



Technical note

► **Labour Overview Series**
Latin America and the Caribbean 2021

Overview of social protection systems in Latin America and the Caribbean: Progress and setbacks in the face of the pandemic

Executive summary

October, 2021

Summary

The crisis triggered by the COVID-19 outbreak has exposed the gap that persists in the region to achieve comprehensive protection systems, based on a social protection floor which guarantees for universal access to health and economic security over the life cycle. Social protection coverage in Latin America evolved positively in the decade before the pandemic. Contributing members to the system increased by 14 per cent over the 2012-2019 period and the ratio of contributing workers to the employed population was 46.9 per cent for 2019. However, COVID-19 has had a harsh impact on coverage levels, with a 7.3 per cent drop in contributing members. In this scenario, non-contributory benefits, especially in the context of the pandemic, played a key role in reducing or avoiding the increase in poverty and extreme poverty. Funds allocated to mitigate COVID-19 have helped to contain, to some extent, the increase in poverty. As of June 2021, 273 non-contributory measures had been implemented, of which 64 per cent were new programmes and the rest adaptations of existing programmes.

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Executive summary

Social protection is fundamental for social inclusion and cohesion, as well as the reduction of poverty and social inequalities, while facilitating productive transformation and productivity improvement. Therefore, **social protection plays a central role in the 2030 Agenda for Sustainable Development** to leave no one behind, particularly with regard to the goals of ending poverty, ensuring universal access to essential health services, and promoting full and productive employment and decent work for all.



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Prior to the pandemic, the International Labour Organization (ILO) documented important advances for Latin America and the Caribbean in the extension of contributory and non-contributory social protection coverage. Albeit, the situation varies from country to country depending on the starting point, labour market particularities, material scope of application of social security legislation, and the progress made in strengthening comprehensive social protection systems.

This progress was cut short by the COVID-19 crisis, which marked a turning point. Gross domestic product (GDP) fell by 7 per cent in 2020 at the regional level, impacting production, labour, social protection, and macro-fiscal aspects with great speed and depth. The year 2021 offers glimpses of better performance, where recovery projections show countries are rebuilding some of the affected productive capacity; yet the two-year fall in domestic product will continue to be 1.6 per cent.

Although the pandemic and its immediate effects are not over, it should be noted that the complex situation revealed the crucial importance of having health systems that ensure universal coverage and access, as well as social security systems that provide ample and sufficient coverage to mitigate temporary income losses. Similarly, the need to strengthen other dimensions linked to the world of work, such as occupational health and safety prevention, became evident. The huge health effects of the pandemic in Latin America and the Caribbean are also related to the limitations and gaps in their social protection systems.

Strong impact of the crisis on macroeconomic indicators

Regarding the labour market, the Latin American and Caribbean region was the most affected globally in terms of hours worked and labour income: hours worked contracted by 20.9 per cent and income contracted by 19.3 per cent in 2020. The average employment rate fell by nearly 6 percentage points between 2019 and 2020, from 57.4 per cent to 51.7 per cent, with more than 26 million people losing their jobs.

The COVID-19 outbreak occurred when the Latin American and Caribbean region was already facing a difficult macroeconomic situation, characterized by a lack of dynamism, among other things. This shows that the fiscal deficit of Latin America in 2019 was around 3 per cent of GDP and about half of that in the Caribbean.

In general, central governments implemented wide-ranging public expenditure programmes (mainly in the form of subsidies and cash transfers) aimed at strengthening public health systems, supporting

families, and protecting the productive structure. The type and breath of these measures are also factors that explain the different behaviour of the economies during the critical period.

On average, the Caribbean showed increases in central government expenditure equivalent to 4 per cent of GDP. In Latin America, average total central government expenditure increased by 3.3 percentage points of the GDP (24.7 per cent of GDP, up from 21.4 per cent in 2019), reaching the highest level since 1950.

In addition, countries had to rapidly increase their public debt. On average, Latin American governments took on new debt equivalent to 10.7 per cent of GDP, while those in the Caribbean sub-region took on much more on average: 15.9 per cent of GDP.

