

SERIE POLÍTICAS SOCIALES

23

**SOCIAL POLICIES AND
SOCIOECONOMIC INDICATORS FOR
TRANSITIONAL ECONOMIES**

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CONTENTS

	Page
ABSTRACT	5
Chapter I	
SOCIAL POLICIES IN TRANSITIONAL SOCIETIES: IS THE LATIN AMERICAN EXPERIENCE USEFUL? <i>Rolando Franco</i>	7
Chapter II	
WELL-BEING AND EQUITY: ANALYTIC CHALLENGES AND SOCIAL INDICATORS <i>Pascual Gerstenfeld</i>	25
Chapter III	
INDICATORS FOR THE ASSESSMENT OF SOCIAL POLICIES <i>Ernesto Cohen</i>	50
BIBLIOGRAPHY	61

ABSTRACT

As part of the United Nations Development Program's thematic focus on poverty eradication and Poverty Strategy Initiatives, the UNDP, in cooperation with the Armenian Government, the World Bank and the Economic Commission for Latin America and the Caribbean (ECLAC), organized a workshop on Social Indicators to be held at Yerevan, Armenia on November 13-14, 1997. In accordance with the United Nations Global Conferences and their goals, the workshop pursued as its development goal the elaboration of poverty strategy initiatives to alleviate poverty, preserve the human capital and adjust it to new market conditions, which could be attained by providing detailed and targeted information, improving the survey methodologies, determining the choice of main social indicators to be used with the consideration of the national specifics.

This publication presents ECLAC's contribution to the workshop. Rolando Franco gives an overview of some economic, political and social characteristics, which are at the core of a transition from planned to market economies. He refers to differences and similarities between the change of the economic model observed in Latin America and the model taking shape in transitional economies, giving characteristic features of the import-substitution model and the post-adjustment model. Afterwards, the author concentrates in presenting two paradigms within the context of the Latin American social policy characteristics, which correspond to the two development models that have been applied in the region, before and after what has been called "the crisis of the 1980s". On the other side, Pascual Gerstenfeld marks that indicators should help to identify the main causes and effects of social trends and provide useful information for the design of social policies. Further he analyses a set of indicators based on data from household surveys, which have contributed in a large measure to the Latin American experience in quantitative socioeconomic analysis. Following the above, he presents reflections on social indicators for the analysis of the well-being and equity in societies in transition. Finally, Ernesto Cohen covers the social policy evaluation through assessing social projects, in a way that they allow a resign of and reallocation of resources and provide a strategic avenue for rationalizing the government social expenditure. He goes through the project cycle, the advantages of the cost-impact analysis, and the importance of monitoring efficiency of social programs.

Chapter I

SOCIAL POLICIES IN TRANSITIONAL SOCIETIES: IS THE LATIN AMERICAN EXPERIENCE USEFUL?¹

Rolando Franco

"Social policy reform is a high priority for the future" [of the transitional economies]

(World Bank, 1996, p. 17)

INTRODUCTION

This analysis seeks to describe the changes taking place in social policy design and implementation in Latin America today, on the assumption that this may provide useful inputs for those who are leading the processes of change now at work in transitional economies.

The study begins with an overview of some of the economic, political and —of particular interest here— social characteristics of the process by which a transition is made from centrally planned to market economies.

The discussion then moves on to the differences and similarities between the model of change observed in Latin America (from import substitution to the new style of outward-looking development) and the model taking shape in transitional economies.

Finally, within the context of the analysis of Latin American social policy as such, a description is provided of the two paradigms which, although they correspond to the two development models that have been applied in the region —before and after what has come to be called the "crisis of the 1980s"— are still with us today and are still a matter of some controversy.

I. CHARACTERISTICS OF TRANSITIONAL ECONOMIES

For some years now, many countries which had embraced the socialist model of central planning have been engaged in the complex process of making a transition to a market economy system.

¹ A preliminary version of this paper was presented at the Seminar on the Exchange of Experiences on Economic and Social Policies for Development between Latin America and Russia and Selected Eastern European Countries, held by the Academy of Sciences of the Russian Federation and ECLAC in Moscow in 1995.

This transition involves changes in a number of different areas. Its economic aspects are primarily concerned with economic liberalization and fiscal discipline; its legal facets revolve around the establishment of clearly-defined property rights and the spread of private ownership; its political components chiefly have to do with the formation of a pluralistic culture and a representative democracy in which the populace feels safe and can express its preferences, all of which serves as the foundation for the essential condition of governance required in order for reforms to succeed.

Within this process of change, social policy fulfills three functions:

a) *Investment in human capital*

This is absolutely essential in the world economy of today, since no country can be competitive —at least on an ongoing basis— if it relies entirely on the utilization of an abundant supply of cheap, badly trained manpower (one of the forms of “spurious competitiveness” identified by ECLAC, the other being the overuse of natural resources). This type of social policy is a *fundamental prerequisite of economic growth*. There can be no self-sustaining form of economic growth over the long term unless investments are made in education and health, among other areas, so that the population will be in a position to make use of new technologies, to become more productive and to take advantage of the opportunities which are opened up by a sustained growth process. What is more, these sorts of investments enable a country to preserve the gains made under the preceding model by adapting them to meet the demands placed on an economy that must function within a globalized form of capitalism;

b) *Compensatory social functions*

This type of policy function is typical (although not confined to) crisis or adjustment periods, when it becomes necessary to take steps to assist those who are bearing the social costs of such situations both (above and beyond the ethical considerations) for *political reasons* (maintenance of governance) and *economic* ones (ensuring the viability of the adjustment itself). These are not the only circumstances under which compensatory social measures are required, however. They are also called for during times of stable economic growth, since there will always be people (disadvantaged groups) who lack the basic minimum of elements needed to take advantage of the employment opportunities created by a satisfactory form of economic growth. In the case of transitional economies, the poverty and lack of job security generated by the changes taking place in the labor market and the corporate world, together with decreasing production and greater inequality in terms of both income and wealth, make it necessary to set up safety nets to forestall a decline in living standards and protect those that come out as the “losers” in the new model. The situation of the elderly is of particular concern in this respect;

c) *Social integration*

Social policy also has to contribute to this dimension; this was emphasized at the Social Summit, held in Copenhagen, where it was one of the three central themes (together with the eradication of poverty and the creation of productive employment). UNDP has recently taken up consideration of this problem, as part of the concept of human security. Many studies show that huge segments of the population, in

"economically successful" countries as well as elsewhere, are extremely fearful of the modernization of production and the process of change, regarding these processes as a source uncertainty and as a destructive force in terms of certain social "anchors" which ultimately trigger processes of social disintegration.² Obviously, this set of problems cannot be solved only by the other types of social policies mentioned or by "good economic policy". These problems, it can even be claimed, are aggravated by economic success and should be addressed by means of specific public policy intervention.

It is evident that although the most general objectives, especially concern for the well-being of the population, may be the same in a socialist economy as in a market economy, the criteria on the basis of which such policy is drawn up, implemented, monitored and evaluated will vary.

The principal difference relates to the State, which although it continues to play a central role in many respects, especially in the area of social policy, will cease to exercise many of the functions that it monopolized in the past.

II. WHAT CAN BE LEARNED FROM THE LATIN AMERICAN EXPERIENCE?

Obviously, in Latin America —with the exception of Cuba— there have been no centrally planned economies. This is thus a strong case for arguing that any comparison with transitional economies would be inappropriate and that the policies implemented in the one case are not suitable in the other.

As a justification of the hypothesis on which this analysis is based, it should be recalled that recent Latin American history reveals the predominance of two development models.

1. Import substitution model

In the import substitution phase, which is usually said to have begun as a result of the 1929³ world crisis —although it began earlier in some countries and much later in others— the State took on new roles (in the fields of regulation, intervention, planning, entrepreneurial activities and "social affairs") in order to aid the functioning of the new "inward-looking development" model whose motive force was the domestic market.

In fulfilling these new responsibilities, in a situation where natural barriers had been reduced as the result of the crisis and wars, governments established tariffs in order to defend national industry from foreign competition. The State also carried out activities which were not attractive to private enterprise but which were necessary in

² For the Latin American case, see ECLAC, 1997; also, PRONAGOB/UNDP/ILDIS, 1996. The forthcoming 1997 edition of *Informe sobre Seguridad Humana* will reiterate these concerns.

³ Until that time, "outward-looking growth" predominated; the driving force behind the growth of the Latin American countries was the international market to which they exported mainly primary commodities (minerals, agricultural products) in exchange for manufactured goods, within the context of a clear-cut international division of labor in which the region played a role peripheral to that of the centers of international capitalism. The classic liberal parliamentary State, in which there was hardly any place for social policies, predominated.

order to make possible other productive activities (building up the infrastructure, electricity supply, etc.).

In this period, social policy helped to create or further consolidate a middle class,⁴ since it was necessary to keep up the purchasing power required to ensure demand for these new high-cost domestically manufactured products, such as motor vehicles. This probably helped to further aggravate the already unequal structure of income distribution.

However, the model began to suffer from increasing difficulties. The weaknesses that were intrinsic in the functioning of the Latin American economies were covered up through the application of policies that showed little respect for fiscal orthodoxy, thus leading to serious macroeconomic imbalances and outbreaks of hyperinflation. Excessive use was also made of external indebtedness, facilitated by the glut of petrodollars in the international financial system; this was to lead later to the debt crisis, which burst upon the scene with the cessation of payments by Mexico in 1982.⁵

2. The post-adjustment model

During the eighties, a new model began to gain currency whose main economic criteria are: i) attaining or maintaining the economic balances; ii) bringing down inflation; iii) withdrawing the State from some areas where private actors can be more efficient; iv) increasing exports, because the motive force of these economies lies once more in the international market; v) raising the competitiveness of national producers, even by eliminating tariff protection, and vi) modernizing the public apparatus so that it uses its resources (especially financial resources) more efficiently and is more effective in achieving its objectives.

In order to overcome the crisis and comply with these criteria, the Latin American countries applied stabilization and adjustment policies which in many cases had high social costs.

The early 1990s have shown some positive results of the economic reorganization measures adopted (lower inflation, recovery of growth, etc.),

⁴ "The development model that prevailed during the period after the war —it has been said— was successful in building new economic structures, in raising the standard of living of the middle class, in forming new social strata, and in furthering the industrialization and urbanization of the region" (Ibarra, 1985).

⁵ During the 1980s there were cuts in the resources devoted to social programs and there was an increase in poverty. It is worth noting, however, that these programs were then at an all-time peak and that there is not necessarily a causal relation between social expenditure and poverty. Fundamentally, poverty is linked to the economic cycles. In the period in question, the increase in poverty was due in some cases to the decline in economic activity and the consequent reduction in employment, which was not offset by suitable social compensation measures, while in others it was due to economic failures and exaggerated populist measures, and may be considered as a social cost of failing to adjust or not adjusting in time.

accompanied in some cases by reductions in poverty (ECLAC, 1994b), although at mid-decade a number of countries may be registering setbacks in this respect.⁶

This new phase of development shows radical changes compared with the region's previous experience in terms of the need to incorporate technological innovation, achieve competitiveness and deal with international competition. It is no longer possible to base a growth strategy solely on abundance of cheap labor or the over-exploitation of natural resources (spurious competitiveness). It is now necessary to incorporate technical progress into the production process in order to raise productivity (ECLAC, 1992). This requires a well-trained and flexible labor force, whose members will very likely be obliged to change their jobs several times during their working life.

At the same time, however, the competition of other countries makes it necessary to try hard to win and keep market segments. This calls, among other things, for an austere State which must give up part of its income in order to reduce the tax burden on enterprises so as to help them become competitive.

This gives rise to a contradiction between the new importance of social matters, which must incentivate the State (and other actors) to create the necessary conditions for the attainment of systemic competitiveness, which naturally requires increasing resources, and the need to reduce public revenue in order to cope with global competition. It is therefore particularly important to analyze the criteria underlying the design and implementation of social policy and to seek new paradigms for carrying out this task.

Some of the characteristics of the previous development model have been similar in Latin America and in the transitional economies: more or less closed economies, businesses that pay no heed to efficiency because they operate in captive markets where consumers have no choice; a State that takes on too many functions, generally in an inefficient and ineffective way, etc.

The changes also are similar in both cases: there have been episodes of sharp downturns in production and major fiscal imbalances, with inflation running into multi-digit levels, which reflect the obsolescence of a large part of the pre-existing industrial structure; all this has been accompanied by a rise in poverty, worsening income distribution, high levels of open unemployment and the proliferation of informal employment.⁷

Both types of shared characteristics, in our view, permit the Latin American experience to be put forward as an element that could be of use to those who are charged with the task of drawing up policies—in this instance social policies—in the countries that are currently in transition.

⁶ Reducing the number of people who are unable to satisfy their basic needs becomes increasingly difficult if the measures in this respect are not accompanied by changes in social policy guidelines which enable the hard core of poverty to be attacked.

⁷ In the transitional economies certainly income equality and job security were much greater. The Latin American countries—with a few exceptions—have always been characterized by some of the worst income distribution in the world, a large amount of informal employment and “structural” poverty.

III. LATIN AMERICA: SOCIAL POLICY CHARACTERISTICS IN THE PREVAILING AND THE EMERGENT PARADIGMS

Two social policy paradigms may be distinguished: one which originated in the import substitution phase, and which still prevails, and another which is as yet latent or emergent (Table I-1).

1. Institutional forms

a) *Centralized State responsibility or a multisectoral approach*

Traditional social policy is based on programs carried out by the State, which is responsible for financing, designing, implementing, supervising and occasionally evaluating them. In other words, all the functions are unified in the hands of a single actor.

The emergent paradigm takes account of the indications that this concentration of responsibilities in the hands of the State is running out of steam and asserts that the State should no longer do the same things as in the past, or in the same way. The State will be partly responsible for financing, especially of programs aimed at the poorest sectors of the population, and it will also have to be responsible for the execution of programs, although according to some circles it should do so only in a subsidiary manner, when it has to take the place of other social actors who would normally be the prime candidates for these tasks.

It is maintained, however, that social policy functions can be divided up and carried out by other subsectors: by charitable or voluntary, commercial, or informal groups (Bustelo, 1989).

