WHAT ROLE FOR POLICY IN TACKLING INEQUALITY?

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INTRODUCTION

Reducing inequality and promoting equal opportunity are fundamental issues for development and sustainable growth. Institutions and policies have a role to play in creating a more equal playing field for all members of society. Policy can in particular influence the distribution of assets, economic opportunities, and political voice, but it can also create conditions for a more equal distribution of income and other resources through specific and targeted measures.

The purpose of this chapter is to discuss the redistributive role of different labour market and social policies put in place in Brazil, China, India and South Africa (the BCIS countries) in the past decade, analysing the advantages and disadvantages of the instruments in more general use. To a greater extent than in most OECD countries, in the BCIS countries the distinction between labour market policies and social policies is not always clear, as they are very interrelated, and different measures can be classified under both types of policy areas.

The labour market and social conditions prevailing in BCIS differ from the conditions observed in most OECD countries in ways that clearly affect the key objectives of labour market and social policies, their key target groups and their impacts. First, the BCIS countries still have high – albeit declining – proportions of the population who live in extreme poverty and are vulnerable to any external shock. Second, labour market and social policy institutions are underdeveloped compared to most OECD countries. Third, informality in the labour market is widespread, although it varies significantly across countries. Fourth, the administrative capacity is limited, making governmental action and its monitoring more difficult.

The business climate is also generally less stable in the BCIS countries, so there is a need to promote broader development policies that affect the production system *(i.e.,* macroeconomic stability, development of the domestic market and strong product market competition, improving education and training, etc.). In this context, to be effective and comprehensive, labour market and social policies have to be integrated into the general development agenda on a country-specific base, as their impact may depend very much on past history as well as on the overall existing framework in each country.

The chapter is structured in three sections. The first gives a comparative account of the available labour market and social policy instruments used in BCIS countries, focussing in each country on the measures they relied on the most. Section II selects three policy areas that are often the focus in emerging economies in general, and in BCIS countries in particular, for instruments that are oriented at reducing poverty and tackling income inequality, and it discusses in more detail their poverty-alleviation and redistributive effects. In particular, the focus is on public works programmes, non-contributory social assistance programmes and conditional cash transfers. A third section concludes.

1. MAIN LABOUR MARKET AND SOCIAL POLICIES AFFECTING REDISTRIBUTION

Labour market institutions comprise the regulations, practices and policies – both formal and informal, written and unwritten – that affect how the labour market works in each country. They influence labour outcomes both in terms of employment access and the quality of jobs and in terms of labour incomes. On the other hand, as labour income is the main source of income for most households, the existing labour market institutions and policies in each country in turn play a key role in determining and shaping income inequalities among different groups of the working age population.

Details on labour market regulations and policies in BCIS countries (*i.e.*, ranging from employment contracts regulation, firing and hiring conditions, working hours, wage setting and wage flexibility, collective bargaining, and active labour market policies, when existing), was given in the country chapters and will not be repeated here.[1] The discussion below rather focuses on how some policies can better combine flexibility and security for workers in order to assure a better income distribution.

Social protection systems include contributory social insurance programmes (*i.e.*, old-age pensions, health and unemployment insurance) and non-contributory social assistance programmes financed out of general taxation, such as cash transfers (*i.e.*, social pensions, child allowances), in-kind benefits, certain types of price subsidies, public works programmes and fee waivers for essential services (Grosh *et al.*, 2008). The main features of social protection systems in BCIS are summarised in Box 1.

Box 1. **Main features of the social protection systems in BCIS**

Social protection systems can be described using three main dimensions: *i)* the relative importance of social insurance versus general public expenditure and/or social assistance; *ii)* the overall coverage of the schemes; and *iii)* the unification/fragmentation of the schemes.

Brazil has a comprehensive social insurance scheme financed by social contributions, which covers old-age pensions, maternity, disability, and work-accident benefits for all private sector employees and the self-employed, and their dependents. There is also an unemployment insurance scheme. Most public servants are covered by their own social security schemes. According to PNAD data, 52% of the workers were affiliated to social security in 2007. Public health care is provided on a universal basis and financed out of general taxation. Social protection also includes a (rather generous) non-contributory basic old-age pension, as well as a conditional cash transfer scheme for the poorest (*Bolsa Família*).

China has various social insurance schemes for medical care, pension, unemployment, etc. Most schemes are administered at a decentralised level (county, municipality), and contribution rates often vary across provinces or even within the same province, thus limiting risk-pooling. Until recently, social insurance schemes covered only urban areas, but efforts have been made to increase coverage in rural areas under different types of schemes, largely subsidised. According to Zhu (2009), coverage rates in 2008 were 55% for the urban basic pension and 85% for urban and rural medical care. A means-tested minimum subsistence (*Dibao)* is also provided in urban and rural areas.

India has a very fragmented social protection system. A number of social insurance schemes exist, all of very limited coverage. The main one provides health insurance and maternity benefits to highly-skilled employees (earning wages above a certain ceiling) in large and medium-sized businesses (it covered 8.7 million workers in 2006, compared with about 400 million employed persons in 2004). A number of contributory schemes are also run by the State governments (often with funding from the central government) for workers in small enterprises, but their coverage is limited to certain areas and population groups (Mazumdar, 2010). The most important non-contributory safety nets for poor households are the national rural public employment programme and product subsidies (on rice and fuel). A large number of cash transfer programmes for poor households are also available, but most of them have very limited coverage.

1. An account of labour market regulations and policies is also given in OECD (2010a), Chapter 2 on: "The global crisis in emerging economies: The jobs impact and policy response".

2. As data on social insurance are not available for South Africa and Indonesia, this could not be included in

South Africa: the only social insurance scheme is for unemployment. The pension system is a fully-funded scheme managed by private pension funds. According to the LFS, in 2007 about 75% of the workers were covered by a pension scheme or unemployment insurance. Public health expenditure is financed out of general taxation. Social assistance is rather developed, notably through a (relatively generous) basic old-age pension, and means-tested child allowances and disability grants (covering, respectively, 5%, 10.5% and 3% of the population in 2008 (source: National Income Dynamics Study). Public works programmes are also available for the unemployed.

Source: Employment Outlook, Chapter 2, OECD 2010, (forthcoming).

In terms of both coverage and generosity, social protection is lower in BCIS than in most OECD countries. Social expenditures as a percentage of GDP are also lower, although disparities among countries are large (Figure 1). Public social spending in terms of GDP varies considerably, ranging from 15% in Brazil (three-quarters of the OECD average) to less than 5% in India (four times lower than the OECD average) (Panel A). Moreover, there are large cross-country differences in the division of social spending between social insurance (contributory schemes financed out of employer and/or employee social contributions) and social assistance (programmes financed out of general taxation). Eligibility for social insurance schemes differs across countries and programmes, but is crucially based on contribution requirements. Social assistance programmes, in contrast, tend to be means-tested and targeted to the most vulnerable individuals and households, independent of their labour market status.

In all countries, social insurance accounts for the bulk of non-health public social expenditure (Panel B). This mainly reflects the role of contributory pension schemes, while unemployment insurance tends to account for a rather small part of total social insurance expenditure. Social assistance expenditures in BCIS remain very limited, especially when considering the large shares of the poor in the total population. With the exception of South Africa, social assistance represents less than 2% in terms of GDP, in line, however, with some OECD countries *(i.e.,* Chile, Mexico and Turkey).

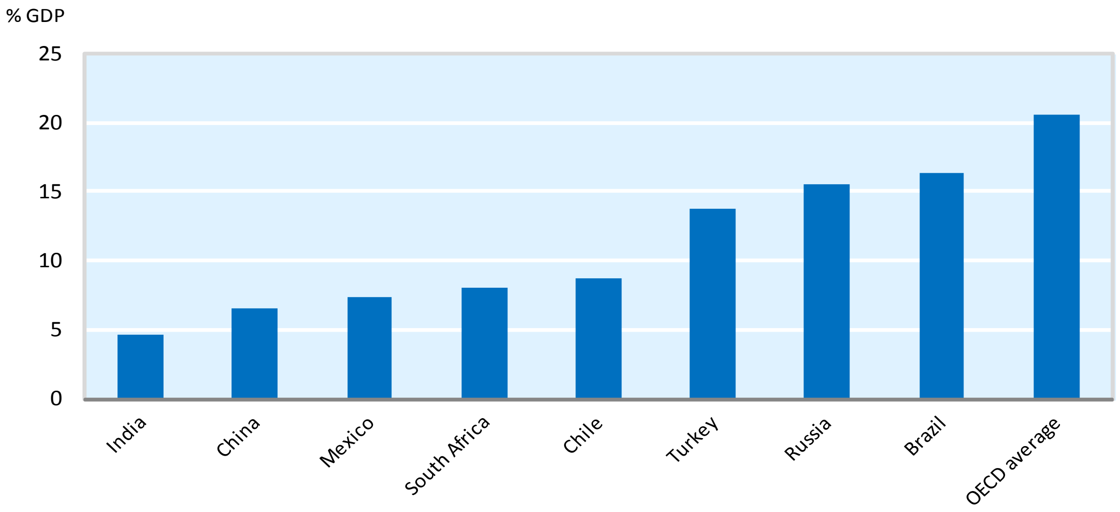
As a result, coverage of social insurance tends to be limited in BCIS, although with considerable variation. It is, for example, high in South Africa – close to 80% of the employed population – but very limited in India. There is also diversity in the scope and degree of fragmentation of social insurance systems. The Brazilian system is the most comprehensive (*i.e.,* covers old-age pensions plus maternity, disability and work accident benefits for all private-sector employees and the self-employed), whereas in South Africa it covers only unemployment.[2] In China, despite growing coverage, the existing schemes are fragmented, *de facto* limiting the pooling of risk across individuals and the redistributive impact (*i.e.,* there are three different medical insurance schemes for urban employees, non-salaried urban residents and farmers, managed by two different authorities, each with its own infrastructure; the contribution rates and benefits of most schemes vary across provinces or even localities). In India, besides having a very low coverage, social insurance schemes are also very fragmented.

Taken together, the four BCIS countries have recently developed a range of labour market and social policy instruments, some of which are common, while others have emerged from the specific conditions of one or the other country. Table 1 gives an overview of the main instruments in place in the four countries and shows the different focus and priorities of these instruments in each country. Conditional cash transfer systems are, for instance, much more important in Brazil (and other Latin American countries). Public works programmes are of particular importance in India, and most recently in South Africa.

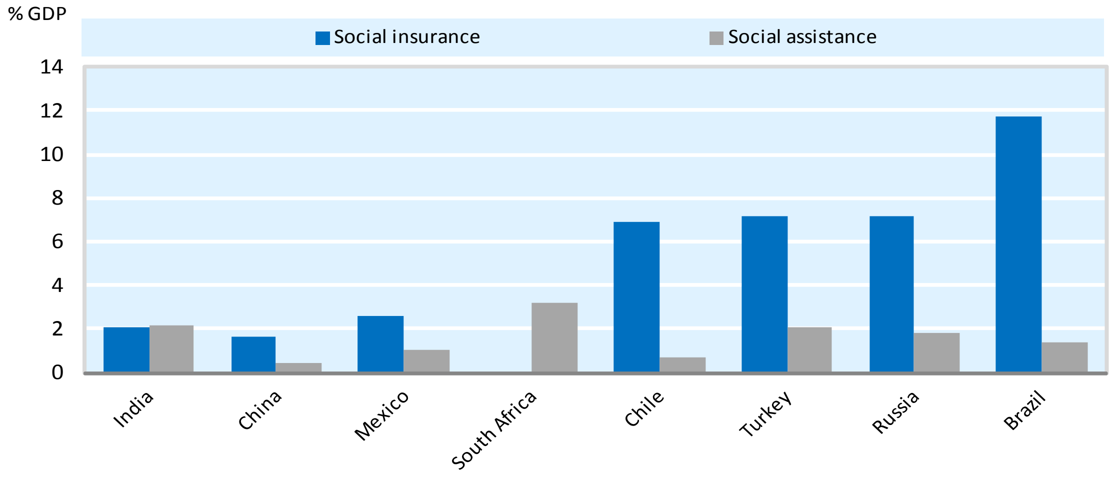
2. As data on social insurance are not available for South Africa and Indonesia, this could not be included in Panel B.

Figure 1. **Public social expenditure in selected OECD and BCIS countries**

Panel A. Total social expenditure (as % of GDP)[a, b]



Panel B. Public social expenditure (excluding health)[c]



a. 2005 for Brazil, Mexico, Turkey and OECD average, 2006-07 for India and South Africa, 2007 for Chile and the Russian Federation, 2008 for China.

b. Data were taken and/or constructed from various sources, in an effort to approach as far as possible the definition used in OECD SOCX, which covers old-age, survivors, and incapacity-related benefits, as well as family, health, active labour market policies, unemployment, housing and others.

c. Data on social insurance is not available for South Africa.

Source: Employment Outlook, Chapter 2, OECD 2010 (forthcoming).

Table 1. Instruments more often used in BCIS countries to reduce poverty and inequality

	Brazil	China	India	South Africa
Employment protection	+	+	+	+
Unemployment insurance	++	+		+
Minimum wages	+	+	+	+
Old-age contributory pension	++	+	+	+
Old-age non-contributory pensions	++	+	+	++
Other social grants (i.e disabled and children)		++	+	+++
Public works programmes			+++	++
Conditional cash transfers	+++			

Note: + Indicates the measure is in place but covers just a small part of the concerned population; ++ Indicates the measure is in place and covers a large part of the concerned population; +++ Indicates the country has given priority to these actions.

Source: Own elaboration.

1.1. Combining flexibility with security for all workers

Finding a balance between allocating labour to its most productive use and protecting workers is a key priority for policy makers. This can be achieved by different policy measures, but mainly through employment protection – the rules governing the firing of workers and the use of temporary contracts – and income support labour market policies. In countries characterised by large inequalities, employment instability and poor labour conditions, as in most developing and emerging economies, governments tend to use more the first type of measure to protect workers against the risk of unemployment (by both making dismissal more difficult and offering severance payments), whereas active labour market policies more oriented to supporting the job search and improving the employability of workers have been less developed (Berg and Kucera, 2008).

