



Social Protection in Times of Uncertainty

Thursday 29 September 2022

1:30-3:30 pm



RECALIBRATING... GETTING BACK ON TRACK TOWARDS THE SDGs

Table 1: Social Protection in Times of Uncertainty¹
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Technical Note

Introduction

The COVID-19 pandemic has highlighted structural challenges in social protection systems in Latin America and the Caribbean (LAC). The region responded to the shock mainly through cash transfer programs, and the response was often insufficient to contain the income loss. It has also opened a window of opportunity to move towards universality in social protection systems, understood in three dimensions: (i) the entire population exposed to a given risk covered through the same program; (ii) the source of financing the same for each program; and (iii) in-kind benefits of the same quality for all. Rethinking social protection and fiscal systems together is a policy priority in LAC.

Social protection systems must be at the center of sustainable development strategies in the region, taking into consideration the new risk matrix faced by countries. It is essential to consolidate a social compact focused on rights and equality, linked to a progressive fiscal system that guarantees financial sustainability, and to consolidate universal, inclusive, fiscally sustainable and growth-friendly social protection systems. For this, countries need to increase the capacity of the States to collect sufficient resources to carry out the necessary reforms and finance comprehensive systems.

Understanding the Challenges of Social Protection in LAC

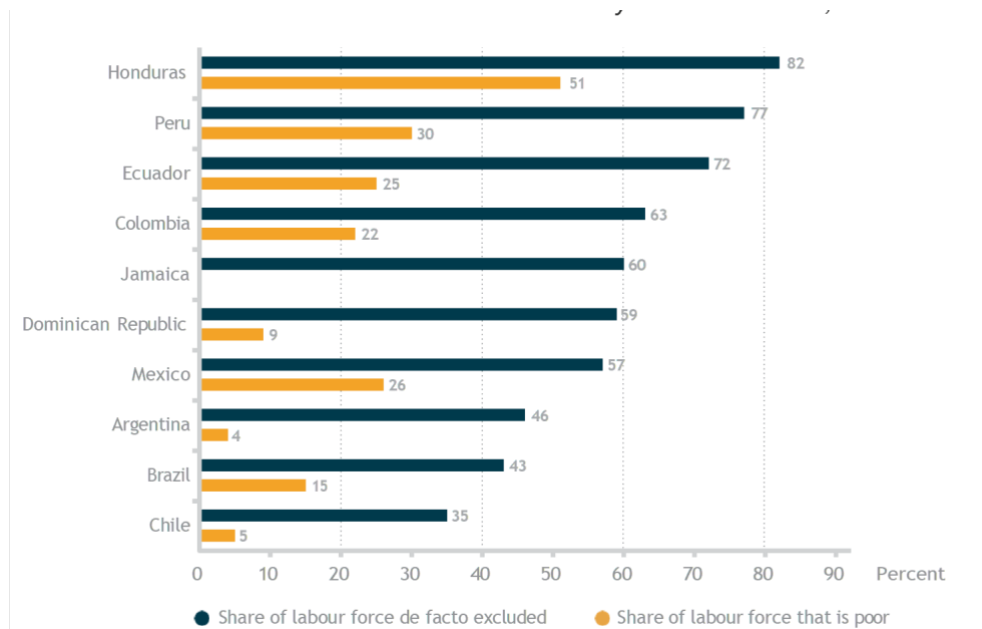
Social protection systems in LAC are characterized by combining a social assistance pillar with contributory and non-contributory social insurance systems. Dependent workers covered under contributory social insurance systems are also usually protected by minimum wage policies and other labor market regulations.

Contributory social insurance (CSI) programs are mostly limited to workers who have a relation of dependency and subordination with firms, and who receive monetary remuneration in the form of wages or salaries. They are financed with payroll contributions from firms and workers. In most countries regulatory frameworks exclude part of the workforce from contributory social insurance systems, mainly self-employed and independent workers, but also in some cases, with variations across countries, rural and domestic workers, unpaid workers, those working at home or in family businesses.

