with high rates of informality makes this eligibility requirement unenforceable anyway. More effective in ensuring pro-poor targeting were eligibility criteria correlated with structural poverty, such as having dependents or living in households with no members working in formal labor markets.

Overall, the program was not badly targeted, particularly compared with Argentina's overall social spending. About one half of all Jefes participants came from the poorest fifth of Argentine families, and all but 10 percent fell below the official poverty line. Among the lowest quintile, income to men from work programs increased from 2 percent of total household income to 16 percent; for women the share rose from 3 percent to 22 percent.

Sources: McKenzie 2003; Galasso and Ravallion 2004.

a. While the Jefes program is not specifically urban, the analysis discussed here is based on household surveys that cover only urban areas. Argentina, which is 90 percent urbanized, does not have a national survey.

Third, the greater integration in the market economy implies a higher monetization of food consumption, hence a greater sensitivity of food consumption to income and price fluctuations.⁶ In Latin America programs based on food transfers have been quite popular. Many such programs, started following crises as part of social fund initiatives, have become institutionalized. While these programs do not always represent the most effective use of resources, their design can include features that enhance their effectiveness, such as building on local self-help groups (as in the case of Peru) that offer women the opportunity to work outside the home. The choice of the items to be distributed can make the programs self-targeting or help them cater to the nutritional needs of especially vulnerable groups, such as children. Finally, although food rations may cause household expenditures to be reallocated between items or adjusted to compensate for the fact that particular household members are targeted by food programs, food transfers can still represent a practical way of distributing resources to poor households (Ruggeri Laderchi 2001).

Fact 2: Cities Are Much More Diversified Socioeconomically

The urban poor are part of a much more diversified economy than the rural poor. As a result, as discussed in chapter 1, different urban groups can be affected very differently by a given macro shock. In contrast, a rural economy affected by a weather-related disaster or a collapse in the price of a particular crop is likely to be affected in a much more homogeneous manner. The heterogeneity of the potential beneficiaries of safety nets and the difficulty of predicting which groups will be affected most has important consequences for the design of safety nets. In particular, safety nets need to be mostly self-targeted, so that whoever is in need can access them.

Socioeconomic diversity also implies that untargeted interventions result in much higher leakages, given the much lower urban poverty incidence. To the extent that the land and rental markets result in sorting by neighborhood, geographic targeting at a sufficiently disaggregated level can help. Within neighborhoods, however, substantial variation in living standards is likely to exist (see chapter 1). In Mexico, for example, where the issue has been studied in the context of Oportunidades, the government's flagship antipoverty program, just 26 percent of residents of "marginal" urban neighborhoods are below the poverty line, and only about 77 percent of eligible households live in such neighborhoods (Gutiérrez, Bertozzi, and Gertler 2003).

Proxy means-testing through indicators of unsatisfied basic needs, which are often used in Latin America, may not be very precise, since, as

discussed in chapter 3, access to services in urban areas is more closely related to the age of the settlement than to income.⁷ In sum, targeting in urban areas requires a good dose of self-targeting, given the greater socioeconomic heterogeneity of the population and the sheer number of people involved, which make both errors of inclusion and means testing very costly.

Fact 3: Weaker Family Ties Leave a Greater Proportion of the Elderly without Family Support

One reason for the emergence of pensions in the developed world was urbanization and the attendant decline in the role families played in social insurance. As discussed in chapter 7, social networks tend to be much less stable in cities than in rural areas because of greater population mobility. Density tends to move social relationships away from traditional familial ties to ones based on the quality of reciprocal links. One result is that the proportion of elderly living alone and unsupported by familial networks tends to be much higher in urban areas. In Mexico, for example, about two-thirds of households formed of only people over 65 live in cities.

Expectations are also different in urban and rural areas. The results of a specialized survey in Chile show that while 47 percent of rural respondents expect to live with their children in their old age, only 19 percent of urban respondents do. And while 67 percent of rural respondents expect some sort of care by their children, only 34 percent of urban respondents do (Gill, Packard, and Yermo 2004). Combined with the fact that everyone ages (whereas only some people are ever unemployed or disabled), this makes the elderly poor a particularly important target group for public policy. The aging of the Latin American population and the longer life-span of urban residents compared with their rural counterparts suggests that the elderly will become one of the fastest growing vulnerable groups in the region. And, as discussed earlier, the relatively high coverage of pensions in cities still leaves the vast majority of the urban population (poor or nonpoor) without any coverage.

