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# SOCIAL PROTECTION

## FOR BRAZIL OF THE FUTURE

PREPARING FOR CHANGE WITH INCLUSION AND RESILIENCE



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# Foreword

Dear readers,

The World Bank Group and the United Nations Development Program have been in a long and fruitful partnership with the Brazilian Government in supporting the development and the reform of Social Protection and Labor Market Policies. These have been and remain central to Brazil's development model and democracy. Several social protection programs received worldwide interest and contributed to Brazil's poverty reduction, human capital formation and resilience in economic cycles.

Despite this progress, Brazil continues to face high level of vulnerability and inequality, significant pockets of poverty. In addition, long term trends, including demographic change, technological progress, the new world of work and climate change will affect the efficacy and sustainability of the social protection system that Brazil has today. A central message of the study is that Brazil has already in place many of the instruments needed to face the future with confidence, but important institutional reforms, investments and reallocations are needed for social protection to remain relevant and become more efficient. Particular attention should be given to policies that serve the needs of Brazil's future generation, today's children, half of whom are growing up in poverty, and to large number of youth and adults already out of school who will need to navigate a sophisticated labor market and new environmental risks for many decades.

The report offers ten policy reform proposals meant to stimulate this forward-looking debate, organized around a solid framework on equity, opportunity and resilience. Among these, readers will find the extension of coverage and consolidation of social assistance transfers, revamping labor market programs, taxation and benefits to support labor productivity, adapting safety nets to climate change and modernizing delivery systems for enhanced service delivery. These recommendations build on a compilation of recent knowledge pieces produced by the World Bank and by the UNDP, and benefited from a rich dialogue with authorities at different stages. We hope this work will prove an informative, enjoyable and stimulating read.

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# Acknowledgments

This policy note was a joint effort of the World Bank Social Protection and Jobs (SPJ) Team for Brazil and the United Nations Development Program (UNDP) in Brazil, with the support of the UNDP Regional Hub for Latin America and the Caribbean and with analytical contributions from the World Bank Poverty and Equity team for Brazil. The core team of the World Bank consists of Matteo Morgandi (Senior Economist and TTL), Raquel Tsukada Lehmann (Consultant), Malin Sofia Ed (Junior Professional Officer) and Asta Zviniene (Senior Economist), while important analytical contributions were made by Gabriel Ibarra (Senior Poverty Economist) and Ricardo Campante (Consultant) from the World Bank, and Luis Henrique Paiva (Social Protection Specialist) and Betina Barbosa (Human Development Coordinator, Brazil Country Office) from the UNDP. The team is grateful for inputs and comments from World Bank colleagues Tiago Falcão and Julieta Trias, and editorial support from Fiona Mackintosh and Tamires Amorim. The team is also grateful to SPREV/Ministry of Labor of Brazil staff Otávio José Guerci Sidone, Rogério Nagamine Costanzi, Geraldo Andrade da Silva Filho, Eduardo da Silva Pereira, and Alexandre Zioli Fernandes for providing analytical inputs on pensions statistics. The team would like to thank the peer reviewers who contributed with constructive comments and suggestions at different stages of the production of the note, including Pablo Acosta, Ugo Gentillini, Margaret Grosh, Robert Palacios, Josefina Posadas, Gabriel Squeff, and William Wiseman.

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# List of Acronyms

AB	Auxílio Brasil
AE	Auxílio Emergencial
AEPS	Anuário Estatístico da Previdência Social ( <i>Social Insurance Statistical Yearbook</i> )
ALMP	Active Labor Market Program
AS	Abono Salarial
ASP	Adaptive Social Protection
BEm	Benefício Emergencial de Manutenção do Emprego e da Renda ( <i>Emergency Employment and Income Maintenance Benefit</i> )
BEPS	Boletim Estatístico da Previdência Social ( <i>Social Insurance Statistical Bulletin</i> )
BESE	Benefício Emergencial de Suporte ao Emprego ( <i>Emergency Employment Support Benefit</i> )
BF	Bolsa Família
BPC	Benefício de Prestação Continuada ( <i>Benefit of Continued Provision</i> )
BSM	Brasil Sem Miséria ( <i>Brazil Without Misery</i> )
CAGED	Cadastro Geral de Empregados e Desempregados ( <i>National Registry of Employed and Unemployed</i> )
CCA	Climate Change Adaptation
CCT	Conditional Cash Transfer
CLT	Consolidação das Leis Trabalhistas ( <i>Consolidation of the Labor Laws</i> )
CNIS	Cadastro Nacional de Informações Sociais ( <i>National Registry of Social Information</i> )
CPI	Consumer Price Index
CPP	Contribuição Patronal Previdenciária ( <i>Employers' Social Insurance Contribution</i> )
CRAS	Centro de Referência em Assistência Social ( <i>Social Assistance Reference Center</i> )
DRM	Disaster Risk Management
ECD	Early Child Development
EWS	Early Warning System
FAT	Fundo de Amparo ao Trabalhador ( <i>Worker Support Fund</i> )
FGTS	Fundo de Garantia por Tempo de Serviço ( <i>Length of Service Guarantee Fund</i> )
GDP	Gross Domestic Product
GFIP	Guia de Recolhimento do FGTS e de Informações à Previdência Social ( <i>official document that collects the worker's employment and salary data</i> )
GVC	Global Value Chain
HIC	High Income Countries
ICT	Information and Communication Technologies
INCRA	Instituto Nacional de Colonização e Reforma Agrária ( <i>Brazil's land reform national institute</i> )
INSS	Instituto Nacional de Seguridade Social ( <i>Brazilian Social Security Institute</i> )
IoT	Internet of Things
IRPF	Imposto de Renda da Pessoa Física ( <i>Personal Income Tax</i> )
LM	Labor Market

LMP	Labor Market Policy
MEI	Microempreendedor Individual ( <i>social insurance category for microentrepreneurs</i> )
MIC	Middle Income Countries
MW	Minimum wage
OECD	Organisation for Economic Co-operation and Development
PCF	Programa Criança Feliz
PEI	Programs for Economic Inclusion
PJ	Pessoa Jurídica
PIT	Personal Income Tax
PLMP	Passive Labor Market Policies
PNADC	Pesquisa Nacional por Amostra de Domicílio Contínua ( <i>National Household Sample Survey</i> )
PPP	Purchase Power Parity
RGPS	Regime Geral de Previdência Social ( <i>Brazil's general social security system</i> )
ROE	Resilience, Opportunity and Equity
RP	Regra de Permanência ( <i>Bolsa Família's transition rule</i> )
RPPS	Regime Próprio de Previdência Social
SA	Social Assistance
SD	Seguro Desemprego ( <i>unemployment insurance</i> )
SF	Salário Família ( <i>Family Allowance</i> )
SI	Social Insurance
SIMPLES	Simple Nacional ( <i>simplified tax regime</i> )
SINE	Sistema Nacional de Emprego ( <i>national public employment services</i> )
SP	Social Protection
SPJ	Social Protection and Jobs
SPL	Social Protection and Labor
SUAS	Sistema Único de Assistência Social ( <i>Unified Social Assistance System</i> )
TA	Trabalhadores Autônomos ( <i>own account workers</i> )
UBI	Universal Basic Income
UI	Unemployment Insurance

# Executive Summary

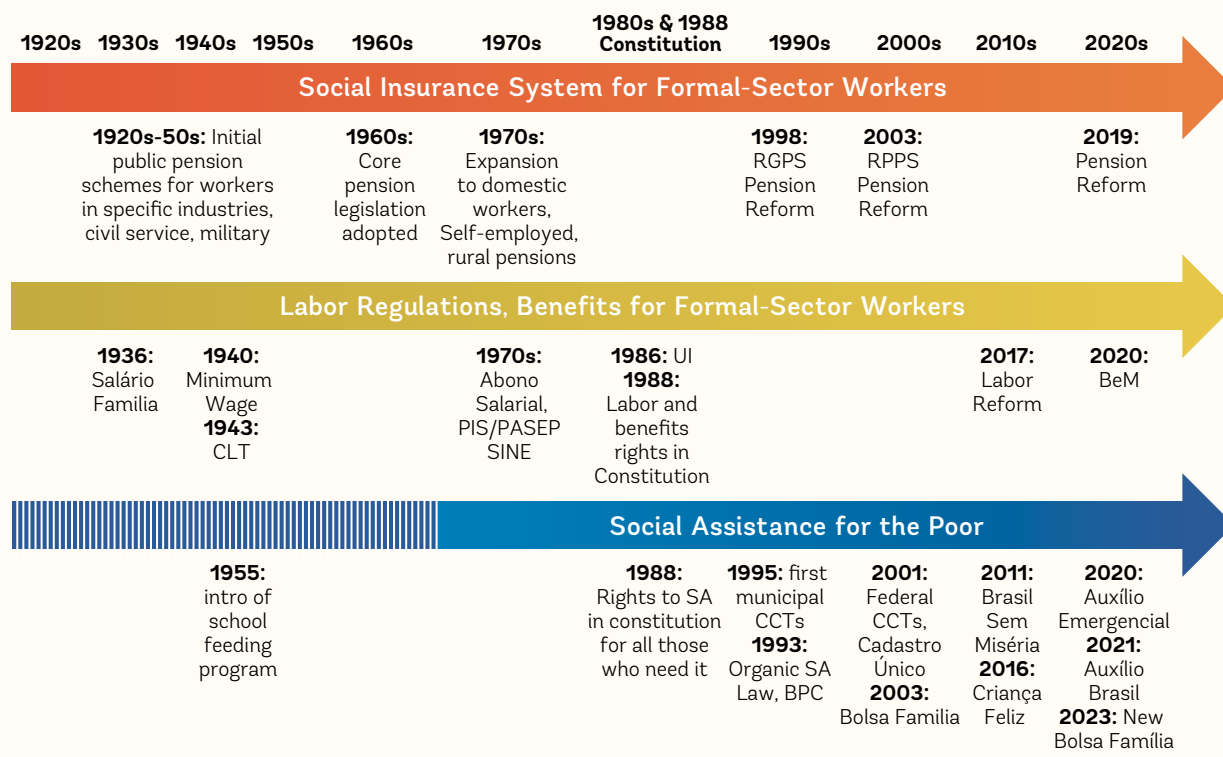


## The challenge

**T**his policy note assesses how Brazil's social protection and labor systems can be reformed most effectively to meet the challenges that the country will face in the next two decades while also fostering social inclusion and shared prosperity. This discussion is timely as Brazil is slowly recovering from the global COVID-19 crisis, which brought new challenges as well as accelerating existing socioeconomic transformations. Despite the fact that labor markets are slow to recover after economic crises in Brazil, implementing the right set of policies could enable the country to take advantage of changes in the world of work, new opportunities for human capital formation, and recent developments in technology and delivery systems to build back better than in the past. Serving as a companion piece on social protection and labor policies for the Flagship Report *Alternative Futures for Brazil: Inclusion, Productivity, Sustainability* (World Bank, Forthcoming), this note draws from a large body of recent analytical work by the World Bank team in Brazil. The vision of the flagship report is for Brazil to reach 2040, two decades from now, with a more productive and resilient and less unequal society.

**Brazil has made significant advances in terms of reducing poverty and inequality since its return to democracy in the late 1980s.** The expansion of social protection policies played an important role in increasing inclusion, getting closer to universal access to education, and increasing the use of preventive health services (figure i). Brazil developed *Cadastro Único*, a single registry of beneficiaries, whose unique hybrid targeting technology (using self-declarations plus administrative data) is considered a global best practice. Brazil's decentralized social assistance delivery model comprises local social assistance offices (CRAS) in almost all of the country's 5,570 municipalities. In the wake of the COVID-19 pandemic, the country demonstrated its ability to implement efficient mass registration and the fast deployment of *Auxílio Emergencial* (AE), the largest temporary transfer program in the world (Morgandi et al, 2021a).

► **Figure i. Evolution of the social protection system and labor regulations in Brazil**



Source: Authors' elaboration, based on World Bank (2018).

**Despite this progress, the recent COVID-19 crisis highlighted the constraints that prevent many of the population from benefiting from economic growth.**

Poverty reduction has stalled over the last decade, and poverty rates are higher among Afrodescendent families, children, and residents of the North and Northeast regions. The human capital levels of Brazilian children, as proxied by the World Bank's Human Capital Index (HCI), vary widely and nationwide are lower than in other upper-middle income countries in the Latin America and the Caribbean (LAC) region. The variations in children's human capital levels across Brazil can be explained by differential learning outcomes between municipalities and as well as by differences in race, gender, and family income. This inequality in capabilities and assets translates into strong differentials in employment rates and earnings, with girls and children from ethnic minorities and deprived areas being more likely to end up in informal work. Social protection and labor systems have a crucial role to play in overcoming all such structural barriers to benefiting from economic growth.

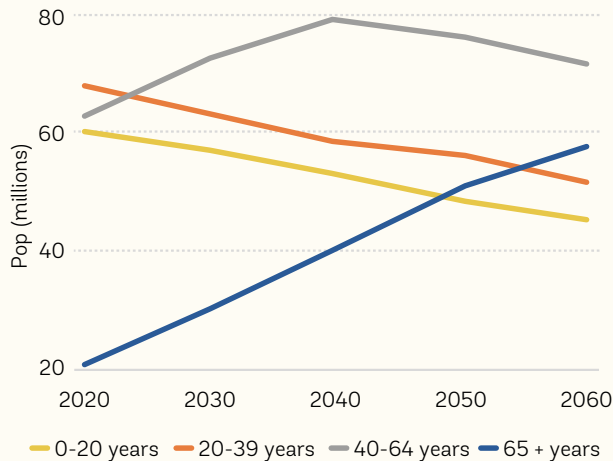
**Moreover, several worldwide trends including demographic aging, global warming, and new forms of work will highlight new needs and challenges to achieving shared prosperity for all Brazilians in the future.**<sup>1</sup>

By 2040, the majority of the Brazilian population will be of working age but no longer young, and many will need to navigate the labor market with low levels of education (figure ii). The number of children will decrease, but in the meantime, nearly half of today's children (Brazil's future workforce) are being raised in poverty. The number of adults aged over 65 is projected to double, making current retirement promises fiscally unsustainable, even after the recent pension reform. A second major trend is climate change, which is no longer a distant threat but an immediate one. The effects of global warming in Brazil are expected to include more frequent natural disasters and lower agriculture productivity. Meanwhile, the declining competitiveness of carbon-intensive industry will accelerate a structural shift of the economy toward services. Third, technological change and automation is set to change production and the way in which firms source and use labor. There will be more opportunities

<sup>1</sup> These trends are explored in greater detail in Alternative Futures for Brazil (World Bank, Forthcoming).

to tap into global trade-in services but also a greater risk of displacement for workers without the necessary skills to use new technologies. Brazil's ability to navigate these structural shifts will depend on its ability to adapt its mix of institutions, programs, and expenditures, not least in the area of social protection and labor policies.

► **Figure ii. Estimates of population size by age group in Brazil 2020-2060**



Source: United Nations Statistics for Brazil.

## Is Brazil's social protection system ready for the future?

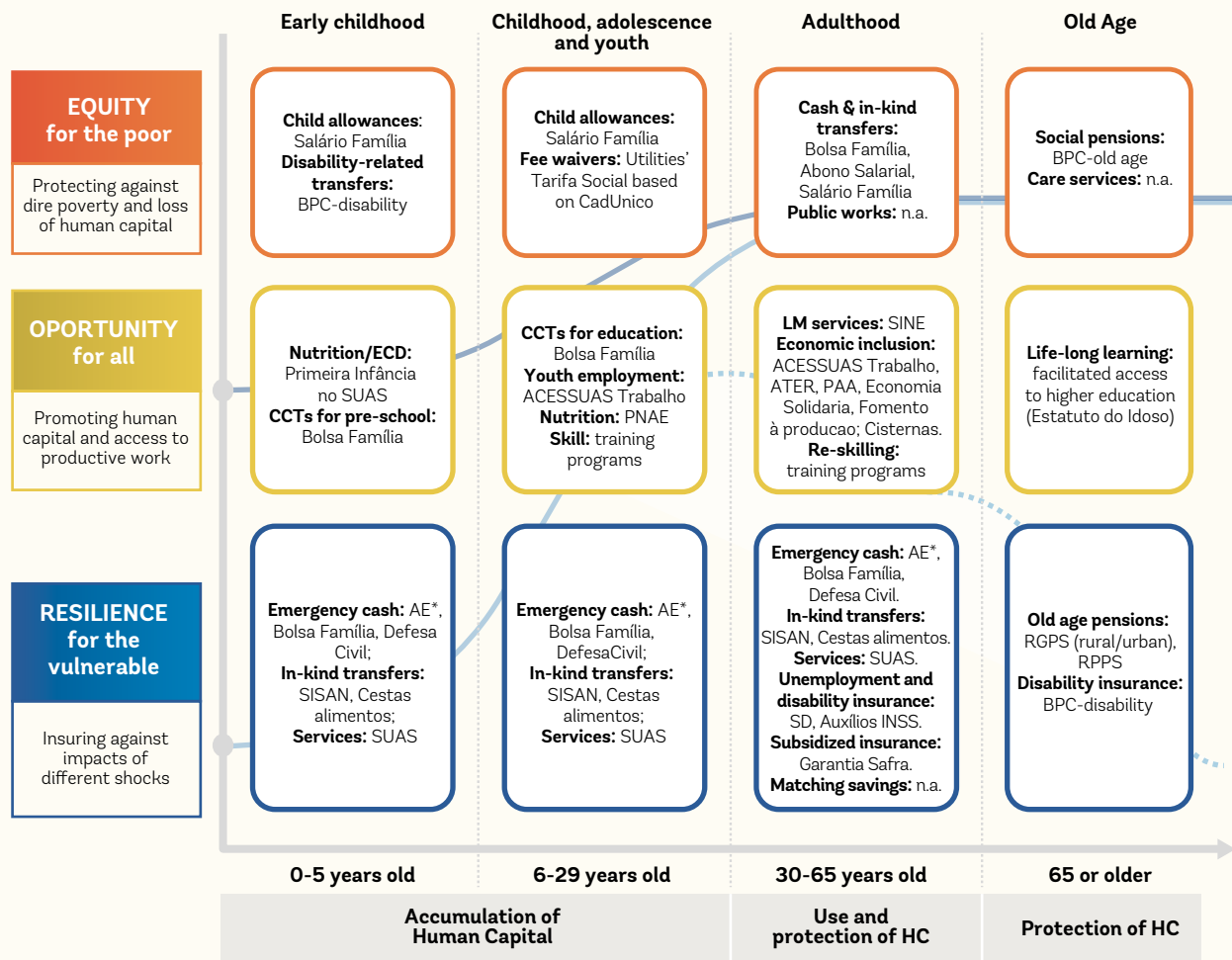
**The renewal of Brazil's Social Protection (SP) system will be critical to enabling the country to transition to a more inclusive and prosperous and less unequal society.** This note adopts a four-pronged framework, inspired by the recent World Bank *Social Protection and Jobs Compass* (World Bank, 2022a), to assess the extent to which Brazil's social protection system is prepared for the coming decades. In this note, we define social protection system as the set of federal programs, institutional arrangements and delivery mechanisms to provide cash and in-kind social assistance, pensions and labor market programs to the population. In this framework, SP system needs to be designed so as to: (i) promote *equity* by helping the poor to rise out of poverty and protect their accumulated human capital from depletion in the event of shocks; (ii) boost *opportunity* by promoting human capital accumulation and enable productive work; (iii) foster *resilience* by insuring the vulnerable against impacts of different shocks, including those due to unemployment or old age; and

(iv) further *efficiency and sustainability* by ensuring the effective and efficient delivery of services and benefits (World Bank, 2022a).

**Brazil's social protection and labor programs already are aimed at achieving many of the desirable outcomes described in this framework.** Major programs and benefits include (figure iii):

- With regard to increasing *equity*, several programs augment household incomes including Brazil's flagship conditional cash transfer (CCT) program *Bolsa Família*, targeted to the poor and the two wage supplements *Salário Família* and *Abono Salarial* targeted to low-income formal workers. These programs all have different levels of generosity, target populations, and methods for determining eligibility.
- Programs to promote *opportunity* are mainly provided in-kind or as services. For children, these include (although not yet implemented in full scale) *Criança Feliz* or other parenting programs on early childhood stimulation, and school feeding, but children also benefit from the implementation of conditionalities in *CCT program*. For adults of working age, there are a range of interventions (in most cases not at scale), including adult training programs, a national labor intermediation system (*Sistema Nacional de Emprego - SINE*), and economic inclusion interventions such as sheltered markets for small farmers and entrepreneurship promotion.
- The system also provides a wide range of benefits to foster household *resilience* in the face of major risks. These include the public and private contributory pension regimes (the *Regime Geral de Previdência Social* or *RGPS* and the *Regime Próprio de Previdência Social* or *RPPS*) and social pension programs for urban and rural workers and the disabled (*Benefício de Prestação Continuada* or *BPC* and *Aposentadoria Rural*). *Seguro Desemprego* (unemployment insurance) and *Fundo de Garantia por Tempo de Serviço* (unemployment savings accounts) aim to mitigate economic losses from unemployment. With the exception of the *BPC*, all such benefits are contributory and are reserved for former contributors in the formal sector.

► **Figure iii. Brazilian Social Protection and Labor policy interventions for human capital accumulation throughout the lifecycle**



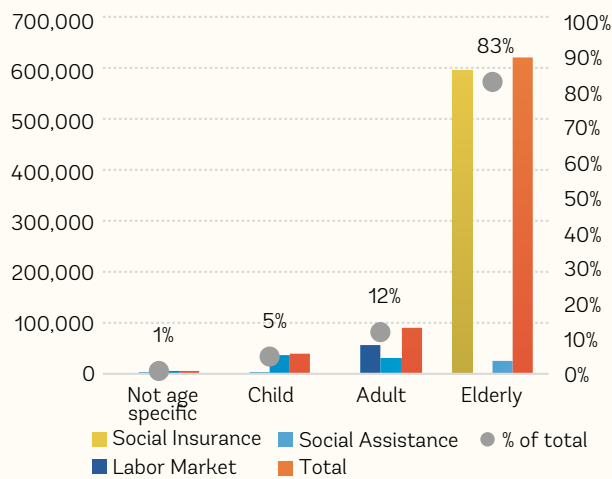
Source: Adapted from Resilience, Equity, and Opportunity: The World Bank Social Protection and Labor Strategy 2012–2022.

Note: \*Auxílio Emergencial (AE) was a temporary response to the COVID-19 crisis; the program was discontinued in 2021.

Despite their breadth, Brazil's social protection expenditures are limited in terms of their progressivity, incidence, generosity, and inter-generational fairness (figure iv). Four-fifths of the country's social protection expenditures are allocated to programs that mainly target the elderly, as in many OECD countries. In terms of incidence, the federal CCT program remains the most pro-poor program in Brazil's constellation of benefits, and, after recent temporary increases in the generosity of its benefits, its impact in terms of alleviating poverty was strengthened. However, other contributory programs, including formal sector pensions, disproportionately benefit households in upper income quintiles even though they are subsidized to differing degrees from general revenue (figure v). Thus, taken all together, Brazil's tax-benefit system is only mildly redistributive.

Also, few social protection programs are promoting human capital and opportunity. Total labor market spending in Brazil is at a similar level as in high-income economies, but active labor market programs such as skills development programs and intermediation services receive only a minimal share of this spending and largely serve formal workers (figure vi). Moreover, the share devoted to services has been falling over time since the 2014 crisis and fiscal adjustment. As new forms of work emerge, it will be essential to develop ways for workers to continue to learn and retrain while still working full-time, as well as to facilitate low-cost job-to-job transitions. Despite Brazil's high spending on elderly income programs, it has no national strategy for reducing the burden on households providing elder care, which is projected to increase significantly as dependency ratios rise.

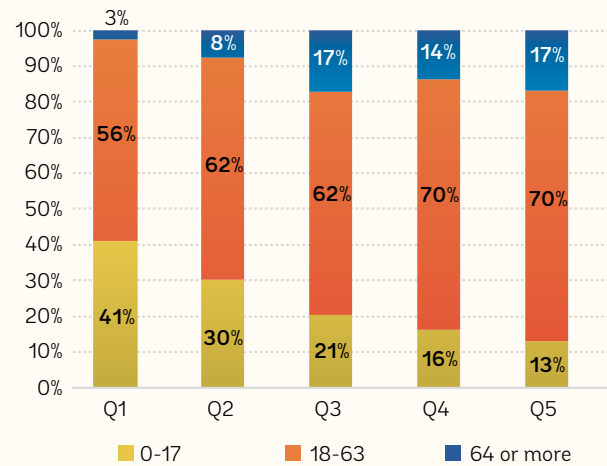
► **Figure iv. Social insurance, labor market, and social assistance expenditure throughout the lifecycle in Brazil (2019)**



Source: The World Bank using expenditure data from Portal da Transparência, 2019.

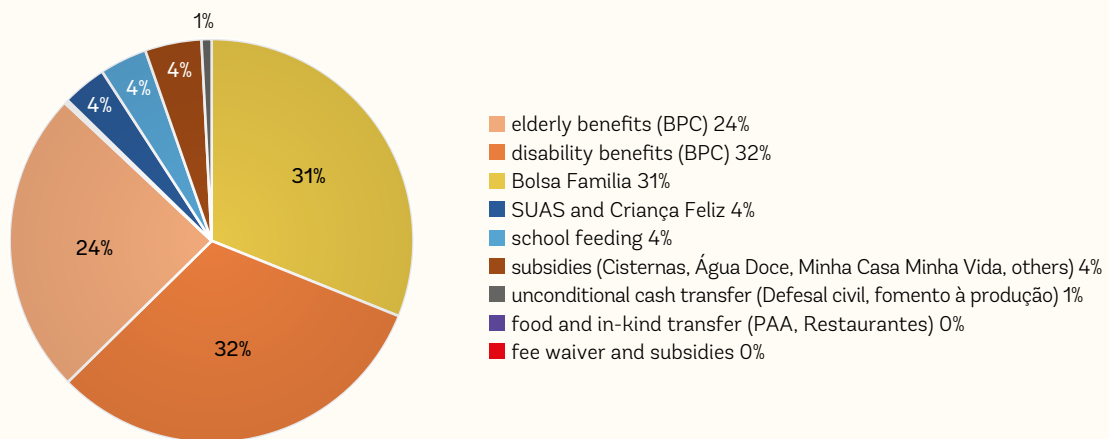
Note: Includes SA, SI, and LM programs, classified by the authors according to main target-age groups. Bolsa Família is classified as SA-child, SUAS and housing policies are classified as SA-all, Salário Família is LM-child.

► **Figure v. Distribution of population, by age groups and income quintiles**



Source: PNADC 2019.

► **Figure vi. Social assistance expenditure in 2019, by type of program**



Source: The World Bank using data from Portal da Transparência, 2019.

Note: Programs are categorized according to the World Bank ASPIRE methodology

**In addition, the current design and spending trajectory of the pension system are unsustainable, despite the recent reform.** While Brazil's contributory pensions are central to the country's social contract, in their current design, they are projected to require unsustainable levels of spending before 2040. Obsolete assumptions about the length and nature of working lives are compounding the problem. Contributory and noncontributory pensions operate in isolation from each other, but jointly they undermine

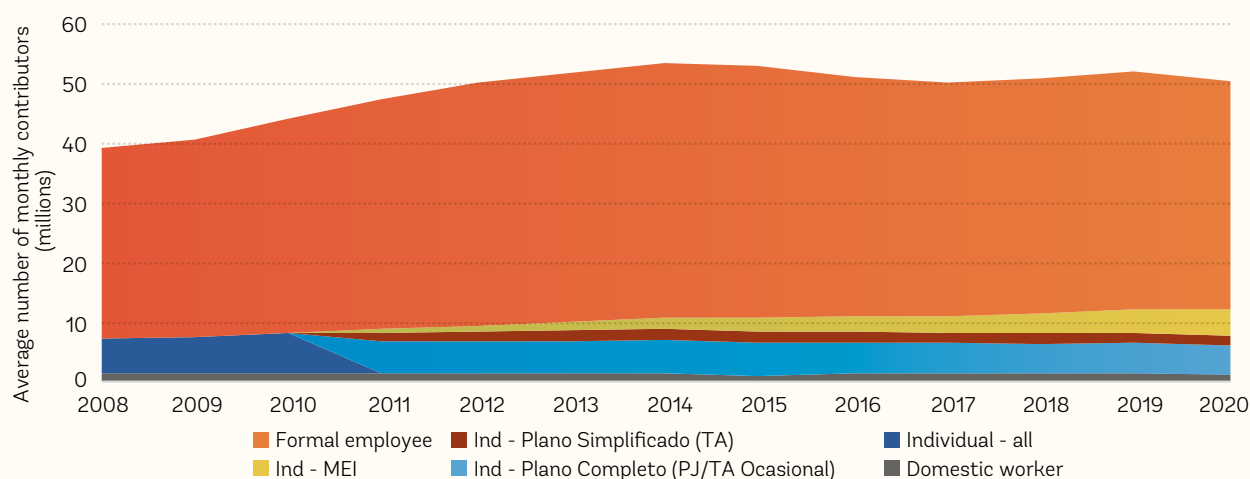
incentives for many individuals to contribute or they undercompensate those who contribute the most. A second major issue is the proliferation of subsidized pension schemes for the self-employed, most of which yield benefits at a fraction of the cost of wage employees and are increasingly coopted by higher earners. Finally, there are thousands of pension regimes offered by subnational governments that provide privileged retirement benefits and represent a high share of their total expenditures. Unless these

schemes are reformed, they will crowd out subnational spending on other key social priorities in the future.

**The changing nature of work further challenges the relevance and effectiveness of current instruments to cope with short-term shocks.** The transformation of work relationships due to technology, outsourcing, and preferential taxation for self-employed will likely increase the share of formal workers who are self-employed and, therefore, are not covered by instruments to mitigate volatility of labor income (figure vii). Yet, Passive Labor Market Policies (PLMPs)

take up the bulk of resources of labor programs and target only formal employees. Currently, the only program available to support self-employed and informal workers during periods of unemployment and transition is the CCT program (if they meet the eligibility criteria). Even for those who are eligible for unemployment insurance, the benefits are generous but short-lived and thus not helpful for supporting the unemployed while they undergo training and reskilling. Thus, Brazil's income protection programs will need to be adapted in order to support future generations of workers, and to be more equitable (figure viii).

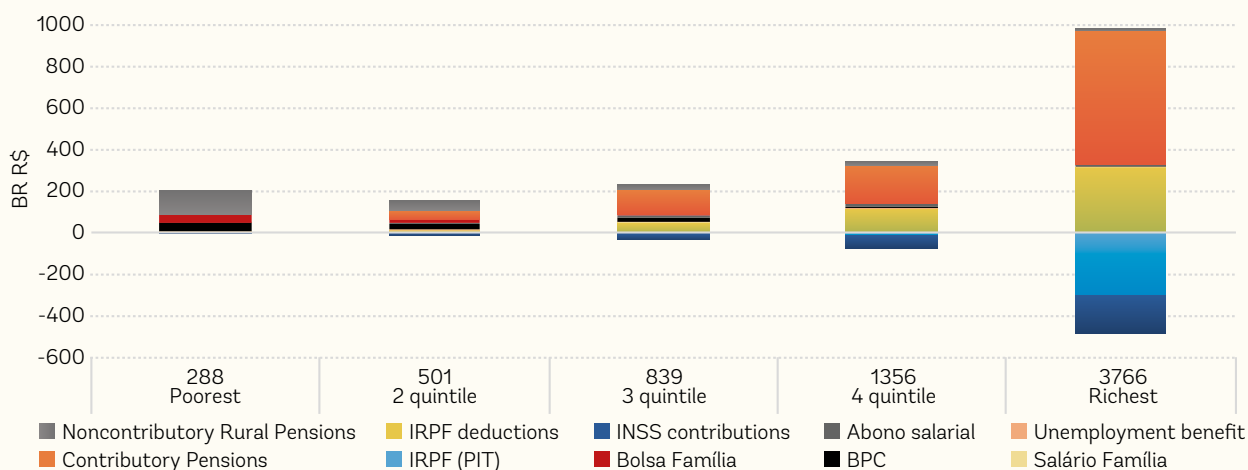
► **Figure vii. Contributors to social insurance, by type of plan (2008–2020)**



Source: Statistical Yearbook of Social Security, Ministry of Labor (several years).

Note: Annual formal pension contributors, according to the pension regime. "Ind" = Individual plans for non-wage workers. These include: Individual contractors (Trabalhador Autonomo, TA). Firm owner (Pessoa Juridica, PJ), Micro Entrepreneurs (MEI).

► **Figure viii. Simulated mean value of direct transfers and taxes on households, by per capita income quintiles (2019)**



Source: BraSim microsimulation tool developed by the World Bank Poverty and Equity team, based on PNAD Continua 2019.

Note: Quintiles are computed as per capita disposable income (after tax income) in the BraSim methodology. IRPF refers to personal income tax - Imposto de Renda da Pessoa Física. BPC is a noncontributory means tested pension. INSS is the national social security institute.

**Finally, Brazil will need to increase its capacity to deliver social protection services as cash alone cannot tackle multidimensional vulnerabilities.**

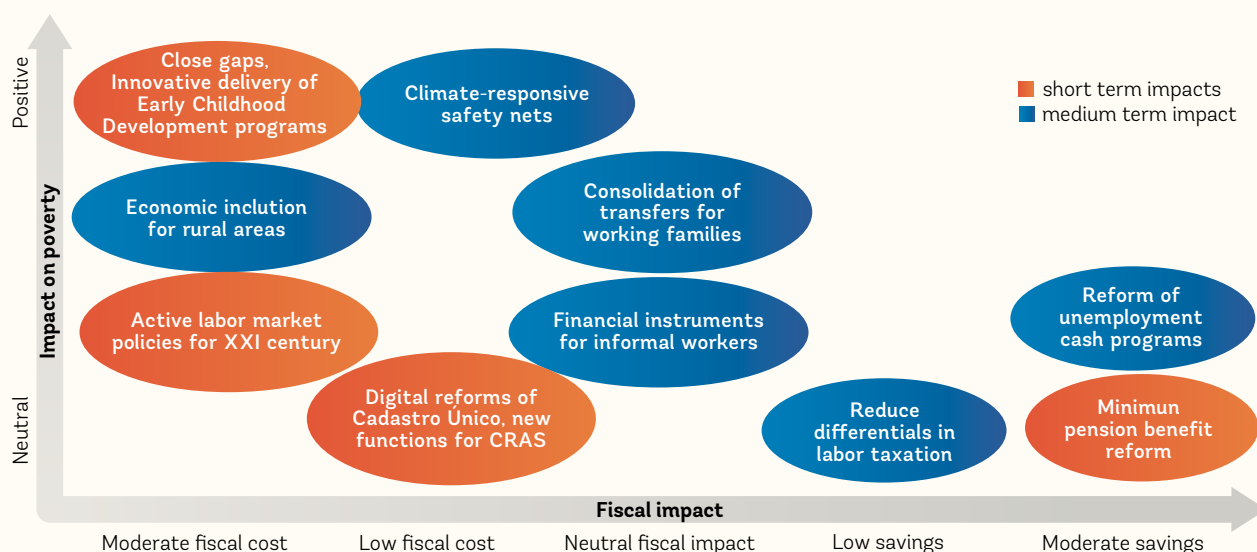
Brazil's social protection system is currently over-dominated by cash expenditures, which can only solve part of the structural challenges described above. Although Brazil has been successful in developing a decentralized structure for service delivery, funding for in-kind programs has been falling over time, probably driven by the bias in favor of cash benefits. Examples include the deficient active labor market policies, the phasing out of most productive inclusion programs, the insufficient funding provided for scaling up childcare, and the lack of policies to address the long-term care needs of an aging population. In all such cases, the country's complex political economy and weak capacity for inter-governmental coordination undermined change.

### Paving the way: 10 policy reform proposals

**To meet the challenges of the future, Brazil's social protection and labor system will need to enhance its traditional income support by adding design features that promote economic opportunity for and foster the resilience of Brazilians at all different stages of the lifecycle.** This policy note recommends 10 key reforms gleaned from recent analytical work that would deepen the capacity of the social protection system to continue fostering inclusion, growth, and resilience. While Brazil's social protection and labor (SPL) expenditures are already at the same level as countries with similar

revenue capacity, the proposed reforms could make the system more efficient and equitable, without necessarily increasing structural expenditures, provided that reforms are implemented in mutually-reinforcing packages. To increase the *resilience* of the future workforce and households, the note proposes (see figure ix): (i) enhancing the efficiency of unemployment programs; (ii) expanding financial instruments available to households to manage income volatility; and (iii) integrating climate-responsive features into social assistance programs. To increase the *opportunities* available to all Brazilians, the government could: (iv) find more and better ways to deliver early childhood development programs and (v) develop new policies aimed at supporting workers in job to job transitions or first labor market entrants. To strengthen the impact of the social protection system in reducing poverty, the government could consider: (vi) consolidating the various targeted transfers for working families into a single program and (vii) investing in building the capacity of the Reference Centers for Social Assistance (CRAS) to deliver social services. To be able to finance these ambitious changes, it will be necessary to increase the efficiency and equity of spending, particularly of spending on children and youths as follows: (viii) coordinating explicitly non-contributory pensions with the design of the contributory minimum pension; (ix) add innovations to the SA delivery system based on lessons learned from the experience of implementing the AE program during the pandemic; and (x) reducing differentials in contributions and taxes paid on earnings across different legal forms of working, whether dependent or autonomous.

► **Figure ix. Direction of fiscal and poverty impacts of the proposed reforms to Brazil social protection system**



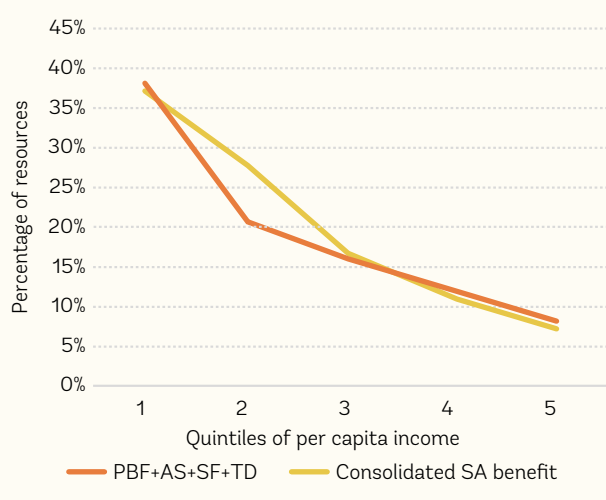
Source: Authors.

