The World Bank is carrying out a program of analytic and advisory activities (“the Labor AAA”) focused on the interface between social protection programs and labor supply and productivity. This focus relates to the debates in Brazil surrounding the issue of helping transfer beneficiaries “graduate” from poverty and from dependence on transfer incomes. The AAA is structured along two “pillars.” Pillar I addresses questions related to the impacts of explicit and implicit public transfers on labor supply and savings decisions. In particular, what is the effect of public transfers such as Bolsa Família and those related to the social insurance system (pensions and unemployment) on work incentives, early entry and retirement, sector choice, and ultimately, public expenditures, human capital accumulation and growth. Pillar II focuses on program design and evaluation. The end goal is to identify how the portfolio of transfer and active labor market programs can be optimized to enhance the “employability” of the poor, help promote their graduation from poverty, and, ultimately, from dependence on transfer income. In addition, the Labor AAA includes a component to assess public perceptions about Social Protection programs. The Labor AAA is a “living program” that seeks to respond to questions posed by Brazilian policy-makers as they strengthen the education-social protection-labor market nexus (see Figure 1). This approach is helping convene the different stakeholders at the federal level by bringing evidence and policy analysis to the debates.

RESULTS UNDER PHASE I: LAYING THE GROUND WORK

The first phase of the Labor AAA (July 2006-June 2007) focussed on carrying out a comprehensive program of consultations, reviewing the policy and analytical work conducted to date in the areas of interest, building partnerships with various research centers and preparing the ground for new analytical work. Some of the main outputs and insights from the first phase are summarized below.

**PILLAR 1:** Explicit and implicit transfers and labor supply

Brazil channels around 12.2% of GDP in public transfers through the social protection system. These transfers can be explicit, as in the case of conditional cash transfers or social pensions, or implicit, when contributory social insurance programs pay rates of return on contributions above market levels.
There is broad agreement that these transfers have played an important role in helping individuals to mitigate the impact of risks such as unemployment, inflation, disease, longevity, and disability, while reducing poverty rates. Previous analytical work in Brazil and elsewhere suggest, however, that these transfers can also have unintended consequences. First, their income effect can reduce labor supply (participation rates and retirement ages, hours worked, job search efforts) and savings. Second, the necessary financing arrangements increase the tax-wedge, reduce net earnings, and can in turn lower employment levels and provide incentives for informal versus formal sector work. The transfers can not only affect the behavior of direct recipients, but also those of other adults living in the household. Understanding these behavior-response aspects is thus important for better program design and to avoid situations where the programs create dependency and/or “poverty traps”

A comprehensive review of the economic literature conducted under Phase I suggests that the distortions arising from social insurance programs are far more important than those related to the social assistance transfer programs. In general, there is room to improve incentives but more analytical work is necessary to identify the necessary policy interventions. The main insights can be summarized as follows.

**Pensions.** There is strong evidence from the literature for OECD Countries that the generosity of the mandatory pension systems (i.e., deviations from actuarial fairness) has contributed to reduce retirement ages and participation rates among older workers. It has been estimated that the cost of early retirement resulting from foregone revenue and higher pension expenditures is in the order of 7.5 percent of GDP. For Brazil, while the literature is still thin, there is evidence that the Length of Service Component (LOS) not only has incentives for very early retirement, but is also likely to be inducing premature entry into the labor force and low human capital accumulation. There is also evidence that the rural pension and non-contributory old age pensions reduce labor force participation among working adults. Nonetheless, these programs might be also contributing to delayed entry into the labor force among the young, which can increase human capital accumulation. In general, there is room to improve the design of the pension system to reduce unnecessary economic distortions.

**Unemployment insurance (UI) programs.** In OECD countries there is compelling evidence showing that, by increasing reservations wages and reducing job search effort, UI increases the length of unemployment spells. The higher the benefit replacement rate and the eligibility period, the longer the spell (e.g., a 10% increase in replacement rate tends to increase unemployment length by 6%). At the same time there is weak evidence that UI allows workers to find better/higher paid jobs. For Brazil, again, the literature is very thin. There are actually no studies that examine the impact of *seguro desemprego* on the length of unemployment and labor supply. There is evidence, however, that the FGTS benefit (and the 40 percent fine that employers have to add to the benefit when firing a worker) have significant impact on job turnover, especially when the economy is growing and there is growing demand for labor. More analysis is required in this area.

