

**POOR PEOPLE IN A RICH COUNTRY**  
**A Poverty Report for Argentina**

**PART I. OVERVIEW**

## **POOR PEOPLE IN A RICH COUNTRY A Poverty Report for Argentina**

Among developing countries, Argentina is relatively rich, with an annual per capita income officially calculated at over \$8000 per person. It is also a country that has undertaken major macro economic reforms and improved economic performance substantially in the past decade. Yet, despite this relative wealth and an extensive network of social programs, it is a country with a high degree of poverty, and a high degree of unemployment. The key question is why improved economic performance has not translated into greater improvements in welfare, especially among the poor? And what could be done differently in the future?

### **I. Poverty Growth and Distribution**

#### **Reform, Growth and Poverty**

During the past twenty years, Argentina has undergone a major economic restructuring, moving the economy from one with a large public sector, high inflation and high protection of trade and labor, to a more open economy with low inflation, and low levels of trade protection. The role of the public sector has been changed radically, with the privatization of state-owned enterprises in oil, transport and telecommunications, as well as basic infrastructure. In addition, the Government improved fiscal administration, eliminated many distortionary taxes, reformed the civil service, reformed the social security system, undertook a limited amount of labor reforms, and decentralized major social functions.

The record of the past twenty years can be divided into two periods (see Table 1). In the first, during the 1980s, the economy was affected by the debt crisis and high fiscal deficits, which led to an inflationary spiral as the Government failed to take sufficient corrective steps. Inflation peaked at over 3,000 percent in 1989. While various stabilization programs were attempted, none of them successfully dealt with the problems of the fiscal deficit, aggravated by the losses of state enterprises and the erosion of the tax base by inflation. During this period, growth was negative and unemployment and poverty gradually climbed, peaking in 1990 in the aftermath of the hyper-inflation which erupted in July 1989. However, this period was also marked by a return to democracy, and the beginning of reforms, particularly in terms of trade liberalization or *apertura*. Import tariffs were reduced sharply and most quantitative restrictions on imports were reduced (and largely eliminated by 1993). The second period, beginning with the Menem administration in 1989, a successful stabilization effort was undertaken. Inflation was brought under control through fiscal restraint and deregulation of the economy was begun. At the same time, privatization took the public sector out of production and provided fiscal space for expanding social programs and improving social safety nets. The Convertibility Plan, an important part of the stabilization effort, was introduced in 1991, linked the peso with the U.S. dollar on a one-to-one basis, and eliminating deficit financing through money creation.

By the late 1990s, growth had been restored, the economy had almost doubled in size, and inflation had fallen to less than 1% per year, a remarkable achievement in contrast to the earlier hyperinflation period. However, the control of inflation, deregulated and competitive markets and fiscal discipline seems to be associated with higher levels of unemployment, perhaps because employers were unable to use inflation as a means of lowering real wages. In addition, *apertura*, begun in the 1980s, increased competition from imports, requiring adjustments in the tradable sectors<sup>1</sup>, and resulted in the introduction of new technologies that may have made some parts of the labor force obsolete or redundant. Thus, while the 1990s saw a decline in poverty and unemployment from the peak of 1990, these rates have never returned to the low levels of the early 1980s.

**Table 1: Long Term Trends in Poverty, Employment, Growth and Inflation (1980-1998)**

Year	Poverty Rate Buenos Aires	Unemployment (% of labor force)	Inflation (% increase)	Growth of real GDP(%)	Per Capita GNP (1980=100)
1980	8.0	2.0	100.8	4.5	100.0
1985	16.0	6.1	672.2	-2.0	79.5
1988	33.1	6.3	343.0	-1.9	83.6
1989	38.1	7.6	3079.5	-6.9	73.3
1990	41.2	7.5	2314.0	-1.8	74.3
1991	26.4	6.5	171.7	10.5	82.2
1992	18.7	7.0	24.9	9.9	90.0
1993	16.9	9.6	10.6	5.7	94.3
1994	17.0	11.5	4.2	5.9	100.3
1995	22.6	17.5	3.4	-2.7	94.5
1996	25.5	17.2	0.2	5.5	97.6
1997	25.2	14.9	0.5	8.1	104.1
1998	24.9	12.8	0.9	4.0	108.4

Note: Unemployment for 1980 refers to Greater Buenos Aires only. GDP growth for 1985 is for period 1980-85.

Source: poverty rates: INDEC from EPH data; GNP from World Bank.

The stabilization program was clearly successful in restoring growth, as well as controlling inflation. By 1998, per capita GDP had increased by about 30% over its 1988 levels, and the average overall GDP growth rate was 5.8% (1990-98). These macroeconomic events clearly impacted on poverty. Poverty rates (for Buenos Aires) rose quickly from a low of 8% in 1980 to a high of 41% during the hyperinflation of 1989, as fixed wages were not adjusted quickly enough to keep up with price changes. However, during the stabilization period of 1990-93, poverty rates did not fall back to their previous lows. Instead, urban poverty fell to 22%, and then rose as the economy stagnated under the impact of the Tequila crisis (see Table 2).<sup>2</sup> Thus the 1990s can be divided into two sub-periods: 1990-94, when stabilization restored growth and reduced poverty and unemployment, and the period from 1995 to 1998, when growth slowed under the impact of the Tequila and Russia/Brazil crises, and unemployment and poverty remained high. As a result, urban poverty in 1998 was relatively high at 29%, with 7% of

<sup>1</sup> Imports went from about 6% of GDP in 1988 (goods and non-factor services), to 11% in 1998.

<sup>2</sup> For the period of the 1980s, poverty rates refer to only Buenos Aires.

the population living in extreme poverty<sup>3</sup>. In absolute numbers, given that there are about 32 million people living in urban areas in Argentina in 1998, this means that about 9 million are living in poverty and about 2 million in extreme poverty. Among children, poverty rates are even higher, with 45% of Argentina's children living in poverty.

**Table 2: Rates of Poverty, Extreme Poverty, and Poverty Gaps  
(urban areas only)**

Year	Poverty Headcount	Extreme Poverty	Poverty Gap	Poverty Depth (FGT <sup>2</sup> )
1990	41.4	11.3	16.4	8.8
1991	30.4	5.9	11.2	6.0
1992	24.1	4.4	7.8	3.7
1993	21.8	4.3	7.4	3.6
1994	21.6	3.7	7.2	3.4
1995	27.2	6.1	9.9	5.1
1996	30.0	7.3	11.3	6.0
1997	29.4	6.8	11.1	5.8
1998	29.4	7.1	11.2	5.9

Source: Calculated from EPH surveys, average of May and October.

In this table the poverty rate includes the extreme poor.

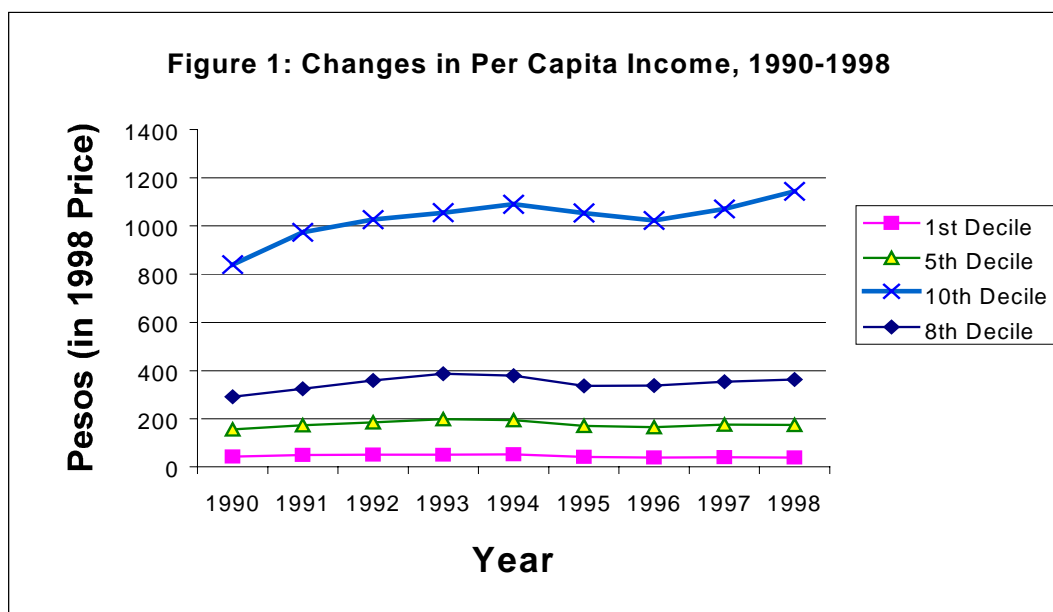
#### Poverty Estimates and Methodology

Trends for poverty are based on the use of a poverty line, and the standard headcount and poverty gap measures. For this report, we use the Government's official poverty line calculated based on the 1986/87 Income and Expenditure Survey, updated using price indices for its food and non food components. This poverty line is equal to about \$160 per male adult, per month, in 1998. The extreme poverty line, or indigence line, is based on the food consumption portion of the poverty line, and is equal to \$69 per month in 1998.

These lines applied to the Permanent Household Survey (EPH) which is undertaken semiannually by INDEC, and which covers approximately 26 urban areas in the country, or about 70% of the total urban population. However, data before 1990 refer only to Greater Buenos Aires, since data for other urban areas are not available on a consistent basis, or non existent in early years.

These estimates are deficient in a number of ways. First, they exclude the rural population which would tend to understate poverty. Since there are no price indices outside of Buenos Aires, price adjustments over time for other urban areas are based on the Buenos Aires index, which may not be appropriate. They are based on income poverty, not consumption, since there are no time series on household consumption data, and the existing survey in 1997 on consumption does not appear to give reliable consumption estimates. Finally, no attempt has been made to adjust the data for the apparent unreporting of incomes between the EPH and the national accounts. (For a more detailed discussion of data sources, estimation methods, and results see H. Lee, Background Paper No. 1.)

<sup>3</sup> It should be noted, however, that the poverty line used here is \$160 per month per adult, somewhat higher than that used in other Latin American countries. Estimates for Buenos Aires for 1999 indicate that poverty rose by about 7% in that urban area.



### Who Benefited from Growth?

While growth resumed in the 1990s, the poor benefited relatively little in terms of income gains from this resumption in growth although they did gain in terms of social services and various other social programs. In other words, as per average capita income rose, the distribution of income worsened and the incomes of the poorest 20% actually declined.

**Table 3. Income Distribution (urban areas), 1990-98  
(percent)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Gini Coefficient	0.46	0.46	0.45	0.46	0.46	0.47	0.48	0.48	0.49
Upper 20%	50.90	51.40	50.40	50.90	51.10	52.20	53.00	53.20	54.25
Lower 20%	4.55	4.50	4.85	4.50	4.55	4.30	4.05	4.00	3.80
Upper 20/Lower 20	11.19	11.42	10.39	11.31	11.23	12.14	13.09	13.30	14.28

As shown in Table 3, the share of income received by the lowest 20% has declined since 1990, so that in 1998 they received less than 4% of total GDP. The upper 20% increased their share at the same time from 51% to 54%. In fact it is the 10 percent richest group that has gained the most, from 34% to 37%. The share of the following twenty percent was constant, and the shares for the rest of the income groups fell by at least 10 percent. Furthermore, not only have the shares of the lower groups declined, but there has been virtual stagnation of real incomes or actual declines in incomes for the lower income groups. Given the changes in per capita income, the real income received by each group shows stagnation for the lowest groups (see Fig. 1), and rising income only for the highest deciles of the income distribution. Furthermore, since 1995, there has been a decline in average incomes for almost all groups, except for the highest 20% (see Figure 1).

We can estimate what the effect of changing income distribution has been on the poverty rate. If income distribution had remained as it was in 1990, we estimate, the poverty rate would have fallen more dramatically; and instead of reaching 29% in 1998 it would have been only 25% (for methodology, see Part II, Chapter 1).

It is important to note that these calculations are based on urban poverty only and throughout the report these are the figures used. Given that poverty is probably higher in rural areas the correct national numbers for both income distribution and poverty would be slightly worse. On the other hand, since the country is about 89% urban, including the rural population would not make a major change in the conclusions.<sup>4</sup>

**Table 4: Growth of Output and Employment, 1990-98**

Sector	Growth Rate of Employment, 1980-90 (Buenos Aires only)	Growth Rate of Employment, 1990-98	Growth Rate of Value Added, 1990-98	Employment elasticity, 1990-98	Standard Deviation of Growth	Standard Deviation of Employment
Agriculture	8.5	1.6	2.1	.80	5.1	6.6
Manufacturing	-0.7	-1.0	4.2	-.23	5.2	6.2
Construction	-7.3	11.2	9.6	1.17	15.2	13.0
Trade	-1.1	4.2	4.8	.87	6.1	6.8
Finance	4.2	2.9	6.3	.47	6.5	5.8
Services	3.8	1.2	4.2	.28	4.9	3.9
Total	0.9	2.2	4.5	.48	4.8	2.7

Note: Growth rates are based on end points; standard deviations are from annual averages.

The factors causing a worsening of income distribution and fall in incomes are complex, but an important one has been the change in labor demand. During the 1980s, a declining GDP resulted in only small amounts of employment growth (about .9% per annum) and rising unemployment as the labor force continued to expand (see Table 4). However, even with the resumption in growth in 1990, employment growth has been sluggish. While value added grew on average by 4.5% during 1990-98, employment grew by only 2.2% for an overall elasticity of only .48. In manufacturing, employment declined despite positive growth in output, suggesting that new investments and modernization tended to be capital, rather than labor, intensive. The result has been very large increases in productivity in the manufacturing sector. (Such tendencies, however, may reflect the temporary adjustments to the new regime of openness, and are similar to those experienced by Mexico and Chile during their transition periods.) In addition, the low employment creation in services in particular—which might normally have been a source of employment for the unskilled—is striking and is partly the result of the privatization of public enterprises and the shedding of excess employees. One of the more dynamic sectors—which likely benefits the poor—has been the reactivation of the

<sup>4</sup> Argentina badly needs a comprehensive household survey that would include rural areas, and provide a consumption based poverty estimates over time. It also needs to have price indices for urban areas outside of Buenos Aires, and for rural areas. The present work plan of INDEC includes launching a more comprehensive living standards survey, and to expand the coverage of the consumer price index.

construction industry during the 1990s. It is likely that this has been a significant sources of employment for the unskilled, albeit on a temporary basis.