In BCIS countries the focus has been to give priority to job security rather than improving labour force skills and employability, although this is done to varying degrees. As a result, only the better-off workers, generally in the formal sector, have some kind of protection in case of dismissal, whereas for the majority of workers losing their jobs would often leave no choice other than accepting worse working conditions, often in the informal sector, to reintegrate the labour market. Labour reallocation then imposes large welfare costs on workers and an inefficient job matching that negatively affects labour productivity.

Governments can play an important role in avoiding these negative effects by ensuring workers against the risk of unemployment through different income support mechanisms. Indeed, labour market policies should then progressively evolve from protecting jobs to protecting workers, both in the formal as in the informal sector. This mainly means fostering a shift from the current protection mechanisms, based on employment protection, towards more comprehensive income-support mechanisms for all.

a) From employment protection to income-support measures

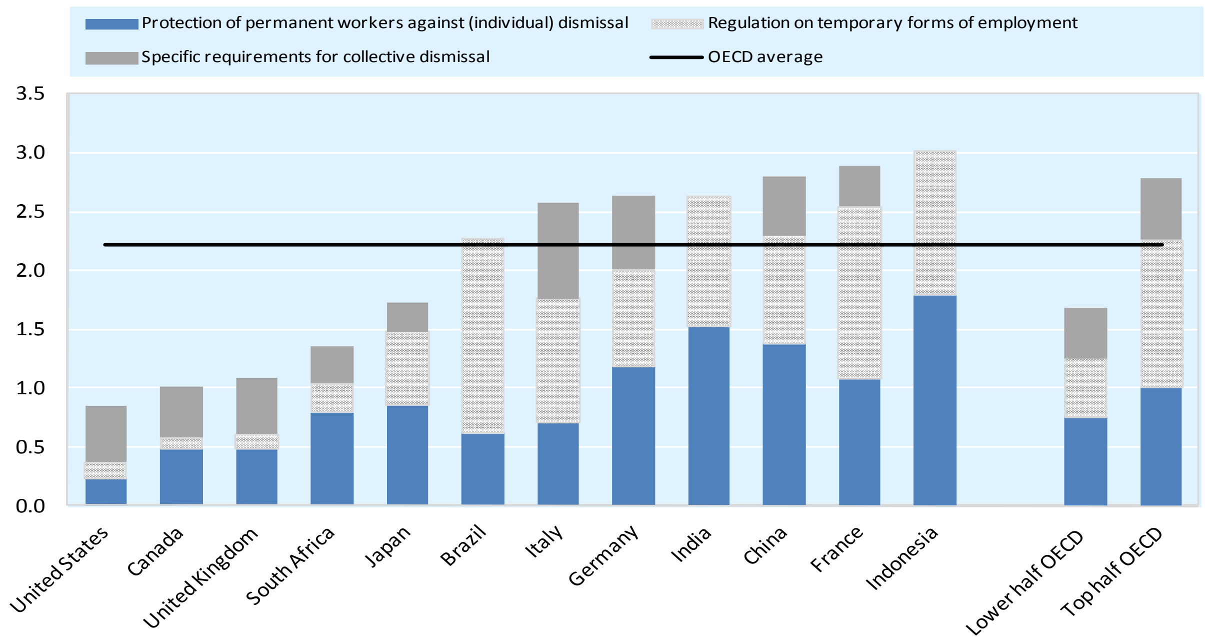
Employment protection, defined as the rules governing the firing of workers and the use of temporary workers, is justified in order to protect workers from arbitrary actions, including dismissal by their employers. Strict employment protection regulations may also have positive impacts for firms by encouraging longer working relationships between firms and workers, facilitating firm and workforce stability and building-up firm-specific human capital. However, by restricting labour turnover, employment protection also restricts a firm’s ability to respond quickly to changes in technology and demand (Venn, 2009).

The OECD Employment Protection Legislation indicator (EPL) is used to measure the strictness of employment for OECD countries. This is a synthetic indicator that quantifies the costs and procedures involved in hiring and dismissing workers on permanent contracts as well as fixed-term and temporary contracts.[3] There are other policies and institutions besides employment protection legislation that affect labour market flexibility, including regulations on working hours and part-time contracts, as well as policies affecting wage settings that are not captured in the OECD indicator.

Research on the impact of the EPL indicator in OECD countries has found that overly strict labour market regulations can have a negative impact on labour flows, reducing the employment prospects for some groups of the population (mainly youth). Strict EPL also tends to encourage informal employment and dualism in the labour market and to hinder productivity and economic growth (Bassanini *et al.*, 2009).

The EPL indicator has also been compiled recently for non-OECD countries, showing that the overall level of stringency of employment protection varies significantly across countries (Figure 2). Whereas in Brazil the employment protection regulation is similar to the OECD average, "de jure" regulation seems excessively strict in India and China, but is below the OECD average in South Africa.

Figure 2. Strictness of employment protection legislation in selected OECD and non-OECD countries, 2008a



a) The EPL indicator ranges from 0-6 from least to most restrictive.

Source: OECD database on Employment Protection Legislation.

3. The OECD EPL indicator was updated in 2008 and compiled from 21 items. These quantify the costs and procedures involved in dismissing individuals or groups of workers or for hiring workers on fixed-term or temporary work agency contracts. These items can be classified in three main areas: i) employment protection of regular workers against individual dismissal; ii) specific requirements for collective dismissals; and iii) regulation of temporary forms of employment (see Venn, 2009 and OECD, 2004 for details on the indicator).

This variation of the overall stringency of employment protection amongst BCIS is mainly due to the component consisting of the cost of the individual dismissal of regular workers. In particular, regulation of individual dismissal is restrictive in both China and India, reflecting excessive notification or time-consuming requirements that make it extremely difficult to lay-off workers; it is below the OECD average in Brazil and South Africa. In China, EPL is stricter for open-ended labour contracts, with procedural requirements that are cumbersome, but the rules on fixed-term contracts were until recently very flexible, allowing cumulated job durations of up to ten years. The new labour Law of 2008, however, restricts that practice to no more than two consecutive contracts (Box 2).

Severance payments are also high in China, exceeding all OECD countries, and to a lesser extent in India (in the top third of OECD countries, together with Indonesia) (OECD, 2010a). For these reasons, regulation related to employment protection has often been seen as too restrictive in India. This is put forward by some as an explanation of the high informality rate as well as the difficulty for small firms to expand and create employment (*i.e.*, Ashan and Pages, 2007; OECD, 2007; Dougherty, 2009). Although there is evidence that labour regulations have had an influence on limiting Indian firms' size and their capacity to generate employment, mainly in the manufacturing sector, other factors have also had a non-negligible impact (*i.e.*, the lack of access to electricity and other amenities).[4]

Some authors have argued that removing excessive job protection can contribute to reduce the differences between the formal and the informal sector and boost the creation of more and better jobs, also improving the job prospects for the most vulnerable groups (*i.e.*, Heckman and Pages, 2000; Pages *et al.*, 2009). The arguments for this are mainly the following: i) there could be spill-over effects of regulations in the formal sector; ii) if regulation is excessive, firms may have incentives to stay small to avoid it; iii) dualism in the labour market creates and/or reinforces inequality in earnings and job careers.

Box 2. **The 2008 labour reform in China**

As part of its agenda for a "Harmonious Society", the Chinese government started to modernise labour legislation in 2008 by introducing three new laws:

a) *The Labour Contract Law,* which makes mandatory the use of written contracts *(i.e.,* fixed-term, open-ended or for a specified job), but introduces a limitation of two years on the use of fixed-term contracts. It also instructs the Labour Inspectorate – under Labour Bureaus at county level and above – to oversee the labour contract system and to respond to complaints from workers and trade unions, and lays down a revised, sharpened and much more detailed version of the employment protection rules briefly outlined in the 1994 Labour Law.

b) *The Law on Arbitration and Mediation in Labour Disputes*, which specifies the procedures workers and trade unions can use to file complaints against employers in the labour inspectorate or courts.

c) *The Employment Promotion Law*, which makes the government responsible for employment and for providing employment services, unemployment insurance, vocational training and active labour market programmes. It also rules out discrimination in employment, notably when it is based on gender, ethnicity, disability and rural versus urban residence.

One of the main purposes of these new laws, and especially the Labour Contract Law, was to promote the formalisation of individual labour relations and to ensure that a set of basic rules are consistently applied. Recognising the difficulty of this task, authorities at the national, provincial and city levels have followed-up the launching of the three laws with many further regulations and implementation instructions during 2008 and 2009.

Although it is too early to assess the success or failure of these reforms, it appears that they have stimulated a process of development of labour relations across the country, including raising public awareness. It is widely expected that this legislation will facilitate the improvement of the working conditions of many low-skilled workers, although the key is how effectively these new Laws will be enforced.

4. See Dipak Mazumdar (2010) for further details on this discussion.

Compared with most OECD countries, the number of workers covered by employment protection regulations is limited in BCIS. First, self-employed workers, who by definition are not covered, account for a much larger share of the employed population than in most OECD countries. Second, the legislation sometimes excludes some categories of salaried workers from its scope (*i.e.*, in India, businesses employing fewer than 100 employees). Third, salaried workers on non-standard contracts, such as temporary or subcontracted workers, are also not covered by dismissal regulations. In China, nearly all private-sector labour contracts, where they exist, are for fixed terms, and only employees of government or state-owned enterprises have permanent labour contracts (Herd *et al.*, 2010).

In addition, the enforcement of regulations is generally weak in these economies. Enforcement problems are often aggravated by the lack of freedom of association for workers (*i.e.*, in China, Herd *et al.*, 2010). Depending on enforcement and on the segment of the labour market examined, national perceptions of the degree of strictness of employment protection may also differ significantly. According to the Global Competitiveness Report 2009-2010, which was based on employer surveys, restrictive labour regulations are not always perceived in BCIS countries as the most problematic factors for doing business in these countries. Other factors such as tax regulations and tax rates, access to financing, government bureaucracy or inadequate supply of infrastructures seem to be more important. Moreover, on a scale from 1 to 100 (with 100 being the most rigid employment protection), employers perceive employment rigidity to be the highest in Brazil, followed by South Africa[5], and less rigid in India, and much less in China. However, even Brazilian employment protection rigidity is below the level perceived in one-third of the OECD countries (World Economic Forum, 2009).

The gap between "de jure" and "de facto" rigidities of employment protection increases when workers and employers do not perceive any benefits of complying with the law, because benefits are not valued or are so low that they do not compensate for the costs. In other cases, there is a lack of trust in the state and in the institutional framework, due to important enforcement and governance problems that need to be tackled.

b) Income support measures for the unemployed

In most OECD countries, unemployment compensation schemes provide the first line of defence for job losers.[6] These cover the majority of the employed, irrespective of occupation or industry and, in addition, are often complemented by active labour market policies that provide labour intermediation and training to promote employability. Although important differences also exist among OECD countries in terms of system coverage and generosity, unemployment compensation schemes tend to provide an adequate smoothing of consumption patterns, and they are an important tool against vulnerability and social exclusion, especially during economic downturns.

The use of unemployment compensation schemes tends to be positively correlated with a country's degree of economic development. With the acceleration of economic growth in the last two decades, an increasing number of emerging economies have introduced income support programmes, and Brazil, China, and South Africa have been no exception to that trend.[7] Whereas China and South Africa have

5. OECD (2008b) and Leibbrandt et al. (2010) also confirm that in South Africa, although EPL data point to a flexible labour market, employers perceive that the labour market is in fact quite rigid, especially regarding regulations on firings.

6. Other than being part of the labour market measures, unemployment compensation schemes are also part of the social protection system in BCIS.

7. Other than unemployment compensation schemes, mandatory severance payments are also an attractive income support mechanism generally used in developing countries (see Pages *et al.*, 2009 for a review in Latin American countries), but will not be developed here as they are part of the hiring and firing rules mentioned in the previous section.

unemployment compensation schemes that are financed out of social contributions, as in most OECD countries, in Brazil the scheme is financed by employers through a levy on business revenues that is allocated to a Guarantee Fund for the protection of workers and that also finances job-search assistance and active labour market programmes. India, by contrast, has no unemployment scheme, except for workers who are covered by the social insurance system, which covers less than 1% of workers (Table 2).

BCIS unemployment compensation schemes have different characteristics in terms of the eligibility criteria and the maximum duration of the benefits, and they cover different types of workers, but have in common low coverage and recipiency rates and a low level of income support, which limits their capacity to provide adequate safety nets.

Table 2. Comparison of unemployment compensation schemes in BCIS

Country	Date	Eligibility[a]	Financing	Required employment record	Maximun duration of benefits	Relation to individual's earnings	Minimum/maximum benefit	Share of unemployed receiving benefits
Brazil	1990 (amended in 1994 and 2002)	All workers except the self-employed. Special system for craft fishermen, domestic workers, and workers formerly in forced labor.	Employers contribute 8% of earnings to the Guarantee Fund for Severance Pay (FGTS).[a] Government finances the total cost by earmarked taxes.	6 months	5 months	Benefit varies according to average earnings in the last 3 months of employment.	From minimum wage up to to 1.8 minimum wage	8% (in 2008)
China	1999	Urban workers (including those with rural contracts) and self-employment. Are excluded civil servants, rural workers, school or graduates leavers and workers of the informal sector.	Employers 2% of payroll; Employees 1% of gross earnings; Provincial and local governments subsidise Unemployment Funds.	12 months	Up to 12 months if the applicant's contribution is below 5 years. Up to 24 months if it is above 10 years.	Benefits are not related to previous earnings.	From Minimum Living Standard scheme (*dibao*) to local minimum wage	Less than 16%
South Africa	2001	All workers working at least 24 hours per month. Includes domestic and seasonal workers but excludes self-employment.	Employers 1% of worker earnings; Employee 1% of earnings; Government 25% of employee and employer contribution up to a maximum.	3 months of contributions in last year. In case of death, benefit is paid to the partner (or the dependent child) up to 6 months.		Benefit varies between 30.78% and 58.64% of previous earnings.	From 1 day of benefit for 6 days of work up to 8 months in the 4 -year period before the application of the benefit.	Significan-tly less than 10%
India	2005 Rajiv Gandhi Shramik Kalyan Yojana Unemployment allowance	Only for contributors to the Employee's State Insurance (ESI) Fund. Employees earning up to 10,000 INR (206 USD) working in firms with at least 20 workers (10 in manufacturing)	Employees State Insurance Fund 4.75% of payroll: Employees 1.75% of earnings if daily wage of at least 70 INR (1.5 USD); Government pays the medical care for beneficiaries and their families.	At least 5 years of contribution to ESI Fund.	UI in one spell or in different ones up to 12 months. Medical benefits are also provided to the insured and its family during that period.	Benefit equals 50% of annual average wages.		Close to 0%

Notes: a) Eligibility refers to formal workers, meaning workers having a contract and/or affiliated to the social security system.

b) Both in Brazil and in India the contributions to the FGTS and the ESI Fund act as a savings account, and the insured can withdraw the amount in the event of unemployment, marriage, retirement or other contingencies.