¹ Based on Regional Human Development Report 2021 (UNDP 2021).

Another factor limiting the coverage of CSI regimes is that laws and regulations are imperfectly enforced and there is a high level of non-compliance in the region.

Figure 1: A large share of the labor force is excluded from contributory social insurance, in selected LAC countries



Source: Levy and Cruces (2021).

Note: workers in households under the poverty line of USD 5.50/day, 2011 PPP.

High informality in LAC labor markets is partly due to a lack of compliance by workers and firms, but also largely to regulatory exclusions. Governments in the region have responded by creating parallel non-contributory social insurance (NCSI) systems to provide some form of social security to those left out. In general, these programs are limited to health and old-age pensions, although some countries include other benefits, and are financed from general government revenues. The benefits they offer are often lower than those offered by CSI schemes and exclude any income floor or protection against the loss of employment. As discussed by Levy and Cruces (2021), these programs proliferated everywhere in the region, as social spending grew in parallel, although not always with a solid tax base behind it. These programs were accompanied by measures promoting special tax regimes for micro and small firms and sometimes subsidies to consumption, in the expectation that these policies would jointly expand the coverage of social insurance, reduce poverty and mitigate income inequality.

The co-existence of the CSI regime and NCSI results in a complex social protection architecture in terms of sources of financing and rules and conditions of access. The interphase between the design and operation of CSI and NCSI programs, on the one hand, and enforcement, on the other, segments the labor force into two categories: formal workers, who are covered by CSI programs and job stability and minimum wage regulations,

and informal workers, who receive whatever benefits are offered by NCSI programs. This segmentation is a source of inequalities in terms of workers' entitlements to social benefits, as similar workers making similar efforts experience very different levels of social protection. Protection against risks is effective for only a subset of workers, with the rest—more often than not the majority—poorly and erratically protected at best. Redistribution is weak and sometimes in the opposite direction of what is desired. All this not only increases inequality but also contributes to low productivity growth, because regulatory frameworks are such that businesses lack the correct incentives to grow and a disproportionate large share of the workforce is sentenced to self-employment or employment in micro, very low-productivity businesses.

In addition to this, due to the lack of coordination among social actors (states, private sector, communities, and families) and between genders, the current distribution of care responsibilities in LAC is extremely unbalanced, falling mainly on households and specifically on the unpaid work of women. Women and girls are often the primary caregivers at home and in general have more domestic chores and care responsibilities compared to men, spending an average of three times more in non-remunerated care work (Mateo-Berganza and Rodríguez Chamussy, 2016; UNDP, 2022). Women who manage to enter the labor market work mainly in economic sectors and occupations that are traditionally undervalued, which affects wages and working conditions, and they are overrepresented in the care economy. At the same time, hierarchies that assign less status and lower income to tasks in the hands of women are also reproduced in the care economy, while the best paid tasks and managerial positions are mostly occupied by men (ECLAC, 2022).

The overload of unpaid work for women represents an obstacle to their full participation in the labor market and affects the misallocation of talent, thus generating inefficiencies that affect productivity in a region that is already caught in a trap of high inequality-low productivity (UNDP, 2021). Investment in care would contribute to reducing gender gaps in education, health, employment and wages, and would affect productivity levels and the growth rate of the economy (Seguino, 2020), and contribute to economic resilience and micro-financial stability (Bertay et al., 2020). In turn, in a context of changing demographic dynamics and the uncertain impact of technological change, especially in the manufacturing sector, the demand for labor in sectors linked to the care economy are expected to increase (Simonazzi, 2008). These trends put more pressure on the social protection systems in the region, which should be adjusted to account for the expansion of the care economy.

The Additional Challenge of Growing Uncertainty

Over the last couple of decades, global concerns have increased about multiple risks and uncertainties regarding market volatility, natural disasters, climate change, conflicts, forced displacement, and others, combined with potential disruptions resulting from technological change.