The presence of these subsectors is quite evident. Indeed, in some countries of the region non-governmental organizations (NGOs) handle more resources than the State social sector itself (Anaya, 1990).

The family (informal sector) has always been the main body responsible for social functions, including the main educational function, but it has very gradually been replaced by the State and other social agents. It nevertheless continues to play a role of fundamental importance, yet it is not usually taken into account in the design of social programs.⁸

The commercial sector serves those groups which have some money to spend. At first sight, it would therefore appear to have very little to do with equity and attention to the needs of the poor. However, its participation can take two forms. Firstly, the existence of this private subsector can help to ensure that State resources are concentrated on the less-privileged, because if the groups with some money were not in a position to satisfy their needs through payment, they would try to satisfy them by pressuring the State to serve them through public programs. Secondly, the commercial sector can carry out some social service functions —probably very efficiently— through third-party procedures.

⁸ For an analysis of programs whereby it is sought to promote the collaboration of the family with the schools in the learning process of children (see Mayorga, 1995).

Table I-1

SOCIAL POLICY PARADIGMS

	Prevailing	Emergent
INSTITUTIONAL FORM	STATE MONOPOLY Finance Design Implementation Control Unified functions	Multiple subsectors State Private (commercial) Philanthropic (NGOs) Informal (family) Separate functions
	CENTRALIZATION	DECENTRALIZATION
DECISION-MAKING PROCESS	BUREAUCRATIC Macro-strategies "The State knows what to do" Resources allocated administratively Users have no say or choice	BY PROJECTS Competitive allocation Tendering Allocation proposed by users "Innovative capacity exists throughout society and every effort should be made to take advantages of it" (Social Investment Funds)
FINANCING SOURCE OF RESOURCES	THE STATE	CO-FINANCING "No charge = No good" Recovery of costs: "He who can pay should pay" Risk: marginalization of the poor
RESOURCE ALLOCATION	SUBSIDIZATION OF SUPPLY Absence of competition	SUBSIDIZATION OF DEMAND Creation of quasi-markets Competition Freedom to choose Does the consumer have enough information?
OBJECTIVE	UNIVERSALITY OF SUPPLY High cost, low impact Homogeneous available supply favors those who are best-informed and best-organized	UNIVERSALITY OF SATISFACTION "Unequal treatment for those who are socially unequal"
CRITERION AS REGARDS PRIORITIES FOR EXPANDING THE SYSTEM	GRADUAL EXPANSION FROM THE TOP DOWN Segmented access "Less social expenditure = less equity"	THE NEEDIEST FIRST Instrument: targeting
BENEFICIARY POPULATION	THE MIDDLE CLASS ORGANIZED GROUPS	THE POOR
APPROACH	CENTERED ON THE MEANS Social infrastructure Current expenditure	CENTERED ON THE ENDS: Impact: size of benefits received by the target population, according to ends pursued
INDICATOR USED	PUBLIC SOCIAL EXPENDITURE	COST-IMPACT RATIO

Source: Prepared by the author.

Various countries in the region are carrying out reforms whereby responsibility for certain stages of the implementation of social policies is transferred to the private

sector. This is so, for example, in the case of health insurance, where although the law may fix compulsory contributions to be paid by wage-earners, it allows the latter to choose the institutions —public or private— which are to manage those resources and provide health care when needed (as in Chile, Argentina, Colombia and Peru), or in the case of pensions, where the public regulations provide for compulsory saving but also allow private firms to manage pension funds, as in Chile, Argentina, Peru and, latterly, Uruguay.⁹ In Chile, this transfer to the private sector has made possible the creation of a successful financial market and the accumulation by those companies of over US\$ 20 billion of resources which have been a factor in that country's increased investment, which now amounts to 25% of GDP.¹⁰

b) *Centralization or decentralization*

The prevailing model is based on a highly centralized State, whereas the emergent paradigm tends to encourage the taking of decisions at the local level, to which end it promotes both deconcentration and decentralization.

It is worth recalling that the historical tendency in Latin America has been towards centralization. This has been due, on the one hand, to purely economic reasons, such as the indivisibility of scale of certain decisions and the feedback between centralized decision-making and the concentration of economic activity (Boisier, 1976), as well as the process of concentration of the population in big cities, while on the other it has been favored by political features such as the unitary matrix typical of most States in the region, the underlying leaning towards centralization which exists even in countries which have adopted federal structures, and the cultural influence of traditionally centralized countries such as France. This tendency is also heightened by the weakness of local institutions and their lack of practical experience of taking decisions on matters which concern them.

The criticisms of centralization stress that under that system decisions are taken without having the necessary information on the special features of each area and there is a tendency to adopt homogeneous solutions for heterogeneous situations, which leads to inefficient resource allocation and failure to solve problems.

It is also noted that centralization has sometimes favored dominant groups installed in the capital, which use resources taken from the rest of the country. It is also maintained that the tendency to increase the functions of the State means that there is a constant increase in the number of important decisions taken in the capital, so that the provinces and regions are subjected to what has been called "the pace of a distant and indifferent governing bureaucracy" which constantly expands, untroubled by the concerns of other areas, is inaccessible, and has generated its own interests which are, or may be, contrary to the objectives for which it was set up.

⁹ This is not a question, as is often claimed, of processes of "privatization" of social security, for the private firms which participate in the management of individually capitalized pension contributions do so within a legal framework which assigns very important functions to the public regulatory bodies. There are supervisory bodies which lay down detailed rules on the functioning of these companies and even on the type, quality and mix of financial instruments in which the pension fund management companies can invest.

¹⁰ It is necessary to take into account the costs of the transition from a public to a private pension system, however. In Chile, the payment of pensions due under the old (public) system absorbs 40% of total social expenditure.

It is also asserted that centralization inhibits participation, since the way and the places in which decisions are taken makes it difficult for citizens to influence them or monitor the handling of matters of interest to them.

The advantages of decentralization are said to lie in the fact that it can generate greater social consensus, thanks to participation, and greater control of the bureaucracy. Furthermore, smaller scales, both in terms of territorial extension and number of persons, would facilitate calculation of the costs and benefits of the actions it is planned to take and would even make it possible to experiment with alternative methods of providing given services: something that would be almost impossible to achieve with centralization, in view of the great operational complexity of that system (Weale, 1978).

However, there are also arguments against decentralization.¹¹ Some experts, for example, claim that local autonomy in the provision of social services would lead to unacceptable variations in the standard of provision of services between different areas.

As for the possible link between decentralization and democracy, it is argued that in quite a few cases the central authorities or their representatives have played a fundamental role in doing away with forms of oligarchical domination which existed in more or less isolated regions. One example of this, it is suggested, is the French educational system, which, through the work of teachers appointed by the central government and rotated every so often so that they do not come under the influence of local powers, has helped to establish a common language, to foster "modern" social values, and to consolidate the Nation-State.

It is common practice to maintain that redistributive activities must be centralized in order to ensure a balance between supply and demand, for otherwise there could be an incentive for beneficiaries to flock to areas offering the biggest benefits and for taxpayers to migrate to places where the tax burden is less (Larrañaga, 1994).

This argument coincides with the view that the main reason for educational inequalities in the United States is its decentralized educational system, which allows corporative groups to influence the allocation of resources for education in order to further their own interests. In this way, the financing of education for the poor is limited firstly because the tax base varies with the wealth of the local community, and secondly, because there is little incentive to spend money on the poor because, once they have got an education and attained some degree of social and economic success, they will probably migrate elsewhere and will thus not contribute in their turn to finance the expenditure of the district which invested in their education (Owen, 1974).

Owen concludes that the decentralization of decisions in the field of education tends to give disproportionate weight to private demands and to adversely affect the satisfaction of social needs in education. He suggests that an educational system centralized at the national level is better placed to help solve the problems in question by setting standards that must be complied with in all schools, even those located in poor communities, which should be given supplementary federal funds to enable them to meet those requirements.

¹¹ In reference to the transitional economies, the World Bank said: "The power and administrative authority of central governments have diminished in some countries with the considerable, and sometimes chaotic, decentralization of revenues and functions to subnational governments" (World Bank, 1996:13).

It is important to take into account the degree of decentralization desired and the forms and ways in which it is to be implemented. Thus, many of the arguments put forward by Owen stem from the fact that in the United States the decentralization of education extends not only to management but also to the procurement of resources, and there is little or no general regulation of the system.

This does not necessarily need to be the case, however. A decentralization policy for education could, for example, transfer the management of educational establishments but maintain in the hands of the central authorities such functions as general regulation, monitoring, and all or some financial functions.

Nevertheless, these more detailed decisions can only be taken once it has been decided to adopt one or another of the proposed solutions,¹² which is a political decision that cannot be taken solely on the grounds of efficiency and efficacy.

2. The decision-making process: bureaucratic procedures or a project-oriented approach

The prevailing paradigm is based on the implementation of social programs by the public sector, which delivers them in the amounts and qualities that it sees fit, for reasons stemming from administrative or political considerations or corporative pressures. It is based on the principle that the State knows what needs to be done. Users have no real choice: all they can do is accept the service offered or not, provided of course that it is not compulsory.

The emergent paradigm, in contrast, tends —as far as possible— to encourage the participation of other actors. It seeks to allocate public resources in the light of projects prepared and presented by the users themselves, according to their own ideas of how given social problems should be solved. This conception believes that the capacity for innovation is to be found throughout the whole of society, not exclusively in the State, and that it is necessary and desirable to take advantage of that capacity.

In the case of education, for example, it is recommended that schools should be given technical autonomy to prepare their own educational "project", thus making possible the existence of a varied supply which would be better adapted to the variety of situations, needs and value options which exists in the field of education.

Another objective is that the teachers should take on responsibilities in the area of school management, where they could develop alternative projects on the basis of their own experience. In Maringá (Paraná, Brazil), the running of some public schools was transferred from the public sector by handing them over to teachers' cooperatives with autonomy in technical and administrative aspects, while the municipal authorities retained responsibility for financing the schools and evaluating the results. "This

¹² This is an appropriate place to quote Givaudan (1980): "Thus, in the face of equal kinds of tyranny, the question is whether it is preferable to be the victim of a ponderous, far-off system which treats individual cases with indifference, or of a system closer at hand which knows all about its subjects and always holds out the possibility of "getting another chance"... State administration has its advantages and its disadvantages. In the face of its dusty offices, its laws, its rules and regulations, its customs and its discretionality, the user feels something like fear. In contrast, local administration suffers from its own advantages. In the face of an administration which knows him personally only too well, since nothing escapes its eagle eye, the user has a feeling of mistrust and doubts whether the local administration is really objective".

measure created a new relationship between the teachers and the students and parents: a relationship which was much more integrative, responsible and receptive than the other forms of management adopted in the past" and various studies found that there were "marked improvements in the provision of educational services", but even so, because of the determined opposition and pressure movements of the teachers' unions, the Prefecture decided to discontinue the project (Silva and Cruz, 1995). In Las Condes (a sector of Santiago, Chile), the Municipality has handed over the administrative and curricular management of several schools to companies formed by teachers who have taken on this responsibility although they risk losing their status of municipal teachers protected by the State regulations applicable to publicly employed teachers (Lavín, 1995).¹³

The Educational Improvement Projects of the Chilean Ministry of Education also aim to encourage teachers in schools of medium and high risk levels to submit projects for obtaining resources to facilitate teaching activities (Télliez, 1995).

3. Financing

a) *By origin of resources: provided by the State or obtained through co-financing*

The prevailing paradigm is based on the State, and consequently social policy is mainly financed from fiscal sources, which are faced with growing demands for funds. The resources are always limited in the face of growing needs; as soon as one need is satisfied, another arises which is probably even more complex. Thus, for example, as soon as total coverage of primary education is attained, the problem of its quality arises.

The emergent paradigm, in contrast, considers that the State is not the only actor in social policy and that it should be only one of several possible sources of funding. In the final analysis, what is needed is co-financing, or the contribution of resources by the beneficiaries themselves, which would not only mean extra resources but would also heighten the community's commitment to the program. The underlying criterion is that anything which is provided free tends not to be properly appreciated by its recipients. The risk of marginalizing the poorest sectors, who are not in a position to take on financial commitments, can be avoided by establishing the necessary incentives (Larrañaga, 1994; Lehmann, 1994).

Another form of co-financing is the recovery of costs by making a charge for the provision of public social services. The principle applied here is "he who can pay, should pay", especially in the case of social programs which are not aimed at the poor: free higher education is an example of this.¹⁴

¹³ For more details on this subject (see Lehmann, 1994).

¹⁴ Measures to recover costs can lead to a substantial reduction in the demand for services (Makinen and Bitrán, 1993), because the charges made drive away those who do not have the resources to pay. It is therefore necessary to establish criteria which distinguish among beneficiaries according to their ability to pay: those with high incomes should pay the whole of the real cost, middle-income recipients should repay at least part of the cost, while the poor should receive attention free (Cornia, 1987).

In Chile, there are possibilities for shared financing in all the public secondary schools and in the primary-level subsidized private schools (municipal schools are obliged to provide education free).¹⁵ In that country, 91% of all students receive their basic and secondary education entirely at the cost of the State, which gives the advocates of co-financing grounds for maintaining that families should have a bigger commitment to the education of their children, through a financial effort in keeping with their income and the number of their children. The State could then concentrate its resources on those who are really unable to pay (Passalacqua, 1995).¹⁶ At all events, suitable machinery is needed to ensure that co-financing does not lead to the exclusion of those who are not in a position to contribute.

Co-financing can also come from commercial firms in various ways: i) firms running subsidized schools can help to finance school infrastructure; ii) business firms can make donations or finance the current expenses of schools; iii) business associations can assume responsibility for running schools, and iv) firms can be given tax rebates if they provide resources for education (Martinic, 1995).

b) *By the form of allocation of resources: supply-side or demand-side subsidies.*

In the prevailing paradigm, the financing is designed to cover the relevant costs of the supplier (some State body) which provides goods or services to solve or alleviate the social problem in question.