Fact 4: Diversity and Density Imply Greater Social Risks of Child-Rearing

Three-quarters of Latin America's children and youth live in cities. They are a group of particular concern in poor urban areas, for a number of reasons (box 8.4). First, relative to the urban population as a whole, they are disproportionately affected by poverty. In 1999, 50 percent of 13- to 19-year-olds lived in poverty, almost twice the overall urban poverty rate.

Box 8.4 Who Are “At-Risk Youth”?

At-risk youth are teenagers and young adults who face “environmental, social, and family conditions that hinder their personal development and their successful integration into society as productive citizens” (p. 5). They tend to exhibit an increased propensity to engage in or be subject to harmful situations, including violence, substance abuse, unemployment, early school-leaving, and risky sexual behavior. The age “youth” may differ from country to country. The United Nations defines youth as people between 15 and 24.

Source: World Bank 2005.

Poor urban youth exhibit particularly poor health status and educational achievements.

Second, data on violence rates consistently find that youth who are poor, marginalized, and live in cities are at greater risk for both violence perpetration and victimization than any other demographic group (Guerra 2004).⁸ Urban youth are more exposed to gangs, organized crime, drugs, firearms, and risky reproductive health behavior than other groups, especially in Latin America, the most violent region in the world by most indicators (chapter 4).

The commonly used indicator of at-risk youth—the inactivity rate—is disturbingly high in most of urban Latin America. In Brazil it is about 20 percent for poor 13- to 17-year-olds; in Central America it ranges from 19 to 25 percent. The regional youth unemployment rate (which is usually about twice the national unemployment rate) grew from 14 percent to 20 percent between 1994 and 1999, reaching almost 25 percent in some countries (Marques 2003).

Social policy has a key role to play in targeting at-risk youth. The issues tend to be quite different in urban and rural areas. In terms of health and education, the rural challenge tends to be the lack of access to services (schools, clinics, social workers) and intrafamily violence. In urban areas the issues are overwhelmed services, environmental health problems, gangs, guns, drugs, and pervasive interpersonal violence.⁹

Fact 5: The More Complex Economy and the Greater Sophistication of Local Governments Affects the Design of Interventions

The urban economy is more complex than the rural one—more sophisticated designs are required to provide water and sanitation, build a bridge, and provide other services. Decisions on public works involve more

actors and more sources of financing, and they require more planning. These considerations make the design of workfare programs more complex, particularly when they are directed toward infrastructure or services managed by local governments (box 8.5).

On the other hand, one possible advantage of urban areas might be the greater resources—financial and human—and sophistication of their local governments. These advantages may make cities better able to administer some programs or even develop some of their own to respond to local needs.

The evidence is mixed as to the appropriate role of local governments in social safety nets. The presumption is that they should be involved in identifying recipients and their needs rather than in financing programs.¹⁰ In Latin America the more successful safety nets tend to be centralized ones (which need not imply that they could not be made more efficient through decentralization). Given the huge variety in performance across otherwise similar urban local governments, their ability to successfully contribute to the social safety net is probably determined by the quality of the particular administration in place. In sum, while local governments could potentially play a much greater role in urban areas, there is no clear evidence on what the optimal role should be.

Addressing the Needs of Urban Dwellers

The discussion of rural-urban differences suggests that the main challenges in developing a safety net system that addresses the needs of the urban poor are design ones. This includes targeting issues as well as the need to adapt the internal mechanics of programs such as workfare or conditional cash transfers to the urban reality. There are, however, some specifically urban issues and groups that need addressing. One issue is food vulnerability associated with income shocks. One urban group is at-risk youth (since the risks confronting the urban poor are different enough to require altogether different types of programs). In addition, while the problem of the elderly poor is not urban per se, it is particularly acute in urban areas, where the family structure is weaker and the share of the population covered by pension schemes is declining.

Design Issues for Urban Safety Nets

TARGETING URBAN SAFETY NET PROGRAMS

A broad array of targeting instruments is available, all of which can be useful in designing various types of safety net programs (box 8.6). The

Box 8.5 Argentina's Experience with Workfare: The Trabajar Program

In 1996 the government of Argentina established a workfare program known as Trabajar. Through the execution of small infrastructure facilities, Trabajar sought to improve the living standards of the communities in which subprojects were located and create opportunities for temporary employment for poor workers in both urban and rural areas. The program was managed and implemented by the Ministry of Labor and Social Security through staff at the national, regional, and provincial levels. Subprojects were proposed by municipalities, communities, national agencies, and civil society organizations. The subprojects were designed to be labor intensive and relatively small, with the average project costing less than \$100,000 and employing an average of 20 workers. The types of subprojects eligible for financing included rehabilitation, expansion, and new construction of community or public infrastructure, such as sewerage, latrines, potable water, housing, roads, urban works, irrigation, schools, and health centers. The wage rate was set at the same low level for urban and rural areas (the idea being that if the rate was not attractive to urban dwellers, perhaps they were not so poor).

