

Chapter 6

Improving equality and reducing poverty

Main recommendations

- *Social mobility in Chile is low. In order to promote equality of opportunity, there are a number of steps Chile should consider taking. The most important is the reduction of different forms of inequality, including current income inequality and inequality in access to quality education. The evidence from OECD countries also suggests that interventions targeted at improving childhood outcomes are desirable.*
- *There is ample scope for mobilising labour supply among groups of workers currently under-represented in the labour market. The training and job-search requirements the government is planning to introduce as conditions of the new Ethic Family Income programme will promote the mobilisation of extra labour supply, provided that adequate assistance can be given to disadvantaged workers. The existing service infrastructure has been inadequate to help many of them get into paid employment, which is a condition for any sharp reduction of poverty. Chile needs to continue its investment in the infrastructure of service provision (e.g. training of social workers and employment service staff).*
- *Government plans to adapt the Social Protection Record to accurately measure current income changes and to design supplementary tools to measure short-term income changes will enable better targeting and improve incentives to work. Efforts in this direction should be reinforced.*
- *Achieving whole-of-government policy outcomes for social policy programmes will require effective collaboration and co-ordination on policy development, implementation and evaluation between stakeholder ministries and ministers and with the proposed Ministry of Social Development. This will require strong leadership from the President's Office, the Budget Office and effective leadership within the new ministry.*

Poverty and income inequality

Years of sustained growth in Chile resulted in a substantial decline in the *absolute poverty* headcount ratios (as defined nationally) between 1990 and 2009.¹ Poverty dropped from 38.6% to 15.1% of the total population, which corresponds to around 2.4 million persons moving out of poverty. The drop in the incidence of poverty was particularly sharp during the 2003–2006 period. The percentage of people living in *extreme poverty* (indigence) fell by 9.3 percentage points to 3.7% in 2009.

According to an official survey held every three years, the poverty rate was 15.1% in 2009, 1.4 percentage points higher than found by the previous survey (Mideplan, 2010a, Table 6.1). One of the main factors for this increase is the rise in the poverty line of about 20% in real terms between 2006 and 2009, which resulted from the increase in food prices during this period (an increase of about 35% versus 10% on the overall price index). The cost of the food basket accounts for approximately half of the poverty line and any changes in food prices therefore have a strong impact on the poverty rate. Another factor is the impact of the financial and economic crisis, which may have further contributed to the increase in the poverty rate.

Table 6.1. **Poverty trends in Chile, 1990-2009**

Evolution of poverty and indigence

| | Indigence | | Not indigent poverty | | Total poverty | |
|------|-----------|------|----------------------|------|---------------|------|
| | Persons | % | Persons | % | Persons | % |
| 1990 | 1 674 736 | 13.0 | 3 293 566 | 25.6 | 4 968 302 | 38.6 |
| 1992 | 1 206 421 | 9.0 | 3 184 146 | 23.8 | 4 390 567 | 32.8 |
| 1994 | 1 045 083 | 7.6 | 2 770 816 | 20.1 | 3 815 899 | 27.7 |
| 1996 | 822 371 | 5.7 | 2 498 156 | 17.5 | 3 320 527 | 23.2 |
| 1998 | 825 545 | 5.6 | 2 358 444 | 16.0 | 3 183 989 | 21.6 |
| 2000 | 838 196 | 5.6 | 2 200 709 | 14.6 | 3 038 905 | 20.2 |
| 2003 | 726 509 | 4.7 | 2 178 915 | 14.0 | 2 905 424 | 18.7 |
| 2006 | 516 738 | 3.2 | 1 692 199 | 10.5 | 2 208 937 | 13.7 |
| 2009 | 634 328 | 3.7 | 1 929 704 | 11.4 | 2 564 032 | 15.1 |

Notes: The poverty headcount ratios are the shares of the population living below the national poverty and indigence lines. The indigence or extreme poverty line is measured on the basis of the cost-efficient food basket that satisfies the nutritional requirements of household members. The poverty line is obtained after adding up the cost of other commodities: clothing, transport, housing, etc. The calculation is based on the actual consumption spending of a reference group of households.

