01 Recent trends threaten to reverse years of poverty reduction
- Rising poverty rates, food insecurity and dependence on transfers due to slow and less equitable growth
- About 20% of Brazilians in “chronic poverty” with limited assets, capabilities and human capital
- Secular changes - climate, demographics, technological progress, new world of work - create new risks, needs and opportunities

02 Social Protection and Labor policies were central to Brazil’s social progress, but their sustainability and impact are at risk
- Efficiency: fewer coverage gaps were achieved without reforming regressive legacy programs
- Equity: large emphasis of spending on elderly, in a still young but rapidly ageing country
- Impact: few expenditures promote human capital and productivity, and spending on services is a small share of total

03 Policy reforms can enhance inclusion and resilience of poor and vulnerable Brazilians, without increasing fiscal costs
- Reform of AB benefit (BE especially) essential to improve cost-effectiveness. Disaster-responsive benefits and financial inclusion can further resilience of broader population
- A system of labor market policies in synergy with new unemployment insurance to support of low-skilled, displaced
- Reform of minimum benefit in pensions, and removal of outstanding privileges for some groups, key to maintain sustainability
- Complementary human services to strengthen human capital from early childhood to life situations of ultra-vulnerability

04 The World Bank can continue to support this agenda in Brazil through analytics, operations, and global knowledge

BRAZIL POLICY NOTES 2022 | Mitigating poverty, improving resilience, restoring opportunity
How have poverty and labor market outcomes evolved?
Recent trends risk reversing years of sustained gains in poverty reduction

2000-2012
Poverty rates halved through shared growth, inclusive policies and the expansion of social protection systems.

2014-2019
The economic crisis deteriorated households’ incomes and the labor market never recovered to pre-2014 levels. Social pensions were key to mitigate poverty, while Bolsa Familia did not expand to absorb the new poor.

2020
Brazil responded strongly to the COVID-19 crisis, and with the roll-out of AE poverty fell from 20% in 2019 to 13% in 2020. Low-educated and informal workers were, nonetheless, hit hardest by fall in labor incomes.

2021
Anemic economic recovery and rising inflation led to rise in poverty and food insecurity for 2021, and sustained reliance of low-income families on transfers.
Recent trends risk reversing years of sustained gains in poverty reduction
Labor market shocks and weak economic recoveries in the past decade disproportionately affected the lower educated, youth, and people of color – especially women.

**Crises and recovery**

- In Brazil, labor market crises hit especially low-educated, youth and women: first to be laid off, and last to be re-hired;
- It takes 8 years for a displaced worker without tertiary education to regain pre-layoff wages, against 2 years for tertiary educated (World Bank 2021);
- In 2022 employment rates increased, but recovery occurred also via rising informal wage employment;
- Seguro Desemprego covers only a fraction of unemployed (18% in 2019). Auxilio Brasil is the real safety net for vulnerable workers, if accessible.

**Most of the poor are in the labor market**

- 70% of work-able adults in Bolsa Familia in 2019 were in labor force, 57% were employed (75% in informal work) -> But earnings are too low or families too large to escape poverty alone;
- Participation rates gaps are high for poor women, with care duties of children as primary barrier to job search;
- Labor markets are fluid: 28% of adults in Cadastro Unico were in 2019 in formal wage jobs, but with short tenure, often temporary contracts.
Labor market shocks and weak economic recoveries in the past decade disproportionately affected the lower educated, youth, and people of color – especially women.
Besides economic cycles, structural poverty remains a key feature in Brazil, and it is closely linked with capabilities (assets such as human capital) and access to local opportunities.