Trabajar encountered a number of difficulties in larger municipalities (cities with more than 100,000 residents). First, larger municipalities found it difficult to insert Trabajar projects, the review and evaluation of which occurred on a monthly basis, into municipal and master plans that had already been formulated and that included mostly fairly complex works. Second, Trabajar projects were small, and larger municipalities found they did not fit well into the large-scale projects that made up their capital investment plan. Third, in larger municipalities, infrastructure projects fell under the purview of the public works agencies, not the social assistance agencies, as was the case for smaller municipalities, and the public works agencies often concluded that the benefits from a Trabajar project did not outweigh the cost of proposing and implementing one. Finally, larger municipalities found it easier to contract out the work rather than employ low-skilled workers in need of more supervision. Despite these difficulties, Trabajar was still popular in large urban areas.

The Trabajar program staff developed a proposal to address these issues. That proposal involved changing the project cycle for larger municipalities so that they would have an opportunity to work with a projected financial envelope of Trabajar funds and integrating them into master plans. It also allowed financing of a series of small stand-alone projects that could be part of a larger infrastructure project. These changes were never implemented, however, because the new government replaced Trabajar with the Jefes de Hogares program.

Source: Interviews with World Bank staff, July 2003.

choice of a particular instrument depends on the program to be targeted, the information available, the administrative capacity of the country or agencies charged with targeting, and the cost of the targeting instrument. In some cases, political considerations affect the choice of instrument, as when policymakers and legislators require program administrators to select beneficiaries individually (on the basis of poverty indicators, for example) and require the use of the same system for all regions or municipalities seeking to achieve uniform treatment nationally.

Verified means testing, the gold standard of targeting, has the advantage of being able to detect the new poor who lack money to buy basic

Box 8.6 Types of Targeting Methods

Verified means testing collects (nearly) complete information on a household's income, wealth, or both and verifies the information collected against independent sources, such as pay stubs or income and property tax records. This method requires verifiable records in the target population, as well as the administrative capacity to process and continually update this information in a timely fashion.

Proxy means testing denotes a system that generates a score for applicant households based on fairly easy to observe characteristics of the household, such as the location and quality of the dwelling, ownership of durable goods, the demographic structure of the household, and the education and possibly occupations of adult members. The indicators used in calculating this score and their weights are derived from statistical analysis of data from detailed household surveys. The drawbacks of this method include the high administrative capacity required to build initial registries and keep them updated; the higher costs compared with other targeting methods, such as geographic targeting; and errors of inclusion and exclusion, since welfare scores are predictions with high standard errors.

Community based-targeting uses a group of community members or a community leader whose principal functions in the community are not related to the transfer program to decide who in the community should benefit and who should not. The idea is that local knowledge of families' living conditions may be more accurate than what a means test conducted by a government social worker or proxy means test could achieve. The drawbacks of community-based targeting are a possible lack of transparency and elite capture or political interference due to the lack of systematic criteria for selection. In addition, community-based targeting may be more complex in urban areas, where the notion of a "community" may not correspond to a clear geographic area (as in a village).

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Box 8.6 (continued)

Categorical targeting refers to a method in which all individuals in a specified category—say, a particular age group or region—are eligible to receive benefits. It involves defining eligibility in terms of individual or household characteristics that are fairly easy to observe, hard to manipulate, and correlated with poverty.

Geographic targeting combines census data with household survey information. The variables and parameters can be derived from household surveys to estimate poverty. With these parameters, the probabilities of being poor can be estimated for people in selected geographical areas, and these areas can then be ranked on the mean probability of being poor in that area. Poorer areas can then be selected for program eligibility. Although a registry of beneficiary households is still needed (to verify residence and detail identification and addresses of beneficiaries), this is an inexpensive method that can be used in urban areas, as poverty maps can be made for small areas if recent census information is available.

Under *self-targeting*, a program is open to all, but the design discourages people who are not poor from participating in the program. This is accomplished by recognizing differences in the private participation costs between poor and nonpoor households. For example, wages on public works schemes can be set low enough so that only those with a low opportunity cost of time due to low wages or limited hours of employment will apply. Services can be delivered in areas where the poor are highly concentrated, so that the nonpoor have higher (private and social) costs of travel. Inferior or less popular goods can be distributed, such as food that is consumed predominantly by the poor.