The 10 policy reforms proposed in this policy note are as follows:

## 1 Consolidating fragmented transfer programs for working families

Several cash benefits that are supposed to be targeting poor workers are in practice benefiting families with higher incomes. Therefore, it is suggested to introduce a universal transfer for each child, combined with a means-tested benefit targeted to poor households. The child benefit would consolidate existing transfers, which are currently scattered across different fiscal policies (the child and youth benefits provided by the CCT program, the *Salário Família* credit to social insurance contributions, and child-related deductions to personal income-tax). The means-tested component would be uniquely targeted to the poor, and consolidate the family-level benefit in the CCT program, with the wage supplement provided by *Abono Salarial*; the value of this means tested benefit would taper off above the eligibility poverty line in order to give recipients an incentive to participate in the formal labor market. The reform would make the system more equitable (figure x), largely address exclusion errors, and would foster human capital accumulation in children, the future workforce of Brazil.

► **Figure x. Simulated incidence of the proposed consolidated transfer for children and low-income families, compared to sum of all major fiscal transfers for families in 2019**



Source: Authors' simulations based on the 2019 BraSIM Microsimulation Tool. Note: The figure shows the incidence of the proposed consolidated transfer, compared to the incidence of all family-focused transfers (Bolsa Família, Abono Salarial, Salário Família and the Child deduction to income tax).

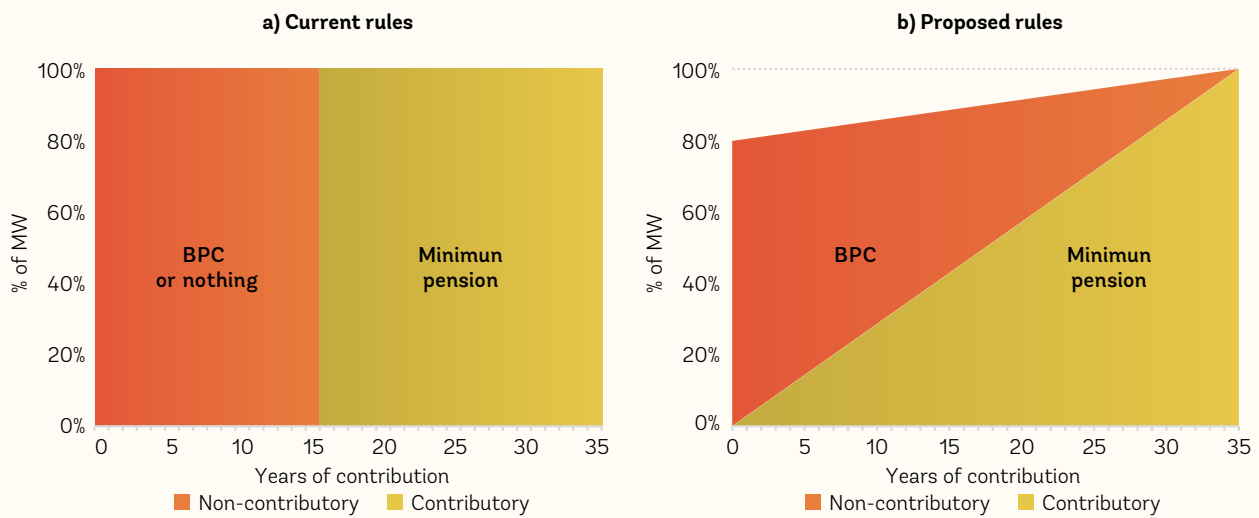
## 2 Reforming the minimum old age benefit and eliminating retirement age differences

The 2019 pension reform, which raised contribution rates, raised retirement age parameters and reduced benefits, slowed down the growth of the pension deficit, but concerns about the sustainability of the pension system remain. The level of the minimum old age pension in Brazil is higher than international standards and is resulting in an imbalance of support and protection across different generations in favor of older people. To make the system fairer and to free up fiscal space for other important investments, pro-rating the contributory pension according to the number of years of contributions can be considered (see figure xi), which would then be complemented by a social assistance transfer for eligible poor elders (or even by a universal old-age benefit) up to a minimum benefit guarantee. The non-contributory pension would remain an important guarantee for the elderly, while at the same time the new program would restore the right incentives to encourage working-age adults to contribute as anyone with a contribution history will be entitled to accrue pension benefits. Reforming the current high minimum pension would yield substantial fiscal savings. Over time the benefit value could be indexed to cost-of-living indexes rather than the minimum wage, as the latter is meant to serve labor market policy objectives.

## 3 Reducing the differentials in the tax and contribution rates for workers in different legal forms of working

The tax wedge on formal dependent employees in Brazil is one of the highest in LAC because of high non-wage costs, especially for low-productivity (minimum wage) workers. In contrast, non-dependent workers are subject to special tax regimes and reduced social insurance contributions, which makes employers unwilling to hire them. To eliminate these distinctions between different forms of work, it is suggested: (i) reducing the difference in taxation and contributions levels from a dependent wage employee and a self-employed worker; (ii) aligning taxes across different types of incomes (such as dividends/profits, pensions, wages, and rents) to achieve tax neutrality; and (iii) increasing the progressivity of personal income

► **Figure xi. Consolidating the components of old-age pensions (BPC and rural pension) and the prorated minimum contributory pension guarantee**



Source: Authors.

tax system. These would be obtained by applying a maximum to the salary base of the employer's social security contributions, equalizing the contribution rates of *Consolidação das Leis Trabalhistas* (CLT) workers<sup>2</sup> and self-employed workers, and by increasing the contribution rate of individuals under the micro-entrepreneurs and SIMPLES regimes.

but without incentivizing informality or unnecessary long unemployment spells. Sequencing and integrating severance pay, social assistance, and social insurance would also make the unemployment insurance program better suited to long-term unemployment and would address the incentive issues caused by the current benefit.

#### 4 Reforming unemployment protection programs for formal workers in the current and future labor markets

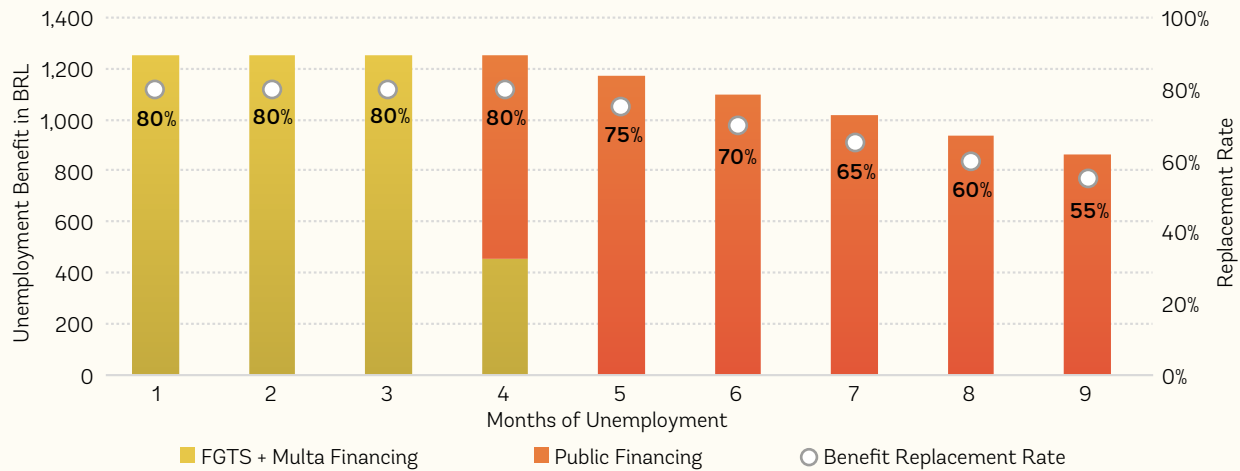
The way in which unemployment insurance is currently designed in Brazil is flawed as it provides perverse incentives that dissuade workers from seeking employment because of frequent dismissals and long job searches. To increase the efficiency of unemployment protection programs, policymakers could consider the Brazil's *Seguro Desemprego* can implement parametric changes regarding access conditions, reducing the generosity of the benefit, as well as redistributing co-responsibilities. Following international best practices, individual savings accumulated in the *Fundo de Garantia por Tempo de Serviço* (FGTS) should be used as the first line of financing for unemployment claims, while subsidized funds from the risk pool would be accessed only after the worker's FGTS savings are exhausted (figure xii). This may make payouts last longer in case the individual needs time to find a better job match,

#### 5 Introducing complementary income volatility management programs for informal workers

Informal workers remain ineligible for social insurance, even though many can be defined as poor and vulnerable. Financial inclusion policies that stimulate the creation of precautionary saving schemes are needed to strengthen the income resilience and financial literacy of the poor and vulnerable. The *Cadastro Único* and the CCT program can be used to provide saving products to this vast population, particularly those who come under the Emancipation Rule (*Regra de Emancipação*) formalized in *Bolsa Família*, according to which recipients of the program can try out a formal job without fear of losing the benefits for up to two years even if their income rises above the eligibility threshold. International experience shows that saving products bundled with insurance reduce the chances of families relapsing into poverty by providing them with the tools to manage the cost of shocks. However, Brazil has yet to pursue this policy.

<sup>2</sup> Dependent formal sector workers.

► **Figure xii. Unemployment payouts if unemployment insurance (Seguro Desemprego) and individual savings accounts (FGTS) were coordinated**



Source: Morgandi et al (2021).

Note: Unemployment benefit for dismissed worker with a pre-unemployment wage equal to 1.5 of the minimum wage and job tenure of 24 months.

## 6 Expanding, revamping, and retargeting active labor market programs

Brazil's active labor market programs (ALMPs) are limited to providing training, which is quite widespread but is not coordinated. The delivery of ALMPs in Brazil needs to follow a structure that starts with a profiling stage (during which a professional assesses the worker's ability and work history) and continues with the provision of such services as career counselling, jobseeking support, structured skills development, socioemotional skills development, and/or the provision of a temporary wage subsidy to enable an individual to accumulate work experience. The main challenge to implementing such a structure is likely to be in coordinating actions and institutions rather than any financing constraint. Expenditures in the *Fundo de Amparo ao Trabalhador* (FAT) should be reallocated away from regressive supplements to formal workers and used in greater share to invest in intermediation and ALMPs available to all workers. The public employment service at the local level (*Sistema Nacional de Emprego* or SINE) should be revamped in terms of quality of services, protocols and coordination to other public policies. Also, job seekers should be allowed to continue receiving unemployment insurance while they are using ALMP services.

## 7 Extending economic inclusion to cover rural areas

Productive economic inclusion (PEI) programs around the world have yielded positive results in terms of protecting and increasing the income, assets, and savings of the marginalized if the programs are well-coordinated geographically. Brazil has a tradition of experimentation in economic inclusion policies, especially in the rural sphere, that yielded positive results, but most programs succumbed under fiscal adjustment. The main challenge for the future will be to identify the most appropriate and effective institutional arrangements to deliver such programs at the local level, with steering, quality control and financing by federal and state governments. *Cadastro Único* and SUAS, the United Social Assistance System, will be central in these coordinating efforts across the country, especially to support the critical phase of identification of potential beneficiaries, profiling and diagnostic of needs. More integrated use of existing data and improvement of *Cadastro's* intake questionnaire can support such effort. SUAS could then provide these households with referrals to a set of coordinated interventions to meet their needs, including to whatever PEI programs might be available locally.

## 8 Developing an adaptive and responsive strategy to deal with climate change

The resilience of the population in the face of climate change will be critical to support Brazil's competitiveness and productivity going forward. Adaptive social protection (ASP) can enhance the capacity of families and communities to prepare for, cope with, and adapt to covariate shocks flexibly and rapidly. Although Brazil has a well-established social protection system, it currently lacks the readiness and ability to mount timely and appropriate response to emergencies. Some of the best practices developed during the pandemic and with *Auxílio Emergencial* could be mainstreamed for future disaster response. Therefore, it is recommended the development of an integrated ASP strategy with a fiscal commitment that could devise a way to react to the country's most recurrent and disruptive climate-related shocks (such as excess rainfall and droughts) in a faster and stronger manner than at present. Household and community-level data from the *Cadastro Único* could be used to identify their *ex ante* risk and the likelihood of *ex post* damage from disasters.

## 9 Strengthening CRAS network and services

In-person social assistance networks will continue to be fundamental to the delivery of social protection services even with the increasing digitalization of access. Active search function makes it possible to find extremely poor families wherever they may be located, including those in rural areas, and these data could be used to inform labor policies and the design of economic inclusion programs. It is suggested strengthening the CRAS as the center for referrals and for the coordination of social protection policies in each municipality, including referrals to economic inclusion policies for the poor and vulnerable. The functions of the CRAS offices should be extended to encompass monitoring machine-induced errors, implementing a more systematic and integrated needs assessment that can then trigger intensified case management and referrals, developing effective approaches to complex problems (such as gender-based violence) and to serving vulnerable groups such as refugees and migrants, and teaching beneficiaries how to access digital services, which will be a necessary condition for social inclusion in the future.

## 10 Extending coverage of early childhood development services by adopting new ways to deliver them

Early childhood development interventions, coordinated with the social assistance and health systems, are a cost-effective instrument to support home-based integral development of children. A set of improvements to the existing efforts by federal and state governments could support the scaling up to all Brazilian municipalities. The introduction of new delivery modalities, for example, using technology to deliver services (e.g. mobile app, whatsapp, etc), would reduce costs for municipalities. The development of protocols for interacting with specific groups (such as indigenous people and *quilombolas*) would improve the quality of interventions. Home visits remain an effective way to support households most in need in a range of psychosocial needs, including parenting practices. These should be coordinated with other municipal activities of SUAS and integrated with the family case management protocols.

# Introduction

**T**his policy note assesses how Brazil's social protection and labor systems can be reformed most effectively to meet the challenges that the country will face in the next two decades while fostering social inclusion and shared prosperity. The note draws on a large body of recent analytical work on Brazil's social assistance, labor market policies, and social insurance carried out by the World Bank team in Brazil during the past couple of years (see table 1), while its recommendations are built on information contained in official databases and on administrative data. The team also consulted with government officials at several points in the process and elicited their feedback on its findings and results.

The methodology used in this note consisted of microsimulation models developed by the World Bank specifically for the analysis of social protection and calibrated to Brazil's circumstances. We used ASPIRE to classify social spending, BOOST to simulate pension scenarios, and BraSim and BraSim *de jure* tax benefit models to simulate parametric policy changes and to suggest ways to redesign the programs accordingly.

**The note focuses on the design and structure of the social protection and labor systems as a whole and thus concentrates on federal-level policies.** For a more detailed discussion of the diagnosis of each sector, we refer the reader to the original papers as listed in table 1. However, we recognize that regional differences and the territorial dynamics of the labor market may play an important role in shaping the demand for social protection programs. So we discuss the relevance of context in the local implementation of specific policies such as employment services and the early childhood programs and in the need for coordination among local CRAS offices in the delivery of social assistance.



► **Table 1. Latest World Bank publications on social protection and labor in Brazil**

Topic	Title	Publication Year
Brazilian tax and benefits model	BraSim Microsimulation Tool: Technical Document	2020
Reform of unemployment programs	Enhancing Coverage and Cost-effectiveness of Brazil's Unemployment Protection System: Insights from International Experience	2020
<i>Bolsa Família's Regra de Permanência</i>	Balancing Stability and Transition: A First Assessment of <i>Regra de Permanência</i> in <i>Bolsa Família</i>	2021
Financial instruments for low-income workers	Enhancing Resilience of Low-Income Workers in Brazil: Financial Instruments and Innovations	2021
Studies of the integration of Venezuelan migrants in Brazil	Economic and Fiscal Impacts of Venezuelan Refugees and Migrants in Brazil	2021
	Integration of Venezuelan Refugees and Migrants in Brazil	2021
Brazil's Human Capital Review	Brazilian Human Capital Review - Invest in People	2022
Lessons learned from Auxílio Emergencial	<i>Auxílio Emergencial: Lições da experiência brasileira em resposta à COVID-19 – Summary Note</i>	2021
	Sharing Lessons Learned from Brazil's Social Protection Response to COVID-19: The <i>Auxílio Emergencial</i> Program	2021
	Coverage Profile of Brazil's <i>Auxílio Emergencial</i> and Special Design Features for Protecting Women and Other Vulnerable Groups: Lessons from Brazil's <i>Auxílio Emergencial</i> .	2022
	Sharing Lessons Learned from Brazil's Social Protection Response to COVID-19: <i>Auxílio Emergencial</i> Digital Accounts and Innovations in Payment Systems	2022
Subnational pension regimes	Subnational Civil Servant Pension Schemes in Brazil: Context, History, and Lessons of Reform	2022
Addressing gender-based violence through SUAS	<i>Projeto Piloto Salvador: Prevenção à Violência de Gênero por meio do Sistema Único de Assistência Social</i>	2022
Brazil Expenditure Review	A Fair Adjustment: Efficiency and Equity of Public Spending in Brazil	2017
Economic Inclusion Strategy	A Profile of the Poor in Brazil's Labor Market and Economic Inclusion Policies	2023 (forthcoming)
Adaptive Social Protection in Brazil	Towards Shock Responsive Social Protection in Brazil: Assessing the Adaptiveness of Brazil's Social Protection System.	2023 (forthcoming)

**A key message that arises from the analysis is that the social protection system has been central to Brazil's social progress, particularly after the establishment of the democratic constitution.** Brazil has made important advancements in the provision of social protection in the recent past. It has the largest conditional cash transfer (CCT) program in the world (*Bolsa Família*), an early childhood development (ECD)

program with capillarity, an extensive network of social assistance offices covering almost all of the 5,570 municipalities in the country, and a large single beneficiary registry (*Cadastro Único*). The country is also well prepared to deploy fast, extensive, and agile responses in times of emergency. This was particularly evident in the case of the policies implemented by the federal government during the COVID-19 crisis,

including labor packages and the largest temporary social assistance transfer in the world (*Auxílio Emergencial*). However, the important supportive role played by the social protection system during the COVID period had implications for the tax system and the government's macro development strategy. This note is a companion piece of the *Alternative Futures for Brazil: Inclusion, Productivity, Sustainability Report*, that discusses these abovementioned areas, and presents recommendations regarding tax reform and the need to review Brazil's growth model.

**Despite these impressive advances and significant spending, Brazil's social protection programs have had only mixed results in terms of reducing inequality and overcoming the structural determinants of poverty that limit increases in productivity.** Although Brazil has developed social protection policies in almost all possible areas (in line with the World Bank's ASPIRE classification of social protection programs),<sup>3</sup> the

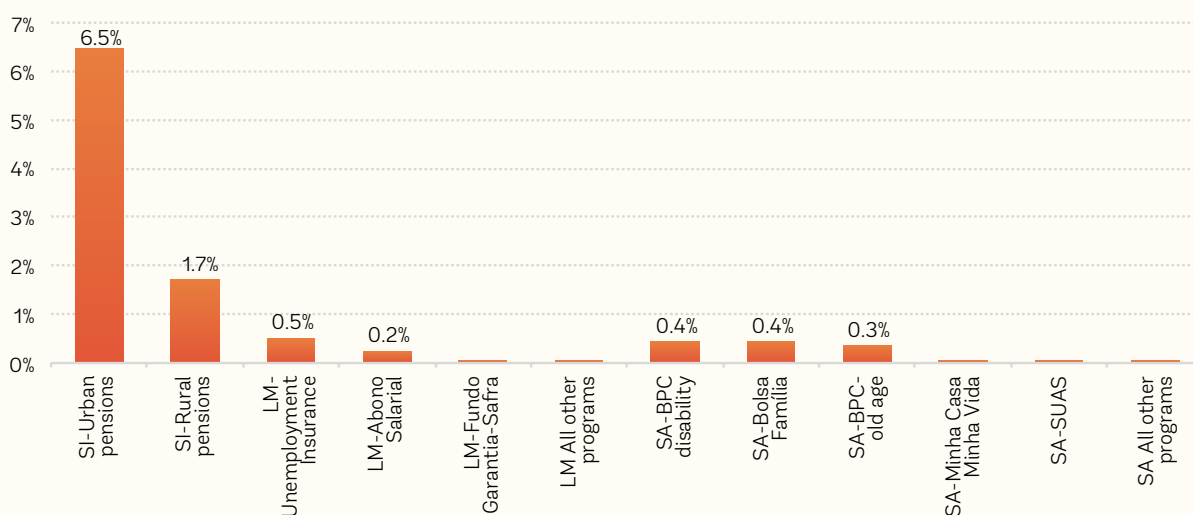
breadth and reach of these programs is unbalanced. Structural spending analysis for 2019 shows that the elderly are the most well-protected against the risk of poverty, children and some working adults remain more vulnerable. Pensions represent a large share (8.2 percent) of GDP spending, social assistance and labor market policies account for only 2.1 percent of GDP in 2019 (figure 1)<sup>4</sup>.

**To achieve sustainable growth that leads to shared prosperity, it is essential to foster the accumulation of human capital and to protect it in times of shocks.**

Brazil has used CCTs to support the achievement of universal coverage in basic education, which accelerated human capital accumulation prior to the COVID-19 crisis. This accumulation was also fostered albeit more modestly by efforts to support productivity growth and the economic inclusion of the poor. In this note, we highlight the fact that few of these initiatives have been implemented at scale to address multidimensional

*"Social protection spending is dominated by contributory and noncontributory pension programs."*

**Figure 1. Overview of the major federal social protection programs in Brazil as percentage of GDP (2019)**



Source: Based on data from Portal da Transparência of the Government of Brazil for 2019. Excludes spending for pension schemes for civil servants.

Note: Expenditure classified according to WB ASPIRE methodology: SI=Social Insurance, SA= Social Assistance, and LM=Labor Market.

<sup>3</sup> The Atlas of Social Protection Indicators of Resilience and Equity.

<sup>4</sup> Figures 42-43 discuss trends in 2020-2021, which saw rise in social assistance and labor expenditures.

vulnerabilities. For example, providing transfers to low-income households does little to address the structural problems that limit the economic participation of household members. These structural weaknesses, particularly those that prevent human capital accumulation, reduce the resilience of households, who have to draw down their limited physical and human capital assets in the event of shocks.

**Several global changes in the coming decades will make it necessary for governments to adapt their social protection and labor (SPL) systems so that new opportunities can be seized and new risks can be mitigated.** In the period between now and 2040, Brazil will undergo a few key transitions that will challenge the sustainability of several of its social protection programs as a result of three global “megatrends:”<sup>5</sup>

- **Demographic change** characterized by an aging population will put unsustainable pressure on the system, particularly on pensions. By 2040, the bulk of the Brazilian population will be of working age but no longer young, and many will need to navigate the labor market with low levels of education. The number of children – Brazil’s future workforce – will decrease, and in the meantime, nearly half of today’s children live in poverty. The number of adults aged over 65 is projected to double, making current retirement promises difficult to sustain, even after the recent pension reform. Also, the COVID-19 pandemic resulted in immense setbacks in human capital accumulation, which will have a lasting negative impact on the labor force of the future and on their need for social protection. The challenge that countries around the world are grappling with is how to recoup these losses and to recover the pace of human capital accumulation to accelerate economic growth.
- **Climate change** will make the population more vulnerable to shocks and will accelerate the structural transformation of the economy. The effects of global warming in Brazil are expected to include more frequent natural disasters and lower agriculture productivity. Meanwhile, the declining competitiveness of carbon-intensive industry will accelerate a structural shift in the economy toward services.

- **Technological change and changes in the world of work** will reshape both the production and consumption of goods and will increase the risk of unemployment among workers who are unable to acquire the skills needed to work with (or compete with) the newer technologies. It can be anticipated that as the number of stable and dependent jobs decrease, there is a risk of many workers losing access to social insurance.

**Rethinking Brazil’s SP system will be critical to enabling the country to become more inclusive, prosperous, and equal society.** Brazil already spends an adequate amount on SPL programs compared to countries with a similar revenue capacity, but in this note we argue that what is needed in order to educate and prepare productive workers for the future is to reassess today’s social protection investments, particularly in terms of redistributing protection across age groups.

**The note also makes the case that several reforms could make the system more efficient and equitable without necessarily increasing fiscal costs.** We present various reform options aimed at increasing: (i) resilience by making unemployment programs more efficient and by creating more instruments to enable households to manage income volatility; (ii) opportunity by expanding the ways in which early childhood development (ECD) programs are delivered and by supporting vulnerable workers to transition between jobs; and (iii) equity by consolidating targeted transfers to working families and by widening the social assistance services provided by the Reference Centers for Social Assistance (CRAS). We also suggest another set of reforms to financing and delivery systems, such as reducing pension privileges, consolidating non-contributory old age pensions or introducing a minimum pension reform, permanently incorporating innovations from the COVID-19 *Auxílio Emergencial* program into delivery systems, and revisiting financing/taxation.

The note is structured as follows:

- Section 2 presents a brief overview of the Brazilian social protection system and its evolution since the country’s redemocratization in the late 1980s.

<sup>5</sup> These trends are explored in greater detail in *Alternative futures for Brazil* (World Bank, forthcoming), the companion publication to this note.

- Section 3 dives deeper into the three megatrends (demographics, climate and technological changes) that will affect Brazil over the next two decades and that will make it necessary to prepare and adapt the current social protection and labor systems.
- Section 4 provides a diagnosis of the current social protection, social insurance, and labor market systems through a resilience, opportunity, equity, and sustainability conceptual framework.
- Section 5 presents a vision of how a revamped SPL system would be able to address both the historical and forthcoming issues that the Brazilians of the future will face and presents 10 proposals for reforms that would yield a system capable of meeting the challenge.



# The Challenge: Recent social gains and remaining gaps



## KEY MESSAGES

- Brazil is world-renowned for the progress that it has made in increasing the coverage of social protection through its social assistance programs and its delivery system, including one of the largest CCT programs in the world.
- The 2014 crisis halted gains in poverty reduction. However, when faced with COVID-19, the Brazilian social protection system responded promptly with various measures on a massive scale.
- Brazil also made significant progress in developing the human capital of the poor, but the pandemic reversed years of gains, and it will take more than a decade to get back to pre-pandemic levels of educational achievements.
- Nearly half of today's children, who constitute the workforce of the future, are raised in poor households. Poverty reduces their ability to take advantage of services and to prepare themselves for the sophisticated labor market of the future, which will require a range of cognitive, digital, and soft skills.
- About 70 percent of Brazil's projected workforce in 2040 is already older than 24 today and beyond the reach of traditional education, while 40 percent of them did not complete secondary education. Therefore, increasing labor productivity in the future will require immediate and sustained investments in lifelong learning programs.

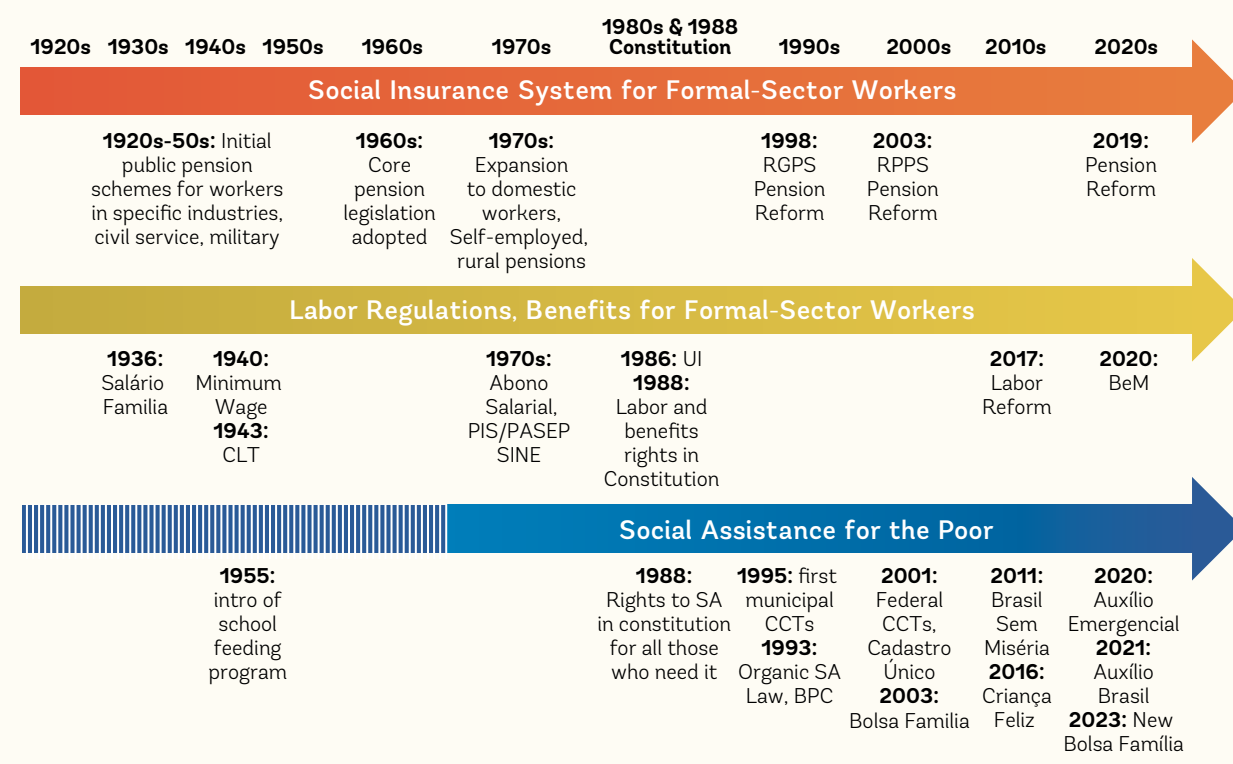
## 2.1 Evolution of Brazil's social protection system

Since Brazil's democratization in the late 1980s, the country has become world-renowned for its policies aimed at including the poor and vulnerable in the social protection system. The 1988 Federal Constitution, also known as the Citizen Constitution, was the catalyst for the expansion of social rights and of access to public services, including a public-financed social protection system. This system was built on three pillars: (i) social insurance; (ii) health care; and (iii) social assistance. During the 1990s, the way in which public services were provided was substantially reorganized with the creation of 1,438 new municipalities, the expansion of the civil service workforce, and the development of hundreds of new subnational pension schemes for local civil servants (Zviniene et al., 2022). However, as shown in figure 2, labor and social insurance programs were far more developed than non-contributory social protection, reflecting the social contract that underlay Brazil's

corporatist past. It was not until the 2000s that an effective social assistance system was established, through the creation of the single registry (*Cadastro Único*), the consolidation of several state-level benefits and in-kind transfers in the *Bolsa Família* program, and the institution of the national social assistance network (*Sistema Único de Assistência Social* or SUAS). Unlike the labor and social insurance programs, none of the new generation of social assistance programs was enshrined in the Constitution.

**Social assistance, being the most recent branch of Brazil's social protection system, has a more innovative design than the country's labor market and pension programs.** A vast literature has highlighted the problems of design and sustainability that bedevil Brazil's pensions and labor benefits, which have proven difficult to solve. Social assistance, particularly *Bolsa Família*, from inception was developed according to technical and evidence-based design, with monitoring and evaluation systems that surpassed until recently the ones in place for contributory benefits.

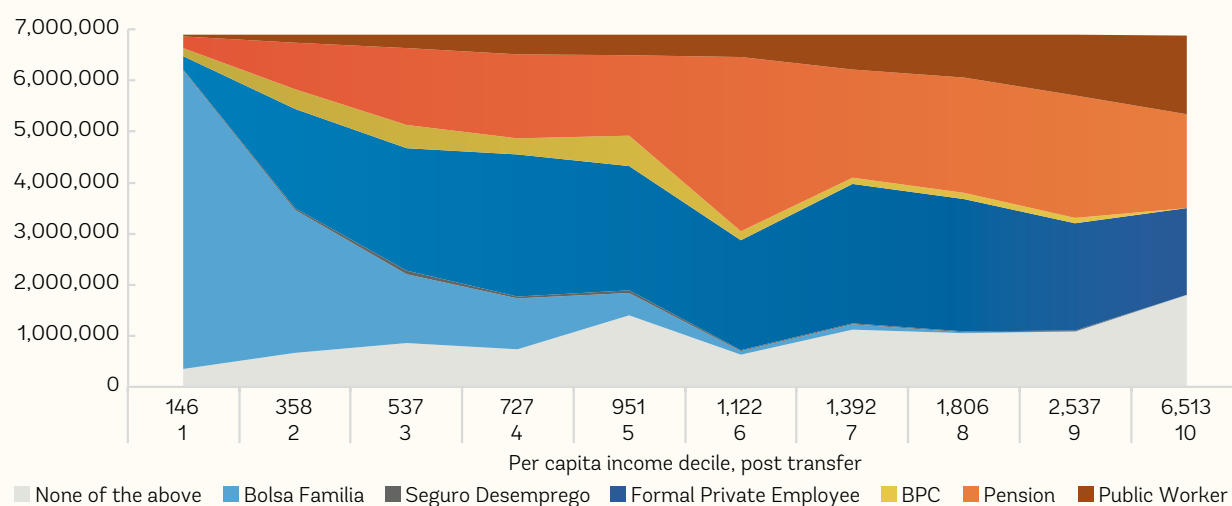
► **Figure 2. Evolution of the social protection system and labor regulations in Brazil**



Source: Authors' elaboration, based on World Bank (2018).

*“Assuming perfect program implementation, about 90 percent of Brazilian households have at least one member eligible for a protected source of income through a formal labor contract (via social insurance), old age benefit, or social assistance cash transfer.”*

**Figure 3. Households with access to a protected source of income**



Source: BraSim microsimulation model developed by the World Bank Poverty and Equity team, based on PNADC 2019 dataset.  
 Note: The model identifies receipt at the household level of at least one protected source of income through a transfer, a private formal job, or a government-provided job. Households that receive multiple benefits/protected incomes were assigned to the category with the most secure income, in this order: Public worker, Pensions, BPC, Formal Private Employee (CLT), Seguro Desemprego, Bolsa Família. The BraSim model theoretically applies benefits to all eligible families, assuming perfect implementation.

**While Brazil’s social protection system was expanding, access to education and childcare was increasing.** Between 2000 and 2019, net enrollment rates in preschool (5 to 6-year-olds) jumped from 66 percent to 94 percent and more than doubled in upper secondary. Upper secondary school dropout rates decreased from 10 percent in 2010 to 5 percent in 2019 (INEP, 2021). In the same period, the total number of entrants into tertiary education courses rose from just over 2.5 million to around 3.6 million. Also, childcare coverage grew from 14 percent in 2001 to 37 percent in 2019. Nevertheless, these services are still largely inaccessible to poorer families and those who live in rural areas (OPNE, 2021).

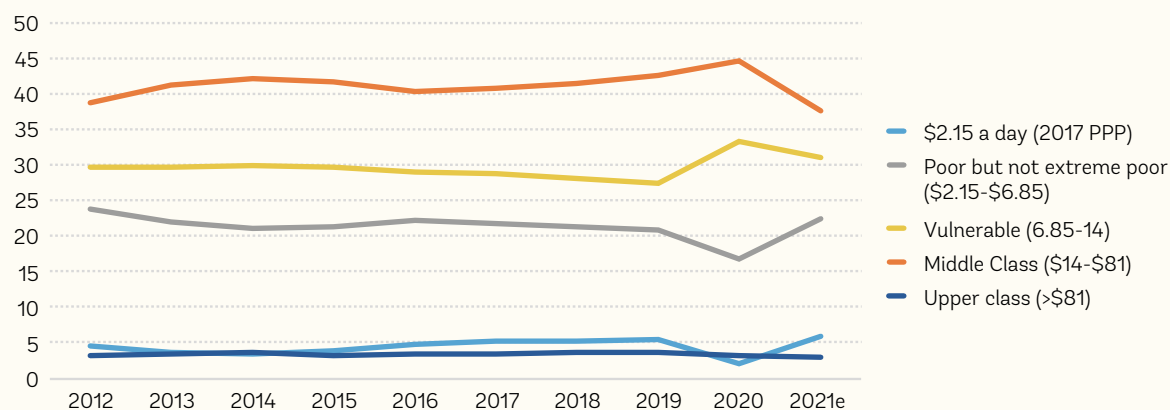
**As a result of the incremental expansion of benefits, Brazil’s social protection and labor system offers**

**almost all households some form of protected income.**

Simulations suggest that, until the recent pandemic, about 90 percent of households in theory had at least one member eligible for a protected source of income through their formal work status, old age, or their level of household income<sup>6</sup> (figure 3). These simulations assume the perfect implementation of each program. Despite this high percentage, the level of protection and income security varies across the population, with informal workers in the middle income deciles, the self-employed, and young people with no children being the groups with the lowest coverage. Also, this broad coverage does not translate into equality in terms of generosity. The far reach of the system also explains why it is so politically complex to alter its design, given that so many people might be afraid of losing out as a result of the change.

<sup>6</sup> It is important to highlight that 90 percent is the share only if the social protection system works perfectly, in other words, if all families claim the benefits to which they are entitled, all benefits are available, and there are no waiting lists or misinformation.

► **Figure 4. Trends in poverty and in the growth of the middle class in Brazil over time**



Source: World Bank Poverty and Inequality Platform (<https://pip.worldbank.org/home>) and World Bank (2022) Brazil – Macro Poverty Outlook, October, based on Pnad Continua 2011-2021.

Note: Poverty rates are computed using international poverty lines applied to Brazil in 2017 Purchasing Power Parity US\$.

**The decade starting in 2010 was marked by economic growth, the 2014 crisis, and a reversal in poverty reduction.** Until the 2014 economic crisis, Brazil's economy was characterized by remarkable GDP growth and falling poverty rates (figure 4). This was aided by the pro-poor nature of economic growth and intentional policies, such as *Brasil Sem Miséria* (BSM), which helped 14 million people overcome extreme poverty through income guarantees, productive inclusion measures, and expanded access to utilities and housing. This process continued the steady expansion of the emerging middle class. However, the 2014 crisis was a turning point for inclusive growth. Extreme and moderate poverty increased, and before Brazil had fully recovered, mostly because of a persistently sluggish labor market, the COVID-19 crisis hit in early 2020 (World Bank, 2021a).

**The recession of 2015 created demand for pension and labor reforms to stimulate recovery and reduce budget deficits.** The resulting 2017 labor reform liberalized several work relations in an attempt to increase formal employment opportunities and widened the scope for collective bargaining on labor regulations, but it also reduced the mandatory financing of unions. This was followed in 2019 by a pension reform that tightened some benefit eligibility conditions and somewhat reduced benefit generosity, bringing Brazil closer to global benchmarks. It also created a legal

framework for reforming subnational pension schemes. However, fiscal retrenchment due to the recession resulted in more than 1 million eligible families being on the waiting list for the *Bolsa Família* conditional cash transfer (CCT) program between 2016 and 2020 and cut the budget of many in-kind programs established in previous years, especially those aimed at furthering economic inclusion.

**Brazil was severely hit by COVID-19, with over 600,000 deaths in 2020-2021, a sharp fall in employment rates, and losses of human capital.** Human capital losses were severe, and preexisting inequalities in access to clean water, the internet, private healthcare, and social protection meant that some households lost even more human capital than others from the pandemic. The high mortality of the younger population<sup>7</sup> had negative social and productive implications for the country. The primary caregivers of about 2.4 per 1,000 children in Brazil died between March 2020 and April 2021 (Hillis et al, 2021), and these children will remain exposed to a long-term risk of poverty and deficient care.

