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COMBATING EXTREME POVERTY BY PROVIDING ACTIVE SUPPORT AS PART OF A CONDITIONAL CASH TRANSFER SCHEME

Integrating active labour market policies (ALMPs) into poverty alleviation programmes can foster employment opportunities while protecting individuals' incomes from the consequences of a severe recession. Recent research on Uruguay's response to the economic crisis of 2002 demonstrates that allowing the beneficiaries of cash transfer schemes to voluntarily participate in public works increases their chances of finding jobs afterwards, and at the same time counteracts any indirect negative effect that income support may have on labour market outcomes.

Key findings

- The incorporation of multiple policies into social assistance programmes is an increasingly common trend in Latin America and the Caribbean.
- These comprehensive programmes seek to tackle various dimensions of vulnerability, one of the most significant being inadequate integration into the labour market.
- The experience of Uruguay's National Social Emergency Response Plan (PANES; 2005–2007) shows that integrating ALMPs into conditional cash transfer schemes can play a crucial role in helping individuals to access better employment opportunities.
- The findings from an evaluation of the income support and activation components of PANES can be used to inform the design and implementation of contemporary programmes based on an integrated approach. Some of the key recommendations for policy-makers include:
 - Ensuring the level of income support is sufficiently high so that families are adequately protected in times of crisis.
 - Strengthening the activation component to equip the participants with useful skills.
 - Reinforcing the linkages between income support and active support, by scaling up investment to enable more people to participate in the activation measures.

Research question

The positive economic trends observed in Uruguay in the early 1990s came to a halt in 1999, when the loss of competitiveness of the country's exports led to a recession. By 2002, Uruguay was in the midst of an economic crisis, with severe consequences for both average household incomes and unemployment rates:

- Average per capita income fell by 20 per cent during 1998–2002.
- Unemployment reached 17 per cent in 2002 – the highest recorded rate in fifty years.
- The moderate poverty rate nearly doubled from 17.3 to 32.1 per cent between 1998 and 2004 (figure 1).

Although all population groups saw their economic and social conditions worsen, vulnerable households were the worst hit. The crisis highlighted existing gaps in social protection and called for an emergency solution.

Through the "Plan de Asistencia Nacional a la Emergencia Social" (PANES) and its multidimensional approach (box 1), the Government of Uruguay sought to close those gaps and mitigate the effects of the crisis. PANES addressed social and economic problems across various dimensions, focusing on the poorest segment of the population:

- Its most significant component, the cash transfer scheme "Ingreso Ciudadano" (Citizen's Income), was aimed at tackling income poverty.

- The public works scheme “Trabajo por Uruguay” (Work for Uruguay) was aimed at fostering social inclusion through labour market participation.

Uruguay was not alone in this policy shift towards the use of multidimensional approaches for combating poverty. Several countries in the region have launched similar interventions in which ALMP components are embedded in larger social assistance programmes, with the dual objective of providing basic income security while helping people to re-enter the labour market.

Despite the increased emphasis on combining income support with ALMPs, there is little empirical evidence on the effectiveness of such integrated approaches. Understanding how best to exploit the synergies between these two policy types is of great relevance for Uruguay and the whole region.

The analysis outlined in this Research Brief was conducted as part of the ILO project “What works: Promoting pathways to decent work”. For more information, please see: www.ilo.org/pathways-decent-work.

Figure 1. Population living in moderate and extreme poverty, selected years between 1991 and 2006



Note: The extreme poverty line refers to the cost of a basket of minimum essential food items; the moderate poverty line to the cost of a basket of essential food and non-food items. Both have been calculated by the National Institute of Statistics of Uruguay.

Source: ILO (2019).

Box 1. The public works scheme Work for Uruguay as part of the poverty alleviation programme PANES

The “Plan de Atención Nacional a la Emergencia Social” (National Social Emergency Response Plan; PANES) was an emergency two-year measure aimed at tackling the deterioration of social and economic conditions in Uruguay, which had been exacerbated by the crisis in 2002. Its primary objective was to alleviate the acute poverty faced by a growing number of households following the crisis. Despite its limited time frame (2005–2007), it addressed not only issues of a temporary and emergency nature, such as the increase in extreme income poverty in the wake of the crisis, but also structural obstacles, such as social exclusion and the lack of qualifications of individuals in vulnerable groups of the population.

The comprehensive approach of PANES involved eight components, including the “Ingreso Ciudadano” (Citizen’s Income), which consisted of a monthly income transfer of 1,360 Uruguayan pesos (US\$102 in purchasing power terms) to each participating household, and which served as the basis for the other seven components. These were aimed at: promoting participation in paid employment; providing essential food support; facilitating access to decent housing; increasing social engagement and community development; improving access to health and education services; and supporting the homeless.

Within PANES, the public works scheme “Trabajo por Uruguay” (Work for Uruguay) provided work for a maximum period of five months, generally consisting of elementary tasks performed within local communities (e.g. cleaning public spaces or carrying out small repairs), and was delivered through projects managed by civil society organizations. The scheme also provided income support set at twice the level of the Citizen’s Income transfer. Participants were required to work from Monday to Friday for six hours a day; they were also expected to attend 20 hours of training. Follow-up support and job search assistance were provided to participants for an additional month after they had left the scheme. Participation in Work for Uruguay was voluntary and the scheme targeted a specific group of PANES beneficiaries, namely unemployed individuals aged 18 or over.