Source: Secretariat elaboration.

In the emerging economies, unemployment compensation systems, when they exist, tend to cover a small proportion of the working population. This is also the case in BCIS, where a small number of workers from the formal sector contribute to the unemployment insurance funds and then are eligible for benefits. The lack of unemployment insurance tends also to push workers into informal employment to survive when their jobs are lost. Being unemployed and having no income is not affordable, and this contributes to maintaining a low level of participation in the unemployment scheme. Moreover, fiscal policy constraints, budget limitations, weak administrative capacity and an environment sometimes prone to administrative corruption are additional elements that do not facilitate the extension of the coverage of the unemployment insurance systems.

Apart from workers in informal employment, there are other groups of workers representing an important share of the labour force in emerging economies who are not involved in the system (*i.e.*, self-employed, rural workers, etc). For example, in China unemployment insurance covers only urban workers in the formal sector (Box 3). Although the number of contributors to the unemployment insurance system in China has increased steadily, reaching 124 million workers in 2008, migrant workers, who represent an important share of the urban workforce, are generally not covered (only 15.5 million were covered, less than 10% of total migrants employed in urban areas). This means that less than half of the total urban employed contribute to the Unemployment Insurance Fund.

The number of unemployment benefit recipients in China reached a peak in 2004 and then decreased to 2.6 million in 2008, representing 30% of total urban unemployed according to official statistics (under alternative unemployment figures that almost double the official unemployment statistics, that ratio drops to 16%)[8]. Zhu (2009) reported that in 2008, to counteract the impact of the economic crisis, a lump-sum subsistence subsidy was paid to an additional 930,000 rural migrant workers, whose labour contract was either not renewed or terminated in advance. Considering this, 40% of the official urban registered unemployed received an unemployment support in 2008.

Box 3. **From *Xiagang* to Unemployment Insurance in China**

The Chinese government introduced an Unemployment Insurance (UI) programme in 1986 to cover lay-offs by the urban State-Owned Enterprises (SOEs). The programme was intended to serve as a social safety net, providing temporary income support and re-employment assistance to laid-off workers, and it was financed by employer contributions, interest earnings, and government subsidies, without any contributions from workers.

During the first years of operation, the system remained very limited, forcing the government to introduce new provisions in 1993 to expand coverage. The acceleration of economic and corporate reforms at the end of the 1990s significantly increased the number of displaced workers, and the government obliged SOEs to establish Re-employment Service Centres to facilitate the transition of their laid-off workers into other jobs. Under this system, laid-off workers kept a connection with their former employees (*xiagang*) and could receive a certain amount of subsidies for up to three years. The Re-employment Centres[9] were responsible for paying laid-off workers' pension and health insurance and basic living allowances (including retraining expenditures). In 1999, the Chinese government transferred the *xiagang* subsidy to the UI programme, and the Re-employment Centres were merged with the Unemployment Insurance programme. The provinces shifted to this system progressively, and by the end of 2006, the transformation from *xiagang* subsidy to unemployment insurance was complete.

The Chinese UI programme currently covers urban enterprises and institutes and their employees as well as self-employment. It does not cover civil servants, rural workers, school leavers and workers in the informal sector. Benefits are not related to previous earnings, but fixed according to a flat level set by the local authorities, between the level of the Minimum Living Standard Scheme (*Dibao*) for urban residents and the local minimum wage. The number of participants to the UI Fund increased steadily, and the recipiency rate, calculated as the ratio of UI recipients to total registered urban unemployment, reached a peak in 2002 and declined considerably thereafter (Table B1).

8. According to OECD (2010b), the number of unemployed in 2007 was 16 million, compared with 8.3 million according to the official statistics.

9. In 1996, Shanghai was the first province to establish Re-employment Centres.

Table B3. **Unemployment Insurance in China, 1999-2008**

In millions	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Total employment	713.9	720.9	730.3	737.4	744.3	752.0	758.3	764.0	769.9	774.8
Total urban employment	224.1	231.5	239.4	247.8	256.4	264.8	273.3	283.1	293.5	302.1
Registered urban unemployment	5.8	6.0	6.8	7.7	8.0	8.3	8.4	8.5	8.3	8.9
Participants in UI Fund	98.5	104.1	103.5	101.8	103.7	105.8	106.5	111.9	116.4	124
Beneficiaries of UI Fund (at year end)	1.1	1.9	3.1	4.4	4.2	4.2	3.6	3.2	2.8	2.6
In percentage										
UI coverage rate (of urban employment)	44.0	45.0	43.2	41.1	40.5	40.0	39.0	39.5	39.7	41.0
UI coverage rate (of total employment)	13.8	14.4	14.2	13.8	13.9	14.1	14.0	14.6	15.1	16.0
UI recipiency rate	19.0	31.7	45.6	57.1	52.5	50.8	42.9	37.8	33.7	29.3

Note: The UI coverage rate is calculated as the ratio of UI Fund participants to urban employment, whereas the recipiency rate is the ratio of beneficiaries to registered unemployment.

Source: China Statistical Yearbook and China Labour Statistical Yearbook (various years).

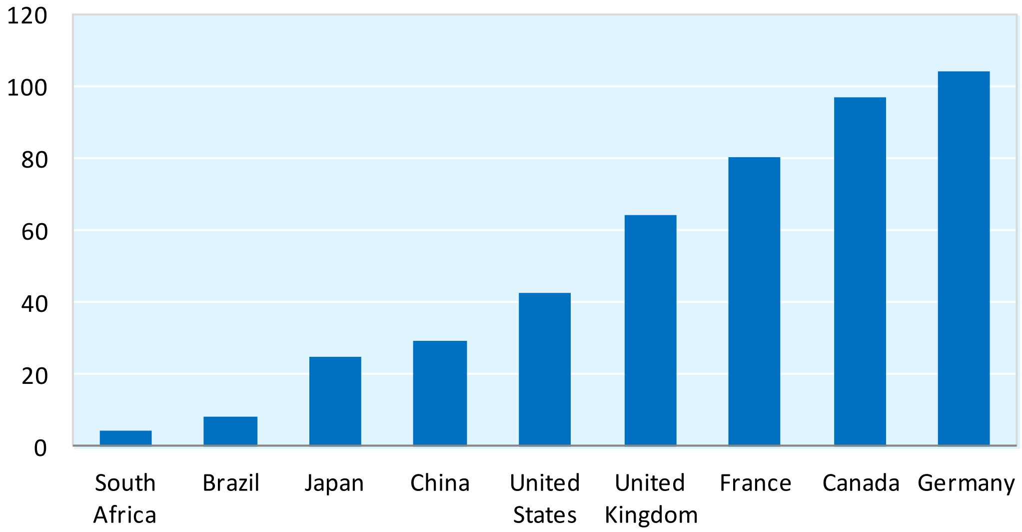
In South Africa, a country characterised by very high levels of unemployment, both coverage and recipiency rates are lower. Leibbrandt *et al.* (2010) estimate that in 2008/09, the number of unemployment claimants was 442,000, representing 10% of the unemployed.[10] Considering that the maximum claim period for unemployment insurance is 6 months and that many claimants will receive benefits for a shorter time, the ration of unemployment recipients to total unemployment is considerably lower. In fact, according to National Treasury figures, in 2008/09, unemployment recipients' monthly average was half of the claimants, clearly representing less than 10% of total unemployed. Although this can be explained mainly by the fact that more than half of the unemployed declare that they have never worked, and thus are not entitled to the benefit, another factor is that long-term unemployment is high in South Africa, and many unemployed have exhausted their benefits. In fact, among the unemployed with previous work experience, 44% have been unemployed for more than a year and are no longer eligible for the benefit.

In Brazil, coverage has been increasing in the last decade, but still remains very low. Rama and Maloney (2001) estimated that at the end of the 1990s, although almost half of urban workers were eligible for unemployment insurance, just above one quarter of them receive it. Using data from the Ministry of Labour, the monthly average of the unemployment allowance recipients was around 550,000 in 2008, representing 8% of the total unemployed (Figure 3).

10. This percentage drops to 8% when considering a broad unemployment definition that includes discouraged workers.

Figure 3. Unemployment benefit recipients in selected countries, latest year available a,b

(As a share of total unemployed persons)



Notes: a) 2008 for Brazil, China and South Africa. Data refer to 2002 for Canada, 2004 for France, Germany, Japan and the United States and 2007 for the United Kingdom.

b) For China the unemployment figures are taken from the official registered unemployed (urban areas only). The labour force for China also excludes the rural unemployed.

Source: Activation Policies in Finland, Table 4.3, OECD, 2010; OECD Labour Force Statistics Database; national submissions for Brazil, China and South Africa.

In India, there is no unemployment benefit scheme as such. The Employees' State Insurance (ESI) Scheme, in place since 1948, is a social security scheme providing health insurance to the insured persons and their dependants for the contingencies of sickness, maternity, disability and death due to employment injury. It was only in 2005 that an unemployment allowance scheme (the Rajiv Gandhi Shramik Kalyan Yojana Unemployment allowance) was introduced. This is, however, applicable only to workers previously insured through the ESI scheme who have contributed to the ESI Fund during at least five years, which represents a very small percentage of the better-off labour force. Also in 2005, the government introduced the National Rural Employment Guarantee Act, a demand-driven and non-targeted public works scheme giving rural workers the right to work for 100 days. If work is not provided, the worker has the right to an unemployment allowance. This scheme can be seen as the first shoots of a comprehensive income support scheme in India for rural areas. It will be discussed in Section 2.1.

The support level provided by unemployment insurance systems in BCIS tends to be low; nonetheless, significant differences appear across countries. The generosity of unemployment benefits depends on both the duration of the benefit and its level. Compared with OECD countries, where the duration in general ranges from 12 to 24 months (the shortest being six months), the maximum duration of benefits in BCIS, with the exception of China, is lower. Also, both initial replacement rates of previous incomes and maximum benefits are relatively low in emerging economies (OECD, 2010a).

The level of benefits is also low in BCIS. In China, the unemployment benefit level is set by local governments between the living standards level and the minimum wage. It is a fixed amount ranging from 60-70% of the minimum wage determined by local authorities, which is already low compared to the average wage (Zhu, 2009). In a comparison with other transition economies from Central and Eastern Europe, Vodopivec and Tong (2008) estimated that Chinese unemployment benefits provide a wage replacement rate of 14% of the average wage, below the replacement rate observed in these transition economies (which varies from 45% to 70%). In South Africa, the initial replacement rate varies from 38% to 58% of average earnings over the previous six months, depending on the length of the contribution. In Brazil, the level is higher than in the other countries, and the gross replacement rate increased from 51% in 1995 to 65% in 2006, more in line with OECD figures.[11]

In contrast to many OECD countries, unemployment compensation schemes in BCIS rarely impose strict requirements on the claimants of the benefit, such as to be registered in the employment services or to search actively for a job. When active labour market services are in place (*i.e.,* job intermediation, training, etc.), some requirements or conditionalities can be set for unemployment benefit recipients. But this also requires improving the quality of the employment services offered, which is often an important constraint on implementing more active labour market measures. Indeed, BCIS governments have limited administrative capacities to monitor whether unemployment benefit recipients are searching for a job during the benefit receipt period.

Apart from the different designs of BCIS unemployment schemes, the budgets devoted to their unemployment compensation systems is quite low, with the exception of Brazil. Expenditure on unemployment benefits as a share of GDP varies from 0.4% in Brazil to 0.001% in China, compared to 0.6% in OECD countries (OECD, 2010b).[12]

In the past decade, some developing and emerging economies have developed alternatives to traditional unemployment insurance schemes, including Individual Unemployment Saving Accounts (IUSAs). Mainly based on the experience in Chile, which introduced IUSAs in 2002, some authors have proposed the use of private unemployment funding systems like this to achieve a number of ends: to extend coverage without imposing a burden on government budgets, to reduce the moral hazard associated with unemployment insurance, and to cut labour costs (*i.e.,* Robalino *et al.,* 2009; Vodopivec, 2009). But IUSAs can also have disadvantages, as they do not protect workers against unemployment duration risks, are not well suited to workers experiencing frequent spells of unemployment, and often tend to cover only the workers that can afford it, *i.e,* the best-off (Box 4).[13]

Box 4. **Are Individual Unemployment Savings Accounts an alternative that allows extending coverage?**

Individual Unemployment Savings Accounts (IUSA) are private savings (from employers and also employees) deposited monthly into an individual worker’s account that can be withdrawn when they lose their jobs. They have been implemented in the past decade in some developing and emerging economies (*i.e.,* Brazil, Chile, Colombia, Ecuador, Peru, Panama and Slovenia).

Amongst the most cited advantages of IUSAs are the following: a) they help to avoid state budget limitations and extend protection to more workers (on the assumption that firms and workers are willing and able to sustain the system); b) they need little administrative capacity to identify the unemployment status; and c) they do not affect the intensity and efficiency of job searches. IUSAs have been praised for reducing costs for public budgets, but also for creating incentives for workers to find a new job rapidly (reducing the moral hazard problem linked to unemployment insurance), and for reducing firing costs and avoiding business liquidity issues due to severance payments.