In this context, there is an increased consensus among international agencies and national and local governments about the critical role that social protection systems should play to collectively manage this increased uncertainty. Countries can act to pro-actively protect individuals and households from present and future poverty and destitution, reducing risk exposure over the lifecycle and making opportunities more equal. In the LAC region, this means that, in addition to being adjusted to correct structural inequalities in access and coverage, social protection systems also need to be adapted to a more uncertain context. In particular, the prolonged COVID-19 crisis, the economic and social repercussions of the war in Ukraine, and the widespread

vulnerability of the region's countries to ongoing emergencies and disasters have made strengthening social protection systems an urgent need.

- *Lingering Negative Impacts of the COVID-19 Pandemic*

LAC has been disproportionately affected by COVID-19, partly due to pre-existing structural inequalities in the region, high levels of informal labor and fragmented health services. Although only 8.4% of the world's population lives in LAC, the region concentrated 28.8% of total global deaths (over 1.6 million deaths) and generated 22 million new poor in 2020, according to the Economic Commission for Latin America and the Caribbean (ECLAC)². In turn, according to the results from the WB UNDP High-Frequency Household Surveys 2021 (Wave 1)³, during the pandemic, food insecurity almost doubled in the region, with the countries with the greatest inequality and poverty experiencing the greatest impact. Participation in some form of educational activity in LAC fell twelve percentage points below the attendance rate before the pandemic, and the level and type of participation showed strong heterogeneity between and within countries.

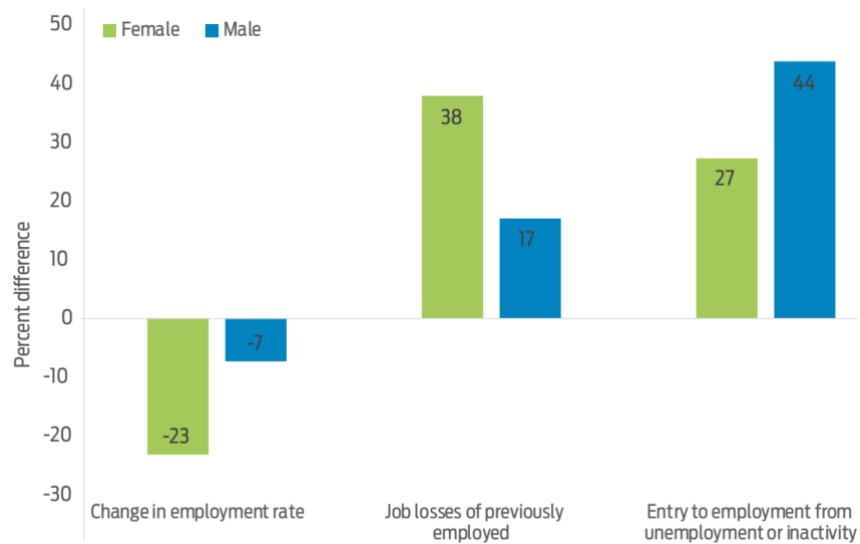
In addition, the negative consequences of COVID-19 have disproportionately affected the most vulnerable groups because they are at higher risk: women, older people, young workers, migrant households, informal workers, the poor population, people who are homeless or live in informal settlements, and people with underlying health conditions, among others. As discussed in UNDP (2022), women faced greater challenges because they constitute a large portion of the most affected economic sectors' labor force, like tourism and services, and most of them work in the informal economy or are underemployed, meaning that they have limited access to social protection. In addition, since the start of the COVID-19 outbreak, unpaid care work has disproportionately increased for women in LAC, mainly due to school closures and the need to care for patients and children at home. In parallel to this, women suffered negative shocks in many other areas of their lives during the pandemic – including an increase in violence against women and girls, rises in maternal morbidity and mortality, and a decrease in preventive health care, among others. In turn, according to results from the WB UNDP High-Frequency Household Surveys 2021 (Wave 1), the gender gaps, in terms of job loss, have widened since the start of the pandemic in 2020, especially for mothers with younger children (0 to 5 years old).⁴

