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TOWARD A REGIONAL APPROACH TO SOCIAL PROTECTION

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Abstract

This paper analyzes a regional approach to social protection in Latin America and the Caribbean (LAC), grounded in the universal principle that all individuals facing similar risks should receive equitable coverage, irrespective of labor status. Building on the framework by Levy and Cruces (2021), as developed in UNDP (2021), it highlights the political and fiscal challenges of implementing a universal model that encompasses social insurance, non-contributory social programs, and tax reforms. A central theme is the need for flexibility and adaptability in regional social protection policies to accommodate the diverse social, economic, and political contexts of LAC countries. The paper also addresses political economy and fiscal sustainability challenges, proposing micro and meso interventions that align with long-term goals of universal health, pensions, and income support systems. Emphasis is placed on the role of incremental reforms in fostering broad-based social security coverage, reducing informality, and ultimately contributing to sustainable development goals. This paper contributes to the ongoing dialogue on building sustainable social protection systems in LAC, aligning with the Sustainable Development Goals and UNDP's commitment to reducing social vulnerabilities across the region.

Keywords: Social protection, Universality, Social security, Reforms

JEL: H55, I38, O15, J48

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HACIA UN ENFOQUE REGIONAL DE LA PROTECCIÓN SOCIAL

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Resumen

Este documento analiza el enfoque regional de protección social en América Latina y el Caribe (ALC), basado en el principio de universalidad, según el cual todas las personas que enfrentan riesgos similares deben recibir una cobertura equitativa, independientemente de su situación laboral. Basándose en el marco de Levy y Cruces (2021), desarrollado en el informe del PNUD (2021), destaca los desafíos políticos y fiscales de implementar un modelo universal que abarque esquemas de protección social, programas sociales no contributivos y reformas tributarias. Un tema central es la necesidad de flexibilidad y adaptabilidad en las políticas de protección social regional para adecuarse a los diversos contextos sociales, económicos y políticos de los países de ALC. El documento también aborda los desafíos de la economía política y la sostenibilidad fiscal, proponiendo intervenciones micro y meso que se alineen con los objetivos a largo plazo de sistemas universales de salud, pensiones y apoyo económico. Por ello se enfatiza en el papel de las reformas incrementales para fomentar una cobertura amplia de seguridad social, reducir la informalidad y, en última instancia, contribuir a los objetivos de desarrollo sostenible. Este documento contribuye al diálogo en curso sobre la construcción de sistemas sostenibles de protección social en ALC, alineándose con los Objetivos de Desarrollo Sostenible y el compromiso del PNUD de reducir las vulnerabilidades sociales en toda la región.

Palabras clave: Protección social, Universalidad, Seguridad social, reformas

JEL: H55, I38, O15, J48

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1. Introduction

Levy and Cruces (2021) –hereafter L&C– presented a comprehensive analysis of how social protection programs are structured in Latin American countries and their possible effects on coverage, inequality, productivity, and economic growth. It was the most important background paper for Chapter 5 of the Regional Human Development Report (UNDP 2021a) and a relevant piece to be considered in the social protection offer made by the UNDP Panama Regional Office (UNDP LAC) to countries in the region.

Their analysis underpinned a proposal for a comprehensive reform whose basic principle is universality: all persons exposed to the same risk should be equally covered (by the same programs and of the same quality); the source of financing should be based on the risks covered, not on labour status.[1] Such a reform would necessarily encompass social insurance programs, non-contributory social protection programs, and taxes, a difficult task from a political economy perspective.

'Universality', in this sense, is a guiding principle for reforms that should be considered as a process, rather than a single event—i.e., not as a "rigid blueprint to be followed everywhere", but a vision to be adapted to the unique characteristics, demands, and preferences of each country. This conceptual background would benefit from a reflection on individual/minor reforms that are not only more likely to take place, but also more likely to fall within the scope of social protection demands received by UNDP LAC.

This document is a working paper intended to stimulate discussion and feedback on the proposed ideas. Social protection reforms are inherently context-dependent, and this should be a key consideration in any regional strategy. Given the diverse social, economic, and political landscapes in Latin America and the Caribbean (LAC), the flexibility to adapt to local conditions, while pursuing a unified goal, is essential for the success of social protection reforms in LAC.