**Despite this bleak picture, Brazil's social protection response to the COVID-19 crisis was internationally recognized as a model of robustness, coverage, and speed.** To protect the most vulnerable population, the

<sup>7</sup> People under the age of 65 represented only 11 percent of official COVID-19 death rates and excess mortality in developed countries, but in Brazil, the disease unexpectedly hit the young and working-age population, with 32 percent of deaths and 28 percent of the excess mortality of Brazilians in 2020 being among people aged under 59 years old (Demombynes et al, 2021).

government introduced a set of measures including:<sup>8</sup> (i) expanding *Bolsa Família*; (ii) creating a temporary cash transfer, *Auxílio Emergencial*; and (iii) providing subsidies to encourage the maintenance of formal labor contracts under the BEm (*Benefício Emergencial de Manutenção do Emprego e da Renda*) and the BESE (*Benefício Emergencial de Suporte ao Emprego*) programs.<sup>9</sup> This constituted a much stronger social protection response than had ever been attempted in previous crises and was among the largest among middle-income countries (Gentilini et al, 2020).

**Auxílio Emergencial reached more than half of the population as it was able to build on the strengths of the existing delivery system.** Initially planned to last just a few months, it was extended for two years and reached 55.6 percent of the population. It targeted three groups: (i) the pre-pandemic extreme poor and socially vulnerable (BF beneficiaries); (ii) poor families in the *Cadastro Único*; and (iii) families who had fallen into poverty due to the pandemic (the “extra-cadastro”). The latter, about 32.8 million people, included informal and self-employed workers who lost earnings during the social distancing measures and who were not existing beneficiaries of the social protection system (Morgandi et al, 2021a).<sup>10</sup> The implementation of *Auxílio Emergencial* in Brazil was extensive enough to prevent 15 million people from falling into poverty.

**Auxílio Emergencial introduced many operational innovations that could be harnessed by the permanent social assistance programs in Brazil.** These include identifying beneficiaries who are not in the *Cadastro Único* through a mobile application, verifying the eligibility of beneficiaries through big data crossing, paying transfers into social digital accounts, enabling an automatic dispute mechanism, and collaboration between several branches of the federal government to deliver services. The experience

of *Auxílio Emergencial* showed that there are potential complementarities between the digital and in-person delivery of some social assistance services.<sup>11</sup> Digital accounts remain a permanent legacy of the program; the other innovations have recently been studied in a series of World Bank reports, have not yet been adopted but have the potential to increase the accuracy and efficiency of service delivery.

## 2.2 Brazil’s unresolved social challenges

**Brazil is entering the 2020s decade with unresolved socioeconomic issues.** Income poverty (along with related malnutrition and restricted agency), fragile and diminishing human capital, vulnerability to shocks, and social exclusion are limiting Brazil’s prospects for income growth, social cohesion, and labor productivity (World Bank, 2022b).

**Half of the workforce of 2040 is growing up in poverty today.** Children’s human capital is important for ensuring inclusion as well as for Brazil’s future prosperity. As Brazil’s demographic dividend is ending, the labor productivity of the future workforce needs to keep up with falling numbers of workers. However, nearly half (48 percent) of today’s children between the ages of 0 and 18, who will enter the labor market in 2040, live below the *Cadastro Único*’s poverty line, which is similar to the international poverty line of US\$5.5 per day in PPP, even after receiving the *Bolsa Família* transfer (PNADC, 2019).

**Individual and municipal poverty rates remain a strong predictor of lower human capital.** Wide disparities in human capital persist across regions, race, and genders in Brazil (see box 1). The low quality of education and the high rate of secondary school

8 Other measures included the suspension of monitoring of conditionalities in *Bolsa Família*, the delivery of a wide range of social protection services remotely instead of face to face, including the process of applying for unemployment insurance, and the suspension of obligatory updating and verification of the *Cadastro Único*.

9 One of the first responses to the COVID-19 crisis was the horizontal expansion of *Bolsa Família* that brought 1.22 million families into the program. The BESE and BEm programs were in place during the height of the crisis and enabled about 12.6 million employees to keep their jobs between March 2020 and August 2021. <https://www.gov.br/pt-br/noticias/trabalho-e-previdencia/2021/08/mais-de-tres-milhoes-de-acordos-entre-trabalhadores-e-empresas-foram-fechados-em-2021>, accessed on October 29, 2021.

10 Individuals automatically considered eligible for *Auxílio Emergencial* included 19.5 million people enrolled in the *Cadastro Único* who were *Bolsa Família* beneficiaries, 10.5 million individuals enrolled in the *Cadastro Único* who were not *Bolsa Família* beneficiaries, and 32.8 million people (out of 57.2 million who registered via app) in the extra-cadastro group. The first phase of *Auxílio Emergencial* provided a benefit about three times larger than *Bolsa Família*’s monthly benefit and about half of the minimum wage. The generosity of the benefit decreased, and the eligibility criteria became stricter from the first to the third phase. The number of beneficiaries fell by 40 percent between the first and the third waves of the pandemic, and the benefit value was reduced by 58 percent.

11 It was because of the country’s prior investments in the *Cadastro Único*, regularly updated through the widespread social services in the country, that *Auxílio Emergencial* was also able to capture traditionally vulnerable populations who are much less likely to have digital access (Lara De Arruda et al, 2022).

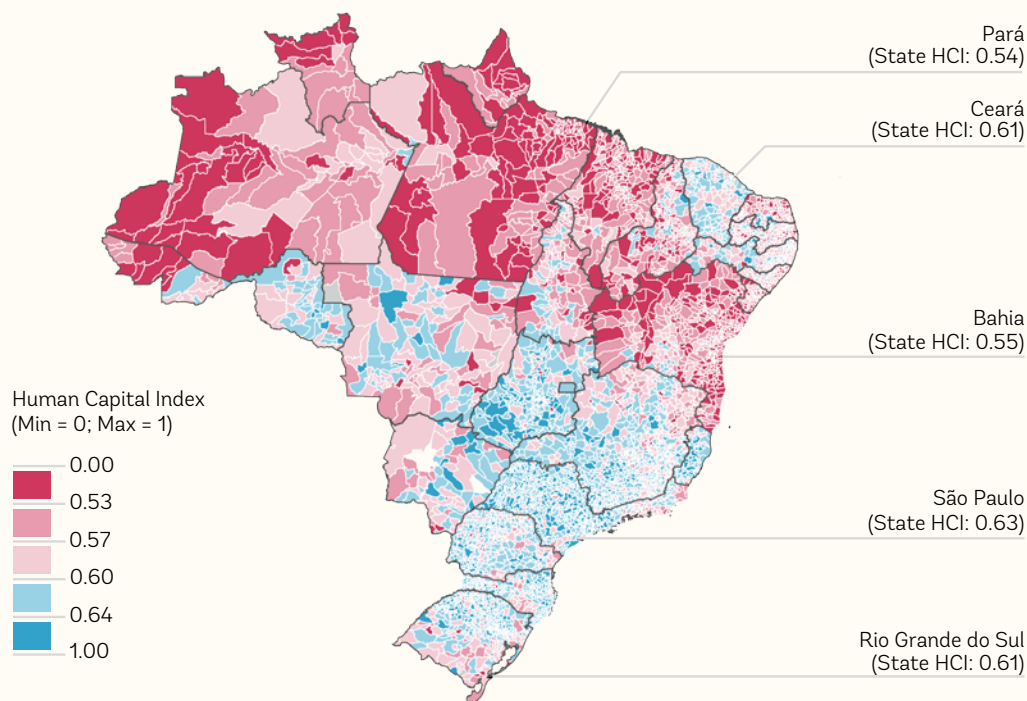
dropouts remain key constraints to achieving better and more equal human capital levels. Even before the pandemic, in 2019, only six out of ten 19-year-olds completed upper secondary (and even fewer completed it before this age). This rate is closely correlated with students' socioeconomic origin. In urban areas, the completion rate of lower secondary education is 80 percent, but in rural areas, it is only 67 percent. Many factors explain these differences: school disengagement, long distances between dwellings and secondary schools, teenage pregnancy, financial pressure, and distorted information about the value of completing education (Neri, 2009; BRAVA, 2017). The quality of education is also a challenge, with nearly all secondary students graduating with little proficiency in math. As can be seen in (figure 5) human capital outcomes are lowest in the North and Northeast regions.

**A lack of access to and the poor quality of early education contribute to Brazil's low human capital**

**levels.** The government adopted innovative policies to support children's cognitive and social development in their first 1,000 days, including the creation of the *Criança Feliz* program (PLAN-UNDP, 2020), but its coverage is spotty. Similarly, only 37 percent of children aged between 0 and 3 years old were enrolled in creches in 2019, and most of these being non-poor children. Even preschool enrollment, despite being mandatory, was not yet universal in 2019 and dropped significantly during the pandemic period.<sup>12</sup>

**Brazilians suffered severe human capital losses after the COVID-19 crisis.** Due to COVID-19, Brazil's preliminary score on the World Bank's Human Capital Index for 2020 dropped 5 points compared to 2019, which is equivalent to nearly 10 years of progress (figure 6). This was largely due to education losses as Brazil's schools, both public and private, have been closed longer than in any other country in the world (Azevedo et al, 2020). Projections estimate that

► **Figure 5. The geography of human capital in Brazil**

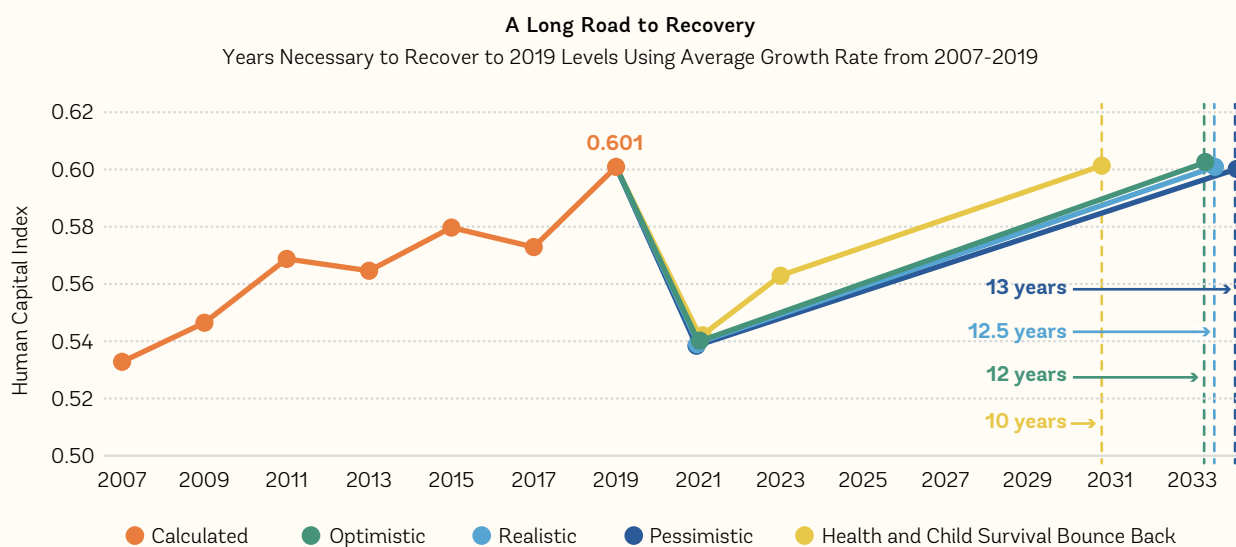


Source: World Bank 2022c, Brazil Human Capital Review, Human Capital Index (HCI) Brazil 2020.

<sup>12</sup> About 94.1 percent of children aged 4 to 5 years old were enrolled in preschool in 2019. <https://www.observatoriodopne.org.br/meta/educacao-infantil>, accessed on October 29, 2021.

“Due to learning and health losses, it will take at least 10 years for Brazil’s Human Capital Index to return to its pre-pandemic level.”

**Figure 6. Estimated impacts of COVID-19 pandemic on Brazil’s HCI score and the number of years necessary to recover to 2019 levels**



Source: Brazil Human Capital Review, HCI Brazil 2020.

Note: The estimation of number of years necessary to recover to 2019 levels used the average growth rates from 2007-2019.

learning poverty<sup>13</sup> in Latin America and the Caribbean (LAC) could still increase by between 51 and 67 percent, adding 10.8 million more children to the “learning poor,” while dropout rates could increase by 15 percent. There are also other consequences of the pandemic that are likely to have negatively affected learning but are less well-understood such as socioemotional impacts and the long-lasting effects of having to use distance learning over a long period of time. Moreover, the extent of the long-term damage to children’s health due to the underuse of health services during the pandemic, including immunizations, also remains to be seen.

**Workers with low levels of education have a much lower chance of getting a stable job that includes social protection and are more vulnerable to the impacts of labor market crises.** Working-age adults in poverty and

with low education rates are overrepresented among informal wage workers and the informal self-employed. In addition to being deprived of access to unemployment, accident, and disability insurance, informal workers have to deal with greater income volatility from month to month (Fietz et al, 2021). Even when not living in poverty, they face a high risk of falling into it with any single shock. Moreover, the widespread existence of informal employment means that new labor market entrants have fewer opportunities to develop skills, access training, and progress in stable careers in the formal sector. Having a low level of human capital also makes workers less resilient to crises. Recent research has also shown that, among laid-off formal workers, those with lower education take six more years to regain their pre-dismissal earnings than those who have more education (Silva et al, 2021).

13 Learning poverty is a combined measure of schooling deprivation and learning deprivation. <https://www.worldbank.org/en/topic/education/brief/what-is-learning-poverty>

## ► Box 1. Specific challenges faced by Afrodescendants in the labor market in Brazil

A recent assessment financed by the World Bank investigated the difficulties that Afrodescendant youths in Brazil experience in accessing the labor market using data from recent household surveys, the 2010 Brazil census, and qualitative interviews with youths. The study identified three key factors that drive this inequality of access. First, from an early age, Afrodescendants are at a disadvantage in terms of access to education and the quality of the schooling that they receive. The longer-term consequences of this are that most Afrodescendants end up in low-skilled jobs with fragile employment ties and low pay. Second, occupational segregation seems to cause white men, black men, white women, and black women to occupy specific niches in the Brazilian labor market. For example, 60.0 percent of informal sector workers are black, and more than a third (35.0 percent) are black men, whereas 45.0 percent of employers are white men. Among the unemployed, the inequalities of race and gender overlap, with 47.3 percent of black women being inactive and 8.9 percent being unemployed. Finally, discrimination is present in society and is reflected in wage differences between equally educated individuals of different races or genders with similar occupations.

Economic growth cycles can help to mitigate racial and gender inequalities in the labor market, but inequalities usually return in periods of economic stagnation, thus nullifying the gains made during years of economic growth. The study made some recommendations for making the labor market more inclusive and reducing inequalities: (i) recognizing the existence of inequalities as a first step towards building a more inclusive society; (ii) investing in research to identify the needs of minority groups, including Afrodescendants; (iii) equipping teachers with the skills to deal with racism and other forms of discrimination and reviewing school curriculum to build a safe environment in schools and promote inclusiveness among students; (iv) providing continuing education opportunities to youths and adults who were not able to access such opportunities in life; and (v) implementing affirmative action policies in schools and in the private sector and promoting mental health policies for Afrodescendants.

Source: World Bank, Afro-Cebrap and Instituto Peregum de Referência Negra (2022).

**Labor market inequalities also have an important racial dimension:** Afrodescendants, who account for more than half of the population in Brazil, are overrepresented among the unemployed, those working informally, and those out of the labor force (figure 7). A recent review conducted for the World Bank (see box 1) showed that these differences in labor market outcomes are not explained only by human capital attributes and that Brazilian jobseekers of color continue to be subject to wage and hiring discrimination, which keeps them in poverty, makes them feel discouraged, and prevents them from capitalizing on their investments in their education.

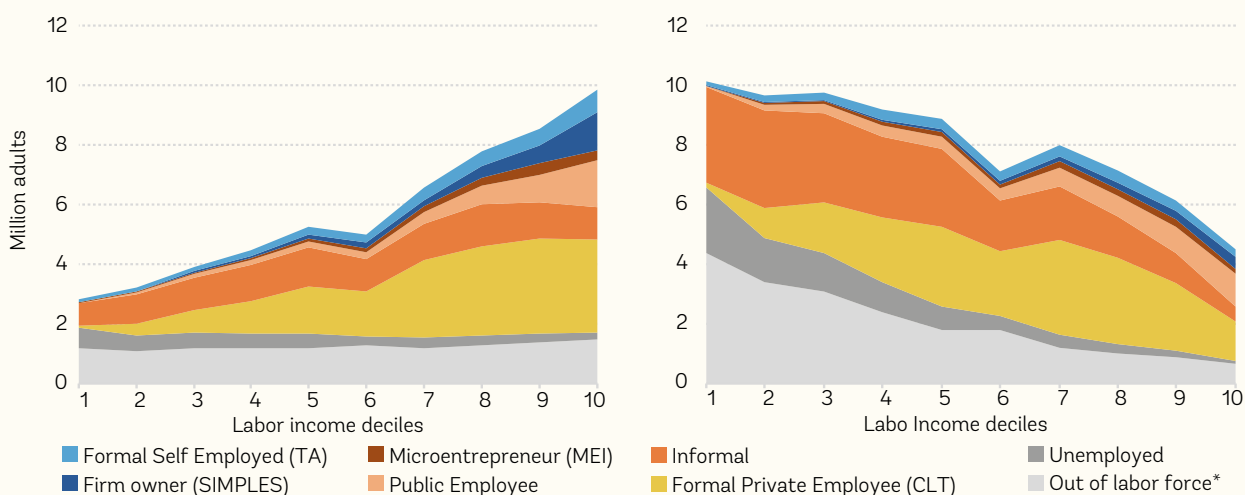
**Gender gaps also remain wide with women in the bottom half of the income distribution constituting the bulk of Brazil's adults who are out of work.** Despite girls having a higher level of human capital than boys, women are disproportionately represented

among those who are out of the labor force along the entire income distribution but particularly in the bottom five deciles (figure 8). The gender gap in labor force participation is as high as 20 percentage points among the poorest (those receiving *Bolsa Família* benefits) (figure 9).

**Family caretaking duties fall heavily on poor women, forcing them to stay out of the paid labor force** (figure 10). The absence of a “laziness effect” among the Brazilian poor, particularly among *Bolsa Família* beneficiaries, has been widely reported in the literature. Providing public or affordable childcare is key to enabling women to participate in the labor market and to take advantage of training opportunities. When individuals stay out of the labor force for long, their human capital depreciates fast, and hence the ability of these women to engage in productive work after their children have grown up also diminishes.

*“Labor market inequality have a strong racial dimension, with adults of other races than white overrepresented among the low-earners, the informal, the unemployed, and the out of labor force.”*

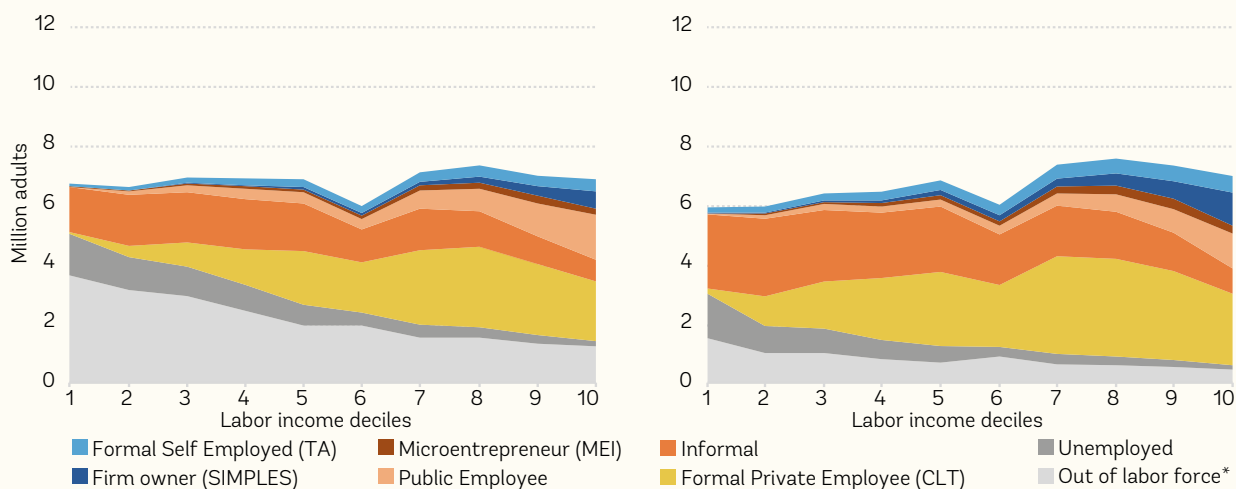
**Figure 7. Labor status of white adults (left) and non-white adults (right), by income deciles**



Source: The World Bank, based on BraSim 2019 microsimulation tool.

Note: Employment according to attributed formal and informal labor market status: Trabalhador Autônomo (TA)=formal self-employed; MEI=micro entrepreneur proprietor; SIMPLES=small firm proprietor; White race group is self-reported in PNAD Continua 2019. \*Individuals ages 18–46, not disabled body or not in education.

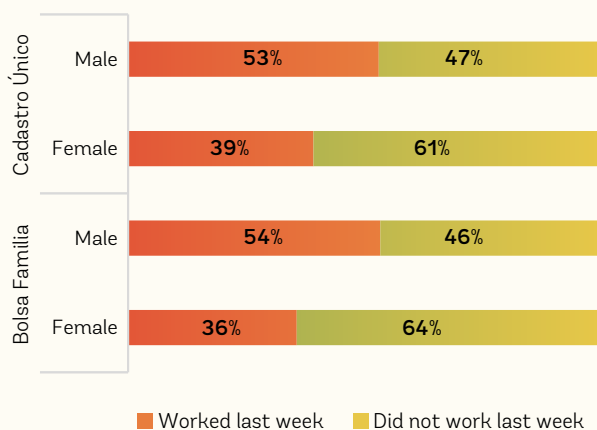
**Figure 8. Labor force status of women (left) and men (right), by per capita income deciles**



Source: The World Bank based on BraSim 2019 microsimulation tool.

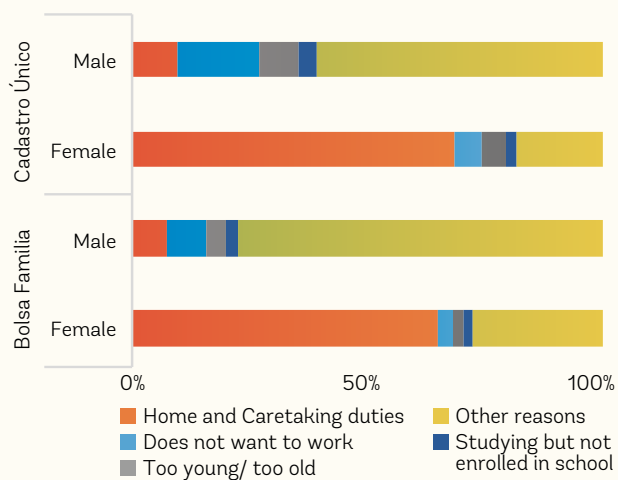
Note: Employment according to attributed formal and informal labor market status: TA=formal self-employed (trabalhador autônomo); MEI=micro entrepreneur proprietor; SIMPLES=small firm proprietor; CLT=formal wage employee. \*Individuals ages 18–46, not disabled body or not in education.

► **Figure 9. Labor profile of adults in Cadastro Único and Bolsa Família, by gender**



Source: Fietz and Lyrio 2021, based on Cadastro Único data.  
 Note: Individuals ages 18–46, not disabled body or not in education.

► **Figure 10. Reasons for being out of labor force among the poor, by gender**



Source: Fietz and Lyrio 2021, based on PNAD Continua 2019.  
 Note: Individuals ages 18–46, not disabled body or not in education.



# Global megatrends call for the renewal of Brazil's social protection system



## KEY MESSAGES

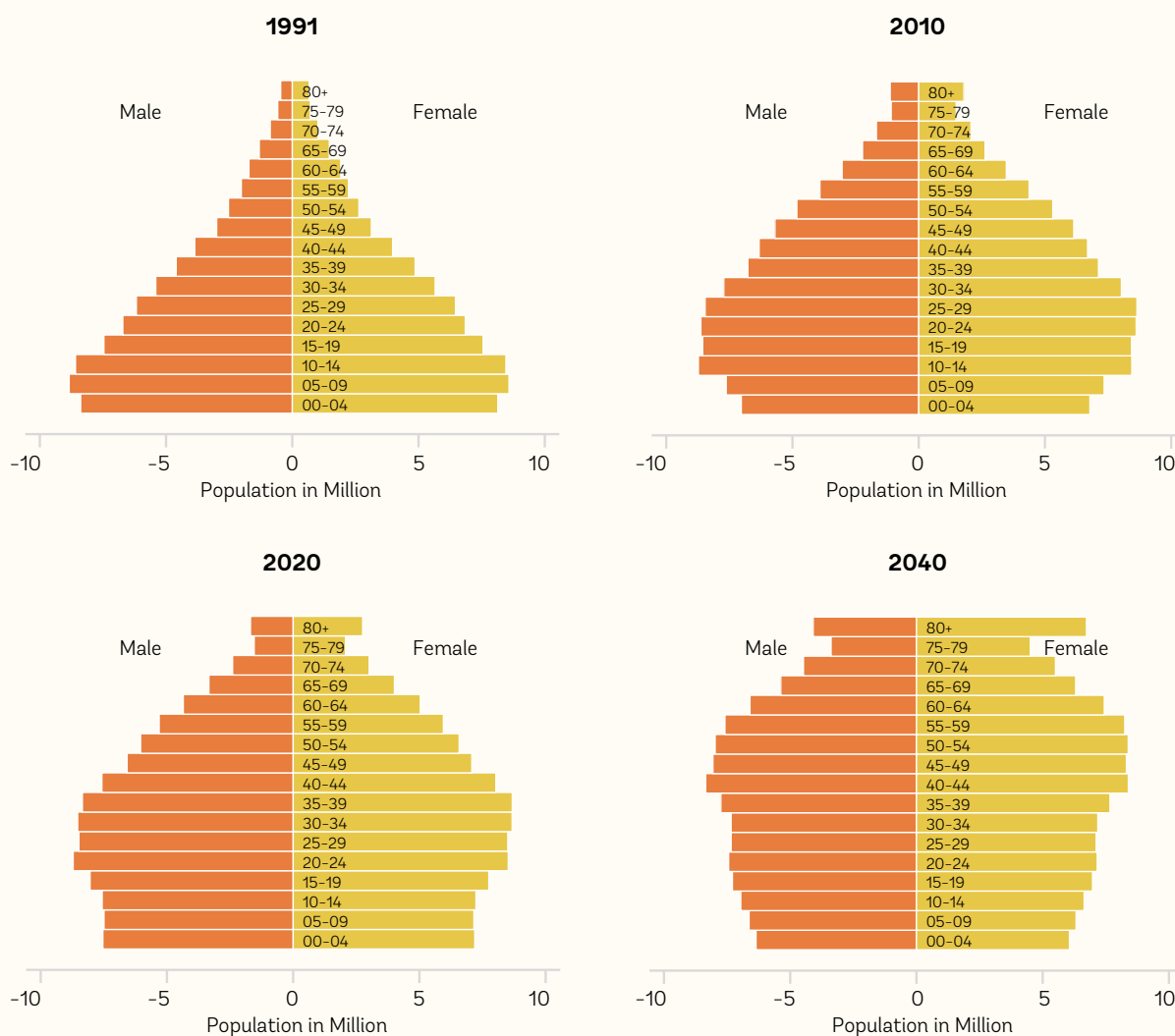
- Technological change, climate change, and demographic change will yield new ways of working and earning, while profoundly changing the ways in which we produce and consume.
- The fourth industrial revolution will change the geography of global manufacturing activity and reshape the nature of work and work relations. On the one hand, robotics and 3D printing may allow production to shift closer to the final consumer. On the other hand, high-skilled labor will be available globally through digital labor marketplaces, which will lead to new work relations that will be much shorter-lived (the taskification of work) and will be more complex with regard to taxation and social insurance coverage. Meanwhile, routine and manual work will become less in demand, which is likely to exacerbate existing inequalities in earnings and in the quality of jobs.
- Climate change will increase the risk and intensity of water scarcity and droughts in Brazil. Deforestation and rising temperatures alongside changing precipitation patterns will increase Brazil's energy demand and impact negatively its supply capacity (hydroelectric sector) and increase physical and human capital losses during natural disasters, such as landslides and floods.
- Decreasing fertility rates will reshape Brazil's labor market in the 2040s from a "youth bulge" to a "prime age bulge," which will constitute either an opportunity or a threat to increasing productivity. The outcome will depend on how prepared the labor force and the social protection system are. As most of the future workforce is being raised in poor families with limited human capital investments, Brazil will need to strengthen its adult education system. It will also need to prepare for increased pension spending and rising demand for old-age social assistance. The increasing old-age dependency ratio will also put more pressure on public elder care services.

**Brazil is destined to undergo several important transitions in the next two decades, which will reshape its population, the means of production, and, ultimately, consumption.**<sup>14</sup> Technological change, climate change, and demographic change will affect most of the population and, accelerated by the changes brought by the COVID-19 pandemic, will interact with new ways of working and earning. The profound changes in the way in which we produce will mean that Brazil's social protection will need to be adapted to address the vulnerabilities arising from these new types of work relations and the greater volatility of income associated with them.

### 3.1 Demographic change

**Brazil's declining fertility rate will change its labor market demographics by reducing the number of young and prime age workers.** The number of births has been sharply decreasing since the 2010s, and the national demography of the last decade has been marked by a disproportionate share of young adults followed by a much smaller cohort of children. This oversized youth cohort will be entering prime age in the next two decades, while, because of the increase in life expectancy, there will be a concomitant rise in the numbers of elderly, especially women (figure 11). By

► **Figure 11. Population pyramids in 1991, 2010, 2020, and 2040**

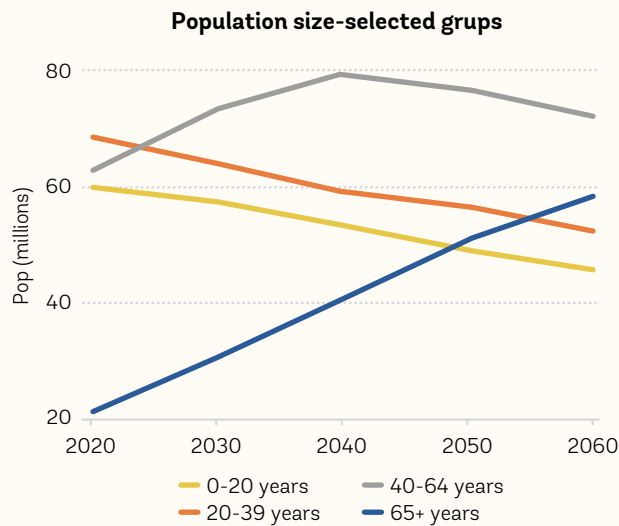


Source: Staff estimations using Census and IBGE population projections.

14 This chapter draws from the World Bank's flagship report "Alternative futures for Brazil" (World Bank, Forthcoming).

2040, the young cohort is projected to represent just 12 percent of the population, but the prime age cohort (those aged 40 to 65) should be close to 34 percent (figure 12).

► **Figure 12. Estimates of population size by age group in Brazil 2020-2060**



Source: United Nations Statistics for Brazil.

**Young adults who are already in today's labor force will constitute most of the workers in 2040, and 40 percent of them have not completed secondary education** (see figure 13). Many of these older workers will need to navigate an increasingly sophisticated labor market with no secondary education and limited foundational skills. Young adults who are poor have even lower educational attainment than their peers, with one-third of them having failed to complete primary education.

**Public education and training policies will need to cater to the large cohort of prime age workers who lack the foundational and technical skills that will be needed in a more sophisticated labor market.** Skills-biased inequality in employment and wages will likely widen in the future as demand for routine and manual tasks falls and demand for cognitive and abstract skills increases. Recent reviews have shown that this is also happening in developing countries, just at a slower pace. However, most Brazilian workers in 2040 are already in school now so would not be affected by any reforms that might take place in the traditional educational system in the next few years. Therefore, it will be necessary to establish institutions designed to help the adult workforce learn new skills during the

course of their working lives. It will also be essential to offer them some sort of incentives, as the propensity to participate in training is currently very low among workers with less than a secondary education (figure 14).

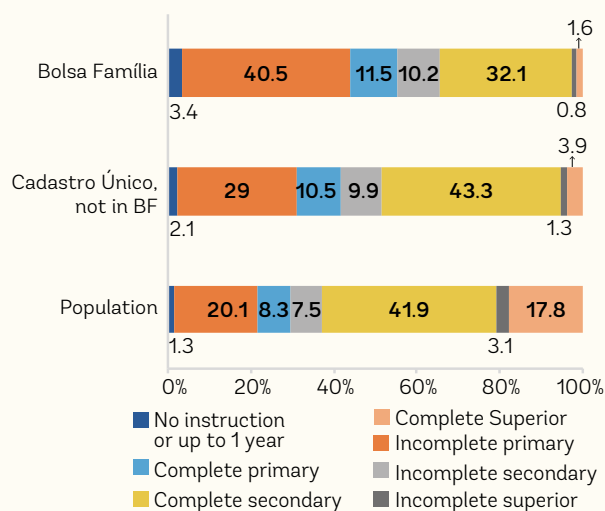
**Overall, the school age population will decrease, though not necessarily the number of students.** With the demographic transition, the number of children will continue to fall, and available spending per child is likely to increase. This increase in resources would be a golden opportunity to expand the coverage of early childhood education and upper secondary school and to increase access to tertiary degrees. Specific policies, including social protection policies, will be essential to stimulate the demand for educational and ensure effective provision to the poor.

**Imbalances in adult populations across states may draw more workers from poorer to wealthier states.**

There are wide disparities in demographics between states in Brazil, with significantly more children living in the north and northeast regions than elsewhere. Dependency ratios are projected to increase at an unequal pace by 2040, with states in the south and southeast reaching above 0.7, the 2020 average for high-income countries (HICs), while in the northern region, dependency ratios are likely to fall. In states with high dependency ratios, the time that working-age adults will have to spend on taking care of children and the elderly will increase. A higher proportion of national pension spending will also shift to the south and southeast, thus creating a regressive redistribution of national resources from poorer to richer states. This set of factors is likely to give workers an incentive to move to more labor-constrained but wealthier regions.

**Finally, aging will put additional pressures on several areas of public spending, especially on pensions, which will necessitate a renegotiation of benefit rules and eligibility criteria.** As the proportion of older people grows, government spending on pensions and other public services, such as health care and elder care, is expected to increase as a share of GDP. Social assistance expenditures may also increase to protect those older people who are unable to access social insurance pensions, particularly given the stricter rules brought by the 2019 pension reform. Further pension reforms and improvements in health care administration may reduce the pace at which expenditures in these areas will increase over the next decades, but in the most likely scenarios, spending will continue to increase.

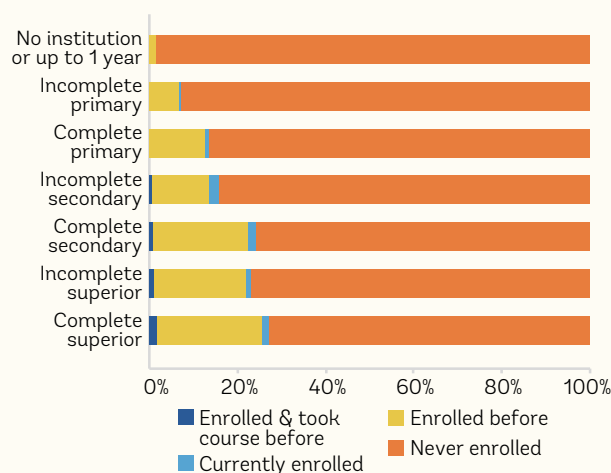
► **Figure 13. Education level of 70% of the labor force in 2040, already of working age today**



Source: PNADC 2019.

Note: Sample of individuals ages 18–46 in 2019, who are projected to constitute 70% of the working age population in 2040.

► **Figure 14. Share of adults that ever received some form of training besides formal education**



Source: PNADC 2019.

Note: Individuals ages 18–46, with no disabilities and not in education.

## 3.2 Technological change and the new world of work

**Technological progress will change the geography of global manufacturing activity as well as the nature of work for many Brazilians.** The Internet of Things (IoT), robotics, and 3-D printing will reduce the costs of coordinating the globally fragmented production of manufactured goods and make it easier to track and monitor components as they move through the supply chain. Advanced robotics will reduce labor-intensive manufacturing and potentially bring production closer to the final consumer. 3-D printing can meet the demand for customized, quickly delivered goods with minimal input of manual labor (Nayyar et al, 2021a and ILO, 2019). Brazil will need to accelerate the adoption of these technologies to catch up with the living standards in other parts of the world.

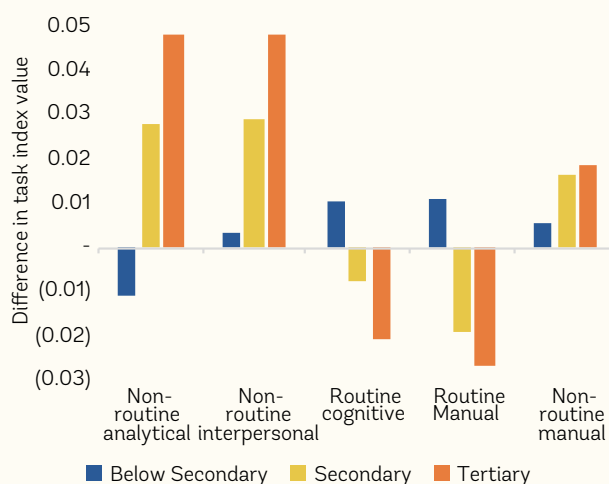
**The global literature has warned about the negative effects of automation on employment and wage inequality.** Over the last two decades, in developed countries, employment and wages in occupations with high content of routine tasks fell markedly, probably due to technological substitution. These trends are a

concern given the lack of skills possessed by so many in Brazil's labor force. Past studies of the effects of Brazil's adoption of digital technology have found that it has had a range of different impacts on employment. In general, low-skilled workers may benefit from the expansion of firms via internet services (e.g. platforms for simple tasks) but are more likely to lose their jobs.<sup>15</sup> Higher-skilled workers tend to benefit from the introduction of new technology that complements their skills. In fact, survey data show that Brazilians perceive automation as both a risk and an opportunity, with much more negative perceptions being held by those with lower education levels (IPSOS, 2019).