**Table 5. Income from Primary Job by Skill Level**

Year	Professional	Skilled	Unskilled
	(monthly income in 1998 constant prices, pesos)		
1990	1176.7	570.2	366.2
1992	1483.6	685.2	438.9
1994	1715.8	725.4	424.4
1996	1661.9	632.5	354.5
1998	1794.1	644.8	356.2
Growth, 1990-94	<b>45.8%</b>	<b>27.2%</b>	<b>15.8%</b>
Growth, 1994-98	<b>4.6%</b>	<b>-11.1%</b>	<b>-16.1%</b>
Growth, 1990-98	<b>52.5%</b>	<b>13.1%</b>	<b>-2.7%</b>

Source: INDEC/EPH / annual data are the averages of two surveys

While the poor, typically unskilled, have not benefited from growth, the growing demand for more highly skilled workers has increased the wages of those with secondary and university level education. As shown in table 5, the incomes of professionals grew by a total of 53% over the 1990-98 period, while skilled wages rose 13% and those of the unskilled declined by 3%. Furthermore, looking at the data only since 1994, we find substantial declines in the real wages of both skilled and unskilled workers, while professional workers have made small gains. What is not clear is whether the change since 1994 represent a permanent trend reflecting international comparative advantage, or reflect temporary changes in labor demand and lags in adjustment.

**Table 6: Returns to Education and Predicted Earnings by Education Level**

Years of Schooling	Returns to Education (% increase in income)	
	1992	1998
2	6.8	5.0
4	7.2	6.1
5	7.3	6.7
6	7.5	7.2
8	7.9	8.3
10	8.3	9.4
12	8.6	10.4
14	9.0	11.5
16	9.4	12.6
18	9.8	13.7

Sources: INDEC, *Encuesta Permanente de Hogares*, October of 1992 and 1998.

The indicated returns are for cumulative education through the year indicated, not the marginal returns.

Since professionals and skilled persons tend to be located in the upper levels of the income distribution, an increase in their incomes relative to others naturally tends to worsen the distribution. The same effect can be seen from a measure of the returns to education. As Table 6 shows, estimates reveal that individual workers with higher education attainment were reaping higher returns for their investment in 1998 than in 1992. For those with only two years of schooling, the returns to education dropped from 6.8 to 5.0%. And in general, for those with up to eight years of schooling returns to

education have been falling between 1992 and 1998, while those with more than 8 years of education have seen rising wages. At the extreme, for those with 18 years of schooling returns increased from 9.8% to 13.7%. An analysis, which decomposes the changes in the Gini coefficient, finds that about 40% of the change in the Gini is due to the differences in returns to education.

### **Who are the Poor?**

Who are the poor, and how do they differ from the non-poor? Overall, the poor:

- have significantly larger families (4.6 vs. 3.1)<sup>5</sup>,
- have younger families with a much higher dependency ratios (3.0 vs. 1.4)
- have much higher unemployment rates (twice the rate of the non-poor),
- have fewer years of schooling (about 25% less), and
- are more likely to work in the informal sector.

As shown in Table 7, the differences are clearly even more significant in these respects for the indigent (defined as those lacking sufficient money to afford a basic food basket). These indigent poor represent about 7% of the population (1998) and are those at the extreme margins of poverty. Most indicators are worse for the indigent, compared to the poor: they are younger, have more children, have more people depend on one wage-earner, and particularly important have much higher unemployment rate (37%), and lower average hours worked (35, compared to 42 for the poor). The latter seems to represent their inability to secure full time work. Moreover, given their low level of education—about 7 years on average—and the declining returns to workers with that level of education, they have poor prospects for increasing their incomes in the current labor market.

While female headed households are often thought of as poor, this is not borne out by the data. In addition, available evidence suggests that the poor are not, as is often alleged, the result of migration from outside of Argentina (for details see Part II, Chapter 1).

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<sup>5</sup> Larger families can utilize scale economies to maintain welfare even at lower per capita income levels. However, the nature of scale economies is unknown. In order to reduce the bias against large families, however, poverty rates calculated in this report are done on the basis of converting family members into adult equivalents.



**Table 7: Characteristics of the Poor, 1998**

	<b>Indigent</b>	<b>Poor</b>	<b>Non-Poor</b>
Family size	5.6	4.6	3.1
Family size, adult equiv.	4.3	3.7	2.5
Female Headed (%)	26.8	21.0	37.7
Average Age (years)	20.9	25.1	34.7
Dependency Rate (per worker)	4.1	3.0	1.4
Labor Force Participation (% of 15-64)	54.8	56.4	67.3
Years of Schooling	6.9	7.9	10.5
Informal employment (%)	46.4	44.6	36.2
Unemployment Rate (%)	36.5	22.6	8.9
Hours Worked	34.9	41.7	45.1

Source: EPH, 1998.

### Demography of Poverty

As indicated above, the poorest households in Argentina tend to be younger, larger and have more children. The average age of the lower income quintile household is just 25 years, while the mean age of the upper income quintile households is 41 years. The average size of the lower income quintile household is 5.1 people and only four percent are single person households. Sixty percent of these households have children aged 0-19 years and only 1 percent of these households have no children.

**Table 8: Poverty Rate by Age Group and Sex (Urban Argentina), 1998**

Age group	<b>Total population</b>		<b>Female population</b>	
	% indigent	% poor	% indigent	% poor
Total	7.1	29.4	7.2	30.1
0-4	12.2	43.2	11.5	43.0
5-14	13.0	45.3	12.5	44.4
Subtotal, 0-14	12.7	44.6	12.1	43.9
15-24	7.0	30.6	7.1	31.1
25-39	5.6	26.0	5.1	25.1
40-64	4.5	21.0	4.8	21.7
Subtotal, 15-64	5.6	25.4	5.6	25.6
65 & older	1.4	13.2	1.7	15.2

Source: Average of EPH for May and October, 1998, all urban areas.

Because poor families are both larger and younger than average, children are more apt to be in poverty than adults. As shown in Table 8, 45% of all children (aged 0-14) were living in poverty in 1998, compared to a 25% poverty rate for adults. Poverty among older adults is below average. Only 13% of those 65 and older were found to be below the poverty line. The lower rate of poverty among older people probably reflects the fact that the formal sector, which covers about 60% of the labor force, ensures that retired workers receive adequate pensions.

An obviously important factor in explaining differences between the non-poor and the poor is the size of family and the number of children. Population growth in Argentina is relatively low, at 1.3% per year. Total fertility rate was 2.7 per 1,000 women aged 15-

45 in 1995, which is about the average for the Region, but are high when compared with other middle income countries such as Chile and Uruguay and higher than one would expect from the country economic and educational situation.

Birth and fertility rates are clearly higher among lower income groups. While birth rates are generally not available by income groups, they can be approximated from the Social Development Survey (see Table 9). These estimates show a crude birth rate that varies from 45 for the lowest quintile, to 14 for the upper quintile. Likewise, the fertility rate for the lowest quintile is about 4.2 per thousand, compared to 1.3 per thousand women in the richest quintile. Unfortunately, there is no way to estimate death rates, or the rate of population growth by quintile. However, from these estimates we can see that there will be a natural tendency for poorer families to increase faster than richer families, which is likely to perpetuate a cycle of poverty, and a gradual worsening of income distribution. Given these demographics, programs that provide maternal and child care, as well as reproductive services, will be naturally tend to benefit the poor.

**Table 9: Average family age, size and composition by household income quintile**

	<i>Per capita Household Income Quintiles</i>				
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Average Age	25	31	35	37	41
Average family size	5.1	4.2	3.8	3.5	3.1
Percent of households with no children	1	1	3	3	10
Percent of households w/ children aged 0-19	66	59	53	48	36
Estimated Crude Birth Rate(births per 1000) <sup>6</sup>	45	32	23	18	14
Estimated Fertility Rate(births per 1000 women aged 15-44) <sup>7</sup>	4.2	2.9	2.0	1.7	1.3

Source: SIEMPRO, Social Development Survey (EDS), 1997.

**Table 10: Social Indicators and Deviations from Expected Values**

<b>Indicator</b>	<b>Argentina</b>				<b>LAC average 1996</b>
	<b>1985</b>	<b>1997</b>	<b>Predicted Values</b>	<b>Deviations*</b>	
Life Expectancy (years)	71	73	74	-.6	70
Infant Mortality(per 1000 births)	27 **	22	14	54.8	33
Enrollment, Secondary Schools(%)	70	77	84	-8.6	53
Adult Literacy (%)	95	96	91	5.0	85
Access to Safe Water (%)	55	65	87	-25.5	76

Notes: \* per cent differences from expected values, based on what would be expected for Argentina's level of GNP per capita. See Part 1, Chapter 1, for details.

\*\* 1987 data.

<sup>6</sup> This estimate is made by taking the percentage of children in 1997 aged 0-2 for each quintile, dividing by 2 (to equal one year's births), and multiplying by 10 (to convert from per 100 to per 1000), to obtain a rough estimate of the crude birth rate per 1000 population. This measure is essentially the crude birth rate less infant mortality, since deaths during the first year would be excluded, and the average age of children 0-2 would be one year.

<sup>7</sup> Calculated with the same method as the crude birth rate, except the denominator is the number of women aged 15-64.

## Social Indicators: Another View of Poverty

Poverty is a multi-dimensional phenomenon and is not only the absence of money or material goods. It can reflect various shortcomings or negative aspects in life including bad health, lack of education, malnutrition and other factors such as poor housing, violence and inability to participate in political processes for example.

While Argentina exhibits social indicators that are above average when compared to other countries in the region (see Table 10), such good performance is to be expected given its high per capita income. If adjustments are made for the level of per capita income, in fact Argentina's social indicators are at or below average. For instance, infant mortality is about 55% higher than would be expected for a country of Argentina's income, even though it is below the LAC average. Likewise, secondary school enrollment is 9% below what should be expected, and access to safe water is 24% below the expected level. On the other hand, Argentina performs at or slightly above the expected levels for life expectancy and literacy.

## Voices of the Poor

How do the poor see their poverty? The above statistics obtained from a national household survey have been confirmed by a separate survey on perceptions. A survey undertaken for this report of 1,200 households in 29 cities<sup>8</sup> asked people if they considered themselves poor, 26% responded positively. When those who self-identified as poor were asked the source of their poverty, the most important responses were:

not having work	31%
having a low salary	18
not being able to pay for basic needs	14
difficult retirement	7
labor problems	7

What is clear from this is that the poor give heavy weight to employment, higher than that given to wages per se or being able to pay for basic needs: they see poverty as a problem of employment, underemployment and low wages, and less as not being able to access basic needs as health, education and sanitation. In the eyes of the poor, being unemployed or not have steady work implies a loss of dignity, as well as a loss of income.

These results were confirmed and amplified through a series of focus group discussions. These discussions revealed the sense of hopelessness among the extremely poor concerning their ability to improve their situations. The lack of steady work and the problems of violence and insecurity were considered the most important problems facing the urban poor. Lack of employment leads to problems of alcohol and drug abuse, crime and violence in the home and in the community. In rural areas, attention focused on the

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<sup>8</sup> See S. Cesilini and E. Zuleta, Background Paper No. 2.

lack of land, credit, and access to markets. Both rural and urban poor cited problems derived from the lack of adequate infrastructure: water, sanitation, roads, lighting.

A common and sweeping complaint by the poor consulted for this report, and consistent with other public opinion polls in Argentina, is the lack of credibility of public institutions in meeting their needs. Institutions are valued by their ability to meet the poor's immediate needs and few public institutions are seen as doing that. Government at all levels are seen to be corrupt, unresponsive and inefficient. Yet, a strong role for the Government is considered by these same people.

There is another important feature of the above survey results: with the exception of the indigent, who do see their level of poverty very clearly, 59 percent of those classified as poor by their socio-economic levels actually did not think of themselves as poor while some of the middle-class groups and even the upper class thought of themselves as poor. This seems to suggest that poverty is very much a relative concept, dependent on social and cultural considerations.

Lack of work also signifies a shift in gender relations with poor women able to earn more than their partners in domestic service. This is also seen to be the source of tensions within family and domestic violence appears to be increasing. Youth also stand out as a particularly vulnerable population. Poor youth report high incidences of drug and alcohol abuse and a general feeling of despair as they are faced with a future of insecurity marked by unemployment and violence. The police are identified in rural and urban areas as playing a prominent role in promoting violence and corruption rather than offering public security. While the poor are generally wary of the agendas of any external organizations, they point to their own informal networks and contacts as mechanisms that promote cohesiveness and unity and, perhaps, provide a haven in an increasingly vulnerable context.

**Poverty and Infrastructure.** The poor state of basic services is a major concern among both rural and urban populations consulted for this report. In part, this can be explained by the fact that, unlike many other countries, the poor of Argentina possess a higher standard of living, as evidenced by their assets and living conditions. For instance, of the urban poor<sup>9</sup>:

- 78% own a refrigerator
- 85% own a television (31% have cable);
- 59% own a washing machine
- 19% own a car, and
- only 4% lack electricity.

Yet, the reality is that most live in difficult circumstances in poor neighborhoods that lack basic infrastructure services. Many do not have formal titles to the land they occupy, and their houses are constructed informally and illegally, often in areas lacking adequate drainage or near garbage dumps or other marginal areas. If we focus not on the

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<sup>9</sup> Data here are from the Social Development Survey of SIEMPRO (1997); "poor" here is defined on the basis of structural poverty (NBI).

poor, but the lower 20%<sup>10</sup>, we find that crowding is high; over 50% live in houses with two or more persons per room; 17% live in houses with 3 or more persons per room, defined as “critical” crowding (see Table 11). While only 4% lack electricity, most of these connections are probably illegal.

**Table 11: Housing and Infrastructure Indicators, 1997**  
(percent of households)

Indicator:	Lower 20%	Upper 20%	Poor (NBI)	Non-poor
Crowding:				
- more than 2 persons/room	51.0	2.8	71.8	15.8
- more than 3 persons/room	17.2	0.0	46.8	.1
Without access to safe water	8.3	.2	14.0	1.7
Without access to running water in the house	34.2	.8	54.4	6.3
Without adequate sanitation	47.0	5.1	68.0	15.6
Without electricity	4.4	.3	6.7	.5
With insecure tenancy of land	44.6	11.5	58.0	18.8
Located in flood area	28.5	11.9	33.6	16.9

Source: SIEMPRO, Social Development Survey (EDS), 1997.

Note: Poverty defined as having one or more deficient basic needs. NBI is an index of unsatisfied basic needs, based on having any one of five deficiencies. For definition, see Part II, Chapter 3.