11. See http://www.ipea.gov.br/sites/000/2/politicasocial/html/script/home.html. Pages *et al.* (2009) also showed that in Brazil, as in Argentina, Uruguay and Venezuela, initial replacement rates range from 50-60% of the average wage preceding the unemployment spell.

12. No comparable data are available on the budget devoted to active labour market measures in BCIS.

13. See also Valentini (2008) for a review of the IUSA literature.

IUSAs have also been criticised as a way of externalising the costs of the eventual risks related to workers losing their jobs and disengaging the responsibility of governments. Contrary to unemployment insurance schemes, by definition IUSAs do not pool the risk of unemployment. They do not protect workers against unemployment duration risks, and their role in protecting against unemployment is limited when the cumulated savings are very low. Workers with short tenures will receive small amounts, insufficient to endure lengthy unemployment, which is more often the situation in less developed countries, where job tenure is lower and turnover much greater than in more developed countries (Berg and Kucera, 2008). In that context, individual unemployment saving accounts are not well suited for workers who experience frequent spells of unemployment.

In addition, the effectiveness of IUSAs rests heavily on the performance and credibility of the financial institutions that manage the individual funds. If returns on the deposits are low, the valuation of the accumulated funds will also be low, facilitating collusive behaviour between the unemployed and the employer. This indeed has happened in Brazil, where there is evidence that some workers have negotiated their dismissal in order to access the funds (Ferrer and Riddell, 2009).

In some countries, IUSAs have been combined with the existing severance payment or unemployment insurance schemes. For example, Colombia, Panama, Peru and Venezuela have combined IUSAs with mandatory severance payments, whereas Brazil, Chile and Ecuador have done so with unemployment insurance systems (Pages *et al.*, 2009). The study on IUSAs in Latin American countries by Ferrer and Riddell (2009) concluded that the overall effect of the IUSAs depends very much on country-specific characteristics and programme parameters, and even more so when they are combined with other instruments. But they also depend on the implementation system, existing labour regulations, the extent of informal employment and the scope for collusive behaviour.

In conclusion, IUSA performance has been mixed and, in particular, there is not much evidence about their adequacy as income support. Moreover, not much evidence is available regarding their effect on employment, which indicates that further country-specific evaluations are needed to better understand the circumstances in which these instruments are more successful.

Unemployment insurance schemes do not seem to have had a major impact on welfare and living standards in emerging economies *(i.e.,* Vodopivec, 2004; Pages *et al.*, 2009). The combination of unequal and low coverage (between formal and informal workers) with the fact that funding comes from general revenues (which in many countries can be highly regressive) limits the redistributive effect. For example, in Brazil the unemployment insurance system contributes to maintaining wage inequalities, as a majority of benefit recipients are found in the middle deciles of the income distribution (IPEA, 1998).

In China too, there are indications that the unemployment insurance system has no redistributive impact. A survey conducted in five large and seven small Chinese cities showed that the richest households have benefited the most from the unemployment insurance scheme. In 2005, the proportion of workers in poor households – defined as those with per capita incomes below the 2 USD/day poverty line – covered by the unemployment insurance scheme was 17% in the large cities and 24% in the small cities, while the proportion of the non-poor was 35% and 46% (Vodopivec and Tong, 2008). Among the bottom quintile of per-capita household income, the proportion of workers covered by the unemployment insurance scheme was 21% and 27%, respectively, in the large and small cities, whereas it was double that for the top quintile. If the Chinese unemployment insurance scheme is to play a redistributive role, it would be necessary to expand the coverage to workers without labour contracts, as well as to all rural migrant workers, as they are generally in the lowest quintile of the income distribution in urban areas.

One of the main ways income support mechanisms for the unemployed in BCIS could be made more redistributive is to extend coverage. This essentially involves creating incentives for formal employment that would make it possible to expand the number of contributors and beneficiaries in the unemployment insurance system. Creating incentives for a large share of uncovered workers in the informal sector to contribute to the unemployment system should be explored, at least for some groups *(i.e.,* the self-employed, and in China migrants into urban areas and rural workers).

Although they do not have a redistributive objective, active labour market measures oriented to improve labour market matching can also play an important role in promoting access to formal sector jobs and in increasing unemployment coverage. Better job intermediation and more and better training facilitate job searches and are good complements to income-support measures. If well targeted to the groups that have more difficulty entering the formal labour market (mainly women, the youth and the low-skilled), they can act as a powerful measure to tackle inequality.

Nevertheless, the fiscal and budget constraints that BCIS countries face (China to a lesser extent) place important limitations on extending unemployment coverage and on active labour market policies. Although combining unemployment insurance schemes with IUSAs for some groups or in some sectors of activity is not a panacea, it could be considered on a country-specific base, but combined with maintaining a solidarity fund in order to improve redistribution outcomes.

1.2. Minimum wage policies

Minimum wage policies can be seen as an instrument to provide socially acceptable wages to unskilled workers, and for some authors is an attractive social protection tool. Compared to other policy options, they are self-targeting, need lower monitoring, have low leakage and do not impose high labour costs (Cunningham, 2007). But the impact of minimum wages on employment and the distribution of earnings and income is not neutral, and has been a source of controversy in the literature. On the one hand, when enforced, minimum wages play an important role in ensuring that “fair” wages are paid to unskilled workers. On the other hand, the level of the minimum wage matters, and high minimum wages can discourage job growth, in particular affecting the very workers that they are intended to protect, and this may limit their impact on poverty.[14]

However, the empirical evidence in the literature on the minimum wage in developing countries is still limited, especially concerning its effects on the informal sector, where most of the poor are. In principle, by setting a floor and being a reference in wage negotiations in the formal sector, minimum wages contribute to raising earnings at the lowest level, but they can also favour informality. Determining the appropriate level of the minimum wage is the crucial point. When minimum wages are set too low, their impact on the earnings structure is marginal. When set too high compared to average wages, they risk not being respected and can discourage formal employment, facilitating informality. Indeed, workers with a lower labour market attachment –generally women, youth and less-skilled workers – are more likely to be adversely affected, with a greater risk of losing their jobs or being trapped in informal employment.

Around two-thirds of OECD countries have set statutory nation-wide minimum wages, and although their levels vary greatly across countries, they tend to be between 40% and 50% of average wages. Interestingly, the ratio of the minimum wage to average wages does not seem to be correlated with GDP per capita, showing that this is not so much the result of the country’s economic level of development but rather the result of policy choices (ILO, 2009).

BCIS countries have also developed statutory minimum wages, although their coverage differs substantially. Coverage can be national (Brazil), regional (China and India), by occupation or industry or activity (South Africa) or a combination of these. Indeed, only Brazil has a national minimum wage, which is regularly updated by the government, although the states can set higher minimum wages, which may vary in different economic sectors. In South Africa no national minimum wage exists, although the government has set minimum wages in some sectors (*i.e.,* mining, construction, domestic services, etc.), but this affects only a small number of employees. In India, minimum wages are set by states and are rarely revised upward. Indeed, the Minimum Wage Act has existed in India since 1948, but the procedures for fixing and revising it are vague. This has translated in practice into a proliferation of minimum wages that

14. See OECD (1998) for a detailed review for OECD countries, and also Martin and Immervoll (2007).

vary by state, covering a broad range of employment groups and economic activities, with many states having statutory minimum wages well below the poverty level.

In China, minimum wages are set by provinces and local prefectures, with effect in all the cities in the prefecture, but less often in the towns. They were established by the 1994 Labour Law to ensure workers enough support to cover their daily needs.[15] The Minimum wage provision issued in 2003 strengthened the protection offered by covering migrants, but only in urban areas. It was recommended that minimum wages should be set around 40-60% of average monthly wages, but in most provinces it is often below – or barely reaches – that lower level.[16] Indeed, the ratio of the minimum wage to average wages was below 40% in China, not very far from the lower half of OECD countries and above the other BCIS countries. With ratios below 25%, India and South Africa are considerably below the OECD average (Figure 4).

Moreover, in the BCIS countries, minimum wages are not completely binding, and the extent of non-compliance, although difficult to quantify, is large. In China, there is evidence that low-skilled migrant workers often receive less than the minimum wage as employers tend to deduct from their wages the costs for accommodation and meals. This tends to push these workers to increase their working hours in order to boost their earnings. Indeed, data from the China Urban Labour Survey conducted in 2001 and 2005 by the Institute of Population and Labour Economics of the Chinese Academy of Social Sciences confirm that, although monthly wages for migrants and urban local workers are similar, this is not the case for hourly wages. In 2005, hourly wages for migrants were half of hourly wages for urban local workers, and this difference has increased since 2001. Moreover, the percentage of urban local workers who receive above-minimum hourly wages was double the percentage for migrant workers.[17]

Another non-compliance problem observed in some sectors in China, particularly in the construction sector, has been frequent and extended delays in payment. Indeed, wages in arrears has recently been one of the most important sources of conflict between labour and management in the private sector, substantially increasing the number of labour disputes (which multiplied by five between 1995 and 2005).

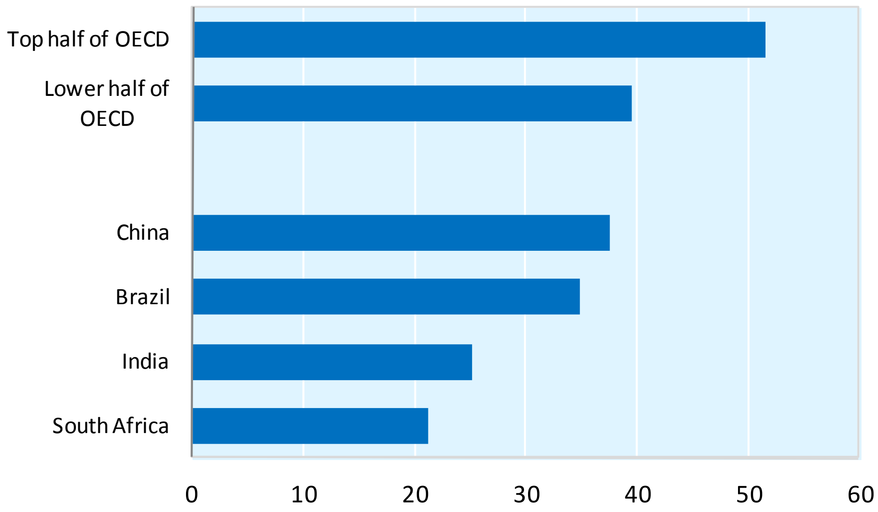
15. When establishing the monthly minimum wage, provincial governments are to take into consideration the cost of basic necessities for employees and their dependents, as well as the local consumer price index. Labour law also specifies that the standard workweek is 40 hours, and overtime should not exceed 36 hours per month. The minimum wage is for work within normal working hours, and should not include overtime payment.

16. See http://www.china-labour.org.hk shows that in major cities, such as Beijing and Shanghai, the minimum wage in 2006 was around 20% of the average monthly wage.

17. See Cai and Du (2010) for details.

Figure 4. Ratio of minimum wage to average nominal wages a

(in percentage)



a) Ratio of minimum to average wage in 2006 for BCIS; Ratio of minimum to average wage of full-time workers in 2008 for OECD countries.

Source: BCIS data come from the ILO Global Wage database and OECD data from the OECD database.

As already mentioned, economic theory suggests that increases in minimum wages can cause job losses and unemployment. However, whereas these effects are evidenced for developed countries and the formal sector, these links are less evidenced in countries characterised by an important dual labour market and where informal employment can absorb the employment losses in the formal sector. For example, there is some evidence that in Brazil an increase in minimum wages can force formal sector workers to move to the informal sector of the economy, especially women, youth and low-skilled workers (*i.e.*, Cunningham and Siga, 2006; Carneiro and Corseuil, 2001; Corseuil and Morgado, 2000; Foguel *et al.*, 2001). For other authors, minimum wages set a social norm, and hikes in minimum wages in the formal sector are translated into the informal sector, which questions the validity of the two sector-model for explaining minimum-wage effects (*i.e.*, Barros *et al.*, 1997; Maloney and Mendez, 2004).

The extent to which changes in the level of the minimum wage contribute to reducing or increasing inequality is thus not straightforward. There is some evidence that in countries with low relative minimum wages to start with, an increase of the minimum wage tends to compress the wage distribution and reduce overall wage inequality. This happened in Brazil and in Mexico (*i.e.*, Lemos, 2004 and Cunningham, 2007). In Brazil, the minimum wage compressed the wage distribution both of the formal and the informal sectors, with a stronger compression effect at the bottom of the formal sector distribution (Lemos, 2004). The lowest paid workers saw the greatest increase in wages when the minimum wage increased, low-paid workers above the minimum wage were less affected, and wages at the top of the distribution were unaffected.[18] However, not all workers whose wages are clustered around the minimum wage make the most significant wage gains. In Brazil, the highest minimum wage premium was found for adult men, whereas women, even if overrepresented among minimum-wage earners, have wages that respond less to a minimum wage increase (Cunnningham, 2007). On the other hand, a decrease in the minimum wage

18. A reduction of wage inequality with an increase in minimum wages is also documented in Lemos (2004), Soares (2002) and Sousa and Menezes (2003).

increased the dispersion of wages, as measured by the Gini coefficient, in both Brazil and Mexico. These effects were particularly strong for women, unskilled workers and informal workers (*i.e.*, Cunningham, 2007; Souza and Menezes, 2003). These findings cannot, however, be generalised to all countries, as many other factors are at play.[19]

Indeed, when considering the impact of a minimum wage policy as a social policy tool to reduce poverty and inequality, the analysis has to move from the individual to the household level. Immervoll (2009) compiled minimum wages after taxes and benefits in OECD countries and showed that in a majority of countries, a full-time minimum wage earner in a single-person household reaches 50% of the median household income, conventionally considered the relative poverty threshold in OECD countries. But in the case of families, one minimum wage is normally not enough to escape relative poverty (using this same 50% threshold).