**Workers in occupations that mostly involve routine and manual tasks in Brazil are more likely than others to be negatively affected by changes induced by automation.** These negative effects typically include reduced labor demand and subdued wage growth. Data for Brazil have shown a steep decline in the availability of routine work in Brazil and an upward trend in the growth of non-routine analytical type of jobs (figure 15 and figure 16). Also, recent causal evidence shows that, even when controlling for education and age, after a company closes, displaced workers in occupations characterized

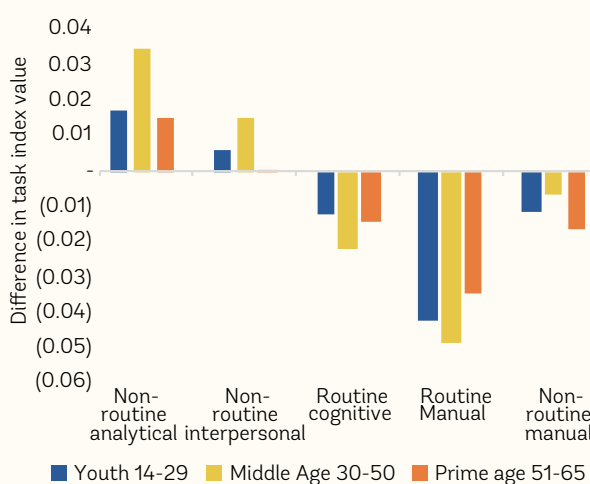
<sup>15</sup> For instance, rising internet penetration in Brazil was found to lead to lower employment for low-skilled workers performing manual tasks (Corseuil et al, 2018) but not by as much as in other countries in LAC. The authors suggest that the policy environment (such as labor regulations or wage rigidities) can foster a new optimal technology-workers mix within businesses.

► **Figure 15. Changes in average task content of occupations, by education level (2012-2020)**



Source: Alternative Futures for Brazil Flagship Report (Forthcoming).

► **Figure 16. Changes in average task content of occupations, by age group (2012-2020)**



Source: Alternative Futures for Brazil Flagship Report (Forthcoming).

by mostly routine tasks are more vulnerable to long-term wage loss and higher unemployment spells than those in occupations characterized by non-routine tasks (Martins-Neto, 2021).

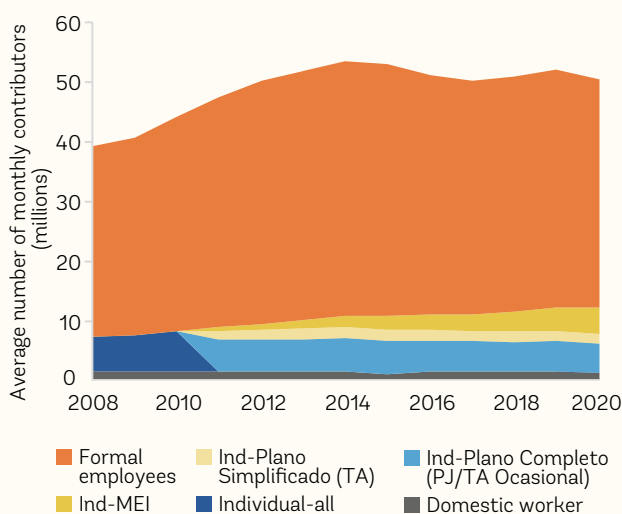
**The pandemic also boosted demand for digitally provided goods and services and broadened the range of jobs provided via the internet, though these still constitute a small share of employment in Brazil.** Online platforms provide smaller companies with unique opportunities to trade their goods and services both locally and internationally. They also give individuals the chance to find and perform work on the internet. This is known as platform work, in which the online forum connects remote workers with businesses who have need of short-term freelance workers to do piecemeal or assignment-based work. These so-called microtasks tend to be small jobs that require a low level of skill, take minimal time to complete, and yield minimal remuneration. Estimates show that COVID-related lockdowns led to a 50 percent increase in the use of platform work in LAC in March 2020 and that downloads of microtasks and freelance platforms increased by 30 percent in the first quarter of 2020. However, the platform worker population has been estimated to be less than 3 percent of the global labor force (Packard et al, 2019) and only about 1 percent in LAC. Little is known about the welfare effects of platform work in Brazil. In Brazil, platform work has

been associated with closing gender wage differentials in local labor markets (Vieira et al, 2021) and might also help to reduce race-based discrimination against specific workers, which is still highly prevalent in Brazil.

**These changes are occurring in the context of rising labor market duality in Brazil's formal sector, with the formal self-employed being subject to lower taxes but receiving fewer protections.** In 2006, the government introduced the simplified tax regime for firms (SIMPLES) and allowed self-employed workers to register as an MEI (individual microentrepreneur) and thus contribute to social insurance and become eligible for pension and disability benefits. These moves were an attempt to reduce the complexities involved in the formal sector, while avoiding the need for comprehensive changes to the tax and labor code. Under these simplified regimes, offering services as an independent worker or firm became far less costly than through the traditional dependent employment. However, MEI workers are ineligible for unemployment or accident insurance. In 2017, the use of non-dependent workers was further liberalized by the removal of restrictions preventing businesses from outsourcing.<sup>16</sup> As a result of these economic and regulatory changes, over the last 10 years there has been a steady rise in the share of formal jobs occupied by the formal self-employed (figure 18). The number of registered MEIs rose tenfold, from half a million in 2011

16 Law 13,467 of July 13, 2017.

► **Figure 17. Contributors to social insurance, by type of plan (2008–2020)**

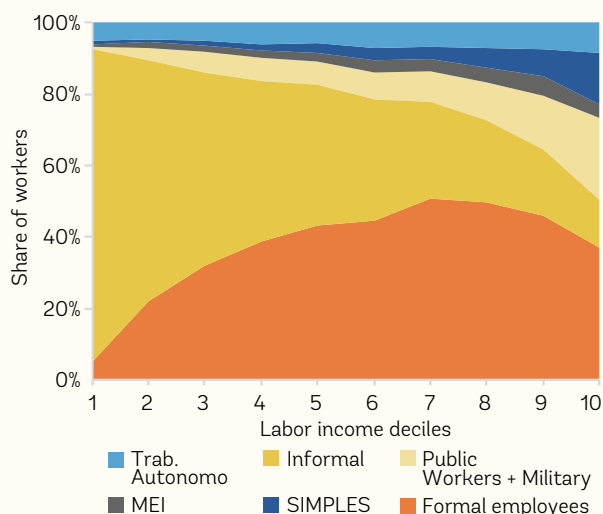


Source: Statistical Yearbook of Social Security, Ministry of Labor (several years).

to 5.4 million in 2020. These formal self-employed, in part, have replaced the formal dependent workers displaced by labor market shocks in 2015 and after the 2020 COVID-19 crisis.<sup>17</sup>

**The phenomenon of pejetização is likely to keep growing, enabled by technological change, and presents a problem for the sustainability of social protection financing.** Evidence on the first waves of MEI registrations over the past decade show that the MEI policy was successful in formalizing many previous 'invisible' workers (Hsu Rocha and De Farias, 2021). At the same time, by allowing contributors to declare up to five minimum wages in gross earnings per month with minimal levels of social contributions, the MEI regime over time also served as a convenient tax loophole for professionals in the middle class. Evidence from imputations from the Continuous National Household Sample Survey (PNADC) suggests that MEI contributors are today overrepresented among medium- and upper-income earners (figure 17). Platform-based work and internet-based outsourcing will likely fuel this process further, especially given that the Brazilian judges have already clarified the contentious issue that platform workers are not dependent employees under the labor

► **Figure 18. Distribution of workers by forms of work and labor income deciles (2019)**



Source: PNADC 2019.

code.<sup>18</sup> A new startup law, sanctioned by the Congress, further expanded the MEI regime by raising the maximum revenue allowed.<sup>19</sup>

**As informality is not expected to disappear in the future, the discussion should shift to how to better cover individuals in the context of technological and structural changes in work relations.** As in many developing countries, few working-age adults in the informal sector in Brazil are protected by the social protection system. Informality is likely to grow as it is the main way in which workers adjust to labor market shocks when jobs are lost in the formal sector. Moreover, young people are increasingly preferring to take advantage of digital work opportunities and platform freelance jobs than doing wage work within a rigid contract, so the main challenge is to ensure that even such forms of work provide workers with fundamental labor protections and social insurance.

### 3.2 Climate change

**There is a growing literature documenting the effects of climate change on livelihoods in both urban and rural areas in Brazil.** Studies have found that climate

17 Complementary Law 182 of July 1, 2021.

18 <https://www.gov.br/casacivil/pt-br/assuntos/noticias/2021/marco/em-2020-numero-de-meis-teve-um-aumento-de-8-4>, accessed on December 13, 2021. In 2022, the number is expected to increase further, given the increase in the ceiling of revenues for small entrepreneurs who wish to contribute in this subsidized category.

19 Complementary law 182 of June 1, 2021.

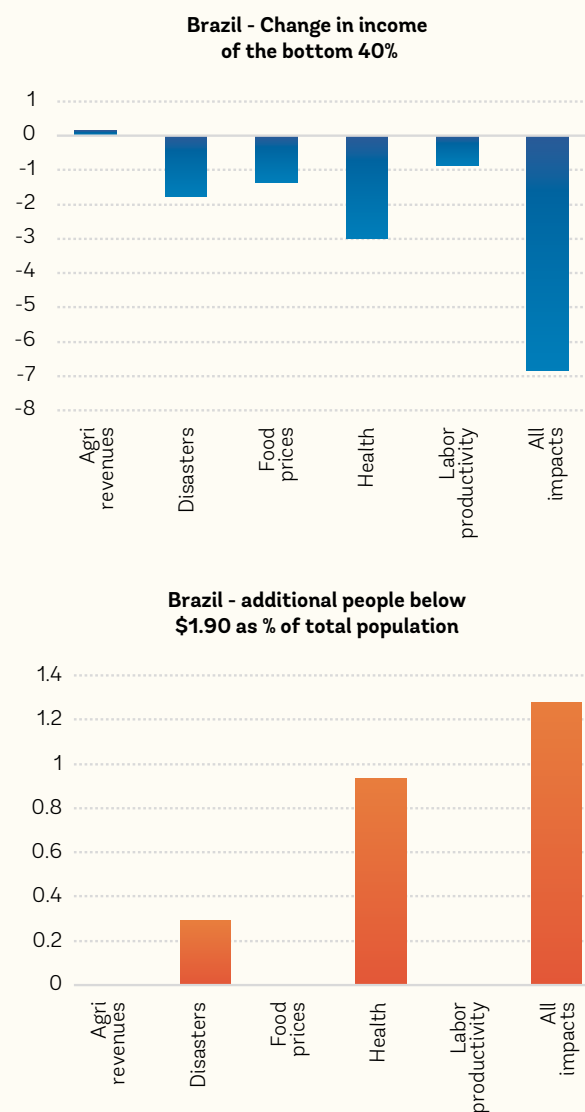
change in the form of both heatwaves and rainfall have negative effects on productivity, labor markets, and human capital accumulation. Disasters such as landslides and flooding are the cause of 87 percent of disaster-related deaths in south and southeast Brazil (Pedroso, 2021). About 13 percent of the Brazilian semiarid region (northeast and north of Minas Gerais) is considered to be in an advanced stage of desertification. The southeastern Legal Amazon faces the greatest risk of climate-related changes (including Mato Grosso, one of the heartlands of soy production in Brazil), with rainfall projected to decrease by nearly 20 percent and temperature increases anticipated to be the most severe in the area.

**Climate-related disasters like droughts, floods, and landslides will continue to disproportionately affect low-income households.** These households tend to be located in informal urban settlements with poor infrastructure located in higher-risk areas (such as steep slopes, creeks, and low-lying plateaus in urban centers) and are starkly exposed to natural hazards like floods and landslides. More than two-thirds (69 percent) of households in these communities have household per capita incomes of less than one minimum wage (Cunha et al, 2018). Based on a high-impact scenario, it is predicted that increased health spending due to climate change will push an additional 1.3 percent of the population below the US\$1.9 poverty line by 2030 (figure 19).

**Low savings and high discount rates limit households' resilience to the multiple shocks of the future and their ability to plan.** Financial instruments like savings, credit, and microinsurance could help the poor navigate through shocks without depleting their assets or permanently damaging their human capital (World Bank, 2021b). However, few of the poor in Brazil have sufficient savings or access to affordable credit and are therefore often unable to raise money in an emergency (figure 20). Also, although many Brazilians frequently lose assets in floods and landslides, it is rare for the poor to have any insurance due to their lack of financial education and a lack of incentives for the private market to serve these potential clients.

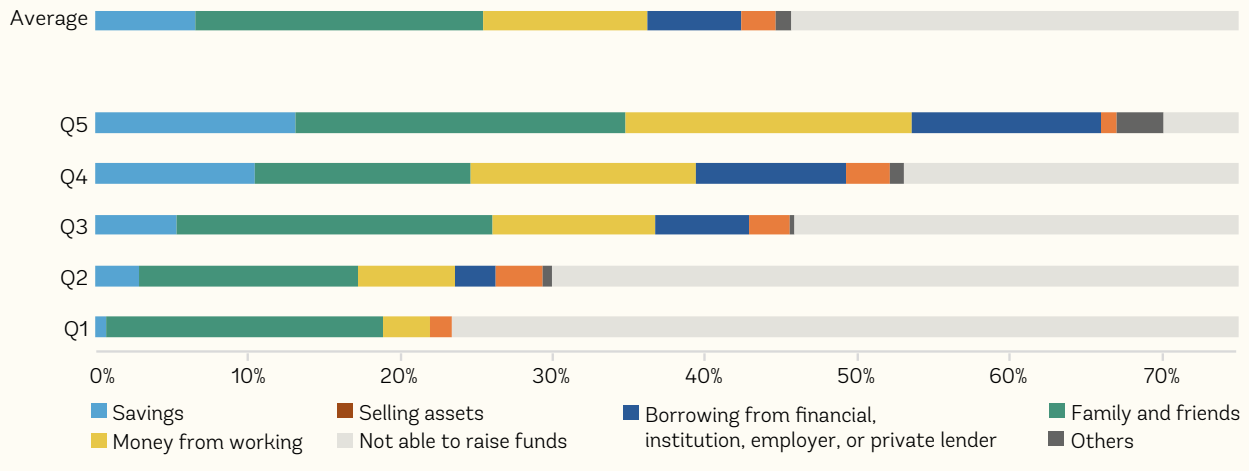
*“Climate-related disasters and health spending are projected to push an additional 1.3 percent of the Brazilian population to extreme poverty (US\$1.9 PPP per day) by 2030”*

**Figure 19. Estimated impact of climate change on income for the bottom 40% and on extreme poverty in Brazil, high-impact scenario**



Source: Jafino et al (2020).

► **Figure 20. Ability of Brazilian adults to raise funds in an emergency, by income quintile**



Source: World Bank (2021b).

Note: Ability reported by individuals through an objective survey.

**In addition, global and domestic climate policies will likely force Brazil into a ‘green jobs’ transition, requiring its workers to adapt in order to survive.**

Reaching net-zero emissions and transitioning to a green economy often raise the concerns about job losses. This transition is not expected to be overly disruptive in Brazil thanks to its already relatively clean and renewable energy matrix.<sup>20</sup> However, for Brazil to remain competitive in global markets, resources and investments will need to shift towards relatively low-emission sectors.<sup>21</sup> This transition is likely to have long-term negative impacts on workers in “brown” jobs in such industries as fossil fuels.<sup>22</sup> As always, the risk of becoming unemployed is higher for vulnerable people with lower education and less capacity to learn a new occupation. The ability to switch from brown to green or neutral sectors depends on several factors, including

differences between the skills need in the old and the new occupations and geographical locations of the jobs in question. An analysis conducted by Mealy and Teytelboym (2022) suggests that there is some potential in Brazilian green sectors such as wind, hydroelectricity and solar power to absorb workers from brown sectors based on their skills and occupational proximity. However, there can be huge differences in the transferability of the different skills used within a single sector. Geography is another determinant of whether the transition between brown and green sectors will be smooth. Workers in the coal mining industry have skills that would allow them to easily switch to green mineral sectors (such as the extraction of graphite). However, in this instance, that may depend on where the new jobs are located and whether it would be possible for the ex-coal miner to relocate elsewhere if necessary.

20 Renewables account for roughly 48 percent of the Brazilian energy matrix and over 80 percent of its power matrix.

21 World Bank’s Brazil Climate Change Development Report (World Bank, forthcoming).

22 This analysis draws from the World Bank’s Brazil Climate Change Development Report (World Bank, forthcoming).

# Assessing the performance of social protection to enhance equity, opportunity and resilience



## KEY MESSAGES

The chapter evaluates the ability of Brazil's social protection system to protect and promote human capital through four analytical lenses:

### **Equity:**

- Poverty and income inequality remain high.
- Public expenditures are not progressive, and financing is not fairly distributed across society.
- The social protection benefits received by those in the poorest quintile are lower than those received by the richest quintile.

### **Opportunity for the present and the future labor force:**

- Most social protection programs are not designed to promote labor productivity or human capital.
- Skills and labor market programs are largely focused on formal workers, while economic inclusion programs were pathbreaking but have mostly expired.
- Some of the CCT's recent innovations could improve human capital outcomes but remain to be implemented.

### **Resilience:**

- Informal workers have more volatile incomes but have less access to protection.
- Generous but short-term unemployment programs provides hardly any protection to vulnerable workers, even if formal.
- Social protection programs need to be designed to ensure a timely response to climate shocks.
- The tax-benefit system is only mildly redistributive when accounting for tax exemptions, implicit subsidies, and indirect taxes.
- The pension system is highly regressive and generous.

### **Efficiency and Sustainability:**

- There are too many overlaps across programs.
- Pension spending is not fiscally sustainable.
- Programs need to adopt the innovative delivery mechanisms used in the COVID-19 Auxílio Emergencial program.

## 4.1 The Equity, Opportunity, Resilience, and Sustainability Framework for Social Protection

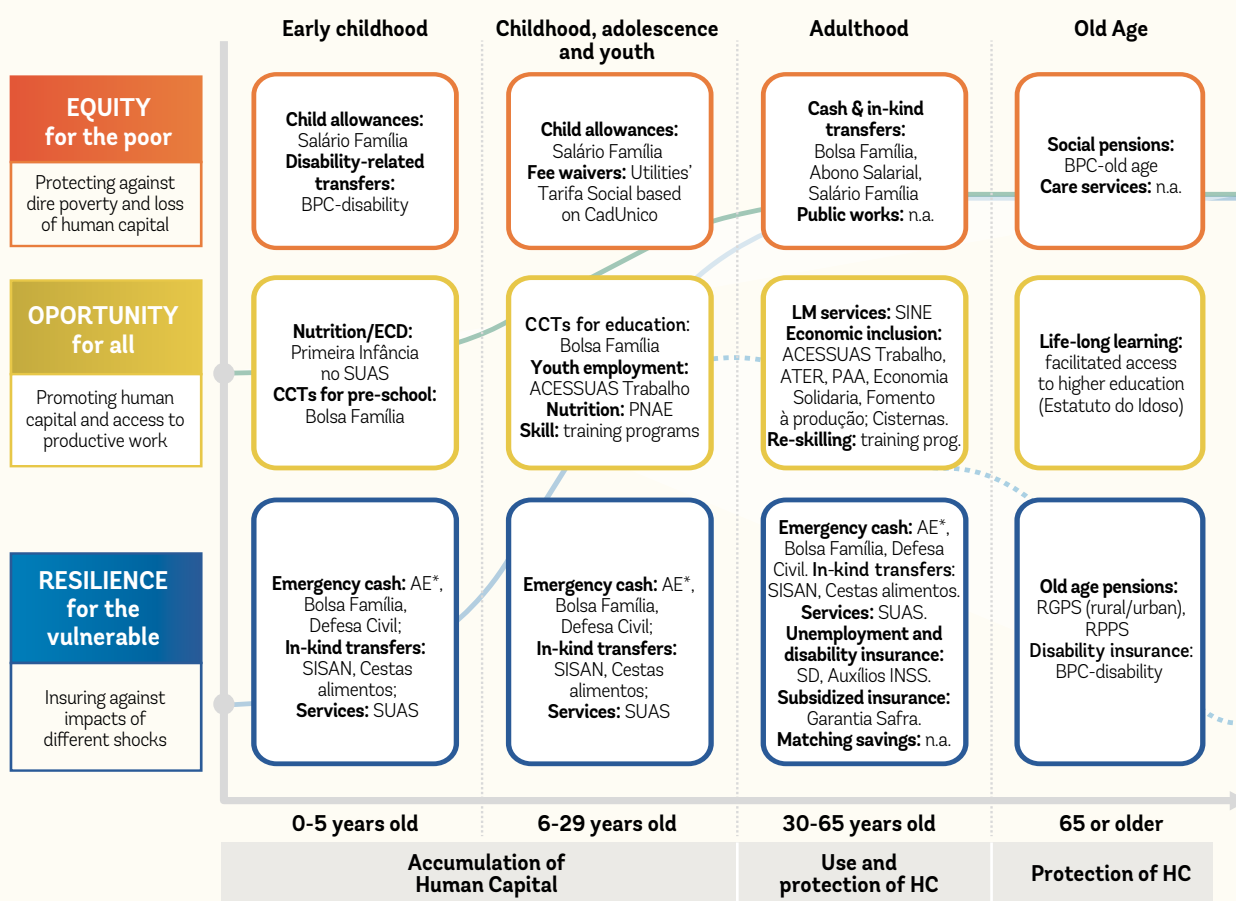
This note takes a four-pronged approach to assessing the ability and capacity of Brazil’s social protection system to protect and promote the human capital of its population. The World Bank recently launched an update to its Social Protection strategy (World Bank 2022a, World Bank 2012) that defined systems in terms of their ability to promote resilience, opportunity, and equity (ROE) throughout the lifecycle. In this note, we build on this framework by adding a fourth goal of efficiency and sustainability, which is an essential element in the context of fiscal constraints and of Brazil’s already large social protection and labor system. The four elements can be described as follows:

- **Equity** refers to the ability of the system to protect the population against poverty and against loss of human capital. It covers both inadequate

accumulation and depletion of human capital as a result of different shocks. A social protection system can be considered to be fostering equity if: (i) its programs provide sufficient protection for the poor and (ii) social protection financing is fairly distributed across society, and public expenditures are progressive.

- **Opportunity** refers to the ability of the system to promote the accumulation of human capital and provide productive work for all. Promoting opportunity for all requires using resources to enhance labor productivity and human capital accumulation. It also involves trying to balance contributions and rewards for all groups in society and providing individuals with ways to protect their human capital and to access productive work.
- **Resilience** refers to the ability of the system to insure the vulnerable against the impact of different shocks. A social protection system that promotes resilience is capable of insuring

► Figure 21. Brazilian Social Protection and Labor policy interventions for human capital accumulation throughout the lifecycle



Source: Adapted from Resilience, Equity, and Opportunity: The World Bank Social Protection and Labor Strategy 2012–2022.  
Note: \*Auxílio Emergencial (AE) was a temporary response to the COVID-19 crisis; the program was discontinued in 2021.

individuals from present and future risks over their entire lifecycle. It also guarantees access to social protection regardless of the family's formal or informal working status.

- **Finally, the efficiency and sustainability of a social protection system is related to three essential characteristics:** (i) it has few overlaps between programs; (ii) it delivers benefits and services effectively and efficiently to the intended population; and (iii) its expenditures and financing are fiscally sustainable.

**The Brazilian social protection system has all of these characteristics up to a point as can be seen in figure 21.** Nonetheless, in this chapter, we highlight some of its important imbalances and deficiencies, which will need to be reformed in order to ensure that the system remains relevant and efficacious in the coming decades.

## 4.2 Equity: Is social protection supporting those most in need across the lifecycle?

**Equity relates to the ability of Brazil's social protection system to provide the population with sufficient protection against poverty and loss of human capital throughout the lifecycle.** This section evaluates each major program in terms of its coverage, benefit adequacy, and progressivity. The analysis largely relied on the microsimulation tool (BraSim) of Brazilian tax and benefits. This allows to simulate the theoretical incidence of fiscal policies on households across the income distribution, even those not directly reported in household survey. Total program expenditures in this note were classified by function using the World Bank's taxonomy in the Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE). Box 2 discusses the various tools used in this note.

### ► Box 2. Analytical approaches used to analyze the Brazilian social protection system in this Note

#### ASPIRE

The Atlas of Social Protection: Indicators of Resilience and Equity (ASPIRE) is a database of expenditure and incidence indicators for social protection programs. As of 2022, ASPIRE encompasses information for approximately 140 countries and more than 3,000 programs, including Brazil. This note adopted the ASPIRE taxonomy to categorize federal social protection expenditures, which are derived from federal budget data. Data collected includes information about program design, executed expenditures and beneficiary numbers from 2010 to 2020.

#### BraSim

BraSim is a microsimulation tool developed by the World Bank Poverty and Equity team, designed to estimate the distributional impacts of fiscal policies. The tool works on a synthetic population, based on household survey data, the PNAD Contínua (PNADC) 2019 annual survey, that represents the entire distribution of households in Brazil. The tool applies the rules of each federal tax and transfer program on each synthetic family according to their demographic and employment characteristics. BraSim allows to identify the incidence of direct and indirect taxes, social insurance contributions by employers and workers, formal pensions, as well as Bolsa Família, the BPC, rural pensions, Abono Salarial, and Salário Família. The tool also allows users to model partial equilibrium distributional implications of changes to tax and benefit policies, while it does not model behavioral responses or consider general equilibrium implications. A key caveat is that the tax benefit system is reproduced in BraSim (and similar models) under an assumption of perfect implementation, and as such the analysis is particularly useful to evaluate design rather than program performance. The results differ from incidence analysis that is based on reported receipt of specific transfer in the same household survey.

#### Brasil De Jure Model

BraJure is a tax-benefit model tool developed by the World Bank Social Protection and Jobs team and built upon the BraSim tool, designed to simulate the impacts on the disposable income of families of

## ► Box 2. continue

changes in employee and employer contributions, taxes, as well as benefit entitlements, for different forms of formal work types (dependent, self-employed, MEI, and others) in Brazil. The tool allows to set a family type composed of one to four members, for instance being two adults and two children, given that one adult is employed in the formal sector, and simulates the family disposable income at each salary unit increase.

### PROST

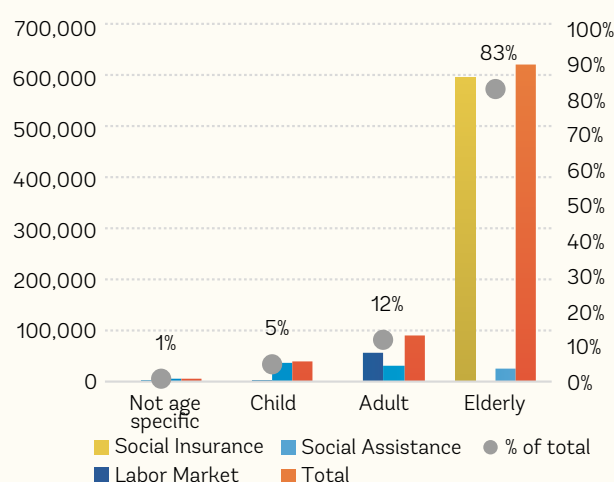
Pension Reform Options Simulation Toolkit (PROST) is a proprietary World Bank software. It is a deterministic generic model that has been used to model long term pension system outcomes in over 100 countries around the world. The model uses age-specific data on pension system participants and exogenous user-determined assumptions on future evolution of economic variables, behaviors of pension scheme participants, and changes in pension scheme parameters.

## Coverage of the Social Protection System

**Historically, Brazil's social protection system has not protected all poor people equally well throughout the lifecycle.** Figure 22 shows the distribution of programs according to the primary age group of its target beneficiaries. While the social protection system has developed programs for all age groups, when aggregated, most federal social protection spending is allocated to programs that directly target the

elderly (83 percent in 2019). This is similar to spending patterns in the much "older" economies of the OECD. Because children and young people receive fewer or no benefits, they are overrepresented in the bottom quintile of Brazil's income distribution (figure 23), while old-age poverty is rare. Programs for the elderly also tend to be provided in a stable way over time, in the form of permanent pensions, while the value of benefits and services targeted to children and youth tends to fluctuate over the years.

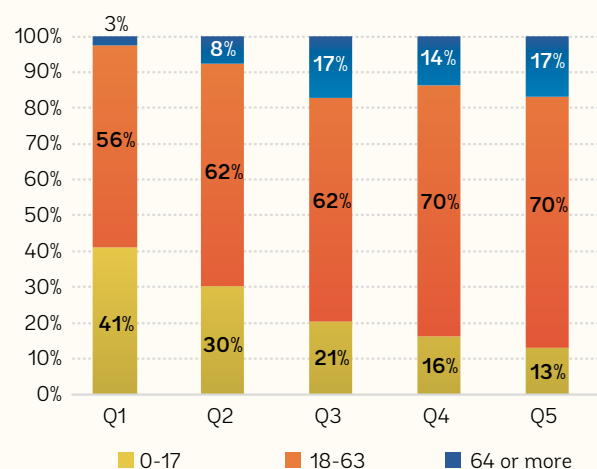
► **Figure 22. Social insurance, labor market, and social assistance expenditure throughout the lifecycle in Brazil (2019)**



Source: The World Bank using expenditure data from Portal da Transparência, 2019.

Note: Includes SA, SI, and LM programs, classified by the authors according to main target-age groups. Bolsa Família is classified as SA-child, SUAS and housing policies are classified as SA-all, Salário Família is LM-child.

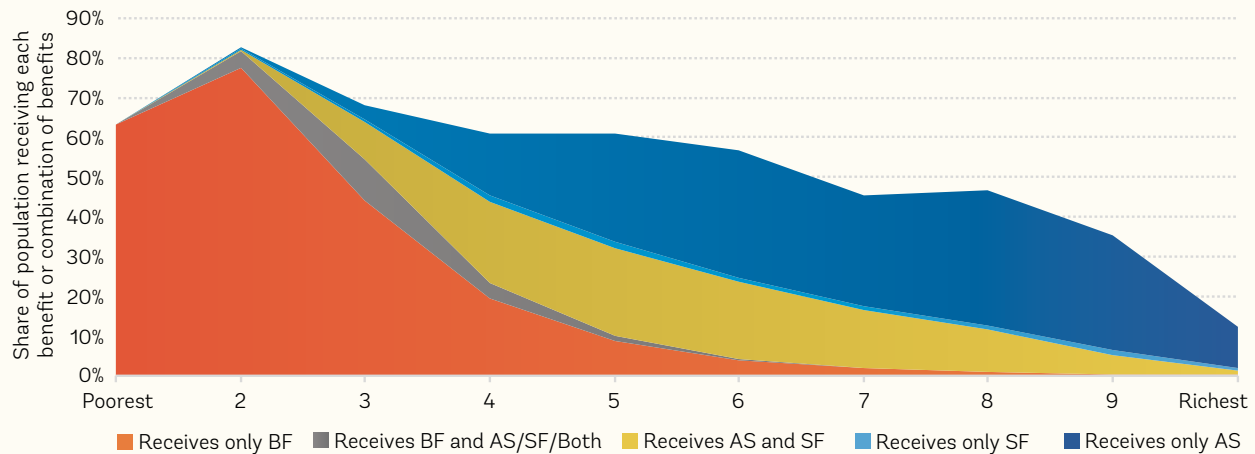
► **Figure 23. Distribution of population, by age groups and income quintiles**



Source: PNADC 2019.

“Due to their design, the CCT Bolsa Família, and the wage supplements Salário Família and Abono Salarial reach Brazilian families across the entire income distribution.”

**Figure 24. Simulated distribution of benefits, by family income deciles**



Source: The World Bank's BraJure simulation model.

Note: Family composed of two adults, two children (between 3 and 21 years old). BF – Bolsa Família, AS – Abono Salarial, SF – Salário Família.

**Cash benefits are provided to working families across a broad spectrum of the income distribution.** Working families across most of the income distribution receive cash from several programs including (in 2019) *Bolsa Família*, *Salário Família*, and *Abono Salarial* (see figure 24). These programs have different objectives and designs, with many overlaps and exclusion errors. For instance, *Abono Salarial*, which is targeted entirely to formal workers earning up to twice the minimum wage and regardless of their household income, has become less effective over time in terms of reducing poverty. This occurred because most members of poor households are not in formal wage jobs, while many middle-class households have members earning up to twice the minimum wage (which is about ten times *Bolsa Família*'s poverty line in 2019). *Salário Família*, which targets households with both low formal wages<sup>23</sup> and children in the household, is more progressive but reaches a small share of Brazil's children.

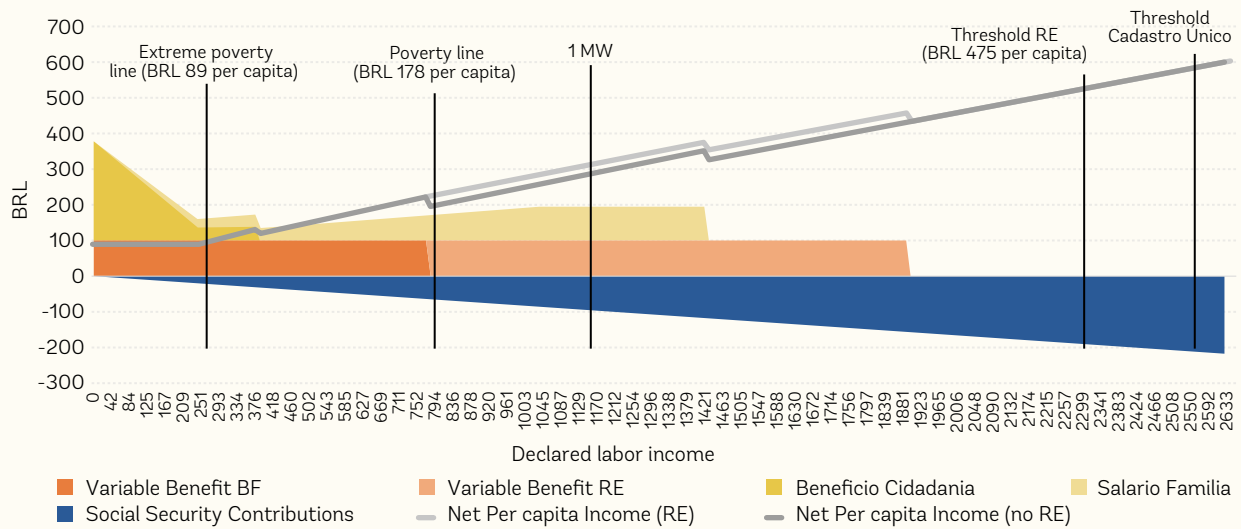
**Brazil's CCT flagship program stands out as the most progressive benefit with the most modern design to alleviate poverty.** This program, both when started as *Bolsa Família* and *Auxílio Brasil* 2021-2022, has been effectively targeting the poorest households by adjusting the level of the benefit according to the number of children in the household to reduce household income gap.<sup>24</sup> The *Auxílio Brasil* and new *Bolsa Família* program 2023, have not been incorporated in this study. Their design features are very similar to *Bolsa Família* 2019, but the benefits are significantly higher.

**Although Brazil's transfer programs for working families are fragmented, when considered all together, they provide a social assistance floor with benefits that decrease as beneficiaries' incomes increase.** Ultimately, household welfare depends on the combined effect of tax and benefits rather than from individual programs. *De jure* tax-benefit models are

<sup>23</sup> The wage thresholds are defined annually by the government. In 2022, for instance, the eligibility criteria was having a child up to 14 years old (or a child with disabilities at any age) and a wage below R\$ 1,655.98. Note that in 2022 the minimum wage was at BRL 1,212.00.

<sup>24</sup> *Auxílio Brasil* introduced a component that rewards formal labor market contracts with bonus cash benefits. This component consists of *Auxílio Inclusão Produtiva Urbana* for formal labor contracts in urban areas and *Auxílio Inclusão Produtiva Rural* for family farmers. However, this component was never implemented and disappeared in the last program reform.

► **Figure 25. Net total take-home income from transfers for a family of two adults and two children, with one adult working in the formal labor market**



Source: The World Bank BraJure, de jure tax benefit model for Brazil in 2019. The model simulates the amount and level of benefits received (vertical axis) by a family, under different levels of labor income (horizontal axis), starting from zero (when no member has a formal job). Poverty lines refer to year 2019. "RE" stands for *Regra de Emancipação*, a rule in *Bolsa Família* program that allows the family to continue receiving most of the program's benefits for up to two years after their income rises above the eligibility threshold. "Non RE" means a family that did not participate in *Regra de Emancipação*. *Beneficio Cidadania* is the household level benefit in AB. The family type considered in this version of the model is composed of four members, being two adults and two children, and given that one of the adults is employed in the formal sector. The model assumes the worker does not receive *Abono Salarial* once employed, since the benefit is provided only after five years of formal employment. See Fietz et al (2019) for a full illustration of BraJure.

widely used to understand the net effect of government fiscal policy on the income of different types of family. These models are in effect income calculators that show what a worker has the right to receive from the government, and what they have a duty to pay, for every amount of wage income earned (figure 25). The model in figure 25 is applied to a family of four, with one adult member who works in the formal sector at different wage levels (on the horizontal axis). The figure shows that the government continues to provide some form of income supplement as labor income rises and across the formal-informal spectrum, almost in the guise of a tapering universal basic income (Gentilini et al, 2019).

In Brazil's case, the coexistence of benefits that have different targeting approaches creates some duplications when a worker enters a formal job and has the right to receive *Salário Família* (and possibly also *Abono Salarial*)<sup>25</sup> but remains poor and thus also continues to receive *Bolsa Família* benefits. This is not problematic from the equity perspective but it is not efficient.

## Adequacy

**Simulations based on data from Brazil's national household survey PNAD Continua reveal that about 21 percent of families remained poor in 2019, even after receiving social protection transfers, and that these are mostly families with children.**<sup>26</sup> Adequacy refers to whether the transfer is sufficient in value to protect its recipient from a shock, in this case severe poverty. When compared to all other tax benefit expenditures (see figure 26), *Bolsa Família* was the most efficient program in reducing poverty for each BRL spent. Importantly, the poverty reduction impact of *Bolsa Família* has been mainly due the program's good targeting and large scale (Morgandi et al., 2019) rather than its generosity, low at the time. In fact, simulations made using the BraSim tool for the BF program in 2019 suggest that, even if *Bolsa Família* would have been perfectly implemented (on other words, all eligible households received the program's benefits), about 21 percent of families in Brazil in 2019 would still had lived in moderate poverty, which implies that the level of benefits was not adequate. This contrasts with the

25 *Abono Salarial* is provided only to worker who accumulated five years of prior work in the formal sector.

26 Simulated in the BraSim tool using PNADC 2019 data. Assumes perfect implementation of programs and includes civil servants' income as a source of protected income. Poverty was defined at half of the minimum wage per capita, or US\$D 6.2 PPP.