Access to other public services is more critical; 47% lack adequate sanitation, and 42% lack running water in the house. In fact, the access to safe water is one of the main social criteria in which Argentina falls well behind where it should be in terms of international comparisons. Water drawn from wells and other sources is often contaminated by sewerage and chemical pollution, and even piped water is often

**Box: Privatization and the Poor**

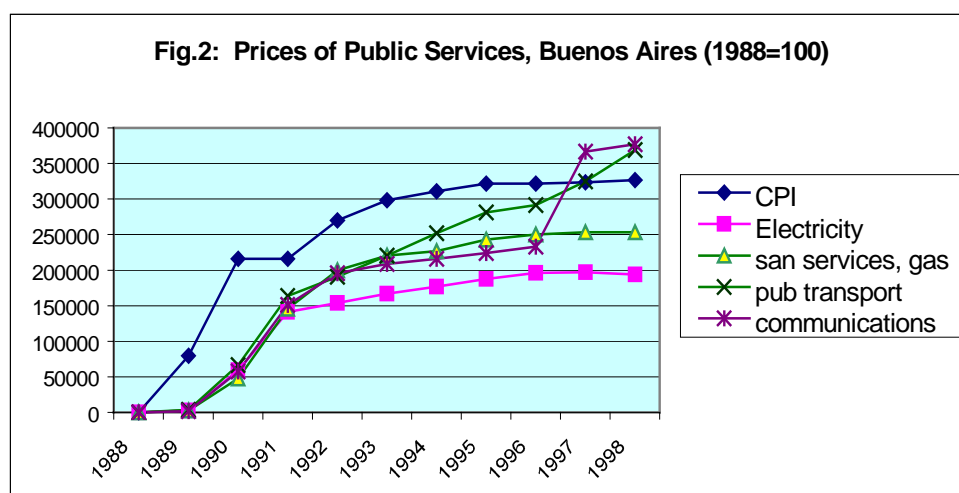
As part of the reforms undertaken in the 1990's, a major program of privatization of public services was undertaken. This program included telephone services, transport, banks and productive facilities. It is often alleged that such privatization impact adversely on the poor, since they often result in higher prices for basic services which were previously subsidized, even if they the quality of services being provided.

In Fig. 2, the prices of basic infrastructure services are compared to the general price index (CPI). We can see that most prices did not even keep up with inflation during the 1990s. Only after 1997 do the prices of urban transport and telecommunications exceed the general price index. However, an examination of household budgets reveals a large increase in consumption of basic infrastructure services. Between 1986 and 1996, families in the lowest quintile of the income distribution increased their expenditures on infrastructure services from 9% to 17% of their total budget, at a time when monthly household expenditures in real terms were declining. There are two possible causes for this phenomenon: better services offered after privatization may have induced more spending; or, privatization also improved the collection rate for fees charged, without necessarily raising prices.

Source: N. Hicks and H. Lee, “The Impact of Privatization on the Poor: the Case of Argentina.” For similar conclusions, see F. Navajas, “El Impacto Distributivo de los Cambios en Precios Relativos en la Argentina.” FIEL, 1999.

<sup>10</sup> The focus shifts here to the lower 20%, because the poverty definition being used is the NBI, which itself is based on housing quality indicators.

contaminated. About 45% live on land with insecure tenancy, that is without legal title or a formal arrangement. The lack of clear titles reduces the ability of the poor to finance housing improvements and reduces the incentive for the poor to upgrade the quality of their housing. In addition, almost twice as many poor as non-poor live in areas that are prone to flooding. By any standard, Argentina is highly vulnerable to economic loss from flooding. Within the developing countries of the world, Argentina falls within the top seven in terms of size of risk compared GDP. In Latin America, Argentina has the highest exposure to direct flood loss. This further increases the vulnerability of the poor to catastrophic losses.



Comparing data on the NBI<sup>11</sup> across different cities, we see that some cities are much more homogeneous in terms of poverty levels and urban services—some of these show that there is uniformly poor service, and very high levels of the total population not served by sanitation, for example. This is the case of Greater Buenos Aires (excluding the City) and the large cities of Cordoba and Rosario, plus cities in the poorest Northeast and Northwest of the country (e.g. Posadas, Jujuy, and Resistencia). Other cities, with relatively good levels of basic services (as measured by access to sanitation) show very high variations between unsatisfied basic needs, indicating that the poor typically do not have such services. On investment itself, data assembled for this report (for the City of Buenos Aires) show that, within a single jurisdiction, there is wide variation between school districts in terms of investments made in streets, sidewalks, drainage and other basic local infrastructure. Richer areas tend to receive more investments than poorer areas.

As a result of Argentina's privatization program, public services for electricity, gas, water and sanitation, telephones and major trunk and access roads are in the hands of private concessions. Urban bus service, at least in the case of the City of Buenos Aires, is also privately run. Thus, an interesting question is whether or not privatization of public services has hurt the poor's access to these public services. Available evidence seems to

<sup>11</sup> The NBI is a measure of poverty based on a household being deficient in any of five indicators; including crowding, access to water, sanitation, school attendance. For exact definition, see Part II, Chapter 3.

show that this is not the case; price adjustments have generally kept pace with inflation. Poor consumers are spending more on these services (see box) but whether they are spending more because service is better and they now have access or because collection is more efficient is not clear. It is clear, however, that the poor are able and willing to pay for urban services and that the total bill being paid for these services is affordable. The degree to which the poor benefit from privatization overall depends greatly on the type of regulation. A recent simulation study finds that privatization lowered the costs of utilities by 41% on average. However, with ineffective regulation, these gains would go largely to the rich. With effective regulation, the poor would receive more of the benefits<sup>12</sup>, on the assumption that regulation would provide subsidies for low-level consumption.

### **Regional Poverty**

Argentina is a vast country with many differences among the provinces in terms of endowments, production, institutional capacity, income levels and social indicators. Thus, it is important to look at differences in poverty by region and not just national averages.

As shown in Table 12, there are considerable differences. Poverty rates are substantially higher in the North West (46% in 1998) and North East (49%), followed by the mountainous, arid regions of the Cuyo (36%). Conversely, the City and Province of Buenos Aires and the five provinces which make up the resource rich region of Patagonia have poverty rates lower than average (24% and 22% respectively). In fact, the City of Buenos Aires shares a standard of living comparable to many OECD countries. In the middle, we find the region of Pampeana, mainly, the provinces in the agricultural plain, whose poverty rate is close to that of the country as a whole. In terms of income distribution, the regions outside of Buenos Aires tend to be slightly more equal, with Cuyo, Pampeana and the Northwest having somewhat more equal distributions.

Argentina's economic transformation in the 1990s seems to have had differing impact on poverty depending on the region. The 1990s can be divided into two sub periods: 1990-94, when poverty decreased as the economy reactivated, and 1994-98, when poverty increased as a result of Tequila crisis and the increasingly competitive environment. In the first period, overall poverty rates fell by 48%, but poverty in the two poorest regions fell by about half of that. In other words, the poorest areas seem to benefit less from the general economic growth of the initial period than the richer provinces. However, when poverty rose during the 1994-98 period, the increases in poverty were greater in areas outside of the Northeast and Northwest, particularly in Buenos Aires, Cuyo and Pampeana. It seems probable that the areas outside of Buenos Aires are more dependent on agriculture, and less vulnerable to external shocks and financial crises. It may also be the case that these regions have been slower to react to

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<sup>12</sup> Omar Chisari, Antonio Estache and Carlos Romero, "Winners and Losers from the Privatization and Regulation of Utilities: Lessons from a General Equilibrium Model of Argentina" *The World Bank Economic Review*, 13(May 1999), 357-378.

the new economic incentives which favor Argentina's comparative advantage in natural resources.<sup>13</sup>

**Table 12: Poverty Rates by Region, 1990-98**  
(% poor of urban population)

Year	Greater Buenos Aires	North West	North East	Cuyo	Pampeana	Patagonia	All Areas
1990	41.2	54.4	55.7	48.1	33.7	26.7	41.5
1992	18.7	43.1	44.6	30.4	22.6	18.3	24.2
1994	17.0	41.6	40.3	26.1	19.8	17.1	21.6
1996	25.5	48.3	47.5	36.6	28.0	20.9	30.1
1998	24.9	46.0	48.8	36.0	27.4	22.4	29.4
<u>% change:</u>							
1990-94	-58.7%	-23.6%	-27.6%	-45.8%	-41.2%	-35.8%	-48.1%
1994-98	46.5%	10.7%	21.0%	38.2%	38.4%	31.0%	36.2%
Gini (1996)	.484	.455	.477	.452	.434	.462	.483
Lowest 20% share	4.1	4.5	4.1	4.6	4.6	4.3	4.0
Poor, 1998 (millions)	2.9	1.3	1.0	.7	2.6	.3	8.6

Source: INDEC/EPH, various years. See Background Paper No. 1 for details.

**The Forgotten Poor of the Rural Areas.** Behind the variation by region, there are also significant differences between rural and urban populations which have a bearing on poverty levels and local conditions. As mentioned above, most government income, employment and consumption surveys ignore the rural areas.

Recent Government surveys for two provinces --Salta in the Northwest and Misiones in the Northeast--give us some insight into the state of the rural poor. The weighted average rural poverty rate for these two provinces is about 75%, with a rate of indigency of 35%<sup>14</sup>. Since Salta and Misiones are both from the poorest areas of Argentina, these results are not likely representative of the country as a whole. However if they were typical, their rural poverty rate would have the effect of combining with the urban poverty rate of 29% in 1998 to produce a national poverty rate of 34%. Regardless, these statistics are indicative of the very critical situation faced by the rural poor, including the indigenous who live predominantly in rural areas.<sup>15</sup>

Even with this little information on the rural poor, we can see that the characteristics of the rural poor are both similar and different than the urban poor. One of the surprising results is that the rural poor are less likely to be farmers when compared to other non-poor rural population; they rather are more likely to be wage workers, self-employed or unemployed. Unemployment is very high in rural areas, about 19% overall

<sup>13</sup> One needs to be cautious about interpreting these trends, however, since we have only 8 years of data for urban areas only, and are excluding the rural population.

<sup>14</sup> The poverty line used here is based on a line that reflects rural prices and consumption patterns. See Part II, Chapter VII.

<sup>15</sup> There are no national statistics which identify indigenous peoples in Argentina; thus little systematic analysis can be made of their particular situation. However, the conjecture is that indigenous peoples would face a situation comparable or worse than that of the rural population as a whole.



and about 31% if one includes the “discouraged workers” who have given up job search. The poor are more likely to be illiterate, to have dropped out of school earlier, and to show lower gains from the schooling they have received. In general, the rural poor—not being mainly farmers—are net consumers of food, so that lower food prices raise their welfare, even though it lowers the welfare of food producers. The poor who are farmers have less land per capita, but have much higher productivity per hectare through the use of intensive production. They generally lack clear titles to their land, have little or no savings, and are less likely to have borrowed money. Higher farm productivity seems to be related mostly to the level of farm inputs, not capital investment. Since the poor lack access to credit, they tend to use fewer inputs, and have lower productivity per unit of labor.

One of the very critical features of the rural poor is average household size: the non-poor farm households have some 3.7 members on average while the poor farm households have an average of 5.5 and the indigent, 7.4 members per household. These figures are slightly lower for the non-farm rural poor but show the same tendency. Household size for the rural poor are significantly greater than the average size of households among the urban poor at all income levels. A factor linked to large family size is migration to urban centers from the rural areas. Migration is mainly for work, and typically is to the nearest urban center in the same province as the gains from migrating to Greater Buenos Aires are marginal.

Addressing the basic needs of the rural poor is generally more difficult due to the low population densities in most of rural Argentina and the existence of isolated, disperse rural populations. Overcoming the generally higher transactions costs of identifying and providing services to the rural poor requires even greater reliance on civil society structures. For example, the limited surveys indicate that membership in cooperatives or farmer’s organizations is associated with greater likelihood of receiving technical assistance. Of particular concern is the apparent high rate of poverty among rural indigenous groups, which are often located in remote areas that are not reached by public services.

### **Growth, Income Distribution, and Poverty**

As demonstrated in previous sections, Argentina’s success in reducing poverty, despite admirable rates of economic growth as compared to the past, has been made more difficult by the rising gap in wages between the skilled and unskilled and the declining employment opportunities for the latter. The clearest demonstration of this is the worsening of income distribution, especially in the past five years. And the worst combination of these factors is faced by the young with low levels of education and little work experience who also have significant family responsibilities and children to care for. Future efforts in poverty reduction will thus be clearly related to overall growth in income, as well as changes in income distribution. For the latter, investment in human capital is paramount.

**Table 13: Estimated Impact of Changes in Per Capita Income and Distribution on Poverty**

Percent Change in Poverty Headcount:

% change in Gini	total change in per capita income		
	+10%	+20%	+30%
0	-13.8	-27.7	-41.5
+5%	-10.0	-23.8	-37.7
+10%	-6.2	-20.0	-33.8

Estimated Poverty Headcount:

change in Gini	total change in per capita income		
	+10%	+20%	+30%
0	25.3	21.3	17.2
+5%	26.5	22.4	18.3
+10%	27.6	23.5	19.5

Using pooled cross section and time series data from the EPH for 1990-98, we can estimate the elasticities of poverty rates with respect to changes in per capita income and the Gini coefficient.<sup>16</sup> The estimated elasticity for poverty with respect to growth is 1.38; a 10% increase in per capita income will reduce the poverty rate by 13.8%, provided there is no change in the Gini. Table 13 shows alternate combinations of changes in per capita income and the Gini. For instance, a 20% growth in per capita income would imply a growth rate over 10 years of about 1.8% per annum. This would reduce the poverty rate by 28%, if there is no change in the Gini, but by only 20% if the Gini were to increase by 10%. If we start with a poverty rate of 29%, then the forecast poverty rate would vary between 21% and 24%. This simulation somewhat mechanical, but illustrates both the importance of growth in income in any plan to reduce poverty, as well as the importance of how gains in national income are distributed among the population. However, it also assumes that the elasticities of the Gini and poverty with respect to growth are constant over the cycle. Recent work by DeJanvry and Sadoulet<sup>17</sup> suggest that these elasticities can have important asymmetries: they tend to be higher in a downturn than in a recovery. Poverty is likely to be reduced faster if, for the same average growth rate, there is a greater degree of stability in the rate of growth.

<sup>16</sup> The estimated equation regresses the change in the log of the poverty rate ( $d\ln PR$ ) against the change log of per capita income ( $d\ln PCY$ ) and change in the log of the Gini ( $d\ln GINI$ ), with dummy variables used to capture the fixed effects of different regions. The estimated equation (without the dummy variables) is:

$$d\ln PR = -0.004 - 1.383d\ln PCY + 0.768d\ln GINI \quad R^2 = .64$$

$$(-0.454) \quad (-9.635)^* \quad (3.670)^* \quad n = 102$$

\* significant 1% level.