Source: Mideplan (2010a), “Encuesta de Caracterización Socioeconómica Nacional (CASEN 2009)”, Ministerio de Planificación, Santiago, www.mideplan.cl/casen/publicaciones/2009/resultados_casen_2009.pdf.

Notwithstanding Chile’s economic success, the country faces a difficult problem of relatively high inequality. With a Gini coefficient of

around 0.5, the degree of inequality in household disposable income in Chile is the highest among OECD countries. Chile also shows high *relative poverty*, with around 18% of the population having an equivalised disposable income of under 50% of the median for the entire population in the mid-2000s – more than in all OECD countries except Israel and Mexico.

Strong economic growth in recent years has reduced absolute poverty rates and increased average incomes of lower- and middle-income groups, but as incomes of the highest income groups increased at almost the same pace, there has been only a small decline in income inequality over time.

The distribution of household market income remained virtually unchanged between 1990 and 2003 (Table 6.2). Household market income covers the income generated with the household's own means and includes labour income, capital income (rents and interest), benefit payments from contributory pensions and other private income (such as transfers from relatives not living in the household and donations). In 2006, there was, for the first time, a visible improvement in the income distribution. Deciles 2 to 9 increased their share in household market income at the expense of the 10th income decile, whose share of income declined from 41.5% in 2003 to 38.6% in 2006. The latest data for 2009 show a reversal of this trend with only the highest income decile gaining between 2006 and 2009, and all other groups moving back to the levels of 2003. This may partly reflect the impact of the 2008-09 recession and does not take into account changes in net cash transfers between 2006 and 2009.

Table 6.2. **Distribution of household market income in Chile, 1990-2009**

By decile of household market income per capita

| Decile | 1990 | 1992 | 1994 | 1996 | 1998 | 2000 | 2003 | 2006 | 2009 |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| I | 1.4 | 1.5 | 1.4 | 1.3 | 1.2 | 1.3 | 1.2 | 1.2 | 0.9 |
| II | 2.7 | 2.8 | 2.7 | 2.6 | 2.5 | 2.7 | 2.7 | 2.9 | 2.7 |
| III | 3.6 | 3.7 | 3.5 | 3.5 | 3.5 | 3.6 | 3.6 | 3.9 | 3.7 |
| IV | 4.5 | 4.7 | 4.5 | 4.5 | 4.5 | 4.5 | 4.7 | 4.9 | 4.6 |
| V | 5.4 | 5.6 | 5.6 | 5.4 | 5.3 | 5.7 | 5.4 | 5.6 | 5.6 |
| VI | 6.9 | 6.6 | 6.4 | 6.3 | 6.4 | 6.2 | 6.6 | 7.0 | 7.1 |
| VII | 7.7 | 8.1 | 8.1 | 8.2 | 8.3 | 7.9 | 8.2 | 8.7 | 8.5 |
| VIII | 10.4 | 10.5 | 10.6 | 11.1 | 11.0 | 10.4 | 10.7 | 11.1 | 11.1 |
| IX | 15.2 | 14.8 | 15.4 | 15.4 | 16.0 | 15.1 | 15.3 | 16.0 | 15.6 |
| X | 42.2 | 41.8 | 41.8 | 41.8 | 41.4 | 42.7 | 41.5 | 38.6 | 40.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Note: The official income concept provided by Mideplan is used (household market income per capita).

Source: Mideplan (2010b), "Distribución del Ingreso (Encuesta CASEN 2009)", Ministerio de Planificación, Santiago, www.mideplan.cl/casen2009/distribucion_ingreso_casen_2009.pdf.

Taking into account cash transfers and income taxes, the distribution of household disposable income is somewhat more equal than that of market income, by 6% in 2009. This is, however, far from the 25% reduction recorded on average in the OECD in the mid-2000s.

Equality of opportunity and social mobility

Measuring equality of opportunity is much harder than measuring outcomes, such as income, wealth and so on. One way to analyse this issue is to see how well children do relative to their parents. If socio-economic conditions (*e.g.* earnings) of most people do not change relative to those of their parents, then both advantage and disadvantage are passed on to the next generation. In contrast, if sons' earnings are less closely related to their fathers', then there is greater intergenerational economic mobility. The extent of intergenerational mobility can therefore be seen as a measure of the equality of opportunity.