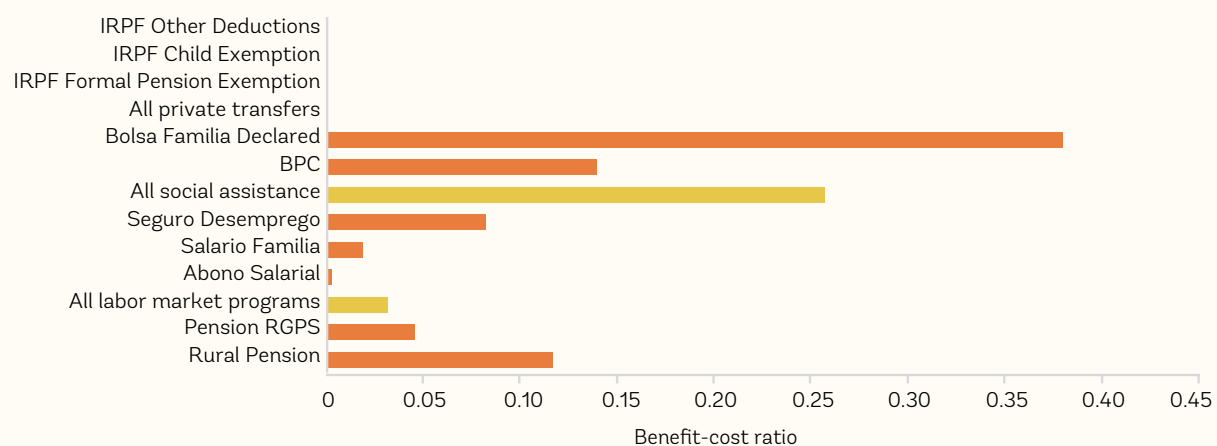
value of benefits provided by programs for the elderly, which, in nearly all cases, lift recipients well above the *Cadastro Único* poverty line. Social pensions have a stronger impact on poverty reduction, albeit less efficiently. The reason for this is the high value of the benefits provided.

**The generosity levels of social assistance began to rise in 2021 with the Auxílio Brasil reform.** As the *Auxílio Emergencial* temporary benefit was brought to an end in 2021, the *Auxílio Brasil* program was introduced as a replacement for *Bolsa Família*, and, with higher eligibility thresholds and the removal of budget constraints, the new program reached the historic mark of 18 million beneficiary families, only to be surpassed by in October of 2022 reaching 21 million families. The pure AB reform introduced many innovations to the design of the benefit,<sup>27</sup> which altogether led to an increase in the average benefit from BRL 196 to BRL 217,<sup>28</sup> which mostly favored families with young children. This helped to reverse the gradual decline in the real value of *Bolsa Família* benefits (see Morgandi et al, 2019). The average benefit paid by *Auxílio Brasil* remained nearly one-fifth of the value provided by continued payment benefit (BPC) and the rural pension program. The 2023 *Bolsa Família* reform

consolidated the program at an average transfer similar to the *Auxílio Brasil* program, and reduced some of the problems linked to the Extraordinary Benefit and subsequent myriad of programs.

**2021 also saw, through separate legislation, the introduction of the Benefício Extraordinário (BE) and Benefício Complementar (BCompl).** These compounded the complexities of social assistance benefits instead of addressing the shortcomings of AB's generosity. *Benefício Extraordinário* was launched as a top up to all families in *Auxílio Brasil*, regardless of family composition, to ensure that all would receive at least BRL 400 monthly. *Benefício Complementar* was also a temporary additional flat benefit of BRL 200 to be delivered between August and December 2022 to ensure each beneficiary family of BRL 600. Initially conceived as a temporary benefit, the repeated extensions under political pressure contributed to give the perception of permanent reform.<sup>29</sup> Such piecemeal changes have resulted in a suboptimal design of social assistance, and generated significant horizontal inequities between poor families of different size. The 2023 reform maintained the average transfer amount and reduced the negative incentives for household duplication.

► **Figure 26. Benefit-cost ratio of the main social assistance, labor, and tax incentive programs in Brazil**



Source: BraSim, based on PNADC 2019, assuming perfect implementation of programs.

Note: Includes civil servants' income as a source of protected income. Poverty was defined at half of the minimum wage per capita, or US\$6.2 PPP. The benefit-cost ratio is the poverty gap reduction in a unit of local currency for one unit spent on the social program. A value of zero means that the expenditure had no impact on poverty reduction.

27 For example: (i) a review of value of the benefits; (ii) a reduction in the types of the variable benefit; (iii) an extension of the variable benefit to young people between 18 and 21 years; (iv) a new rule governing graduation from the program; and (v) new benefits aimed at encouraging science and sports achievements in schools.

28 Note that the cited amounts do not include the impact on the total benefits due to *Benefício Extraordinário*.

29 *Benefício Extraordinário* in May 2022 became a permanent benefit (Law 14.342/22). In July 2022, *Benefício Extraordinário* was amended to provide an additional BRL 200 to all *Auxílio Brasil* beneficiary families between August and December 2022. The minimum benefit thus became BRL 600.

**Historically, the indexation of most social protection programs excluded the Bolsa Família CCT, which was never tied to the minimum wage.** Automatic adjustments of benefits are necessary to preserve their purchasing power parity over time and thus to mitigate poverty. These adjustments usually take into account both the living conditions of the beneficiaries and the available fiscal space. In Brazil, most programs, including unemployment insurance (*Seguro Desemprego*), *Abono Salarial*, contributory pensions, rural pensions, and the old age and disability BPCs, set their minimum benefit floor at the level of the national minimum wage. The minimum wage also serves as a reference value for the income eligibility criteria to receive the BPC and to be registered in the *Cadastro Único*.

**As such, the minimum wage has been used both as an indexation tool and as a substitute for an actual poverty line, even though adjustments of its value have generally not targeted the preservation of purchasing power of low-income citizens.** Programs that are not tied to the minimum wage, which are largely those targeted exclusively to the poor (such as *Bolsa Família*), all remain outside the constitutional social contract, which also protects health and education. As a result, the value of the benefits provided by poverty alleviation programs have been subject to more infrequent value adjustments, and the fiscal space allocated to them has been crowded out by the other benefits (especially after the 2015 crisis). Moreover, 2022 also saw a spike in ad-hoc energy-related programs.<sup>30</sup>

**Poverty is multidimensional, yet federal social protection expenditure has increasingly focused on cash-based programs at the expense of in-kind services.** Poverty is exacerbated by limited access by the poor to labor markets, basic services, health, and housing and by their higher risk of malnutrition (Campante Vale and Lara Ibarra, 2022). Clearly, not all such issues can be solved by the social protection system, but social protection has a comparative advantage in some areas, for example, by being able to ensure that government services reach the poor or by delivering tailored benefits and services to vulnerable groups. Conditional cash transfers are one of the few remaining hybrid cash-service programs that still exist to scale. Otherwise, with the winding down of the *Brasil Sem Miséria* strategy, the social protection system has made savings by cutting

non-cash programs and services (in part because these services have no budgetary earmarks, unlike health and education). In 2019, only 8 percent of federal spending in the area of social assistance and a staggeringly low 1.7 percent in the area of labor market programs was devoted to non-cash programs. Active labor market policies and economic inclusion programs in rural and poor urban areas, early childhood development programs, social work, and long-term care for the elderly are examples of the types of services that were left to subnational governments to fund according to their own fiscal capacity.

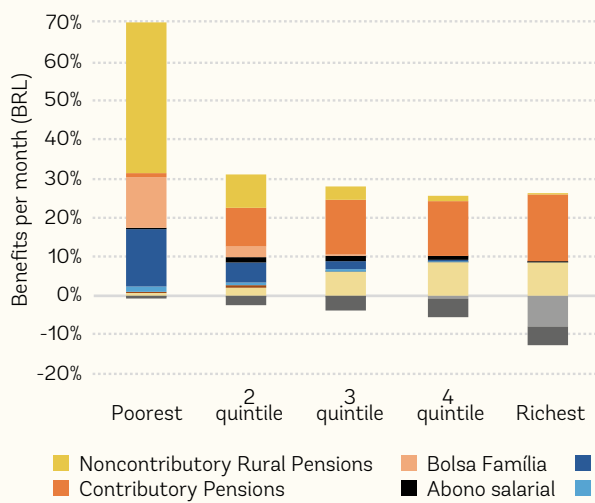
### Progressivity

**Social assistance transfers in Brazil are generally well targeted, but the significant subsidies provided to pension programs tend to benefit many middle- and upper-class families.** Figure 27 uses the BraSim microsimulation tool to identify the share of total household income represented by social protection transfers in each quintile of the Brazilian income distribution. The figure also shows the average income of households in each quintile. It reveals that social transfers play an important role in supporting families in the first (lowest) income quintile of the population, as they represent about 65 percent of total income of the poor. This level of protection is mostly delivered in the form of extensive support for the poor elderly, rather than to poor working-age population or children. However, the figure also shows that social protection transfers, essentially contributory pensions, represent about 20 percent of the revenue of families in the third, fourth, and even fifth quintiles. The high value of the pension benefit means that beneficiaries are usually between the fifth and sixth deciles of the income distribution, as these pension benefits carry a significant implicit subsidy<sup>31</sup> that largely benefits the middle classes, especially through a generous minimum pension guarantee (described further below). To put these findings into a different perspective, figure 28 shows the mean value of such transfers in absolute terms. While they are very necessary for the poor, the value of the transferred amount to households in the lowest (first and second) quintiles is small and almost the same as to the value of the benefit received by the middle class (those in the third quintile), although through a different set of programs.

30 During 2022, temporary cash benefits created through a Constitutional Amendment proposal (*Proposta de Emenda Constitucional - PEC 15/22*) included cash benefit to truck and taxi drivers, expansion of the cash benefit for cooking gas (*Auxílio Gás dos Brasileiros*), transfer to states and municipalities for providing free public transportation to elders.

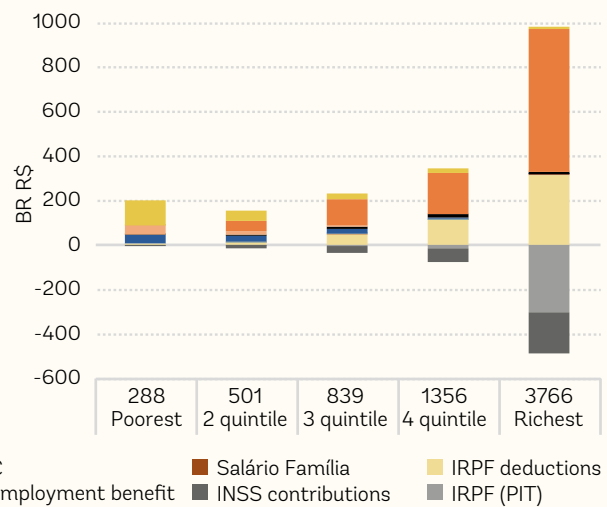
31 It is not possible to exactly quantify the subsidy portion of pensions because of the absence of sufficient data to estimate recipients' contributory history.

► **Figure 27. Social protection benefits and direct taxes as a percentage of household income in each quintile**



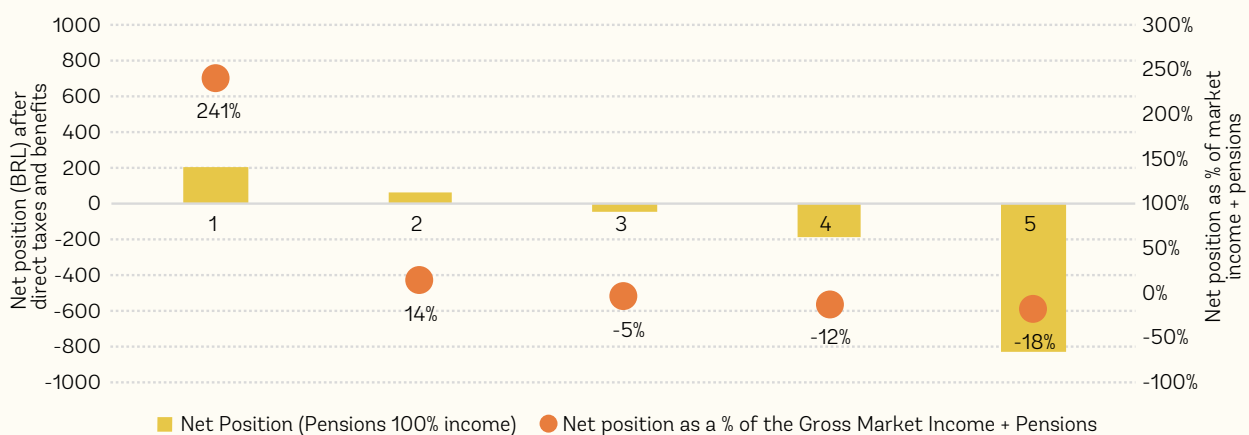
Source: BraSim microsimulation tool developed by the World Bank Poverty and Equity team, based on PNAD Continua 2019. Note: Chart shows the share of specific social protection expenditures in total per capita disposable income (after tax) of each quintile.

► **Figure 28. Simulated mean value of direct transfers and taxes on households, by per capita income quintiles (2019)**



Source: BraSim microsimulation tool developed by the World Bank Poverty and Equity team, based on PNAD Continua 2019. Note: Quintiles are computed as per capita disposable income (after tax income) in the BraSim methodology. IRPF refers to personal income tax - Imposto de Renda da Pessoa Física. BPC is a noncontributory means tested pension. INSS is the national social security institute.

► **Figure 29. Net impact of direct taxes and benefits on households' disposable income, by quintile**



Source: BraSim using PNADC 2019, based on a model developed by the World Bank poverty team. Note: "Net position" is the difference of household income after all cash benefits and direct taxes, excluding indirect taxes.

**Taking into account both taxes and transfers, the Brazilian tax-benefit system is only mildly redistributive.** Microsimulations of Brazil's system of direct taxes and transfers using BraSim (Morgandi et al, 2019) have revealed that the total income of those in the wealthiest quintile, who are on average 12 times richer than those in the poorest quintile, is reduced

by only 18 percent after direct taxes, contributions, tax expenditures, and benefits (figure 29). As shown in figure 28, the main drivers of this generally low redistribution are the country's relatively high (and subsidized) pension transfers and low effective income tax rates, especially due to significant exemptions. This includes a partial tax exemption on contributory

pension incomes at a cost of 75 billion BRL in 2019,<sup>32</sup> which was more than twice the budget of *Bolsa Família* in that year. Separate analytical work has also revealed how indirect taxes absorb a much higher share of the disposable income of the poor than of the rich.

### 4.3 Opportunity: Are resources promoting human capital accumulation?

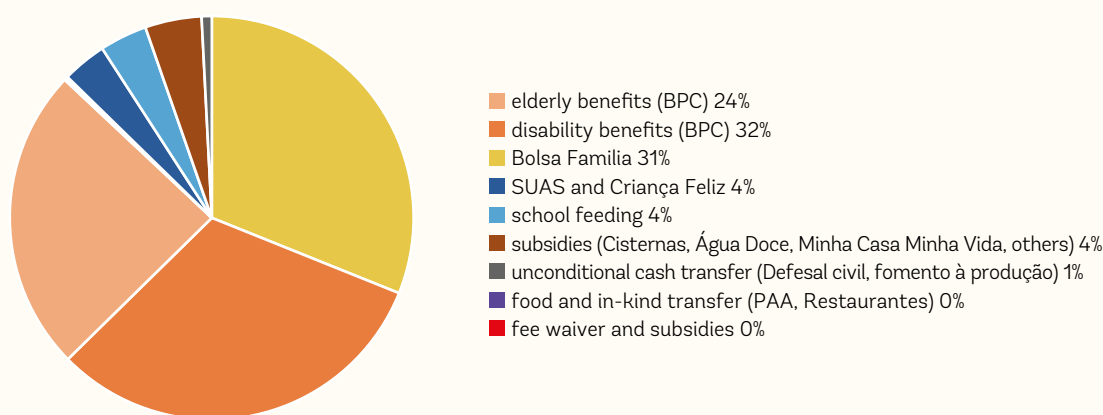
**Social protection is also a way to increase the equality of opportunities and reduce intergenerational poverty.** Programs designed not only to offer short-term protection but also to promote human capital accumulation and to incentivize labor productivity gains are key to reducing long-term poverty and increasing social returns to investing in the population. Investments in nutrition and health, early stimulation, and child protection during the first 1,000 days are essential to building a strong foundation for a person's healthy and productive life as this is the fastest period of a human's growth and development (Packard et al, 2019). Given that nearly half of Brazil's future workforce are children living in poor households today, the goal of increasing opportunity is a vital strategic challenge for Brazil.

**As of now, only a small share of social protection expenditures explicitly promote human capital accumulation and preservation.** *Bolsa Família*, which

has proven to improve several human development outcomes in children and young people, accounts for about one-third of all social assistance expenditure. Additional programs that directly foster human capital accumulation include *Criança Feliz* or its successor and the national school feeding program as well as creches, the last two included in the education budget. However, as mentioned earlier, these kinds of services are significantly underfinanced in comparison with expenditure on cash benefits, despite being critical for furthering the goal of opportunity. Moreover, most social assistance expenditures, and social protection expenditures more generally, are allocated to supporting the elderly and disabled (figure 30). Even these expenditures lack a strong focus on building human capital (such as supporting beneficiaries to live independently or to integrate into the labor market).

**The Auxílio Brasil reform of 2021 had the potential to strengthen the opportunity dimension of Brazil's social protection system in the years to come, but many aspects of the law were not implemented.** For example, the reform expanded conditionalities that require beneficiaries to ensure that their children attend preschool and complete secondary education. It also created a new specific benefit to reimburse childcare costs, and opened up the possibility to transfer funds to CRAS offices for the provision of economic inclusion programs. However, the implementation of this new strategy has been more complex and slower than expected.

► Figure 30. Social assistance expenditure in 2019, by type of program

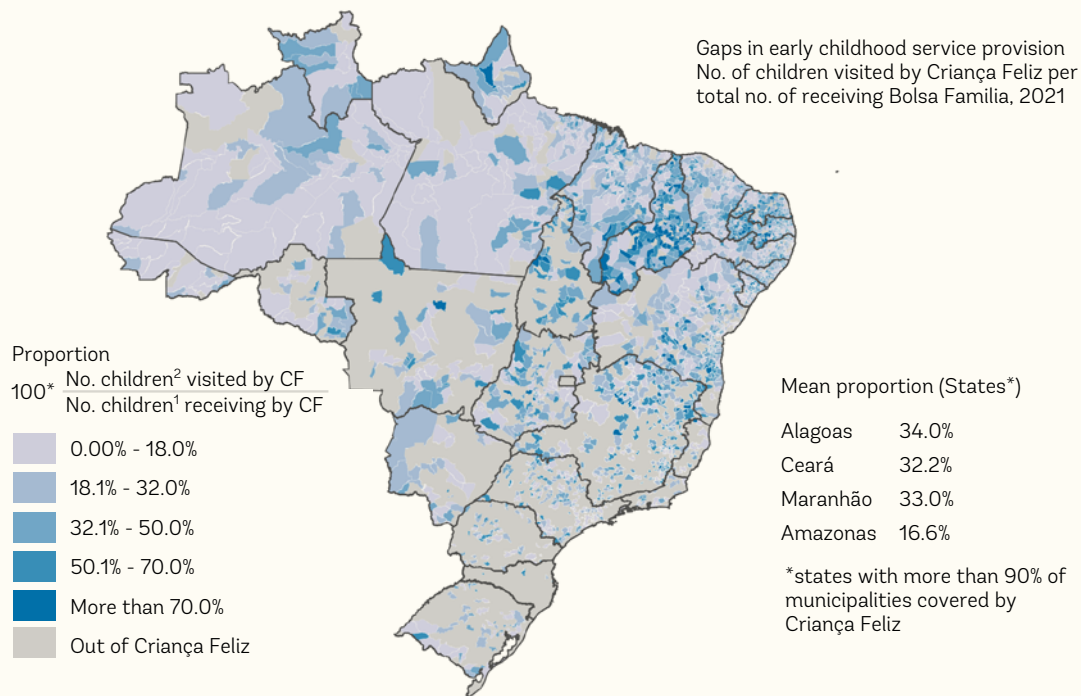


Source: The World Bank using data from Portal da Transparência, 2019.

Note: Programs are categorized according to the World Bank ASPIRE methodology.

32 Receita Federal do Brasil. <https://www.gov.br/receitafederalt/pt-br/centrais-de-conteudo/publicacoes/estudos/imposto-de-renda/estudos-por-ano/gn-irpf-2021-2020.pdf>

► **Figure 31. Participation of municipalities in Criança Feliz, 2021**



<sup>1</sup> The Bolsa Família data refers to the number of children from 0 to 36 months old receiving the benefit on Feb/2021.

<sup>2</sup> The Criança Feliz data refers to the number of children visited on Jun/2021. Criança Feliz covered 2645 municipalities on Jun/2021.

Source: Ministry of Development and Social Assistance, data on Criança Feliz beneficiaries and Cadastro Único.

**Criança Feliz, the parenting program for early childhood stimulation, aims to provide new parents with training and assistance through home visits in order to reinforce families' competencies to enhance their children's skills, and it strengthens the state the capacity of active search to vulnerable families.**

It targets families with pregnant women and children aged between 0 and 3 (or between 0 and 6 if the child has disabilities) who are in a situation of social vulnerability. The program, which was initiated in 2016, consists of two pillars: (i) home visits, which is the program's main activity, and (ii) coordinated actions between federal, state, and municipal committees to strengthen policies that have beneficial impact on early childhood development. The program was created based on evidence that parenting programs for parents of children in the first three years of life have positive effects on their children's cognitive, language, motor, and socioemotional development, including stronger emotional attachments and fewer behavior problems, as well as having a positive impact on parents' knowledge and parenting practices and improving parent-child interactions (PLAN-PNUD, 2020).

**However, Criança Feliz has not yet reached its intended coverage, especially in remote areas.**

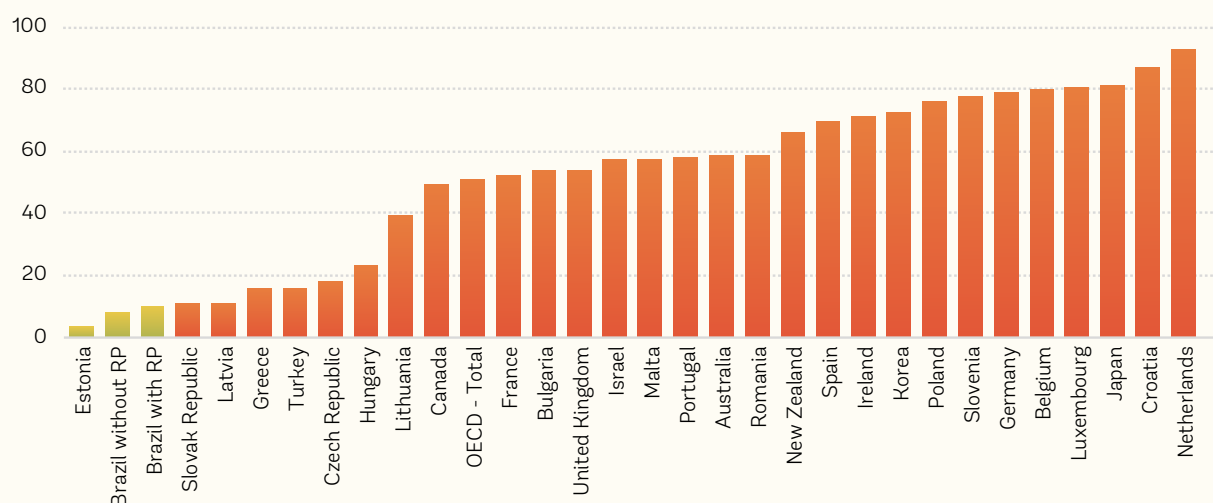
Despite its initial goal of reaching 3 million children, the

program currently supports only 1.3 million (figure 31). This is because not enough municipalities have signed on to the program. In 2021, only 2,910 out of Brazil's 5,570 municipalities (52 percent) participated. The main reason given by municipal authorities for not signing up is that the flat per-child transfer that *Criança Feliz* offers to municipalities is insufficient to cover the costs and logistics of delivering the service to more complex locations. For instance, the extent to which counsellors can access poverty-stricken areas varies depending on the terrain, seasonal conditions, personal safety, and the availability of transportation. Hence, the program might now not be delivered where it is most needed.

**A second key role played by social protection in increasing opportunity is to strengthen the labor productivity of the poor and vulnerable.**

With technological change and climate change poised to transform labor demand and livelihoods, Brazil's SPL system has a key role to play in finding ways for poor and vulnerable adults to build their human capital and increase their productivity, especially after they have left formal education. This is a complex endeavor that, in the best case scenario, combines benefits (complete with appropriate incentives) with services that can increase individuals' employability and that can match them with available job opportunities.

► **Figure 32. Participation tax rate for a family with two adults and two children, receiving only one income of 1 MW**



Source: Fietz et al. (2021).

Note: Calculations for Brazil are based on 2019 values, and for other countries are based on OECD 2020 data. Participation tax rates are defined as share of earned labor income that is lost due to taxes, contributions and loss of social benefits, when moving from inactivity to full time employment at minimum wage. RP = regra de permanência in Bolsa Família.

### **In Brazil, social assistance benefits are already compatible with participation in formal employment.**

Analysis based on benefit rules of 2019 has shown that Brazil's conditional cash transfer program contains no disincentives to engage in formal work. The participation tax rate, measured as the share of earnings lost due to higher taxes and lower benefit entitlements when an unemployed individual takes up formal employment, is much lower in Brazil than in other countries (Fietz et al, 2021), as illustrated in figure 32. This is because the minimum wage in Brazil is much higher than the average benefit, but also because the program allows beneficiary households to continue receiving benefits for two years after members start earning wages in the labor market, even if their income exceeds the normal eligibility criteria (see box 2). Recent changes to the generosity of the *Auxílio Brasil* benefit, in particular after the introduction of *Benefício Extraordinário* and *Benefício Complementar*, may have altered this optimal situation. Further analysis will be required to estimate its likely impact on work incentives for different typologies of workers and families.

**Federal labor market spending in Brazil is largely allocated to regressive and passive income support, with little being spent on active labor market programs and vulnerable workers.** Brazil's total expenditure on labor market policy is sizable and close to the OECD average (World Bank, 2018). Unemployment

insurance and the outlays of the unemployment savings fund (*Fundo de Garantia por Tempo de Serviço* or FGTS) typically absorb three-quarters of this spending (figure 33), whereas little is spent on labor intermediation, economic inclusion programs, or other active labor market programs (ALMPs) to support vulnerable workers. In fact, the share of spending accounted for by passive benefits has increased over time (figure 34). Public spending on labor policy is also regressive because most of it goes to formal workers only, and the *Fundo Amparo ao Trabalhador* is in part supported by the general budget (World Bank, 2018). It has been estimated that 1.8 percent of expenditures are allocated to programs targeting workers outside the formal sector. This allocation does not align with the needs of Brazilian workers. Household survey data have shown that most of Brazil's unemployed are in the informal sector or are young people making the transition from school to work (Morgandi et al, 2020). Although the number of those in formal employment who lost their jobs is low, the programs financed by the federal government's Workers' Protection Fund (*Fundo de Amparo ao Trabalhador*) is almost entirely devoted to this group.

**The main type of Active Labor Market Program that is available at scale is training.** Recent analysis of household survey data has shed a new light on the take-up of formal short training (FST). This can be considered a form of ALMP when it is targeted to working-age

### ► Box 3. How the Permanence Rule/Emancipation Rule contributes to labor market integration

Recipient families of *Bolsa Família* in Brazil had a right to continue receiving most of their benefits for up to two years after their income rises above the eligibility threshold. This concession, named the Permanence Rule (*Regra de Permanência*), was available if families: (i) voluntarily updated their income information in the *Cadastro Único* and (ii) had incomes that were less than half of the minimum wage per capita (which was nearly three times the entry eligibility threshold).

As of 2020, the rule applied to 8 percent of *Bolsa Família* families. About 68 percent of them were still below the program eligibility rule of BRL 178 and would only lose the basic benefit in the absence of the rule. Thus, most families to which the rule applied were not on a graduation path out of the program but were simply moving from extreme to moderate poverty over time. Nonetheless, the rule provided ample space for adults in social assistance to experiment with taking a formal job without the fear of losing their benefits. In fact, one out of four adults in *Bolsa Família* in 2019 held a formal job, and two-thirds earned some form of labor income.

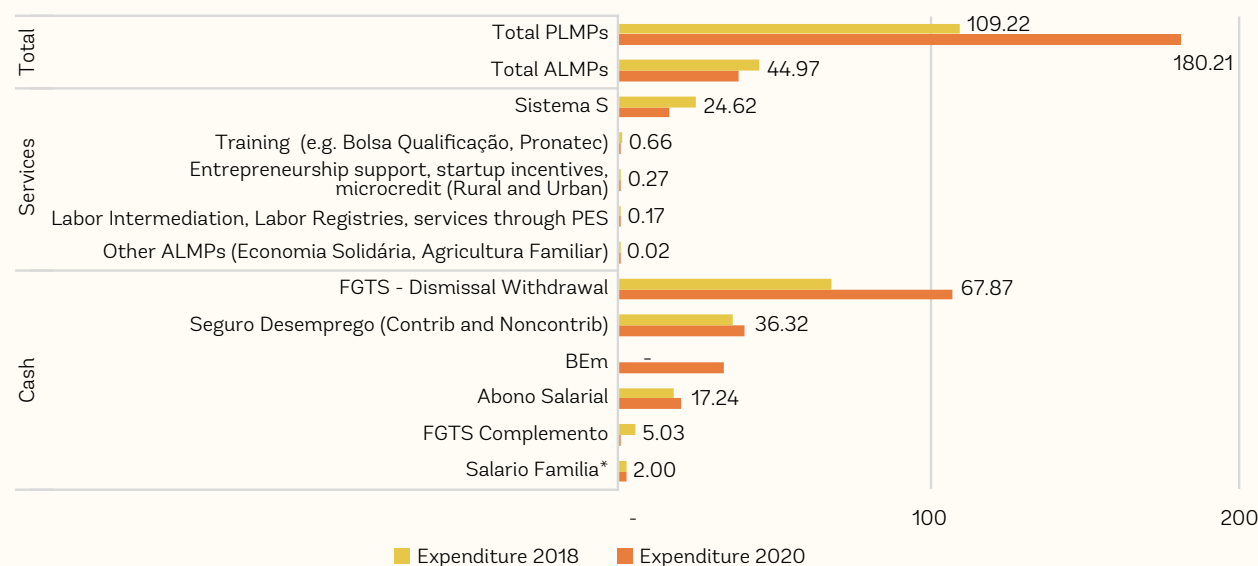
When *Bolsa Família* became *Auxílio Brasil* in November 2021, the Permanence Rule was renamed the Emancipation Rule (*Regra de Emancipação*), and its conditions were slightly altered with clear definition in the Law and new exit thresholds. However, in the context of a limited federal budget and a long waiting list to enroll in the program, the Emancipation Rule will continue to play an important role in increasing the resilience of poor households that seek to emancipate themselves from poverty by participating in the labor market.

Source: Fietz et al. (2021) and Article 34 in Decree 10,852 of November 8, 2021.

adults, especially if they are vulnerable. In 2019, around 1.7 percent of out-of-school Brazilians between the ages of 18 and 65 years old took part in FST, which amounts to more than 1.8 million adults. Most of these students (56.3 percent) were enrolled in private institutions, presumably paid for out of their own pockets, about 10 percent received training through their employer, 17 percent were trained by Sistema S (which offers both free and fee-based programs), and 16 percent received training through public federal institutions. This shows that publicly funded programs remain a small share of the market. While annual enrollment rates increase monotonically with household income (from 0.9 percent for adults in bottom decile to 2.9 percent for those at the top) and with education levels, students of FST largely have low and middle levels of education (less than 20 percent completed university). This shows the potential of FST to update the skills of those who have already left formal education. The probability of students completing training is also higher than might be the case with longer courses. Holding all other characteristics constant, the unemployed and informal sector workers are those with the highest risk of noncompletion.

**Several past evaluations have shown that FST courses in Brazil, including those targeted to vulnerable young people and low-income groups, can be effective if they include certain characteristics.** A study by Almeida et al (2015) found that short-term training in Brazil yielded positive returns for participants compared with non-participants but only for those who attended private or Sistema-S institutions (rather than federal public technical schools) and for those completing short-term training courses (2.2 percent on average). However, the authors found wide variation in their results, with those who received short-term training provided by public providers having returns close to zero. Similarly, an evaluation of the National Program for Access to Technical Education and Employment (*Programa Nacional de Acesso ao Ensino Técnico e Emprego* or PRONATEC), one of the flagship interventions of Brazil's anti-poverty strategy until 2016, showed that when training programs were designed in accordance with demand (such as offering training only in skills that were expressly requested by employers), then short-term training had a positive impact on the employment outcomes of participants compared to control groups, including for participants from families in the *Bolsa Família* program.

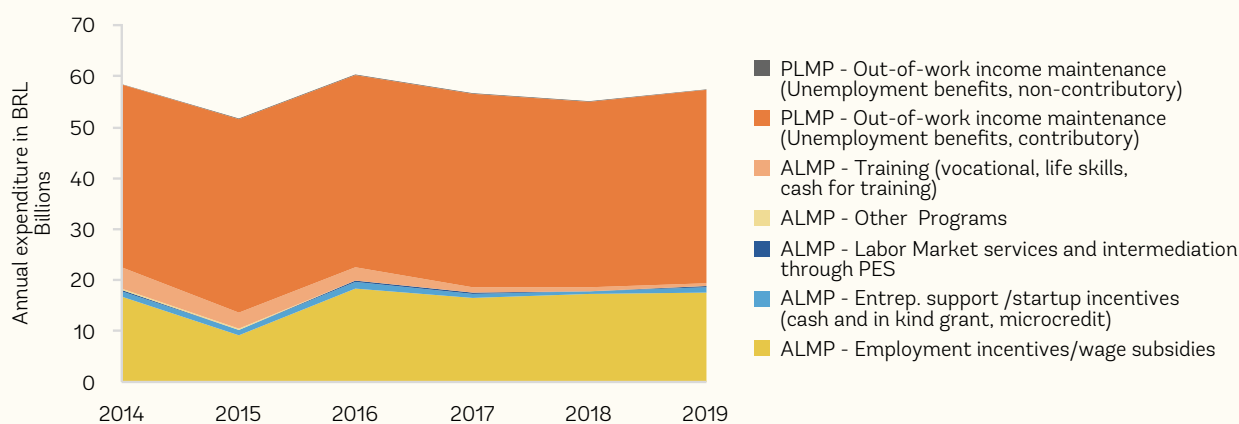
► **Figure 33. Active and passive labor market expenditures (2018–2020)**



Source: The World Bank using data from the Transparency Portal (Portal Transparência) for 2018 and 2020.

Note: Includes expenditure financed by the federal government and by employers: \*=out of budget expenditures financed by mandatory employer contributions. Passive Labor Market Policies (PLMP)= Salário Família, Abono Salarial, Seguro Desemprego, FGTS, and BEm (Benefício Emergencial de Manutenção do Emprego e Renda).

► **Figure 34. Evolution of expenditure on labor market programs (2014–2019)**



Source: The World Bank using data from the Transparency Portal (Portal da Transparência).

**There are often no links between training programs and other labor market services such as labor intermediation.**<sup>33</sup> Few federal programs exist that aim to improve the qualifications of specific target groups. These include Employ More (*Emprega Mais*), which promotes qualification and employment opportunities aligned to companies' needs, and the Learning Contract (*Contrato de Aprendizagem*), which assists approximately 400,000 young people annually with on-the-job

training and formal education. These kinds of programs are not coordinated with any income support programs (such as social assistance or unemployment insurance). Another peculiarity is that Brazil's public employment services network (*Sistema Nacional de Emprego* or SINE) plays little or no role in helping jobseekers to access other ALMPs. SINE's functions are limited to job matching, labor documentation, and enrolling workers in unemployment insurance. Funding for SINE has

33 Some of these concerns were raised in a recent survey of federal initiatives to prepare the Brazilian labor market for the digital transformation carried out by the national auditing authority in Brazil. <https://portal.tcu.gov.br/imprensa/noticias/sistema-s-deve-preparar-o-mercado-de-trabalho-para-a-transformacao-digital.htm>, accessed on November 29, 2021.

been minimal and falling. In 2018, spending on labor intermediation was equivalent to less than 1 percent of spending on unemployment insurance. SINE's role was further diminished after unemployment insurance began to be delivered digitally in 2021. Borges, Lobo and Foguel (2017) estimated that even minor improvements in the effectiveness of intermediation would result in large fiscal savings on unemployment insurance, thus freeing up funds to be allocated to other active labor market policies.

#### 4.4 Resilience: Is the social protection system insuring the population against different shocks?

**Effective social protection systems are able to react quickly when households are affected by shocks by providing support, which is often channeled through the labor market.** In addition to economic cycles and the typical income volatility associated with informal work, as discussed in Chapter 2, the effects of climate change, technological change, and new forms of

globalization in services all increase workers' exposure to labor and income shocks. In this section, we discuss the origin of segmentation of the labor market between formal dependent workers and informal/self-employed workers and the three major aspects of Brazil's system to protect individuals from risk: (i) protection from labor income shocks, (ii) protection from climate-related shocks, and (iii) protection from old-age poverty and disability.

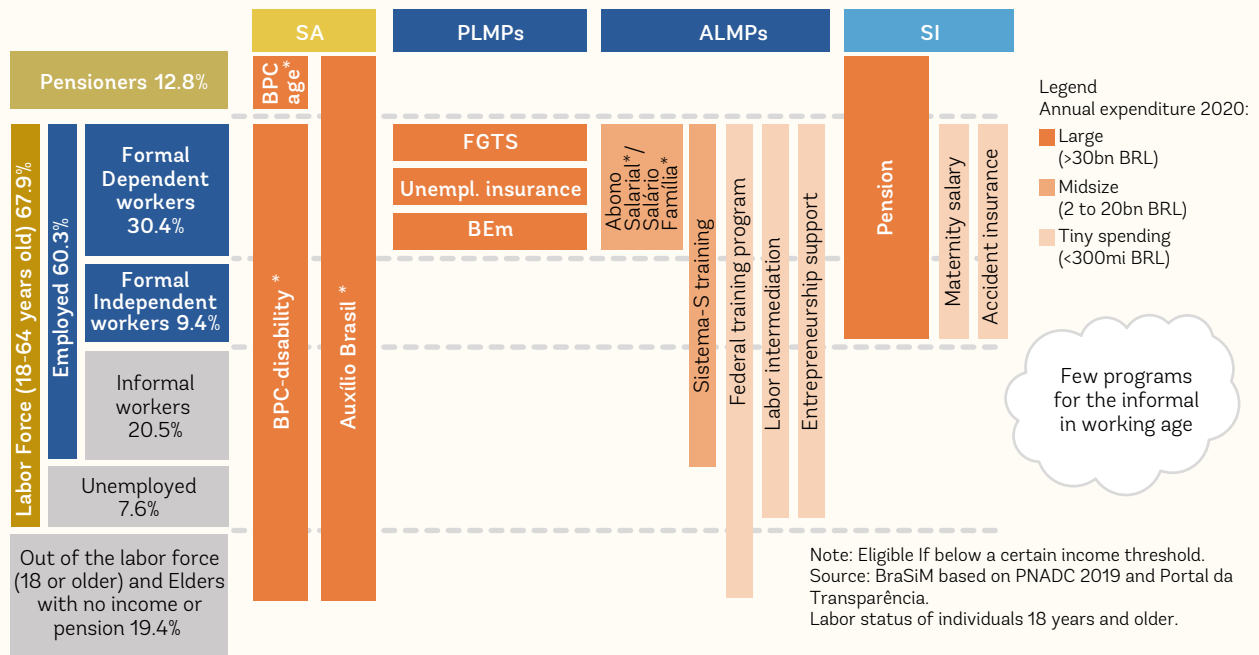
**The way in which working-age adults participate in the labor market affects how well they are able to manage risk.** The ability of workers to adapt shocks to their income hinges upon their access to risk management instruments (Levy and Cruces, 2021 and Packard et al, 2019). Brazil has a range of programs to help workers to cope with several major risks throughout the lifecycle, including unemployment protection, disability and accident insurance, protection from old-age poverty, subsidized credit, and on-the-job training. However, most of these benefits are available to formal dependent workers but not to those in the informal or self-employed sectors (table 2).

