



The evolution of social protection in Latin America

FINDINGS

Social insurance has not succeeded in reducing fiscal deficits and expanding coverage to more beneficiaries in Latin America

Social assistance has had a greater impact on poverty and inequality than social insurance

In lower-middle-income countries, social assistance programmes have not expanded as rapidly as in middle-income countries

WHAT IS SOCIAL PROTECTION?

Social protection – Policies or programmes concerned with preventing and overcoming situations that adversely affect people's wellbeing. Social insurance, social assistance, and labour market interventions are parts of social protection.

Social insurance – A system of compulsory contribution to enable the provision of support to mitigate risks associated with unemployment, ill health, disability, work-related injury and old age. Pensions and unemployment insurance are good examples of this.

Social assistance – Money or in-kind contributions given by the state in order to combat poverty and deprivation, distributed on the basis of need, allocated from the government budget.

During the 1990s and 2000s, a number of changes were implemented to social protection programmes in Latin America. In the 1990s, social insurance reforms were instituted in a number of countries. In the 2000s, due to the recognition only one in every four workers made regular contributions to a pension fund, social assistance, as a parallel measure to social insurance, was greatly expanded throughout the region. The ultimate goal of both sets of reforms was to target poverty and inequality in the region through public subsidies to social protection. What is the result of this shift in policy focus, and what will be the implications for poverty, inequality and the future of social protection institutions in the region?

Social insurance reforms in the 1990s

Reforms to existing social insurance systems were largely based on pioneering pension reforms instituted in Chile in 1981. These changes introduced individual retirement accounts managed by private organizations, in contrast with the previous government-run pay-as-you-go pensions which had become reliant on a large amount of government support. In the new pension systems, formal employees were required to contribute a percentage of their earnings to a retirement account which would then be privately managed. At retirement, the balance of the account would be given to the worker as well as disability and survivor benefits. Workers would also be able to make schedule withdrawals or purchase annuities. These social insurance reforms were ostensibly designed to reduce fiscal deficits and expand coverage to more people; unfortunately in many cases they have resulted in increased state subsidies to insurance schemes, and have failed to tackle poverty and inequality.



La Paz, Bolivia © Matthew Straubmuller

Social assistance expansion in the 2000s

Social assistance programmes have been increasingly prioritized by Latin American governments in the 2000s, mainly in the form of tax-funded direct income transfer programmes targeting the poorest segments of the population. These programmes have experienced significant growth, particularly in middle-income countries in Latin America, filling the gaps

left by social insurance systems. These new programmes specifically target poorer populations in need of improved access to employment, education and health care; additional focus is placed on children and regular and reliable transfers of payments. In lower-middle-income countries, social assistance programmes have not expanded as rapidly due to constraints on delivery capacity and funding.

The expansion of social assistance in Latin America has been enabled by a variety of factors. Improving economies and the increased taxation put in place by new left governments has provided local governments with surpluses that have been redistributed for social assistance. Many recent left-leaning regimes have also favoured the expansion of assistance; it must be noted, however, that even some right of centre governments in states such as Mexico, Colombia, El Salvador and Chile have also expanded antipoverty programmes whereas other left of centre governments in Nicaragua and Venezuela have explicitly avoided direct income transfers to impoverished households, instead relying on in-kind transfers.

While a number of programmes have been successfully introduced, the effectiveness of the individual programmes is somewhat difficult to discern since these initiatives have also been enhanced by economic growth and investment during this period.

Options for the future of social protection

Due to the prevalence of unemployment and informal employment in Latin America, it appears that social insurance has limited potential to reach currently excluded segments of the population without substantial government support in the future. Social assistance, however, has strengthened social protections systems and reached larger segments of the population in many cases. Expanded social assistance can potentially improve

human development and prevent economic exclusion among many impoverished Latin Americans; as the welfare of the poorest residents improves, the amount of social assistance required will eventually decrease as fewer people need help to escape poverty. This assistance must be combined with strategies to promote economic growth and the provision of basic services for optimal success.

Thus far in Latin America, lower middle-income countries have not reached the same level of success providing social assistance as upper-middle-income countries and poverty and vulnerability have not been reduced to the same extent. Currently, even in upper-middle income countries, most social insurance and social assistance programmes are institutionalized separately; in the future, innovative options for integrating the two should be more thoroughly explored. It is key, however, that a concerted effort must be made to expand social assistance in lower middle-income countries where it is currently lacking.



Local farmers attend a workshop on ecology and social organization in Vila Da Canoas, in the Amazon region of Brazil near Manaus. Many bring their families with them. © Julio Pantoja / World Bank

IMPLICATIONS

There must be a greater balance between direct and indirect taxes, with more emphasis placed on progressive personal income and wealth taxes

Initiatives must be undertaken to reduce tax evasion and increase tax compliance

The link between taxation and the improved provision of public goods for all social classes should be emphasized.