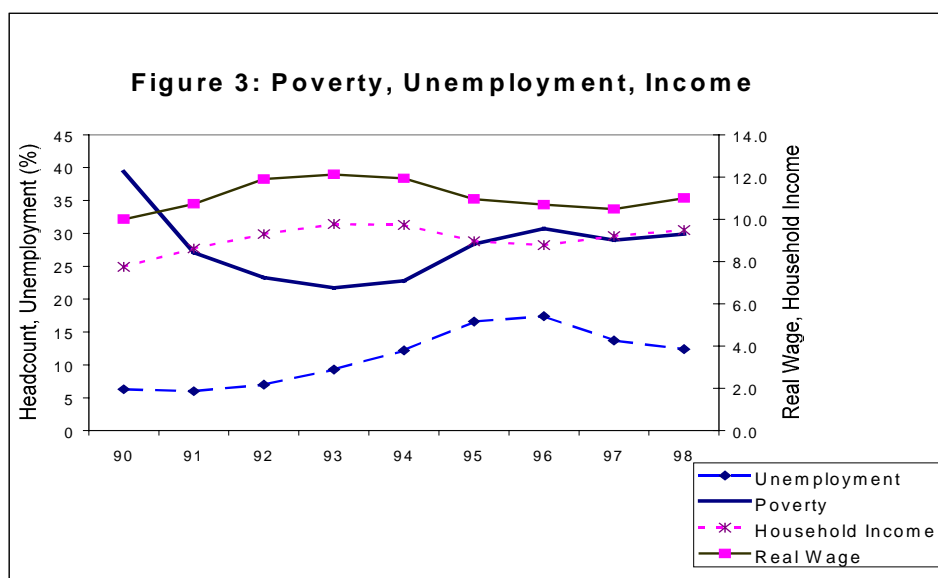
The equation is estimated using semi-annual data for the period 1990-98 for six urban areas.

<sup>17</sup> Alain de Janvry and Elisabeth Sadoulet, "How Effective Has Aggregate Income Growth Been in Reducing Poverty and Inequality in Latin America?" processed, Nov 9, 1999.

## II. Employment, Unemployment and the Informal Sector

### Poverty and Jobs

Employment is a key factor, but not the only factor, in determining poverty. Estimates show that a person is 17% more likely to be poor if the head of the household is unemployed. Poverty trends correlate with unemployment and wage trends, as shown in Figure 3.

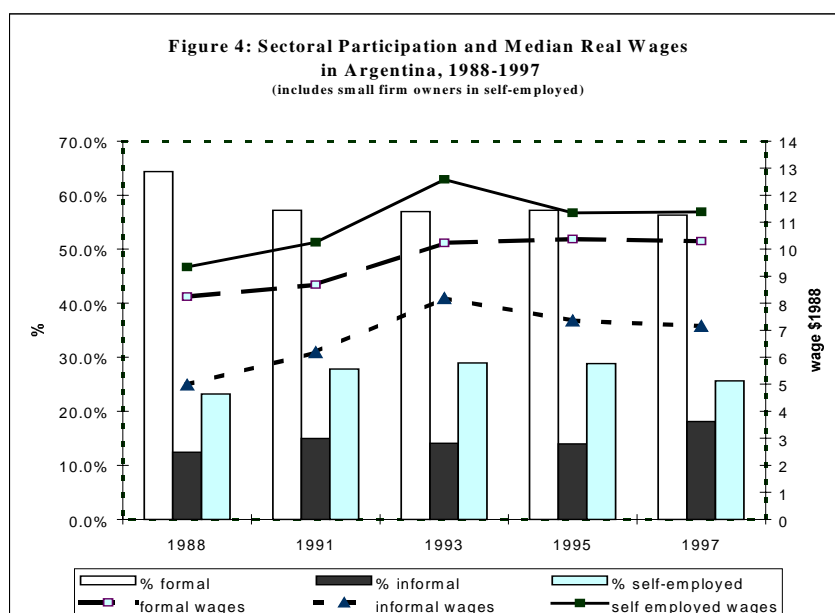


The labor market in Argentina is divided roughly into two parts; about 55% of employment is “formal” in the sense that workers are covered by social security and labor legislation protection, and usually have union membership and health care coverage. The remaining 45% can be divided into two groups: the self-employed and the informal salaried workers. The range of conditions for these two groups is wide: the former may consist of well off professionals who operate outside the formal corporate system in order to avoid taxes and social charges or they may be relatively unskilled who work on a contract basis or on their own. The latter may be working for formally constituted companies (the so-called workers *en negro*, contracted informally in order to avoid paying taxes and social charges) or for informal enterprises which are typically very

small, “mom and pop” operations. While 45% of the poor work in the informal sector, only 36% of the non-poor work there. In fact, the majority (about 65%) of the workers in the informal sector are not poor. Thus, being in the informal sector does not automatically mean poverty, nor does being formal automatically mean one is out of poverty.

As shown in Fig 4, the size of the formal sector has fallen since 1988, when it was over 60% of the economy, partly as a result of the downsizing of the public sector and shedding of excess employment by privatized public utilities. Real wages of the informal salaried workers are lower than those in the formal sector, but since they generally escape the payment of social security and other wage taxes, their cash income may be the same or higher. Informal self employed workers have average wages even higher than those in the formal sector.

What is clear (Table 14) is that the unemployment rates are substantially higher among the poor (23%), and even higher for the indigent poor (37%) as compared to the non-poor ( 9%). Unemployment spells, however, are similar between poor and non-poor. Most unemployment does not last more than six months; 44% last less than two months. Thus, it appears that the unemployed have been able to find work, albeit that work may be of a temporary nature, in construction for example, and not sustained in time. At the same time, participation rates are lower among the poor, and particularly among poor women. Given that the poor have larger families, and are generally younger, poor women seem more likely to be unable to participate in the labor market given their child raising responsibilities. In addition, given their lower levels of education and skills, the opportunity cost of staying at home is also lower.

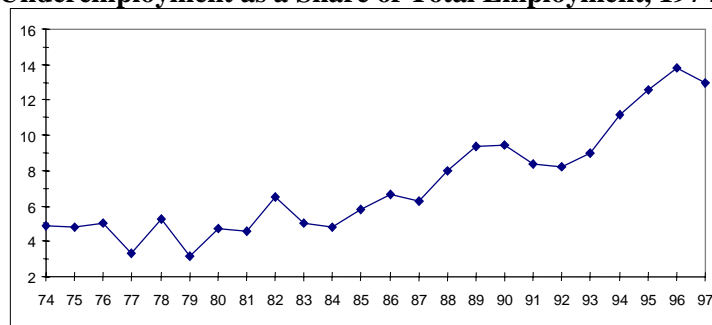


Furthermore, the total hours worked by the employed poor is lower, reflecting an inability to obtain full-time work or, to a lesser extent, a preference for part-time work. Defining underemployment as those working less than 35 hours per week and seeking employment, there is a clear tendency for underemployment to rise over time (see Fig 5). In Buenos Aires, underemployment has risen from 5% to 14% of total employment since 1980. About two-thirds of part-time workers report that they are seeking more work. The preoccupation expressed by the poor about finding work is therefore collaborated by these statistics which show frequent spells of unemployment, combined with increasing underemployment for those who have found work.

**Table 14: Labor Market Characteristics of Urban Population by Poverty Group, 1998**

	Poverty Group			Total
	Indigent Poor	Moderate Poor	Non-Poor	
Labor Force Participation (Age 15-64)	54.8	56.4	67.3	64.5
Female Participation	37.4	35.5	53.4	49.0
Unemployment Rate	36.5	22.6	8.9	12.6
<u>Among the Unemployed:</u>				
Unemployment Spell (%)	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Under 2 months	45.5	46.8	42.8	44.3
2 – 6 months	33.6	29.4	26.3	28.2
7 months – 1 year	13.3	18.8	23.0	20.5
More than 1 year	7.6	5.0	7.9	7.0
<u>Among the Employed</u>				
Number of Jobs Held	1.03	1.04	1.10	1.09
Total Hours Worked per Week	34.9	41.7	45.1	44.2
Female Hours Worked	26.8	31.9	37.0	36.1
% Employed in the Informal Sector	46.4	44.6	36.2	38.2
% of Part-time Workers	43.9	26.8	17.0	19.4

Sources: INDEC, *Encuesta Permanente de Hogares*, average of May and October of 1998, except for unemployment spell, which is October 1997.

**Figure 5 : Underemployment as a Share of Total Employment, 1974 - 1997**

Source: Permanent Household Survey. Gran Buenos Aires, October 1997. *Ministerio de Economía y Obras Públicas* Underemployment defined here as workers working 30 hours or less per week.

Panel data which traces workers over two year periods during the overall 1993-97 period shows that there is considerable movement between job categories over time. Workers do move between the informal and formal sectors, as well as from the formal to the informal. Over two years, only 48% of male informal salaried workers remained in that sector; 12% moved to the formal sector, 18% became self-employed and 14% were found to be unemployed. For formal workers, by contrast, 80% were found to remain in the formal sector after two years, 8 percent became unemployed. Of unemployed men, 32% moved to the informal sector, either as salaried workers or as self employed, and 16% moved to the formal sector. For women, the results are similar but with some important differences. For women who were unemployed at the beginning of the period,

only 28% found work, 22% remained unemployed, but 50% left the labor force entirely (were not seeking work).<sup>19</sup>

The stability of workers in the formal sector is probably current labor laws which provide considerable job security for formal sector workers, at the detriment of greater job mobility. There is also considerable stability among informal self-employed, but considerable movement among informal salaried workers, who appear to be most at risk.

In fact, it is not surprising that a major finding of this study is that the bulk of unemployment originates from the informal sector since those workers lack the protection of formal workers and there is no cost to employers associated with lay-offs. On the other hand, the fact that it is the informal workers who suffer the most from unemployment is disturbing since they are precisely those who are not protected by severance payments or unemployment insurance. As shown in Table 15, of the paid workers moving to unemployment, 38% come from the informal salaried sector, even though this sector constitutes only about 19% of total workers.<sup>20</sup>

**Table 15: Sector of Origin of the Unemployed**

Sector of Origin	All	Paid
Informal Self-Employed	18	38
Salaried Informal	12	26
Formal Salaried	17	36
Previously Unemployed	34	--
Previously Out of Labor Force	6	--
School Graduates	13	--
Total	100%	100%

Unemployment hits the young hardest. The unemployment rates for workers in their teens and twenties is twice as high as for those in their 40s and 50s. While this is an important problem, one needs to recognize that the majority of the unemployed are young, and may not be household heads. Thus, the impact of unemployment on poverty per se will depend more on whether or not there are other older wage-earners in the household. (Admittedly, the large number of youths who are not pursuing studies or working may constitute another set of social problems associated with the use of drugs and violence.)

High rates of unemployment, particularly among male workers, seem to have led to a rise in participation rates, particularly among women. Since 1988, labor force participation rates overall have risen by about three percentage points. Across all economic groups, women have increased their participation in the labor force over time (see Table 16). Today, about 49% of adult women in Argentina work compared to 37% in 1980. Guasch estimates that this alone could account for 25% of the increase in

<sup>19</sup> For details of the transition matrix, see Part . II, Chapter 2.

<sup>20</sup> It also appears that some employers have both formal and informal workers, with the informal or workers *en negro*, providing flexibility in times of labor force reductions, without the need to pay severance payments.

unemployment.<sup>21</sup> Since women tend to have lower education levels than men, the growing participation of women would mean an increase in the supply of unskilled workers, and may account for their stagnant real wages over the last ten years.

**Table 16: Female Labor Force Participation Rates (urban areas)**

	Indigent	Poor	Non-Poor	Total
1985	21.1	20.4	39.9	37.4
1990	31.8	32.0	49.5	42.9
1995	36.4	37.4	52.3	48.8
1998	37.4	35.5	53.4	49.0

Source: EPH, various years. 1985 data is for Buenos Aires only.

Among the poor and indigent, however, the increase has been even more pronounced. Poor women have increased their participation from 20% to 36%, while indigent women have increased from 21% to 37%, although still well below the rate of participation for non-poor women. Female participation also appears to be procyclical, going up in crisis years (1988, 1990, 1995), particularly for the poor. Increased female participation is clearly one coping mechanism the poor can use to offset the adverse shocks of male unemployment and/or declining real wages.

Another factor explaining high unemployment among the poor relates to the sectoral composition of their employment. The poor, and particularly the indigent poor, are heavily located in the construction industry which is more volatile than other industries, and therefore more subject to short term unemployment and uncertainty. About 18% of the poor and 23% of the indigent work in construction, compared to 7% of the non-poor (see Table 17). The variance of employment growth in construction is over four times higher than the average variance for overall employment.

**Table 17: Employment Distribution by Sector, 1998**

(urban, % of total)

sector	percent distribution of employment			standard deviation of growth	standard deviation of employment
	Indigent	Poor	Non-Poor		
Agriculture	1.9	1.4	1.8	5.1	6.6
Manufacturing	9.6	15.6	15.7	5.2	6.2
Construction	23.4	18.2	6.8	15.2	13.0
Trade	17.0	18.4	19.1	6.1	6.8
Finance	3.8	3.7	10.4	6.5	5.8
Services	44.3	42.7	46.2	4.9	3.9
Total	100	100	100	4.8	2.7

Source: EPH. Services includes "unknown". Standard deviations are for period 1990-98, and are deviations from mean growth rates for employment and value added by sector.

But how important is reducing unemployment toward the elimination of poverty? Since the poor are often unskilled and undereducated, and have large families to support, even full employment would leave a substantial number of people below the poverty line. We can estimate this by looking at the relationship between income and labor force

<sup>21</sup> J.L. Guasch, "Argentina Labor Market in the New Millennium", World Bank, August, 1999.

characteristics of the *employed* workers, and then assuming that *unemployed* workers with similar characteristics would have the same earnings were they to be employed. The results of this simulation (Table 18) show that, in May 1998, full employment (0% unemployment) would have only reduced the overall poverty rate from 29% to 23%, and the rate of extreme poverty from 7% to 4% (about a 40% decline in extreme poverty).

**Table 18 : Impact of Full Employment on Poverty Headcount, 1992-1998**

Year	From: Being An Indigent to:				From: Being a Moderately Poor to:			Poverty Headcount	
	Actual Indigent Rate	Staying Indigent	Becoming Moderately poor	Escaping poverty	Actual Poverty Rate	Staying Moderately Poor	Escaping poverty	Actual	Full Employment
1992	<b>4.4</b>	3.3	0.7	0.4	<b>19.7</b>	16.9	2.9	24.1	20.9
1993	<b>4.3</b>	2.9	0.8	0.6	<b>17.5</b>	14.1	3.4	21.8	17.8
1994	<b>3.7</b>	2.3	0.8	0.6	<b>17.9</b>	13.8	4.1	21.6	16.9
1995	<b>6.1</b>	3.1	1.9	1.1	<b>21.1</b>	14.7	6.4	27.2	19.6
1996	<b>7.3</b>	3.9	2.1	1.3	<b>22.7</b>	16.2	6.4	30.0	22.2
1997	<b>6.8</b>	3.8	2.1	1.0	<b>22.6</b>	17.0	5.8	29.4	22.8
1998	<b>7.1</b>	4.3	1.9	0.9	<b>22.3</b>	17.2	5.1	29.4	23.3

Source: Calculated from the EPH surveys, average of May and October. For details see Background Paper No.1

These estimates are rough, but indicate that employment can affect poverty levels. Even if unemployment were to be reduced by 50%, the poverty level would fall from 29% to 26%, and extreme poverty would fall by about 20%, both significant changes. However, it is also important to note that even with full employment, poverty would remain. The low wages paid to unskilled workers (see Table 4)

suggest that even when employed such workers would remain well below the poverty line.<sup>22</sup> These estimates also assume that increases in employment occur through increases in demand. If more employment is achieved by increased labor market flexibility, which lowers real wages, then poverty effect would be considerably reduced. Not only would some of the existing poor not escape poverty, but some of the non-poor might fall below the poverty line. The impact of labor reform, could in the short run, increase poverty. However, for labor market flexibility to reduce poverty, one must assume that these reforms increase incentives to invest over time, and thus increase the demand for labor.