► **Table 2. Labor-related insurance against main risks, by form of work**

Form of work and estimated number in Brazil (millions)	Risks			
	Labor earnings volatility/	Work injury	Disability	Old-age poverty
Formal employees (CLT, public) (36.7 million)	FGTS, SD, Multas	Auxílio Acidente	RGPS benefits	Full RGPS benefits
<i>Micro Empreendedor Individual</i> (2.5 million)	Means Tested Social Assistance (CCT program)	Auxílio Acidente	BPC	Basic RGPS benefits
Trabalhador Autônomo (6.2 million)	Means Tested Social Assistance (CCT program)	Auxílio Acidente	RGPS benefits	Full or basic RGPS benefits
Firm owners (Pessoa Jurídica) (0.6 million)	Means Tested Social Assistance (CCT program)	Auxílio Acidente	RGPS benefits	Full RGPS benefits
Informal workers (self-employed and employees) (31.9 million)	Means Tested Social Assistance (CCT program)	Auxílio Acidente	BPC	BPC

Source: Estimates from World Bank microsimulations model (BraSIM), based on PNAD Continua. Note: BPC = Benefício de Prestação Continuada; PJ= Pessoa Jurídica; RGPS = Regime Geral de Previdência Social. Number of workers based on World Bank BraSIM microsimulation model, using PNAD Continua 2017 monthly average for the primary job.

► **Figure 35. Access to social protection programs, by labor force status**



Source: Authors. Share of individuals by BraSiM based on PNADC 2019 and the Transparency Portal (Portal da Transparência).

Notes: BEm was a temporary program implemented as a response to the COVID-19 crisis and discontinued in 2021.

\*Eligibility based on income threshold.

As shown in figure 35, dependent employees are better protected against multiple risks than other workers, even though they constitute a minority of the entire labor force. Many provisions were enshrined in the labor code, which does not cover other categories of workers such as micro-entrepreneurs, firm owners. At particular risk are the rising numbers of workers enrolled as individual microentrepreneurs (MEI), who are the most likely to be illegally substituted for formal employees, to pay lower contribution rates, and to receive few or no benefits. Studies have shown that having more formal dependent workers in the Brazilian economy is positively associated with economic growth, but the country's recent poor economic performance has led to a relative increase in the numbers of other types of workers. Also, as discussed in Chapter 3, the expected technology-enabled transformation of work is likely to reduce the number of dependent formal sector jobs, which means that the share of workers benefiting from social protection could continue to fall.

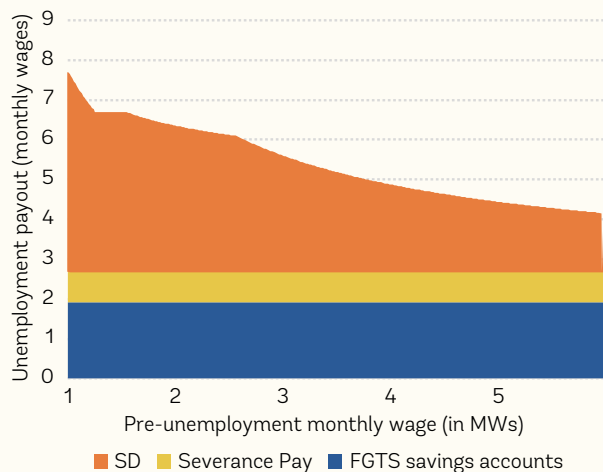
### Unemployment protection programs in Brazil do not cover workers with an intermittent employment history, informal workers, or the self-employed.

Brazil's unemployment protection system contains three elements: (i) unemployment insurance (*Seguro Desemprego*) (unemployment insurance), which is the

largest federally funded labor market program in Brazil; (ii) unemployment insurance savings accounts (the FGTS); and (iii) severance pay (*Multas*) (Firpo and Portella, 2021). The unemployment protection system was designed in the last century (1986) based on the premise of the increasing formalization of employment in an industry-centered economy and has never adapted to the realities of the modern working world. Its accessibility rules are strict, with formal workers defined as those having worked a minimum of 12 months in a wage contract in the previous 36 months. Today, most unemployed workers do not qualify for unemployment insurance because they cannot meet this condition or because of their limited contribution history. In 2019, only 17.7 percent of the average number of monthly unemployed workers in Brazil received unemployment benefits. Formal workers who are listed in the *Cadastro Único*, particularly those receiving social assistance, are disadvantaged as they have a higher likelihood of working under short-term contracts that are ineligible for unemployment insurance and of having average job tenures of less than one year. It is even less clear whether unemployment insurance, as currently designed, will provide protection for the workers of the future given the growth in much shorter contracts and the declining incentives to enter formal work.

*“During the first months of unemployment, dismissed workers tend to earn significantly more than while working, as they receive unemployment insurance, savings from FGTS accounts, and severance pay at the same time.”*

**Figure 36. Value of unemployment insurance payouts expressed in monthly wages after 24 months of employment**



Source: World Bank (2021b).

Note: The calculation assumes a contribution history of 24 months to receive five installments of SD. Further, it assumes a constant wage level before unemployment and that the unemployed claims SD for the first time.

**Current unemployment programs have generous replacement rates but only for short periods.** When workers receive unemployment insurance, FGTS benefits, and severance payments at the same time, this can raise the value of their unemployment payouts above their pre-unemployment wage, especially for low-wage workers (figure 36). Morgandi et al (2021b) carried out an extensive review of the literature on unemployment insurance in Brazil. The authors found that the system’s relatively high wage replacement rate contrasts with the short duration of the payments (five months maximum), which is not sufficient to protect low-educated workers or those affected by structural changes in the economy. However, workers receiving

the initial greater than salary pay-outs are not required to look for work as a condition of receiving the benefit, which gives them a perverse incentive to cycle between short periods of work and short-term periods of unemployment (Firpo and Portella, 2021; Carvalho et al, 2018; Doornik et al, 2018; and Gerard and Gonzaga, 2016). The resulting high labor turnover is ultimately harmful to workers’ productivity and to the economy.

**Active labor market policies are those designed to provide workers with services that will enhance their employability, but spending on such services in Brazil is low and they are not coordinated with programs to support unemployed workers and to provide a minimum income.** Unlike OECD and other LAC countries, Brazil’s ALMPs are composed almost entirely of wage subsidies (*Abono Salarial* and *Salário Família*), while labor intermediation services constitute a small and shrinking share of ALMPs. The federal government’s provision of workers’ training is currently divided between the Ministry of Education (through a network of federal institutes) and Sistema-S, a network of sectoral institutions financed by mandatory contributions from private employers. The government’s provision of technical training used to be stronger in the 2000s when it operated the PRONATEC network of training institutions, but the program lost budget and importance during the fiscal crises in 2015/16. With inconclusive and divergent assessments, the program never returned to its original status. The rapid changes in the world of work that are already happening and will continue over the following decades will necessitate an increase in ALMPs to re-train the adult labor force in the new skills needed by employers going forward and to prepare the young people who will arrive in the labor market with lags in their human capital accumulation because of the COVID-19 pandemic.

**Climate-related events are also likely to be a source of household shocks in the future, and social safety nets and the United Social Assistance System (SUAS) are already helping communities to cope when these shocks occur.** In the case of natural disasters, well-designed early warning systems are in place in high-risk areas of Brazil with the capacity to warn the population about different kinds of disasters. After a disaster occurs, the Civil Defense<sup>34</sup> steps in and triggers the involvement of SUAS and all the municipal CRAS, which then rapidly identify those who are affected

34 The Civil Defense is responsible for emergency prevention, response, and recovery during a shock.

by the disaster and enroll them in the *Cadastro Único*. When a state of emergency is declared,<sup>35</sup> the Ministry of Development and Social Assistance and the SUAS network provide temporary benefits to the affected population, including advance payments of the CCT program or BPC benefits. The CRAS also direct families to basic services such as shelters, health services, social care, and other public services. Because Brazil is a decentralized country, the effectiveness of the response to shocks varies at the regional level.

**A recent review of Brazil's social protection policies, coordination arrangements, delivery systems, and instruments revealed that there is a need to strengthen adaptive social protection (ASP) measures (figure 37).**<sup>36</sup> The social protection stress test created by the World Bank in 2021<sup>37</sup> is a tool that yields a rapid appraisal of the adaptiveness of a social protection system in response to a shock. Brazil's average score indicates that the country's system is ready and has the potential to be scaled up rapidly in

response to climate-induced natural disasters. Brazil's main strength is the strong coordination between the agencies responsible for social protection and those responsible for Disaster Risk Management with clearly assigned roles and responsibilities and minimum overlaps. This is reinforced by a robust data and information system with well-established and functional early warning systems and social registry (*Cadastro Único*). However, some gaps remain in the existing system that are restricting its scalability and readiness, including the need for more resources for social protection shock responses and a need to include information on households' vulnerability to climate change in the social registry.

**Finally, one of the major functions of social protection systems is to prepare households to cope with the loss of income in old age.** Brazil has achieved quasi-universal old-age coverage through a combination of contributory, semi-contributory, and non-contributory pension schemes. Older people

► **Figure 37. Brazil's results on the Social Protection Stress Test**

		Latent	Nascent	Emerging	Established	Advanced
Programs and delivery systems	Programs	3.7				
	Delivery system	4.1				
	Payment systems	4.3				
Data and information	Early Warning Systems	4.5				
	Registry	4.1				
Financing		3.5				
Institutional arrangements	Government leadership	4.3				
	Institutions	5				
Overall		4.1				

Source: World Bank team elaboration.

35 Instrução Normativa nº 36, December 4, 2020.

36 Ed, Gonz lez and Ferreira. Forthcoming. Climate Change and the Role of Social Protection in Brazil.

37 See World Bank (2021c) for further information. The social protection stress test, launched by the World Bank in 2021, can be used to make a rapid appraisal of how adaptive a system would be in response to a shock. The test makes it possible to identify and quantify gaps in and constraints to both the preparedness and scalability of the system to respond to the most frequent climate disasters in Brazil (floods and droughts). This part of the test is conducted through an analysis of each of the four building blocks of ASP, namely, (i) programs and delivery systems; (ii) data and information; (iii) financing; and (iv) and institutional arrangements. Each building block is disaggregated into components and criteria that are expressed in the form of questions. Based on the responses to these questions, each component is assigned a score of 1 to 5. The final score of the test is the average of scores of the different components.

are relatively well protected against poverty and are underrepresented among the poor (Paiva and Ansiliero, 2021). Complementary policies also help to increase the resilience of the elderly, including tax exemptions on income for that age group, incentives to work and education provided for in the Statute of the Elder, and a range of smaller benefits, both pecuniary (such as half-price entry into cultural events and free rides on public transportation) and non-pecuniary (such as

priority in queues at any service and dedicated service and payment counters). However, these policies have a number of disadvantages. Pensions as currently designed consume an excessive share of Brazil's total spending, they do not reduce income inequality, and they allow certain categories of workers, such as teachers, health professionals, security personnel, the military, to draw pensions at an early age. Some of these issues are addressed in this note.

#### ► Box 4. Evolution of the social protection rights of the elderly in Brazil

**Over the last century, Brazil has developed a social protection system that offers high levels of coverage and wide protection against poverty for older people.** Through a combination of contributory, semi-contributory, and non-contributory benefits, 9 out of 10 people aged 65 or older now receive a pension benefit.

**The first social insurance scheme, for railroad workers, was introduced in the 1920s, and other schemes were created in the following years and decades, eventually covering all categories of formal workers.** Up until the early 1970s, domestic workers were also legally covered. Different schemes were administratively merged, but social protection continued to be offered on a strictly contributory basis, which included health services. As a result, large parts of the population were not covered by social insurance.

**In the first half of the 1970s, small semi-contributory and non-contributory schemes emerged, aimed at rural workers, poor elderly people, and people with disabilities.** Rural pensions began to be paid to one eligible member per household aged 65 or older at a rate equivalent to half of the minimum wage. *Renda Mensal Vitalícia* was the first virtually non-contributory benefit aimed at the urban poor. It paid a benefit to poor people aged 70 and older and to persons with disabilities that was also worth half a minimum wage.

**Three factors contributed to the expansion of the coverage even further. First, a new social contract emerged with the re-democratization of the country in the mid-1980s.** This led to the drafting of a new Constitution in 1988 that made health services universal and considerably expanded semi-contributory and non-contributory schemes. Also, rural pensions were revised in 1992, and the social assistance benefit for poor elders (*Benefício de Prestação Continuada* or BPC) was created in 1996. The BPC benefit was set at the level of the full minimum wage, the same level as the minimum benefit guarantee provision for contributory pensions.

**Second, the ongoing aging of the population shifted the preferences of the median voters in favor of old-age income protection.** This caused a consistent move toward more elderly-oriented policies in response to the growing older voting population.

**Third, Brazil's long-standing social attitudes of respect for the elderly meant that there was broad social support for programs targeted to the elderly.** This is probably why the country provides so many benefits and services to the elderly, including free-of-charge public transportation, reduced fares for cultural events, and preferential tax treatment. These social norms and related benefits and services are likely to be related to organic solidarity – defined as social cohesion based on the dependence that different family members have on each other – which is particularly important to the poorest multigenerational families, in which the elders are often the main providers with the most stable incomes.

## ► Box 4. continue

**The post-1988 combination of contributory, semi-contributory, and non-contributory schemes continues to provide generous social protection benefits to almost all older people in Brazil.** The system provides them with widespread coverage (more than 90 percent of people aged 65 or older receive a benefit), high replacement rates for low earners, and low levels of poverty (the poverty rate for people aged 65 and older are half of the average for the Brazilian population and eight to ten times lower than for children up to the age of 15).

**However, generous pension rules for civil servants (especially uniformed personnel) and higher-income formal private sector workers also contributed to unjustifiably high pension expenditures for a country with a relatively young population.** Three pension reforms were introduced in 1998/1999, 2003, and 2019, mainly to reduce the expected increase in expenditures over the subsequent decades due to the aging of the population that is expected to be twice as fast as the one experienced by developed economies in the last few decades. These pension reforms had only limited success in curbing expenditures, and their trajectory in the long term still looks unsustainable.

**The challenge for the next years and decades is to retain the gains made in improving the lives of old people without compromising other relevant social goals.** The high old-age coverage and the low poverty rates among older people are important social achievements for Brazil and reflect a broad social and political consensus. However, it will be necessary to continue to make adjustments to the generosity and eligibility criteria for old age benefits to curb the explosive growth of pension expenditures and the crowding out of other important social and economic objectives.

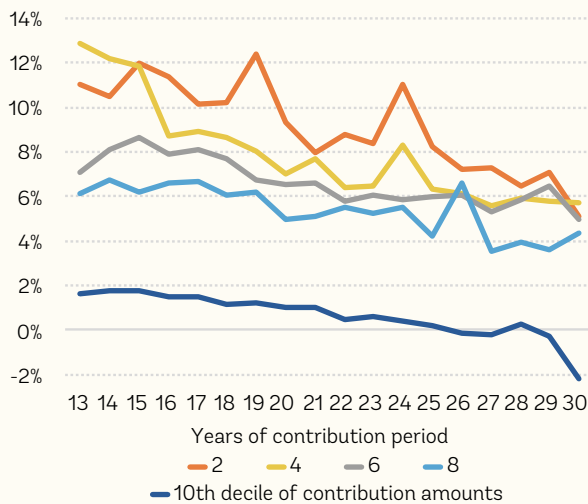
**In public sector employment, some groups are granted very generous retirement ages and replacement rates, with no clear justification from a public policy standpoint.** While the pension reform resulted in major parametric changes that put Brazil's pensions closer to global benchmarks, some categories of workers are still given the option to retire earlier than the rest of the population, and many civil servants are granted extremely generous replacement rates when they retire. For these categories of workers, Brazil is a global outlier in both respects. For example, the 2019 pension reform retained the lower pension age for women (three years lower than for men), teachers (five years lower than for other workers), rural workers (five years lower than for urban workers), and uniformed personnel (who have various retirement ages but significantly lower than those for other civil servants), which does not seem justifiable (Amaral et al, 2019 and Paiva et al, 2018).

**In Brazil, the minimum pension guarantee is set at the level of the minimum wage, which is above international benchmarks and mostly benefits middle-income beneficiaries.** A minimum pension that equals the minimum wage is high by international standards, since it is usually considered appropriate for those who are actively working should be remunerated

more than those who collect a pension and can enjoy their leisure. In 2019, 65 percent of new old-age pension recipients (70 percent of women and 56 percent of men) were benefiting from the minimum pension guarantee, which put them in between the third and fourth income quintiles (as shown in figure 28 above). Currently, 6 out of 10 benefits paid by the General Social Security System (*Regime Geral de Previdência Social* or RGPS), which is the national pension system for the private sector workers, are valued at one minimum wage, and this share will continue to grow further due to the lower replacement rates generated by the new benefit calculation formula that is being gradually phased in after the 2019 reform.

**Members of the RGPS who expect to benefit from the minimum pension guarantee currently have no incentive to increase their pension contributions.** In fact, the minimum pension guarantee greatly subsidizes those who only contributed 15 years – the minimum qualifying period – over their working lives, while taxing those with only 1 to 14 years of contributions (ineligible to the pension benefit despite having some contribution history). Today, workers transitioning between formal and informal jobs, with low contribution densities, who contribute fewer than 15 years are not able to claim a

► **Figure 38. Internal rate of return by decile of contributions made, for urban retirees with a minimum pension benefit**

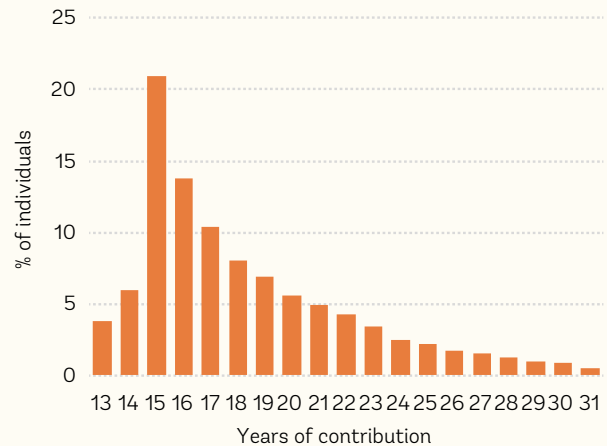


Source: SEPREV/Ministry of Labor. Color lines represent different deciles of the distribution of contribution amounts by pension beneficiaries during their working lives.

contributory old-age pension, that is, they 'lose' their contributions, subsidizing RGPS. On the other hand, low-earners who already contributed for 15 years can understand that they would not benefit from additional contributions, which might have some negative effect on formality. The minimum pension guarantee typically provides high but varied returns to contributors. For those contributing low amounts for short periods of time, the real internal rate of return is as high as 12 percent, which is an unreasonably and unfairly high subsidy. Simulations show that in the first eight deciles of contribution amounts, the real return is just above 4 percent, even for those who have contributed for a full 30 years (and higher for others) (figure 38). If the implicit rate of return were held at around 4 to 6 percent not only for those with a complete in-work career but also for those with only a partial career by prorating the minimum pension amount, total pension spending for those urban old-age pensioners who benefit from the minimum pension guarantee would fall to 64 percent of current spending. Clearly, such changes would result only in partial fiscal savings, because some households would qualify for old-age social assistance payments.

**As currently designed, the BPC, the social pension for those with an insufficient contribution history, creates incentives that are incompatible with the**

► **Figure 39. Length of contribution periods of beneficiaries who retired with a minimum pension benefit in 2008**



Source: SEPREV/Ministry of Labor.

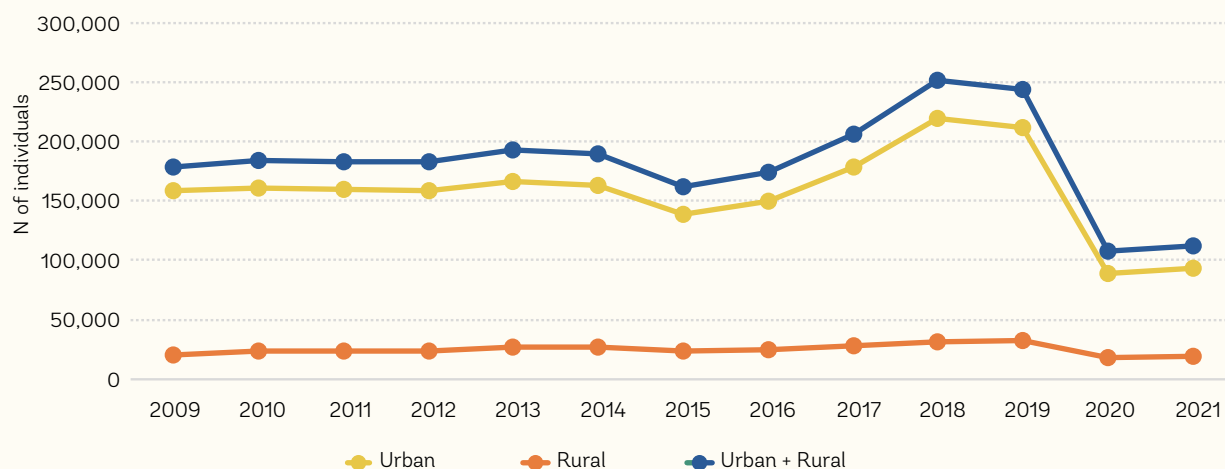
Note: No information was available on the contribution history of individuals who eventually did not meet the minimum requirements for retirement, which potentially extends the left-hand side of the distribution.

**rest of the system.** First, with a value equal to the minimum contributory pension, the BPC pension undermines incentives for individuals to contribute throughout their working lives and is not fair to those low-income workers who contributed to the pension system. Second, as discussed earlier, the minimum wage is not an adequate measure of need. Indexing benefits to a minimum consumption basket would be much more appropriate since the goal of the benefit is to protect the recipients from poverty. Finally, the current eligibility criteria for the BPC, which are based on household income, fails to protect many vulnerable elderly people, as some do not meet the minimum criteria of 15 years of contributions but also fall slightly above the household income eligibility criteria, despite having no old-age savings of their own.

**Finally, a fast and efficient way to support those affected by either a temporary or a permanent disability helps to build the resilience of individuals and their families.** Formal workers facing unexpected or acquired permanent disability in Brazil are covered by the pension system. The social security administration, however, has been facing significant challenges, including long claim processing periods, batch processing of claims, judicialization, and the inability to plan.<sup>38</sup> The average length of time it took

38 Social Security Statistical Bulletin (*Boletim Estatístico de Previdência Social*) January 2019 to January 2022 for claiming periods and judicialization and the Personnel Statistical Panel (*Painel Estatístico de Pessoal*) available at <http://painel.pep.planejamento.gov.br/>, 27/4/2022.

► **Figure 40. Number of disability pensions granted by year**



Source: Anuário Estatístico da Previdência Social (AEPS) and Boletim Estatístico da Previdência Social (BEPS), various years, SEPREV/Ministry of Labor.

the National Social Security Institute (INSS) to grant a benefit jumped up from 51 days in 2018 to 88 days in 2021 (a 73 percent increase). The proportion of benefits granted by courts because applicants had to resort to legal action to access the benefits increased from 10.4 percent in 2019 to 13.2 percent in 2021. The granting of benefits that depends on the evidence of medical doctors (such as the disability pension) has understandably been badly hindered by the COVID-19 pandemic in the last two years (figure 40), and the share of these kinds of benefit decisions made by courts peaked at 70 percent of the total in 2021. Advances in digitization have apparently not been enough to compensate for the reduction in the number of active INSS civil servants in recent years (from 36,500 in 2016 to 22,800 in 2019 and remaining at this level up to 2022). Much more efficient and streamlined processes are needed to prepare for the expected increase in the number of claims due to the rise in retirement ages that came into force since 2019.

#### 4.5 Sustainability and Efficiency: Major opportunities and unresolved challenges

**In recent years, the social protection system has been at the center of public policy discussions because of concerns about the fiscal sustainability of the federal budget.** A major challenge in the future will be to maintain a balance between expenditures and revenues for social protection, given that the trends described in Chapter

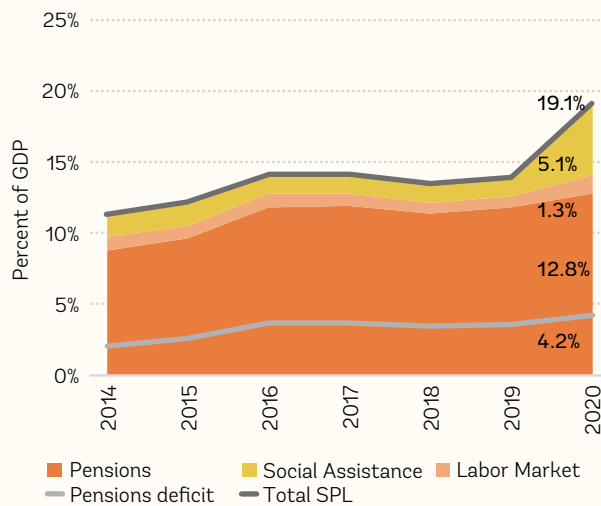
3 may erode the base of contributors or expand the number of old-age beneficiaries. This section discusses three strategic areas that require immediate attention from policymakers: (i) expenditures on contributory pensions; (ii) the existing financing of social protection; and (iii) the need to adopt innovations in the delivery of benefits.

**Structural expenditures on social protection and labor have grown only slightly over the last decade, until the COVID-19 pandemic measures** (figure 41). Social assistance, social insurance, and labor market expenditures have not changed much since the World Bank's conducted an in-depth expenditure review in 2017. The only exception was during the COVID-19 crisis in 2020-2021 when Brazil delivered one of the region's largest pandemic responses (Palomo et al, 2022), but that temporary spike was not designed to last (figure 42). The relatively stability of the country's social assistance expenses until the COVID-19 crisis resulted from the so-called "expenditure ceiling" (*teto dos gastos*), enacted in 2016, which limits expenditure growth to the level of the previous year's inflation rate. However in 2022 the structural social assistance expenditure envelope reached an unprecedented peak, and it will be important in the coming years to identify a fiscally-sustainable level, including through reforms that improve efficiency of noncontributory transfers.

**Pension reforms implemented in the past decades have not been able to fully control the pension deficit.** Subnational pension plans for civil servants

“Growth in structural social protection expenditures has been constrained by fiscal adjustment and the expenditure ceiling, but raised temporarily during the COVID-19 pandemic.”

**Figure 41. Social insurance, labor market, and social assistance expenditures as a share of GDP (2004-2020)**

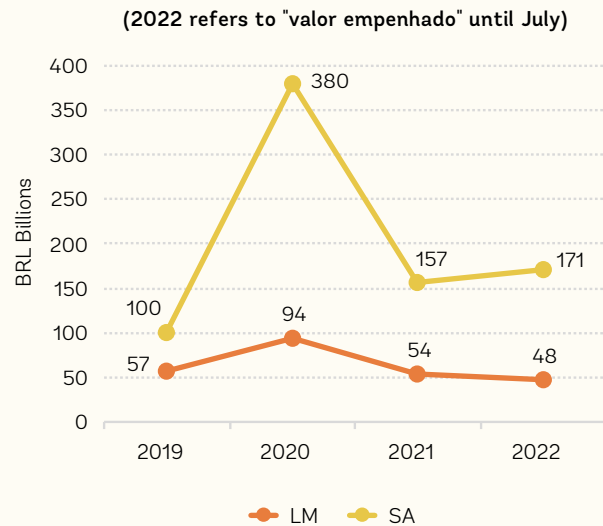


Source: The World Bank using Portal da Transparência and SEPREV (pension deficits).  
Note: Rural pension classified as social insurance.

have brought several states to the brink of insolvency, displacing funding for essential service delivery. Despite the passing of several pension reforms in the last three decades, the country’s pension schemes continued to generate rising deficits. In 2020, the RGPS had a BRL 270 billion deficit, the result of insufficient contributions from urban workers and a highly subsidized rural sector (figure 43). The COVID-19 crisis led to a sharp decline in urban contributions, which raised the deficit to unprecedented values. The most significant part of the RGPS deficit can be attributed to rural pension sub-schemes, which collect very little revenue (on average only 7 percent of the annual benefits paid to rural beneficiaries).

**Recent parametric changes will be slow to produce fiscal savings so projected expenditures will continue to outpace revenues.** The average replacement rate

**Figure 42. Social assistance and labor market expenditures (2019-2022)**



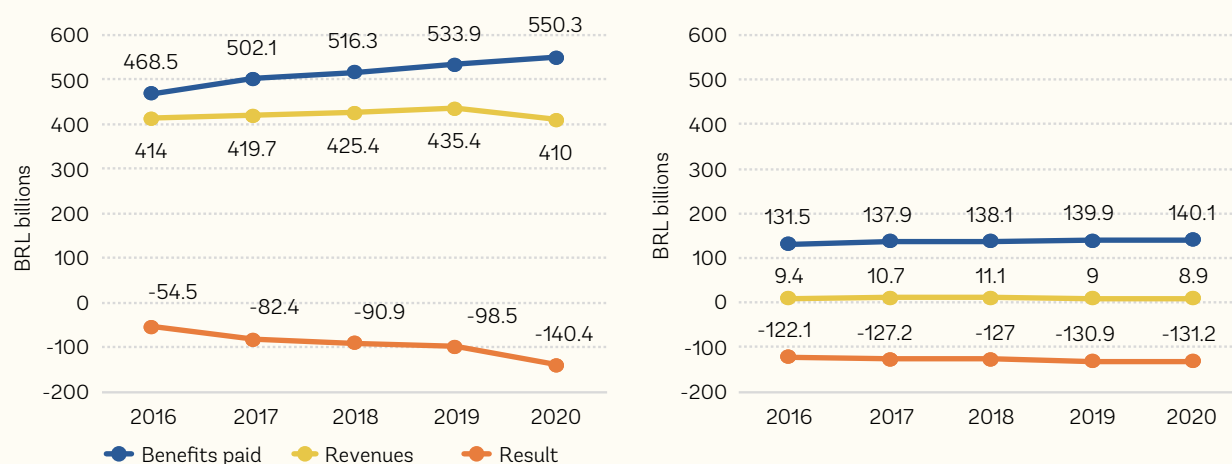
Source: Portal da Transparência, data retrieved in September 2022.  
Note: 2022 data refers to “valor empenhado” budget.

of pension benefits will fall very gradually due to the progressive impact of the latest 2019 pension reform over a 30-year long transition period and is expected to stabilize at the new level only after 2050 (figure 44). However, these measures are not sufficient to balance revenues and expenditures in the medium term (figure 45). Once the benefit of the retirement age increases are reaped by 2030, the growth of the deficits will resume as a result of the rising number of elderly.

**However, the medium to long term outlook for private sector pensions is less certain and depends on today’s policy choices.** The aging of the population is one of most obvious trends that can be predicted for the future, but forecasts about other factors, such as economic growth, real wage growth, and the number of active contributors in the labor market, are less reliable.<sup>39</sup> Membership of the RGPS is quite high,

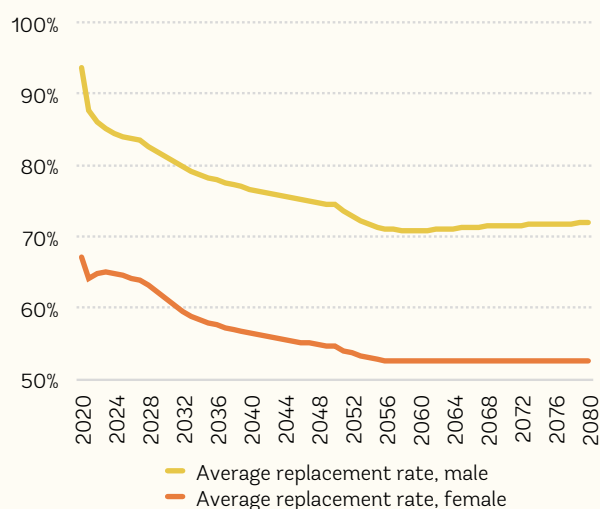
39 Since RGPS pension payments directly depend on individual wages, which are indexed to inflation, contributions revenues grow together with nominal wages. The higher the real wage growth, the higher the difference between the rates of growth of expenditures and revenues. The World Bank estimates that a 1 percent sustained difference in real wage growth could reduce the scheme’s deficit by about 1.5 percent of GDP by 2040, a trend that would continue in the following decades. The deficit could also be substantially influenced by changes in the contribution density of the working-age population.

► **Figure 43. Urban (left) versus rural (right) RGPS revenues and benefits (2016-2020)**



Source: Boletim Estatístico da Previdência Social, 2016-2020, SEPREV/Ministry of Labor.

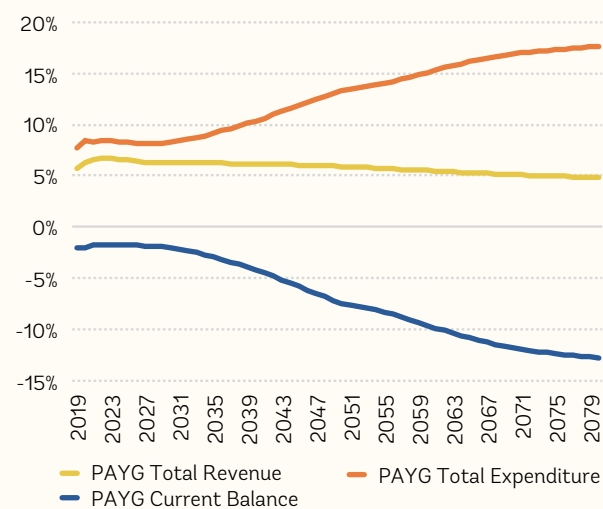
► **Figure 44. Average replacement rate of pension benefits gradually falling due to the progressive impact of the latest pension reform**



Source: The World Bank estimates using PROST.

although many memberships held by the working-age population are inactive. For the reasons discussed above, the number of RGPS members is unlikely to increase very significantly in the future. However, if employment becomes increasingly formal, this could mean that each affiliated person would contribute to the RGPS more regularly. If the number of monthly contributions were to go up by 10 percent, the deficit of the RGPS would be reduced by around 0.5 percent of GDP. On the other hand, if intermittent or casual formal work relations increase, then this could reduce contribution density and, thus, RGPS revenues. Even taking this uncertainty into account, the fiscal outlook for the RGPS look bleak

► **Figure 45. Projected revenues, expenditures and deficits of RGPS**

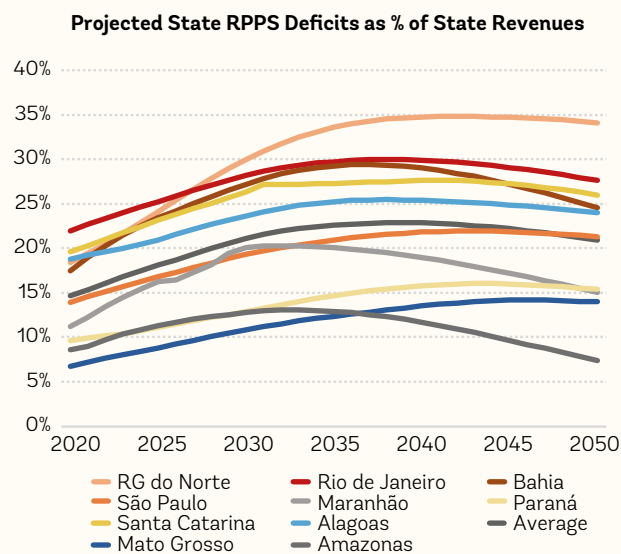


Source: The World Bank PROST simulations using INSS data.

because of the aging of the population, low economic and wage growth, the increasing automation of work, and the growth of expenditures on disability programs.

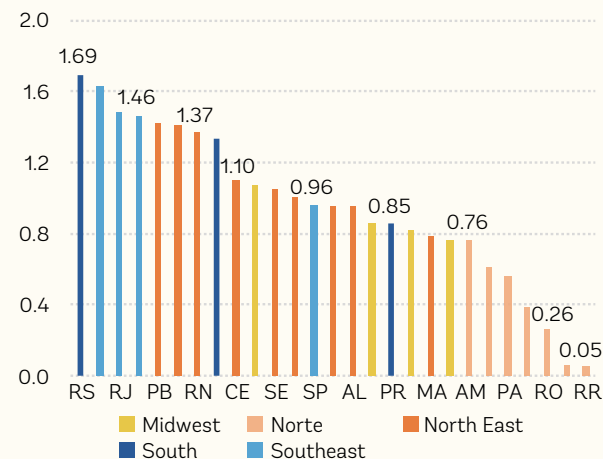
**In the short term, the fiscal sustainability of subnational pension systems for civil servants remains the main concern.** These systems have ever-growing deficits that are not expected to slow down until the mid-2040s. This is partly because of the large numbers of teachers, uniformed personnel, and civil servants hired before 2003 who retained their early retirement and generous pension privileges even after the pension reform (figure 46 and figure 47). While

► **Figure 46. Projection of deficits of selected state civil servant pension programs (as a percentage of current revenues)**



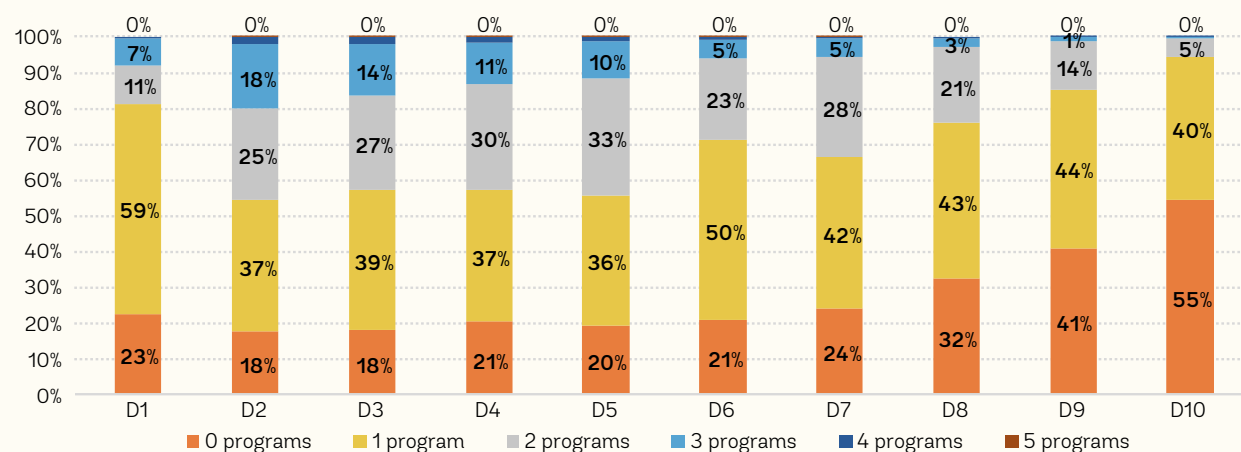
Source: The World Bank using data from Plano de Ajuste Fiscal/National Treasury Secretariat.