² Panorama Social de América Latina 2020 (CEPAL, 2021): <https://repositorio.cepal.org/handle/11362/46687>

³ <https://www.undp.org/latin-america/publications/uneven-recovery-taking-pulse-latin-america-and-caribbean-region-following-pandemic>

⁴ As of mid-2021, women in the region are twice as likely as men to have lost their pre-pandemic jobs. More than half of the women who lost their jobs dropped out of the labor market altogether. However, the pandemic also saw significant entry into the labor force of previously inactive women, including mothers with young children who started working to compensate for lost household income. Still, on average, female labor force participation fell in the region in 2021.

Figure 2: The region faced a strong negative impact in employment (+18) to population ratio following the outbreak of the COVID-19 pandemic from February 2020 to mid-2021



Source: WB and UNDP LAC HFPS II (Wave 1) 2021 data.

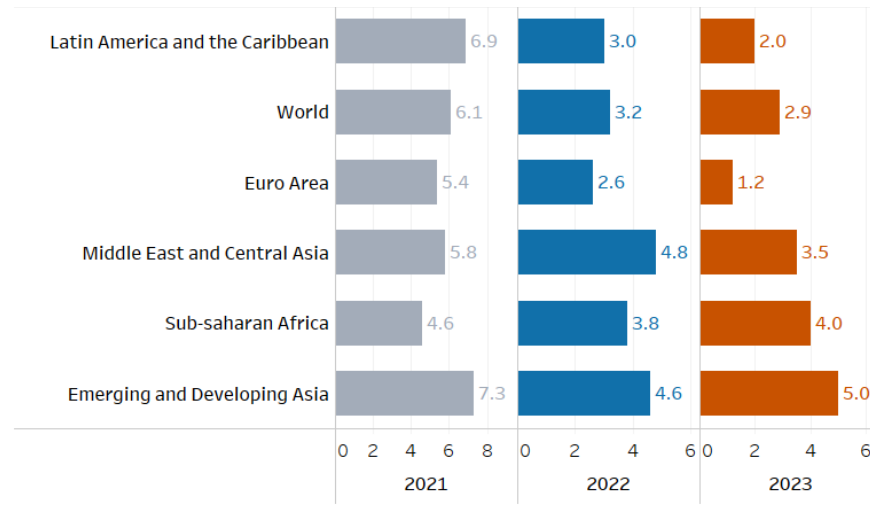
The governments of the region implemented emergency social protection measures in 2020. Investments in building and expanding social assistance systems in some LAC countries over the past decades allowed governments to scale them up quickly during the pandemic and contained the fallout from the crisis, at least in the short term. Although these efforts reached almost half of the population in LAC and prevented even greater increases in poverty, they were not enough to contain the impact of the crisis, partly due to the pre-crisis weakness of social protection systems.

By the end of 2021, the region still had not recovered. 13.8% of the population was living in extreme poverty (86 million people), deepening a positive trend on this indicator and representing a setback of 27 years, while the overall poverty rate was 32.1% (201 million people), according to ECLAC (2022).⁵ In turn, although LAC ended 2021 with 6.9% GDP growth, after a 7% collapse in 2020, the rebound appears to be unsustainable (IMF's projections for 2022 predict 3% growth in the region, making LAC the region with the lowest growth in the world⁶).

⁵ Panorama Social de América Latina 2021 (CEPAL, 2022): <https://repositorio.cepal.org/handle/11362/47718>

⁶ World Economic Outlook database: <https://www.imf.org/en/Publications/WEO/Issues/2022/07/26/world-economic-outlook-update-july-2022>

Figure 3: Real GDP recovered in 2021 following a sharp contraction in 2020, but this growth is unsustainable (percent change from previous year)



Source: Own elaboration using IMF-WEO July 2022.