Over its two-year duration, PANES helped 102,000 households – that is, 10 per cent of all Uruguayan households and 14 per cent of the total population at the time. Meanwhile, Work for Uruguay, which was its most popular voluntary scheme, reached a total of 15,684 households, corresponding to 17 per cent of PANES beneficiaries. Significantly, PANES paved the way towards a permanent restructuring of Uruguay's social protection system as envisaged by the "Plan de Equidad" (Plan for Social Equity), adopted in 2008, which strives for universal coverage.

Source: Escudero, López Mourelo and Pignatti (2019); ILO (2019).

What works?

An impact evaluation of PANES was undertaken to analyse the effect of the income support component (Citizen's Income) when implemented alongside the active support component (Work for Uruguay). The emphasis was on identifying the post-participation effects for individuals who benefited from each of the two components separately and for those who benefited from both.

The evaluation was carried out using a combination of statistical techniques (difference-in-differences method and propensity score matching). It drew on administrative data covering households eligible for participation in PANES, and on two follow-up surveys conducted on a sample of PANES participants.

The analysis reveals important implications of participating in both the active and income support components of PANES with regard to labour market status after leaving the programme:

- Individuals who received only income support were less likely to end up in unemployment than similar individuals who did not participate in PANES. Yet, they were also less likely to be in employment. This is not necessarily a negative effect, though, if participants manage to find a better job later on. Receiving income

support may mean that people are not compelled by necessity to accept any new job regardless of its quality.

- Individuals who received active support were more likely to be participating in the labour market after leaving the programme; they were also less likely to be unemployed.
- For those individuals who received both types of support, the positive effect of the activation component more than counterbalanced the potentially negative effect of the income support, leading to an overall positive effect. Although the evidence is not conclusive, the analysis suggests that the integrated approach of PANES can be linked to an improvement in post-participation labour market outcomes.
- The evaluation did not find conclusive evidence of improvements in employment quality after participation.
- Participation in Work for Uruguay did not lead to any displacement effects within households. In other words, increased labour supply on the part of one member of the household did not come at the expense of reduced job efforts or opportunities for other individuals within the same household.

Policy considerations

Gainful employment is the most sustainable pathway out of poverty. The joint provision of income support and active support makes it possible to exploit the synergies between the two policy types in order to help people find decent work. PANES is a successful example of such an integrated approach.

Although PANES ran for just two years (2005–2007), it laid the groundwork for a permanent restructuring of the social protection system in Uruguay. In particular, the goal of universal coverage was enshrined in the "Plan de Equidad" (Plan for Social Equity), which was launched in 2008. Since several elements of the earlier programme informed the design of the Plan for Social Equity, it is worth highlighting some of the lessons learned from PANES, including areas that could have been improved:

Ensuring that the level of income support is adequate

The introduction of income support (with low conditionalities attached) is clearly an important measure during an

economic crisis that threatens to widen existing gaps in the social protection system. At the same time, if the level of income transfer is too low, it may prove insufficient to help families achieve some desirable longer-term outcomes, such as leaving poverty behind permanently and ensuring that children enjoy the benefits of education.

A tailored approach that varies the level of income support according to the needs of households – determined, for example, on the basis of dependency rates or previous income levels – can increase the effectiveness of the income transfer while maintaining financial sustainability.

Strengthening the activation component

Participation in the public works scheme under PANES (Work for Uruguay) increased the probability of being employed afterwards. This is an important finding, especially bearing in mind that some public works schemes have not had the expected positive post-participation effects (Escudero, 2018). Still, the activation component of PANES could have been enhanced in certain respects.

For instance, it has been shown that the effectiveness of ALMPs increases when the length of the intervention is above four months (Card, Kluve and Weber, 2018; Escudero et al., 2018). Extending the time frame of programmes that are close to this threshold – such as Work for Uruguay, which had a maximum duration of five months – could help tackle more substantial barriers faced by beneficiaries, including skills deficits. It is, however, important to prevent the transformation of public works schemes into permanent work by ensuring that they are used only to provide temporary support.

Previous studies have argued that public works schemes are unlikely to lead to improvements in terms of employment quality unless there is some form of human capital accumulation (ibid; ILO, 2016). Increasing the skills content of the work involved in such schemes could make them more effective in helping participants access higher quality employment afterwards.

Reinforcing the linkages between income support and active support

A concern frequently raised in connection with income support programmes is that beneficiaries may be inclined

to reduce the intensity of their efforts to look for work. The impact evaluation of PANES admittedly found a modest reduction in the probability of being employed after participation among those who had only received Citizen's Income transfers. This finding is in line with what has been observed in advanced economies, but it is somewhat anomalous in the context of emerging and developing economies, where most studies have found no systematic evidence of a reduction in employment probability among cash transfer participants (Alzúa, Cruces and Ripani, 2013; Banerjee et al., 2017). Significantly, among Citizen's Income beneficiaries who participated in Work for Uruguay there was no reduction in the probability of being employed afterwards, which suggests that the positive effect of the activation component more than counterbalanced any negative effects of income support.

In this respect, strengthening the linkages between ALMPs and income support is important. This could be achieved by, say, increasing the number of temporary positions offered and upskilling the content work, and by making participation in activation measures mandatory for specific groups of income support beneficiaries who are job-ready. Any such measures, though, should be implemented without violating the principles of social protection as enshrined in international labour standards (ILO, 2019).

Further reading

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