Most evidence on this measure is based on a comparison of the earnings of fathers and sons. For women, it is difficult to disentangle the effect of changing patterns of work and social attitudes between generations, the impact of anti-discrimination laws and other factors. For Chile, the most recent estimates of intergenerational income elasticity (the percentage change in the son's adult income resulting from a 1% difference in the father's income) are in the range of 0.57 to 0.74 and 0.63 to 0.76 for ages 25–40 and 31–40, respectively (Nunez and Miranda, 2010), which may reflect life-cycle effects resulting in lower earnings of younger individuals or an increase of social mobility in Chile.

Compared with other OECD countries, these values place Chile after the United States, Italy and the United Kingdom, where social mobility is low, with elasticities in the range of 0.47–0.5. In these countries, a 1% difference in the income of a man's father results, on average, in a little less than half a percentage point difference in his own adult income. By contrast, in three Nordic countries (Denmark, Finland and Norway) and in Canada, the intergenerational income elasticity for men is less than 0.2, implying that a 1% difference in the income of a man's father results, on average, in less than a 0.2% difference in his own adult income, meaning that fathers' earnings have much less influence on sons' earnings.

These very low levels of social mobility for Chile also support the hypothesis proposed in the literature that more unequal countries at a given point in time (*e.g.* measured on the basis of the Gini coefficient) are also the least socially mobile.

One of the main objectives of social policy is to break the cycle of disadvantage across generations and prevent the development of a self-replicating underclass. If countries want to promote equality of

opportunity, there are a number of steps they could take. The most important seems to be the reduction of different forms of inequality, including current income inequality.

For policy makers, the findings also reinforce the lessons of the child development literature. The evidence suggests that early and sustained interventions targeted at improving childhood outcomes are desirable, especially for children living in disadvantaged households. Such interventions have become a much more important feature of social policies in many OECD countries in recent years.

Childhood poverty is in fact a route through which disadvantage is transmitted between generations, so tackling it needs to be a priority. Doing so by helping parents work can be more effective than giving them cash transfers, as the former may change attitudes or behaviours. Indeed, there is evidence that parental behaviours can be transmitted across generations, and that these seem to be more important than “intelligence” in explaining the intergenerational correlation of income. Having a working parent as a role model is important. Reducing the stress and anxiety of children, from whatever source, will have a pay-off in the incomes they subsequently command. Targeting intensive health, nutrition and care support on particularly deprived households or areas is highly desirable. Most important, getting good-quality care in early childhood, preschool and school is the essential tool for promoting intergenerational mobility.