Employment rates have experienced a relative recovery in some countries, with new jobs in self-employment largely explaining the recovery, as seen in results from the WB UNDP High-Frequency Household Surveys 2021 (Wave 2). However, recovery has been seen at a slow pace, with most rates falling short of pre-pandemic levels, and great heterogeneity across countries in the region. And while the proportion of households that experienced food insecurity in the region declined between the middle and the end of 2021, it was still above pre-pandemic levels.

The COVID-19 pandemic has highlighted the fundamental role of social protection systems in facing the economic and social impacts of these crises, and made evident their limitations in the region. It illustrated the shortcomings of relying on “patchy” safety nets that provide limited protection, as opposed to a more comprehensive social protection floor that is guaranteed for all. The pandemic has also revealed the enormous cost that it means for the countries of the region not to have a care system fully integrated with the social protection system. It became clear that there is a need to invest in this sector, guarantee the right to care and receive care, as well as reactivate the economy from a perspective of equality.

- *The Impact of the Ukraine War*

Despite the geographical distance and relatively indirect/limited trade links with LAC, the conflict between Ukraine and Russia will have important economic and financial implications for the region. Sanctions imposed on Russia are expected to keep oil prices high, benefiting oil-producing countries in LAC but deteriorating the fiscal balance of net importers. The conflict is also affecting the price of food and agricultural staples. Both factors are leading to inflationary pressure. Inflation has already been on the rise in the region since 2021, with most countries exceeding the inflation targets set by Central Banks and registering the highest levels in the last

15 years in the largest economies of the region. Increased consumer demand and pay indexation, along with rising food and energy prices, account for the LAC average annual CPI's 7.2% increase in 2021 (excluding the very high inflation countries). This affects real incomes, especially of the most vulnerable.

Policymakers are reacting to this challenge by tightening monetary policy and implementing measures to soften the impact on the most vulnerable and contain the risks of social unrest. Indeed, since the war began, several countries in the region have acted to contain the effects of rising prices on vulnerable groups, implementing tax and import tariff reductions, price caps or social transfers. However, as discussed by Cardenas and Hernandez (2022), many of these policies could have a negative impact on fiscal indicators. The authors show that energy subsidies are regressive and compromise fiscal sustainability, as they tend to have disproportionate leakage of benefits to high income groups that have more energy-intensive consumption baskets. Most countries are likely to have lower fiscal consolidations in 2022 than were forecast before the conflict, regardless of whether they export commodities, depend on tourism, or have diversified exports.

Besides the increases in prices, a possible escalation of the war could eventually lead to global financial distress and tighter financial conditions for the region, compounded by the tightening of monetary policy in the United States, which could affect global financial conditions. Cardenas and Hernandez (2022) highlight that, despite having little financial exposure to Russia and Ukraine, most LAC countries experienced spikes in bond spreads in the first few weeks after the invasion started. Undoubtedly, the rise in interest rates in the U.S. and Europe, the potential of a global recession, and the uncertainty surrounding the war in Ukraine's broader implications are causing a flight to safe assets. Capital withdrawals could counteract potential windfalls in countries that export commodities, while also lead to currency depreciations, which in turn could have a negative financial impact on countries that have a sizable foreign debt exposure. Lastly, exchange rates have been impacted by the uncertainty around the future of the world economy as investors hunt for less risky investments. Not all LAC currencies, nevertheless, have been affected similarly.