Another practice that went from being very restricted in the pre-pandemic years to being a widely accepted and adopted alternative during the emergency was the use of monetary funding of the public sectors. In a region where inflation had not been an intractable problem for years, monetary financing was not considered imprudent under these special circumstances.

In summary, the impact of the pandemic on the economy, the labour market, and the fiscal situation has been harsh and widespread. The extent of each government's response has depended substantially on the previous track record, especially with regard to macroeconomic and fiscal variables. It is still difficult and premature to assess the duration of the emergency and its ultimate impact. However, the future trajectory of social protection in each country will depend critically on the measures taken during the crisis; on the strength of their economies and labour market dynamism, in particular the creation of formal jobs; and on the transformations that take place in the different components of social protection during the emergency.

Progress and setbacks in contributory social protection

As noted above, social protection plays a key role in modern societies in terms of social inclusion and cohesion, poverty reduction, and social disparities, and is interrelated, through various mechanisms, with the facilitation of productive transformation, and productivity improvement. Consequently, consolidating robust social protection structures is an essential task in the region, especially in the context of economic crises such as the COVID-19 pandemic.

The evolution of contributory social protection coverage has been generally positive over the last two decades. The ratio of contributing members to the system to the employed population indicator for countries in the region with comparable and aggregation of statistical information shows that contributory coverage increased by 5.6 percentage points between 2005 and 2010, from 36.6 per cent to 42.2 per cent respectively. Thereafter, the evolution of contributory coverage shows an upward trend, reaching 47.5 per cent for 2016, after which it dropped to 46.9 per cent for 2017, stabilising at around 46.6 per cent for 2018 and 2019.

This behaviour of the contributory coverage indicator has not translated into a drop in the total contributing members due to the very dynamics of the increase in the workforce; indeed, for the period 2012-2019 the number of contributing members increased by 14 million people and the number of employed by 22 million, representing an increase of 14 per cent and 9.6 per cent respectively.

The Andean sub-region shows the largest increase in the ratio of contributing members to the employed population for the period 2012-2019, increasing by 5.6 percentage points, but also the lowest contributory coverage indicator at 32.2 per cent in 2019. For Central American countries and Mexico, contributing workers coverage increased by 2.4 percentage points, from 32.5 per cent to 35.0 per cent in the 2012-2019 period. Finally, in the Southern Cone sub-region, the level of coverage has remained constant between 2012-2019, increasing by 2.5 percentage points between 2012 and 2015 (then falling by 1.9 percentage points and showing a positive variation of 7.4 per cent in contributing members).



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Social protection plays a key role in modern societies

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Coverage levels by age group show an inverted U-shape, with a more favourable situation for the middle-aged groups and in contrast to that observed for the young and the elderly. In 2019, the 30-44 age group reached 53.1 per cent coverage, followed by the 45-59 age group with 48.8 per cent, then the 29 and under age group with 42.7 per cent, and far behind the 60 and over age group with 27.6 per cent coverage.

This reflects an uneven evolution over the 2012-2019 period, with contributing members aged 60 and over increasing by 56.6 per cent, those in the 45-59 age group by 26.5 per cent, those in the 30-44 age group by 15 per cent, while contributing members in the 29 and under age group decreased by 4.2 per cent.

There is also a correlation between income inequality and contributory social security coverage, with no country in the region reaching 40 per cent coverage in the first quintile and the vast majority below 20 per cent coverage, reflecting the strong association between low income and informality. This contrasts to the highest income quintile, which in all countries has coverage above 40 per cent and in eight countries in the region, it is close to or above 80 per cent coverage.

Similarly, as larger economic units grow in terms of the number of workers, the social security coverage is higher. Coverage in companies with 20 or more workers in all countries was over 60 per cent in 2019. Most of them even exceed 80 per cent coverage. Conversely, with few exceptions, economic units with five persons or less have a coverage level of less than 20 per cent of the employed population.