- **Chronic poverty**: affects 20% of the population, with deprivations in both monetary and non-monetary dimensions.
- **Main drivers**: Human Capital of the head of household, lack of local formal job opportunities.
- **Profile of chronic poor**: especially children (34%), but also youth, rural households, low-educated, largely pardo/preto race.
- **Frequent Deprivations**: water, sanitation, overcrowded dwelling.
- **Productive Assets**: important gaps in digital inclusion and land tenure. Only 12% of the chronic poor have a computer or tablet, 57% of the rural chronic poor lack legal land titling.
- **Climate vulnerability**: Socioeconomic vulnerabilities overlap with climate change vulnerabilities for 9% of the population (and 20% are CC-vulnerable). Many rich municipalities have high environmental vulnerabilities, which are accentuated by anthropic pressure and put big populations in risk.
Positive trends in educational attainment, the driver of upward mobility:

- Mean years of schooling from 5.2 in 1992 to 9.1 in 2021
- Tertiary degrees (at least short cycle) from 8.1% in 2004 to 16.5% in 2018

However, educational progress is unequal:

- In three generations, about 40 percent of the young population will have a tertiary degree (at current trends); but less than one third of Afro-Brazilians, and only 12 percent of the poor
- It would take approximately nine generations for children of the bottom decile households to reach the mean income in the country (OECD, 2020)

Moreover, the poor reap lower returns to own education in the market

- Education quality (private/public, rich / poor municipalities)
- Limited personal networks to match with a good first job to build career
- Distance from better jobs and higher cost of job search
- Discrimination by employers based on race (WB 2022 report)
- Lower access to guidance, mentoring, soft skills for world of work
Social Protection and Labor policies are central to poverty reduction and enhancing opportunity. To work this way, Brazil’s SP system needs rebalancing.

SP programs can serve three objectives in Brazil across the life cycle:

**Equity for the poor**
Protecting Against dire poverty and loss of human capital

**Opportunity for all**
Promoting human capital and access to productive work

**Resilience for the vulnerable**
Insuring Against impacts of different shocks

Four major imbalances:

1. Due to AE and then AB expansion, SA nominal budget rose 70% compared to 2019. SA has fewer coverage gaps, but progressivity remains limited due to legacy programs.
2. Emphasis of spending on elderly, in a still young but rapidly ageing country.
3. Small (and declining) share of expenditures promote human capital, opportunity and productivity.
4. Most programs are in-cash, but modern services are key to tackle structural determinants of poverty.

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**Labor Market and Social Assistance expenditure**
(2022 refers to ‘valor empenhado’ until July)

<table>
<thead>
<tr>
<th>Year</th>
<th>LM</th>
<th>SA</th>
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<tbody>
<tr>
<td>2019</td>
<td>57</td>
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<tr>
<td>2021</td>
<td>54</td>
<td>157</td>
</tr>
<tr>
<td>2022</td>
<td>48</td>
<td>171</td>
</tr>
</tbody>
</table>

**% of spending by age of primary target (2019)**

- Social Insurance
- Labor Market
- Social Assistance
- Total
- % of total

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BRAZIL POLICY NOTES 2022 | Mitigating poverty, improving resilience, restoring opportunity
Medium-term mega-trends will further challenge the relevance and sustainability of social protection programs, as currently designed.

**Climate Change**
- Disaster frequency and intensity increase shocks for families and firms
- Job transitions from carbon-heavy to 'green' industries for million of workers

**Technological change & new world of work**
- More/new skills demanded in most growing jobs
- Jobs with routine tasks displaced by technology
- Fewer stable formal work relations, higher self-employment

**Demography**
- Doubling of "65+" in next 18 years (pensions promises unsustainable)
- "Adult bulge", but many low educated
- Falling school-age population

**Occupations with routine and cognitive tasks are declining (2012-2020)**

**Brazil will have fewer children, more prime age adults and elderly**

Population size - selected groups
What are the World Bank recommendations?
Key challenges

- AB reform closed coverage gaps, helped recoup real value of BF, and introduced new design features, but:
  - After BE, annual cost of AB tripled (1.5% GDP with BE at 600 R$) – unsustainably high benefit raises risk of waiting lists
  - BE was very poorly designed: (i) more generous for small families (ii) AB lost emphasis on children and non-work able (with risk of labor market incentives) (iii) introduces perverse incentives to split households → jeopardize household information in the social registry
  - Conditionalities monitoring became more complex, but resources for decentralized management in CRAS fell
  - New programs in the AB law remain to be implemented
  - No systemic solution to maintain real value of the benefit and dependence of AB on annual budgets.