► **Figure 47. Proportion of pensioners and survivors to active employees in subnational governments**



Source: The World Bank using data from Anuário Estatístico de Previdência Social do RPPS/Ministry of Labor, 2020.

► **Figure 48. Share of the population in each decile, according to the number of benefits received by their households**



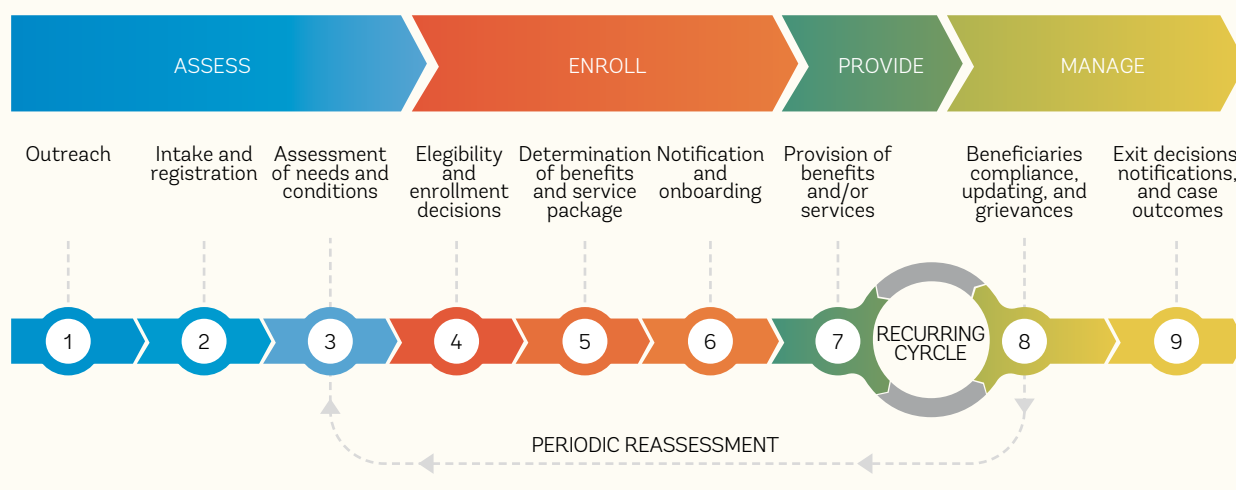
Source: World Bank (2018), using PNAD Continua data.  
Note: Deciles using Market Income plus Pensions per capita.

subnational governments are allowed in principle to extend their own parametric reforms beyond the provisions of the federal civil servant reform, but so far, most states that have made any changes have opted to copy or weaken federal civil servant reform.

**It is likely that additional measures to control pension expenditures will be needed in the next decade.** The 2019 pension reform justifiably mainly targeted early

retirement provisions, which mostly benefited higher-income members of the RGPS and civil servant pension regimes (RPPS). However, Brazil has yet to pass some fundamental parametric reforms such as setting the same pensionable age for men and women and for rural and urban workers, which should be remedied in future reforms. The current rules allow rural women to receive an old-age pension 10 years earlier than urban men. It is also critical for subnational social security systems

► **Figure 49. Delivery chain of a social protection system**



Source: Lindert et al. (2020).

to adopt reforms that will curb the fiscal imbalances arising from their pension regimes.

**Beyond the pension situation, the sustainability of Brazil's social protection system is also challenged by inefficiencies, such as those stemming from overlaps between programs and errors of inclusion.** World Bank estimations have shown that about 40 percent of households in income deciles 2 to 5 receive two or three benefits (figure 48), often due to the poor design of the programs in question (particularly in terms of targeting) rather than to imperfect implementation.

**Finally, a major determinant of the efficiency of Brazil's social protection system is how well they are delivered.** Delivery systems are the means by which social protection benefits and services reach their intended beneficiaries, and they are organized according to core implementation phases along the delivery chain (figure 49). The delivery of social protection is facilitated by communications, information systems, and technology, among other factors.

**The emergency programs introduced during the COVID-19 pandemic used innovative ways to deliver benefits to the population, but many of these have not yet been integrated into Brazil's longer-term programs.** Perhaps the most important was that these emergency programs exploited the core registries of contributory and non-contributory benefit programs, formal employers, and social insurance contribution records to identify those households and individuals who were in need of support. *Auxílio Emergencial*, for example,

accessed more than 40 data sources across the federal government. This showed that vulnerability and income losses can be assessed most accurately by comparing different relevant databases (Fietz et al, 2021). The experience also showed that, to make such innovations permanent, the governance of social assistance, pension, and labor records will need to be reviewed. Ideally, the records of the *Cadastro Único*, the General Register of the Employed and Unemployed (*Cadastro Geral de Empregados e Desempregados* or CAGED), and the FGTS Collection and Social Security Database (*Guia de Recolhimento do FGTS e de Informações à Previdência Social* or GFIP) should be integrated, and the National Register of Social Information (CNIS) seems to be the best place to house them. Reducing the amount of information that has to come from users themselves (on, for example, their formal employment record, education qualifications, and receipt of other benefits from the system) would increase the accuracy of the data as well as reducing the burden on the users in the future.

**The emergency pandemic programs also adopted a digital account system for paying social protection benefits to recipients fast and securely.** This innovation has led to the adoption of the same mechanism for *Auxílio Brasil*, which now by default provides payment in digital social accounts. Policymakers, however, still need to find ways to ensure the equitable access to digital services and to harness the potential of more private providers to offer high-value financial services to beneficiaries.

Another area for future development is that the **Cadastro Único** is still used as a means-testing registry of potential beneficiaries, with limited capacity to record the beneficiaries of those programs that make use of it. Programs use the *Cadastro Único* to determine the eligibility of beneficiaries but are not able to send information to the registry, such as data on enrollments. In addition, there is a persistent historic divide between the contributory and non-contributory registries and between implementing institutions (World Bank, 2018).

Finally, communication between social protection programs and their beneficiaries also needs to be developed. Except for *Auxílio Brasil*, which has a mobile app through which it can communicate with its recipients and receive their feedback, the only interface that other social programs have with their beneficiaries is during the enrollment process, or via grievance redress services. There is thus ample room to develop digital channels to facilitate more frequent interaction between program users and managers.



# Paving the way: Reform options for the next two decades



## KEY MESSAGES

- This note proposes ten policy reforms for the social protection system that can prepare Brazil to address structural issues, and new challenges deriving from long-term trends.
- The future social protection system should include a guaranteed minimum package of programs, designed to reduce exclusion errors, and directly coordinated with contributory programs.
- Subsidized coverage should focus on the most vulnerable, and gradually be withdrawn based on the ability to contribute;
- Brazil should reduce the gaps in access to social protection programs, and the differentials in contributions and taxes, between different forms of working (employed, self-employed)
- A universal cash transfer for children, combined with a means-tested benefit for poorer households, can improve efficiency and equity of the fragmented set of transfers for families.
- We propose a consolidated old-age social pension, directly coordinated with contributory pensions, capable of restoring incentives to contribute and fair returns at any contribution level.
- To improve early childhood development, conditional cash transfers can be accompanied by cost-effective interventions to strengthen parenting practices and coordination with other services.
- Several changes can improve the responsiveness of the SP system to climate-induced disasters
- Revamping systems to deliver labor market policies and economic inclusion interventions will be key to support the future workforce along many transitions. A reform of cash-based labor benefits can make space to finance a modern network of labor offices, while improving labor productivity.
- Enhanced delivery systems and technology can support execution of these policies, but should not substitute CRAS/SUAS, which instead could be strengthened to focus on social service delivery.

### 5.1 Guiding principles

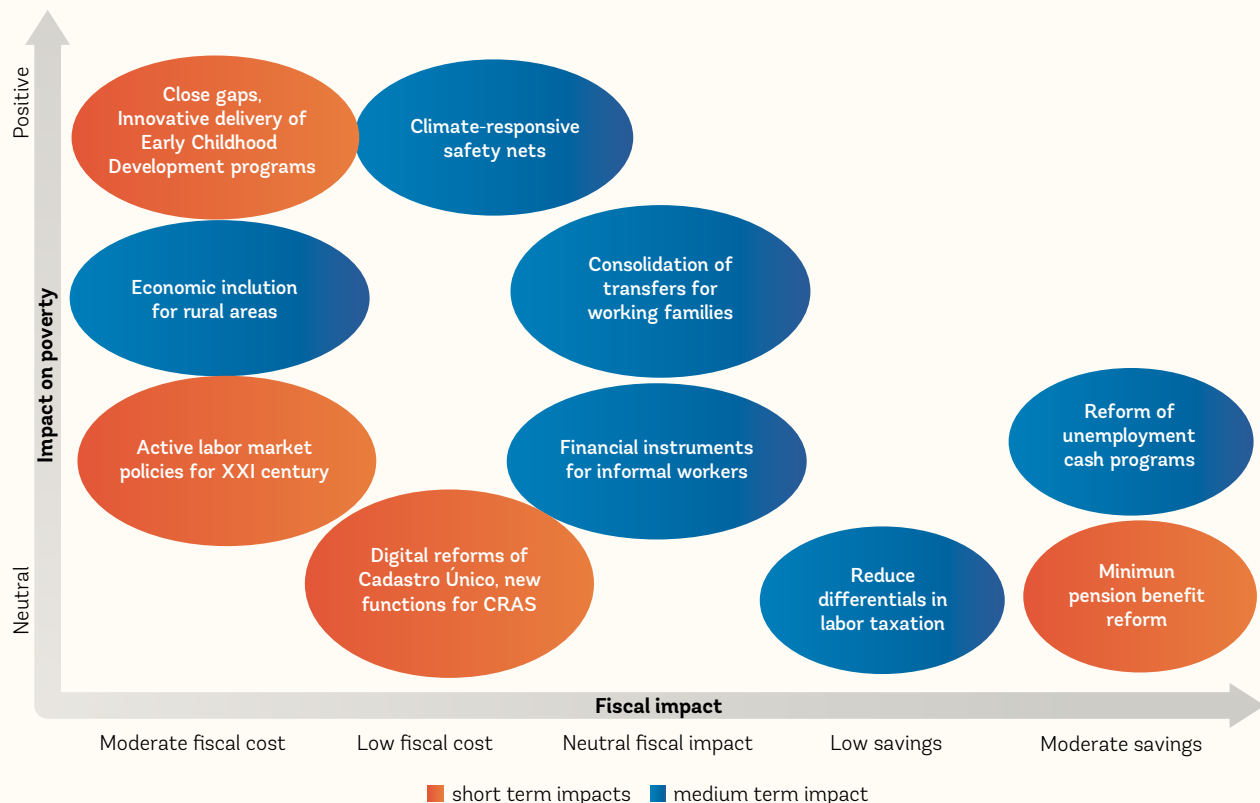
Several reforms could prepare Brazil to face the challenges brought by future megatrends. Figure 50 illustrates a selection of ten reforms that stem from the systemic analysis in this paper according to their expected impact on poverty and equity, their fiscal impact (positive, neutral, or negative), and the time horizon needed for their realization. The key will be to achieve a fiscally balanced package given Brazil’s constrained budget and the already large allocation devoted to the social protection system. In this chapter, we discuss the principles underlying these reforms and then each one of these reforms in turn.

The majority of these reform proposals build on, or directly draw from, prior analytical work. The purpose of this chapter is thus to suggest a general direction and a policy package and to refer to more in-depth publications exploring the detail behind the policies. The reforms were largely drafted with the pre-COVID 19 scenario as a baseline, given the challenges involved in simulating the tax benefit system with 2020-2021 data and the uncertainty about the future

of temporary relief programs. Recent developments regarding the size and design of *Auxílio Brasil* are taken into account. Even though Brazil’s total expenditure on social assistance is now higher, the recommendations for the medium term remain valid.

The social protection policy package should focus on ensuring access to risk-sharing instruments, especially for the most vulnerable, as a way to expand opportunities and inclusion. The recent papers *Charting a Course Towards Universal Social Protection* (World Bank, 2022a), *Time for a New Course: an essay on social protection and growth in Latin America* (Levy and Cruces, 2021) and *Risk Sharing in a Diverse Labor Market* (Packard et al, 2019) laid out some guiding principles for developing countries for revisiting their provision of programs in the light of the challenges to expanding coverage and generating incentives for development, the changing nature of work, new sources of risks, and advancements in administrative systems. These principles are also applicable to the renewal of Brazil’s social protection and jobs system and are the basis for the proposals for incremental policy reform discussed in this chapter.

► Figure 50. Direction of fiscal and poverty impacts of the proposed reforms to Brazil social protection system



Source: Authors.

**The foundation of a social protection system for the future would consist of a guaranteed minimum package of benefits to be targeted in such a way to minimize exclusion errors.** The guaranteed minimum would consist of two components: (i) transfers to prevent poverty and (ii) subsidies to cover the premiums for insurance against catastrophic losses for which there is no market alternative. Packard et al (2019) argued that the guaranteed minimum is best financed from the national budget (the broadest tax base) and should prioritize approaches that minimize exclusion errors,<sup>40</sup> even at the cost of higher inclusion errors.<sup>41</sup> Following this principle, our first proposal would be to institutionalize a universal cash transfer for children, combined with a means-tested minimum income benefit for poorer households. Our second proposal, recognizing the quasi-universal (but fragmented) coverage of existing programs for the elderly in Brazil, would be to create a universal old-age social pension benefit, deliberately coordinated and incentive-compatible with contributory pensions. This would both close the limited outstanding gaps in old age coverage and increase efficiency of total spending on old age. These two reforms are key to ensuring protection throughout the lifecycle and can be considered as the first layer of protection to be provided by a future social protection system.

**The guaranteed minimum package would be supplemented by several additional layers of protection, with the second layer being mandated and individually financed insurance (or savings).** This insurance or savings mechanism would be proportionate to the ability of an individual to contribute and would cover losses that are relatively rare and catastrophic (for example, disability, premature death, and extended longevity). Requiring people to save and self-insure through instruments that provide actuarially fair benefits lowers the risk of moral hazard and ensures that public resources are transparently allocated to people who need them the most. Our proposal on reforming the minimum pension guarantee aims to disentangle the subsidy and contributory components of Brazilian pensions. A transparent contributory pension would be open and required of all workers, regardless of how they engage in the labor market, including self-employed workers doing new forms of digital work.

**The government should also actively encourage individuals to save for the short and for the long term, building a third layer of protection with low fiscal costs.** Our policy proposals in the next section propose to expand individual savings for self-employed and informal workers; they aim to help workers to self-insure against labor income shocks beyond what would be available from the guaranteed minimum package. Historically, voluntary saving schemes have had a low take-up in developing countries, as they are a normal good, that is, people save more as income rises. Moreover, people are subject to numerous biases that dampen the interest in saving for future needs. To overcome in part this limitation, some countries have experimented with built-in behavioral nudges to remind people to save, default opt-in features to set aside part of income streams into separate accounts, and behaviorally informed monetary incentives such as matching contributions. Investing in the financial education of the population can also increase knowledge about and interest in insurance and savings.

**The guaranteed minimum package should also set adequate benefit levels, ensure that incentives are compatible across all programs, and be fiscally sustainable and countercyclical.** These different desirable attributes are often difficult to attain simultaneously, but a few lessons have been learned from global experience that can help to achieve all these goals:

- Programs operate as entitlements, which means that they should respond to observed needs. For this to happen, programs need to be rights-based (UNDP, 2021), countercyclical, and have a continuous eligibility process. In Brazil's case, this means that cash transfer programs need to be given the same legal status as other social protection programs, that is, to become a guarantee of rights, to prevent any form of rationing or waiting lists. Adaptive reforms are also needed to give them the fiscal space to respond to times of crisis. At the same time, since the average benefit of the CCT program grew substantially, compared to its pre-crisis level, its benefit level could be revised, and its design made more efficient, to ensure that the program is available to all those in need.

40 For example, a guaranteed minimum income program consisting of strict means-tested benefits aimed at preventing poverty at minimum expense to the budget. However, this approach carries a risk of under-coverage, meaning not reaching all eligible recipients.

41 For example, a universal basic income program, in which a flat amount would be paid to every individual regardless of their means, which would result in fewer exclusion errors.

- The guaranteed minimum package should allow for the gradual phasing-out of benefits to avoid any sudden sharp reductions in household income. This will require all programs to adhere to the same means-testing mechanisms (not thresholds necessarily) and for their administration to be coordinated. Our reform proposals for the old-age pension and social assistance also aim to prevent any break in coverage for households due to temporary changes in income or contributory period.
- Eligibility thresholds for the package should be set relatively high to make it possible to support the substantial number of individuals who move in and out of poverty.

**Finally, facing many of the structural issues of the future depend on the provision of high quality services.** This implies a partial reallocation of social protection budgets away from cash expenditure, and greater emphasis on systems that ensure good governance, capacity building and quality assurance of locally delivered programs, including by expanding the capacity of the federal government to steer and finance complex policies. There are important precedents in the Brazilian public administration, such as in the roll-out of SUAS nationwide, that can be extended to other sector and programs.

## 5.2 Ten policy reform proposals for a 2040 outlook

We make the following suggestions for reforming the Brazilian social protection system to enable it to cope with the trends and changes that are expected over the next two decades.

### *i. Consolidation of fragmented transfers for working families*

**To increase the sustainability of the CCT program and ensure its true countercyclical capacity, benefits for working families should become coordinated, ideally integrated in a single program.** As discussed in Chapter 4, the Brazilian government provides some form of income supplement to households in all segments of the income distribution, in the guise of a “tapered universal basic income” (where total benefits received fall as household income rises). In Brazil’s case, however, this tapered income support is fragmented. The coexistence of benefits with different targeting approaches creates

duplications in some households and a lack of coverage in others. Additionally, with the creation in 2022 of the *Benefício Extraordinário* (Extraordinary Benefit), a series of generous extra payments from *Auxílio Brasil*, total expenditure on family transfers increased substantially compared to before the pandemic but in a way that privileges single-member households to the detriment of those with many children.

**Brazil could consolidate its transfers for working families into a single tapered social transfer, which could support the chronic poor and those affected by transitory shocks more generously and sustainably.**

Over the years, several authors have proposed this type of benefit consolidation (see World Bank 2018, and Paiva et al, 2021). Our proposal, named the “consolidated social assistance benefit,” builds on this literature and on the innovations achieved by the social protection system since the COVID-19 crisis. We propose that it should have the following features:

- *A strong focus on inclusion and lessons learned from the experience of the Auxílio Emergencial.* One of the important innovations adopted by the *Auxílio Emergencial* was to include by default households that may temporarily be able to rise out of poverty but do not have sufficient means to remain there.
- *The avoidance of disincentives to formal labor market participation* by adopting a relatively high exit threshold and a smooth phase-out benefit rule to prevent families with earnings slightly above the eligibility threshold being drastically penalized, including when they enter the formal labor market.
- *Treating different forms of labor income in the same way for taxing and contributory purposes*, including income from wage and self-employment, to enhance horizontal fairness in the rewards from work. Similarly, contribution levels should be equally rewarded in terms of benefits across forms of work.
- *Deliberately coordinating social assistance and unemployment insurance* to make social assistance a second-tier safety net when insurance benefits expire, and to avoid household-level duplication of benefits.
- *Ensuring that the consolidated social assistance benefit serves as a platform to promote the use of other services.* These could include early childhood development, support attendance to health, early

and basic education, and serve as entry for financial and economic inclusion programs, as already done by *Bolsa Família/Auxílio Brasil*.

- Addressing the weaknesses in the design of the *Benefício Extraordinário* and *Benefício Complementar*, such as the flat amount that disregards family composition, and ends up as an incentive for families to split.

A reform with these characteristics would be compatible with the legal basis of the *Bolsa Família/Auxílio Brasil* program, as the program's law allows to absorb other benefits into the CCT program.

**One possible way to implement a single social transfer would be to combine a universal benefit for children with a broadly targeted means-tested benefit to poor households.** This new program would have two components:

- Universal flat child benefit:* This would consolidate all existing transfers targeted to children, which are now fragmented throughout the tax benefit system (including the child and youth benefits of *Auxílio Brasil*, *Salário Família*, and child-related income-tax deductions)
- Means tested benefit:* This would consolidate the unconditional component of *Auxílio Brasil* (the Citizenship Benefit or *Benefício de Cidadania*) with *Abono Salarial*, a program originally meant to support low-wage workers, albeit very ineffectively at present. The benefit would begin to taper off above the eligibility poverty line to preserve incentives to participate in the formal labor market.

**We performed simulations of this proposal with a budget neutral design using program expenditures in 2019 as the baseline year.** We used the World Bank BraSim tool calibrated for 2019 with the budgets of *Bolsa Família*, *Abono Salarial*, *Salário Família*, and child income tax deductions as the baseline. The new consolidated social assistance program would pay a flat benefit to all Brazilian children aged between 0 and 17 (universal component), and one flat benefit to each adult living in households below a poverty eligibility

threshold (means tested component). The eligibility threshold used in the simulation was R\$ 250 per capita at 2019 prices,<sup>42</sup> which was set at a level that would allow low-income formal workers to benefit from the targeted component. For those with incomes above the R\$ 250 eligibility line, we assumed the benefit would be withdrawn with a marginal tax rate of 50 percent, meaning that a R\$ 1 increase in per capita income above the eligibility threshold would lead to a decrease of R\$ 0,50 in the benefit level per adult.

**This new consolidated social assistance benefit would remain reasonably well targeted and would reduce poverty by a similar degree as would be the case if the current fragmented system could be perfectly implemented.** Despite its universal design, the child benefit would be progressive.<sup>43</sup> This is because the distribution of children in Brazilian households is skewed towards the poorer quintiles. In this budget-neutral simulation, there would be only small, and statistically insignificant, variations in the poverty rate after the reform (using different poverty lines) compared to the perfect implementation of all transfers scenario. However, the new structure of benefits would be coherent (as opposed to the current fragmented structure), would bridge coverage gaps, would reach a larger number of beneficiaries, would avoid overlaps, and would offer appropriate incentives for individuals to look for formal jobs. The smooth reduction of transfers over the income distribution (figure 51) is a good illustration of the consistency of the new design.

**The main advantage of this reform would be to reduce the likely exclusion errors that arise as a result of the current fragmented system, and of the imperfect implementation of means tested benefits.**

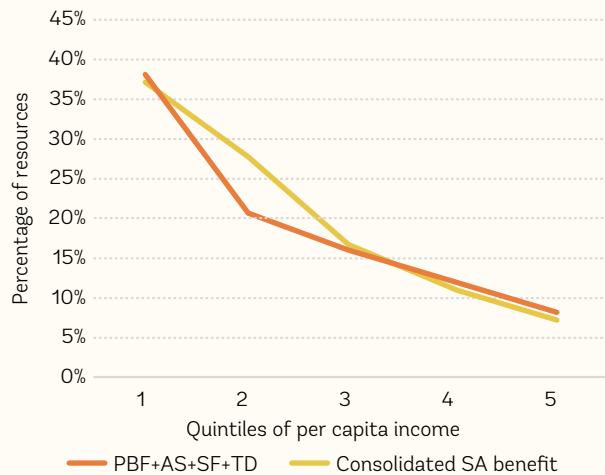
The consolidated program would not only prevent overlaps but would also bridge the existing gap in the coverage of children. Soares et al (2019) using data from the 2017 Brazilian National Household Sample Survey (PNAD) estimated that 2.5 million children received more than one benefit whereas 17 million children received no benefit at all, half of whom were in the bottom 30 percent of the income distribution. The universal component would thus create a stable income stream to support children living in vulnerable households, regardless of the households' form of

<sup>42</sup> Recalling that eligibility thresholds in 2019 were R\$ 89 for extreme poverty and R\$ 178 for poverty.

<sup>43</sup> Universal benefit has a concentration coefficient of -0.19. Combined, the universal and the targeted components would have a concentration coefficient of -0.32. The concentration coefficient measures how progressive or regressive is a specific source of income. It varies from -1 to +1. Income sources with concentration coefficients below the Gini coefficient (which measures income inequality) may be considered progressive (that is, they contribute to reducing income inequality). Income sources with concentration coefficients below 0 may be considered highly progressive.

engagement in the labor market or of the frequent fluctuations of income that currently cause families to constantly rotate in and out of programs (Fietz et al, 2021 and Morgandi et al 2022).

► **Figure 51. Incidence of the proposed consolidated transfer for children and low-income families, compared to sum of all major fiscal transfers for families in 2019**



Source: Authors' simulations based on the 2019 BraSIM Microsimulation Tool. Note: The figure shows the incidence of the proposed consolidated transfer, compared to the incidence of all family-focused transfers (Bolsa Família, Abono Salarial, Salário Família and the Child deduction to income tax).

**The broadening of the beneficiary base, especially among the vulnerable middle class, could also support the political economy of reform.** Under the assumption of perfect implementation, our simulations suggest that the total number of direct and indirect beneficiaries would go up from the current 125.7 million<sup>44</sup> to 140.9 million. Earlier attempts to consolidate all transfers into a single benefit only reaching the poor (Renda Brazil reform, 2021) rapidly succumbed to the political economy dynamics that explain the endurance of poorly designed benefits such as *Abono Salarial* in Brazil. The new design sends a clear signal to most beneficiaries of *Abono Salarial*, *Salário Família*, and income tax deductions that most of them would get something from the new program (either because they are low earners, or because they have children) and with less risk of being required to exit the program. At the same time, the large overrepresentation of children among the poor in Brazil would ensure that it was sustainably progressive.

44 Benefiting from *Bolsa Família*, *Abono Salarial*, *Salário Família*, or child income-tax deductions.

45 It would also be a response to the Supreme Court's determination to accelerate the implementation of the universal basic income process provided for in law 10,835/2003.

**Many operational aspects of such a reform would require further planning.** From an administrative perspective, unifying the budgets of the relevant programs would be anything but simple. The benefits of *Abono Salarial* are paid more than a year after recipients meet the eligibility criteria, and *Salário Família* and income tax deductions are tax expenditures rather than social protection spending. Also, only *Cadastro Único* and the income tax registry contain reliable information on children in Brazilian families, and, according to Paiva et al (2021), 26 million children are not reflected in either registry. As was done in the case of the *Auxílio Emergencial* program, the *Cadastro Único* could be scaled up through the use of a simplified digital application form to construct a single national registry of households for the purpose of applying to the universal program. This could help to promote self-targeting, as upper-income households are less likely to apply for a benefit of limited generosity, whereas as of today, the benefit is automatically captured as a tax deduction.<sup>45</sup>

**Another key issue relates to the role and breadth of benefit conditionalities, which are the lynchpin of *Auxílio Brasil*.** More analysis will be needed on the evidence of CCTs effectiveness in Brazil, and patterns of service usage by children and youths across the income distribution. One option might be to extend hard conditionalities to all beneficiaries of the universal transfer. After all, *Salário Família* has similar conditions to those that were required by *Bolsa Família* (school attendance and vaccination), with the main difference being that they are not enforced. However, this would probably not be compatible with the rights-based approach advocated here. An even less justifiable option would be to limit conditionalities to children living in households that also receive the means-tested component, which would overlap to a considerable extent with the current set of families receiving *Auxílio Brasil* benefits. A potentially interesting option would be the adoption of soft conditionalities, maintaining the monitoring system and engaging social workers in case of noncompliance with the conditions of school attendance and health checkups and thus move towards a more nuanced, risk-based model, which exists in other countries. However, this option raises operational and costs concerns.

**Finally, these reform simulations could be updated in the future to incorporate the 2022-2023 Auxílio Brasil budget as the new baseline and to revise the Benefício Extraordinário.** As stated in Chapter 4, the *Benefício Extraordinário* exhibits design weaknesses, and led most *Auxílio Brasil* beneficiary families to receive a flat generous benefit at a R\$ 600 regardless of their size or need. As such, it canceled out the design improvements in *Auxílio Brasil*, which tried to maximize its impact on specific groups. A second potential risk of the *Benefício Extraordinário* is that it may give families an incentive to split into smaller units. Finally, the benefit exacerbates inequities between those just above and below the eligibility line. It remains unclear whether the 2023 budget for *Auxílio Brasil/Bolsa Família* (which, including *Benefício Extraordinário*, accounted for 1.4 percent of GDP), can be sustained as the permanent fiscal baseline for family social assistance. In the context of our proposal, the resources currently spent on the *Benefício Extraordinário* would be used to increase the generosity of the means-tested component of the consolidated benefit. It is also important to consider the opportunity costs of further expanding cash benefits, given the alternative uses to which such funds could be put, especially to develop underfinanced services in the social protection package, as will be discussed further in this chapter.

## ii. Minimum old age benefit reform and elimination of retirement age differences

**Considering the major sustainability challenges facing the pension system, the reform of the minimum pension benefit will be vital, coupled with compensating measures in the provision of social pensions.** Brazil currently provides a “minimum benefit guarantee” for most old age residents through several programs: (i) the guaranteed minimum pension; (ii) the (de facto non-contributory) rural pension; and (iii) the BPC social pension. As discussed in Section 4.4, this mix of programs is fiscally expensive and has several design elements that make it unsustainable and distortive. We recommend a series of design changes to all three benefits to improve their equity and consistency and to increase their efficiency. First, we suggest reforming the guaranteed minimum contributory pension benefit by prorating the generosity of the benefit to the number of years of contributions, eliminating the difference in retirement age between men and women, and removing

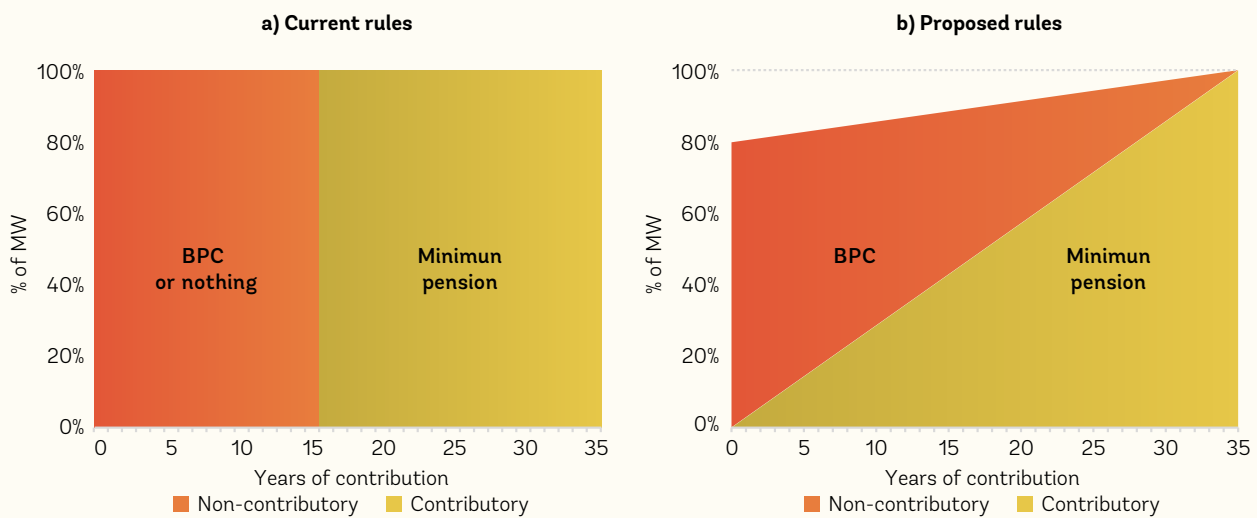
the minimum contribution period. Second, we propose revising the level of the BPC to restore incentives to contribute to the pension system and, finally, consolidating the BPC with rural pensions.

**Pro-rating of the generosity of the minimum pension to the number of years that individuals have contributed to the system during their working lives would be fairer.** The minimum pension amount is set in the Brazilian constitution as equivalent to the minimum wage, but currently only those who make at least 15 years of contributions receive any benefit. The proposed reform would remove the 15-year minimum contribution, thus no longer penalizing those with shorter work histories.<sup>46</sup> At the same time, the benefit would no longer have its currently high floor and, instead, be prorated to years of contributions. A worker with a full contribution history (35 years for men at the moment) would continue to qualify for a full minimum pension, while one with 5 years of contributions would receive 5/35 of that amount. Only the contributory part of this benefit would be extendable to survivors. This reform would remove the subsidy component of the minimum pension guarantee. For those who did not qualify for the full pension, the BPC benefit could be used to complement the income gap, as discussed below.

**The BPC could then be coordinated with this newly designed contributory pension to ensure that all elderly people remain out of poverty.** Consistent with usual practice in most countries, the BPC benefit could be gradually reduced in real terms (keeping its nominal value) to become lower than the minimum contributory pension. In addition, for those elderly people who qualify for only a portion of the contributory pension (because of their short contributory history), the BPC would kick in to complement their income. For those elderly people with no contributory pension (such as those who have worked in the informal sector all their lives), the BPC would be paid in full (see figure 52). This design would de facto make the minimum old-age protection universal and eliminate the means test currently applied to the BPC. This universal approach would not be overly costly, since most elderly people already receive some benefit now but would help to ease the political challenge of a reform and reduce administrative inefficiencies. The income tax reforms that we propose below make it possible for the government to claw back part of the benefit paid to higher earners.

46 The pension is currently accrued at 4 percent of the wage base per year for the first 15 years and at 2 percent thereafter.

► **Figure 52. Consolidating the components of old-age pensions (BPC and rural pension) and the prorated minimum contributory pension guarantee**



Source: Authors.

**The savings generated by this reform would enhance fiscal sustainability of the system without increasing poverty.** With the aging of the population, the demand on mandatory entitlements in pensions would otherwise continue to rise, so reforms like this will be essential to avoid crowding out other less protected and more pro-poor expenditures. As the minimum pension accounts for a large share of pension benefits granted annually, the reform would have a sizable fiscal impact. Under our proposal, if the implicit rate of return is held at 4 to 6 percent, not only for those with a complete work career of 35 years but also for those with partial career (by prorating the minimum pension amount), the total savings on current pension spending would be 36 percent. Even accounting for increased expenditure on the BPC, the total savings would still be around 30 percent of all current spending on minimum benefits, or BRL 80 billion per year (0.9 percent of GDP).<sup>47</sup> To put this into perspective, expenditure on the entire BPC program is currently BRL 35 billion per year.

**Thus, the proposed reform would offer multiple advantages.** It would provide all the elderly with secure protection against poverty, while avoiding the duplication of benefits at the same elevated level in a context of high fiscal tradeoffs where many poor

families do not even receive the minimum level of support. The proposed reform would improve incentives to contribute, increase fairness, and increase the fiscal sustainability of the pension system. Also, our proposal regarding the consolidated social assistance benefit would reduce the administrative burden on individuals, the Brazilian Social Security Institute (INSS), and the courts while also ensuring that all of the elderly population is protected against falling into poverty.

### iii. Reducing differentials in the taxation of different forms of working

**The changing nature of work, and Brazil's 2017 reform of the labor code, highlighted the need to adjust the tax wedge and contributions to social insurance.** The tax wedge (the difference between total labor costs and the net wages that workers receive) on dependent work in Brazil is one of the highest in the LAC region and is just below the average in OECD countries. In contrast, the tax wedge faced by individuals who sell their labor legally on the market as firms (sole proprietors or partners) is significantly lower. Depending on the form of incorporation involved (such as MEI, SIMPLES, or other forms of legal entity), non-dependent workers can shield a large part of their earnings from income

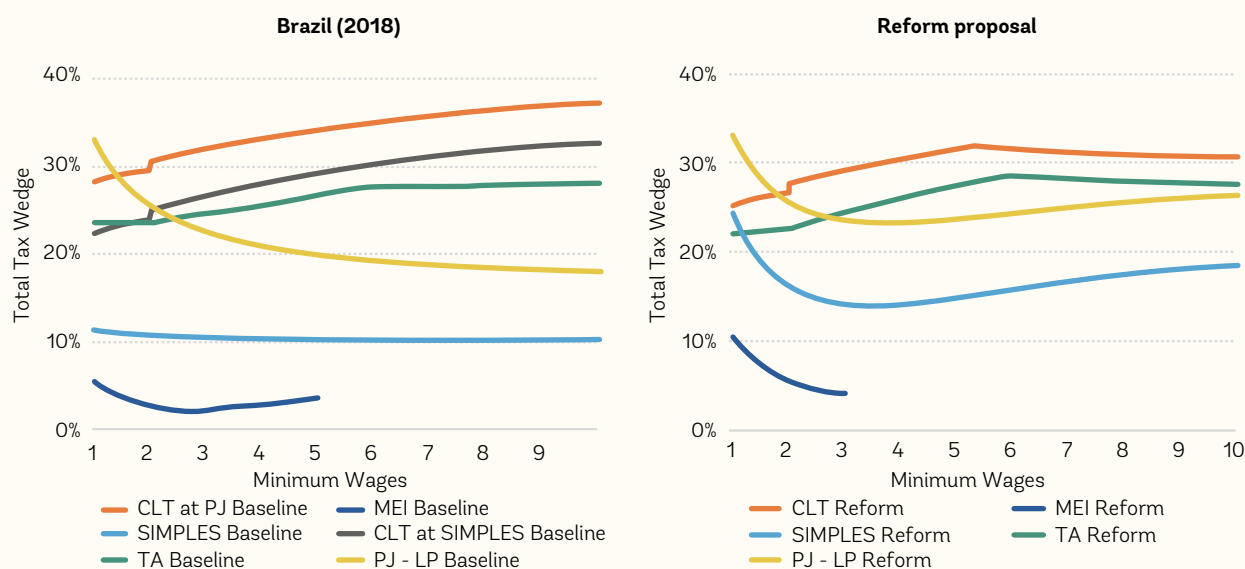
<sup>47</sup> Savings from equalizing the retirement age are not included in these calculations.

tax,<sup>48</sup> pay reduced social insurance contributions, and avoid other levies that form part of the tax wedge of regular wage employees.<sup>49</sup> This heterogeneity in taxes and mandatory contributions related to different forms of work results in different effective tax rates on Brazilian workers, even between those performing very similar work (see figure 53).