The accumulated progress was curtailed by the COVID-19 pandemic. Labour market and social protection indicators were greatly impacted by the effects of the pandemic on the economy and employment. Employed persons and social security contributing members were affected by -7.3 per cent and -7.9 per cent respectively, a decline of nearly eight years.

Due to a composition effect, both Central America and Mexico and the Southern Cone reflect increases in contributory coverage between 2019 and 2020, as a result of a sharper fall in the employed population than in contributions to the system; for Central America and Mexico the percentage change was -1.2 per cent and -7.0 per cent for contributions and employed, and in the case of the Southern Cone -5.2 per cent and -8.0 per cent for contributions and employed, respectively. The Andean Countries sub-region show that contributory coverage fell by 5.6 percentage points due to a sharper drop in contributions than in employed persons, -24.5 per cent and -8.6 per cent respectively, mainly due to the performance of Colombia and Peru.

Coverage by sex shows that male contributing members fell by 7.6 per cent and female contributing members by 6.8 per cent. This relationship is reversed in the labour market, where employed women decreased by 9.4 per cent and men by 6.7 per cent, which implies, as mentioned, a setback of almost a decade in the expansion of contributory coverage. In addition, women were more affected given their care responsibilities, their higher presence in more precarious and crisis-sensitive segments such as part-time, temporary, and self-employment occupations, usually more informal.

By occupational category, domestic employment is the most affected, composed mostly of women, followed by private and public employees, who represent the most stable in the region. In addition, the absence or very low coverage in self-employment, especially self-employment, is linked to one of the great challenges pending for people who are historically excluded from access to social security.

Similarly, by age group, there are persistent differences in contributory coverage, where the gaps are more marked for young people up to 29 years of age, for whom the number of employed and contributing members decreased by 12.1 per cent and 14.4 per cent respectively during 2020, in contrast



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to the population aged 45-59 years, whose number of contributing members decreased by 2.3 per cent and employed by 4.4 per cent.

Economic security in old age, a pending challenge

The situation and evolution of the contributory coverage of the employed population that was previously documented and commented on is a crucial variable to have a picture of the population that will potentially have access to contributory retirement and pension benefits

in old age in the coming decades. Another relevant dimension is to analyse the situation of those people who are already of retirement age, usually over 65 years old. In this sense, it is important to identify the degree of coverage of pension income, whether contributory, non-contributory or a combination of both. In general, the income of older persons, which, despite the advances of the last two decades, continues face important challenges in terms of access and sufficiency.

The distribution of persons over 65 years of age for 2019 by source of income was as follows: 47.2 per cent receive only pension income (hereafter "pension", whether retirement or pension from contributory or non-contributory sources, with the understanding that it has different denominations in each of the countries), 7 per cent receive labour income and pension, 14.9 per cent receive only labour income, while 30.9 per cent of the region receive neither labour income nor pension.

At a sub-regional level, in the Southern Cone, 68.8 per cent of over-65s only receive pensions, 10.1 per cent receive both labour income and pensions, 5.7 per cent earn only labour income (84.6 per cent have one source of income) and 15.4 per cent do not receive any labour income or pensions. The situation is quite different in the Andean countries, where 44 per cent receive no income at all, 22.2 per cent only receive a pension, 4.7 per cent receive both labour income and a pension, and 29.1 per cent only earn labour income. The situation in Central America and Mexico is even more dire, where 52.7 per cent have no income, 21 per cent receive a pension, 2.4 per cent receive both labour income and a pension, and 24 per cent only earn labour income. Despite progress achieved in the 2012-2019 period, there is still a long way to go to make universal pension coverage for the elderly aged 65 and over a reality.

The gaps between men and women are significant in this area, with men having over 50 per cent coverage in all countries in the region, in some Southern Cone countries such as Argentina, Brazil, and Uruguay, it is over 90 per cent. In the case of women, the situation is the opposite: in most countries, there is a lack of coverage of more than 50 per cent, and in Central American countries and Mexico, the percentage of women over 65 years of age with no income from work and no pension is over 70 per cent.