For Latin American countries, Cunningham (2007) showed that the effect of the minimum wage on poor households depends on the relative level of the minimum wage as well as on the nature of wage and labour contracts. It also depends on the distribution of employment between the different members of the household, as different combinations of employment at different wages can be observed at the household level, and may have different impacts. Generally, however, minimum wages, even when enforced, are not a good anti-poverty instrument, as they are too low to lift workers out of poverty. Other income support instruments are needed on that front for specific groups of the population.

Finally, not only is the level of the statutory minimum wage important, but so are the methods and processes used to set and enforce it. There is no universal system of fixing minimum wages, but there is evidence that, since national institutional arrangements reflect the level of collective bargaining development and the role of the State in wage policy, involving the social partners in minimum wage negotiations clearly matters. A minimum wage that results from a negotiated arrangement between unions and business representatives facilitates, among other things, both its binding character and its enforceability. Moreover, minimum wages negotiated by the social partners are more likely to be adjusted regularly, based on productivity levels and business economic performance, and tend to preserve workers' purchasing power (ILO, 2009).

1.3. Retirement income transfers

Retirement income transfers – which are designed to help the elderly, and by extension the household in which they live, to avoid falling into poverty (or remaining in poverty) – constitute a significant component of social protection. Indeed, old age is generally associated with declining living standards, and this is even more pronounced in countries where social protection schemes fail to reach large segments of the population (Barrientos, 2007).

The BCIS countries have both contributory and non-contributory old-age pension schemes in place (Box 5), but their coverage and their importance as a tool to combat poverty vary significantly across countries. Whereas the first schemes depend on the contribution made to the system during working life, and only apply for those working in the formal sector, the second are means-tested measures more directly oriented to reduce poverty, and they form part of the social programmes considered in section 2.2.

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19. In countries with already high minimum wage levels (*i.e.*, Colombia), an increase in the minimum wage tends to increase the wages of those in the middle of the distribution, and thus contributes to increasing inequality between the poor and middle-income workers (*i.e.*, Cunningham, 2007; Arango and Pachon, 2004).

Box 5. **Main characteristics of old-age pensions in BCIS**

a) Brazil: The first pillar consists of two schemes. The *Regime Geral de Previdência Social* (RGPS), the "general regime of social security", covers the private-sector workforce. It is financed through payroll taxes (shared by the employer and the employee), revenues from sales taxes and federal transfers that cover shortfalls in the system. The RGPS is a mandatory, pay-as-you-go financed single-pillar scheme operated by the National Social Security Institute.

Public-sector employees are covered by multiple special pension regimes at different governmental levels pooled to the *Regimes Próprios de Previdência Social* (RPPS). Municipal, federal and state entities manage their own schemes for their employees, but are jointly coordinated by the Ministry of Pensions and Social Assistance. In general, these pension plans are financed on a pay-as-you-go basis with the employee paying a percentage of their salary. The percentage varies depending on the public entity.

b) China: China has a two-tier pension system, consisting of a basic pension and a mandatory employee contribution to a second-tier plan. This system, which was introduced in 1997, was significantly revised in 2006. It covers urban workers, and many of the parameters depend on city-wide (rather than national) average earnings. The second-tier system comprises individual accounts. In addition to the north-eastern provinces (Liaoning, Jilin and Heilongjiang), a further eight have funded individual account systems. In other cases, the accounts are largely notional and are credited with a notional interest rate.

c) India: India has an earnings-related employee pension scheme and defined contribution employee provident fund administered by the Employees Provident Fund Organisation (EPFO) and other employer-managed funds. Employees with monthly earnings of INR 6,500 or less at firms with 20 or more members are compulsorily covered by the EPFO. Firms not covered under the EPFO may run their own pension and provident fund for the benefit of their employees, subject to certain regulations. Social assistance is available for the needy elderly above 65 years who do not have any regular means of subsistence from personal income sources. This is in the form of a monthly pension of INR 200 under the National Old Age Pension Scheme (NOAPS), jointly administered by the Central Government and the various State Governments. Under this, the Central Government provides Rs 200, which the State government is expected to match, resulting in a pension of about Rs 400 per month.

d) South Africa: The public pension is flat-rate and based on a residency test. There are also voluntary occupational schemes, but coverage for these is not high.

As with other social insurance programmes (*i.e.,* unemployment insurance), contributory pensions cover just a small percentage of the population in BCIS, implying that the most important challenge is how to extend coverage to the broader labour force. Indeed, mandatory pension schemes in BCIS have a lower coverage than in OECD countries. According to OECD (2009b), just 9% of the workforce is covered by a mandatory pension scheme in India and 20% in China, compared to an OECD average of 83%, which varies from 34% in Mexico to 95% in Japan. In South Africa, the share of the labour force covered by the old-age pensions system is even lower, around 5%, whereas it is higher in Brazil (around 30%)[20].

Expected demographic developments will make extending coverage an even more pressing task. The BCIS countries are experiencing a fast demographic transition, characterised by declining fertility and progressive ageing. Moreover, informal old-age support systems are more widespread in BCIS than in OECD countries (*i.e.,* the elderly often are supported by their children and live in three-generation households), but these are coming under increasing pressure due to different factors (migration, increased female labour force participation, changes in household composition, impact of HIV/AIDS, etc.).

Between 1990 and 2008, the old-age dependency ratio increased slightly in BCIS, and it is expected to accelerate further in the coming years (Figure 5). The share of those aged 65 and above in the total population is expected to double between 2010 and 2050 in the BCIS countries, reaching around 20% in China and Brazil, and below 15% in India and South Africa, though these are still half the ratios expected in the most ageing OECD countries (*i.e.,* Italy and Japan) (Figure 6).

20 . Barrientos (2007) found that in the Latin America and Caribbean region, coverage rates for old-age pensions are below 40%, with the exception of Argentina, Chile, Costa Rica, Panama and Uruguay.

These trends clearly add pressure to extend and improve the design of mandatory pension schemes in the coming years in BCIS, especially China. However, while there is a general consensus on the need to extend the coverage of pensions systems in BCIS, there is less agreement on the available means and most effective ways to do this.

Recent efforts have been made to extend social protection system in China to migrants as well as to rural areas. Indeed, improving rural pensions is the main challenge the Chinese government faces to its goal of achieving a universal social security system by 2020. In China, the support system for the elderly differs greatly between urban and rural areas, with the transition between work and retirement being much better established in the first case than in the second. Indeed, in rural areas the elderly continue to work much longer, as they are not supported by a pension. In urban areas the elderly retire earlier, and their main income in old age comes from government payments.[21]

Only a small percentage of migrant workers in the informal sector in urban areas are affiliated to a pension scheme (in 2005, only 2%, compared to 55% for local urban workers). Even in the small group of migrants who have formal work, just one in three had pension insurance. Since 2005, many local governments have started to provide social protection to migrant workers not having urban *hukou*[22] by offering partial, low-cost insurance packages, although this protection is still less effective than for urban formal workers. The lack of *portability* of pension rights is one of the key problems for these workers, as many migrants withdraw what was supposed to be their pension funds as a lump-sum at the end of the year, and then start contributing from zero in a new job. Officials at central and provincial level often stress the desirability of shifting the pooling of funds from the local to the provincial level, which would facilitate extending pension insurance to within-province migrants. But Guangdong province, for example, has found this impossible, because its richer cities, whose funds are in surplus, refuse to cover other cities' deficits. Although these problems are widely recognised in China, there are few indications of a policy response with the time-frame, modalities and scale needed that would have a chance of being implemented.

In India, there have been some efforts to extend social protection, mainly social security benefits, to the unorganised sector. In 2004, the government extended the social security scheme to unorganised sector workers, providing for old-age pensions, accident insurance and medical insurance on the basis of a tripartite contribution by workers, employers and government.[23] However, during the first two years of its existence, only 3,500 workers enrolled, showing the almost non-existent backing for this initiative, both from employers and workers, and the need to improve it further (NCEUS, 2006). Finally, in December 2008, the government approved the Unorganised Sector Worker's Social Security Bill, which is designed to establish a social security system for informal workers. It aims to increase social security coverage for all types of workers (*i.e.*, self-employed, casual and contract workers, home-based workers etc.). Upon registration, even without contributing to the scheme, workers will be entitled to a floor level, covering life, health and permanent disability and maternity benefits. Old-age pensions will, however, require the

21. See Herd *et al.* (2010) for a detailed discussion of labour market participation in rural and urban areas in China.

22. As has been said, rural migrants in urban areas in China can be divided into two main groups: those who have obtained urban *hukou* (resident registration system) and those who have not. Being registered as urban *hukou* is a prerequisite to coverage by the urban social security system and access to various forms of government assistance (health care, children school, etc.).

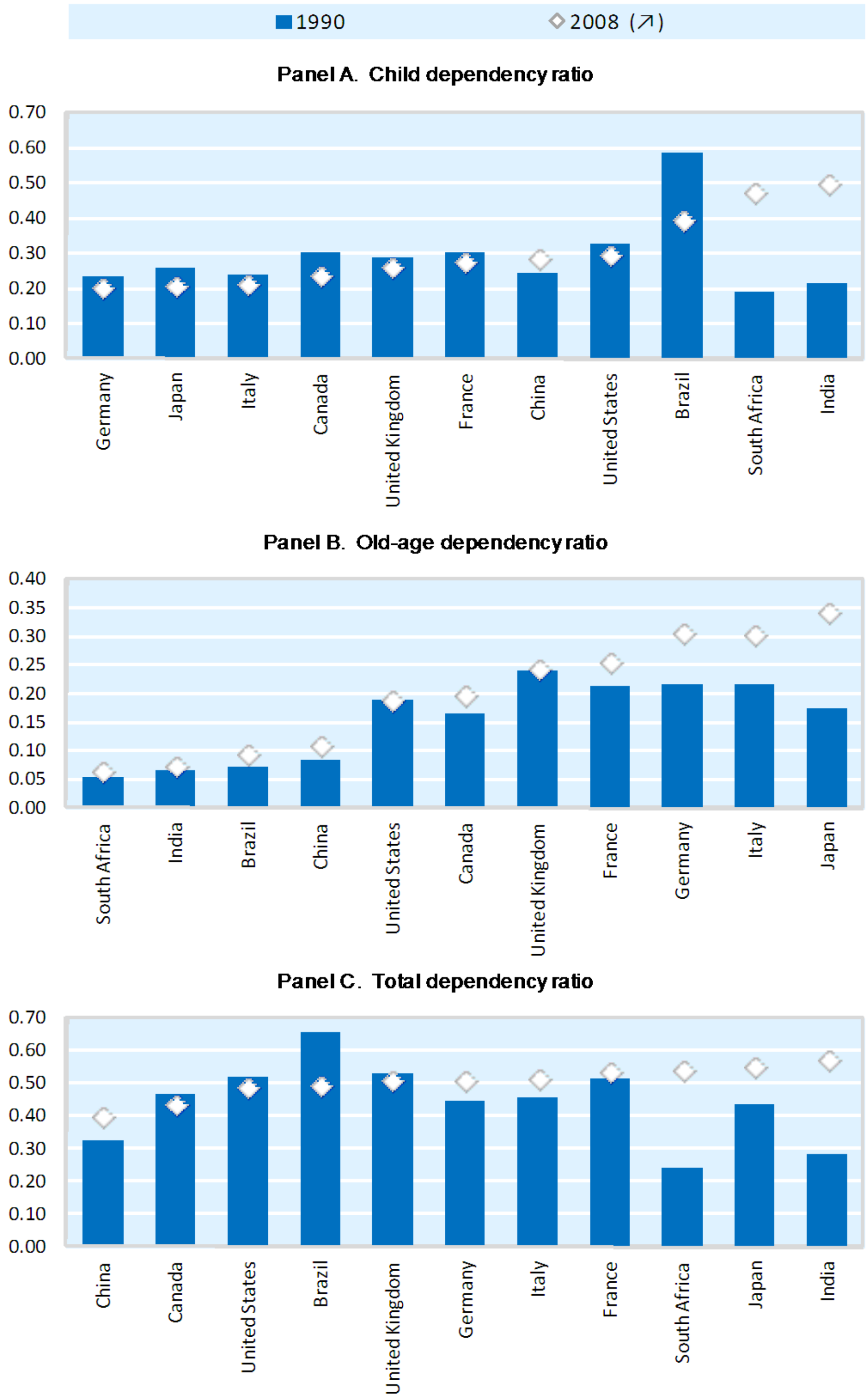
23. The only social security measures available to workers in the unorganised sector were the two components of the National Social Assistance Programme: the National Family Benefit Scheme, which provides a household with a lump sum in the case of death of the primary breadwinner, and the National Old Age Pension Scheme, which provides a pension at a low rate (around INR 200 per month) to those with no regular means of subsistence. Some states provide additional packages for specific workers.

worker's contributions. The Bill's implementation will, however, depend on the amount of public funds available and the way to dispense them, issues that have not been clarified.

The burden of an old-age pension contribution tends to be higher for the more impoverished. Indeed, the contribution of the lowest quintile of the income distribution is higher than for the top quintile relative to their respective incomes. Moreover, when the generosity of the pension is low, there is not much incentive to pay for it. Indeed, although extending coverage of the retirement systems in BCIS remains an important challenge for the future, in terms of present welfare the debate is more over how to reach the poor, and in particular the elderly poor, when they have not contributed to the pension system during their working life. Developing targeted non-contributory measures for the elderly is the alternative that is more frequently used for that purpose.