The paper intends to build on Chapter 5 of UNDP (2021a) and L&C by (1) deriving individual interventions that would be compatible with the vision of a universal social protection system; (2) exploring issues that can still be developed from their conceptual perspective; and (3) addressing issues that were not fully examined in those works, but which are highlighted in UNDP's Global Social Protection Offer (UNDP 2021b), the UNDP Strategic Plan 2022-2025 (UNDP 2021c) and the social protection literature on the region.

To that end, this document will adopt the same notation used by L&C. This notation will not be fully explained here, but can be reviewed in the original document (especially pp. 6, 11, 15, and 16). Likewise, we will not reproduce in detail the entire conceptual framework developed by the authors. While we have striven to present this Working Paper as a standalone piece, the reference documents will certainly help readers reach a better understanding of the material.

[1] This means that, in L&C's conception, "risks common to all citizens should be funded from general taxes", "risks common to all workers, from workers' earnings", and "risks specific to workers in firms, from firm contributions based on workers' wages".

2. L&C's basic argument and proposals

L&C are fundamentally concerned with typical phenomena in Latin America and the Caribbean (LAC): high levels of informality, social protection low coverage, productivity, and economic growth. The broad formulation of their model can be seen in (1): the way human and physical capital are combined in firms and infrastructure ([(I.H),(Kfirm, Kinf)]), technology (T), factors in the world economy (W), and what they call "the environment" (E) determine how resources are allocated in the economy (R), its productivity (TFP), social protection coverage (SP), market income (Y), inequality, and economic growth (gross domestic product—GDP).

{[(I.H),(Kfirm, Kinf)]; T; W; E [L(.), T(.), M(.), P(.)]}

determine R, TFP, SP, Y, GDP (1)

They are especially interested in two elements of the environment (E): the realm of labour relations (L(.)) and the realm of taxes and transfers (T(.)) (see Figure 1). The realms of market conditions (M(.)) and monetary and fiscal policy (P(.)), also part of the environment, receive considerably less attention than those where social protection is located—that is, labour relations (contributory and non-contributory social insurance[2]) and taxes and transfers.

Figure 1. Emphasis given by L&C

{[(I.H),(Kfirm, Kinf)]; T; W; E [L (.),T (.), M(.), P(.)[}

determine R, TFP, SP, Y, GDP

The effects of economic growth on social protection are well known. It is frequently associated with increased levels of formality (which by itself increases social protection coverage) and generates revenues to finance social protection expenditures.[3] However, L&C argue that the effects of social protection on productivity and economic growth (and, consequently, on long-term social welfare indicators) in LAC have largely been neglected by policymakers and analysts (p. 99).

They argue that (i) implicit tax and subsidies in L(.) and T(.), (ii) the existence of special tax schemes for small firms, and (iii) the relationship between social protection and firm size (taxes, labour costs, and enforcement tend to be positively associated with firm size) work in

[2] L&C refer to "contributory and non-contributory social insurance", which is at odds with most of the literature on social protection, which treats social insurance as a contributory form of social security. With the purpose of maintaining their notation, we will also retain their terminology.

[3] Since the first classical studies about the emergence and development of the welfare states (such as Wilensky 1975), economic growth is perceived as a source of both resources and demands for social protection programs. World Bank (2019) documents a clear and strong association between per capita GDP and formality.

favour of/help subsidize small, relatively unproductive firms and lead to dysfunctional labour markets. There are perverse incentives for both firms and workers: for firms to remain either informal or small; and for workers —especially low-income, self-employed workers and those transitioning between formal and informal jobs— not to contribute to social insurance.

L&C have two broad proposals to reduce informality and increase social protection coverage, productivity, and long-term economic growth. The first proposal would operate on the demand side of the labour market, promoting a more level playing field for all firms (formal and informal). This includes cost reductions for formal firms (such as compliance with contributions to social insurance in L_{CSI} and with regulations on job stability in L_{JS}), and a reduction (or preferably elimination) of special tax schemes for micro and small enterprises. Competition between formal and informal firms (or between fully formal firms and those that depend on special tax schemes to remain formal and keep afloat) would become fairer. Formal, larger, and more productive firms would eventually prevail in the market, leading to higher productivity and economic growth, and higher formal employment and social protection coverage. In other words, LAC would experience a true cycle of **inclusive growth**. The authors also acknowledge that the pace of replacing informal, small, and unproductive firms with formal, larger, and more productive ones and, accordingly, strongly decreasing the participation of informal jobs in the labour market “may be slow”. How long this would take obviously depends on how important L(.) and T(.) are in (1)—and how other elements of (1) work in the same direction as reforms in L(.) and T(.).