Monthly cost of AB (R$ bn)

- Conditonalities monitoring became more complex, but resources for decentralized management in CRAS fell
- New programs in the AB law remain to be implemented
- No systemic solution to maintain real value of the benefit and dependence of AB on annual budgets.
# Social Safety Nets: the sustainability and effectiveness of Auxílio Brasil is uncertain without further reforms

## Short-term policy options

- Eliminate BE, define sustainable budget for AB and set values that maximize reduction of poverty, inequality;
- Study benefit design to ensure labor market incentives;
- Work towards a consolidation of noncontributory transfers, to guarantee fiscal sustainability;
- Establish mechanism for periodic recalculation of AB considering inflation specific to the poor (poverty lines);
- Improve conditionalities monitoring and local follow-up to address reasons of noncompliance in education;
- Guarantee access to social assistance service;
- Channel resources to local governments through institutional mechanisms (IGD-SUAS);
- Separate the management of the cash transfer from complementary programs.
Summary of diagnostics

- Recent WB-led benchmarking of adaptive social protection features in Brazil SP system shows good protocols in SUAS for readiness and scalability of response
- But there is no instrument for automatic scale-up of benefits after a disaster
- Heterogenous capacity response at regional level
- No pre-identification of families at risk of natural disasters in Cadastro Unico

Policy recommendations

- Develop an integrated adaptive social protection strategy with appropriate legislation and fiscal commitment
- Create dedicated resources for SP shock response easy to mobilize after shocks and according to magnitude of impacts
- Federal Review of current ‘beneficio eventuais’ deployed by municipal governments
- Promote the integration of CadU with other databases and update questionnaire to incorporate climate-shocks vulnerability of households
- Develop cooperation protocols to mobilize neighboring SUAS in support of disaster-affected localities
- Learning from Auxilio Emergencial, establish rapid remote enrollment mechanisms after climate-induced disasters
Support early childhood development: new delivery modalities and better integration of Criança Feliz within SUAS can achieve scale and reduce costs

Summary of diagnostics

- The Criança Feliz parenting education program has coverage gaps in remote areas
- High cost and lack of financing
- Room for improvement in the quality of interventions
- PCF operates mainly with short-term contracts -> high rotation of staff and limited training
- Lack of integration with SUAS

Reform suggestion

Expanding Coverage

- Closing coverage gaps where CF is operating
- Areas without the program

Introducing new delivery modalities

- Incorporating group modalities and mixed modalities
- Using technology to complement in-person activities
- Adequate financing to different modalities considering local context

Enhancing quality

- Permanent training to PCF staff (high rotation)
- Developing protocols
- Expanding curricula and adapting to cultural context
- Involving fathers
- Strengthening monitoring tools at municipal level

Intersectoral coordination

- Integrating CF with SUAS in state and municipalities
- Linking with childcare benefits/creches

Gaps in early childhood service provision

No of children visited by PCF per total number of children receiving BF (2021)

- The Bolsa Família data refers to the number of children from 0 to 36 months old receiving the benefit on Feb 2021
- Criança Feliz data refers to the number of children visited on Jun 2021
- BBAF covered 2645 municipalities on Jun 2021
4 Unemployment protection programs (Seguro Desemprego, FGTS) can work more efficiently and effectively

Key Issues
- Unemployment benefits exclude workers with intermittent employment history, informal workers and self-employed.
- SD is generous in replacement rate but has a limited duration.
- Generous payment, combined with unenforced job-search requirement, creates perverse incentives to enter SD and harms productivity.

Reform Options
- Parametric changes for Seguro Desemprego to improve access conditions, align generosity to regional benchmarks, lengthen payout period.
- New rules on co-responsibilities and job search.
- Payment of SD and individual savings account (FGTS) should coordinated with each other.
- Fully financed Auxilio Brasil (Fila Zero).