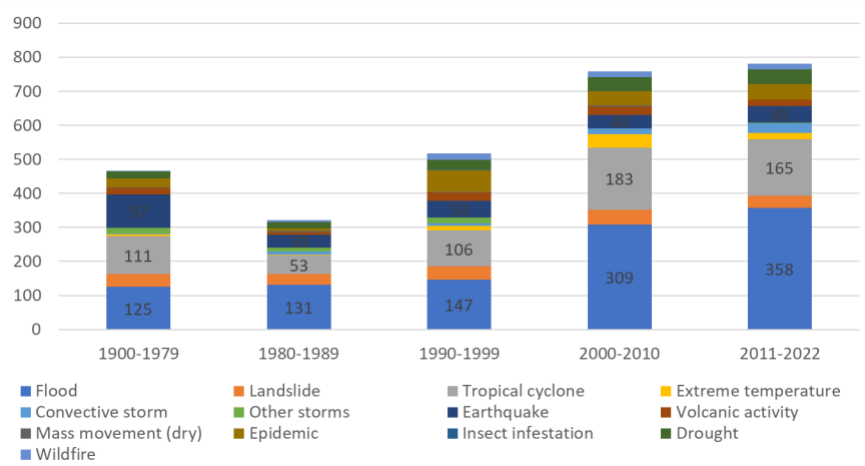
In this phase of geopolitical reorganization and tensions, the region's countries face ever greater challenges for generating and ensuring well-being and social peace.

- *The Impact of Climate Change*

Climate change is a threat to the objective of sustainable development. Even those not in poverty can suffer the negative impacts of natural disasters, but the negative consequences of disasters are felt even more by the poor and vulnerable because they are more often affected by natural disasters, they often have to settle in risky areas, they have fewer mechanisms to help them cope, and they receive less support to recover (Hallegatte et al., 2017).

The number of natural disasters in the region has increased sharply in the last few decades. In particular, in the 1990s, we saw roughly the same number of disasters as in the first eight decades of the century, while 2000-2010 and 2010-2020 have seen an even larger number of shocks. Most natural disasters in LAC correspond to floods, cyclones, earthquakes, and landslides, which have all happened much more often lately.

Figure 4: The number of natural disasters in Latin America and the Caribbean has significantly increased in recent decades, 1900-Apr 2022



Source: own elaboration based on data from EM-DAT, CRED/UCLouvain.

Water-related disasters represent the greatest challenge in the region, with floods being the most common type of natural disasters. Massive rainfall, river overflows, and deficient infrastructure often put LAC communities on the verge of crisis. For instance, in Brazil, over 7 million people are estimated to live at risk of landslides and floodings. Water scarcity, on the other hand, is one of the most pressing issues for LAC countries with vast arid or desertic territory, especially those located within the Andean region, such as Chile, Peru and Bolivia. Countries in the Caribbean are particularly vulnerable to tropical storms, floods, and hurricanes, as well as earthquakes.

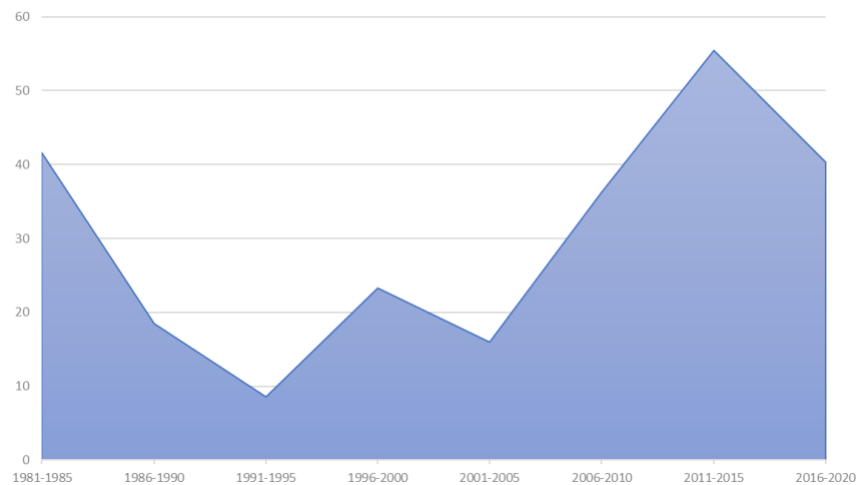
The number of people in LAC that has been affected by natural disasters has also increased substantially over the last four decades. Between 2000 and 2019, around 41 million people were estimated to have been affected by flooding in the region, while drought impacted the lives of approximately 53 million people. Bolivia is the most vulnerable LAC country to suffering from drought, in terms of frequency and estimated impact.