Note: Adapted from Coady, Grosh, and Hoddinott 2004.

foods or to pay for basic public services, such as water and electricity, which are critical in a highly monetized environment. However, the vast majority of urban poor are in the informal sector, which makes it difficult to verify income or wealth. In addition, verified means testing is very expensive, requiring qualified personnel to conduct interviews, make home visits, and verify information with independent sources. This option is valid for small programs that involve a large transfer.

Proxy means testing can be a good instrument in urban areas, particularly when done through a two-step process. In the first step the variables that determine poverty scores and weights are identified using a random sample of households. In the second step a poverty map is drawn based on census information and the parameters calculated in the first step. Households residing in areas identified as poor are then actively recruited into the social programs. In some cases, households outside the area are

free to apply. This is the methodology used in urban Mexico for its conditional cash transfer program Oportunidades (box 8.7).

There are three main drawbacks to applying proxy means tests in urban areas. First, the main scoring variables, determined from national household surveys, are generally linked to the availability of public services.

Box 8.7 Expanding a Model Cash Transfer Program from Rural to Urban Areas: Mexico's Oportunidades

The Programa de Desarrollo Humano Oportunidades was the first large-scale conditional cash transfer program in Latin America and one of the most successful, according to several external evaluations. Initiated in 1997 under the name Progresa, its main objectives are to promote the development capacity of extremely poor households in education, health, and nutrition. Monetary benefits are conditioned on human capital investment by beneficiary families (school enrollment of children and youth and regular attendance at health clinics).

Progresa/Oportunidades targeted only the rural poor until a gradual rollout to urban areas in 2002. The main challenges to expanding into urban areas involved targeting and adapting the program to the needs of the urban poor.

Oportunidades retains the basic principle of geographic and household targeting used in rural areas, but it adjusted the mechanisms in recognition of the greater difficulty and cost of targeting in urban areas. Census information is first used to identify poor neighborhoods, where Oportunidades temporary offices or "modules" are set up and advertising is carried out to let households know they can apply for benefits. Applicants can also come from outside the neighborhood. Individuals arriving at the module are administered a questionnaire about their socioeconomic conditions, the answers to which are immediately entered into a computer to determine the household's eligibility. Households deemed eligible then receive a verification visit, generally within two weeks. A recent evaluation estimates that this approach captures about 65 percent of eligible households, compared with 77 percent when all households in eligible areas were administered questionnaires. The module approach costs about one-third less than administering the questionnaire to all households in poor neighborhoods (Gutiérrez, Bertozzi, and Gertler 2003).

At the end of 2003, the package of benefits offered was the same in urban and rural areas, but results were different. In particular, the impact on school enrollments, graduation, and drop-out rates was much smaller than in rural areas (Parker 2004). This probably is due more to the fact that opportunity costs are higher in urban areas than to differences in enrollment between rural and urban poor, which is remarkably similar in Mexico, even at higher grade levels.^a In addition, street violence and distance from schools makes it necessary for children and youth to take a bus to school, the cost of which is reported to absorb as much as 80 percent of the school grant (Escobar Latápi and González de la Rocha 2004).

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Box 8.7 (continued)

Unexpectedly, one of the strongest impacts of Oportunidades on urban households has been home improvements, which occurred to a much greater degree among beneficiary than nonbeneficiary households. Improvements include regularizing property, acquiring infrastructure services, and upgrading construction materials. The evaluation study argues that this specifically urban impact on housing reflects the fact that the irregular status of a home or its poor quality is perceived as an obstacle to overcome or a source of vulnerability to a much greater extent in urban than in rural settings (Escobar Latápi and González de la Rocha 2004).

A difficulty encountered during the urban expansion of the program has been the need to adapt the requirements imposed on participants to the urban work reality. In particular, some working mothers did not join or dropped out of the program because they could not attend medical appointments or educational talks held during working hours. An additional problem is that of saturation of clinics in poor urban areas, which poses a significant problem, since regular medical check-ups are a requirement of the program (Escobar Latápi and González de la Rocha 2004). In addition, program administrators cite the need to adjust the content of the educational talks on public health issues to the urban reality (emphasizing coping with drug use and street violence rather than boiling water, for example).

a. See in particular section 1.1 in http://www.oportunidades.gob.mx/pdfs/prog_oportunidades.pdf (in Spanish).

However, the main problem facing the urban poor is usually not lack of connections to public services, but the poor quality of services or their inability to pay for them. Second, the static nature of poverty score measures makes them ill suited for programs designed to help cope with transitory poverty. While this problem could be addressed by including income, unemployment, and occupation variables or updating registries regularly (say, every year or so), few countries have been able to do so. Third, mobility is high within and between cities, and many poor people lose their benefits when they move. This occurs because poverty scores need to be recalculated for the new residence of the family, and most benefits are not portable.