Figure 5. Dependency ratios for selected OECD and BCIS countries, 1990 and 2008

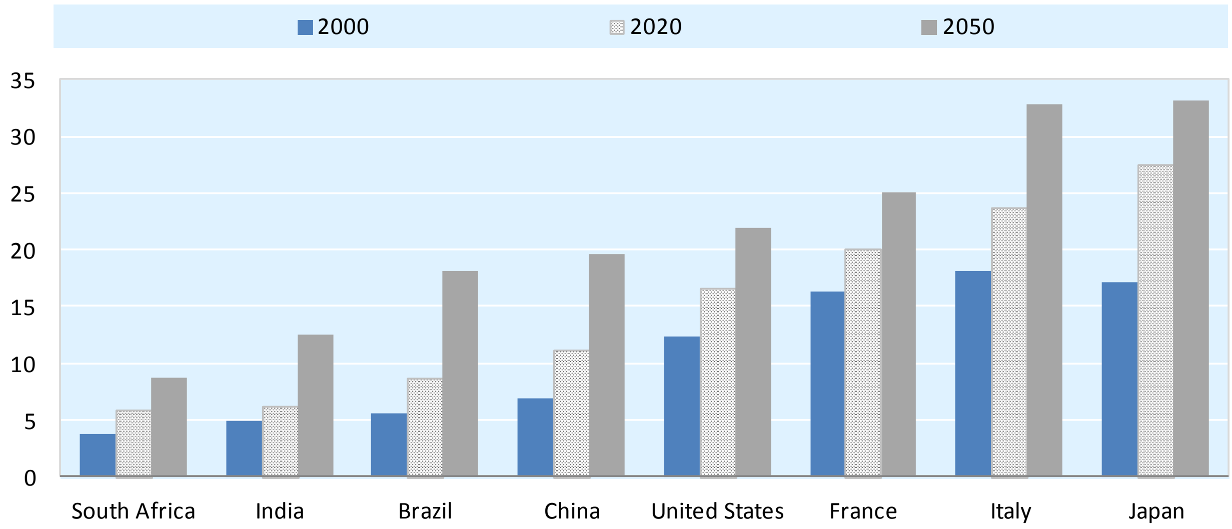
As a percentage of persons aged 15 to 64



Source: OECD Pensions at a Glance, Asia/Pacific Edition, 2009, and the World Bank Indicators for Brazil and South Africa.

Figure 6. Projected share of elderly persons, 2000-2050

Persons aged 65 and over as a percentage of the total population



Source: OECD Population projections 1950-2050 database.

2. IMPACT OF SELECTED POVERTY ALLEVIATION POLICIES

In economies characterised by limited public service provision, a low coverage of social insurance schemes and a high incidence of informality, as in the BCIS countries, social assistance or social safety nets become a key component of social protection for poverty alleviation. This refers to non-contributory transfer programmes targeted to the poor and the most vulnerable, varying from cash and in-kind transfers to poor households, to price subsidies, jobs on labour-intensive public works schemes and fee waivers for essential services (*i.e.*, schooling, health care, etc.). The focus here will be on public works schemes and cash transfers in BCIS, conditional or not, and their impact on reducing poverty and tackling income inequality.

2.1 The role of public works programmes

When there are not enough jobs on offer, direct job creation through public works programmes (or employment through last-resort strategies) can play an important role in generating income for the most vulnerable and less-developed communities. Under public works programmes, governments offer a temporary job for unskilled and unemployed workers, at a minimum wage, with the aim of combating poverty and improving human capital. If the programmes are well designed, then in addition to being a source of job and income creation, they can contribute to social inclusion and gender equality by substituting paid for unpaid work. They have thus often been valued as useful instruments for pro-poor growth, with the dual aim of promoting infrastructure and economic development in the most backward regions while at the same time alleviating poverty and facilitating social inclusion, mainly for women.

Public works have an insurance function and have been an important safety net intervention, mainly when formal unemployment compensation schemes are not widespread. They have been put in place in recent decades in some emerging and developing economies (*i.e.*, Argentina, Bangladesh, Bolivia, Chile, Colombia, Ethiopia, India, Malawi, Mexico, Peru, and South Africa).[24] These programmes have often been implemented as temporary poverty relief programmes during economic shocks or crises and then phased-out when conditions improve. But some authors have advocated the use of these measures on a permanent basis to promote the right to a job as a guaranteed entitlement, rather than acting only as important macroeconomic stabilisers in times of economic shocks.[25]

This has been the case in India, which has a long tradition of public works schemes, which have progressively evolved until the introduction in 2005 of the National Rural Employment Guarantee Act (NREGA), recently renamed the Mahatma Gandhi National Rural Employment Guarantee Act. While there were previous public works schemes, this is the first time that the government is guaranteeing work in India. The NREGA treats employment as an enforceable right that can be demanded by any adult (one per household) willing to do unskilled work for a maximum of 100 days per year, paid at the minimum

24. See Grosh *et al.* (2008) for a review of the schemes in these countries. PWP used in emerging economies differ from those in developed economies mainly in two respects: they are more a social policy tool than an active labour market measure oriented to improve the employability of the participants; and the projects undertaken create employment but also benefit the local community.

25. See Dreze and Sen (1989), Minsky (1986), Papadimitriou (1998), Mitchell (2001) and Wray (2007) for a complete discussion.

wage. If no work is offered within 15 days after the demand is made, the claimant has the right to an unemployment allowance (30-50% of the minimum wage) and, if denied, the state can be pursued in court.

By guaranteeing jobs during lean and distress seasons (within a five-kilometre radius) and by developing local infrastructures and creating productive assets in rural areas, the Indian public works programme also aims to curb the migration of rural workers to urban areas. Another important aspect of the NREGA is the empowerment of the rural poor, by involving them actively in listing and prioritising the works to be carried out at the local level. However, this bottom-up planning system needs transparent expenditure and employment provisions as well as close monitoring and social audits. The main challenge to the scheme concerns the number of institutions and departments with responsibilities for implementation. This requires strengthening the administrative structure as well as transparency and coordination among all the actors (the centre, the state, the district, the block and the village level). It also demands continuous evaluation and accountability systems to redirect the scheme when appropriate.

A survey carried out by the Institute of Applied Manpower Research for the year 2006-2007 in 20 districts[26] showed that in some regions the scheme took longer than expected to start rolling, and some malfunctioning was detected. Although the survey results should be taken with caution, as it was conducted during the programme's initial phase, it gives some indication of the problems encountered. The majority of the households surveyed positively evaluated the communications about the scheme at the local level, and they could register for work and get their job cards easily and quickly. However, 80% of the beneficiaries said that they did not get a job within the stipulated 15 days, nor were they paid any unemployment allowance. Of those who got a job, only a minority were able to work for more than 30 or 40 days. Even if the scheme stipulates that at least one-third of the wage allocated to each household is for women, women obtained that share of the wage days in only 42% of the households (it is interesting to note, however, that in 22% of the households women got more than one-third of the wage days). As for the impact of the scheme on the well-being of families, the survey pointed to some improvements in the consumption of food and other items, but this was not very conclusive (IAMR, 2008).

The Indian public works programme improved its functioning in the following years and is probably now the world's broadest non-targeted demand-driven scheme. Its budget for 2008/09 represented 0.5% of GDP, the highest share devoted to this kind of programme in emerging and OECD countries. It doubles the South African equivalent programme and is clearly above the OECD average (less than 0.1% of GDP in 2007) (OECD, 2010a). In the past two years, nearly 70% of the funds were devoted to pay wages to workers, and its effectiveness in reaching the poor has been higher than previous versions of the programme (Chhibber *et al.*, 2009). In 2008/09, around 45 million workers benefited from the programme (almost twice the level of two years earlier), representing around 10% of the labour force.

Data from the Ministry of Rural Development confirm that the NREG scheme has offered increasing work opportunities for many women and for the lowest income groups. Indeed, women have progressively increased their participation in the public works programme (from 40% in 2006 to 50% in 2009 in terms of person-days), and participation is highest among the poorest groups (*i.e.,* Schedule Castes and the Scheduled Tribes together represent more than 50% of the participants).

However, there have been significant differences between regions. Low-income states, with more households below the poverty line and lower than average capacity to plan, manage and forecast labour demand, tend to receive less resources on average (Chakraborty, 2007). In addition, weak implementation capacity at the local level limits the benefits poor rural communities derive from the scheme.

26. During its first phase, the NREGA came into force in 200 districts (now expanded to another 130 districts) and is expected to be progressively extended to the whole of rural India by the end of 2010.

The problems most often encountered in implementing the NREG have been: a) the lack of communication and information to ensure an understanding of the scheme among all stakeholders (*i.e.*, rural households, local communities and local government officials); b) weak district planning, giving rise to works that are not relevant to the community and/or of bad quality; c) administrative problems, which have in some cases facilitated the improper use of the scheme, including corruption and nepotism (*i.e.*, in some cases beneficiaries' job cards have been retained, and delays in paying wages and not paying for the entire time worked have been reported although the progressive inclusion of wage payments through banks and post offices is expected to diminish these practices); d) scarce monitoring and lack of systematic evaluations.

Overall, even if effective implementation is still a problem in many regions, and the NREG needs further improvement, it seems to have had positive impacts in combating extreme poverty by raising income in rural areas and creating productive assets. As a result, some commentators have called for a similar scheme to be implemented in urban areas where poverty has increased significantly in recent years.

In South Africa, as part of a broad strategy to reduce poverty and redress the high unemployment situation, in 2004 the government launched a nationwide programme, the Expanded Public Works Programme (EPWP), whose main goal was to alleviate unemployment by creating at least 1 million work opportunities within five years, of which at least 40% for women, 30% for youth and 2% for people with disabilities. All spheres of government and state-owned enterprises can offer productive work, accompanied by training.[27]

The South African programme aims to create job opportunities based on the real demand for services, without displacing existing permanent jobs. The EPWP is conceived as an important instrument to provide exposure to the world of work for the high numbers of unemployed who have never worked (70% of the 16-34 year-old population has never worked, whereas this percentage is 59% for all unemployed). The programme not only offers temporary jobs for unemployed unskilled workers, but also intends to strengthen their skills through providing training and offering formal accreditation of skills as a stepping stone towards better jobs. However, the EPWP has been criticised on the grounds of its limited capacity to pursue both objectives at the same time (Hemson, 2007). As a result, the second phase of the scheme, announced in April 2009, places more emphasis on employment generation relative to training provision in order to maximise the benefits from job creation.[28]

Evaluations of the programme during its first phase show that 58% of the programme's beneficiaries were women, with an average household size of 5.5 people, and that their average income levels almost doubled when participating in the programme. Nearly 90% of respondents thought that assets created by the EPWP would be sustainable, and around 75% of the beneficiaries felt that their participation was positive for their family. However, among the respondents no longer working on EPWP projects, only one-third were still employed, and of those, only half were employed full-time. As in the Indian scheme,

27 . The EPWP is the new version of the national Public Works Programmes (NPWP) and the Community-Based Public Works Programme (CBPWP). It is part of the Accelerated and Shared Growth Initiative for South Africa (ASGISA), which seeks to halve poverty and unemployment by 2014. Under this initiative, the government has promised to increase public sector capital budgets at a rate of 10%-15% per annum and raise Gross Domestic Fixed Investment from 15% to 25% of GDP during the period 2004-2009.

28. According to official estimates, the target of one million job opportunities was reached one year before the five-year horizon, and the government decided to scale up the programme by launching a new phase of the EPWP in April 2009. 2 million work opportunities are expected to be created under the new phase of the programme (2009-2014), thereby halving the number of unemployed by 2014. The expectation is to scale up progressively the full-time equivalent jobs created every year (from 145,000 in 2008 to an average of around 400,000 per year until 2014). The average duration of employment is assumed to be 100 days.

average job duration is shorter than initially stipulated, especially in areas with high unemployment rates, because of the pressure to rotate jobs (Lieuw-Kie-Song, 2009), and wages are low (Hemson, 2008). Furthermore, on-the job training seemed insufficient, as just a third of respondents received it during the last six months (DPWSA, 2009).

Using data from the September 2007 Labour Force Survey (LFS), Leibbrandt *et al.* (2010) found that only a third of adults had heard about the existence of the EPWP, with no difference in awareness between age groups. Those who had participated in the EPWP in the last six months represented less than 1% of the working-age population (1% for men and 0.7% for women). Although the LFS cannot reveal whether EPWP participants were among the poorest, Leibbrandt *et al.* (2010) used educational attainment as a proxy and found, contrary to expectations, that one-third of the participants had completed high school, showing a clear problem with the programme's targeting.

On the other hand, budgetary allocations for the programme seem to have been too low compared to the magnitude of the unemployment problem in South Africa and, as a result, job opportunities were too few and too short in duration to have a significant impact. Indeed, only a small proportion of the expenditures devoted to this programme covered the wages paid to participants. For example, in 2006/07, the wage bill of the EPWP programme was below 1 billion ZAR (10% of the total expenditures on the programme for that fiscal year) (Leibbrandt *et al.*,2010). Moreover, as work opportunities increased at a higher pace than the budget, the income received per work opportunity has progressively declined.

When introducing the second phase of the EPWP, some issues were raised about the need to redirect part of the job opportunities created from the construction and infrastructure sector to the social service delivery sector (mainly early childhood development and home and community based care), as these may have a higher and much more direct impact on poverty alleviation and gender equality. Examining the macroeconomic consequences of scaling up the South African EPWP by adding a new sector for social service delivery in health and education, Antonopoulos (2009) found that it has a strong potential to fulfil multiple objectives. [29] Extending child care and home-based health care services through the EPWP will improve the general well-being of the most vulnerable households (through better child nutrition, health and education) and will help to replace the unpaid care burdens of poor women by paid work.

Overall, existing public works schemes in India and South Africa have especially attracted women and have provided temporary earning opportunities to many poor households, temporarily helping to reduce extreme poverty. However, fewer days of work have been offered than what is needed to have a significant impact on reducing poverty and inequality in the longer term. Although public works programmes seem to be more suited to times of crisis than to combating endemic poverty (OECD, 2010a), the lack of systematic evaluation is obscuring the picture of their real impact on households' well-being. These programmes have often been criticised for some misuse of programme funds, underpayments of wages and corruption. In addition to improving the implementation process (better planning of the works undertaken and their mid-term sustainability and improving the administrative requirements needed), accompanying the scheme with further training to improve skills seems to be a promising avenue and needs to be better explored. Generating temporary employment is a very positive outcome, but improving employment possibilities of the participants once the scheme is over is clearly more challenging.