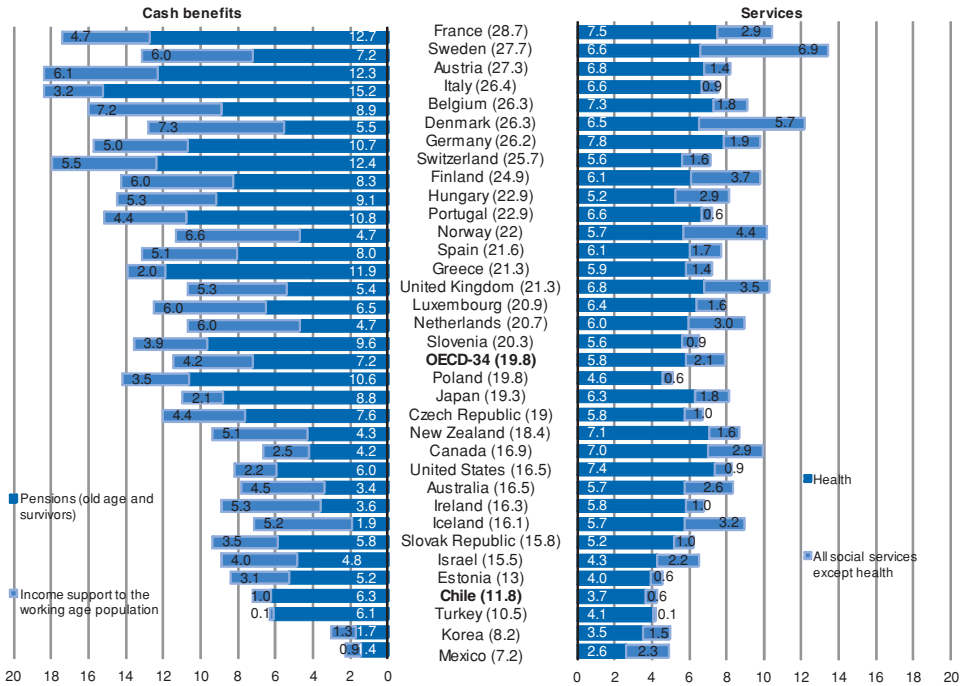
Social policy

Overall spending and redistributive effect

Chile ranks low in an OECD comparison of publicly mandated social spending relative to gross domestic product (GDP) (Figure 6.1). Including spending on pension benefits and annuities that derive from mandatory pension contributions, publicly mandated social spending amounted to 11.8 in 2007, a little bit more than half the OECD average. Only Korea, Mexico and Turkey spend less than Chile among the OECD countries.²

At 6.3% of GDP in 2007, publicly mandated spending on pensions was the largest single item of social spending. It includes the transition cost of the 1981 pension reform, i.e. the expenditure on benefit-entitlements established under the old pay-as-you-go pension system, pensions for the armed forces and minimum pensions. Public spending on employment support and family support was only 1.6% of GDP in 2007.

Figure 6.1. Publicly mandated social expenditure by broad social policy area in Chile, in percentage of GDP, 2007



Notes: Countries are ranked by decreasing order of public social expenditure as a percentage of GDP. Spending on Active Labour Market Programmes (ALMPs) cannot be split by cash/services breakdown; they are, however, included in the total publicly mandated spending (shown in brackets).

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD Social Expenditure Database (SOCX).

Spending on family support includes services for (orphaned) youth, income-tested family benefits and allowances, and maternity payments. Family allowances are paid almost completely out of general revenue by different social protection institutes. Payment rates are low, at about CLP 6 776 per month at maximum (about USD 14), and phased out on income of CLP 464 823, where the payment is CLP 1 549. These benefits are nevertheless very important, as they are paid to about 2.7 million dependents (mostly children, but also other dependent family members, including widowed mothers, disabled spouses, students and/or grandchildren).

The Chilean benefit system is relatively successful in targeting the poor, with almost 75% of public social expenditure and public spending

on education going to households from the four lowest income deciles. Because of the value of education and health support (and to a lesser extent, the minimum pension payment), total disposable income of households in the lowest income decile is almost three times the income they generated autonomously in 2006. While the value of individual social benefits and drinking water subsidies may be low, they constitute a significant part of income in poor households.

It appears that social policies in a broad sense achieve a significant redistribution of resources. For example, in 2006, net market income of the 10% of richest households was 31 times higher than for the 10% of poorest households, but only 12 times higher if their consumption of publicly financed social services, healthcare and education is taken into account.

Chile Solidario, the Social Protection Record and the Ethic Family Income

The *Chile Solidario* programme was introduced in 2002 to promote equity and enhance opportunities. It is a targeted anti-poverty instrument that grants the poor entitlements to a range of services. It focuses on four target groups: families, the sole elderly, the homeless and children with a parent in prison. Services include healthcare, childcare, education, income and other family-support services. Cash benefits play only a limited role. Family workers and clients sign a contract of participation committing themselves to specific actions, such as participating in medical check-ups, having their children vaccinated and sending their children to school. The primary benefit for participants thus lies in the access to services, not in the receipt of financial transfers.

The main instrument for targeting groups is the *Ficha de Protección Social* (Social Protection Record, FPS). The FPS establishes the household or family score by adding up individual scores while applying equivalent scales to account for household composition. The FPS aims to identify long-term vulnerability by measuring the income-generating capacity of a family/household, not its actual earnings. As a result, declared earned income accounts for only 10% in the overall FPS-index calculation.

Between June 2002 and April 2010, *Chile Solidario* contacted almost 400 000 families, of which the vast majority (88.9%) completed or participated in the programme. Only 1.7% of the contacted families decided not to participate; 4.4% could not be located at the address given; and 5.0% were taken off the programme because of systematic non-compliance. In April 2010, there were just over 216 000 families in the programme. Benefits are paid to mothers rather than fathers, as this is more likely to benefit the children (e.g. Woolley, 2004).