In the case of subsidies for demand, in contrast, the financing agent transfers purchasing power (in the form of coupons or vouchers) so that the beneficiary can "buy" the goods or services he deems appropriate in the (quasi) market thus created. The existence of more than one supplier is a fundamental requirement in this form of subsidy. Calculating the value of the voucher raises some difficulties, however (Levin, 1995).

A way of linking the subsidy to demand is that used by the Chilean Ministry of Education, which gives a direct subsidy to the respective schools for each student who enrolls and effectively attends classes, since when parents select the establishment where their children are to be educated they also decide which of the suppliers are to be given fiscal resources.¹⁷ In Colombia, too, the authorities have implemented a

¹⁵ Co-financing is applied in 976 private schools and 150 municipal establishments, covering a total of 628,000 students. In 1994 the contribution obtained in this way amounted to US\$ 37 million and in 1995 it was expected to amount to US\$ 50 million (Passalacqua, 1995).

¹⁶ The prevailing system is criticized on account of the way these contributions are allocated and administered. Firstly, when the family contribution is more than the minimum not subject to deductions (which is equal to half the fiscal subsidy per student), the State contribution is reduced, and the amount thus saved is returned to the Ministry of Finance instead of being allocated to education. Secondly, the firms which run subsidized private schools can do what they like with the resources thus received: even use them to swell the firm's profits if they like. Finally, the contributions collected in municipal schools go to the municipality and are not administered by the directors of the educational establishments in question (Passalacqua, 1995).

¹⁷ With regard to the choice between subsidies and vouchers, it has been noted that "the direct transfer of a subsidy from the government to an educational establishment has clear administrative advantages over a traditional voucher system. On the other hand, it means that the right of parents to choose and make demands in terms of educational decisions is not so clear-cut, since their perception is that they are receiving education free rather than acquiring that service in return for payment. In this sense, a system of vouchers or direct subsidies for demand

system of vouchers (jointly financed by the central government and the municipalities) which seeks to increase the opportunities for secondary education open to the poorest children by giving them access to fee-paying private schools. In this way, it is hoped to expand enrolment from 47% to 70% and create 546,000 new school places (World Bank, 1995). It has also been proposed to reform health financing by giving demand-side subsidies so that wage-earning workers can join the private health system (Caviedes, 1994a and 1994b).

This freedom to choose given to users is often criticized on the grounds of the lack of information for making decisions. This problem is also faced, for example, by those who pay for some educational or health service, although it is argued that their economic and social status and consequent educational and cultural level, as well as the fact that they are true "clients" in view of their solvency, naturally tend to make them seek the best offer and demand results (Larrañaga, 1994). The alternative would be to take steps to ensure the provision of "products" which satisfy the needs of those who have no resources of their own to make payments and are not in a suitable position to make informed choices. However, it must be acknowledged that even the State itself has not been able to do this so far, partly because it usually lacks adequate information.¹⁸ One alternative for overcoming this shortcoming could be to establish tests to measure school results (as in the case of the Chilean Educational Quality Measurement System (SIMCE), which is already being applied in other countries too) or whatever is appropriate for each service; publication of the results of these tests would then allow users to make informed choices.¹⁹

The increase in the demand for educational and health services should encourage the emergence of a larger and more varied range of options, which would generate competition among suppliers and thus lead to an improvement in the quality of the services offered. In order to achieve such a competitive environment and link up the public-private mix, the State must regulate, supervise and selectively intervene whenever necessary, so as to induce suppliers to lower costs and meet users' needs.

4. The objective to be pursued: universal supply or universal satisfaction of needs

The prevailing paradigm favors universality, understood as a homogeneous supply open to all. The underlying element in this conception is the need to spread values and beliefs which will further social integration and the idea of equality. In practice, however, the main beneficiaries of the public social services in Latin America have been

would be preferable if it could be operated satisfactorily at reasonable cost" (Larrañaga, 1994, p. 529).

¹⁸ "Are the officials of the Ministry of Education or of its regional offices better placed to choose the right educational establishments and guide the transfer of resources in the sector?" (Larrañaga, 1995, p.52).

¹⁹ "Those who oppose publication of the number of points received by individual schools in the SIMCE tests (namely, teachers and Ministry officials) argue that this should not be done because it would create extra tensions in a field where there is a shortage of resources and few real possibilities for making improvements" (Larrañaga, 1995, p. 54).

those sectors which are best educated, best informed and best organized, living in the areas best equipped with services and possessing the necessary resources for covering the transaction costs (transport, time) that have to be expended in order to receive them. Taking advantage of this State supply has always been difficult for those who, although they may have the greatest needs, lack the above-mentioned characteristics and therefore have difficulty in gaining access to the services available.

In the case of education, although national Constitutions lay down the duty to provide a certain number of years of free education, a by no means negligible proportion of each cohort does not even enter school at all, and a further proportion soon drops out of it. This is by no means a matter of chance, as the lowest-income groups form a disproportionate part of these losers.

Universality-oriented policies have a high cost and low impact. It is obvious that a form of supply which serves the whole population will be very expensive, and its cost can only be cut either by reducing its quality and hence its impact on the supposed beneficiaries, or by limiting the "universality" through unclear criteria which focus the services on a restricted group.

The emergent paradigm proposes a different kind of universality: not of supply, but of satisfaction of people's needs. It is based on the principle of equity whereby in order to overcome differences it is necessary to give unequal treatment to those who are economically and socially unequal ("affirmative action" or "positive discrimination"). A homogeneous supply for heterogeneous situations can only result in the perpetuation of the original differences. Such a supply will correspond to the needs of a certain sub-group of the population, but it will not be suitable for all, for cultural or economic and social reasons. Thus, ensuring that children from poor families go to school and stay in it means that they must be provided not only with good-quality education but also with an extended timetable of lessons to make up for the limitations imposed by their family environment on their learning capacity (ECLAC, 1995; Gerstenfeld, 1995), special nutritional programs, and even a subsidy to cover the opportunity cost of opting for school attendance rather than some job opportunity (Levin, 1995).

5. Criteria on priorities and expansion: gradual expansion from the top down, or priority attention to the neediest

The prevailing paradigm envisages the gradual expansion of the social protection system by the progressive incorporation of those who were initially excluded, as more resources become available. In the final analysis, coverage expands from the top down, beginning with those with fewest needs and most capacity to defend their interests. The most typical example of this process of segmented access in Latin America has been the social security system (Mesa Lago, 1985), which expands its protection to landless peasants and urban own-account workers only at a very late stage or not at all.

There are three possible criteria for allocating social resources: to allocate them to those who are first to apply, to those with fewest needs, or to the neediest members of society. Of these, the emergent paradigm favors the last criterion, which it proposes to implement through targeting.

Targeting means identifying the potential beneficiaries as precisely as possible and designing the program so as to ensure a major per capita impact on the selected

group, through monetary transfers or the supply of goods or services (Franco, 1990 and 1995).

Targeting allows program design to be improved, because the more accurate the identification of the problem (the needs to be satisfied) and the nature of the beneficiaries (the target population) is, the easier it will be to design differentiated, specific measures for its solution; furthermore, this approach ensures more efficient use of scarce resources and increases the impact of the program by concentrating the resources on the highest-risk population.²⁰

Among a variety of examples of targeting, mention may be made of the Chilean "900 schools" program, which is aimed at the poorest and most academically unsatisfactory 10%, with the purpose of improving the quality of the education provided and the learning process of the students.²¹ The criteria for this targeting are: i) poor average performances by the students in the SIMCE tests and other indicators of the Ministry of Education; ii) low economic and social level of the students' families, as registered in the school records, and iii) the size and accessibility of the schools concerned.

The Educational Improvement Program (PME), mentioned earlier, also uses targeting to identify three types of schools (of high, medium and low risk). The criteria used are: i) time series on performance scores; ii) grades of schooling offered by the establishment; iii) rates of dropping-out and repetition; iv) degree of rurality; v) school enrolment, and vi) economic and social level of the student population (Cardemil and Latorre, 1992; Wolff, Schiefelbein and Valenzuela, 1994, and Espínola, 1995).

6. The beneficiary population: organized groups (middle class) or poor groups

Because of its relation with a particular phase of Latin American economic growth, the prevailing paradigm sought to attend to sectors which had some capacity for pressuring the State, especially the middle class. In this way, the State facilitated the expansion of the domestic market, which was important to national industry.

For the emergent paradigm, in contrast, the only way of achieving equity is to take care of the neediest, both because of their situation of extreme need and because the sectors which have received benefits so far are now able (or at least more able) to solve their problems themselves.

²⁰ "For a [Chilean] family in a state of extreme poverty, the complete set of State allowances it can apply for represents a monthly income 90% higher than the minimum income" (Vergara, 1990, p. 327), while "targeting heightens the impact produced per unit of resources invested and reduces the final costs" (Schejtman, 1989, pp. 118-119).

²¹ This objective is pursued by providing resources for the rehabilitation of the schools themselves and the supply of teaching material, classroom libraries, exercise books, text-books, learning modules for the students and teaching modules for the teachers.

7. Emphasis on the means or on the ends

The prevailing paradigm tends to emphasize the importance of expanding the coverage of the services provided. This is very important, of course, but it cannot be the be-all and end-all of a policy. How can success be claimed if the education provided is of unsatisfactory quality? This concern for coverage can even lead to distortions, because it is easier to expand by serving concentrated population groups —especially urban groups— than scattered rural groups, even though the needs of the latter are greater. Likewise, high coverage does not necessarily bring the desired results, as in the case, for example, of nutrition programs which seek to cover more people by reducing the amounts of calories and proteins supplied to levels below the minimum standards. Furthermore, coverage can be expanded without this having any impact whatsoever, as for example by including among the beneficiaries of a program people who do not in fact have unsatisfied needs (Cohen and Franco, 1992).

This paradigm also stresses investment in social infrastructure (building schools, clinics, hospitals) even when there are not enough resources for current expenditure (staff, equipment, instruments, disposable materials). On other occasions, current expenditure is raised to pay wages, regardless of whether staff have performed adequately or beneficiaries have benefited from the services provided.

The traditional paradigm allocates resources according to a historically determined budget: with no instruments to check the appropriateness of expenditure, it is accepted that the allocation and implementation are correct and thus changes are only made if existing categories are broadened and, as far as possible, in accordance with established criteria.

The emergent paradigm, in contrast, attempts to use its programs to change the living conditions of the population and is concerned about their impact: that is to say, about how much beneficiaries really receive compared with the original objectives.

Under this approach, it is necessary to use criteria which permit both identification of the target group and also measurement of results through an evaluation methodology appropriate to what is being measured. Cost-impact analysis measures both the efficiency and the efficacy of projects (Cohen and Franco, 1992). This requires a diagnostic "base line" and an "end line" which, when compared with each other, make it possible to determine the effective magnitude of the changes attributable to the project.

8. The indicator used: public social expenditure vs. cost-impact ratio

The chief indicator in the prevailing model is the size of public social expenditure and its fluctuations. It is tacitly accepted (although it is not explicitly established) that there is an inverse relationship between the level of expenditure and the level of poverty: the more resources are available, the lower the number or the proportion of poor people. However, the level of social expenditure is a poor indicator, both of social development —which is also connected with a country's economic performance— and of investment in human capital. The level of such expenditure could be high, and yet it might be put to poor use to achieve those ends.

Social expenditure is the sum of "all expenses with some social significance that the State incurs" (Haindl, Budinich and Irarrázabal, 1989). Opinions differ as to which budget items to include. There is usually agreement on education, health and housing, but not on justice and other expenditure.²²

The Human Development Report (UNDP, 1991) suggests four ratios for use in measuring human development: public expenditure/GDP, social spending/total public expenditure, social priority spending/social spending, and social priority spending/GDP. These ratios represent a questioning of the idea that there is a direct relationship between total resources allocated to the "social side" and the level of social development. However, in no way do they indicate how progressive the expenditure is, since it may be that the actual recipients of "social priority" programs —where resources should be concentrated, according to UNDP— are not the neediest. Nor do they show the efficiency with which resources are used, nor the efficacy of the programs which they finance.

In order to appreciate these aspects it is useful to desegregate social expenditure and analyze who its real beneficiaries are. Public social expenditure, as defined above, contains an administrative element that does not signify real benefit for the population: "there only has to be a rise in public administration salary levels for public social expenditure to go up accordingly. An increase in the size of the State bureaucracy also raises expenditure defined in this way, without necessarily improving the situation of the poorest people" (Haindl, Budinich and Irarrázabal, 1989). Fiscal social expenditure only includes the fiscal contribution which reaches beneficiaries (subsidy) and the amount which goes to finance part of the administrative apparatus of the various ministries: it excludes financing contributed by the beneficiaries themselves. Direct social spending is the fiscal contribution which is converted into monetary transfers or goods and services provided directly to people (subsidies), and excludes administrative costs. Lastly, effective social expenditure is that part of direct spending that reaches the poorest sectors of the population. On the basis of the results of surveys such as Chile's socio-economic CASEN survey, which show how the income generated by social programs is distributed among the different deciles of the population, it has been possible to determine that in some countries of the region the amount received by the poorest 30% of the population (effective social spending) is only a very small proportion of total public social expenditure (*ibid*).

This confirms the results of several studies which show that social spending (like any other kind of spending) can be used more or less efficiently and can thus have a varying impact on beneficiaries. The World Bank (1990, p.37) maintains that "data for Latin America show that the pattern of social expenditures is regressive in most countries", which means that increasing it "is not always the answer to improving the well-being of poor people. Better allocation of expenditures within the sector and more efficient use of funds are often more important" (p. 46), and adds that "further spending on social services in general will not automatically help the poor. The structure which exists for provision of those services needs to be reoriented in their favor, both quantitatively and qualitatively".

²² There are also many unanswered questions: "Should private-sector contributions be included, or only those of the public sector? Should only fiscal contributions be taken into account, or total public-sector expenditure? Should fiscal contributions to pension funds be included? How should administrative costs be accounted for in these programs and, even more important, what is the status of the administrative costs of ministries whose work has some social significance?" (Haindl, Budinich and Irarrázabal, 1989, p.31).