Value of unemployment payout, expressed in monthly wages, after 24 months of employment

Coordinated financing of unemployment insurance (Seguro Desemprego) and individual savings account (FGTS)
5 Complement safety nets with financial instruments to help informal workers manage income volatility better

Key Issues

- SP in Brazil covers already several risks, but the level of protection depends much on the nature of employment.
- Poor families, informal workers and self-employed exhibit higher income volatility.
- Low ability to save, rare access to insurance and limited financial literacy.
- Cadastro Unico families use more expensive credit.
5 Complement safety nets with financial instruments to help informal workers manage income volatility better

Policy Options

- Leverage Cadastro Único and BF as platforms for financial inclusion
- Design voluntary savings instruments for low-income families to build resilience, including commitment behavioral features, nudges and monetary incentives
- Part of AB can build default precautionary savings, with focus on graduating AB beneficiaries
- Cadastro Unico can act as platform to partner with select providers for best-value financial products
- Build financial education features in digital accounts, and as incentive to access additional products (credit)
- Microinsurance against rare but catastrophic risk
A modern portfolio of economic inclusion and labor market programs is central to restoring opportunity and long-term resilience.

Key challenges

- Vocational training courses are only programs in scale, but not articulated with the rest of the system.
- Minimal part of federal labor expenditure on labor intermediation, without coordination with other programs and benefits.
- Few programs focused on poor and informal population, lack of economic inclusion.

Reform Recommendations

- Build-up SINE capacity and increase funding coupled with performance management.
- Revamp ACCESSUAS to serve as entry and referral point.
- Portfolio of local programs, including productive Inclusion, targeted to vulnerable workers.
- Improve focus on results, including via performance contracts.
- Improve quality of data of CadU and integrate with other bases to map constraints and guide policies at local level.
A modern portfolio of economic inclusion and labor market programs is central to restoring opportunity and long-term resilience.

### FINANCING

<table>
<thead>
<tr>
<th>Federal Government</th>
<th>State / Municipal Coordinator</th>
<th>Local “entry points”</th>
<th>Interventions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing regulations</td>
<td>Study labor and economic opportunities</td>
<td>Client registration and profiling</td>
<td>Take charge of clients after referral</td>
</tr>
<tr>
<td>Registry of beneficiaries</td>
<td>Identify and certify services to be part of the delivery chain</td>
<td>Referral to interventions</td>
<td>Provide service</td>
</tr>
<tr>
<td>Define menu of interventions</td>
<td>Define coordination protocols between actors</td>
<td>Follow up and collect data after service</td>
<td>Feed information system (attendance/completion)</td>
</tr>
<tr>
<td>Capacity building and Communication</td>
<td>Monitor quality of services and manage point of service</td>
<td>Coordinate with other local services</td>
<td>Reflect on results information, improve</td>
</tr>
<tr>
<td>Monitoring systems</td>
<td></td>
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</tbody>
</table>

### INFORMATION

**BRAZIL POLICY NOTES 2022** | Mitigating poverty, improving resilience, restoring opportunity
Reducing differentials in taxation on different forms of work can improve equity in contributions across workers and make formal wage employment more attractive.

Key Issues

The tax wedge on formal dependent work in Brazil is one of the highest in the LAC Region, albeit below the average in OECD countries -> high monetary and regulatory nonwage cost can restrain formal labor demand especially in a context of binding MW

In contrast nondependent workers (through various forms of firm ownership such as MEI, SIMPLES, other types of PJ):

- can shielding a large part of their earnings from income tax
- can avoid other levies that form part of the tax wedge of regular wage employees (Incra, Salário Educacao, Sistema S)
- are subject to lower social insurance contributions

Very different effective tax rates on labor among Brazilian workers, often performing very similar work.

“Pejotizacao” of the formal labor market continues to rise

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BRAZIL POLICY NOTES 2022 | Mitigating poverty, improving resilience, restoring opportunity
Reducing differentials in taxation on different forms of work can improve equity in contributions across workers and make formal wage employment more attractive.