Strengthening non-contributory social protection

In recent years, Latin America and the Caribbean have introduced or expanded non-contributory programmes aimed at reducing poverty and expanding pensions for the elderly, as well as conditional or unconditional cash transfers for children and people of working age. According to the ILO (2021a), effective coverage of non-contributory benefits reached 36 per cent of the vulnerable population, while public expenditure on social protection excluding health was around 10 per cent of the region's GDP.

Non-contributory programmes show a steady increase between the 1990s and the 2000s, having reached a total of 30 non-contributory social protection programmes in place by 2017, along with 72 labour and productive inclusion programmes and 34 social pension programmes by the same year (Abramo et al. 2019). The increase in the number of non-contributory programmes led to an increase in the coverage of vulnerable households and a consequent decrease in poverty.

These programmes are part of countries' social expenditure, which is a key tool for strengthening social protection floors to ensure income security throughout the life cycle and universal access to health, the basis of comprehensive social protection systems, and therefore key to preventing poverty, in its different levels and dimensions, and reducing inequality.

A large number of non-contributory policies are aimed at the economic security of older people, especially non-contributory pensions. These policies have been applied differently upon the beneficiary population, with universal interventions for older people living in poverty or at social risk, eligible on the basis of a means test and focused on the gaps in coverage of contributory benefits. Expenditure on non-contributory pensions rose from 0.2 per cent of GDP in 2000 to 0.6 per cent of GDP in 2017.

Social expenditure in Latin America and the Caribbean in response to the pandemic varies from one country and sub-regions to another. For example, the lowest figure is 5.2 per cent of GDP, most countries are between 8.7 per cent and 13.5 per cent of GDP, with a median of 11 per cent of GDP and an average of 11.3 per cent, while the highest regional figure is 17.7 per cent of GDP. In the Southern Cone, the figures range from 9.5 to 17.7 per cent of GDP, with an average of 15 per cent. In Central America and Mexico, social expenditure averaged 9 per cent of GDP, with figures on either end are 7.6 per cent and 12.4 per cent of GDP. In the Caribbean, most countries are between 7.6 per cent and 13.7 per cent of GDP, with a median of 10.8 per cent of GDP, while the Andean countries, with a similar median of 11.75 per cent of GDP, are between 10.5 per cent and 12.4 per cent of GDP.

The vast majority of countries in Latin America and the Caribbean implemented significant non-contributory social protection policies to mitigate the effects of the pandemic crisis. These policies were rapidly deployed during the first half of 2020. In the face of this emergency, and in response to its unforeseen impacts, countries developed policies that mostly addressed pre-existing problems that were aggravated and became more visible. As of June 2021, 273 non-contributory measures had been implemented, of which 64 per cent were new programmes and the rest adaptations of existing programmes.

Policies mainly aimed at protecting jobs and incomes, food delivery and nutrition care, and health-focused policies. The issues least addressed were related to education, motherhood, and survivor support.

Within the measures aimed at supporting people of working age (the most lagging behind before the pandemic), the policies mostly addressed income support and/or employment protection (49 per cent) and protecting people from the event of unemployment (33 per cent).

Social expending focused on addressing the COVID-19 crisis, according to the Economic Commission for Latin America and the Caribbean (ECLAC) data (2021), averaged 1.2 per cent of GDP, with most countries fluctuating between 0.19 per cent and 1.83 per cent. In the Caribbean the figures are below the regional median, mostly between 0.03 per cent and 0.63 per cent of GDP. This contrasts with Central America and Mexico, where expenditure is above the regional median between 1.18 per cent and 1.78 per cent of GDP between quartiles 1 and 3 respectively, and averages 1.38 per cent of GDP. Andean countries are characterized by high variance, where the average was 1.62 per cent of GDP, with a minimum social expenditure of 0.13 per cent of GDP and a maximum of 2.83 per cent of GDP. Similarly, the figures in the Cono Sur ranged from 0.14 per cent of GDP to 4.2 per cent of GDP, with a median of 1.83 per cent of GDP.