In addition, in recent years, some of the deadliest natural catastrophes occurred in Latin America, including the earthquakes in Haiti (230,000 deaths in 2010 and 2,248 deaths in 2021), the Brumadinho mudslide in Brazil (300 deaths in 2019), and hurricanes Maria (3,059 deaths in 2017) and Eta (183 deaths in 2020).⁷

Social protection systems are tools that government can deploy during emergencies to better meet the needs of shock-affected populations. Social protection has the potential to foster recovery and increase households' resilience to shocks when provided on a regular and predictable basis, and it can help to ensure that poor and vulnerable households impacted by shocks are not pushed further into chronic poverty.

⁷ <https://climateknowledgeportal.worldbank.org/>

Figure 5: The number of people affected by natural disasters in Latin America and the Caribbean has also increased sharply (in millions)



Source: own elaboration based on data from the Climate Change Knowledge Portal, The World Bank.

Several countries in LAC (among others, Chile, Ecuador, El Salvador, Mexico, Peru, and Caribbean countries) have used their social protection capacity to respond to crises caused by disasters. In most cases, existing programs are topped up and cash-based social assistance is the most popular type. The disadvantage of this type of response is that it only reaches existing beneficiaries, thus excluding non-beneficiaries.

As the effects of the climate change accelerate, there is a need for improving the response capacity of social protection systems in the region, including system response, system preparedness, targeting and data management. In addition, it should be considered how climate change could deepen structural inequalities in the region – including the widening of gender gaps.⁸

Moving Forward Towards a Social Protection System that Protects Against Uncertainty

A well-functioning social protection system is not a collection of programs working in isolation. It is a set of policies and programs that jointly provide protection against risks and is effective in combating poverty and reducing inequality while contributing to growth and the strengthening of the rule of law (Levy and Cruces, 2021).

Despite the considerable progress and investment that countries in the region have made in past decades to improve their social protection systems, some structural challenges persist. With variations across countries, the region's social protection policies segment the labor market, provide erratic risk protection to households,

⁸ <https://www.imf.org/en/Publications/fandd/issues/2021/09/advancing-gender-equality-through-climate-action-COP26-trevelyan>

do not redistribute income sufficiently towards lower-income groups and sometimes redistribute income in the opposite direction, and bias the allocation of resources in ways that punish productivity and long-term growth. Inequality and social exclusion hinder and aggravate the adverse effects of disasters and shocks in the region. Communities in situations of social vulnerability have fewer coping mechanisms, deepening the negative impacts they are facing.

Considering the multiple ways in which social protection can contribute to promoting inclusive and sustainable growth, reduce poverty and vulnerability of the population, and its fundamental role in responding to shocks and building resilience, countries in the region should act now to adjust and strengthen these systems.

It is essential to consolidate universal, inclusive, fiscally sustainable and growth-friendly social protection systems. In the future, a guiding principle for social protection in the region should be universality with respect to the relevant population, understood in three dimensions: (i) the entire population exposed to a given risk needs to be covered through the same program; (ii) the source of financing should be the same for each program, based on the type of risk covered; and (iii) if programs provide benefits in kind, the quality should be the same for all. As noted in UNDP (2021), the principle of universality with respect to the relevant population can be seen as a guide when evaluating the introduction of new programs, the target population for each program, and which programs should be financed through general tax revenues, contributions by firms, or worker contributions. In this way, this principle provides a path to guide more effective social spending that allows for inclusive, long-term growth.