Reform suggestion

Several avenues for Brazil to reduce the cost of labor and improve equity and neutrality across different forms of work:

I. Reduce the difference in costs of procuring labor from a dependent wage employee and a self-employed:

II. Align taxes across types of incomes (dividends/profits, pensions, wages, and rents) to achieve tax neutrality:

III. Increase the overall progressivity of the direct tax system by improving the leverage of the personal income tax

Reform would result in:

- a harmonization of the tax wedge among labor contracts
- fiscally neutral design
- significantly reduced cost of formal dependent work
New Delivery System: Modernization of Cadastro Único e Broader functions for CRAS

Summary of diagnostics

Division between the contributory and non-contributory registries, and across implementing institutions remain a weakness in the delivery system.

Cadastro Único has limitations:

- Limited functions to trace and coordinate federal social programs
- Not able to receive feedback from programs
- Not harnessing the potential of other providers to offer high-value services
- Underdeveloped communication with beneficiaries

Reform suggestion

Cadastro Único

- Governance of SA, pension and labor records needs to be reviewed.
- Reduce amount of user-provided information and incorporate ICT in outreach, intake, and registration.
- Define additional gateways to social programs during shocks and disasters, to perform registry updates for the regular SP registries and programs.
- Upgrade Cadastro Único by creating interoperability with systems of other programs.
- Improve M&E systems.

CRAS

- Monitor machine-induced errors.
- More systematic and integrated needs assessment and enhanced referrals.
- Dedicated approaches to face complex issues (e.g. domestic violence, refugees, migrants).
- Digital inclusion of beneficiaries.
Reform of the minimum pension benefit in coordination with BPC: restore sustainability, close coverage gaps and align incentives to contribute

Key Issues

- The minimum retirement guarantee (MRG) has a value above international benchmarks and places families in the middle income range.
- 70% of women, 56% of men receive minimum pension.
- MRG subsidizes those who have contributed for only 15 years, taxes those with 1 to 14 years of contributions and those who contributed 27+ years.
- RGPS benefit promises will become again unsustainable with current demographic trends.

Internal rate of return per decile of contributions made among urban retirees with minimum pension benefit (Age Retirement)
Reform of the minimum pension benefit in coordination with BPC: restore sustainability, close coverage gaps and align incentives to contribute

Reform suggestion

Proportional minimum pension guarantee
- Elimination of the minimum contribution period
- Minimum benefit prorated to contribution years

Coordination with non-contributory benefits
- Make BPC less generous than MRG, to reinstate contribution incentives
- Rural pensions absorbed by BPC
- BPC could be universalized to cover every elder without other benefits

Eliminate outstanding privileges in public pensions

Consolidation of benefits by age (BPC and rural pension) and guarantee of proportional minimum contributory retirement
What has the World Bank been doing?
The WB can continue supporting this reform agenda, building on a long operational and analytical partnership with the Government of Brazil

Recent analytical work

- **Auxílio Emergencial**
- **Regras de Permanência in Bolsa Família**
- **Financial instruments and innovations**
- **Enhancing Coverage and Cost-effectiveness of Brazil’s Unemployment Protection System**
- **Subnational civil servant pension schemes in Brazil**
- **Gender Violence Prevention in Salvador**
The WB can continue supporting this reform agenda, building on a long operational and analytical partnership with the Government of Brazil

**Ongoing technical assistance**
- TA to MoC related to implementation of Auxílio Brasil
- Climate-responsive Social Safety Nets
- Impact evaluation of new delivery modalities in Criança Feliz
- Labor Market profiles of Cadastro Unico workers
- Productive inclusion for Venezuelan migrant women in Brazil

**Ongoing Operations**

**Federal:**
- Income Support for the Poor Affected by COVID-19 in Brazil (IPF)

**Subnational:**
- Progestão Piauí: Public Sector Management Efficiency (IPF)
- Salvador Social Multi-Sector Service Delivery I (IPF)
- Salvador Social Multi-Sector Service Delivery II (IPF)
- Cross support on SPJ and pension components of other subnational projects led by other GPs

**Opportunities**
- Support new design of SP benefits (AB, BE, SD) through modelling and simulation tools
- Assist in implementation of programs through operations and technical assistance
- Share international experience and support with evidence national debates to make the case for reforms
Thank you!

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