Expenditure aimed at mitigating the COVID-19 crisis has contained further increase in poverty and extreme poverty, with the countries that have spent the most preventing the increase in poverty the most. The COVID-19 pandemic and the low coverage of unemployment insurance in the countries where it is institutionalized pose a major challenge for Latin America and the Caribbean in terms of extending coverage for both formal and informal workers, the latter being the most affected by the crisis. Effective coverage of working-age people is only 12.5 per cent (latest year available) as evidenced by the monitoring of Sustainable Development Goals (SDGs) in Latin America and the Caribbean.

As noted, the crisis stressed the need to strengthen social protection policies for the working-age population, especially measures such as income support and/or employment protection (49 per cent of all measures), along with other measures to protect against unemployment (33 per cent of all measures). Of all employment protection policies, 30 per cent are contributory measures and 60 per cent non-contributory.

The impact of the crisis on children and adolescents has been significant, as evidenced in an increase in child labour. The ILO and the United Nations Children's Fund (UNICEF) (2021) estimate that in the face of austere social protection policies by governments, the increase in child employment globally may rise from 160 million to 168.9 million children between 2020 and 2022. This situation could be exacerbated if interventions to prevent and eliminate child labour are not strengthened. In addition, the socio-emotional consequences of health restrictions and loss of family and close relatives have altered eating habits, impacted on sleep, reduced outdoor activities, and led to increased anxiety and depression.

Social protection in health

In Latin America and the Caribbean, almost all health systems developed on the basis of segmented institutional organizations. As a result, these systems have a series of distinctive traits that, based on the fragmentation of rights to coverage and access, translate into high out-of-pocket expenditure (31 per cent of total health expenditure) and insufficient prioritization of the sector in public budgets, leading to deficiencies in human resources and infrastructure. This last feature has specifically been addressed in the response to and mitigation to the impacts of the COVID-19 pandemic.

The segmented and fragmented organization implies that there are three health sub-systems: i) public provision financed by general taxation; ii) social security financed by payroll contributions; and iii) private provision through direct payments or voluntary insurance. The way in which these three sub-sectors coordinate and collaborate (or fail to do so) results in different operation methods; hence, different dynamics in terms of sector coverage, equity, and efficiency. In addition, this institutional fragmentation often leads to duplication of financing and delivery functions, undermining efficiency, and equity.

Prior to the pandemic, health spending by Latin American governments was 3.1 per cent of GDP, absorbing 21.2 per cent of social expenditure and ranking third in terms of expenditure priorities, after social income protection (primarily spending on income protection for the elderly) and education.

The Southern Cone has more resources hence spends more on health and has better indicators (infant mortality), although it also has greater pressure to provide coverage for a significant proportion of the population over 65 years of age. In the Caribbean countries' situations are more diverse. Its special characteristics differ from the health systems of Latin America; yet, the infant mortality rate (15.6 per thousand) is very similar to the regional average, higher than that in the Southern Cone and lower than that in the rest of Latin America. However, this average is based on a wider diversity than in Latin America.

On the other hand, the Caribbean also differs in its organizational modalities. This is because they are a conglomerate of island countries, exposed to specific health problems related to climate issues and natural disasters. In addition, they have small populations, making it difficult to set up insurance systems of such a size that it is appealing to investment in infrastructure, human resources, and health equipment. In addition, these countries have high informality and low levels of tax pressure (from both general revenues and wage contributions) which limits the funds available for health-related issues.

The pandemic has put pressure on governments in each country to rapidly implement a variety of strategies to cope with the crisis, with varying levels of restrictions on the movement of people and social distancing measures aimed at slowing the spread of the virus. In addition, multiple initiatives have been implemented to strengthen, assist, and manage the subsystems that form part of the region's health systems in order to be able to face the current situation with more equipment, physical, financial and human resources and to ensure universal access to health for the entire population that requires it.