Costs of formal firms would be reduced because they would: (i) only contribute to work injury and unemployment insurance benefits (contributions to old-age, disability, and survivor pensions would be made only by workers); (ii) spend less with dismissal compensation; (iii) have more flexibility to terminate contracts; and, additionally, (iv) the minimum wage would be relatively modest to avoid distortions in the labour market (as formally depicted in Table 1). Costs to informal and illegal firms would remain the same—that is, wages (which can be below the minimum wage) and a probability (L_{ENF}) of receiving a fine (F) for not complying with the legislation.

Table 1. Cost to firms (current and after the reform)

	Cost to firms (current)	Cost to firms (reform)
Formal	$w_f + (L_{CSI}+L_{JS})$; $w_f >= w^{min}$	$w_f + (L_{CSI\ (reduced)} + L_{JS\ reduced})$; $w_f >= w^{min\ (reduced)}$
Informal illegal	$w_i + L_{ENF}.F$	$w_i + L_{ENF}.F$

Notes: $L_{CSI\ (reduced)}$: Contributions only to work injury and unemployment insurance.
L_{JS}: Reduced dismissal compensation, more flexibility to terminate contracts.
$w^{min\ (reduced)}$: Relatively modest minimum wage to reduce distortions in the labour market.

A second strategy to increase formality, probably leading to shorter-term impacts, would be subsidizing the contribution of low-income workers through negative personal income tax ($-T_{PIT}$) earmarked for contributions to old-age, disability, and survivor pensions. This negative income tax would be paid even in periods when workers receive unemployment insurance (which the authors call *enhanced unemployment insurance*–EUI). In practical terms, this subsidy should replace subsidies to formalize micro and small firms, but without any disincentives for firms to increase their revenues. Accordingly, regular contributions to these social risks (old age, disability, and death) would also shift from contributions to social insurance in the realm of labour relations (that is, L_{CSI}) to earmarked personal income tax in the realm of tax and transfers (that is, T_{PIT}).

Formally, it is easy to see that formal workers would have their costs increased after the reform. They would start to fully finance their old-age, disability, and survivor pensions, while informal-illegal workers would incur no cost (see Table 2). On the other hand, benefits would also be much greater (Tables 3 and 4): they would have access to two layers of benefits against unemployment (termination payment and EUI) in L_{CSI}, in addition to a simpler and faster contract termination procedure (with a third layer of protection against unemployment—a relatively inexpensive dismissal compensation), plus cash transfers and negative income tax, if they are low-income earners.[4]

Table 2. Costs to workers (baseline and reform scenarios)

	Cost to workers (original)	Cost to workers (reform)
Formal	$L_{CSI\ (partial)}$	$T_{PIT\ full\ contrib\ (old\text{-}age,\ disability,\ survivor)}$
Informal-illegal	None	None

Table 3. Benefits to workers (baseline and reform scenarios)

	Benefits to workers (original)	Benefits to workers (reform)
Formal	$w_f + V_{CSI}.L_{CSI} + V_{JS}.L_{JS} + T_{TRN}(?)$	$w_f + V_{CSI}.L_{CSI} + V_{JS}.L_{JS} + T_{TRN} - V_{CSI}.T_{PIT\ old,\ dis,\ sur}$
Informal-illegal	$w_i + V_{NCSI}.L_{NCSI} + T_{TRN}(?)$	$w_i + T_{TRN}$

V(...) – value attributed by workers to ...

Table 4. Benefits to workers (reform scenario, considering universal services)

	Benefits to workers (reform)
Formal	$w_f + V_{CSI}.L_{CSI} + V_{JS}.L_{JS} + V_{UNI}.U_{\ hea,\ old\text{-}age} + T_{TRN} - V_{CSI}.T_{PIT\ old,\ dis,\ sur}$
Informal-illegal	$w_i + V_{UNI}.U_{\ hea,\ old\text{-}age} + T_{TRN}$

[4] The parameter V (as in V_{CSI}, V_{JS}, and V_{UNI}) captures the value that workers attribute to benefits in L_{CSI}, L_{NCSI} etc., and ranges from 0 to 1.