Another problem with using social spending as an indicator is its level of aggregation. It is difficult to make adjustments to a given program on the basis of changes in social spending or on the basis of some relationship between social spending and social indicators at the macroeconomic level. Any relationship that may exist is affected by innumerable variables which are not taken into account.

This is why the emergent paradigm stresses the need for indicators related to each specific program. Use of the cost-impact ratio is recommended, since this makes it possible to judge whether the program optimizes resource use, or, in other words, if it achieves maximum impact at minimum cost.

CONCLUSIONS: A MODEL THAT WORKS

There is a growing consensus as to the limitations of the prevailing paradigm, which are very well-known because it has been in operation for so long. In many cases, the State has become more of a hindrance than a help to development and to improving the population's living conditions. These deficiencies in State action have given rise to efforts to "reinvent government" (Osborne and Gaebler, 1992) and to make changes in the traditional institutional structure of the State, the functions it should take on and the way it should carry them out. It is therefore necessary to try to adopt an innovative approach, presented here in the form of an emergent paradigm.

Social policy contributes to governance and renewed legitimation of the State (Franco, 1991), but its importance today lies above all in its contribution to the formation of human capital, which is indispensable for the medium-term competitiveness of our countries. Knowledge has become the main factor in production, and consequently any delay in the implementation of social policies which increase the possibilities of expanding human capital is not only a failure in terms of ethics but also an economic error which deprives society of qualified, flexible resources capable of adapting to the rapid incorporation of technical progress into production processes.

Social policy is thus an economic as well as a political prerequisite. However, it has to be implemented in situations where resources are scarce and there are constraints imposed by considerations of competitiveness. This is why it is so important to analyze the possibilities for reforming social policy and exploring fresh options in this field.

It is likely that the greatest efficiency and efficacy will be achieved through a combination of the best features of these two paradigms —the prevailing model and the proposed emergent paradigm.

Chapter II

WELL-BEING AND EQUITY: ANALYTIC CHALLENGES AND SOCIAL INDICATORS

Pascual Gerstenfeld

1. Analytic objectives and advantages and disadvantages of various sources of data

The chief challenge in the study of well-being and equity is to ensure that indicators help to identify the main causes and effects of the social trends under examination, so as to provide useful information for the design of policies and programmes. In addition, indicators should measure the extent and direction of such trends.²³

A key requirement for fulfilment of these objectives is that information should be obtained simultaneously on different social variables for the same unit of analysis. In this way, it is possible not only to define multidimensional indicators, but also to undertake both explanatory and descriptive analyses.

For example, it is not sufficient merely to determine employment levels by age, sex and geographical area of residence. One should also examine factors such as the correlation between different types of employment and the socio-economic level of the household, particularly insofar as it has an impact on poverty, the occupational strategies of different members of the household and their possible effect on secondary and elementary school drop-out.

Similar needs arise when studying other social issues, such as education, health, income or poverty, or the situation of specific target populations, such as children, youth, senior citizens or women, as an aid to policy formulation.

It is clear from the brief discussion below that household surveys have certain advantages over alternative sources of information in the elaboration of indicators geared towards the above-mentioned objectives. This document therefore presents a set of indicators based on data from household surveys, which have contributed in large measure to our experience in quantitative socio-economic analysis, as reflected annually in the Social Panorama of Latin America.

In assessing the value of the three main sources of data available for calculating social indicators (population and housing censuses, administrative/statistical records and household surveys) with respect to their geographic scope, subject coverage and periodicity, the following points should be emphasized:

²³ While indicators primarily designed to assess the impact of programmes and projects or to identify target areas for social action are certainly very important, they are beyond the scope of this document.

a) While censuses have the most comprehensive geographic scope, they offer limited subject coverage and are infrequent, occurring generally only once every ten years. Because of their infrequency, they are not useful for annual follow-up of the extent and development of phenomena or, owing to their limited coverage, for analysing cause and effect.

b) While administrative/statistical records do provide up-to-date information, they are of limited use for purposes of analysis, because they contain little information on demographic, social and economic variables simultaneously related to units of analysis such as individuals and households. They provide more information from the establishment point of view (school, health centre, enterprise or industry, etc.) than from individuals and households of the analysis. For these reasons, the information they provide is useful for monitoring the scope and development of certain trends, for example, school drop-out rates or school grade repetition in the area of education, morbidity in the area of health, or unemployment. But it is inadequate for studying the links between the different socio-economic trends, for example, between unemployment and poverty, or between the educational performance of children and young people and the economic status and educational capital of households.

c) In contrast, the advantages of household surveys (for studying the labour force, employment and income and/or living conditions) are three-fold:

- they cover a wider range of socio-economic subjects than the other sources;
- they provide simultaneously all the data for the same unit of analysis (individuals or households); and
- they gather these data at least once a year, which means that the indicators can be calculated on an annual basis.

Their relative limitation compared with the other two sources is that in general they allow for less geographical breakdown; this is a function of the size and design of the sample. It is not, however, critical for the main objectives selected.

2. Reflections on social indicators for the analysis of well-being and equity in societies in transition

It should be noted from the outset that the immediately visible effects of economic, social and political transition create a certain myopia about its social implications in the medium term, by drawing attention primarily to the short-term impact. The common tendency is to look almost exclusively at poverty, unemployment and other similar indicators, given the relative rapidity with which they reflect significant changes.

However, transitions take place over many years, during which they often cause a drain on human capital and increase the risk factors of social disintegration, the effects of which, when not detected and counteracted without delay, may take a long time, perhaps even a generation, to reverse.

This applies particularly to countries that have attained levels of human capital above those that correspond to the per capita income they generate. This social

efficiency is undermined by the new socio-economic dynamic, which makes it all the more necessary to have indicators that go further than the traditional. The indicators must measure, among other things, the development of educational capital in young people, trends with respect to child labour and employment of young people and women, and their links with the various socio-economic situations of households.

A high educational environment within the household, for example, will have a positive effect on the formation of educational capital among children and youth. However, a decline in a household's income causes not only a deterioration in its economic standard of living, but also generates tensions that lead many young people to go out to work and/or to abandon their studies – hence the importance of diagnostic indicators for:

- the percentage of young people who abandon their studies without having acquired a basic educational capital;
- the percentage who neither study nor work;
- the percentage of children who work when they should be studying.

In order to serve as useful inputs for policy design, indicators such as those mentioned above should be broken down by the socio-economic level of the home background of the children or young people. This makes it possible to identify different behavioural patterns between social strata and at the same time to describe the inter-generational transmission of opportunities for well-being. (See subjects 9, 10, 12, 13, 14 in point 3.)

Health conditions also tend to be high affected by changes in a system because of transition. In a market economy, the quality of health coverage is closely linked to the occupational status of individuals and their purchasing power. This leaves economically inactive population groups, particularly children, young people and senior citizens, unprotected and causes substantial quality differentials in the care received by those who do have access as a result of differences in income level. This situation highlights the need to supplement the traditional indicators on morbidity and mortality by age group with a further breakdown by socio-economic level and to have health coverage indicators that also reflect the quality of coverage, with a breakdown by age group and socio-economic level.

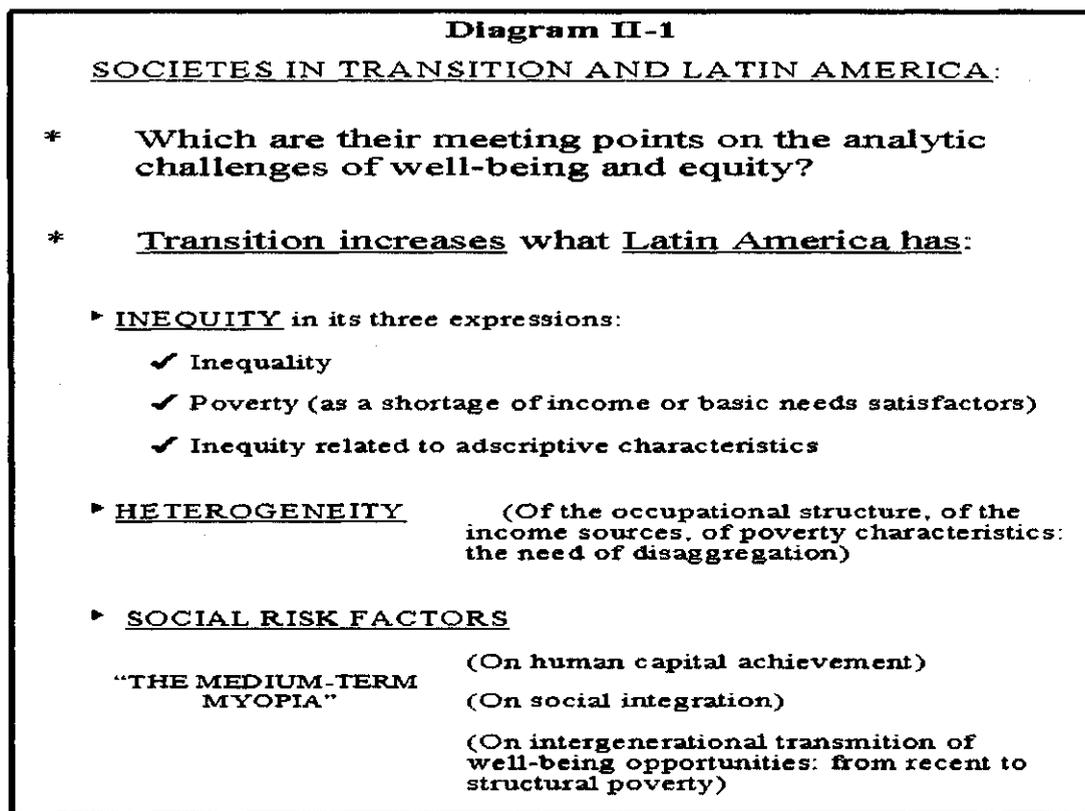
Moreover, with the transition to more highly competitive societies, not only is it important to have indicators that measure inequity defined as unequal distribution, or as the proportion of the population suffering specific types of shortages or in poverty; it is becoming increasingly important, indeed indispensable, to measure the level of inequality of access to social goods and services based on ascriptive characteristics of individuals. In other words, the level of inequality based on a person's unchangeable or hard-to-change attributes, such as sex, ethnic group and socio-economic level, should also be measured. (See subjects 11, 15, 16, 17 and figures II-1 and II-2).

With economic transition, poverty tends to increase and so does inequality, so that it is also relevant to measure the different types of people affected by poverty and their different degrees of vulnerability. The present indicators are intended to measure a variety of situations more precisely, so that in designing policies and programmes the objective may be to prevent vulnerable groups from falling into poverty while seeking to enable those already in poverty to escape from it. (See subjects 5, 6 and figure II-4).

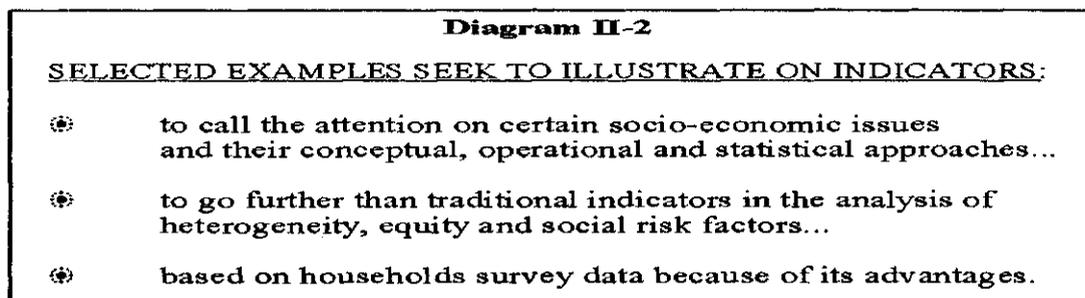
Lastly, it should be borne in mind that economic change increases the heterogeneity and dynamic of poverty. Hence it is necessary to analyse its make-up and features not only by focusing on the factors that may have caused it, but also on

its link with different occupational categories or stages in the life cycle of the household and its members, since these are fundamental considerations in devising policies and programmes for poverty alleviation. (See tables II-1 and II-2).

An outline of the meeting points on these issues between Transitional Societies and the Latin America experience is showed in Diagram II-1. The purposes which oriented the selection of indicators are presented in Diagram II-2.



Source: Elaborated by the author.



Source: Elaborated by the author.

3. Selected social indicators: description, analytic objectives and methodology

In keeping with the technical and illustrative purpose of this document, a set of indicators for quantitative analysis of well-being and equity are presented below, followed by descriptive notes.

The descriptive notes cover the following aspects:

- the subject covered by each indicator;
- the working definition;
- the number of the TABLE in the 1996 edition of the Social Panorama of Latin America to which it corresponds;
- the analytic objective in terms of socio-economic analysis; and
- methodological explanations on the way in which these indicators are calculated and interpreted.

SUBJECT 1

EMPLOYMENT BY OCCUPATIONAL CATEGORY WITH REFERENCE TO SECTOR, DEGREE OF FORMALITY AND PRODUCTIVITY

INDICATORS:

Percentage of those employed in various occupational categories out of total employed

TABLES: 4 and 5

ANALYTIC OBJECTIVE:

To study employment dynamics from the standpoint of the economy's capacity to absorb the supply of labour and patterns of absorption, distinguishing between employment in the public and private sectors, between wage earners and others, and between some other categories that give an approximation of level of productivity and degree of formality of employment. (See figure II-3.)

METHODOLOGY:

Percentages of the total employed are calculated for the following categories: employers; public-sector wage earners; private-sector professional and technical wage earners; private-sector non-professional, non-technical wage earners working in establishments that employ more than 5 persons; private-sector non-professional, non-technical wage earners working in establishments that employ up to 5 persons; own-account professional and technical workers; and own-account non-professional, non-technical workers. These categories, relevant for urban areas, are those used in Table 4 (op.cit.).

Table 5 (op.cit.) presents similar categories that are of significance for rural areas.

SUBJECT 2
INCOME OF EMPLOYED POPULATION

INDICATORS:

Average monthly income of the economically active population by occupational category.

TABLES: 6, 7 and 12

ANALYTIC OBJECTIVE:

To examine average monthly earned income levels, trends and differentials by occupational category. The incomes of both wage earners and non-wage earners are considered. (See figure II-3.)