Geographic targeting (small area poverty map) is a preferred targeting method for urban social infrastructure but one that results in high errors of both inclusion and exclusion in urban areas. Apart from the usual public service infrastructure, geographic targeting is often used to target community-based child care centers (such as those in Colombia and Guatemala) and school lunch or snack programs in poor areas, among other programs.

Self-selection is used for many safety net programs that are open to anyone who thinks they meet the eligibility requirements and wants to

participate. Programs include workfare, such as Argentina's Trabajar, youth training, and many others. The main drawbacks of this method are that it may be difficult to inform the poorest people about the program and they may not apply for lack of money for travel, lack of time, or other reasons.

In practice, these targeting instruments are often used in combination. Table 8A.1 describes their use in several urban safety net programs.

ADAPTING PROGRAMS TO THE URBAN CONTEXT: WORKFARE AND CONDITIONAL CASH TRANSFERS

Trabajar and social investment funds suggest that public works require more careful planning in an urban setting. In addition, to the extent that a macro shock affects not only employment levels but also real wages, a narrow requirement that workfare be open only to the unemployed (and not the inactive) may not be appropriate. As to conditional cash transfers, they may need to adapt to different needs and opportunity costs in urban areas, as illustrated by Mexico's Oportunidades program.

PROVIDING CHILDCARE

Interventions to help poor people take greater advantage of the jobs available in cities are particularly important in urban areas. In addition to education and training and programs that directly target labor market insertion (such as job placement schemes, discussed in chapter 2), child care is essential to allow women to access better quality jobs. An impact evaluation of a child care program in Guatemala shows that the program raised the income of working mothers by 30 percent (Ruel and others 2002). Such programs have the additional advantage of helping improve future educational achievements and reducing the incidence of crime and violence among youth.

HELPING THE POOR COPE WITH FOOD VULNERABILITY

Programs to help households cope with food vulnerability can take a variety of forms, including general food price subsidies, rations and food stamps, vouchers, and community kitchens. Although they tend to be popular with policy makers, most of these programs suffer from high operational costs and leakages to the nonpoor, and they are generally considered inefficient. In addition, concerns have been raised about the labor market disincentives of some programs (Sahn and Alderman 1995) (such concerns are not exclusive to food transfers).

Empirical analysis shows that the disincentive effect depends on program design, targeting, and the relative size of the transfer. For some food programs, no disincentive effect is found (Ruggeri Laderchi 2001). In addition, program benefits may be underestimated, due to the frequent failure to include the impact of improved nutrition on productivity

and health (Cornia and Stewart 1995). Important design elements that can maximize effectiveness include using commodities consumed primarily by the poor; locating ration shops in poor areas; providing incentives for shop owners to accept ration cards; minimizing transactions costs (through queues, for example); and periodically revising eligibility criteria to identify vulnerable groups. Supplementary feeding programs targeting infants and children are recognized as a low-cost, high-impact food program, particularly if coupled with health services and other complementary inputs, such as nutritional education (Lorge Rogers and Coates 2002).

TARGETING AT-RISK YOUTH

Most Latin American and Caribbean countries offer some sort of social safety net program targeting at-risk youth. These programs run the gamut from provision of school meals to assistance with school fees, grants to tertiary education students, welfare programs (including food stamps), and economic and social assistance. Unfortunately, many of these programs suffer from lax application of eligibility criteria, duplication of benefits, targeting problems, a mismatch between the risk faced and the intervention offered, and very limited coverage (Marques 2002; World Bank 2000, 2001a; Blank 2001; Murrugara 2000). Furthermore, many government programs targeting at-risk youth focus on repression (for example, "zero tolerance" anti-gang laws recently put into place in many Central American countries) rather than prevention, even though prevention strategies are known to cost less and produce better outcomes.

In order to design effective interventions to prevent risky behavior among youth (violence, early school leaving, substance abuse, unsafe sex), it is important to understand the underlying causes of these behaviors. One of the most popular approaches to understanding risky youth behavior is based on a public health model that identifies a set of risk and protective factors: individual characteristics, family and peer setups, and community and societal factors that increase or decrease the probability of engaging in risky behaviors. Best-practice interventions have been identified for each of these sets of factors (Guerra 2004).