From a sectorial perspective, the broad, comprehensive reform proposed by L&C could be summarized as follows:

a. Healthcare services should be universal (UHI), reach all citizens with the same standard of quality and be financed by general taxation. According to L&C, the main obstacle to this proposal is fiscal.

b. Old-age pensions (pillar zero, as in Holzmann, Hinz and Dorfman 2008) should be universal (UOAP), reaching all citizens with the same benefit level, and financed by general taxation. The authors also state that the main obstacle would be fiscal.

c. Contributory old-age pension (COAP) (pillar 1, PAYG or fully funded) should in principle cover all workers, regardless of their labour status, and no longer be financed by contributions in L_{CSI} (mostly paid by firms), but rather by personal income tax (T_{PIT}, earmarked for contributions to old-age pensions), fully paid by workers, and negative for low-income workers ($-T_{PIT}$)). The main obstacle to this pillar would not be fiscal, but enforcement, according to the authors.

d. Disability and survivor pensions would have the same structure as contributory old-age pensions: they should cover all workers, regardless of labour status, and their financing would change from L_{CSI} (mostly paid by firms) to T_{PIT} (earmarked for contributions to disability and survivor pensions), fully paid by workers, and negative for low-income workers ($-T_{PIT}$)).

e. Work injury benefits would cover only employees (workers in firms) and remain financed by contributions in L_{CSI} (exclusively by firms).

f. Unemployment insurance should be structured around a three-layer model, the first two financed by firms in L_{CSI}. The first layer would be a termination payment, received by the employee regardless of the cause of termination. Contributions would be channelled into individual accounts, and receive interest, and the benefit level (paid as a lump sum) would be proportional to wages and time worked in the firm before the termination. The second layer would be more traditional unemployment insurance, paid monthly over a period to be defined, with a replacement rate also to be defined, when termination is originated by the firm. In this situation, firms would also pay a dismissal compensation of one or two salaries as part of the job stability rules (L_{JS}), which would comprise the third layer.

g. Cash transfer programs (transfers to households, T_{TRN}) should increase their coverage, at least in the short term, “to ensure that all poor households are included”, and eligibility should not be conditioned on families having children or on labour status (more specifically, on workers not having formal jobs). These programs should continue to emphasize the accumulation of human capital by the poor and their benefit level should consider the possible disincentive of high marginal income taxes for those whose income is above the eligibility criteria (Y^{cutoff}). In the long term, cash transfers would have a secondary role (and probably be transitory) in a scenario of increased productivity and higher economic growth and wages.

Social protection expenditures would increase with the adoption of universal health insurance, universal old-age pensions, negative income tax, and larger cash transfers, raising discussions on how to finance them. Reduction of generalized subsidies, increase in personal income taxes (PIT) (elimination of tax exemptions, increase in marginal tax rates), elimination of special regimes for micro, small and medium-sized enterprises (MSMEs), and the taxation of property and the environment are some of the tax reform proposals suggested by L&C.

They also suggest contribution rates to finance the contributory old-age pension (8 or 10 per cent of salaries), as well as disability and survivor pensions (1 to 2 per cent of salaries).

3. Analysis and proposal of piecemeal reforms

In sum, L&C propose a comprehensive reform encompassing social insurance, social assistance, and taxes. The political economy of such a reform would probably be complicated. There is extensive literature about the difficulties of getting approval for simpler reforms in LAC countries. The general arguments are well explained by Feldstein and Liebman (2002), for pension reforms, and Pierson (1996) for social protection reforms. They can easily be framed as imposing tangible losses on specific groups, while their benefits are diffuse and uncertain. For obvious reasons, the opposition tends to be strong and support, scarce.

L&C fully acknowledge those possible difficulties and admit that enacting reforms of this scope could take a long time, with possible setbacks and mistakes. Therefore, it would be necessary to conduct individual reforms coherently, and to make the most of political opportunities.

Further reflection on individual reforms and minor interventions is key. This is also true because the demands received by the UNDP Regional Office reflect part of the existing demands at the Country Office level, which are more likely to be in support of limited reforms and relatively minor changes in the policy design of specific social protection aspects than of a broad reform encompassing taxes, pensions, and social assistance.

A clear picture of a broad reform is relevant, to influencing major decisions at the macro political and economic level, but individual reforms and minor interventions must also be carefully considered. Alone, they can have limited to no impact, but when considered jointly with future reforms, they might make a lot more sense. These minor reforms and interventions are interesting for an additional reason: they can be considered, from different perspectives, simultaneously for and against the most comprehensive and overarching reform, making them ambiguous.