## Wage Growth

Poverty is as much, if not more, a function of wages as of unemployment. As noted above, real wage growth has been highest for skilled and highly educated workers while wages for unskilled workers has fallen in real terms since 1990 (Table 4). Technological

<b>Table 19: Real Wage Growth (%)</b> (Male Workers, Greater Buenos Aires)		
	1988-93	1993-97
Formal Sector	24.2	.6
Informal –Salaried	64.4	-12.6
Informal – Self empl.	34.7	-15.0

Source: EPH Surveys

<sup>22</sup> For instance, an unskilled worker receiving 356 pesos per month, and having a family of five whose spouse did not work, would have an average per capita income in terms of adult equivalents of 101 pesos, less than the poverty line of 160 pesos.



progress, easier access to capital, and trade openness have put unskilled workers as a disadvantage, particularly since 1993.

There are important wage differences between the informal sector and the formal sector. In fact, informal salaried workers gained more than formal salaried workers in the period 1988-93, but lost more during the period 1993-97 reflecting the flexibility in that segment of the labor market (see Table 19). For instance, between 1993 and 1997, real informal sector salaries increased 13% while formal sector salaries remained unchanged; in the prior period informal sector salaries rose almost three times faster. Informal workers are, once again, at more risk of sudden declines in income. This is another sign that existing labor laws provide stability in income levels to formal sector worker, both in good times and bad.

Within all sectors younger workers have done better in terms of wage growth than older workers, particularly salaried workers (however, they probably are starting at a lower level of wages). In some cases, younger workers with less education may have had faster wage growth than those with more education. But those who lost the most seem to be long-tenured informal salaried workers with primary or secondary education along with those with secondary education who were just starting out in the labor force. In general, the data of Table 20 suggest that older workers may possess obsolete skills and may not be competitive with younger, better educated workers.

**Table 20: Experience, Education and Wage Growth, Buenos Aires, 1988-97**

	<b>Formal</b>	<b>Informal, Salaried</b>	<b>Informal, Self Employed</b>
<b>Primary Ed</b>			
1-5 years exp.	32.8	51.1	22.4
> 5 yrs. exp.	22.2	.8	28.3
<b>Secondary Ed.</b>			
1-5 years exp.	20.2	35.7	54.9
> 5 yrs. exp.	6.3	-6.0	14.3

Source: EPH Surveys.

### **Labor Market Reform and Poverty**

There is good reason to believe that current labor legislation is biased against the absorption of labor by the formal sector and instills rigidities in the market's ability to adjust. More importantly, current labor legislation appears to create a great incentive for employers to take on workers--in *negro* -- without all of the privileges of formal sector employment, forcing workers to accept employment without any form of social protection. Conversely, it may also promote self-employment in the informal sector by those with high skills in order to avoid mandatory social charges, including contributions to health insurance and pensions. For both groups—whether they are relatively high-income self-employed or low paid informal workers—there are high social risks attached to not being part of the formal social security system. At the same, the fact that such as

large share of the population falls outside of the social security system creates pressures on public spending to compensate.<sup>23</sup>

Centralized or sectoral collective bargaining agreements limit firms' abilities to adapt to competitive conditions. The *ergo omnes* clause extends these agreement to all workers and firms in the sectors, even if not signed. Ninety percent of present contracts are "ultra-active" remaining in force even after expiration and lock in work arrangements that may no longer be appropriate to market conditions. High non-wage benefits drive labor costs up relative to the costs of capital. In addition to a 17% wage tax paid by employees, employers provided legally mandated benefits and fiscal contributions that raise labor costs to them by 48%.<sup>24</sup> Restrictions on firing discourage firms from hiring additional workers. The effects of this rigidity are clearly seen in the relative stagnation of wages and employment in the formal, large business sector which by and large respects the existing labor agreements.

Recent experience with temporary reforms in the 1990s supports the view that these contracts are binding. Partial reform lowered payroll taxes somewhat, improved the pension system, and provided for temporary contracts that were exempt from payroll tax and severance payments. Employment under these *modalidades promovidas* reached nearly 5% of total employed workers by 1998, and accounted for 40% of the new jobs created between 1996-98. However, the *modalidades promovidas* were abolished in 1998, which may further add to unemployment in 1999. The labor law changes in 1998 also shortened probation periods to one month (from six months), and further centralized collective bargaining arrangements, moves which reduced overall flexibility. However, recent draft legislation has been sent to the Argentine Congress that would reverse these reversals; probation periods would be reextended, ultra-activity would be gradually phased out, and power of centralized collective bargaining would be reduced. In addition, labor taxes on new employees would be reduced.

Overall, the existing labor legislation is ill-suited to a new competitive environment, makes adjustments to adverse shocks difficult and discourages firms from taking on additional workers. Programs such as PYMES (proposed in 1994) which gives firms of less than fifty employees a special regime for collective bargaining and facilitating labor contracting are important for giving emerging firms the flexibility to adapt and grow. Another possible reform would be to move from the current system of severance payments to an unemployment insurance system based on individualize accounts. These could be portable, capitalized and fully funded, and would both reduce labor costs and eliminate the perverse incentives in most unemployment schemes that discourage employment.<sup>25</sup>

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<sup>23</sup> This is part of a wider problem facing Argentina which needs to be addressed through labor and tax policies as well as improved enforcement.

<sup>24</sup> L. Guasch. *Argentina Labor Market in the New Millennium*, World Bank, Report No. 19996 AR, January, 2000, p.97.

<sup>25</sup> For a fuller discussion of how such a system would work, see J. L. Guasch, *Argentina Labor Markets in the New Millenium*, August, 1999 (World Bank).

### III. Social Spending: Does it Reduce Poverty?

#### Who pays, who gets

Argentina has one of the highest levels of per person social spending in Latin America<sup>26</sup>. Argentina spends more per person than countries such as Chile, Costa Rica and Uruguay. Yet, despite substantial spending poverty persists and social indicators indicate a mixed performance.

Social spending has risen in importance over time, from about 15% of GDP in the early 1980s, to about 18% today. Overall, social spending has three main components: social insurance (57% of total), social sector programs that are universally available to the public (36%), and programs specifically targeted to the poor (7%). Thus the amount of explicit targeting to the poor is relatively small, although the poor benefit in varying degrees from all social programs.

The net impact of social programs and the tax system which pays for them is to improve the welfare of the poor. As shown in Table 21, the lowest 20% in the income distribution receive 22% of total social sector spending, and pay 7% of all taxes<sup>27</sup>. People in the upper quintile pay 47% of taxes and receive only 19% of social sector spending. While social sector spending, both universal and targeted, definitely benefits the poor, social insurance spending is regressive, giving more benefit to the upper quintiles. Likewise, the tax system appears regressive, since the poor carry a large tax burden than the rich: the 7% of the taxes paid by the poor constitutes a larger share of their income—only 4 percent of the total-- than the 47% paid by the rich who have more than 53 percent of total income. This situation may be explained by the fact that little tax revenue is generated by income taxes, and a significant share is generated by consumption taxes (VAT and special taxes on gasoline, etc) which fall heavily on the poor<sup>28</sup>. The net effect of the system taxes and expenditures seems to benefit the poor. Recent estimates by Llach and Montoya<sup>29</sup> suggest that the total net benefit to the lowest quintile is equal to an increase of 55% in their total income. However, these estimates depend heavily on the values given to such free public services such as health and education, and estimates of their consumption by the poor.

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<sup>26</sup> Government of Argentina, Dirección Nacional de programación del Gasto Social - Secretaría de Programación Económica y Regional *Caracterización y Evolución del Gasto Público Social en el Período 1980-1997*, Buenos Aires, 1999

<sup>27</sup> These estimates are from L. Gasparini, "Incidencia Distributiva del Gasto Público" FIEL, April 1999.

<sup>28</sup> In addition, there is estimated to be a substantial amount of tax evasion and underreporting of income by the upper income groups, because of the underreporting of non-wage income (see box, Part II, Chapter 1 "Adjustments for Underreporting")

<sup>29</sup> Juan Jose Llach and Silvia Montoya, *En Pos de la Equidad*, IERAL, June, 1999. Their study also suggests that the tax system is roughly proportional. See Part . II, Chapter 3 for details.

**Table 21 :Total Social Expenditures and Taxes by Quintiles, Urban Argentina 1996**

Quintile:	I	II	III	IV	V	Total
Expenditures:	(percent of total)					
Social Sectors	29.8	18.8	21.7	16.8	13.0	100
Social Insurance	9.9	20.6	19.5	23.6	26.5	100
Total Social Expenditures	21.8	19.5	20.8	19.5	18.4	100
Tax Distribution	7.1	10.7	14.9	20.1	47.2	100
Income Shares	4.0	8.4	13.2	21.2	53.2	100

Source: L. Gasparini, FIEL, 1999 and 1998, income shares EPH May and October.

### Who Takes the Cuts? Targeted programs generally should expand during an

**Table 22: Elasticities of Government Spending with Respect to Changes in GDP, By Type of Spending, 1980-97**

Spending Type	Elasticity
Total Government	.95
Total Social Sector	1.28
Social Security	.84
Universal	1.87
Targeted	1.86

Source: Staff calculations based on Ministry of Economy data (DNP GS, 1998).

economic crisis, as unemployment and poverty increase. At the same time, we know that declines in government revenues often produce reductions in budgets for social and other spending. What has been the case in Argentina?

For the period 1980-97, calculated elasticities (Table

22) reveal that all kinds of government spending are procyclical; they rise and fall with GDP changes. But the situation is even worse for the social sectors; while the elasticity of total spending with respect to GDP is .95, for the social sectors is 1.3. Thus, social spending seems to be more sensitive to the business cycle than overall spending.

One would hope that targeted programs would be part of a social safety net that could expand during a crisis. Instead of being counter cyclical, however, they seem to fluctuate by a factor greater than even total social sector spending. Thus, a five percent drop in GDP seems to be associated with a 9 percent drop in targeted social sector spending. The effect is even greater if one considers that a drop in GDP is normally associated with an increase in the number of people below the poverty line. Thus, while poverty is going up, targeted programs for the poor tend to decline.

### Do the Poor Benefit? Incidence vs. Coverage of Social Programs

Argentina has numerous universal and targeted social assistance programs that seek to improve the quality of life of the general population as well as the poor, vulnerable, and disadvantaged population. They include food, nutrition, health, employment, training, education, shelter, clothing, income subsidies, and other emergency programs. Outside of the universal program of education and health, and social security, many programs are targeted directly to poor families and most of them have been put in place or expanded since 1995, as a result of the *Tequila* crisis. Others are aimed at

strengthening the ability of communities to address various social and economic issues. Unfortunately, there are only a few evaluation studies that examine program impact and cost-effectiveness.

The 1997 Social Development Survey (EDS), financed with World Bank assistance, provides information on cash assistance, food and other direct benefit programs received by households (social welfare assistance). It indicates that social welfare assistance appears to be strongly pro-poor on the whole; 65% of benefits go to the poor; 47 percent goes to the poorest 20% (see Table 23). In contrast, the highest quintile gets only 2.4 percent of the benefits. Thus, while there is some scope for reducing “leakage” of benefits to the non-poor, overall targeting is respectable.

**Table 23: Benefit Incidence of Government Social Assistance**

Income quintiles	Distribution of public benefits (%) <sup>a</sup>	% households receiving assistance	
		Public	Public and private sources
First	47.2	29.5	45.0
Second	29.0	18.8	31.4
Third	15.0	9.8	22.0
Fourth	6.4	4.9	16.1
Fifth	2.4	1.4	9.8
total	100.0	12.8	24.8
Poor	64.6	25.5	39.8
Non-poor	35.4	7.2	18.1
Total	100.0	12.8	24.8

Source: SIEMPRO, Social Development Survey (EDS), 1997, Includes food, cash and other forms of in kin  
 Note: (a) Weighted by provincial government spending on social welfare assistance. Includes only urban population

Within certain groups, public transfers, when combined with private transfers, can be very important in reducing poverty. Without public and private transfers, the poverty rate would be about 4 percentage points higher than it is. However, for household heads over the age of 65, the absence of transfers, mainly social security, would increase their poverty rate by 21%, and for female headed households by 33%. Clearly, the present system of public pensions provides a very considerable safety net for the aged albeit one which provides benefits to all the retired regardless of income level.<sup>30</sup>

More serious problems emerge in terms of coverage. About 75 percent of the poor do not receive any public assistance and over half got neither public nor private help. This would indicate that a substantial percentage of the poor are outside Argentina’s public and private social safety nets. Appendix A provides an overview of the identified vulnerable populations and the extent to which each population is uncovered.

<sup>30</sup> The present system of public pensions is the remainder of the pay-as-you-go system and thus covers the needs of all those retired from the formal sector who had made contributions previously as well as some provision for those who did not make contributions in the past. Thus, it is not a targeted social program per se and pays out according to the previous level of salary (on which past contributions were supposedly made). The transition to a fully funded private system will continue for some 40 + years until all those over age 45 years are no longer living

### Box: TRABAJAR

Argentina's TRABAJAR is an excellent example of a well targeted social safety net program. The program provides temporary employment at below-market wages to poor and unemployed workers. TRABAJAR projects include minor social and economic infrastructure projects, such as the repair or remodeling of schools, based on projects proposed by local governments. The national government pays for the unskilled labor component, about one-third of the cost of the proposed projects; the rest is financed by local government.

Data from TRABAJAR II indicate a coverage rate of about 1-2% of the total labor force, but 20 to 30 percent of the unemployed poor. By paying below market wages, the program attracts only those poor and with few prospects of employment.

Experience thus far shows that self-targeting is effective: evaluation of the program indicates that on average 40 percent of its resources have reached those in the bottom 5 percent of the income distribution, while 75 percent have benefited the bottom 20 percent. Moreover, targeting of poor communities has also been effective. Nevertheless, TRABAJAR's experience also shows that rationing of resources among competing municipalities can lead to possible political interference. Finally, experience shows that temporary public sector employment is not a long-term substitute for sustainable job creation in the private sector and that this kind of program is not a substitute for sustained job creation in the private sector and only acts as a temporary palative for those who may be seeking full-time, steady employment

Source: J. Jalan and M. Ravallion, "Income Gains from Workfare and their Distribution: Estimates from Argentina's Trabajar Program", World Bank (processed), June 1998.