**Concerns about the phenomenon of *pejotização* (or outsourcing) are growing, particularly with regard to its negative effects on efficiency, fiscal revenue, and worker’s vulnerability.** The considerable cost and regulatory advantages associated with self-employment are likely to explain the increasing share of non-dependent workers in the formal workforce, as discussed in Chapter 3. International experience has shown how cost arbitrage opportunities generate strong incentives for firms to contract self-employed workers

wherever possible. Involuntary self-employment can be problematic as these workers cannot access the social protection tools in place for wage employees. The changes to the labor law adopted in 2017 reduced the restrictions on workers performing many tasks as independent subcontractors of larger companies, thus further expanding the demand for this form of work. Legal provisions against “disguised self-employment” remain in place in Brazil, but they are not necessarily effective, especially as technological change has made it easier to segment and outsource labor inputs without a direct dependent contract. Brazil’s special regimes also have a significant negative impact on revenues. In 2017, 61 percent of the 4.9 million formal firms that contributed to the Brazilian Social Security Institute (INSS) were part of the SIMPLES or MEI regimes. These firms represented 26 percent of total employment and 16.8 percent of total wages (AEPS, 2017).

► **Figure 53. Total tax wedge as a percentage of labor earnings for different forms of work in Brazil, current design and potential reform**



Source: World Bank de jure tax and benefit model for Brazil for 2018 developed by Katharina Fietz, Stella Carneiro, Matteo Morgandi, Cornelius Fleishaker, and Rodrigo Orair.

Note: The model identifies the tax wedge (% of total labor costs paid in contributions and taxes) by different individuals selling their labor under different regimes. CLT identifies dependent workers hired under the labor code, either in a regular firm (PJ) or in a firm in the simplified regime (SIMPLES). TA= Trabalhador Autônomo in the labor code. MEI = microentrepreneurs. SIMPLES = firm partner in the SIMPLES (simplified tax) regime. PJ = firm partner in the regular regime (Pessoa Jurídica - PJ). LP = expected profit (Lucro Presumido - LP).

48 In Brazil, labor income is subject to personal income tax (IRPF) as well as payroll contributions (which vary according to each kind of employment). On the other hand, dividends paid out to shareholders of a company (including an individual owner of a small company) are tax-exempt. Dependent workers must declare all of their earnings as labor income (*pro-labore*), while autonomous workers and micro-entrepreneurs (two different forms of self-employment) can deduct part of their revenues as costs (whether real or presumed). Also, owners of firms (such as SIMPLES or PJ) are able to choose the share of their net profits that should be considered labor income, with the rest being tax-exempt dividends.

49 Levies include the IN CRA contribution, the *Salário Educação* contribution, the *Sistema S* contribution, and the *Seguro Accidante Trabalho* contribution.

**We propose that several changes be made to taxes and contributions to reduce the cost of labor, improve equity and increase neutrality across different forms of work.** Proposals areas follows: (i) reduce the difference in the costs of procuring labor from a dependent wage employee and a self-employed worker; (ii) align taxes across types of types of incomes (dividends/profits, pensions, wages, and rents) to achieve tax neutrality; and (iii) Increase the overall progressivity of the direct tax system by collection of the personal income tax, through more progressive rates in line with OECD countries, and fewer exemptions. These proposed changes contribute to harmonize the tax wedge across all types of workers and are designed to be fiscally neutral.<sup>50</sup> Figure 54 presents the results of simultaneously applying all of our proposed changes on final tax rates. Importantly, the reform would significantly reduce the cost of formal dependent work and, in general, would lower the differential in tax wedge between forms of work, particularly for high earners who are most capable of exploiting arbitrage opportunities.

**More in detail, eliminating the taxes that are financing pure public goods from the dependent workers' payroll, could already reduce significantly cost of dependent wage employees.** To reduce the high tax wedge of dependent wage employees, the financing of public goods such as the Land Reform National Institute (*Instituto Nacional de Colonização e Reforma Agrária* or INCRA), *Sistema S*, and *Salário Educação* could be removed from the payroll. Only this could reduce the tax wedge for a single earner receiving the average wage from 31 percent to 28 percent. A similar reform was carried out in Colombia, which increased formal employment among low-wage workers (Kugler et al, 2017). Furthermore, we propose applying the same contribution base ceiling as is applied to employees' social security contributions to the employer's security contributions (*contribuição patronal previdenciária* or CPP). The current ceiling lies at about 6 minimum wages, thus turning contributions into a pure tax on high-income workers. As a final step, the non-labor costs of dependent workers can be harmonized, regardless of which firm they work for. For instance, the same rules of *Seguro Acidente de Trabalho* (work accident insurance) should be applied to dependent wage workers working in firms in both the PJ and SIMPLES regimes.

**To offset the revenue losses from reducing payroll taxes, Brazil could align personal income taxes with international good practices by removing the current exemptions for dividends and pension incomes.** In Brazil, dividends distributed to individual shareholders are exempt from income taxes, which is a global anomaly. This further incentivizes individuals to incorporate as firms. A second group that is treated differently than dependent workers are pensioners. Income tax exemptions on a portion of the income from pensions currently costs the government more than BRL 70 billion per year. Both changes would increase the neutrality of income taxes and would help to finance a reduction in the cost of labor, thus stimulating the creation of formal employment in formal firms.

**Second, aligning pension contributions rates for all types of workers would further reduce incentives to disguise dependent work as self-employment.**

The fact that SIMPLES and PJ owners can declare an arbitrary contribution base (*salário de contribuição*) regardless of their actual profits allows them to legally under-report their income for pension purposes. In our proposal, we aim for a harmonization of contribution rates by: (i) applying a maximum contribution base to the employer's social security contributions; (ii) applying the same rates as dependent workers to self-employed workers who are working for an employer; and (iii) increasing the contribution rate of MEI workers to match that of dependent workers, from 5 percent to 11 percent of the minimum wage.

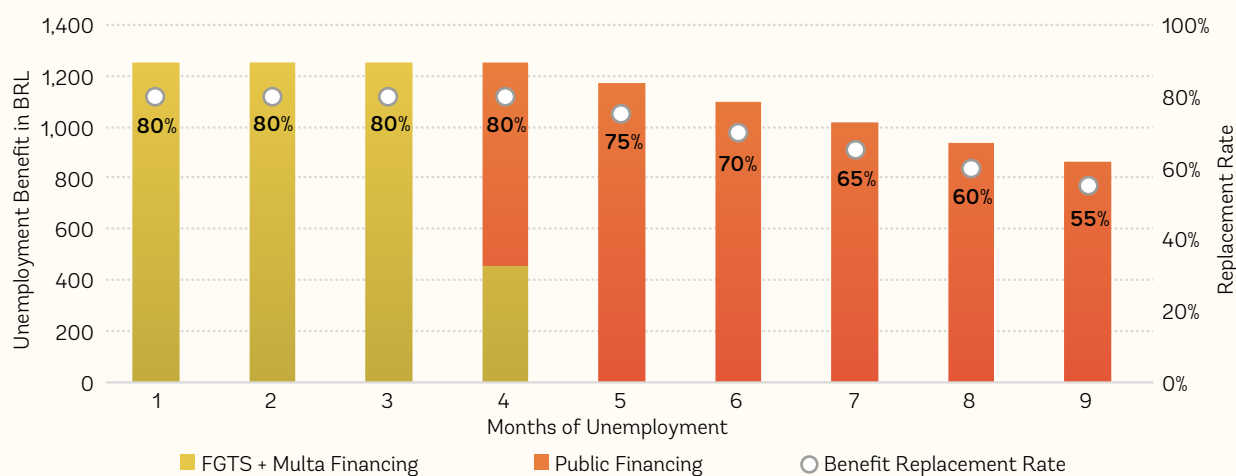
#### *iv. Unemployment protection programs for formal workers in the future labor market*

**To increase the efficiency of unemployment protection programs, unemployment insurance (Seguro Desemprego) and individual savings accounts (the FGTS) should be coordinated with each other and with other services.** A large body of literature has been calling for a reform of unemployment programs.<sup>51</sup> One possible approach, based on international experience (World Bank, 2018), is for individual savings accumulated in the FGTS to be used as the first line of financing for unemployment claims. Only once the worker's funds in the FGTS is exhausted would the worker receive funds

50 This proposal was developed by the World Bank team jointly with Rodrigo Orair of the Institute of Applied Economic Research (IPEA).

51 Other potential incentive-compatible designs are proposed in the literature, for instance that the benefit could be paid in part through the unemployment individual savings account and in part through the unemployment insurance pool.

► **Figure 54. Unemployment payouts if unemployment insurance (Seguro Desemprego) and individual savings accounts (FGTS) were coordinated**



Source: Morgandi et al (2021).

Note: Unemployment benefit for dismissed worker with a pre-unemployment wage equal to 1.5 of the minimum wage and job tenure of 24 months.

from unemployment insurance.<sup>52</sup> In this way, workers would receive less than they earned while working (thus removing perverse incentives), payout periods would be extended (see the example in figure 54), and individual savings would be used up before any payouts would be given from the public risk pool.

**The unemployment insurance can be improved by making parametric changes to its access conditions and benefit generosity and by redistributing co-responsibilities.**<sup>53</sup> Improving the sequencing and integration of severance pay, social assistance, and social insurance would also make unemployment insurance better suited for long-term unemployment and would reduce the disincentives associated with the benefit. Therefore, it would be desirable to reduce the replacement rate of unemployment insurance while at the same time increasing the duration of the benefit in line with international best practice. The FGTS could be designated as the first payer of monthly income support after a worker's dismissal, and unemployment insurance would start to be paid once the worker's individual saving account (FGTS) is depleted. Simulations of this reform suggest that it would result in shorter average periods of unemployment. Benefit top-ups could further be provided to unemployed

workers who were willing to immediately engage with active labor market programs in search of a new job to reduce the likelihood of beneficiaries depleting the benefit.

**While Brazil already spends a similar amount on social protection as other countries with a similar revenue capacity, legislative changes are needed to distribute this spending more equitably among different age groups.** Moreover, making other legislative changes, such as changing the vesting period for first-time claimants could increase access to unemployment insurance for those with intermittent working careers. How to further increase income protection for groups that are currently uncovered will be discussed under the next recommendation.

## v. Financial instruments for informal workers

**A salient question during Brazil's recovery period will be how to increase the resilience of vulnerable and informal workers, especially those who are ineligible for social assistance.** Financial inclusion policies can contribute to achieving this objective.

<sup>52</sup> It is known that the FGTS is more than individual savings as it currently also finances housing and sanitation programs. Hence, using these funds as a substitute for unemployment insurance would not yield a neutral impact. In the context of Brazil's 2040 future outlook, the FGTS should be thought of as an invention to fund public goods that made sense when private financial markets were less developed. However, in the current and the near future, these policies should be financed by other budget sources rather than by forcing workers to save.

<sup>53</sup> See Morgandi et al (2020) for a more detailed overview of these specific policy recommendations for improving the unemployment protection system in Brazil.

### The Cadastro Único and Auxílio Brasil/Bolsa Família can be used to provide precautionary saving products for the vast population of vulnerable and informal workers in Brazil.

There are a number of steps that, taken together, can bring Brazil closer to international best practices, and these are described in more detail in World Bank (2021d). Of particular relevance is the use of precautionary saving schemes to strengthen the income resilience and financial literacy of social assistance beneficiaries who are approaching the financial thresholds for graduation, such as those who come under the Emancipation Rule. *Auxílio Brasil/Bolsa Família* beneficiaries near the exit threshold of the program tend to work informally and to be self-

employed, but they are no longer extremely poor (Fietz et al, 2021), so they may be more easily persuaded to save. The experience of digital social savings accounts (Conta Social Digital) should be studied to identify how *Auxílio Emergencial* savings have been used.

**The provision of saving products to families could enable them to mitigate ex ante the costs of shocks and reduce their chances needing to re-enroll in safety nets.** World Bank (2021b) reviewed initiatives from around the world aimed at increasing saving rates, including in other middle-income countries such as Colombia, Rwanda, Kenya, and Pakistan (table 3).<sup>54</sup> These initiatives have involved providing

► **Table 3. International experience of precautionary savings instruments for workers**

	Type of program	Target group	Design features to increase savings	Number of beneficiaries/coverage
<b>Colombia (BEPS)</b>	Pensions / long-term savings (can also be used for other long-term savings purposes in Kenya and Rwanda)	Informal and low-income workers	Matching contributions lotteries, text message reminders	666,990 beneficiaries (2020). Potential beneficiaries: 11.4 mi
<b>Kenya (Mbao pension scheme)</b>			Some withdrawal-side restrictions, digitally provided	100,000 beneficiaries (2018). Potential beneficiaries: 12 mi
<b>Rwanda (Ejo Heza)</b>			Matching contributions by socio-economic status, digitally provided, bundled with life insurance	1.3 mi enrolled (2021). Potential beneficiaries: 2.9 mi
<b>Chile (Reform 2008)</b>	Unemployment insurance savings accounts	Formal self-employed		>300,000 self-employed (2008): represents 33 percent of those eligible to contribute
<b>Colombia (Cesantias)</b>			Favorable interest rates	8 mi beneficiaries (2018)
<b>Mexico (PROIIF) – Discontinued</b>	Financial inclusion program	CCT beneficiaries	Automatic transfers, financial education, free life-insurance, potential access to micro-loans	2.3 million families (2015–2018). Potential target group: 6.2 million beneficiaries.
<b>Pakistan (CRISP) – Planned</b>	Voluntary savings scheme with individuals accounts	Informal uncovered, CCT graduates	Matching contributions	Plot will target 150,000 beneficiaries.
<b>High Income OECD countries</b>	Unemployment Insurance to formal self-employed	Formal self-employed		

Source: World Bank (2021b).

54 A dozen countries in the OECD also have unemployment insurance windows for the formal self-employed, but these schemes appear ill-suited to a context where informality is high and it is difficult to accurately observe financial losses. A much stronger enforcement system would be needed to monitor adherence to job search conditionalities than Brazil currently has in place.

financial education, default options, and reminders and rewards for reaching goals. For a higher fiscal cost, the government could also provide matching contributions for low-income workers outside wage employment in order to help them to build up their individual saving accounts more quickly.

**Efforts to encourage financial savings are sometimes bundled with the provision of other services, such as incentivized long-term savings for retirement, to support financial inclusion.** For instance, by encouraging informal sector workers to develop savings, this gives them a visible financial history that could serve as collateral to enable them to access credit. Financial services providers might also consider offering microinsurance on catastrophic but rare losses (like death or accidents) as well to mitigate those risks. Finally, providing complementary financial education will be critical to enable families to make the best use of their savings accounts, and in general, to choose cheaper products, thus reducing repayment risks for banks.

#### vi. Revamping active labor market programs

**Reforming the financing for modern active labor market programs (ALMPs) would help workers and jobseekers to face the labor market shocks of the future.** Brazil has almost no ALMPs, except for training provision, which exists to some extent but is offered in isolation. Brazil could already afford to invest in ALMPs without having to increase total expenditures, for instance, by reallocating current expenditures in FAT to *Abono Salarial*, which cost BRL 17 billion a year and mainly benefit those in the middle- and upper-income quintiles with a formal job. Macroeconomic policies to stimulate employment would need other sources of financing to supplement the wages of those who already have a formal job through *Abono Salarial*.

**ALMPs can also improve equity in labor market matching and reduce discrimination.** ALMPs should start by profiling applicants and then offer them a mix of career counselling, job search support, structured skill development programs, socioemotional skills development, and the possibility of accumulating work experience by providing them with a temporary wage subsidy (see table 4 for a full range of interventions possible). Monitoring and evaluation systems should be in place to identify successful programs and to evaluate individual providers.

Such interventions are particularly important in a context of persistent gender and race labor market discrimination. They can: (i) reduce information asymmetries and prejudice of employers (through worker's skills signaling and objective intermediation); (ii) incentivize employers to give young people with a limited social network their first employment opportunities, (through wage subsidies); (iii) improve job seekers' interview skills and on-the-job learning (through soft skills training); and (iv) enhance the purpose and pursuit of better quality skills training programs (thorough orientation and counselling services). Several developing countries are also experimenting with using performance-based contracts with providers delivering non-core functions such as technical training, personalized intermediation, and subsidized placements, and this is a promising area for Brazil to explore. Greater coordination between ALMPs and *Sistema S* initiatives would also be helpful to ensure that the poor receive the support to prepare them to benefit from spots on high-quality training courses.

**To coordinate this agenda at the local level, Brazil should start revamping its ailing employment services as entry gateways to other programs.** Public employment services (SINE) historically covered a narrow set of functions: job matching, labor documentation, and enrollment in unemployment insurance. Funding for SINE has been minimal and falling. In 2018, labor intermediation amounted to less than 1 percent of what was spent on unemployment insurance. SINE's role has been further diminished since unemployment insurance moved to digital delivery. Borges, Lobo and Foguel (2017) estimated that even a minor improvement in the effectiveness of intermediation would result in large fiscal savings on unemployment insurance, thus opening space to fund other active labor market policies. Labor intermediation is and will be even more in the future provided through digital platforms that can help match jobseekers with jobs. However, this does not eliminate the need to develop in-person offices that can conduct essential functions such as profiling jobseekers, training clients in job search skills, providing them with referrals to local service providers for more complex issues, and ensuring that everyone receives fair treatment with no discrimination.

**To help workers to cope with displacement induced by technology and the green transition, Brazil should organize more intensive reskilling pathways.** Trade adjustment assistance (TAA) programs have been

implemented in some countries to aid workers affected by industry-wide declines after trade agreements. While TAA programs have had mixed results, some have yielded positive outcomes and can shed light on potential ways to organize reskilling programs in Brazil's industries and occupations affected by future shocks. Hollweg et al (2014) highlighted the need to take into account the following considerations when designing these types of programs: (i) focus on one sector or one

instrument; (ii) carefully design the training component to adjust to destination industries; and (iii) investigate different cost-sharing options between the private and public sectors to efficiently finance the program. To support workers during transitions between jobs, it will also be important to consider providing them with additional benefits to supplement the short-duration unemployment insurance so that workers have income support throughout their time spent training.

► **Table 4. Classification of income support benefits and services by risk groups**

Risk Group	Benefits (Passive or Active)	Employment Services: Helping people find jobs		Employability-Enhancing Services or ALMPs: helping people become more employable
		Information, orientation	Counseling, Intermediation, Activation Casework	
Short-Term Unemployed (similar to youth and first-time job seekers)	<ul style="list-style-type: none"> <li>ST benefits (UI or UA), usually with IAPs &amp; co-responsibilities</li> <li>Back-to-work incentives</li> <li>Start-up support for businesses, entrepreneurship</li> </ul>	<ul style="list-style-type: none"> <li>Self-service tools</li> <li>Job matching platforms</li> <li>Websites and call centers</li> </ul>	<ul style="list-style-type: none"> <li>Job search assistance</li> <li>Caseworker guidance and monitoring, including IAPs</li> <li>Job referrals</li> <li>Career counseling</li> </ul>	<ul style="list-style-type: none"> <li>Training to refresh or upgrade skills</li> <li>Entrepreneurship training</li> <li>Apprenticeships</li> <li>Wage subsidies to firms to hire unemployed or first-time job seekers</li> <li>Subsidies for firms to adjust working place or to purchase assistive technology for employees with disabilities</li> </ul>
Long-Term Unemployed (LTU)	<ul style="list-style-type: none"> <li>LT benefits (UA or SA after UI runs out), usually with IAPs &amp; co-responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>Self-service tools</li> <li>Job matching platforms</li> <li>Outreach activities for youth, discouraged, inactive workers</li> <li>Information about the value of education, returns to technical specialties</li> </ul>	<ul style="list-style-type: none"> <li>Intensified counseling and caseworker guidance, including IAPs</li> <li>Some job search assistance, referrals</li> <li>Mentoring</li> </ul>	<ul style="list-style-type: none"> <li>Job-readiness and soft-skills training</li> <li>Occupational / technical skills training</li> <li>Basic &amp; second-chance education</li> <li>Digital literacy</li> <li>Wage subsidies for firms to hire LTU</li> <li>Public works/ job creation</li> </ul>
Underemployed		<ul style="list-style-type: none"> <li>Self-service tools</li> <li>Websites and call centers</li> <li>Information about the value of education, returns to technical specialties</li> </ul>	<ul style="list-style-type: none"> <li>Job search assistance</li> <li>Job referrals</li> <li>Career counseling</li> <li>Information and counseling about agricultural technology and management practices</li> </ul>	<ul style="list-style-type: none"> <li>On the job training</li> <li>Apprenticeships</li> <li>Entrepreneurship and business management training (finance, accounting, etc.)</li> <li>Financial support and micro-credits combined with technical advice</li> </ul>

Source: Kathy Lindert, Tina George Karippacheril, Ines Rodriguez Caillava (eds), Bowen et al, 2020.

## vii. Economic inclusion for rural areas

**Evidence from productive economic inclusion programs has revealed that programs show positive results if well-coordinated geographically.** Colin et al. (2021) analyzed global evidence on the impact and costs of productive and economic inclusion (PEI) programs. Such programs focus on poor and extreme poor populations operating in highly informal economies and mostly in rural areas. PEI interventions vary but typically involve providing assets, transfers, and skills training as well as efforts to link individuals and groups to markets. The analysis considered 80 different case studies and found that the programs had had promising short-term impacts including on income, assets, and savings. The analysis further found evidence that coordination between components is vital as bundles of interventions have been proven to have a greater impact than stand-alone interventions. While the central government has a critical role to play in establishing the rules and tools of the game, PEI programs need to be coordinated at the geographical level. However, a major challenge will be to identify the institution or institutions with the comparative advantage to deliver the necessary functions at the local level.

**Past experience from productive economic inclusion programs in Brazil, such as Brasil Sem Miséria (BSM), has demonstrated how the bundling of different social policies has the potential to accelerate productive inclusion in the country.** The BSM was launched in 2011 as part of Brazil's productive inclusion strategy. The program consisted of three main axes of action: (i) an income guarantee axis; (ii) a productive inclusion axis; and (iii) an access to public services axis. All of these had the goal of targeting extreme poor families with insufficient production and food security. The BSM relied on a whole-of-government approach to coordinating existing policies and programs such as *Bolsa Família* and the Food Acquisition Program (*Programa de Aquisição de Alimentos*) and new instruments such as *Bolsa Verde* and the Promotion of Rural Productive Activities program (*Fomento a Atividades Produtivas Rurais*) and packaging them into a PEI bundle. *Cadastro Único* and SUAS were both important in facilitating the massive coordination

efforts of the BSM but also in providing a gateway for potential beneficiaries to access all of the bundled programs.<sup>55</sup>

**Making more use of the data in the Cadastro Único and other public registries could further facilitate the implementation of productive economic inclusion interventions.** The *Cadastro Único*, especially if supplemented by data from other government registries, provides quite detailed information about individuals and families at the local level from the labor market perspective. Such information could be used not only to administer cash transfers, as happens today, but also to plan and target economic inclusion programs according to the characteristics of individuals and communities. World Bank (2021) presents a set of detailed recommendations on how to leverage the public registries to pursue the PEI agenda.

## viii. Adaptive and responsive safety nets to climate change

**Making Brazil's social protection system adaptive to environmental shocks is vital for helping families and communities to cope with the adverse impacts of climate change.** Adaptive social protection (ASP) combines different sectoral approaches to build the resilience of the poor and vulnerable by enhancing their capacity to *prepare for*, *cope with*, and *adapt to* covariate shocks. It aims to ensure that social protection systems are well-equipped and flexible enough to adjust their response to the changing circumstances and needs of those affected when a shock occurs by providing a timely and appropriate response (Bowen et al., 2020). Even though Brazil has a well-established social protection system, a recent review revealed some gaps and constraints that are restricting the systems scalability and readiness to ensure a timely and appropriate response to climate change related shocks.<sup>56</sup>

**Making some simple design tweaks to the CCT program could enable it to provide timely and appropriate responses to climate change shocks.** The positive impacts of social safety nets on the ability of poor households to cope with shocks, maintain their food security, and refrain from resorting to negative coping

55 Through the *Cadastro Único*, the *Busca Ativa* (Active Search) function enabled the program to find extremely poor families who had not yet been located. Thanks to *Busca Ativa*, 687,000 previously invisible families were included in the *Cadastro Único* in just the first year of the BSM. In addition, the BSM efforts ensured that 88 percent of families in extreme poverty were covered by at least one program within the BSM. Families that accessed a program through the BSM achieved the best outcomes with an average increase of 134 percent in family income (Mello, 2018).

56 Ed, Gonzálegz, Ferreira. Forthcoming

alternatives are well-documented (see Ulrichs and Slater, 2016).<sup>57</sup> Brazil already has a strong foundation of social protection programs to build upon and could further develop ASP by including design features in the *Auxílio Brasil* program that would facilitate the response to climate change. These features might include: (i) using the *Auxílio Brasil* program as a platform to inform CCT beneficiaries about risks and appropriate actions in emergencies; (ii) investing in financial inclusion and introducing savings accounts for low-income workers in the *Auxílio Brasil* program; and (iii) promoting livelihood programs to support those households exposed to shocks. Lastly, other design tweaks to *Auxílio Brasil* could be inspired by the features and rapid roll-out of the temporary emergency cash transfer program, *Auxílio Emergencial*.

**Brazil needs to strengthen its efforts to gather information on household vulnerability to shocks and their relative capacity to cope and recover.** Social registries are especially critical for estimating the effects of a disaster on a household and for providing information on social protection beneficiaries and non-beneficiaries. Brazil already has a well-established social registry with high coverage – the *Cadastro Único* – but could strengthen it by including climate change vulnerability variables and identifying the communities that are most vulnerable to climate change. The registry could furthermore enhance its relevance for ASP by updating information about high-risk areas more frequently. The Ministry of Development and Social Assistance might further invest in the capacity to conduct post-shock assessments or access vulnerability assessments from other sectors to ensure that policymakers have an up-to-date understanding of post-shock household needs.

**Brazil could consider investing in an ex-ante system for responding to shocks.** Disaster risk financing involves the need to have risk financing strategies and systems in place to respond to shocks before they take place (Bowen et al., 2020). For Brazil, this would mean moving from an *ad hoc* approach to a more proactive approach to allocating funds for disaster response. To facilitate this, a risk layering financial strategy would be needed based on historical data on the costs of responding to shocks combined with financial modelling to predict the cost of different future social protection responses.

**At the policy level, Brazil should develop protocols for ASP.** A defining feature of ASP is that many actors are usually involved in its implementation. This means that there is a need for protocols to anchor the planning, management, and delivery of ASP, as well as strengthened partnerships between ministries and agencies involved in disaster response. Because Brazil is very decentralized, there will also be a need to explore how responsibilities for shock response are allocated at the state and municipal levels.

### ix. Partially-digital delivery of *Cadastro Único* and the strengthening of CRAS network and services

**Social assistance networks will continue to be fundamental in the delivery of social protection services, even as digital access increases.** The partial digital delivery of current administrative functions has made it possible for social assistance services and the Social Assistance Reference Center (CRAS) to focus on more high-value human interactions. In particular, the Unified Social Assistance System (SUAS) for years pioneered the use of household-specific case management in the Family Accompaniment Program (*Programa de Acompanhamento Familiar*) but with high caseloads and limited administrative tools. OECD countries have largely transitioned to providing high-value individualized social services, and many middle-income countries are following suit. This is challenging because of the high initial investments required but represents an important opportunity to prevent the non-monetary causes of poverty. For Brazil's social assistance sector to embrace this new set of functions, its financing will need to be increased. The marginal return of such investments are likely greater than simply continuing to increase the monetary value of transfers without any accompanying interventions. A few expanded functions that could be given to CRAS offices could include:

- Monitoring by staff of machine-induced errors and algorithm failures.
- Including a more systematic and integrated needs assessment that can then trigger intensified case management and referrals to social services for a minority of acute cases (as happens in the OECD and Chile).

57 Ulrichs and Slater (2016). *How Can Social Protection Build Resilience? Insights from Ethiopia, Kenya and Uganda*. Working Paper, Building Resilience and Adaptation to Climate Extremes and Disasters (BRACED), London.

- Developing dedicated approaches to complex problems that remain widespread in Brazil, such as gender-based violence,<sup>58</sup> and to serve new vulnerable groups, such as refugees and migrants.
- Supporting the digital inclusion of beneficiaries so that they can access digital services independently, which will be a necessary condition for social inclusion in the future.

**CRAS would benefit from providing a mix of human services and digital delivery in several ways.** Although technology can enable incredible advances in scale and reductions in the cost of social services delivery, delivering welfare services entirely via technology is not recommended given the occurrence of algorithm failures and the fact that some services are better delivered in person. Technological innovations that were first used in *Auxílio Emergencial* could play a part in improving targeting, improving citizens interface, and coordinating information from different sources. In particular, the outreach to and registration of potential beneficiaries via online enrollment saves resources and enables the service to be available around the clock at a low cost. The integration of core registries and databases makes it possible to carry out automatized eligibility checks and monitoring to trace the socioeconomic trajectory of beneficiaries.

**In the coming decade, the outreach, intake, and registration functions of social assistance should incorporate advances in mobile and communication technology.** For instance, in the future, any communications between government and citizens about social policies and programs should make use of the possibilities offered by IT systems and the increasing (though still incomplete) access to the internet, even by the poor. There is scope to develop customized communications with users based on their profile and enrollment status. The experience of the *Auxílio Emergencial* also demonstrated the potential for using online enrollment in social programs, including during shocks and disasters, and for performing required updates of the regular social protection registries and programs.

**Brazil could also upgrade Cadastro Único to become a social registry by enabling it to be interoperable**

**with the registries of other programs.** Even though the *Cadastro Único* is used by more than 20 targeted programs to verify beneficiaries' income, this information is not aggregated as each program maintains its own beneficiary registry. Making the *Cadastro Único* interoperable with the individual program registries, as is best practice in countries like Chile and Turkey, would make it possible to identify any overlaps, manage access to packages of services, and ensure wider coverage of social assistance (Leite et al, 2017). It is not just social protection programs and agencies that need to move in that direction, but also agencies and programs in other parts of government, especially health and education.

**Having integrated registries would strengthen monitoring, including adherence to program exit criteria, the tracing of beneficiaries, and over time increase efficiency.** The fact that Brazil has opened its administrative data to a vibrant research community has supplemented its limited investment in internal program evaluations. However, more analysis needs to be done of exit criteria from social programs and on the migration of users between programs to evaluate medium-term impacts of participation in the multiple social programs.

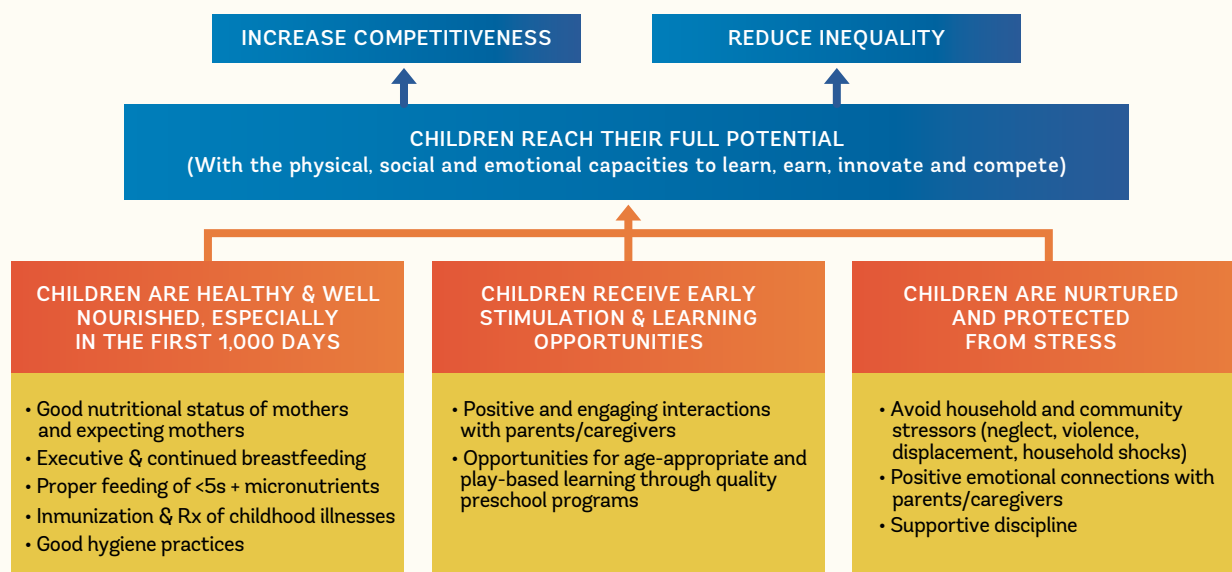
## x. Closing coverage gaps in early childhood development through new delivery modalities

Brazil has several policies for children in their first 1,000 days, anchored in prenatal and postnatal universal primary health services coupled with public childcare centers and targeted services for more vulnerable children. Nevertheless, there is a comprehensive range of complementary policies to support children that Brazil could be providing. Therefore, ensuring that these services are available wherever they are needed and are well-coordinated is a high priority for the future (figure 55).

**Parenting programs for early childhood stimulation have the potential to become a cost-effective way to support children's home-based integral development.** *Criança Feliz*, or its successor would benefit from expanding its coverage and enhancing its quality, and there is also room for the introduction of new delivery modalities, particularly in the future when

58 Emerging evidence of the impact of COVID-19 as well as lessons from past epidemics suggest that significant risks of violence against women (VAW) increase in these contexts, especially in countries with weak health systems, weak rule of law, and already high levels of VAW and gender inequality. In Brazil, between March and April 2020, there was a 22 percent increase in femicide and a 27 percent increase in complaints to the national violence against women helpline. The World Bank has developed a methodology for preventing gender-based violence (GBV) through the social assistance sector in Brazil that could be implemented at the subnational level.

► Figure 55. Complementary policies for early childhood development



Source: Adapted from World Bank (2018).

beneficiaries will have increasing access to technology (figure 56).

**One way to reduce the costs of the program and mitigate the financing barrier for municipalities would be to adopt new delivery modalities.** Group meetings and the use of technology for delivering service, for instance, could significantly decrease the number of home visits, thus reducing costs of commuting and even the number of required personnel. *Criança Feliz*'s staff are mainly employed on short-term contracts, which results in high staff rotation and often compromises their training. This may also negatively affect the quality of the program.

**Regarding the quality of parenting interventions, there is also room for improvement in the development of protocols (particularly to specific groups such as indigenous groups and quilombolas).** The program's managers might also consider adapting *Criança Feliz*'s activities to take account of local and cultural contexts and encouraging fathers as well as mothers to engage more closely with program activities. Quality could also be improved by providing ongoing training to the program's staff (given the high rotation of staff who do home visits) and by strengthening monitoring tools at the municipal level.

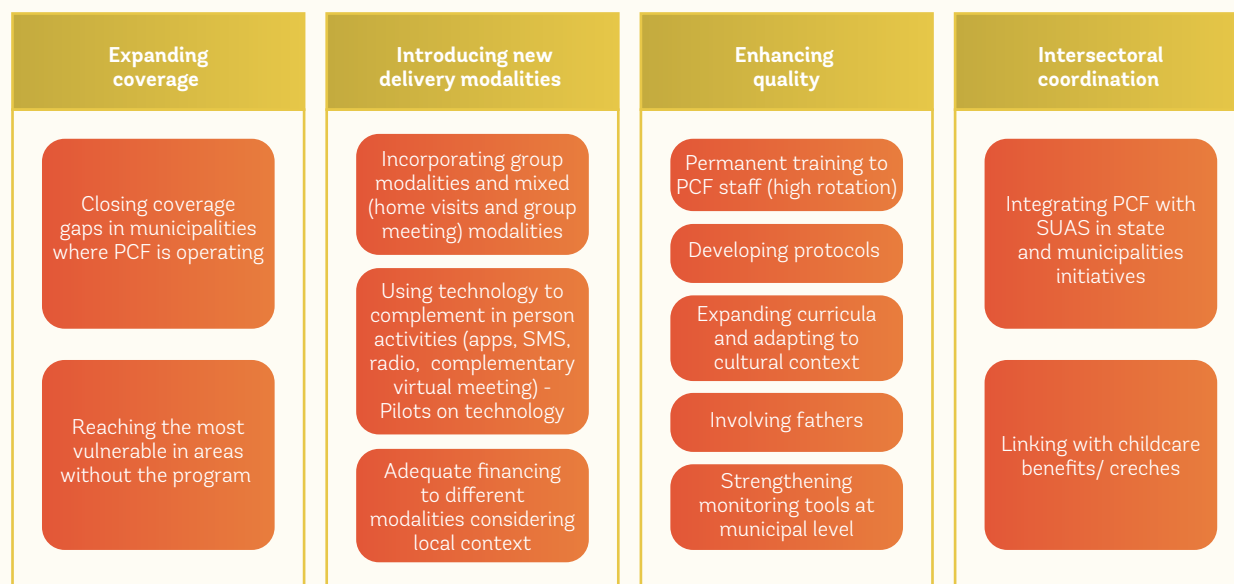
**Finally, an impact evaluation of the program has shown an increase in demand for other social**

**assistance programs by families who are engaged in Criança Feliz.** This seems to be a result of visiting program staff providing families with information about access to social assistance programs that were previously unknown to them. Since these home visits are an important doorway to other social assistance services, integrating *Criança Feliz* state and municipal SUAS activities is highly encouraged, including local public childcare services. The existence of *Criança Feliz* does not reduce the need to expand the national coverage of day care centers (creches). In fact, they are complementary actions, and, over time as children grow and mothers need to return to work, day care centers become increasingly important.

## xi Final remarks

**While this note does not contain a detailed costing of every reform, most reforms could be packaged together in ways that would be fiscally neutral over the medium term.** For example, curbing passive labor market expenditures would leave room for investing in active labor market programs or for consolidating transfers for working families. The reform of the minimum pension guarantee would generate sufficient fiscal savings to increase sustainability in other areas and make it possible to invest in underdeveloped services for the vulnerable population, including social care for the elderly, early childhood development programs, and productive inclusion programs.

► **Figure 56. Pillars for strengthening early childhood development interventions**



Source: Authors.

**In addition, important institutional changes could be introduced that involve only small investments with no significant fiscal impact.** These might include investments that leverage technology, cross-sectoral synergies to improve delivery systems, early childhood development policies, and improving the implementation of existing funded programs. Some of these reforms could lead to quick gains that will build confidence in and the credibility of the new social protection system. Other proposed changes, based on the experience of other upper-middle-income countries, would require more incremental investments and a sustained commitment over the medium term.

**Finally, many of the key proposals presented in this note attempt to incorporate political economy considerations.** It has historically been difficult to alter the benefits received by the well-organized share of the Brazilian middle class, and this note recognizes this reality. It will be important for policymakers to engage in a broad social dialogue to present the motivation for and reach consensus on a package of reforms that will translate savings from inefficient programs into better quality services. The objective of this note is to provide the evidence needed to stimulate such a dialogue.

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