Considering participation in 2010 (based on budget data), 50 000 new clients are projected to enter the psycho-social support phase, 55 400

will receive an exit bonus as they leave the psychosocial support phase and 265 500 will be using preferential access supports (*Programe Punte*). As for the targeted subprogrammes of *Chile Solidario*, these cover the 24 000 elderly people living alone (*Programa Vinculos*) (to be increased by 8 000), 3 276 homeless persons (*Programa Calle*) (to be increased to more than 5 000) and 1 975 children with a parent in prison (*Programa Abriendo Caminos*) (to be increased to 4 000).

The FPS has been a very useful tool for the identification of the target population. But as FPS scores are increasingly used to establish not only income-generating capacity but also entitlements of clients to services and (prospectively increasing) cash transfers, it will become more important that household incomes are reported accurately. In June 2010, the Planning Ministry created a commission of technical experts, mayors and staff from the social ministries to revise, evaluate and recommend improvements to the FPS, so that this instrument can provide real guarantees to those who apply for social benefits and can identify with the greatest possible accuracy the most vulnerable families. In 2011, the Ministry is planning to create another technical commission to generate social mobility metrics that could be used for the design of social promotion policies.

There is general agreement that *Chile Solidario* support reaches the people who need it most. Contreras *et al.* (2008) found that two-thirds of the *Chile Solidario* participants belong to the very poor population (households who have difficulty meeting basic nutritional requirements of household members), and another 15% to the poor population (households who have difficulty meeting clothing, transport and housing needs). As one third of the very poor population is excluded, there are ongoing efforts to extend coverage, especially in rural areas.

However, the *Chile Solidario* package seems to have had little effect in helping clients get into or back to the labour market, and has had only a small effect on earnings and income poverty reduction (Contreras *et al.*, 2008). This is not surprising, as public spending on employment support in the programme, and on labour market support more generally, is extremely limited, at around 0.1% of GDP. In addition, client characteristics are not favourable: clients are frequently not job-ready, face serious skill deficiencies and are generally difficult to place. Local employment services (OMILs) find it difficult to help clients become job-ready. Referring clients who are not job-ready to employers is likely to be counterproductive, as clients' expectations will not be met, causing frustration and demotivation, and employers will be unwilling to notify OMIL of future job vacancies. Childcare supports are another bottleneck. Many *Chile Solidario* clients are mothers with small children, for whom access to affordable quality childcare arrangements is crucial to labour market participation. Although capacity constraints continue to exist, policy measures are being implemented to expand day-care capacity (see above).

The rapid development of new policies in Chile poses both quality and capacity challenges to service providers. There is widespread concern about whether local administrations have enough family workers to provide intensive family support. Moreover, even if sufficient resources for staff are available, it is not certain that enough qualified staff can be found. With half of the social/family workers without documented skills for the job, additional investment in the quality of family support workers will be key to raising the effectiveness of these services.

In May 2010, President Piñera announced the creation of an Ethic Family Income (EFI) for the poorest households, as an initiative to alleviate the consequences of poverty, complemented by initiatives to eradicate its causes, such as job creation, education quality improvements and strengthening of families. The EFI intends to raise the income of the poorest households to CLP 50 000 per capita, which would mean a 73% increase for average individuals in the 1st income decile.³ Similar to the *Chile Solidario* programme, this new transfer is designed to be *conditional* on the compliance with a series of health, education, training and job-search requirements. In addition, a phase-out mechanism was announced for the cash transfers, so that the households would not lose the incentive to work.

The government is planning to enact the EFI law by March 2011, followed by gradual implementation. The instruments of this new measure are currently in a preliminary design stage; key parameters, such as the threshold to define the beneficiary population and what specific instruments will be used, are not yet defined. The commission is exploring the creation of new instruments to replace or modify existing ones, such as the Family Allowances, *Chile Solidario* payments and the subsidies to obtain drinkable water or electricity.

The commission has highlighted several issues that have yet to be clearly defined in the EFI instruments' design: i) the indicator to set the vulnerability threshold that determines who is eligible for the EFI; ii) the phase-out mechanism; iii) the instrument to measure family income (the current Social Protection Record is inadequate, as it measures vulnerability, not income; if Chile's Tax Service (SII) records were to be used, family records would have to be created, since the current tax records are limited to individual information of formal income); and iv) how to assess and supervise informal workers' income.