**Social assistance.** A large body of literature in OECD countries, and especially in the US and UK, indicates that: (a) design innovations in social assistance programs in OECD countries (such as the elimination of the implicit 100% marginal tax rate in older social assistance transfer programs and the introduction of time limits and work requirements) seem to have resulted in a substantial drop in caseloads and an equivalent increase in labor market participation by beneficiaries; and (b) earned income tax credit programs seem to have been very successful in reducing poverty among the working poor, without creating significant work disincentives. For developing countries, on the other hand, the evidence does not support the hypothesis of work disincentives of social assistance programs. For instance, conditional cash transfer programs in Latin America have not had a substantial impact on the labor supply of adults, and have been successful in delaying the entry of children and the young into the labor force, helping them accumulate more human capital. For Brazil, the evidence is similar. The most robust evidence indicates that the Bolsa Família Program has no statistically significant impact on adult labor supply, while at the same time it has induced children to accumulate human capital by staying in school.

**PILLAR 2: Active Labor Support Services**

Debates about the “graduation agenda” for beneficiaries of transfer programs have increased in prominence in recent years, both internationally and in Brazil. Indeed, an emerging trend with cash transfer assistance – both in LAC and in OECD countries – is to enhance programs in ways that promote “graduation” and avoid dependence
on welfare. In Brazil, much of this debate has focused on the “jobs agenda” and improving the “employability” of the poor. Thus, federal, state and municipal governments and other actors have promoted a range of labor support services, both public and private, designed to support productivity and earnings. These can be roughly divided into five categories: (a) support to “human capital” and qualifications of the worker (various types of training services); (b) support to “job placement” (job search services, job placement, etc.); (c) support to urban self-employment (micro credit, formalization of micro enterprises, technical assistance); (d) support to rural self-employment (micro credit, technical assistance for family agriculture, market access, etc.); and (e) linking beneficiaries to other complementary services. Not all of these are designed to reach the poor or transfer beneficiaries. Nonetheless, governments at all levels are looking at ways in which they could adapt these services to better reach the poor (and link transfer beneficiaries to these services).

The main insights from policy discussions and preliminary analytical work under Phase 1 can be summarized as follows:

There are important challenges to improve the employability of beneficiaries. The beneficiaries of cash transfers have low “employability” characteristics: low education, low basic skills. They also primarily work in informal salaried jobs or are self-employed. For them to obtain good jobs and/or sustainable self-employment, they would need investments in human capital (to acquire better skills) and also complementary support that addresses the non-work related barriers they face (IDs, property titles, childcare).

There is a need to define a policy framework to optimize the portfolio of programs. The different ministries and levels of government operate numerous programs, including: (a) for human capital support: Brasil Alfabetizado, youth-adult education (EJA/AJA); (b) decentralized programs to support job placement (such as the National Employment System, SINE); (c) support to self-employment, particularly in rural areas (such as PRONAF credit schemes and MDA/MTE technical assistance programs); and (d) some efforts to link beneficiaries to complementary services (such as partnerships between MDS and Justice to provide IDs to beneficiaries, and local interventions by the Centros de Referência da Assistência Social). However, there is no systemic approach to this array of efforts, and little information or understanding on the potential gaps, overlaps in coverage and the need for inter-governmental and inter-agency coordination. MDS is promoting the use of the Cadastro Único (registry for Bolsa) as the gateway to various programs (such as for Brasil Alfabetizado), but many labor services (such as the Sistema S) have no such links.

Inter-institutional coordination is crucial but faces many challenges. Linking poor beneficiaries of transfers (such as the BFP) to active labor support services inherently requires inter-institutional coordination. Some examples of recent efforts include: work with MDS to make an inventory of labor support programs – though this was limited to federal programs. Some efforts are also being made to increase coordination between MDS and other agencies, for example: (a) between MDS and the Ministry of Education (MEC) for the prioritizing of beneficiaries of Brasil Alfabetizado; and (b) between MDS and the Ministries of Labor and Agricultural Development and the S System in setting up “affirmative action targets” to promote inclusion of the poor (and BFP beneficiaries) in their programs. At the local and inter-governmental level, the cooperation agreements signed between MDS and the municipalities also signal an agreement to prioritize BFP beneficiaries for other complementary services offered by municipalities. In practice, however, there are many challenges to promoting inter-institutional coordination, including: (a) policy decisions to prioritize poor transfer beneficiaries for these services; (b) funding and jurisdictional responsibilities; and (c) the lack of (and need for) inter-institutional information systems to monitor and evaluate the effectiveness of such links.