Effective interventions focused on the individual provide a curriculum (through formal or nonformal education) that includes information on human relations, legal issues, job markets, life skills, civic education, and problem solving, all of which have been shown to improve grades, foster greater school involvement, and decrease delinquent behavior (Guerra 2004). Another type of intervention tries to prevent risky youth behavior by influencing the relationships youths have with their families, peers, and mentors. Interventions include parent-school partnerships that encourage parental involvement in children's education and learning, mentoring

programs that provide role models for at-risk youth, parent training programs, and gang prevention programs. Interventions focused on the community and societal factors seek to improve schools and communities through neighborhood revitalization programs, community policing, economic development projects, housing programs, and opportunities for recreation and positive engagement for young people (recreation, learning, and employment).

A recent World Bank review of international programs targeting at-risk youth shows that successful programs emphasize the completion of secondary education as a fundamental development need. These programs pay young people to participate in vocational or training activities (at-risk youth often need immediate income support for their personal survival or to assist their families) and include, along with training, long-term support on life skills, education, and job orientation (World Bank 2003a). The review concludes that orienting youth toward self-employment is not usually effective, given the difficulties they face obtaining credit and developing managerial skills to run their own businesses.

No single program is likely to solve all the problems at-risk youth face. But certain key elements need to be in place, such as connectedness to a responsible or nurturing adult and the involvement of the family, the community, or both. In addition, some instruments seem effective across different areas of intervention. For example, mentoring has been shown to be equally successful in preventing substance abuse and early school-leaving (Guerra 2004). Given that youth have more in common with adults than with children, many types of social safety net programs traditionally designed for adults can be adapted to include youth as beneficiaries.

Conditional cash transfer programs offer a good example of the type of social safety net program that is traditionally geared toward adults but can also target at-risk youth. These programs can provide incentives for youth to attend secondary school. Increased secondary school attendance benefits not only the individuals themselves but society as a whole.

A good example of such a program is Brazil's *Agente Jovem* Program, created in 1999. The program seeks the active participation of vulnerable youth between 15 and 18 to help ease the transition from school to work or back to school. Beneficiaries serve as "agents of change" by providing community service in exchange for cash transfers. The eligibility criteria include age and means-tested income (family per capita incomes must be less than half the minimum wage). Priority is given to youth who are out of school but not yet in the labor force, those who have graduated from other social programs (especially PETI [Program for the Eradication of Child Labor]), those who have committed criminal acts or are under state protection, and those who have participated in sexual education and awareness programs. The program components include a monthly cash

transfer of R\$65 (about \$20) per beneficiary, training, and social services (World Bank 2003c).

Another type of intervention involves tackling youth unemployment directly by generating employment opportunities through existing safety net programs, notably social investment funds. France, for example, subsidizes the creation of job opportunities for people between 18 and 25 (www.travail.gouv.fr/civis.pdf).

MEETING THE NEEDS OF THE ELDERLY

Given the large percentage of the workforce in urban areas that does not participate in the formal pension system, as well as the high fiscal dependence of contributory pension systems (box 8.8), it makes sense for governments to consider noncontributory benefits to prevent poverty in old age. Some Latin American countries have implemented such noncontributory pension programs (table 8.2). In some cases (as in Brazil), however, these programs explicitly target rural populations.

Although noncontributory pension schemes can still be improved in many ways (mainly by increasing coverage and reducing costs), in 2000 and 2001 noncontributory pensions lowered the poverty rates among the elderly by 95 percent in Brazil, 69 percent in Chile, 67 percent in Argentina, and 21 percent in Costa Rica. These statistics clearly signal that this type of pension scheme should be considered more often by Latin American governments as a way to prevent their elderly populations from falling into poverty (Gill, Packard, and Yermo 2004).

Box 8.8 Latin America's Costly—and Regressive—Social Insurance Systems

Social insurance programs absorb a significant share of total social protection spending in most Latin American and Caribbean countries. Mexico, for example, spends three times more on social insurance than on social assistance. This is due to the generous benefit structure and insufficient contribution rates, which require additional transfers from public revenues to operate, even though these social insurance systems were designed to be funded from participant and employer contributions. This is particularly true for pension systems. In Peru the government spends 1.4 times the amount set aside for all poverty alleviation programs each year on deficit financing for the country's public pension regimes. In Brazil pensions absorb 56 percent of public social spending, and social security is very poorly targeted: less than 1 percent reaches the poorest 10 percent, while 50 percent goes to the richest 1 percent. The regressive nature of the program has recently prompted controversial attempts to reform the system by realigning contribution and benefit levels.

Sources: The Economist 2003; World Bank 2004a.