29 . During the period 2004-2005, the programme costs represented 0.3% of GDP and 0.8% of government expenditures, with 75% of the budget allocated to infrastructure projects, 20% to environmental projects and only 3% to social sector job opportunities (Antonopoulos, 2009).

2.2 Non-contributory social programmes

This section discusses the impact and main advantages and disadvantages encountered with the development of the existing non-contributory (and not conditional) social programmes developed in the BCIS countries. These programmes comprise income-tested benefits provided by the state to vulnerable groups, such as the disabled, the elderly and young children in poor households. Benefits are financed out of general tax revenues, and there is no link between contributions and benefits.

In the 1990s, the BCIS countries progressively introduced some non-contributory social pensions to alleviate poverty and reduce income inequalities. The target groups, the beneficiaries of these pensions and their characteristics differ significantly across countries (Table 3). In China, the progressive introduction of a market economy and the consequent increase in poverty, mainly in urban areas, led to the introduction of new social instruments, while in South Africa the fall of Apartheid was followed by a new strand of social pensions for poor households.

Table 3. Main non-contributory social assistance schemes for low-income households

Country	Date	Social Assistance Programme	Coverage	Duration of benefits	Maximum Benefit	Number of Beneficiaries [a]
Brazil	1998	*Bolsa Familia*	Households with children below 14 years of age (if disabled no limit of age) whose monthly income is up to 752 BRL (388 USD). Domestic workers, casual workers and self-employed are excluded.	Age limit of the child or income limit	Up tp 25.66 BRL(13 USD) paid monthly per child.	In 2009: 12.4 million households
	1996	Benefício de Prestação Continuada (BPC) [b]	People over age 67 (over age 65 until 2004) and disabled with per capita family income of one quarter of the minimum wage.		Minimum wage. It cannot be cumulated with other social assistance programs.	In 2005: 2.7 million
China	1999	Minimum Living Standard Scheme (Dibao)	Initially, urban household whose per capita income falls below a locally determined poverty line. The system has been extended to rural households mainly since 2005.	No limit on either age or length of benefit.	The benefit equals the gap between per capita household income and the local poverty line. Household with no income (or no working capability or no legal supporter) receives the local minimum standard of living.	In 2008: 23 million in urban areas and 43 million in rural areas.
South Africa [c]	2004	Foster Child Grant	Resident child (below 18 years of age) whose foster parent (court order) has an annual income below 12,720 ZAR (1570 USD).	Age limit of the child or income limit	Up to 680 ZAR (84 USD) per month and child.	In 2008: 476,394 children
		Child Support Grant	Children below 15 years of age whose caregiver has an income below 2,400 ZAR (296 USD) per month (4,800 ZAR for a couple).	Age limit of the child or income limit	Up tp 240 ZAR (30 USD) per month for eligible child. Grant paid up to six children.	In 2008: 8.7 million children
		Care Dependency Grant Social Relief of Distress	Children aged 1 to 18 requiring permanent care (mental of physical disability). Persons unable to meet their own (or their family) basic needs.	Age limit of the child or income limit 3 months (exceptionally can be extended to 6)	Up tp 1,010 ZAR (125 USD) per month.	In 2008: 107,065 children

Note: a) 2008 or latest year available; b) BPC is an individual allowance that takes into account the family resources. The minimum wage in Brazil was set in 2009 at 465 BRL (240 USD); c) In South Africa citizens are eligible to receive only one benefit at a time.

Source: Secretariat elaboration mainly from: http://www.ssa.gov/policy/docs/progdesc/ssptw and national social security sources.

In China, labour market restructuring observed since the 1990s was accompanied by a shift in the financing of most social benefits from work units – mainly SOEs – to general taxes or shared responsibilities among individuals, employers and the government. The reduction of the welfare burden on employers can be seen in the fall in the share of social benefits in total urban household income. Gao and

Riskin (2009) estimated that in urban areas, this share has halved since the end of the 1980s (from 44% in 1988 to 22% in 2002).

To tackle increasing urban poverty, in 1999 China launched the Minimum Living Standard Scheme (MLSS or *Dibao*), a last-resort social pension initially for the urban poor, but progressively extended to rural areas. Any household with per capita income below the locally determined poverty line is entitled to receive the *Dibao* benefit.[30] The benefit amount equals the gap between per capita household income and a locally determined minimum living standard. The scheme is financed by the central government and the municipalities, with a share that varies according to their financial capacity.[31]

The number of beneficiaries has increased very rapidly, and in 2008 came to around 23 million people in urban areas and 43 million in rural ones, representing 3.9% and 6.7% respectively of the total urban and rural populations.[32] But most poor households remain uncovered. Using different surveys, different authors have estimated that the coverage of *Dibao* varies from one-third to one-half of the eligible population. Moreover, migrant workers in urban areas without urban *hukou* are not eligible for the *Dibao* benefit. Gao *et al*. (2009) have estimated that if migrants were included, the number of beneficiaries would have been 15 million higher (representing around 10% of total migrants).

In general, low benefits together with the often strict process required to receive the payment tend to create disincentives for many poor families to apply. Avoiding stigmatisation is another reason often cited for not applying. Other than improving targeting, there is a consensus that extending coverage is a pressing need for many regions. In urban areas, D*ibao* is regulated and administered by city governments, and the scheme's generosity, extension and coverage depend on the cities' financial capacities and priorities, which vary significantly, fostering important regional inequities. Larger city spending on *Dibao* is normally associated with a larger impact on poverty reduction and better targeting performance (*i.e.,* Chen *et al.,* 2006; Ravallion, 2007).

As for the impact on poverty reduction, using the China Urban Labour Survey conducted in 2001 and 2005 by the Institute of Population and Labour Economics of the Chinese Academy of Social Sciences (CULS database), Cai *et al.,(* 2009) found that, whereas in 2001 the unemployment compensation scheme (*xiagang)* had a higher impact on poverty reduction than did the *Dibao*, in 2005 the opposite was true. The *Dibao* reduced poverty rates, as headcount poverty rates were lower after the *Dibao* transfer, compared to the pre-transfer situation, although this decline has been small. Gao and Riskin (2009) also showed that the *Dibao* is the only social benefit in urban China targeting the poor that has contributed to reducing inequality.

With a younger population than China and a higher incidence of poverty in relation to household size, South Africa targets non-contributory transfer programmes mainly to children in the poorest households. Social grants have been the key plan in poverty alleviation policies in South Africa, mainly since the fall of Apartheid when the government reformed and added new grants to the system, considerably increasing the number of beneficiaries.

30. The income considered is the cash income coming from any source (*i.e.*, earnings, social benefits and private transfers). Some other indicators as financial assets, employment, health status and housing conditions, are often considered too. Some cities take into account ownership of durable goods. The eligibility test also considers residency status (urban *hukou*) and family composition (*i.e.,* cities treat adult children living with their parents differently).

31. In the richest coastal regions, municipalities pay most of the expenditure, while poor municipalities, such as in the west of the country, bear almost none of the expense (Solinger, 2008).

32. See Cai and Du (2010) for details on trends and on the average monthly benefits received.

Currently, the most important social assistance programmes in South Africa are the Child Support Grant, introduced in 1998 (initially for children younger than 7 years of age and coming from poor households, but progressively extended to all poor children under age 15), and the Old-Age Pension for the poor aged over 60. With different thresholds, these grants are both means-tested, and their coverage has increased significantly in recent years, although the Child Support grant has more recipients. In 2008/09, 36.6% of households received the Child Support Grant, covering 8.7 million children, more than half of the children aged 15 or under, while the old-age pension covered 2.3 million people.[33]

Leibbrandt *et al.* (2010) have estimated that 2.6 million children who were not eligible received the Child Support Grant, while 2.9 million children in need were not covered (82% of whom had never applied for it mainly due to lack of correct information). Whereas the number of ineligible children receiving the grant was expected to be high due to the design of the system, which tests the income of the household only when applying for the first time, it seems surprising that so many children in need did not receive it.[34] This mainly points to the need to increase communications about the grant, to ease the application procedures, and to improve targeting and the follow-up of the household situation over time.

Social grants have become the main source of income for many South African poor households; 55% of the households in the bottom quintile of the income distribution received some income from the Child Support Grant, compared to less than 10% of households in the top quintile.[35] Moreover, for the poorest households social pensions represent two-thirds of total income. As households move up the income distribution, labour market income becomes increasingly important, and reliance on social assistance decreases (Leibbrandt *et al.*, 2010).

Through their increasing impact on household income, social grants have contributed significantly to reducing poverty and improving education and health in South Africa. However, the impact on the labour market is less conclusive. For example, Bertrand *et al.* (2000) found that when a member of the household receives the old-age pension, the working hours of the other members tend to fall (more for men than for women, and more for the eldest sons than for the other members). Also, the unemployed tend to move and change their location depending more on the receipt of a pension by a household member than on the best location for the job search (Klasen and Woolard, 2009). On the other hand, rural women tend to migrate more for job when a member of the household receives a pension (and more if the recipient is a woman), as they can better afford migration costs and/or leave behind their children with their relatives (Posel *et al.*, 2004). Also, Ardington *et al.* (2009) found that transfers to the elderly lead to increased employment among prime-aged adults, which occurs primarily through labour migration. The old-age pension's impact is attributable to the increase in household resources used to stake migrants until they become self-sufficient, or to support and take care for the children left behind.

In Brazil, apart from the family allowance (*Bolsa Familia* programme), which will be discussed in the next section, other social assistance programmes have been in place since the mid-1990s and have had an increasing number of recipients. Indeed, the *Beneficio de Prestacao Continuada* (BPC) is an unconditional cash transfer targeted to the disabled at any age, and to the elderly aged more than 67, living in households

33. According to the National Treasury (2010), in 2008/09, 13 million people were beneficiaries of a social grant in South Africa: 67% benefited from the Child Support Grant, 18% from the Old Age pension, 10% from Disability, 4% from the Foster Care Grant and 1% from the Care Dependency Grant.

34. In January 2010, the government introduced a condition for receiving the Child Support Grant: caregivers of Child Support Grant beneficiaries need to ensure that the children are enrolled in and attend school. However, punitive actions – such as stopping the grant – are not envisaged in case of non-compliance (National Treasury, 2010).

35 . For the Old Age pension, these percentages are 10% of households in the bottom quintile of the income distribution, compared with 5% in the top quintile, for the Disability grant 6% and 3%, respectively.

with per capita income below one-fourth the minimum wage. In 2005, there were around 3 million recipients of the BPC. It is assumed that BPC beneficiaries have no other income source, which partly explains why the benefits provided under this scheme are higher (the minimum wage) than for other cash transfers to Brazilian households.

The BPC has often been criticised for encouraging evasion of social security contributions. As the government will provide for the elderly, the BPC could substitute part of the social security benefits of a contributory nature with an assisted benefit. However, the evidence on this is mixed. Medeiros *et al.* (2008) did not find much evidence of a general disincentive to contribute to social security due to the BPC. However, there seems to be more evidence that the BPC has contributed to a non-negligible extent to poverty reduction, although less than the conditional cash transfer of the *Bolsa Familia* Programme (see below).

2.3. Conditional cash transfers

Conditional Cash Transfer (CCT) programmes are means-tested non-contributory social transfers to the poorest households, conditional on behavioural changes (*i.e.,* investing in education and health). The arguments for imposing conditionality are twofold: poor households tend to under-invest in health and in human capital for their children, perpetuating poverty in future generations (private optimal investment is below the socially optimal level); when redistributive measures have little support in a given society, they can be better accepted when imposing the conditionality of "good behaviour" (political economy argument).[36]

CCT programmes complement social policy interventions oriented to offering services to the poor, and are mainly based on interventions that focus on solving the constraints poor households face to access these services. The main difference with unconditional cash transfers (such as grants or other social assistance programmes) is that the former tend to influence individual/household consumption preferences by imposing the condition of making specified investments in the children's health and human capital. These schemes have a dual aim: to reduce poverty in the short run while protecting the formation of human capital in the long run. By helping households to break the vicious circle of inter-generational poverty transmission through the promotion of schooling, health and nutrition, CCT programmes have also been hailed as a way to reduce inequality.

These programmes originated in Latin America, mainly as a response to the economic crisis of the 1990s and the associated falling demand for social services – such as education and health – from the poorest households. They were implemented in different countries (*i.e.,* Brazil, Colombia, El Salvador, Honduras, Mexico, Nicaragua, Paraguay), and extended to other emerging and low-income countries (*i.e.,* Bangladesh, Indonesia, and pilot programmes in Cambodia, Malawi, Morocco, Pakistan).[37] *Progresa/Oportunidades* in Mexico and *Bolsa Familia* in Brazil have become the largest social assistance programmes in the past decade – covering, respectively, 5 million and 12.4 million households. As some of the first schemes to be implemented, they are also among those most evaluated (Box 6).

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36. Indeed, conditioning the transfer on "good behaviour" may be better accepted by the better-off people who tend to be involved in the decision-making processes. In contrast to unconditional transfers, making the beneficiaries of the transfer co-responsible, with the state as a partner, leads to a better political economy equilibrium.

37. See Fiszbein and Shady (2009) and UNDP (2009) for a review.

Box 6. **Lessons learned from Conditional Cash Transfers' design**

Each scheme has its own characteristics, and significant differences exist regarding their design, magnitude and main objectives, based on each country's specific circumstances. For example, the relative coverage of existing CCTs varies significantly, from approximately 40% of the population in Ecuador, to about 20% in Brazil and 18.5% in Mexico, and to just 1% in Cambodia. The generosity of the benefits also differs significantly (from 20% of mean household consumption in Mexico to 4% in Honduras and even less in Bangladesh, Cambodia and Pakistan) as do the costs (which range from 0.5% of GDP in Brazil, Ecuador and Mexico, to less than 0.1% in Chile) (Fiszbein and Shady, 2009).