Prior to the pandemic

► **HEALTH SPENDING**
by Latin American governments

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With regard to the measures implemented by country, the strengthening of the steering role of the Ministries of Health stands out. Since the beginning of the pandemic, all Latin American countries used different instruments to declare a health emergency caused by COVID-19. The first on record is Honduras, which declared a health emergency throughout its territory in February 2020. Then, in March of that year, Guatemala, Costa Rica, Peru, Ecuador, Argentina, Colombia, Bolivia, Panama, Uruguay, El Salvador, Chile, Paraguay, Mexico and, finally, Brazil did the so through different instruments, based on the institutional framework of each country. After such measures were taken, the countries strengthened the coordinating role of the ministries of health as the health authority throughout the territory. These ministries played fundamental role in managing the crisis and adopting public policy decisions.

Most countries in the region have implemented measures to allocate more funds to public health budgets in order to provide the necessary equipment to cope with the pandemic. In turn, where public systems are decentralized, there has been a greater role for central governments in coordinating national responses to the pandemic.

Incentives for health personnel were also included, centralized management of the hospital infrastructure available in each country was promoted. Chile, Colombia, Mexico, Costa Rica, and Argentina standing out for the actions taken. In addition, there are financial support measures for social security systems, including telemedicine practices and remote consultations, health care and in-kind transfers to vulnerable groups, along with financing and vaccine purchase schemes for COVID-19. Some countries have recognized COVID-19 as an occupational disease, especially for health sector workers.

The future of social protection

The crisis triggered by the COVID-19 outbreak has exposed the gap that persists in the region to achieve comprehensive protection systems, based on a social protection floor which guarantees for universal access to health and economic security over the life cycle. Nevertheless, the pandemic has put pressure on countries to put in place the management and implementation of various measures to avoid an accentuation of existing vulnerabilities along with those that have been caused by the pandemic. In this area, Latin America and the Caribbean have implemented 131 measures between 2020 and June 2021 for this purpose, where 36 per cent of them are focused on food and nutrition, 26 per cent on household and basic services, 22 per cent on children and families, 15 per cent on poverty eradication and 2 per cent

on access to education. Of the total number of measures for children, 95 per cent are non-contributory interventions.

Latin American and Caribbean countries will now have to take note of the changes implemented during this exceptional period and face a complex combination of challenges to improve their social protection systems after the pandemic, strengthening the path to universal and sufficient coverage of benefits, including a pillar of support for strategies and policies that promote opportunities in current and future employment. The main challenges for the future of social protection include:

- ▶ Strengthen social protection floors. This requires economic security programmes that may require the incorporation of new programmes or the consolidation of existing ones for the population, whether they have no income or insufficient income.
- ▶ For children in the most vulnerable households, there is a need to complete the horizontal expansion of existing programmes and improve adequacy where necessary.
- ▶ Keep and expand (and implement where they do not exist) unemployment insurance, which, as is well known, requires the expansion of formal employment, and complement them with non-contributory schemes for informal workers, linking both with active employment policies.
- ▶ Keep and expand contributory pension systems, making them sustainable and avoiding promising old-age benefits in excess of what can be financed by contributions in order to avoid raising funds required to finance non-contributory benefits.
- ▶ Establish or expand (as appropriate) non-contributory social protection programmes for the elderly population that have no other income or need to be supplemented due to insufficient income.
- ▶ Achieve universal and equal coverage of public policy for social health protection, combining different sources of financing where necessary, but where care is based on need rather than household income.
- ▶ Strengthen public sector leadership (governance) in the different components of social protection. Particularly in health policy.
- ▶ Evaluate, as productive activity is slowly re-established, the design of social protection programmes (including those implemented in the emergency and requiring adjustments in the post-pandemic transition period), their effectiveness and long-term sustainability.
- ▶ Ensure funding sustainability, especially in the face of high debt levels and inflationary processes.
- ▶ Combine social protection policy with the promotion of decent work and the growth strategy of national economies, as an absolutely necessary condition for making social protection itself sustainable.
- ▶ Strengthen and create contributory and non-contributory measures to cope with demographic pressures and new social security urgencies brought about by climate change and other productive transformations resulting from the transition to the future of work.
- ▶ Develop national care systems for children, persons with disabilities, and older persons.



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