METHODOLOGY:

For purposes of comparing levels of well-being over both time and geographical area, average incomes of households and average incomes of individual wage earners are expressed as multiples of the per capita poverty line for a given geographical area and for each year. This measures the purchasing power of income in relation to the value of the basic shopping basket used for poverty estimates.

The occupational categories used for the analysis are those presented in tables 4, 5 and 11 (op.cit.).

SUBJECT 3
GENDER AND INCOME INEQUALITY

INDICATORS:

1. Average earned income of women as a percentage of that of men (earned income disparity).
2. Average wage of women as a percentage of that of men (wage disparity). Both indicators are calculated for different age groups and educational levels.

TABLES: 9 and 10

ANALYTIC OBJECTIVE:

To study one of the principal dimensions of gender inequality in the labour market.

The indicators are calculated for different age groups and levels of education, since these factors have a bearing on earned income disparity.

METHODOLOGY:

With respect to earned income disparity, differences by sex are considered for the total economically active population (wage earners and non-wage earners). With respect to wage disparity, only employed persons whose main income is derived from wages and salaries are taken into account.

The disparity is measured as the ratio of the average income of women represents with respect to the average income of men, expressed as a percentage.

SUBJECT 4 LOW-PRODUCTIVITY JOBS

INDICATORS:

Percentage of economically active population in various categories with respect to total employed

TABLE: 11

ANALYTIC OBJECTIVE:

To quantify employment levels and trends in categories in which a high percentages of wage earners are employed in low-productivity and low-income jobs.

METHODOLOGY:

The percentage of each of the following categories is calculated with reference to total employed: employers in establishments that employ up to 5 persons; private-sector non-professional, non-technical wage earners working in establishments that employ up to 5 persons; domestic employees; and own-account non-professional, non-technical workers, with a breakdown between those working in manufacturing and construction and those working in commerce or services.

SUBJECT 5 POVERTY AND INDIGENCE LEVELS

INDICATORS:

Percentage of households with monthly income below the poverty and indigence lines

TABLE: 16

ANALYTIC OBJECTIVE:

To determine poverty levels and trends using the household income method.

METHODOLOGY:

Estimates of extreme poverty prepared by ECLAC are based on the "income method", which entails the calculation of poverty lines. These lines represent the amount of income necessary to ensure that each household can meet the basic needs of all its members. The poverty line for each geographic area is based on an estimate of the cost of a basket of staple foods which meets the nutritional needs of the population, taking into account local eating habits, the effective availability of foods in the country and their relative prices. An estimate of the resources required by households to satisfy their basic non-food needs is then added to the value of this basket.

The indigence line refers to the cost of the basket of staple foods, and indigents (or the extremely poor) are defined as persons residing in households whose income is so low that even if the whole of that income were used to buy food, it would be insufficient to meet the nutritional needs of all household members. The poverty line in urban areas works out to twice the indigence line, while in rural areas, it is 1.75 times the corresponding basic food budget.

In calculating indigence lines, the differences between food prices in metropolitan areas and those in the remaining urban and rural areas are taken into account. Generally speaking, the cost of the basic basket of staple foods in non-metropolitan urban areas is estimated to be 5% lower than in metropolitan areas.

The percentages of households and persons classified as poor and indigent are obtained by comparing the monthly per capita value of the respective lines with the per capita value derived from the total income of each household. Therefore, a person is considered poor when he/she resides in a household classified as poor.

SUBJECT 6: INCOME DISTRIBUTION, POVERTY AND VULNERABILITY

INDICATORS:

Percentage of households in different per capita income brackets expressed as multiples of the poverty line

TABLE: 17

ANALYTIC OBJECTIVE:

To examine household distribution in terms of income brackets expressed as multiples of the poverty line. The brackets were selected to correspond to the degree of vulnerability, that is, the likelihood, based on experience in Latin America, of escaping from or falling into poverty or indigence as a result of a increase or decline in household income due to economic and socioeconomic factors.

METHODOLOGY:

One of the characteristics of income distribution in the countries of the region is the large proportion of households whose incomes are very close to the the poverty line (see ECLAC, Social Panorama of Latin America, 1994 Edition). In the 1990s, approximately 10% and 5%, respectively, of households in all countries excluding Argentina and Uruguay have had incomes of between 1 and 1.25 times and between 0.9 and 1 times the value of the per capita poverty line. These households are therefore considered "vulnerable", since in a recessionary period or with an upturn in the economy, significant proportions of households from these groups may either fall into or escape from poverty.

SUBJECT 7 POVERTY IN SELECTED OCCUPATIONAL CATEGORIES

INDICATORS:

Incidence of poverty among the employed in selected occupational categories (tables 18 and 19) and distribution of employed poor among those categories (tables 20 and 21).

TABLES: 18 to 21

ANALYTIC OBJECTIVE:

To identify the highest-risk occupational categories in terms of susceptibility to poverty.

METHODOLOGY:

The occupational categories most at risk are determined by compiling information on the following variables: occupation, occupational category, branch of activity and size of the establishment.

SUBJECT 8 INCOME DISTRIBUTION

INDICATORS:

1. Average monthly income of households as a multiple of the poverty line.
2. Gini coefficient.
3. Share of total income of the poorest income quartile, of the 40% of households with the lowest income and the 10% of households with the highest income.

4. Ratio of the average income of the richest 10% of households to the average income of the poorest 40%.
5. Percentage of households with income below the monthly average.

TABLE: 23

ANALYTIC OBJECTIVES:

To measure the degree of inequality in the income distribution of households; to quantify various aspects of inequitable distribution; and to analyse variations over time (indicators 2,3,4 and 5). Indicator 1 fulfills the objective of identifying trends in average income and differences between geographic areas.

METHODOLOGY:

The indicators are calculated on the basis of the income distribution of households classified according to per capita income. The Gini coefficient is based on per capita income distribution of households grouped by deciles.

SUBJECT 9
YOUNG PEOPLE'S EDUCATIONAL CAPITAL

INDICATORS:

Percentage of non-independent 20 to 24 year olds who do not attend school and have completed less than 10 years of schooling.

TABLE: 25

ANALYTIC OBJECTIVE:

To measure the proportion of young people who have insufficient educational capital and are therefore at high risk of establishing poor families.

METHODOLOGY:

The 20-24 age group is selected rather than the 15-19 age group, because 15- and 16-year-olds cannot have completed 10 years of schooling, even if they have not fallen behind with their studies.

The study examines young people who are not independent, so that analysis by household income quartiles is meaningful. The quartiles to which households or household members belong range from the 25% of households with the lowest income (C1) to the 25% of households with the highest income (C4), categories that approximate the socio-economic strata used in the analysis of social equity.

In order to examine changes over time in different income strata with respect to various social dimensions, the composition of the groups compared must be kept

constant, so as to avoid "contaminating" the data for one group with data for another between the selected periods.

The most suitable sample design for a survey-based analysis of trends in different strata is the panel, a system that involves maintaining all the sample units, or a significant portion of them, constant throughout the various measurement periods. As this is not the usual design for household surveys in the region, which are the main source of information for elaborating the indicators presented here, an alternative methodology had to be found that would minimize the probability of changes in the composition of the groups between the periods analysed. The method selected was to assimilate the income strata to the quartiles in which the households were located in the rising per capita income structure.

This choice turned out to be suitable, because the relative structure of quartiles makes the composition of the groups less sensitive to generalized changes in household income levels.

SUBJECT 10

UNDERACHIEVING CHILDREN, ADOLESCENTS AND YOUNG PEOPLE

INDICATORS:

Percentage of non-independent young men aged 15 to 24 or of adolescents of both sexes aged 13 to 17 who neither work nor attend school

TABLES: 26 and 27

ANALYTIC OBJECTIVE:

To measure and analyse the differences between socio-economic strata with reference to children, adolescents and young people who are already in extremely vulnerable situations or are likely to be so in the future. Their non-productivity increases their immediate chances of becoming involved in illicit activities, while their failure to accumulate educational capital greatly increases their likelihood of living in poverty and establishing households that will live in poverty.

METHODOLOGY:

In the 15-24 age group the indicator is limited to males, in order to avoid the statistical bias resulting from the fact that females who do domestic work in their own households are not included in the economically active population, and their inclusion would lead to an overestimation of the phenomenon. In the 13-17 age group, however, such a distinction is not made, since the percentage of girls in that situation is not significant.

SUBJECT 11
CHILDREN LIVING IN HIGH-RISK HOUSEHOLDS WITH RESPECT TO
SOCIALIZATION

INDICATORS:

Percentage of children aged 0 to 5 and aged 6 to 14 residing in households with a low educational environment and low income.

TABLE: 28

ANALYTIC OBJECTIVE:

To measure the proportion of children living in households with deficient educational and socio-economic environments, situations that limit educational performance and increase risk in other areas such as health and nutrition.

METHODOLOGY:

The indicators for measuring high-risk situations with respect to socialization are based on the following considerations.

First, among household-related factors (education, economic capacity, house infrastructure and family structure), the educational environment of the household explains about 50% of children's and young people's educational attainment. (See figures II-1 and II-2).

Second, among the same factors, household income level explains between 25% and 30% of children's and young people's educational attainment. The analytic categories used are therefore defined by these two factors. (See figures II-1 and II-2).

The percentage of children with a deficient socialization environment was measured by counting those who live in households with a low educational climate, that is, households where the adults residing in it have on average less than six years of schooling, when those households have an income that places them in the first or second quartile of household per capita income distribution.

Another useful category combines overcrowding -an indicator of deficiency in the physical infrastructure of the dwelling and a proxy for other deficits— with deficits in educational capital and economic capacity. This category therefore encompasses children living in overcrowded households which at the same time either have a low educational environment and are in the first or second income quartile or have a medium educational environment (an average of 6-9.99 years of schooling) and are in the first income quartile.

The educational environment of the household is, as mentioned earlier, a crucial indicator of the socialization context of children and young people. Educational environment is defined as the average number of years of schooling of persons aged 15 or over who live in the household. For purposes of studying young people aged 15 to 24, to avoid an element of tautology, the indicator is redefined as the average number of years of schooling of all persons aged 25 or over who live in the household.

It is calculated by dividing the total number of years of schooling completed by the members of the relevant age group in a household by the number of persons of that age group living in the household.

In trials using different methods for measuring children's educational attainment, this indicator showed a greater capacity for discrimination than other methods such as the educational level of the head of the household. There are at least two reasons for this statistical superiority: first, the educational environment method, by definition, incorporates more information about the educational context of the household than others that relate to only one of its members, and, second, as a result, it gives a more dynamic picture of the life cycle of the household, since it incorporates in a more timely manner the effects of generational changes in the overall system of education. An example of this is the value that the education of a 15-year-old household member would add to that of his or her parents, as a reference value for the educational environment of another younger child.

The educational environment is considered low when the average for the household is between 0 and 5.99 years of schooling and medium when it is between 6 and 9.99 years.

SUBJECT 12
SOCIO-ECONOMIC STATUS OF THE WORK OF ADULTS, YOUNG
PEOPLE AND CHILDREN

INDICATOR

Monthly labour income capacity equivalent (CEMIT) by educational level

TABLES: 29, 31 and 33

ANALYTIC OBJECTIVE:

To measure differentials in potential earnings resulting from differences in educational capital, at different stages of an individual's life cycle.

METHODOLOGY:

The monthly labour income capacity equivalent (CEMIT) is an indicator of the socio-economic status of work. It standardizes labour remuneration per unit of time and purchasing power by expressing the income earned in a 44-hour week as a multiple of the value of the per capita poverty line.

Consequently, while CEMIT values should not be interpreted as indicating the actual well-being derived from each level of remuneration, they are a good proxy for the socio-economic valuation implicit in the remuneration for each occupational category.

The indicator is calculated for employed persons who earn income and work more than 20 hours per week. These values are the result of dividing the monthly equivalent of hourly pay by the value of the per capita poverty line. The monthly equivalent used is the income that would correspond to a 44-hour work week, based on the hourly wage actually received. The per capita poverty line is the value estimated by ECLAC for each country and area according to its socio-demographic composition and economic characteristics.

The usual reservations regarding standardization by hours worked do not apply in this case, for at least two reasons. First of all, limiting the calculation to those who work more than 20 hours per week concentrates the analysis on the labour force with the greatest participation in the productive system, thus making the estimate more robust and limiting the range of variation of the coefficient of standardization by hours worked. Second, the indicator has been constructed in order to measure the relative value of the remuneration of each occupational category, not to analyse the total effective remuneration of each.

SUBJECT 13
CAPACITY OF YOUNG PEOPLE'S LABOUR INCOME TO GENERATE
WELL-BEING

INDICATOR:

Percentage of young people with a CEMIT of 2.5 or less, by educational level

TABLE: 32

ANALYTIC OBJECTIVE:

To measure the percentage of young people having difficulty maintaining a family out of poverty

METHODOLOGY:

The reasons for the selections made in defining the indicator of young people's capacity to generate well-being are as follows:

Young people's labour income capacity equivalent is most relevant when it is measured for the group most fully integrated into the labour market. Thus, restricting the universe to those "who work more than 20 hours per week and do not attend school" identifies those young people who are most firmly established as part of the labour force; restricting it to "independent" young people, i.e., those who are heads of households or spouses of heads of households, concentrates attention on those who have family responsibilities that force them to stay in the labour market.

The threshold of 2.5 poverty lines is chosen as the minimum basis for attaining well-being, because at that level of income a wage earner can keep a family of two above the poverty line. If both the head of the household and the spouse work, they can maintain a family with two children who do not work above the poverty line, but the addition of a third child would put them on the borderline or push them into poverty.

SUBJECT 14 CHILD LABOUR

INDICATORS:

Percentage of children and adolescents who work, average hours worked per week, and percentage of total household income their earnings represent

TABLES: 34, 35 and 36

ANALYTIC OBJECTIVE:

To measure the proportion of children and adolescents who work, bearing in mind that such individuals have a significantly lower capacity to accumulate educational capital, a limitation that prejudices their chances of attaining well-being in the future. This vulnerability results from the fact that in urban areas of Latin America, three out of every four minors who work abandon their studies.