Examination of specific programs provides details. For instance, food and nutrition programs for young children and senior citizens are one of the most important thematic areas in the inventory of social assistance programs. The most vulnerable group to long-term negative effects of malnutrition are the children aged 0-2 in the lowest quintile. Of these, only 44% receive benefits from public nutrition programs, even though they receive 70% of the benefits. Some 1 million children under the age of five are not being served by early childhood and nutrition programs. Again, targeting is good, but coverage is low.

In some cases, where programs have emphasized targeting, results have been impressive. An evaluation of the TRABAJAR program which is financed, particularly, by the World Bank, estimated that 75% of the benefits of the program went to people in the bottom 20%, and 40% of the benefits reached the lowest 5%, an impressive targeting record by international experience (see box). For other programs, improvements in targeting are still possible, such as by using the existing SISFAM system of proxy means testing developed by SDS (see Part II, Chapter 3).

One critical problem is the proliferation of safety net programs, even though the total amount of federal funding allocated to targeted programs is small. Total federal expenditures on targeted programs are about \$2.2 billion (\$60 per Argentine per year, 3.8% of national social sector expenditures, and 0.68% of GDP). This small budget finances a complex array of over 60 programs -- which comprises the current federal safety-net (see Appendix A). The result is a system with overlapping objectives and

target groups, higher administrative costs than needed (see below), but also dispersion of efforts, and thus low overall impact.

The sheer number of programs suggests a surplus of administrative effort which could be rationalized, and hence made far more cost effective, by collapsing the number of programs into a far simpler structure. Because these programs are managed by a large number of agencies, they utilize different targeting mechanisms, selection criteria, size of transfers, etc., which lead to further inefficiencies in the use of resources. Moreover, there is not a unique system to identify beneficiaries across programs, which not only leads to inefficiency, but opens up to the possibility of people receiving multiple from several programs. One major reform worth considering is the merger of existing programs into a single cash grant. While this may not be appropriate for all programs, it could greatly reduce administrative costs, such as involved in food handling and storage, and provide a more even distribution of benefits among the poor.

### **EDUCATION: THE KEY TO LONG TERM POVERTY REDUCTION**

While social assistance programs can mitigate poverty in the short run, and protect the poor against major variations in their incomes, long-term poverty reduction will depend both on rapid economic growth in the economy combined with substantial investments in human capital. The most important type of human development investment remains education.

Argentina's education system is one of the most advanced in the region. However, with its high per capita income, comparisons with other Latin American countries are not appropriate. In fact, for a country of its wealth, Argentina underperforms in certain key indicators, including secondary school enrollment. Nevertheless, it can boast a literacy rate of 97% for the adult population, universal primary enrollment, and 9.7 mean years of education of the adult population.

#### **Who Benefits from Public Education?**

Overall, the poor benefit from public education spending more than the non-poor, in part because higher income families tend to send their children to private schools. The poorest 20% of the households receive about 25% of total education benefits; the richest about 12%. However, the lowest quintile also potentially has about 25% of the students, and the upper quintile only 15%; thus, public spending on education is not progressive.

Within the sector, the poor tend to benefit more from primary education; secondary education tends to benefit slightly more the middle class. The major distortion comes in tertiary or university education; the lowest quintile receives only 10% of the benefits, while the richest quintile receives 34% (see Table 24). At the same time private enrollment is low at the university level. While private enrollments equaled 25% of total enrollment at the primary and secondary level in 1996, it was only 14% at the university level. Providing free university education to all groups basically produces a major subsidy to the richest and stands out as a major contradiction in terms of equitable social policies.

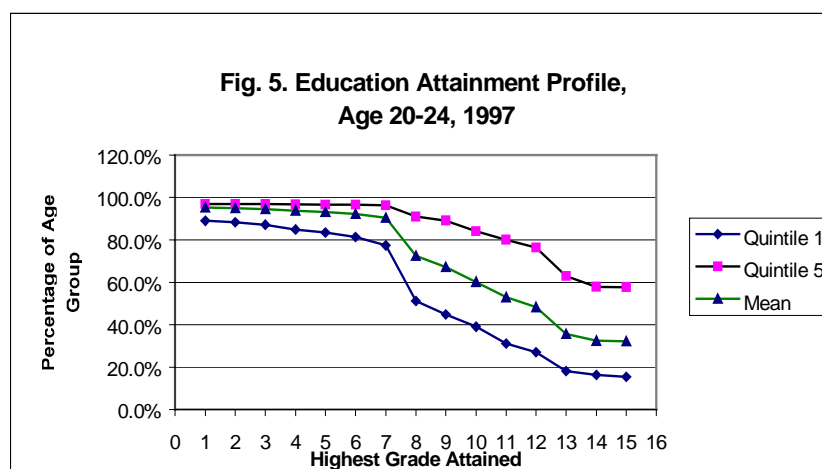
**Table 24: Distribution of Public Education Expenditure Benefits by Level of Education and Income Status (Percent), 1997**

	Total	Primary	Secondary	Tertiary
Quintile:				
First	25.5	32.6	20.9	10.4
Second	23.4	25.1	24.0	12.1
Third	20.8	19.1	23.4	17.4
Fourth	18.0	15.1	19.3	26.0
Fifth	12.3	8.0	12.3	34.1
Total	100	100	100	100
Poor	40.4	47.2	37.9	17.6
Non-poor	59.6	52.8	62.1	82.4

Source: SIEMPRO, Social Development Survey (EDS), 1997.

### Problems of Quality

Argentina faces major problems of education quality, reflected in high repetition and dropout rates, and low student achievement. The secondary graduation rate in Argentina is 52%, compared to an average rate for the OECD countries of 80%. Of 100 students entering primary school, 84 will enter the seventh grade, 76 will enter the ninth grade, 40 will enter the last year of secondary school, 35 will enroll in university and only seven will graduate. The results are clearly differentiated by income groups; dropout rates increase sharply for the poor after 7 years of mandatory education (see Fig. 6). Only 24% of students in the lowest quintile complete secondary school, compared to 76% for the upper quintile; 37% of the youth aged 14 to 18 are out of school.



In addition, children from low-income families are more likely to be older than other primary school children due to higher incidences of late entrance and repetition among poorer children. Repetition rates are about 25% for the lowest quintile (repeaters of at least one grade) compared to 4% for the richest. Thirty two percent of the children from the poorest income quintile are delayed in primary level compared to 9.3% for the richest quintile.

**Dropping out of school.** An analysis of the returns to education suggests that the rate of return to completing primary education is only 2.5%, while for secondary



education it is about 10% and for tertiary education about 29%<sup>31</sup>. Why do many children dropout of school early if the returns to education are high?

The 1997 Social Development Survey focused on this issue. It found that about half of the dropouts considered “personal motives” a key factor, of which 77 percent say lack of interest is the main cause. A common interpretation is that school is boring. Yet, as mentioned, only a few of the respondents blame schools for their decision to drop out and only a small percentage find education useless. About 43% gave “economic difficulties” as a reason, of which seventy-three percent reported that they left school because they needed to work. As might be expected, economic difficulty is a much more salient problem for the low income families. (50% for the lowest quintile vs. 29% for the upper quintile.)

An examination of actual school enrollment behavior of 15-19 year olds further reveals that parental education and income tend to have significant positive effects on schooling. Second, distance to public secondary school remains a significant cost that discourages some children from school participation. In this regard, children in the first quintile generally live further from school than those in the fifth quintile. Third, the unemployment rate among household heads is negatively related to enrollment. This suggests that in areas where the unemployment rate among household heads is high, children’s human capital formation suffers.

Further analysis reveals that the rate of return to education is probably lower for individuals with poor parents, as measured by the education of the head of the family. Students whose parents have only primary education have an incremental rate of return from a year of secondary education that is 60 percent lower than those whose parents have tertiary education. The reasons for this are multiple and may have to do with differences in the quality of education received by the poor as well as less conducive home environments. There may be less emphasis on educational attainment, more pressure to seek work instead of study and less opportunity to study because of crowded household conditions. It may be that the poor children, discouraged by what they perceive as fewer opportunities or outright discrimination,<sup>32</sup> may cease to see the value in further education.

The fact that the poor have lower rates of return from the same years of education might explain recent changes in enrollment rates at the secondary and tertiary levels. At the secondary level, enrollment rates between 1992 and 1997 have *decreased*, while enrollment rates for other deciles have increased (see Table 25). For higher education, the shift is even more pronounced. Enrollment rates for those in the lower 40% all declined, while those for the upper 60% increased. Hence, the richer groups are responding to higher returns to education, while the poorer groups are not, potentially perpetuating the gap between rich and poor.

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<sup>31</sup> These calculations come from the 1997 Social Development Survey (EDS), and are the *marginal* returns from additional schooling. The results shown in Table 4 give *average* returns for a given number of years of schooling. This data combines returns from both private and public education.

<sup>32</sup> One of the conclusions of the Voices of the Poor exercise in Argentina was that the poor experience discrimination on the basis of where they live, with certain *barrios* connoting that the persons who live there are likely to be of a lower social standing.

**Table 25: Enrollment Rates in Secondary and Higher Schools by Decile**

Decile	Secondary		Higher	
	1992	1997	1992	1997
1	70.5	62.1	22.7	8.7
2	74.9	68.9	20.5	10.7
3	80.3	83.7	17.7	13.3
4	80.0	85.4	22.3	16.1
5	82.5	103.6	20.8	22.5
6	76.1	95.9	21.9	28.0
7	92.2	105.3	27.4	37.8
8	96.4	102.4	38.0	53.8
9	95.2	117.1	54.4	75.5
10	106.2	115.9	80.8	82.0

Source: Maria Echart, "Educación y Distribución Del Ingreso", FIEL, 1999.

### Efforts to Improve the System

The Federal Government uses two main instruments to reduce inequities in the education system: the *Pacto Federal Educativo* and the *Plan Social Educativo*. A principal objective of the Pacto Federal Educativo, which spent \$ 398 million between 1995 and 1998, is to help the provinces meet the physical demands of extending mandatory education from 7 to 10 years. This change was introduced in the 1994 Education Law and is presently being implemented by the provinces, which the World Bank support. Because most children who are *not presently* enrolled in secondary education come from underprivileged households, this major effort to expand physical capacity is expected to benefit poor children and youth in particular.

The *Plan Social Educativo* (PSE) was created in 1993 to directly address inequities in the education system by targeting resources to schools serving underprivileged children. The PSE serves 11,820 *Inicial*, primary and secondary schools and approximately 6 million children, or 75% of total enrollment at these levels. Since its creation, the PSE has disbursed a total of US\$703 million. In 1997, the PSE represented approximately 20% of all federal education expenditures and approximately 2% of total expenditures in the sector.<sup>33</sup> Most of this investment has been directed to *Inicial* and primary schools. The PSE comprises three kinds of programs; improvements in school infrastructure; quality improvements in schools including programs targeted at indigenous students, rural schools, adult and special education; and a national program of student scholarships to keep children from poor families enrolled in secondary school

The adequacy and effectiveness of PSE have not yet been rigorously examined, although feedback has been positive. Indeed, it appears that PSE is strongly pro-poor. The 1997 EDS reveals that 60 percent of the PSE beneficiaries come from the first quintile and 40 percent from NBI families (Table 26). Moreover, the two lowest income quintiles account for over 80 percent of the beneficiaries. Once again, targeting is quite

<sup>33</sup> See note 4 about the way these percentages were calculated.

good. In terms of coverage, it can be seen that only about half of the children in the poorest quintile have received assistance from PSE.

**Table 26: Coverage Rate and Distribution of PSE Beneficiaries by Income Class**

	Total	Per capita income quintile					Poverty	
		1	2	3	4	5	NBI	No NBI
Coverage rate (a)	42.0	51.8	36.6	33.9	23.8	25.3	55.7	36.2
Distribution of beneficiaries	100	59.9	21.3	11.3	5.5	2.0	39.5	60.5

(a) percent of children enrolled in public school.

Source: 1997 EDS. SIEMPRO Tabulation.

**Does it Pay to Invest in Education?** While we cannot evaluate the PSE program directly, it is possible to make some indirect estimates of the returns on investment in secondary schools. Based on estimates derived from regional data, we estimate that a 10% increase in public secondary expenditure would produce a 3.5% increase in the lifetime wage of a 20-29 year old with a complete secondary education. Thus, an expenditure of 800 pesos per student would produce an annual return of about 200 pesos per year, or an internal rate of return of about 25%, clearly a productive investment and one that would reduce poverty in the longer term.

### Health Status and Poverty

Overall health indicators of Argentina are good when compared with those of other countries in the Region, and have improved markedly over the past ten years. In 1995, life expectancy stood at 76 years, 12 more than in 1960, the crude death rate at 8 per 1,000 population, infant mortality at 18 per 1000 births in 1998, down over 30 percent from 1987, and maternal mortality ratio at 14 per 10,000 live births in 1995, down by 14 percent from 1990.<sup>34</sup> These statistics, however, mask wide variation by region, and within provinces by particular locations. Moreover, they are worse than those of other middle income countries, and lower than one would expect for a country at Argentina's level of development. For example neighboring Chile, with lower income than Argentina, had in 1995 an infant mortality rate of 12 per 1,000 live births and maternal mortality ratio of 6.5 per 10,000 live births.

As elsewhere, the poor in Argentina carry a disproportionate part of the total burden of disease and are disproportionately affected by a number of diseases. Diseases which affect disproportionately the poor are mostly avoidable communicable diseases, such as tuberculosis, syphilis, diarrhea, tetanus, and Chagas disease, as well as maternal, perinatal and nutritional conditions. Of particular note for the poor are health problems of women: cervical cancer, hypertension associated with pregnancy, abortions, and maternal mortality. Most of these could be controlled with universal access to a comprehensive low-cost package of quality public health and personal health services. These

<sup>34</sup> Bos, E, Hon, V., Maeda, A. et al : Health Nutrition and Population Indicators, a statistical handbook. (Washington, DC: The World Bank, 1998)

differences in health status are also consistent with environmental conditions, most notably access to safe water and sanitation, behaviors, and health care utilization which can be improved with concerted effort.

**Health insurance coverage.** In general, the poor are not covered by health insurance. Thirty-seven percent of the general population and 62 percent of the poor are not covered by health insurance, their health care needs being met by a network of public hospitals, health centers and health posts. The other 63 percent of the population is covered by mandatory, provincial or union-run insurance schemes (*Obras Sociales*) for formal sector workers and retirees, or voluntary private insurance (*Prepagas* or *Mutuales*), their health care needs being mostly met by the private sector. Health insurance covers more of those in the higher income groups, but also covers a significant proportion of lower income people: 28 percent of those in the lower income quintile and 33 percent of those with unmet basic needs are covered by an *Obra Social*.

Of those not covered by any health insurance plan, the majority are domestic workers and other informal sector workers. Sixty-two percent of the unemployed also lack any health insurance coverage, since when a worker becomes unemployed, he or she loses coverage. It is also interesting to note that 10 percent of those in the highest income quintile choose not to insure against health care expenditures, bearing their relatively low health risk and assuming that they will use the public hospital in case they incur in catastrophic health care expenditures.