Most CCT programmes share the following characteristics: a) they are means-tested and targeted to the poorest households; b) to assure the children get the benefits, the cash benefit is usually addressed to the female head of the recipient household; c) education conditions usually include school enrolment, attendance of at least a fixed percent of school days and occasionally some measure of school performance; d) schemes tend to include a nutrition and health component for children and pregnant women; d) the transfers vary with the number of children and can change with their age and gender; e) transfers are often higher for children in secondary education.

When implementing and designing CCT schemes, different policy dilemmas need to be addressed:

a) <u>Targeting</u>: they are normally designed to target poor households that under-invest in their children's human capital. As the latter is difficult to target, the usual method has been to target poor households, which leads to the same problems as faced by any other means-tested social assistance programme (*i.e.,* which poverty line to use and how to set the cut-off line for eligibility).

<u>b) The amount of the benefit</u>: transfers are often small to avoid dependency of beneficiaries and not to negatively affect labour market participation. If too small, however, they might be insufficient to enable households to cross the poverty threshold.

<u>c) Duration of the transfer and exit strategy:</u> this basically depends on the main objective pursued by the transfer scheme. If the objective is to enhance human capital formation for the next generation, the scheme needs to have a long duration, whereas if the main objective is to help poor households to cross the poverty line, then a shorter duration may be enough. The design of entry and exit rules has to be carefully considered to avoid disincentives, mainly related to labour market participation. In some cases, time limits on benefits have been imposed (*i.e.,* Chile) or gradual benefits have been adopted, but in general once the scheme is in place scaling it down is a difficult task.

<u>d) Costs and capacity constraints</u>: other than the direct costs of the intervention, opportunity costs have to be considered as well. Administrative, management and implementation costs and capacities have to be included too. This requires an administrative and data gathering mechanism for targeting potential beneficiaries as well as good management and monitoring and evaluation requirements.

CCT programmes often have multiple objectives that make it difficult to assess their impacts. Existing evaluations of these schemes, however, show that: in general they have been well targeted (mainly in Brazil and Mexico); they have improved the living standards of many poor households; they have raised the levels and composition of consumption *(i.e.,* towards more food); and they have made a substantial contribution to poverty reduction (Fiszbein and Shady, 2009). Poor households have increased the school enrolment of their children and the use of health services, but improvements regarding the final outcomes are more nuanced. The nutritional status of children has not always improved, and there is little evidence about their learning outcomes.

According to UNDP (2009), the impact of CCTs has been higher when supply-side constraints were not severe and when certain minimum infrastructure conditions were in place regarding educational and health services. As a result, on the educational front, the impact has been greater when school enrolment and attendance were supplemented by a better school environment and quality of education than when education provision was of very low quality. The lack of investment in the quality of education available to disadvantaged children and the lack of access to a set of other public services prevent breaking the inter-generational transmission of poverty *(i.e.,* Soares *et al.,* 2007; Paes Souza and Pacheco Santos, 2009).

It is also interesting to see some possible consequences of the design of these social programmes and their impact on the labour market. In general, CCTs do not condition the benefit payment on the household head's engagement in the labour market, but are often directed to the reduction of child labour. In theory, the cash transfer can increase the reservation wages of the head of the household and provoke a fall in labour supply. Indeed, an important concern regarding CCTs' impact was that they could discourage the labour market participation of adults (as they could choose to consume more leisure instead of work, or to reduce work to continue to be eligible for the transfer).

However, evidence does not confirm these fears, and the disincentive effects on adult work seem to have been modest. For example, in Brazil, Ferro and Nicolella (2007) and Mattos *et al.* (2008) have investigated this issue empirically, and both conclude that *Bolsa Família* had no adverse impact on labour supply. But there is evidence that CCTs have helped to reduce child labour in many countries (*i.e.*, Brazil, Cambodia, Ecuador, Mexico and Nicaragua).[38]

The evidence of the impact of these programmes on managing risk and reducing income inequality is, however, more nuanced. For example, in Brazil, some studies have found that social transfer programmes have had a positive but small effect on the recent reduction of inequality (Lima and Scorzafave, 2008). Hoffman (2006) argued that although the main reduction in inequality is due to the improvement in educational attainment, a fifth of the overall reduction in inequality between 2001 and 2005 was due to the cash transfer programmes (both *Bolsa Família* and the BPC), which is not negligible. There are, however, important differences between regions. For example, in the poorest regions, like the Northeast, these programmes are responsible for about 46% of the reduction in the Gini coefficient between 1998 and 2005 and for 87% in the period between 2002 and 2004.

Barros *et al.* (2006) argued that the main factor behind the effect of the social programmes on inequality in Brazil was the increase in their coverage between 2001 and 2005, especially in the case of *Bolsa Família.* Moreover, *Bolsa Família* has contributed more to decreasing inequality than other social programmes in Brazil (*i.e., Benefício de Prestação Continuada*, or the PETI, the latter having a negligible effect on inequality).[39]

In India, although conditional cash transfers are not developed, there exists some cash and in-kind transfers to households in the form of food, fuel and fertiliser subsidies. Some authors have argued that the budget spent annually on these subsidies would be better utilised if provided directly to the beneficiaries through a cash transfer programme, as the latter will enhance efficiency and reduce the existing leakages (and the associated corruption at municipal level) in the delivery of such programmes (UNDP, 2009).

Evidence suggests that implementing CCTs is an important option for helping the most vulnerable households. Although a key instrument, they cannot solve all the problems faced by poor households and should be complemented with other social protection and employment creation measures as well as with better quality educational and health services. CCT programmes should basically remain oriented to fighting persistent poverty, but can also be expanded in times of economic crisis when many groups of workers become more vulnerable (Box 7). However, experience also shows that once coverage is expanded, scaling down the programme once the shock is over remains a challenge.

38. See OECD (2003) and Fiszbein and Shady (2009).

39. *Bolsa Familia* and Beneficio de Prestacao Continuada (BPC) are the two main social transfers in Brazil. The PETI programme was created in 1996 to eliminate child labour and was incorporated into *Bolsa Familia* in 2006.

Box 7. **Main responses to the current economic crisis**

The response of employment and social policies to the current crisis has been uneven among the BCIS countries, although most policy measures introduced in 2009 consisted in expanding or modifying already existing programmes. OECD (2010a) reviews this issue, based on the responses to country questionnaires submitted by nine emerging economies (*i.e.,* Brazil, Chile, China, India, Indonesia, Mexico, Russian Federation, South Africa and Turkey), in the areas of unemployment compensation schemes, cash transfers and public works programmes.

Traditionally, in a crisis period, the combination of increased layoffs and reduced hiring results in longer unemployment spells. As unemployment spells lengthen, beneficiaries are confronted with expiring entitlements and/or declining benefit payments. While, in general, this is likely to increase job-search incentives, their effect is likely to be less pronounced in recession periods, as job vacancies dry up and demand-side restrictions become more binding (OECD, 2009a). This is especially the case for countries where benefit duration is short, such as Brazil. In fact, Brazil (like Chile) has implemented a temporary extension of the benefit duration in response to the global financial crisis, increasing it by two months for laid-off workers in specified sectors determined at the state level. This was done only for workers laid-off in the months of December 2008 and January 2009, a short period, which is probably related to the relatively small and short-lived increase in unemployment experienced in Brazil. About 190,000 workers were concerned by this extension, representing slightly more than a quarter of unemployment benefit recipients in January 2009. Available data show that this did not result in an increased average duration of benefit in 2009, which was 3.9 months in 2009, just as in 2008.

Regarding cash transfers, some emerging economies (including Chile and Indonesia) introduced specific one-off cash transfers to cushion the impact of the shock on the poorest groups., China used its already existing schemes to identify eligible households and introduced a one-off transfer to poor households, equivalent to the average *Dibao* monthly benefits in urban areas in 2008 (about 15% of the Shanghai minimum wage in 2009) and to twice the average *Dibao* monthly benefit in rural areas (Cai *et al.*, 2010). 63 million *Dibao* recipients benefited from this exceptional transfer, as well as 11 million households not receiving it but already identified as vulnerable households by the local committees in charge of identifying households eligible for *dibao* (mainly elderly people without children who already received some benefits and those who applied for the *Dibao* but were rejected).

In 2009, Brazil and South Africa also introduced some reforms of their cash transfers programmes, not specifically in response to the crisis, but as part of their long-term anti-poverty strategy. In Brazil, *Bolsa Família* was scaled up in 2009 along lines planned before the crisis. The poverty line used to target poor families was revised upwards by 17% to take better account of the large income volatility of the poorest population groups, due to their participation in the informal labour market. As a result, the estimated eligible population rose from 11.1 million to 12.9 million (12.4 million households were effectively covered in December 2009). The benefit level was also increased by 10%. Together, these two measures imply a 3.5% growth in the budget for *Bolsa Família*. In South Africa, eligibility for the Child Support Grant was extended to children aged up to 15 in 2008, with the aim to extend it to children up to 18 by 2012. As a result, the number of children covered by the programme increased by about 3%. The income threshold used for eligibility was also revised upwards. An additional measure was also taken in response to the crisis and especially to increasing fuel and food prices: all social assistance grants were increased by 20 ZAR above the usual annual increase in October 2008, which represents an increase of about 10% in the case of the Child Support Grant.

3. CONCLUSION

In recent years, the BCIS governments have incorporated the goal of reducing poverty and inequality into their approaches to more sustainable growth and have enacted some reforms in that direction. Tackling inequality traps requires improving economic opportunities for all, and this covers a variety of policy actions, from improving the distribution of productive resources and assets to improving human capital through better-quality education to which all people have access.

In pursuing these goals, labour market and social policies have an important role to play, as they directly or indirectly affect household incomes. In countries with significant labour market segmentation between formal and informal employment, policies and measures directed exclusively at the formal labour market have a limited influence, as they are oriented to a small share of the labour force. High informality limits the impact of labour market polices on reducing poverty and inequality. The majority of the poor are at the margin of the labour market and are not directly affected by these measures – such as unemployment compensation schemes, a minimum wage or contributory retirement pensions – which in most OECD countries are instruments that help reduce poverty.

That said, labour market policies can have a considerable impact on maintaining this labour market duality when they make employment expensive and favour underemployment and informality. In this kind of configuration, they could even become counterproductive with respect to reducing poverty and inequality. Indeed, labour regulations, although in principle oriented to protect workers, can, if not well designed, have perverse and undesired effects on the level of formal employment, discouraging employers from hiring workers on formal contracts. In such a case, their effects on low-wage workers are unclear and depend very much on the specific conditions in each country.

For that reason, rather than being oriented to further protect those that they already protect – often workers who are better-off – labour market policies should be designed and reinforced to reduce labour market duality. The main challenge is to develop measures to make labour markets more inclusive and to create incentives to reduce informality. This strategy requires giving informal workers the necessary means (legal, financial, educational) to shift to formal employment as well as to provide incentives for firms to become formal. This means giving greater priority to enhancing human capital as well as to labour market flexibility, simplification of the tax system, and reduction of the often burdensome product market regulation. Moreover, as the informal sector in BCIS does not have the same weight in the various national labour markets and is very heterogeneous in each country, this also requires a better understanding of the socio-economic characteristics of the different groups of workers that form it, as well as their dynamics, in order to target the groups that can be brought more easily into the formal sector.

Labour market policies should also be more oriented to protect workers than jobs, which could mean applying some of the already existing measures to workers outside the formal sector. To be more oriented to those who are more removed from the labour market (*i.e.,* the less skilled, women, youth and the long-term unemployed), some measures, such as the unemployment insurance scheme, could be combined and complemented with other targeted active labour measures, and in particular, with training measures that contribute to improve labour market matching.

To improve labour demand and promote job creation in the formal sector, labour market policies need to be integrated and complemented with other policies, ranging from measures to foster entrepreneurship (*i.e.*, reducing barriers to entrepreneurship such as by facilitating access to credit, etc.) to measures that improve human capital accumulation through better quality education for all. To boost incomes and jobs, the four pillars of the OECD Reassessed Jobs Strategy, conveniently adapted on a country-specific base, can also be applied to BCIS. This means: i) setting an appropriate and solid macroeconomic policy; ii) removing the impediments to labour market participation for groups with more difficulties as well as facilitating the job search; iii) tackling labour and product market obstacles so as to boost labour demand; and, iv) facilitating the development of labour force skills and competencies.

Public works programmes, conditional cash transfers and other non-contributory social assistance programmes have been found to have positive effects on reducing poverty, whereas the evidence on their impact on inequality is more nuanced. Although means-tested programmes – such as CCTs and other non-contributory social transfers – have associated higher costs and targeting errors, they have more stable outcomes with respect to reducing poverty than do public works programmes.

Moreover, introducing conditionality in cash transfers to poor households is a valuable prerequisite not only to assuring more effective transfers to the target population, but also in terms of better acceptance amongst the whole population (the political economy argument). Conditionality has mainly been oriented to improving children's access to health and human capital, an objective that has been reached for many poor households. However, breaking the inter-generational transmission of poverty requires additional efforts to improve the quality of the educational and health services offered to these populations. Moreover, some conditionality on the labour market participation of adults in the household could also be considered in certain cases.

Public works programmes can be targeted (as in South Africa to the unemployed) or not (as in India), but what seems crucial is that the wage offered is not set too high to really attract the poorest and most vulnerable workers and avoid displacing jobs. The potential of these programmes has not yet been fully explored, and accompanying the scheme with further training to improve skills seems to be a promising avenue that should be given more consideration. This will help to increase the skills of the participants so that they can effectively enter the labour market on a more stable basis. It will not only offer participants a temporary income, but will also be a better strategy to effectively break poverty and inequality traps.

The cost-effectiveness of all these social protection measures can probably be improved through better monitoring, although it is important to keep in mind the additional costs of doing this. Indeed, the possibility of scaling-up these programmes, not only in times of economic crisis but on a permanent basis, depends on the financing constraints imposed by each country's fiscal policy. The needs remain large compared to the budgets available, but social protection policies generally have to be seen as an investment for the future. Even if in some cases they appear to be expensive or even unaffordable, when well-designed and administered to reduce leakages and possible corruption, they clearly pay-off in the medium and long term.

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