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*For consistency, as part of the Capital Project activities, we asked five young consultants in the countries where the program is implemented (Peru, Ecuador, Colombia, Chile and Mexico) to carry out assessments of four areas: poverty and social policies; conditioned transfer programs; the relationship between conditioned transfer programs and the financial system; and characteristics of the financial system in relation to the savings of the poor.*

## COUNTRY ASSESSMENT: CHILE\*

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### CURRENT STATE OF POVERTY IN CHILE

Chile's economic and social situation is positive. Since 1990, the country's Concertación governments<sup>1</sup> have implemented a policy of growth with equality. Since the mid-1980s, the country has registered high growth rates, which have helped improve levels of employment and consumption.

Chile reduced its poverty rates from 38,5 percent in 1990 to 13,7 percent in 2006. It also made progress in reducing extreme poverty, which dropped from 13 percent to 3,2 percent. In 2006, however, there still were 2 208 397 poor people, out of a population of 16 million, and the income gap persisted.

### SOCIAL POLICIES IN CHILE FOR COMBATING POVERTY

The Chilean government grants preferential assistance to low-income people, especially in the areas of health, education, housing and social security. This generally means free health care and access to primary and high

1. The *Concertación de Partidos por la Democracia* (Consensus of Parties for Democracy), better known as *Concertación*, is a political coalition of center and leftist parties that has governed Chile since March 11th 1990. It brought together opponents to the dictatorship of General Augusto Pinochet. They won the election on 5 October 1988. Originally called the "Consensus of Parties for the No Vote," it maintained internal discipline and has won every election since 1989.

\* The complete document is available at The Capital Project web page: [http://proyectocapital.org/index.php?fp\\_verpub=true&idpub=115](http://proyectocapital.org/index.php?fp_verpub=true&idpub=115)

school education for the poorest families. In the case of health care, however, as the family's income increases, they must make co-payments. Concerning education, families may choose the type of school they want their children to attend. In housing, subsidies are provided to enable low-income families to purchase homes, as long as they contribute in the form of savings.

## CONDITIONED CASH TRANSFER PROGRAMS IN CHILE

The main social policy initiative in the country that includes conditioned cash transfers is the Chile Solidarity System (*Sistema Chile Solidario*). This system, established in 2001, targets families and individuals living in extreme poverty. The goal is to insert them in social networks and facilitate an access to better living conditions for them to overcome indigence. The system includes 53 services in six areas: health, education, housing, employment, civil rights and culture.

In 2006, there were 220 123 families in the Chile Solidarity System, including 14 623 older adults over age 65 living alone, and 7 254 people living in indigence.

How are beneficiaries selected? The program's targeting has several steps:

- i) The system selects families in extreme poverty, based on information from the Social Protection Form used by municipal governments.
- ii) The system invites the families to participate.
- iii) If the families accept, they are included in the Bridge Program operated by the Solidarity and Social Investment Fund

(*Fondo de Solidaridad e Inversión Social, FOSIS*) and municipal governments. In this program, a professional accompanies the family, providing psychosocial assistance for as long as the family remains in the system. Families also receive a solidarity voucher, which decreases over time. It is delivered to the female head of the household and/or to the partner of the male head of the household.

The amounts are as follows:

- \$ 12 300 a month for the first six months (US\$ 20).
  - \$ 9 387 a month between months 7 and 12 (US\$ 15).
  - \$6 454 a month between months 13 and 18 (US\$ 10).
  - An amount equivalent to the Single Family Subsidy (*Subsidio Único Familiar, SUF*) during the last six months (US\$5 ).
- iv) After 24 months in the Bridge Program, families receive a bonus for three years, equivalent to one SUF a month.

While participating in the Bridge Program, families receive cash subsidies from the Chilean government, which include:

- \* The Single Family Subsidy (*Subsidio Único Familiar, SUF*), for all children under age 18, as long as they participate in health programs established by the Ministry of Health and attend primary, high or post-secondary school.
- \* Senior Pension for anyone over age 65.
- \* Disability Pension for those who qualify.



\* Potable Water Subsidy.

### RELATIONSHIP BETWEEN CONDITIONED TRANSFER PROGRAMS AND THE CHILEAN FINANCIAL SYSTEM

There is almost no relationship between the financial system and conditioned transfer systems in Chile. The only relationship is in housing programs, where the person must have sufficient savings deposited in a savings account to qualify for a government housing subsidy.

Bank legislation authorizes banks to offer savings accounts for housing, requiring the bank to provide a savings certificate kept by the saver. This certificate is presented to the Ministry of Housing when the person applies for a housing subsidy.

The minimum savings amount to which the account holder must commit is approximately US\$ 1 500.

A person who receives a housing subsidy cannot make withdrawals from the savings account; the entire amount in the account must be used to finance the acquisition of the house.

### “OPPORTUNITIES” FOR USE OF SAVINGS BY THE POOREST SEGMENTS OF THE CHILEAN POPULATION

One significant innovation introduced by the State Bank (*Banco del Estado*) to include low-income sectors in the banking system is the RUT account<sup>2</sup>. There are no fees for opening or maintaining these accounts, and no minimum income or commercial background requirements. The person is only required to have an identity document and be, at least, 12 in the case of women or 14 in the case of men.

This shows that there are opportunities for the poorest sectors of the Chilean population to gain access and use savings accounts.

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2. Single Tax List (Rol Único Tributario), which corresponds to the basic identity document used in Chile.



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