**Quality of care.** There seems to be no discrimination against the poor in terms of admitting them to a public hospital when they have need. However, the poor tend to have to go farther to reach a public hospital, waiting times are long, public hospitals are open only a few hours a day, and there are few health posts to meet the basic health needs which means that the poor have to wait in hospitals for even the simplest of care. In addition, the coverage of public facilities varies greatly by province and region with a concentration of services in the richer, urban areas. Formosa, a poor province in the Northeast, has only 1 doctor per 1000 inhabitants, as compared to 9 per 1000 in the City of Buenos Aires. Generally, the poorer provinces have fewer private health care providers and less public facilities as well.

But once in the hospital the poor do not get the same quality of care as those in the upper income groups: over 25 percent of women coming from the lowest household income quintile are delivered by non-doctors, while virtually no woman from the upper quintile has such experience. Over 30 percent of women coming from the lowest household income quintile have no post delivery follow up, while only two percent of women from the upper income group miss such follow up. In ambulatory care the same pattern appear to be true: 74 percent of patients coming from the lowest household income quintile had to wait more than 24 hours for a consultation, while only 45 percent of those in the upper quintile had such delay.

Of particular importance for the poor is the quality and coverage of maternal and child care services. Using prenatal care as a tracer for the quality of public health care, we see that those with lower incomes are more likely not to receive good quality care. Some 25 percent of the extremely poor receive fewer than five prenatal exams. The

same association is true for immunizations where there is a strong association between income level and correct immunizations.

### **Out-of-Pocket Health Expenditures**

Coverage against high pharmaceutical expenditures is a problem for poor families, as drugs tend to be expensive in relation to their income and the public system offers very inadequate coverage: 43 percent of the poor in the lowest family income group quintile had to pay pharmaceuticals out-of-pocket and eight percent could not afford the prescriptions written by their doctors. According to the National Survey of Household Expenditures, the poorest quintile spent about 5% of their total budget on medicines, medical services and supplies.

### **The Poor and Health Care Financing<sup>35</sup>**

Total public health expenditures are sufficient to finance an acceptable package of public health and personal health benefits for the entire population. In 1997, Argentina invested about US\$12,900 million public monies in the health sector, which correspond to about, 15 percent of total public expenditures and 22.3 percent of total social public expenditures. Although health expenditures have increased by more than 50 percent from 1990 through 1997, they decreased as a proportion of the GDP (from 4.6 percent in 1995 to 4.0 in 1997) and as a proportion of total social expenditures (from 23.6 percent in 1995 to 22.8 percent in 1997).

**Table 27: Source of health sector finance 1997**

	<b>Federal</b>	<b>Province</b>	<b>Municipal</b>	<b>Work-related contributions</b>
Percent	8 %	27 %	7 %	58 %

Source: The Government of Argentina: National Directorate for Social Expenditure Programming

Over the nineties, the relative responsibility of different government levels for public health sector finance has changed: the role of the Federal government has declined, that of the Provinces has remained constant and that of municipalities has grown in importance. Over the same period and in the area of work related contributions, the relative weight of the national union-based health insurance, the *Obras Sociales*, has declined, while expenditures related with the insurance for the elderly and pensioners (PAMI) and those related to provincial health insurance schemes have increased their share of the total public health expenditures.

In 1996, provinces invested on average about 11 percent of their total public expenditures in the health sector. However the relative weight of the health sector in the total public expenditures varies widely, ranging from less than 5 percent total public expenditures in Formosa, to a high of 27 percent in the city of Buenos Aires. The investment each province makes in its public sector, both in pesos per capita and as a

<sup>35</sup> The Government of Argentina: "Caracterización y evolución del gasto público social en el periodo 1980–1997." (Buenos Aires, AR: Secretaria de Programación Económica y Regional, mimeography, October 1998).

proportion of their geographical product is highly correlated with the respective income per capita ( $R= 0.7$  and  $R= 0.6$ , respectively). Thus, public health services behave as luxury goods: the richer the province, the more it puts into its public health system.

Public resources available to care for the poor are about half what one would have in an equitable distribution of public health monies. Care for the poor is financed from provincial budgets which constitute about twenty seven percent of total public health sector financing. Provincial budgets have to: a) cover most public health services for the entire population; b) subsidize the care provided to the insured population at public hospitals, given that such care goes mostly unpaid by the respective insurance carriers; and c) provide personal health services for the uninsured population. Data suggest that about 8 to 10 percent of provincial health budgets goes to finance general public health services, and that 30 percent of public health services are provided free of charge to insured patients, which means that only 60 percent of provincial public health expenditures, or 18 percent of total public health expenditures, are available to pay for personal health care for the 37 percent of the population who is uninsured, about on half of what one would expect in a equitable situation.

**Improving health protection for the poor.** The Government, with earlier Bank assistance, has embarked on several major national level reforms of the health insurance system to improve its efficiency and equity.<sup>36</sup> The next big push in Argentina's health system reform should be to continue consolidation of the insurance system and improve health care services for the poor without insurance.

As mentioned, the provincial public health system by providing virtually free services acts as a safety net for the poor. The problem, however, is that because of inefficiency and lack of focus it is unable to ensure that the poor get good quality services and needed medicines. This problem is indicated by the extent to which poor families are disadvantaged in terms of the length of time they have to wait to be attended, the amount of unfilled medical prescriptions, the unrealized recommended diagnostic analyses and the lower prevalence of reproductive and prenatal care.

Under the current system, government spending is used to maintain public hospitals and their staff regardless of quantity and quality of services rendered and the ability to pay of the clients being served. The consequence is that there is no incentive from the financing system to encourage provision of good quality service, to be productive in terms of the number of clients served and to improve subsidized services to the poor. The hospitals received their budget on the basis of past allocation and some allowance for inflation.

The experience of Tucuman, Salta, San Juan and Rio Negro highlights the above issue. Recent study of these provinces reveals that public health facilities are

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<sup>36</sup> Essentially, the reforms have sought to rationalize the process and rules of the game governing the obligatory national Obras Sociales. One of the noteworthy reforms is providing members of these Obras some choice and establish some competition among them. Furthermore, it sought to address funding for catastrophic illnesses and raising the minimum health package for members of low income national Obras Sociales.

underutilized. They spend too much on salaries and too little on medicines, equipment and other materials. They not only are overstaffed; their staff mix also lacks balance (they have too many administrative and general support staff). The problem is that incentives to focus on the poor, perform efficiently and deliver good quality services are not embedded in the way public health facilities are financed. Moreover, their frontline managers do not have the necessary authority to manage effectively and efficiently. To address the above issue, these provinces have decided to adopt, with World Bank support, a health sector reform strategy that would concentrate provincial government health expenditures on the uninsured poor and change the payment mechanism. The hope is to both improve health care protection of the poor and raise the quality of services rendered to them by creating “choice and voice” mechanisms.<sup>37</sup>

#### IV. Reducing Poverty in Argentina: The Way Forward

It is clear, that despite an impressive record of stabilization and recovery, Argentina has a relatively high level of poverty. Recent trends indicate a widening gap between rich and poor, and a rising level of poverty, despite economic growth. While this may be the natural consequence of major structural shifts (privatization, liberalization, increased competition and deregulation) which is still going on, nevertheless the results, particularly since 1995, have been disappointing. While a fairly extensive system of social programs has had some positive impact in offsetting poverty, but has not produced the kinds of results one might have expected. In this situation, what can be done?

In general, we can see that the poor are poorly educated, often unemployed or employed in low salaried jobs, and frequently work in the informal sector, but subject to a high degree of vulnerability in terms of possible job losses and income declines. While most of the poor are in the urban areas, the poor in the rural areas are also heavily dependent on non-farm employment and earnings. Clearly, employment and wages are key to poverty reduction.

In this situation, and following the strategy laid out in the Bank’s World Development Report 1990 and subsequent thinking, we can conceptualize a strategy built around three main pillars:

- First, reforms and policies that will lead to a pattern of growth that will be both more rapid and more stable than in the past, and feature a higher level of **employment** per unit of output.
- Second, improving the access of the poor to **basic services**, that will both raise the level of their human capital of the poor, and give them opportunities to improve the productivity and their ability to compete in an increasingly globalized economy;
- Thirdly, reduce the **vulnerability** of the poor to shocks and losses in income, chiefly by improvements in safety nets to both protect the poor during

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<sup>37</sup> For a description of the design of the strategy and its rationale, see World Bank (1997), Argentina: Improving Health and Education (Salta, Tucuman and San Juan).

economic downturns, and keep them from making short term adjustments that will have negative impacts on their long term ability to reduce their poverty.

**Generating Labor Intensive Growth.** Macro-economic policies that permit rapid and stable economic growth without inflation are an essential first step to a significant decline in poverty. A sustained growth of per capita income of 1.8% could reduce poverty by 35% in ten years, provided the benefits go to all parts of the economy. This would bring the urban poverty rate down to about 19 percent, comparable to the poverty rate in Chile (22 percent in 1997) and Uruguay (19 percent in 1998). However, it is also important that this growth be stable, as well as high. Macro-management, particularly monetary and fiscal policies, should be used to not only generate a high rate of growth, but also to stabilize the economy, avoiding large swings in output, employment and poverty.

There are a number of necessary conditions for sustained growth in Argentina. The first is lowering the perception of country risk which at present constitutes a drag on all economic activity via the increase in the cost of capital to both the private and public sectors. The lowering of the cost of capital, among other things, would make construction even more attractive, generating low skilled employment. In order to do that, however, fiscal discipline and compliance with the new Law of Fiscal Responsibility, which requires a fiscal surplus by 2003, are essential along with a gradual reduction in public debt and the promotion of exports.

Continued deregulation of factor markets and simplification of administrative processes are also elements of a growth strategy for Argentina. Given that most other factor markets have been deregulated, it is increasingly important that labor markets *de jure* are modernized to provide a level playing field for labor. At present, Argentina's labor market is one of the most rigid and regulated in the developing world, preventing adjustments in the formal sector from taking place easily. While *de facto* there may have been deregulation via extraordinary negotiations between unions and large companies or the shift to informal sector employment and employment in *negro* for smaller firms, the continued existence of outdated labor laws constitutes a future uncertainty and imperils the security of both firms and workers. The high incidence of evasion both of paying taxes and contributing to health insurance, unemployment insurance, and pensions constitutes a very serious fiscal and social problem for the Government.

Greater labor flexibility in the formal sector, in contrast to the informal sector which by definition is flexible, would have two beneficial effects. First, such a move would likely attract new investments on the part of large companies with commensurate growth in employment albeit still at relatively high capital-labor ratios. One estimate of this is to reduce unemployment by about 3 percentage points<sup>38</sup>. While this may not be significant in terms of immediate poverty reduction, as much of this new job creation would be for the highly skilled, there would be secondary income effects on services and construction which would likely be of a more labor intensive nature.

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<sup>38</sup>J.L. Guash, *Estimating the Benefits of Labor Reform in Argentina*, World Bank Report No. 15643 AR, (May, 1996)



The second and perhaps more important impact would be on small and medium scale enterprises which tend to be more labor intensive. Some 75% of all employment is in firms with 40 or fewer employees, and many of these firms operate largely in *negro* which has the negative effect of restricting their access to credit.<sup>39</sup> Understandably, firms which do not keep accounts or pay taxes or only reveal a limited part of their business activity to the authorities are not able to get credit from the banking system. Thus, their growth potential is limited to alternative sources of financing, including internally generated funds and becoming part of the formal sector would allow access to the banking system.

A corollary to this is that the employees of these firms, many of whom earn low wages, would be engaged on a formal basis and benefit from social security and pension benefits. This would be a major step forward in protecting these workers, given that the SMEs are the most volatile part of the business community and informal salaried workers are the most likely to suffer from unemployment.

Some of key reforms that would facilitate a more orderly operation of the labor market include:

- elimination of centralized or sectoral collective bargaining agreements which are automatically extended to all workers in a sector, even if not signed and even when expired. This would have the particular advantage of being able to tailor labor agreements to regional conditions and to promote investment in that are adapted to the comparative advantage of different parts of the country;
- reduce the high barriers to labor mobility (hiring, firing, changes from one employer to another) by moving to a fully-funded unemployment insurance system based on individual accounts. This would have the advantage of allowing firms in effect to capitalize these costs so that they are not incurred at a point in time when the firm is typically experiencing financial difficulties. It would reduce the uncertainty about the eventual costs of engaging new employees;
- allow temporary employment that is not subject to full payroll taxes, as under the former *modalidades promovidas*, but still offer employees basic coverage to social services;
- extending adopting programs, such as PYMES, which permit exceptions to present labor legislation for small and medium scale enterprises; and
- as new agreements are negotiated, vastly simplifying and reducing the array of employer contributions and employee deductions that are part of the collective bargaining agreement, keeping the core programs (pension and health

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<sup>39</sup> *Clarín*, Feb. 7, 2000, p. 12.

insurance), at least for smaller firms which cannot afford to make these contributions<sup>40</sup>

A critical problem remains that a large part of the labor force in the informal sector lacks any form of pension or unemployment insurance coverage. While modifications of the present labor legislation may provide more incentive for firms to join the formal sector, there is still likely to be a significant number of firms which will not see this to their financial advantage even if this allows them to access banking credit. A concerted effort must be made with the tax authorities to reduce tax evasion as a complement to efforts to reduce labor costs.

There also may be resistance from the employee side. If the standard deductions from the employee's pay-check—about to 20 percent of payroll—may too not be attractive to the lowest paid workers.<sup>41</sup> Thus, they too may prefer to remain in the informal sector, working in *negro*, rather than have their take-home pay reduced. In the case of unskilled workers, with an average monthly wage of about \$350, a drop of \$70 in disposable income may be too large to absorb even if there are clear benefits in the long-term to pension and health insurance coverage. In these cases, from the point of view of risk management, a reasonable option may in fact be a public subsidy to help cover the costs of basic health and pension services for the lowest paid workers.

Labor training remains an unknown quantity. While the government supports and large number of programs, and spends significant sums on these programs, little is known of their effectiveness in raising productivity or reducing unemployment. Studies from other countries generally are skeptical about the benefits of these programs, and a major evaluation of these programs would be a high priority. If anything, the current situation in Argentina, with very high rates of unemployment for the young, would point to an increased focus on technical training, apprentice programs, and mixed school-work programs which combine efforts to reduce drop-out rates among poor youths and provide needed work experience for them to be able to enter the labor market full time. At the same time, these programs would have the advantage of making secondary school and technical training more responsive to the needs of the private sector and the emerging demand for skills. For those workers hardest hit by wage declines since 1993—the long-tenured, informal salaried workers with primary or secondary education—there may be little effective remediation possible other than reactivation of the economy, particularly the construction industry.