Table 8.2 Noncontributory assistance pensions in Latin America cover a significant proportion of pension recipients

<i>Country</i>	<i>Beneficiaries as share of all pension recipients (percent)</i>	<i>Elderly beneficiaries as share of elderly poor</i>
Argentina	10.1	47.0
Brazil		
Rural	33.0	86.3
Other	11.1	
Chile	22.6	36.5 urban; 78.7 rural
Costa Rica	31.2	44.5
Uruguay	9.0	17.3 Montevideo; 11.9 interior

Source: Adapted from Gill, Packard, and Yermo 2004.

Policy makers are often reluctant to implement noncontributory pension systems for fear that providing a noncontributory benefit for the elderly could eliminate household incentives to contribute to the pension system or to save outside the system. More generally, such programs are considered “charity” toward groups with weak political constituencies and are therefore vulnerable to budget cuts. Policy makers also fear that such programs may be unaffordable.

Recent work shows that there are ways to design programs to minimize both their fiscal cost and the potential disincentives to save or work in old age. Gill, Packard, and Yermo (2004) suggest offering a universal flat minimum pension to all. The advantage of such a system over a system targeted to the very poor is that it minimizes transaction costs, reduces opportunities for corruption, and eliminates the disincentives to save and accumulate wealth or work in old age that means-testing creates. This approach can be made more affordable by offering a benefit that is much lower than the average contributory pension, by making benefits available at a later age than the usual retirement age for the contributory pension, and by taxing pensions like any other source of income.

Where Do We Go From Here?

What can we learn from the preceding discussion? First, urban bias is a myth as far as the urban poor are concerned. Social insurance is indeed more broadly available in cities but not to the urban poor, who are largely outside the formal labor markets through which social insurance is accessed. The data are not available to determine whether there is an urban

bias in social assistance, although in one country (Mexico) the bias, if there is one, may be a rural one.

Second, the urban poor face a different set of risks and opportunities than the rural poor. Policy makers must understand these risks and opportunities if they are to create effective social safety nets. The urban poor are more integrated into the market economy, which makes them more sensitive to macroeconomic shocks, positive and negative. These shocks are transmitted mostly through the labor market, suggesting that a safety net strategy should focus on increasing labor market participation. Cities are also more complex economically and physically than rural areas, complicating the design of classic safety net programs, such as workfare or conditional cash transfers. The environment facing the urban poor is much more diversified socioeconomically, making targeting more difficult. Finally, density and diversity create weaker family ties, leaving more elderly people without family support. Combined with classic urban perils (drugs, crime and violence, gangs), these weaker family ties increase the social risk associated with child-rearing and create the problem of at-risk urban youth.

Does this mean the urban poor need different types of safety net programs? Or can existing safety net programs simply be adjusted to respond to urban needs? The answer is: a bit of both. In terms of design adjustment, targeting is more complex and more necessary. Conditional cash transfers may need to adapt their requirements and offerings to the urban reality. Workfare must take into account both the greater complexity of public works in urban areas and the fact that a fall in real wages rather than just unemployment may be the labor market shock it needs to help cope with. As for the elderly poor, they are not unique to urban areas, but they are less likely to receive family support in cities, making them more dependent on public support.

At-risk youth stand out as requiring tailored solutions in urban areas, not because children and adolescents are necessarily better off in rural areas, but because the needs of urban at-risk youth and the dangers they face and pose to others are different.

Finally, the greater integration of the urban poor into the market economy argues for urban safety net packages that focus on facilitating their participation in the labor market. Integrating the urban poor requires labor market policies, such as those discussed in chapter 2 (training, job search assistance). It also requires associated measures, such as transportation, child care, security of tenure, and other measures that encourage investments in human capital.

Annex

Table 8A.1 Targeting Instruments for Safety Net Program in Urban Areas

<i>Program</i>	<i>Targeting instrument</i>	<i>Special considerations</i>
Early child development programs (0–5 years)	Geographic for program-based centers, proxy means or means for vouchers	Could be a small area poverty map of the city or a nutrition-based map. Vouchers are ideal for incorporating private providers.
Nutrition programs (fortified foods for pregnant mothers and small children)	Growth monitoring indicator taken at health center or urban health post.	For undernourished children or children at high risk of under-nutrition
Primary and secondary school scholarships	Proxy means or means test for poverty-related targeting, others for merit-based targeting and reducing drop-out rate.	Not all scholarships are for the poor. Some are for high-performing students or to deter drop-outs and improve continuation in school.
School lunches and snacks	Geographic. In some mixed areas, proxy means or means test used to provide discount coupons for school meals to poor families.	Individual selection for school lunches is difficult because of stigma and administrative problems.
Youth training in urban areas	Self-selection and or proxy means or means test	Other criteria, such as unemployment, are generally used.
Public works in urban areas	Self-selection when wage paid is lower than that usually paid for similar work done by poor workers. ¹¹ Proxy means or means test when minimum	In some countries it is not possible to use self-selection, because the program has to pay the minimum wage. In this case, there is a need to apply additional