Based on the region's experience, it is unlikely that this will occur only by raising taxes and spending more on the same or similar social protection programs. The articulation of programs around worker status in the labor market, the sources of financing, and the rules of access must also be reconsidered. This challenge is compounded by the need to face a new risk structure, affected by the socioeconomic impacts of various disasters and the health crisis caused by the COVID-19 pandemic, unstable and low economic growth, rising inequality, and the environmental crisis. It also needs to consider how to effectively take advantage of technological transformation, the need to transition towards sustainable economies, and demographic and migratory dynamics. Social protection policies increase the resilience of the population in the face of disasters and reduce the risks they face, so they cannot be only reactive in nature – they should be designed to anticipate risks and have mechanisms to compensate for the effects of negative shocks faced by the population, with a focus on prevention and preparation and not just mitigation. But this needs to be built over social protection systems that also address the structural challenges discussed above.

While policymakers have little incidence on the external factors, they have an essential role in this process. They can build resilience by improving their social protection systems, for instance by strengthening the capacity of the health system, using fiscal stimulus to smooth the consumption of households, taking measures to protect employment, and advancing towards a care system fully integrated with the social protection system.

Since all workers are exposed to risks such as illness, disability, unemployment, or death, regardless of their income level, social insurance programs should cover everyone. In parallel, the income of some families may be so low as to push them into poverty, requiring additional social assistance programs to increase their consumption. These transfers should reach a subset of the population and redistribute income in their favor. Families with children, which are disproportionately affected by poverty in the region, should receive special attention, but not be the only beneficiaries.

Universal social protection systems need not be the same across the region, and coverage might be built up gradually for budgetary reasons. There are variants and combinations of policies, whose pros and cons depend on the characteristics of individual countries, including political preferences for taxation and social solidarity. Some countries may make greater efforts to redistribute through health programs compared to pensions; within pensions, some may rely more on higher contribution rates for contributory ones and some for lower rates compensated by more generous non-contributory pensions. In others, unemployment insurance can be less generous because compensations at times of separation are higher and so on.

To achieve universality of social protection systems countries will need to increase tax revenues “through higher taxes on income, property and activities harming the environment and through a reconsideration of special tax regimes; in some countries, also through higher consumption taxes or lower generalized subsidies, particularly for fuel and, in all, through lower evasion rates (which go hand in hand with less informality). The specific combination will differ across countries. But, over such routes, taxation could make three key contributions to social protection: fund programs, reduce income inequality directly, and facilitate productivity growth” (UNDP, 2021). In this regard, it will be important to deal with a complex political economy and address the imbalances of power that contribute to perpetuating inequalities and low growth.

A social protection system structured around the universality principle offers the region a path to increase spending on an effective social assistance system in times of uncertainty, while strengthening the foundations for long-term growth and a path to improve social inclusion. Government in the region have a key role to play, providing universal levels of protection amid this uncertainty, with solidarity and equality, distributing the benefits of economic development, under a social compact and a fiscal contract that is forged collectively and where everyone is protected regardless of their position in the labor market. LAC countries have the opportunity to build comprehensive egalitarian systems, promoting equal access to quality care, fostering co-responsibility among all people and actors capable of providing care, promoting women economic empowerment, and fostering an intersectional approach that considers the traditional drivers of inequality, such as age, race or ethnicity, territory and income (ECLAC, 2022).

Moving into this direction will allow countries to advance in the achievement of the 2030 Agenda and consolidate LAC as a strong, cohesive middle-class society, advancing into a three-lane road towards sustainable development: productivity, inclusion and resilience.

8 Steps for a Reformed Social Protection System

1. Improving social protection systems' architecture
2. Achieving universal social protection systems
3. Acknowledging social risk management as a key component of social protection
4. Promoting gender-sensitive policies in different fronts
5. Guaranteeing universal access to basic services
6. Rethinking education systems so that no one is left behind
7. Putting social cohesion at the center and building a new social contract
8. Addressing imbalances of power and violence in all its forms

Source: based on UNDP (2022).

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