Other family and child-related support programmes

Childcare support became a priority on the Chilean social policy agenda in 2006. To fight poverty and promote child development, gender equity and equal opportunities (OECD, 2007e), childcare capacity was expanded. Spending on childcare and preschool education increased from 0.25% of GDP in 2005 to 0.44% in 2009.

The *Chile Crece Contigo* programme, created in August 2007, provides support to mothers and children from the fifth month of pregnancy until entry in pre-primary school (age four). The plan was fully rolled out by 2009 with all mothers and children in the target group (the 40% most vulnerable, scheduled to increase to 50% in 2010) having access to primary health care, additional health and nutrition support, psychosocial support and free childcare for children whose mothers work, study or are looking for a job. Supports touch all relevant aspects of the family environment, health, cognitive development and education. In 2009, a law that created the Social Protection Inter-sector System was enacted, making *Chile Crece Contigo* a permanent legal institution.

Between 1990 and 2005, 700 public childcare facilities for children under three years of age were created and are scheduled to exceed 4 200 in 2010, covering 85 000 children under three. Childcare facilities for children between two and three years of age currently cover 127 472 children. The 2010 budget includes funding for the creation of public childcare facilities with around 41 600 new places for children under four by the national childcare authority JUNJI (*Junta Nacional de Jardines Infantiles*), *Fundación Integra*, and local authorities under the aegis of JUNJI and *Fundación Integra*. The total 2010 budget of JUNJI and *Integra* is USD 495 million. In addition, USD 257 million is available in 2010 for the extension of pre-kindergarten and kindergarten in schools supervised by the Ministry of Education.

Coverage of childcare services for children under two years was 7.8% in 2009 which is well below the OECD average for children two and under of 30%. Coverage for children between two and four-year-olds it was higher at around 30.6%.

Poverty among the elderly and pension reform

The increase in prosperity has contributed to the decline in poverty among the population in general, as well as among the elderly. Minimum pension payments may not be high, but they compare well against the very low transfer payments to the working-age population. Households in receipt of a pension are unlikely to be extremely poor (only 1.2% of them), and the poverty rate among the elderly is 8.2%, compared with 15.1% of the population in general.

In 2006, about 75% of men and 60% of women age 65 and over received benefits accruing from contributory pensions, and 70% of these contributory pensioners received less than CLP 114 000 (USD 242, about 80% of the minimum wage). The 2006 CASEN survey showed that about 14% of men and 17% of women over 65 years of age received the minimum pension, and that in all, public pension payments constituted around 6.2% of household income. However, their distributional impact is low. Public pension payments are still dominated by the entitlements established under the old pension system, which are related to previous

salaries. Hence, the distribution of pension payments is relatively similar to the earnings distribution in terms of household income quintiles. The Gini coefficient of the distribution of old-age and widows' pensions paid by the State is 40.7%, only a few points below the Gini coefficient of the wage distribution. The Gini coefficient of the household income distribution with and without pensions paid out by the State is 55.9% and 58.1%, respectively (Larrañaga, 2009).

The pre-funded privately managed pension system of individual accounts, introduced in 1981, has performed well over the years. It has deepened Chilean capital markets and assisted economic development, and rates of return on investment have been higher than originally envisaged. But it has failed to achieve some of its objectives. Competition in the pension market is limited, and this has contributed to high administrative fees. Pension reform introduced in 2008 aims to generate more price competition by having the pension fund management companies (*Administradoras de Fondo de Pensiones*) compete for a share of the market (new entrants) rather than trying to stimulate competition within the market.

Arguably the biggest shortcoming of the private pension system is that it has failed to achieve coverage for the vast majority of Chilean workers. Many workers with patchy employment profiles contribute very little to the system, and contribution densities are particularly low among low-income workers with low levels of educational attainment, young workers, female workers and the self-employed. To address the problem of low pensions, a *basic solidarity pension* was introduced in 2008. At the same time, financial incentives were introduced to make pension saving more attractive for women and young workers, and to promote the development of voluntary pension saving.