(table continues on the following page)

Table 8A.1 (continued)

<i>Program</i>	<i>Targeting instrument</i>	<i>Special considerations</i>
	wage needs to be paid.	targeting instruments, such as work requirements, which are generally used. ¹²
Cash transfers (conditional and unconditional)	Proxy means or means test	Most cash transfers require some kind of individual or household identification and selection. In DC, it is hard to apply means test because of the lack of reliable information due to the high share of self-employed. Proxy means are sometimes the best alternative.
Assistance pensions for the elderly	Proxy means or means test for direct subsidy or center-based subsidy in nursing homes	Special efforts need to be made to find and reach elderly poor in need of assistance. Local communities, churches, and others can identify potential recipients. Subsidies can be higher for elderly with dependents.
Health-related subsidies (fee hospital waivers, health insurance)	Proxy means or means test plus other health-related indicators (disabilities, pregnancy)	Proxy means or means tests are generally hard to apply for emergency services, since hospitals are not well prepared to apply tests. In some countries, such as Colombia, proxy means tests are coupled with home visits.

Table 8A.1 (continued)

<i>Program</i>	<i>Targeting instrument</i>	<i>Special considerations</i>
Subsidies for public services (water, electricity, gas)	Proxy means or means test. When good geographic targeting system exists, it can be used.	Generally hard to apply, but most useful for new poor, who may not have the money to pay full cost of services and other necessities.
Low-income housing subsidies	Proxy means or means test plus other tests (savings)	Generally require effort by families, such as savings.

Endnotes

1. See the World Bank Social Protection Web site (<http://www1.worldbank.org/sp/safetynets/>). Social insurance programs such as contributory pension schemes or unemployment insurance are related largely to earnings and need not include any transfers from the general budget (although many contain some cross-subsidization). Others define safety nets to include both social assistance and social insurance (see, for example, World Bank 2001b).

2. This urban bias is due to the fact that access is tied to participation in the formal labor market, which is higher in urban areas. Formal sector employment represents about 55 percent of overall employment in Latin America's cities but only 36 percent in the countryside (chapter 2).

3. Overall, social expenditures exhibit a slight bias in favor of the rural poor (relative to the urban poor, not to the population as a whole), although the allocation may be fair given relative shares of the poverty gap. Social expenditures include health and education expenditures, pensions, and monetary transfers, while social assistance includes only monetary transfers (Procampo and Oportunidades) (see World Bank, 2004b).

4. This is captured by the much higher elasticity of poverty to growth in urban areas, discussed in chapter 1.

5. See the World Bank Social Protection Web site (<http://www1.worldbank.org/sp/safetynets/>) for Mexico and McKenzie (2003) for Argentina. Fallon and Lucas (2002), quoted in McKenzie (2003) find that the main impact of financial crises is a cut in real wages.

6. In contrast food consumption by the rural poor is more sensitive to changes in household size. See Musgrove (1991) for a discussion.

7. A household that acquires a shack in a new, unserved neighborhood that it will improve over time may have higher income than another household that rents rooms in a more established neighborhood in which services are available. Critics of Oportunidades have argued that the selection of beneficiaries, which is done on

the basis of assets, the type of urban services available, crowding indicators, and dependency indicators, favors households in irregular settlements and settlements in the process of regularization, acquisition of services, and home improvements. Increasing the weight of income would increase the share of urban households eligible, particularly those living in *vecindades* (tenement-like buildings, often in poor conditions but with services) (Escobar Latápi and González de la Rocha 2004).

8. Poor health and education outcomes are very much linked to violence, with causality running in both directions.

9. In countries with guerilla problems or civil war, rural violence can be a serious problem as well.

10. Local financing would imply that areas most in need would not be able to afford much in terms of social programs. For this reason there is widespread agreement that funding should be national. There is much less agreement as to the role of local entities in implementation. The success of any given assignment of responsibility probably depends largely on the clarity of roles and the match between purposes, skills, and resources. For a discussion, see “political economy and institutions” in www.worldbank.org/safetynets.

11. Whether this requires being able to pay less than the minimum wage depends on the country (in Argentina, for example, the minimum wage is set very low so most workers earn more).

12. It is hard to enforce an unemployment criteria since it is hard to check (except for formal sector workers). As such, the only way to ensure the beneficiary is unemployed (if indeed this is the requirement chosen) is by enforcing a full work load requirement that makes it unlikely that the person has another job.

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