**Increasing Access and Quality of Services.** Since productivity is clearly linked to education, effort should be intensified to raise the level and quality of education available

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<sup>40</sup> For example, in the case of the collective agreement for the Commerce Union, which covers some 900,000 employees (only 600,000 of which are in the formal sector), the total of employer and employee contributions amounts to 59 percent of base salary. Of this, 26 percent is for severance pay. Other contributions—such as union contributions, life insurance, complementary pension funds, family assistance—amount to 17.6 percent.

<sup>41</sup> Evasion by all workers and the self-employed is a wide-spread problem. Only 47 percent of formal sector workers contribute to the privately run pension scheme, down from 60 percent when the system was first introduced. While some continue to contribute to the public pay-as-you-go scheme, a significant number evade.

to the poor. While the system as a whole suffers from problems of quality and of relevance, the poor are particularly disadvantaged as they do not have the option of joining the private system. Moreover, it is likely that public schools in poor areas are of less physical quality, more crowded, and less well equipped than schools in the wealthier areas. Finally, poor children are often more likely to need extra attention, in part due to their poor access to early childhood education, fewer available resources in the home, and greater pressure to generate income and/or care for other household members.

One of the key problems is that children of poor families are more likely to drop out of school for various reasons. The impact of the recent recessions in 1995/96 and -98/99 seems to have actually worsened the situation with enrollment rates for the poor declining. As a result, the poor have less access than the rich to higher levels of education, which increasingly exhibit the highest returns.

A viable strategy in education would include:

- expansion of early childhood development centres and pre-school for the high risk poor;
- greater investments in secondary schools in poor neighborhoods, such as by extending the present *Plan Social Educativo* and by ensuring equitable—if not progressive—funding of schools on a per student basis, rather than by school as is currently the case;
- expansion of the hours of schooling in high risk schools from the present four hours per day to full days (6-8 hours) including extra-curricular and remedial programs<sup>42</sup>
- direct provision of books and texts for poor children so that they may work extra on their assignments (at present texts and books are only available during school hours);
- cash grants to poor families conditional on keeping children in school particularly at the secondary level, in order to offset the economic incentives from school leaving and the effects of unemployment;
- accommodation of the special needs of young mothers, who would otherwise drop out from school, either through in-house nursery services or other means for them to continue to study;
- diversification of technical offerings and creation of new technical and job-related programs, jointly with the private sector, which would provide poor students with early employment experience and encourage drop-outs to return to school;

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<sup>42</sup> Extension of the school day is something which Argentina should generalize throughout the system as well as extend the school year.

- the establishment of a system of partial cost recovery from students at public universities, who generally tend to be from non-poor families, and the establishment of a nation-wide system of scholarships for students from poor families; and
- expanding the capacity of the current public university system, both by improvements in operating efficiency and through further investments, as well as developing an integrated system of community colleges.

As noted above, these efforts to improve education for the poor should be accompanied by system wide improvements to education quality, including reform of teacher statutes, gradual upgrading of teacher qualification, greater school autonomy and accountability for results.

While the situation in health is less critical as most agree that basic services are provided, there are three main avenues which would greatly help improve the situation of the poor and provide greater equity and quality in the system. These efforts would go hand-in-hand with programs to instill greater efficiency in the health sector as a whole.

These actions are as follows:

- ÷ Reorientation of the public health care system to those without health insurance, by improving cost recovery from those with insurance and the ability to pay, and by improving the operating efficiency of the public hospital system. While granting more autonomy to public hospitals can improve their efficiency, care needs to be taken to avoid building in incentives that will reduce services to the poor.
- ÷ Eventually, health insurance coverage should be extended to those in the informal sector not presently covered. The public health insurance system for the elderly poor (PAMI) could be improved by opening PAMI to competition by allowing freer entry and exit to other health insurance institutions. Likewise, allowing people to switch between *Obras Sociales* would encourage competition and reduce costs. In addition to improve financial management and accountability in both institutions.
- ÷ Reinforcement of public health programs which address the particular needs of the poor, particularly women and children. Existing programs of maternal and child health (PROMIN) need to be expanded, and linked with family planning and reproductive health services for the poor, in order to reduce their currently high rate of fertility among the poor, the incidence of early pregnancies and maternal mortality rates. As well, existing nutrition programs need to be reoriented away from using them as a proxy to income supplements to genuine support for nutritional deficiencies of the very young and lactating mothers. More generally, these programs need to be better integrated into the primary health care system and early childhood development programs.

- ÷ Help in controlling out-of-pocket expenditures. At present, since drugs are not provided by the public hospital system and the *obra social* insurance schemes demand co-payments, it is important to address such costs in whatever system is providing care for the poor. At 5 percent of income on average they could be covered under the basic health care package for the poor.
- ÷ Greater emphasis on preventative health expenditures, including vaccinations, nutrition and health education, and family planning.

Deficiencies in infrastructure both reduce the productivity of the poor, and limit human resource development. The urban poor live in areas usually devoid of adequate sanitation and safe water, and often without paved roads. Provision of such public services in poor neighborhoods can improve health outcomes. But attention also needs to be focused on building up communities, especially in urban areas, that lack roads, lights, and other services, and do not have legal titles to their land. Existing large public sector subsidies for housing (FONAVI) which are not well targeted would be better reallocated to improvements in basic urban infrastructure. Other major infrastructure programs—such as the one for Greater Buenos Aires, *Cono Urbano*—need to be redirected to ensure basic coverable for poor areas. The urban poor are particularly vulnerable to problems of crime and violence, and attention needs to be paid to alcohol and drug abuse, and improvements in police protection and access to justice.

The core features of the reoriented FOVANI and *Cono Urbano* programs would be as follows:

- ÷ Promotion of private credit schemes for new housing construction, using the private banking sector, facilitated by the creation of a secondary mortgage market. These schemes could be open to various income levels with a subsidy according to need.
- ÷ Where appropriate, slum-upgrading programs which would regularize land title and provide basic services accompanied by self-help housing improvement programs.
- ÷ Targeted subsidies for the poor to connect to the privately operated water and sewerage systems. The subsidy would be for connection charges only with the consumers expected to pay for consumption but according to a reduced tariff schedule.
- ÷ Financing of municipal level urban investments in drainage, flood control, and roads targeted to poor neighborhoods.

The problems of crime, social exclusion, alcohol and drug abuse, violence in the home, etc, need to be addressed at the local level, through community based programs which are locally managed. This is an area in which non-governmental organizations, community based groups and others in civil society can play a great role and there are many local initiatives underway.

Nevertheless, more concerted efforts need to be made to improve systems of information to help guide these programs. Statistics are poor or not available on many of these questions or are of doubtful reliability, such as the reporting of crimes. A very helpful first step is to undertake a national survey of victimization which can assist policy makers, community leaders and program managers to make more informed decisions on the nature and magnitude of the problems that exist and the trends.

**Reducing Vulnerability.** Recent economic “shocks” clearly demonstrate the need for a strong system of safety nets. There is a more common acceptance that the global trends to liberalized markets and rapid technological change have increased uncertainties and may make employment more volatile. In the case of Argentina, the dependence of the country on external capital makes it highly exposed to the perceptions of the markets and to external shocks. While, in the past, there was high job security in the public sector or protected private firms that guarantee of life-long employment is not longer there. At the same, the demands of the market place for skills have increased leaving behind a part of society which cannot compete.

All of these factors heighten the need for greater management of social risks. The Government has many good and well targeted programs, such as Trabajar, which have proven effective in reaching down to the poorest segments of the population. Nutrition programs are generally well targeted (albeit of unproven effectiveness to address malnutrition), as is the *Plan Social Educativo*. However, often these programs reach only a relatively small percentage of the eligible poor. In addition, they often do not expand to meet needs during a crisis. Rather, they tend to be cut back just when they are needed most. Overall, there has been inadequate evaluation of the impact of various programs, or their usefulness.

To address these concerns, the Government needs to:

- carefully evaluate existing activities and identify high priority programs that will be protected from budget cuts during a crisis. This should be an integral part of the planning and budget processes and explicitly covered by the Law of Fiscal Responsibility in how the fiscal cushion should be used;
- eliminate weak programs and duplication of efforts, and put more resources into programs which have proven effective. This calls for a major effort on evaluation of program impacts and to reorder federal-provincial responsibilities for social programs. Most programs should be decentralized and managed at the municipal level. This would facilitate greater integration of social programs;
- ensure support those programs that can be expanded during a crisis to provide emergency employment and income opportunities for the poor; and
- take additional steps to improve targeting, so as to reduce leakage to the non-poor. This could be done by extending the present SISFAM system of beneficiary identification to a larger number of social programs, especially

those outside of the Ministry of Social Development, and expanded use of SINTyS to detect overlap and misuse among beneficiaries.

It is also recognized that the issues of the working poor and unemployment are only partially addressed by the above programs; it is evident for unskilled workers, especially those with a large number of dependent, the present level of average monthly wage is insufficient to bring that household above the poverty line. Moreover, without unemployment insurance for informal sector workers, individuals will still confront periods of income loss.

### **Affordability**

At present, Argentina spends a considerable amount of money on social programs only a small portion of which are directly targeted to the poor. The bulk of the monies are allocated to universal programs of health, education and pensions. Nevertheless, some of the recommended changes can be accommodated through program changes.

For instance, in the case of health spending, where the analysis carried out for this report indicates that the redirection of public health spending to the uninsured, combined with cost-recovery from those with insurance, would be adequate and leave funds for expanding public health programs.

In the case of secondary education, greater funding would likely be needed, even if efficiency gains being sought under on-going administrative reforms are realized and redirected to new programs. This would also be the case for expansion of early childhood programs and pre-school and for expansion of the school scholarship/family subsidy program. Savings, however, could be generated from present job training programs.

In the case of several targeted social programs, more analysis would be needed to determine if savings can be generated in order to free up monies for new activities. There are likely to be considered gains from consolidation of nutrition and even reducing the kind of assistance presently provided (moving away from food basket hand-outs to particular fortified foods for target groups).

There are two obvious cases in which a major change in program orientation and cost-recovery are warranted: this is the case of FONAVI and *Cono Urbano* in order to fund the proposed program of urban infrastructure and housing for the poor and the other is eliminating free public university in order to fund scholarships and student loans for the poor.

Universal income support programs are likely to be too costly to consider seriously. The options that can be considered includes generalizing or expanding the income subsidy for poor households proposed for those with school age children. One way to finance such a targeted cash grant program would be to reduce number of present social protection programs (over 60), and combine into a single cash grant program, that could be made conditional on school attendance or visits to health clinics. Such a consolidation would reduce administrative costs, eliminate duplication, and could improve targeting

Another group with particular needs are the aged not presently covered by the Government's pension scheme. About 55% of the elderly poor (200,000 people) do not receive any form of pension support. Extending the existing non-contributory pension system to all of the elderly poor would cost \$252 million per year; extending coverage to just the indigent poor would cost \$30 million per year.

Likewise there is very little in the way of ongoing programs for the rural poor, with the exception of programs such as PROINDER. Although they are a small part of the overall poverty question, the degree of poverty among the rural populations, and indigenous groups, as evidenced in the survey of two provinces indicates that more serious attention should be provided to that group.

A careful examination of the entire budget needs to be made to prioritize spending decisions. Establishing priorities between the social sectors and other needs cannot be done by this report, but efforts at an overall public expenditure survey are already underway. In addition, the Bank is carrying out a more intensive review of social protection programs, designed to give more concrete advice concerning improved targeting and administrative savings.

With additional information on program effectiveness and target populations, the Government will be able to make a considered choice on priorities: for example the degree of coverage of particular groups—covering only the indigent and not the rest of the poor, or focusing on those with school age children and not those poor who have few dependents, and so on. Another area of choice is in terms of “who implements”: there are choices among the different levels of government, or between the public and private sector or non-governmental organizations. These choices will affect not only the cost of new and expanded programs but potentially their effectiveness.

When these choices on funding and program support are decided, the Government will need to follow through on these choices in terms of institutional capacity to deliver. At present, existing institutional capacities are of mixed quality, mandates often overlap and internal rivalries inhibit effective collaboration. Moreover, as mandates change so necessarily existing institutional make-ups change: this means reducing drastically federal level present as programs are decentralized.

### **Poverty Monitoring**

Such informed choices, however, depend on good information and Argentina still does not have a good system of surveys or poverty maps that can be used to do poverty analysis and program targeting. Existing information is scattered among three different sources: INDEC's Permanent Household Survey (EPH) provides income data and labor force information, but no information on consumption, social indicators or the use of public services. Consumption data are available only in the National Survey of Expenditures (ENGHO), carried out every ten years, and social information has to be obtained from special surveys, such as the 1997 Survey of Social Development (EDS). Most surveys do not cover the rural areas, which have the highest rates of poverty, and particularly exclude the indigenous, about which little is known. Furthermore, price



indices are only available for Buenos Aires, making the deflation of income estimates outside of Buenos Aires very difficult, and as a result most studies of poverty until now have only concentrated on the capital city, further biasing the results.

The Government is in the process of redefining the poverty line and revising the Index of Unsatisfied Basic Needs. A more comprehensive National Survey of Living Conditions will be introduced as a supplement to the existing EPH. This survey will include more questions concerning social conditions and welfare, benefits from government programs, and include questions on consumption as well as income. There are plans to produce a national consumer price index, but this should be supplemented with regional price indices as well. Thus, while progress is being made, further efforts are still needed to improve the quality, coverage and timeliness of poverty related data.

**Appendix A. Types of Risks by Group, and Number of Poor Uncovered**

<b>Age Group/ Indigence and Poverty Rates</b>	<b>MAIN RISKS</b>	<b>Leading Indicators of Selected Risks</b>	<b>Indicator Value a) Indigent Poor</b>		<b>Number of poor uncovered<sup>43</sup></b>
			<b>*= poorest quintile</b>		
<b><u>0-5 Years</u></b> 12% indigent 43% poor	- Stunted development	- malnutrition - pre-school /ECD program coverage	-- --	-- 22%*	1,000,000
<b><u>6-14 Years</u></b> 13% indigent 45% poor	- Poor education quality (low human capital development)	- late entry - grade repetition		8%* 27%*	
<b><u>15-24 Years</u></b> 7% indigent 31% poor	- low human capital development (education quality/attainment) - Unemployment/low wages - inactivity (violence, substance abuse, etc.)	- Secondary school enrollment repetition - unemployment  - inactivity		62%* 33%*	400,000
<b><u>25-64 Years</u></b> 5% indigent 23% poor	-- Low income	- unemployment  - below poverty earnings (under- employment)	36%	23%	1,000,000
<b><u>Over 65 Years</u></b> 1.4% indigent 13% poor	- Low income	- Pension coverage rate	47%	55%	200,000
<b><u>General Population</u></b>  <b>7% indigent 29% poor</b>	- Poor health care  - Poor housing /lack of basic infrastructure	- health insurance coverage - running water --sewerage - in flood-prone area		35%*  66%* 53%* 28%*	6,000,000  800,000 hhds. 1,000,000 “ 600,000 “

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<sup>43</sup>

See Annex 1 for notes on calculation methods.