As regards the average number of hours worked per week, the aim is to measure the energy children and adolescents expend, distinguishing between those who drop out of school from those who work extra hours in addition to the time required for study.

Measuring the percentage of household income contributed by children and adolescents who work makes it possible to assess their contribution to the household's socio-economic status as indicated by household income quartile. It also gives an indication of the impact on the household were their contribution to cease, either because the minor returned to studying full time and stopped working, or because he/she lost the job.

METHODOLOGY:

The age group studied encompasses children and adolescents aged 13 to 17 for data reliability and significance. While child labour could be studied from age 10 and up, at the earlier ages it tends to be hidden, because labour laws generally prohibit it.

The average number of hours worked per week are shown for children and adolescents with a breakdown by sex and by whether or not they are also studying, in order to provide information on a range of different situations.

The percentage of total household income contributed by minors is calculated for each quartile as an average of the situation for individual households, including those cases where minors work as unpaid family members and therefore make an income contribution of zero.

SUBJECT 15
EDUCATIONAL GOALS ADOPTED AT THE WORLD SUMMIT FOR CHILDREN²⁴

GOAL: "To increase the percentage of boys and girls completing primary education to over 50% by 1995"

INDICATOR:

Percentage of boys and girls aged 14 or 15 who have completed at least six years of schooling, whether or not they are currently attending school.

TABLES: V.2 and V.3

GOAL: "To reduce repetition by 10% in grades 1 and 2..."

INDICATOR:

Percentage of boys and girls aged 9 or 10 who attend school and who at that age have not yet completed at least two years of schooling.

TABLES V.4 and V.5

ANALYTIC OBJECTIVE:

To monitor progress towards some of the goals adopted at the World Summit for Children on key issues such as education, with specific reference to the dimension of equity between socio-economic strata and geographic areas.

METHODOLOGY:

Whether the age limit for completion of primary education is 14 or 15 depends on whether the age for starting school in the country concerned is 6 or 7. In addition, it is assumed that most children complete the primary cycle no more than two years later than the usual age. The definition also includes children who completed their primary education on schedule according to the official school starting age.

With respect to the repetition target, the indicator is in fact a proxy, since it reflects one of the consequences of repeating grades (i.e., falling behind in school). The reason for using this indicator is that the multi-purpose household surveys used to monitor progress towards social equity in relation to the stated goals do not, unlike administrative records, report data on repetition. The indicator measures children's performance in the first two years of the primary cycle, allowing for a lag of no more than one year with respect to the official school starting age. This approach is appropriate for monitoring progress towards a performance goal as opposed to a quantity goal.

²⁴ The goals selected are those agreed upon by the Governments of the region under the Nariño Accord.

The indicator was defined for the subgroup of children who are currently attending school, rather than for all children, since a child's failure to complete two years of schooling by the indicated age may also be due to the fact that he/she has never attended school. If this eventuality is not taken into consideration, the performance indicator will be contaminated by a measure of coverage or access to basic education and will have the added disadvantage of exaggerating inter-strata disparities due to the more limited coverage of primary education in lower-income strata.

SUBJECT 16
A CHILD NUTRITION GOAL ADOPTED AT THE WORLD SUMMIT FOR CHILDREN

GOAL: "... to reduce light, moderate and severe protein energy malnutrition by 20%, principally among children under 5..."

INDICATOR:

Percentage of children under 5 years of age who live in indigent households, defined as those households whose per capita income is less than the value of the shopping basket of staple foods (See table II-3).

ANALYTIC OBJECTIVE:

To monitor progress towards some of the targets set at the World Summit for Children on key issues such as nutrition, with specific reference to the dimension of equity between socio-economic strata and geographic areas.

METHODOLOGY:

To calculate direct indicators of child malnutrition, one must have information on children's weight and/or height. As already observed in connection with the subject of school grade repetition, the need to rely on multi-purpose household surveys in order to examine the social equity issue as it relates to this goal made it necessary to choose a proxy indicator.

Children residing in households that lack the resources required to cover the cost of the basic shopping basket of staple foods (i.e., indigent households) run a high risk of malnutrition, since a family budget that is not sufficient to meet basic nutritional needs is even less adequate if part of the budget must go towards satisfying other basic needs. Hence the risk of malnutrition, whether light, moderate or severe, is extremely high in such households, which means that although the indicator measures a probability rather than a certainty, it is likely to yield a highly reliable estimate.

SUBJECT 17
DRINKING WATER AND BASIC SANITATION GOALS ADOPTED AT
THE WORLD SUMMIT FOR CHILDREN

GOAL: "To reduce the difference between the population with access to drinking water and the population without it by 25% ..."

INDICATORS:

In urban areas, the percentage of the population residing in dwellings to which drinking water is supplied through either a public or a private distribution network; the connection may be inside or outside the dwelling, but must be on-site. In rural areas, the percentage of the population residing in dwellings to which drinking water is supplied through either a public or a private distribution network, or from a well of suitable depth and quality; the water must be piped to a connection either inside or outside the building, but it must be on-site.

TABLES: V.6 and V.7

GOAL: "... to reduce the difference between those with and without basic sanitation by 17% ..."

INDICATORS:

In urban areas, the percentage of the population residing in dwellings connected to sewer lines. In rural areas, the percentage of the population residing in dwellings connected to sewer lines or a septic tank

TABLES: V.8 and V.9

ANALYTIC OBJECTIVE:

To monitor progress towards some of the goals set at the World Summit for Children on key issues such as drinking water and sanitation, with specific reference to the dimension of equity between socio-economic strata and geographic areas.

METHODOLOGY:

Generally speaking, defining an indicator to measure access to an unpolluted water supply in urban areas is not a particularly difficult task, since the coverage of public or private distribution networks will serve the purpose. Therefore, the portion of the population that obtains its water supply from such a source (inside or outside the dwelling, but on-site) is defined as meeting the goal.

A number of problems arise, however, in defining an appropriate indicator for rural areas and smaller urban centres, since in such areas access to a water distribution network is not feasible for a large portion of the population, yet a significant percentage of households nonetheless have access to water of acceptable quality. While the available sources of information do not tell us, for example, if water obtained from wells or waterwheels meets minimum standards of safe drinking water, one can

assume that it is of suitable quality; this makes it possible to obtain a reasonable approximation, although one that will slightly underestimate the population without access to such a water supply.

As in the case of a water supply, it is not too difficult to formulate an indicator of access to a suitable sewage disposal system in urban areas, since this condition is met when the dwelling is connected to sewer lines.

It is more difficult to define an appropriate indicator for the rural population, because in rural areas a connection to sewer lines is simply not feasible in most cases; for this reason, connection to a septic tank —but not a cesspit or cesspool— must be considered acceptable.

Figure II-1

AVERAGE YEARS OF SCHOOLING COMPLETED BY YOUNG PEOPLE -15 TO 24-YEAR-OLDS
 (Simple average of Latin American countries; circa 1990)

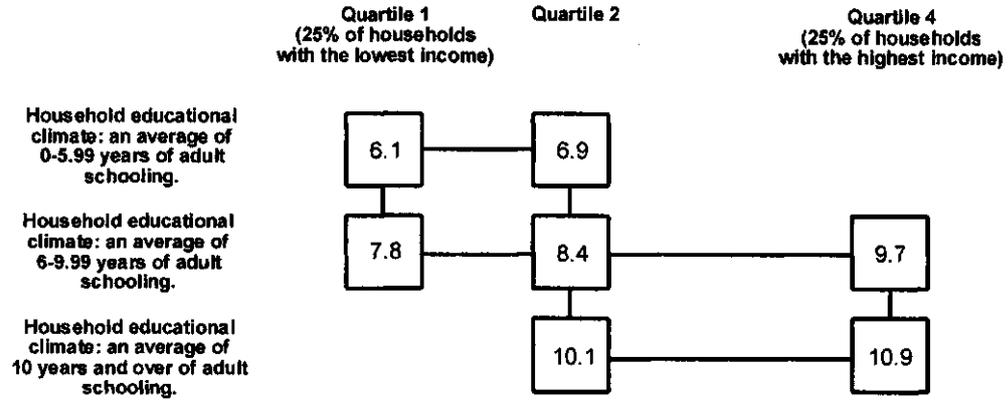
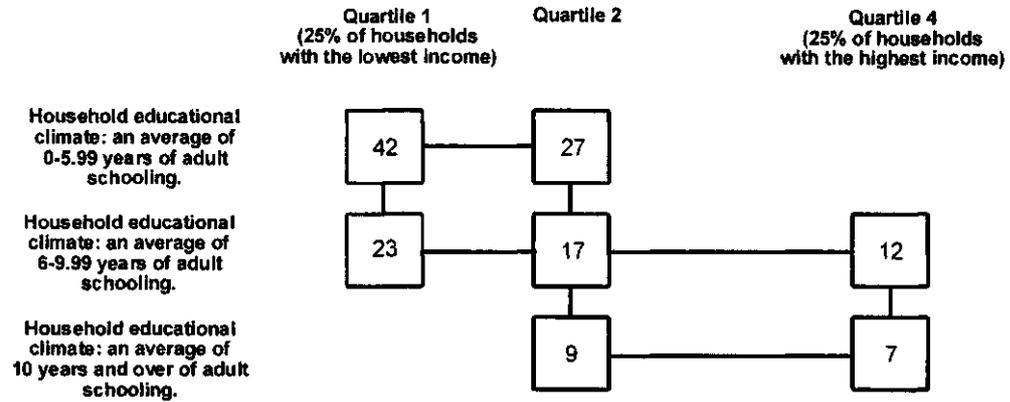


Figure II-2

PERCENTAGE OF CHILDREN AGED 7 TO 14 WHO ARE BEHIND IN THEIR STUDIES ACCORDING TO THEIR AGE

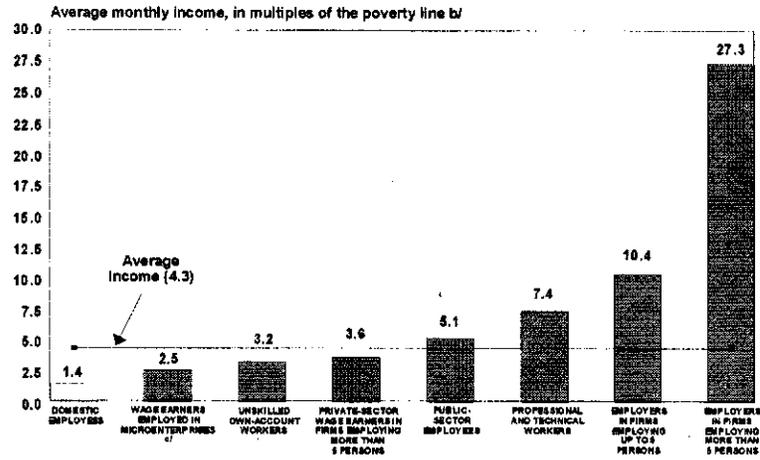
(Simple average of Latin American countries; circa 1990)



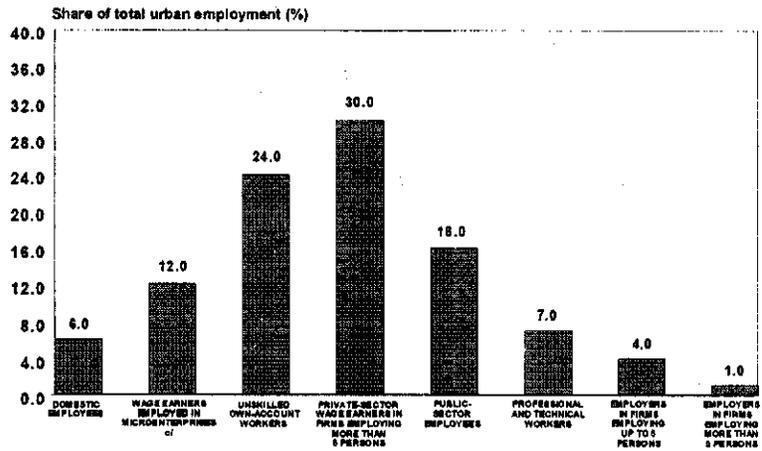
SOURCE: GERSTENFELD, Pascual: Regional comparison of the influence of household characteristics on school performance. Social Policies Series No. 9, ECLAC, December, 1995.

Figure II- 3

LATIN AMERICA (12 COUNTRIES): AVERAGE INCOMES IN VARIOUS OCCUPATIONAL CATEGORIES a/ (Urban areas, 1994)



LATIN AMERICA (12 COUNTRIES): PERCENTAGE OF THE WORKING POPULATION IN VARIOUS OCCUPATIONAL CATEGORIES a/ (Urban areas, 1994)



Source: ECLAC, Social Panorama of Latin America -1996 edition-

a/ Refers to the simple average for 12 countries.

b/ Refers to per capita poverty lines in urban areas.

c/ Refers to wage earners who work in enterprises employing up to 5 persons.

Figure II-4

POVERTY AND VULNERABILITY: THE IN AND OUT PROCESS

CHANGES OF HOUSEHOLDS SITUATION IN A ONE YEAR PERIOD	
Remained poor	15%
Became non poor	9%
Became poor	6%
Remained non poor	70%

Total households	100%

HOUSEHOLDS THAT CROSS THE POVERTY LINE BY STARTING CATEGORY	
PERCENTAGE WHICH MOVED FROM POOR TO NON POOR	
Of households with per capita income below 0.9 poverty line	35%
Of households with per capita income between 0.9 and 1 poverty line	54%
PERCENTAGE WHICH MOVED FROM NON POOR TO POOR	
Of households with per capita income between 1 and 1.25 poverty line	24%
Of households with per capita income between 1.25 and 2 poverty lines	9%
Of households with per capita income over 2 poverty lines	4%

Source: ECLAC, Social Panorama of Latin America -1994 edition-.