By 2012, mandatory coverage of pension contributions will be extended to groups of self-employed workers. While the intention is sound, there are concerns that these initiatives may not be successful. For example, the implicit marginal tax rate of 30% on contributions may be a deterrent for many low-income workers to save for retirement, and some of the self-employed may stop reporting income to the tax authorities rather than contribute to a pension insurance scheme.

Preliminary estimates of the effect of the introduction of the basic solidarity pension suggest reform may lead to an increase of 11.5% in average income of the first household quintile and 9.5% in the first two quintiles, as well as a reduction of around two percentage points in the proportion of poor households (Larrañaga, 2009).

Conclusion

With strong recent economic growth, the incidence of poverty has declined markedly, but at 15% (according to national data), poverty is still high and the income distribution remains wide. This has triggered a search for policy options that could generate more inclusive growth.

Chile's income distribution is the most unequal among the OECD countries. This must largely be attributed to a low level of employment and to a segmented labour market, both of which make it difficult to extend effective social protection to the entire population.

Social mobility in Chile is low. In order to promote equality of opportunity, there are a number of steps Chile should consider taking. The most important seems to be the reduction of different forms of inequality, including current income inequality and inequality in the access to quality education (see Chapter 4). The evidence from OECD countries also suggests that interventions targeted at improving early childhood outcomes are desirable.

There are many poor families in Chile who have income from work, and in addition to health, education and/or childcare support, there is growing pressure to improve the financial position of low-income families. With employment rates among the poorest 10% of households as low as 30%, compared with 70% among the richest 10% of households, and with low female employment rates, there is ample scope for mobilising labour supply among groups of workers currently under-represented in the labour market. The training and job-search requirements the government is planning to introduce in the new Ethic Family Income programme will promote the mobilisation of labour supply, provided that adequate assistance can be given to this disadvantaged group.

With limited spending on income support and little success in raising employment, *Chile Solidario* has not been very effective in reducing extreme poverty. There has been much emphasis on developing networks that help people help themselves. This is an innovative approach but it has limits. The existing service infrastructure has been unable to help many get into paid employment, which is a condition for any sharp reduction of poverty. Chile needs to continue its investment in the infrastructure of service provision (e.g. training of social workers and employment service staff).

The Chilean system is good at identifying needy clients. The Social Protection Record (FPS) – covering about 65% of the population – appears to have provided authorities with a good profile of low-income households. However, because the FPS scoring formula is not public, potential and actual clients cannot predict with certainty how their disposable incomes would change, for example, if a household member

takes up or quits a job. Moreover, the FPS is intended to measure household earning capacity, and does not focus on *current* income streams. Therefore, it is no surprise that FPS thresholds are discretionary and do not account for phasing out or gradually withdrawing income support. As social services increasingly become entitlements, it is important to measure the income of households entitled to social services more accurately. Government plans to adapt the FPS so as to accurately measure current income changes and to design supplementary tools to measure short-term income changes will help address this problem.

The government sent a bill to Congress in 2010 to redesign the Ministry of Planning's institutional framework and replace it with a new Ministry of Social Development. Achieving whole-of-government policy outcomes for social policy programmes will require effective collaboration and co-ordination on policy development, implementation and evaluation between stakeholder ministries and ministers, and with the new Ministry of Social Development. Thus, clear guidelines as to the role and responsibilities of the new Ministry must be developed, as well as communication of expectations for interaction between the new ministry and stakeholders (and *vice versa*). This will require strong leadership from the President's Office and the Budget Office and effective leadership as well within the new ministry to manage working relationships with stakeholders, to maximise collaboration efforts and to avoid duplication of work.

Notes

1. These poverty headcount ratios are the shares of the population living below the national poverty and indigence lines, which correspond to certain consumption baskets.
2. In 2009, Chile spent 11.7% of GDP on health, education, housing, culture and recreation, and social protection. Pension spending accounted for an additional 4.7% of GDP (*Estadísticas de la Finanzas Públicas*). Comparative figures for OECD countries are not yet available for 2009.
3. The average per capita income (including current monetary subsidies) in the 2nd income decile already reached the goal of CLP 50 000 per capita. Any additional public spending through EFI would probably affect only the lower part of the 2nd decile (Source: Mideplan, 2009 CASEN household survey, using May 2010 pesos: www.mideplan.cl/casen2009/distribucion_ingreso_casen_2009.pdf).

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