Several programs are not designed to reach the poor. Professional training offered by the “S system” for example, is mainly geared at employees who are already in jobs and who have at least basic education skills – and it has no formal mandate to attain the poor. Most of the micro-credit schemes require some minimal level of literacy and experience with an already existing business. The only attempt to reach the poorest is via the Banco do Nordeste pilot village banking scheme.

There is no systematic approach to monitor and evaluate programs. Few active labor support programs have been evaluated for impacts. Even with the big push on literacy via Lula’s Brasil Alfabetizado and the youth/adult education programs (EJA/AJA), there is little conclusive evidence on learning outcomes and income-generation impacts (despite efforts by IPEA to track participants over time). Similarly, there is little evidence of impact of the programs to support self-employment (in urban and rural areas), though there is some information about low survival rates of businesses sup-
port of the informal sector, as well as differences in non-market activities, the labor intensity in production, the stringency of credit constraints, the relative importance observed in middle income countries like Brazil, due to however, can be very different from those that would be programs applies to OECD countries. Impacts there, public transfers and the effective of active labor market policy research looking at the labor market impacts of vigorous in the press. While press coverage is fairly favorable overall, elections do bring increased scrutiny and criticisms (political cycle) regardless of program or administration (similar for the predecessor CCT programs as for Bolsa Familia). The press focuses on some technical aspects of the program: registration, oversight and controls, conditionalities and monitoring. These aspects have evolved over time as the program matures with a lot of discussion on registration (a first-generation issue) early on and more focus on conditionalities and graduation/sustainable poverty alleviation (a second-generation issue) as the program matures.

Targeting and registration generate favorable coverage when targeting is accurate. The press puts more emphasis on inclusion errors while it pays less attention to exclusion errors. Conditionalities are the second key issue: their existence and monitoring boosts credibility of transfers and help decrease perception of assistencialist hand-outs.

**Phase 2: Building Evidence to Inform Policy and Reforms**

As previously discussed, most of the empirical and policy research looking at the labor market impacts of public transfers and the effective of active labor market programs applies to OECD countries. Impacts there, however, can be very different from those that would be observed in middle income countries like Brazil, due to the stringency of credit constraints, the relative importance of non-market activities, the labor intensity in production, the size of the informal sector, as well as differences in demographic structures and life expectancy by age. The main goal of the second phase of the Labor AAA is thus to deepen the analysis of program impacts in the case of Brazil and contribute to the formulation of policies that can improve their allocative and technical efficiency.

**Pillar 1.** The objectives of the second phase currently under implementation are two fold. First, to better measure the absolute and relative impact that pensions, unemployment insurance, and Bolsa Familia are having on: labor force participation (entry and retirement), jobs search intensity, hours worked, sector choice, and ultimately the 2. Second, to develop a set of integrated policies that can improve benefits adequacy for the various programs, economic, and financial sustainability, while minimizing labor market distortions. The analysis is based on quantitative tools that are being developed and implemented in collaboration with the University of Sao Paolo, the Ministry of Labor, and the Brazilian Previdencia.

**Pillar 2.** Several activities are under way to try to fill remaining knowledge gaps in a feasible and pragmatic way. They include: (i) a review of Lessons of International Experience with labor support programs, with emphasis in the understanding of inter-institutional arrangements to promote welfare-to-work by linking transfer beneficiaries to other programs; (ii) an International Workshop/Discussion Series on Skills for a Productive Life (took place in December 2007), Connecting the Poor to Jobs and Income-Generation Opportunities, and Generating Economic Opportunities for the Poor; (iii) the definition of indicators to measure employability and the preparation of survey modules to gather the data necessary for their estimation; (iv) technical assistance for an impact evaluation of the new “Bolsa Trabalho” (workfare) program being piloted in the State of Pará (support for the actual data collection is pending funding); and (v) ex-ante impact evaluation of the recent changes to the BFP which involve an extension of the program conditionalities until 18 years of age or the completion of the basic cycle of schooling.

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