Table II-1

LATIN AMERICA (12 COUNTRIES): PERCENTAGE BREAKDOWN OF POOR URBAN HOUSEHOLDS BY CHIEF DETERMINING FACTORS a/

Countries	Low earnings and limited education			One or more members out of work	Large number of minors in relation to adults	Other factors and combinations	Total
	Total	Afone	Combined with large number of dependents				
Argentina	33	13	20	37	10	20 b/	100
Bolivia	67	41	26	10	12	11	100
Brazil	73	46	27	13	9	5	100
Chile	71	47	24	15	10	4	100
Colombia	75	51	24	10	8	6	100
Costa Rica	53	27	26	15	14	18 b/	100
Honduras	74	41	33	10	11	5	100
Mexico	83	48	35	8	7	2	100
Panama	59	32	27	20	13	8	100
Paraguay	72	42	30	11	10	7	100
Uruguay	68	27	41	20	10	2	100
Venezuela	61	29	32	20	9	10	100
Simple average	66	37	29	16	10	8	100

Source: ECLAC, Social Panorama of Latin America -1996 edition-

a/ Data are from around 1994. See box for definitions of indicators used.

b/ A high percentage of poor households consist of senior adults, including low-income retirees and pensioners.

INDICATORS USED TO CHARACTERIZE URBAN POVERTY

Three factors were taken into consideration in analysing the characteristics of urban poverty in the mid-1990s: demographic situation, unemployment and low income associated with limited human capital. For purposes of analysis, a threshold was defined for each factor and the households were classified accordingly.

Demographic situation: this refers to the dependency ratio, i.e., to the number of children and adolescents in the home relative to the total number of adults of a fully economically active age. High-cost households are those where the number of minors aged 0 to 17, divided by the number of persons aged 18 to 59 is greater than or equal to two.

Unemployment factor: this refers only to open unemployment and takes account of the presence in the household of at least one unemployed person, either the head or another member.

Low income and limited education: this is estimated on the basis of earned income and the number of years of education of the head of the household or main breadwinner. The low earning line is 2.5 times the value of the per capita poverty line of each country, while persons with less than 10 years of schooling completed are considered as having low education levels.

Table II-2

LATIN AMERICA (12 COUNTRIES): PERCENTAGE OF EMPLOYED POOR IN EACH OCCUPATIONAL CATEGORY AND PERCENTAGE OF TOTAL POOR *a/ b/* URBAN AREAS, 1994
(Percentage)

	Total employed <i>c/</i>	Public-sector wage earners <i>d/</i>	Non-professional, non-technical private-sector wage earners			Non-professional, non-technical own-account workers
			Businesses		Domestic employees	
			With over 5 employees	With up to 5 employees <i>d/</i>		
Argentina (Greater Buenos Aires)	5 100	-	5 52	7 22	10 10	3 16
Bolivia	37 95	30 12	40 19	51 19	30 4	41 41
Brazil	37 91	-	31 27	47 29	55 12	41 28
Chile	18 92	-	21 46	28 20	23 8	16 16
Colombia	34 97	15 4	41 58	-	31 5	42 30
Costa Rica	12 94	5 11	11 28	19 18	25 9	20 28
Honduras	66 96	42 7	71 33	83 14	56 5	79 37
Mexico	29 95	-	33 71	-	56 7	27 17
Panama	18 98	6 9	16 30	30 19	28 14	25 26
Paraguay (Asunción)	27 80	13 5	38 34	36 16	29 11	33 25
Uruguay	6 97	2 8	6 32	7 13	13 16	9 28
Venezuela	32 91	38 21	29 26	48 14	41 5	32 25

Source: ECLAC, Social Panorama of Latin America -1996 edition-

- a/* The upper row shows the percentage of those employed in each occupational category who live in households below the poverty line.
- b/* The lower row (shaded figures) shows the percentage of poor persons employed in each category in relation to total employed poor.
- c/* The total does not usually add up to 100 since figures exclude employers and professional and technical workers.
- d/* In Argentina, Brazil, Chile and Mexico, public-sector workers are included among wage earners of establishments with over five employees. For Colombia and Mexico, micro-enterprise wage earners are also included in this category.

Table II-3

LATIN AMERICA (8 COUNTRIES): CHILDREN UNDER 5 YEARS OF AGE WHO RESIDE
IN INDIGENT HOUSEHOLDS a/

(Percentages)

Country		Total	Urban	Rural
Brazil	1990	35.0	28.4	50.0
	1993	37.6	31.9	54.0
Chile	1990	19.8	18.5	25.1
	1994	13.2	12.7	15.4
Colombia c/	1990	...	21.0	...
	1994	36.7	27.1	47.9
Costa Rica	1990	12.0	7.3	15.0
	1994	11.5	10.2	12.2
Honduras	1990	68.2	50.4	78.4
	1994	62.0	54.9	66.6
Mexico	1989	24.8	18.3	33.0
	1994	24.0	13.9	35.0
Uruguay	1990	...	8.1	...
	1994	...	5.3	...
Venezuela	1990	19.3	17.4	27.3
	1994	26.9	23.8	37.2

Source: ECLAC, Social Panorama of Latin America -1996 edition-.

- a/ Households whose per capita income is less than the value of the shopping basket of staple foods.
- c/ Beginning in 1993, the geographical coverage of the survey was extended to include virtually the entire urban population. Up to 1992, the survey covered approximately half the urban population.
- ... = No information.

Chapter III

INDICATORS FOR THE ASSESSMENT OF SOCIAL POLICIES

Ernesto Cohen

INTRODUCTION

A situational analysis in the form of a baseline social assessment serves as the starting point for the identification of unmet basic needs among given segments of the population. Political decision-makers set priorities as to “which needs” and “whose needs” are to be met first, and social policies give expression to those decisions.

There are two major options as regards the evaluation of social policy. One is to use aggregate data that will serve as a basis for conclusions regarding the overall impact of such policies. This approach has the advantage of relative simplicity, but it also suffers from a number of constraints due to its lack of accuracy in identifying the causes of policy outcomes and, hence, a limited capacity for policy reformulation. The second option is to analyze the programs and projects which are the operational manifestation of social policy. The assessment of these initiatives permits their redesign and the reallocation of resources, and therefore provides a strategic avenue for rationalizing government social expenditure.

This is important both in crisis situations —when the amount of available resources shrinks while needs increase— and during times of prosperity, since, although social spending can usually be raised at such times, economic booms also generate new needs that, in most cases, call for additional financial inputs.

By the same token, boosting the efficiency and impact of resource use in poverty reduction initiatives is an ongoing need that entails specific requirements with regard to the evaluation of social policies, programs and projects.

1. What is a social project?

Programs and projects are designed to meet needs. This unmet demand may be for goods or services traded in the market or outside of it. The latter situation arises when the public sector subsidizes the products (goods or services), or outputs, of the project so that they may be provided to the target population at below-market prices, at a price below the output’s production cost or even free of charge.

When a project functions outside the bounds of the market and is intended to meet the needs of people who lack purchasing power, then it is a social initiative. The unmet basic needs of the most disadvantaged sectors of the population may, then, be viewed as problems and the projects as a solution for those problems.

The two end points of a social project may therefore be defined as the "current situation" in which a problem exists and a "desired situation" in which the problem has been eliminated or diminished as a result of the actions which the project represents.

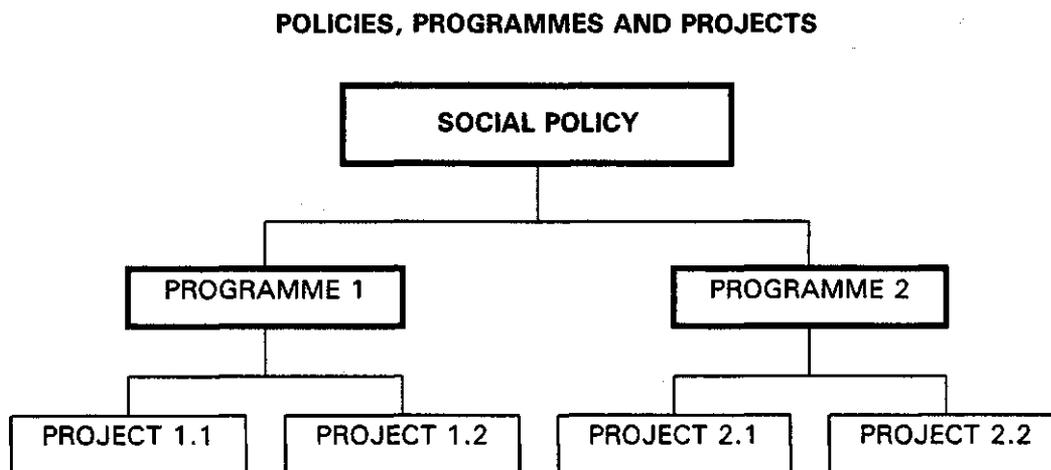
Traditional economic analysis associates projects with the investment they require. The underlying concept is one of production projects which cannot even begin to function until resources have been allocated for the acquisition of the capital goods required in order to turn given inputs into outputs, or products. Viewed from this same vantage point, programs are defined as initiatives that do not demand an investment. Instead, the resources they require take the form of current expenditure (inputs and staff).

According to this line of reasoning, ex ante appraisals can only be carried out for projects, while in the case of programs there is no question of applying methodologies that would be of use in rationalizing the allocation of resources on the basis of the ends being pursued.

While there is nothing to prevent a program from being subjected to an ex ante socioeconomic analysis, somehow, as a result of this prevailing view, the practice has been almost entirely absent from the region.

For the purposes of this study, and in line with the convention common to most of the social sciences, programs will be defined as sets of projects that pursue the same objectives, as illustrated in Figure III-1. This makes it possible to analyze policies by looking at the programs associated with them and to analyze those programs by examining the projects of which they are composed.

Figure III-1



2. Weaknesses of social policy

Social policy in Latin America has run up against a critical problem: the scant amount of resources devoted to the needs of the poor. A few examples will suffice to back up this statement. In 1987, only US\$1 out of every US\$ 7.83 spent on social programs

reached the poorest 20% of the population in Chile, a nation that has mounted a determined effort over a number of years to direct expenditure towards that sector (Haindl, Budinic and Irrázaval, 1989). Meanwhile, a confidential report on another country of the region asserts that the suspension of all social programs currently underway would not alter the living conditions of the poorest 50% of the population in any way whatsoever.

Why? There are two main reasons. First, social policy has been focused on meeting the needs of other groups in society; social policy is not only for the poor. The second reason has to do with the ineffectiveness of the existing framework of social institutions, the way in which programs are designed and implemented, and program leakage and waste.

In Latin America, the distribution network used by the State to provide social services to the population is fragmented and is rife with duplications of effort and of services. As a result, resources are wasted and only a fraction of the original allocations reach their intended recipients. According to the figures for some programs, only 5% of the total budget actually reaches the poorest groups, while the rest is drained off by the bureaucracy or diverted to other groups.

The comforting, widespread belief that social programs and projects always afford some sort of benefit also creates problems. This presupposes that so long as there is a supply, there will always be an impact, and that the latter will rise in proportion to the former. The relationship between the two variables is not always linear, however. Sometimes, there is an impact only after a given threshold has been passed in terms of the provision of goods or services. For example, an evaluation of a school lunch program demonstrated that the program did not begin to have an impact until the ration exceeded 770 calories per person, which occurred in only 17% of the schools participating in the program. If the rations were below that figure, then the resources were simply being wasted.

The investment/impact ratio is influenced by many different decisions. The outcome will be depend on correct targeting, on whether the target group has the necessary economic, social and cultural opportunities to participate in the program, and on whether or not the amount and quality of goods and services being offered are adequate.

An example of one very common error is provided by school lunch programs. These programs usually employ a universal allocation criterion, and consequently provide similar amounts of food to all the children in a given class. It would be more appropriate, however, to devise individualized responses to the specific problem being addressed (i.e., malnutrition), which does not affect all the students to the same degree, if at all. If some members of the target population do not suffer from a nutritional deficit at the start of the program, in the best of cases the effect on these children will be nil; in the worst of cases, they will begin to suffer from problems of obesity. Since the available resources are being inappropriately assigned, the program may have no positive effect at all or, if it does, will have less of an effect than it could have had if those same resources had been channeled only to children actually suffering from malnutrition.

Other design errors stem from a failure to take the nature of family survival strategies into account. It has been found, for example, that the nutritional status of program beneficiaries from households whose incomes place them near the extreme poverty line actually worsen during the time they are receiving food rations from such programs. This is because these programs provide calorie and protein rations that are intended to supplement rather than replace the meals which the participants receive at

home. Since no provision has been made to distribute information about the nature of these rations, however, the poorest families exclude the members who have eaten outside the home when distributing the household's food supply.

Another problem is that social programs often pursue secondary objectives that actually interfere with the achievement of their primary aims. The resources from some social development funds are used to make the necessary "investment", either without any provision being made for recurrent expenses or while stipulating that such expenses should be borne by the target population. The intention here appears to be the quite reasonable one of fostering a commitment to the project; however, the poorer the community in question is, the less likely it is that it will be able to cover such expenses. In addition, if members of the target population must take the initiative in applying for program funds, then it may be that only those who are aware of the funds' availability and know how to wend their way through the bureaucratic labyrinth will benefit, which means that the poorest members of these groups will not have access to those resources. The same kind of situation may arise when the preparations for a project are made the responsibility of its proposed beneficiaries, who in most cases are not equipped to perform that task. Furthermore, as a result of bureaucratic inertia, capital resources tend to be directed to easily accessible areas, whose inhabitants are not the neediest members of the general population.

The way in which projects and programs are run has a decisive influence on their impact. Indeed, perverse effects are often generated during implementation, even in well-designed programs. This may happen, for example, when, in response to some sort of crisis situation, program officers distribute the available food among a larger number of people than originally planned. As a result, everyone receives smaller rations which are not sufficient to cover their minimum nutritional requirements; if, in addition, program benefits are siphoned off to groups other than the intended beneficiaries, then the program's impact will be reduced even further.

As a result, we usually know very little about the performance level of the programs and projects that are undertaken in order to put social policy guidelines into practice; even more seriously, no information is obtained on the impact that program activities have on the target population. Generally speaking, we do not know whether such programs work or not; if they do, we do not know how well they work or to what extent they are justified. Nor do we know who actually benefits from them or whom they harm.

Thus, there appears to be a need to rationalize contemporary social policy by increasing the efficiency of resource use and the impact of the programs and projects in which social policy is manifested. Only then will it be possible to meet the most pressing needs of disadvantaged groups.

3. The project cycle

The project cycle begins with the identification of a problem which leads to a project's inception and continues until the completion of that project.

This cycle can be divided into three stages: pre-investment, investment and operation. This nomenclature is inherently biased in that it assumes that projects inevitably require an investment. This is not necessarily true in the case of social projects, and the fact that a given projects does or does not require an investment is not a prerequisite for its evaluation. In other words, projects can be accurately

formulated and assessed regardless of whether they require a substantial investment, or little or no investment at all.

a) *Pre-investment*

This stage covers everything from problem identification and the formulation of alternative solutions all the way to the comparative analysis of those options and the selection of the best one. Usually, the pre-investment stage is subdivided into a number of phases: project idea, profile, prefeasibility and feasibility. Moving from phase to phase within this continuum may be likened to a progressive acquisition of certainty, since the level of uncertainty diminishes as the executing agency pays the additional costs of the increasingly detailed studies that need to be prepared as it progresses from one phase to the next.

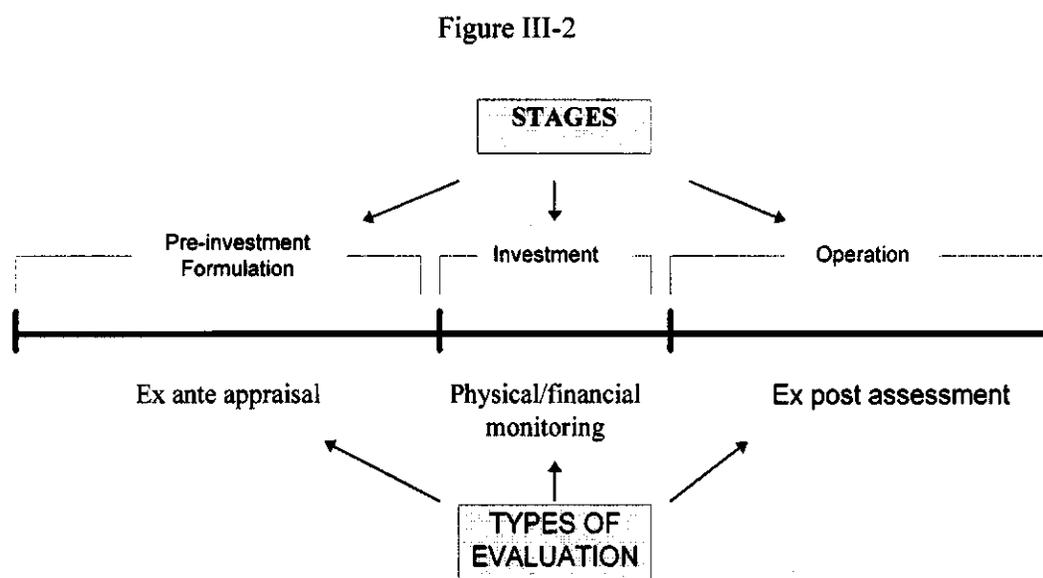
b) *Investment*

This stage involves the allocation of project funds for the acquisition of the capital goods needed to run the project. In dealing with social matters, two different sorts of situations typically arise: projects that require investments (first aid stations, hospitals, schools, etc.) And projects that do not (nutrition programs, training programs, etc.). When no investment is required, the executing agency moves directly from the pre-investment stage to the operation of the project.

c) *Operation*

The operational stage begins when the project starts to deliver its outputs (goods or services) to the target population.

Each of the above stages is associated with a different type of assessment (see Figure III-2).



During the pre-investment stage, project designs are formulated and are then subjected to an *ex ante* appraisal. This type of evaluation allows the relevant decision-makers to determine whether the project meets the established requirements in terms of its rate of return or its costs and benefits and then to ascertain which option offers the optimum form of implementation.

When an investment is called for, a physical/financial assessment is made. This is carried out during the investment's implementation by checking the progress of the work and resource use against a pre-established schedule. The purpose of this assessment is to detect any deviation from the original plan and, should any such deviation occur, to determine what and who are responsible.

An *ex post* evaluation is conducted while the project is underway. This type of assessment does not assume that the project has been completed; on the contrary, it begins at the point where the project starts to deliver goods or services to the target population. The main topics covered by such evaluations are targeting, efficiency in the generation of project outputs, and the impact of these outputs on the target population.

The main topics covered by an *ex post* evaluation are the following:

i) Targeting analysis. This permits two types of problems to be detected:

A shortfall in coverage, which can be computed by dividing the target population served by the total planned target population:

Target population - served

Target population - planned

Excess coverage, which can be estimated by comparing the number of beneficiaries who did not need the project's outputs with the total population receiving those benefits:

Non-target population served

Total target population

ii) Effectiveness. This variable is defined as the degree to which a project achieves its production targets during a given period of time, regardless of the level of production costs. The main parameters in evaluating effectiveness are therefore outputs and time, as seen from the dual perspective of planning and operation.

iii) Efficiency. This is the relationship between project outputs (goods and services) and project costs (inputs and activities). The main parameters are targeted outputs, time and costs.

An analysis of efficiency involves a comparison of options for delivering equal amounts of outputs of the same quality. In a meal program, for example, rations containing equal amounts of calories and proteins are regarded as comparable.

The concepts of effectiveness and efficiency relate solely to project outputs.

iv) Impact. No project justifies its resource allocation simply by delivering certain goods or services to its target population. The underlying assumption is that these outputs will have a certain impact. That impact is defined as the quantitative change, in line with the objectives sought, which the project brings about within its target population.

Impact is to a social project what the achievement of a specified level of benefits and rate of return is to a production project. For production projects, gains are computed on the basis of an economic and financial analysis of corporate accounts. The impact of a social product cannot, however, be ascertained unless specified measurements are deliberately made of those effects using models specifically designed for that purpose.

In a meal project, the usual sorts of administrative records yield information about the size of the food rations provided, perhaps their calorie and protein content, and their cost. This makes it possible to analyze the efficiency of the output (rations) production and distribution process. None of the information forthcoming from the project itself will provide data on whether or how much the frequency rate of malnutrition has changed (impact) as a consequence of the food rations supplied. Those kinds of data can only be obtained through the application of quasi-experimental models.

4. Assessment

The central issues for social programs and projects are efficiency and impact. Such initiatives may be run efficiently but be oriented in a way that fails to produce an impact.

There may be a number of different reasons for this type of distortion. The first and most common has to do with the idea that social projects deal with intangibles and that their outcomes are therefore qualitative and cannot be measured. This, in the best of cases, is only half true.

"The integral development of the child's personality, is, as an objective to be sought by the schools, clearly an unattainable goal. On the other hand, teaching a child how to read by the time (s)he has reached third grade is by no means impossible and is an activity that can readily be measured with a fair degree of accuracy" (Drucker, 1990, p.97).

In fact, general policy objectives are normally expressed in qualitative terms. For example, we usually speak about "achieving economic and social development" or "promoting social integration", but until those goals are translated into specific objectives, we cannot set any targets or deadlines, plan the steps to be taken in order to meet them or, consequently, design a system of program and project management in line with those aims.

Hence, one pre-condition for project formulation and management is a clear definition of the specific objectives to be pursued.

Projects whose objectives are vague cannot be evaluated. There is no way to make use of methodologies for optimizing the achievement of objectives that have not been specified with a reasonable degree of accuracy. Under such circumstances, there is no way to arrive at a rational allocation of resources. As Seneca observed, "When a man does not know what harbor he is making for, no wind is the right wind."

Another point that needs to be brought out is that social programs and projects are usually implemented by the public sector, which acts on a monopolistic basis to meet a captive demand. Under these conditions, there is no market and, in the absence of a market, the only way to determine the extent to which a project budget is justified is to make an assessment of that project's impact.

What usually happens, however, is that if the problems that prompted the project's formulation and approval have not been solved or have actually grown worse, then the project's budget is increased. Thus, it is quite possible that the more ineffective a project is, the greater the likelihood that it will be continued and receive even larger resource allocations than before.

5. Social project specificity

Regardless of whether they are productive or social in nature, projects are designed to meet given needs. If the persons having those needs also have a certain level of purchasing power, then their demand can be met through the market. The poor, on the other hand, have needs but cannot pay to have them met. This segment of the population is therefore a source of "social demand" which must be met through the provision of goods and services free of charge or at below-market prices.

When a social project's aims fall into the category of poverty reduction, then that project is seeking to satisfy this type of social demand.

Project objectives are organized within a hierarchical structure that has at least three major levels:

a) *Activity objectives and required inputs* (what the project needs)

Project inputs are all the different types of resources (physical, human, financial, etc.) that are used to undertake the actions (activities) needed to produce the project's outputs. A supplementary feeding program, for example, requires such inputs as infrastructure, dishes and utensils, food, fuel and personnel in order to carry out its main activity, which is the preparation of food for its target group.

b) *Output objectives* (what the project is supposed to provide)

These are the goods or services which the project attempts to provide through the use of its allocated resources. In the above example, the project's outputs would be food rations.

c) *Impact objectives* (what the project is supposed to accomplish)

The purpose of the project is not actually to provide food rations. These rations are furnished in order to reduce the level of malnourishment present among the target population. This is the impact objective which justifies the project's implementation.

A causal structure underlies this hierarchy of objectives in which the relevant input-output relationships are generally known. Their proper management is what makes a project efficient, i.e., what ensures that it will generate specified outputs at the lowest possible cost thanks to a rational allocation of the available resources.

The causal connection between outputs and impacts, however, is usually some sort of unspecified hypothesis that is almost never put to the test, and the result is that there may be any number of very efficient projects which have no impact at all.

In the best of cases, the management of social projects is limited to the analysis and monitoring of efficiency. Despite its importance, the impact of a project is not even examined.

Why is an assessment of a project's impact hardly ever undertaken? There are a number of possible reasons:

i) It is generally assumed —mistakenly— that a linear cause/effect relationship exists between output and impact. If food rations are provided to the target population, then it is logical to think that the level of malnutrition in that population will diminish.

ii) A project's impact, defined as the magnitude of the change it brings about within the target population, is a consequence not only of the way in which the project is implemented but also of a range of other factors over which the project has no influence. In the above-mentioned case, for example, a change in the population's nutritional status will be a result not only of the project's activities, but also of such external factors as variations in the target population's purchasing power, changes in relative food prices, the possibility of accessing other programs that provide supplementary goods or services, etc.

iii) Although there are methodologies for separating out the effects of exogenous variables in gauging the net effect of a project, it is usually argued that, because of their cost, it would be more advisable to use those resources to expand project coverage instead.

iv) Managers of social projects are supposed to make sure that the resources allocated to their projects are used efficiently. They therefore must focus their attention on the ratio between the available inputs and the project's outputs. This takes the question of the project's impact out of the manager's hands and passes it on to senior administrative officers who have no information on the matter whatsoever and thus have no basis upon which to determine how the project should be modified.

6. Assessment indicators

Indicators are measurements of projected and actual performance in terms of the various levels of project objectives. During the **formulation** stage, these variables define the purpose and scope of the project and thus provide the basis for an *ex ante* appraisal; during the project's **operation**, they measure the extent to which a given objective has been achieved, thereby making it possible to proceed with monitoring and impact assessment tasks.

If we synthesize the above definitions and present them in matrix form, the result is as follows:

Figure III-3

	Performance	
	Projected	Real
Levels of objectives	Formulation ex-ante appraisal	Operation monitoring, impact assessment
Impact	INDICATORS	
Output		
Activities		
Inputs		

- Without indicators, it is impossible to determine the scale or scope of a project. If the object is to raise the income levels of a given population group, then we must ask ourselves how great a change we expect to make. An increase of 5% or of 50%? How long is this going to take? One or 10 years? Indicators enable us to incorporate goals into the project's design and to determine the amount of resources that will be needed to achieve them, as well as the nature of the necessary activities and outputs. We must establish certain goals before we can plot out the steps to be taken to implement the selected option.

- Indicators also show us what results have been achieved in terms of the various levels of objectives. They are not a necessary condition for their achievement, but they do permit us to see what has been achieved. Thus, they may be likened to a thermometer, which shows us changes in temperature but are not the cause of those changes.

a) ***Requisites of a good indicator***

Indicators should be independent and targeted:

i) Independent. Indicators need to be specific to each level of objectives and cannot be shifted from one level to another.

In a food program, for example, the quantity of food rations delivered constitutes an indicator of outputs but cannot be used as an indicator of the project's impact. This is because the correlation between output and impact may be as low as zero if, for instance, the target population has been poorly chosen.

ii) Targeted. In the case of objectives relating to inputs, activities and outputs, indicators should specify the quantity, quality and length of time in which these resources should be made available to the project, carried out, and delivered to its beneficiaries. These specifications serve as a basis for the establishment of programming goals, taking into account any budgetary constraints that may exist, and for a subsequent comparison of what was planned with what was actually achieved.

Quality is an essential consideration. If quantity is increased at the expense of quality, then the project's impact may be nullified.

b) Verification

It is necessary to specify the information sources to be used in obtaining or constructing the indicators needed for project formulation, monitoring and impact assessments.

These verification methods may be:

i) secondary, when they are obtained from sources outside the project (usually government or other official publications); or

ii) primary, when they are generated by the project itself. This information may be drawn from:

Project records. In order for this information to be usable, its compilation must be geared to meet the requirements of the desired indicators. The most common problem in this connection is that record-keeping systems are designed for accounting purposes rather than to facilitate project monitoring;

The project's target population. Rather than being drawn from administrative records, this type of information can only be obtained through a field survey of the project's target group. Data from this source are needed in order to analyze the project's impact.

The indicators to be used should be incorporated into the design of the project, and the cost of their construction should be included in the project budget.

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SERIE POLÍTICAS SOCIALES

- | Nº | Título |
|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Andrés Necochea, La postcrisis: ¿una coyuntura favorable para la vivienda de los pobres? (LC/L.777), septiembre de 1993. |
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