A good example of minor reform that would have a very limited impact at best is making contributions to social insurance mandatory for all workers, without exceptions. This is already the norm in some LAC countries, but others accept that self-employed workers, for instance, do not contribute. By itself, this intervention would have a limited de *facto* impact at best, and we should not expect it to lead to any relevant increase in social protection coverage. However, enacting this legal change may be relevant to signal that all workers *should* be covered by social insurance and that they have some responsibility to contribute to the system. Future interventions to align incentives and strengthen enforcement, in tandem with this legal measure, would probably affect coverage.

Conversely, a good example of an ambiguous measure (which can be considered simultaneously in favour **and** against the most comprehensive reform) is the expansion of coverage of non-contributory healthcare services or social old-age pensions. Imagine that a national government is inclined to expand the coverage of non-contributory, targeted healthcare services or social old-age pensions to all those not entitled to these services/ benefits in L_{CSI}, making them non-contributory services/benefits in L_{NCSI}. Or, in a slightly different scenario, imagine that this same government is inclined to align the quality of healthcare services offered under L_{CSI} and L_{NCSI}. From the perspective of incentives, these interventions may be considered as increased subsidies to informality and would go against the desired reform. However, at the same time, these measures can make the political economy of adopting UHI or UOAPs less complicated, because their **main obstacle** (**fiscal** in both cases, according to L&C) would have been overcome.

Supporting such interventions would be ambiguous. Increasing expenditures on L_{NCSI} policies would represent increased subsidies to informality, which runs contrary to the desired effects of the reform. Yet, on the other hand, the main obstacle (fiscal) to reaching universal services/ benefits would be **removed**, rendering the option for universality less difficult. We believe that, depending on the context, UNDP LAC should consider supporting these interventions.

3.1. Universal old-age pensions (UOAP)

The adoption of UOAPs (as pillar 0) leads to other interesting challenges. In the framework set by L&C, universal services or benefits are not considered a subsidy to informality (that is, a disincentive to formality), because they are delivered regardless of labour status. But this is not entirely true for UOAPs, which could offer, by themselves, a good replacement rate for low-income workers. If, for instance, the social insurance benefit rule guarantees an old-age replacement rate of 60 per cent for low-income workers **and this is in line with social expectations**, a UOAP would offer socially acceptable old-age protection for all those with average earnings up to 1.67 times the UOAP's benefit level. For these low earners, a UOAP could represent a disincentive to contribute (in other words, to be formal).

One could argue that the contributory benefit paid on top of the UOAP would be a strong incentive to contribute. However, that argument is not convincing for low-income workers. Short-sightedness, the fundamental rationale for mandatory social insurance (Feldstein and Liebman 2002), would probably be more salient among workers facing some sort of short-term scarcity (Mullainathan and Shafir 2013). For low-income workers, increasing future consumption at the expense of current consumption would hardly be attractive in a context where a universal old-age benefit is already guaranteed.

The perception that universal old-age benefits can also work as a subsidy to informality for those at the margins (in this case, low-income workers) should not prevent the adoption of such a benefit, because: (i) social protection benefits are expected to generate some adverse effects (ideally of a small magnitude); (ii) certain design elements can be applied to avoid large effects (including benefit levels, for instance, but also coordination with other components of the proposal related to pillar 1, which will be examined later in this Paper). This perception also reinforces the notion that supporting reforms towards full coverage (and same quality) of health services and old-age pensions in L_{NCSI} could be considered a plausible path to UHI and UOAPs.

As for how to reduce disincentives, relevant trade-offs between adequacy and perverse incentives must be analyzed in specific contexts. High benefit levels promote better social protection but can also increase perverse incentives (to labour supply, savings, etc.) and be unaffordable (especially in contexts of rapid demographic transition, such as observed in several LAC countries). Low benefit levels, on the other hand, will minimize perverse incentives and expenditures but may offer limited social protection.

In any case, it is worth noting that **predictability**—one of the most relevant criteria to evaluate pension systems—must also apply to UOAPs (and not only to contributory old-age pensions): benefits must be automatically indexed to protect beneficiaries from price adjustments (Holzmann, Hinz, and Dorfman 2008). This is an important criterion to evaluate a pension regime and is in line with a rights-based approach to social protection.

3.2. Contributory old-age pensions (COAPs)

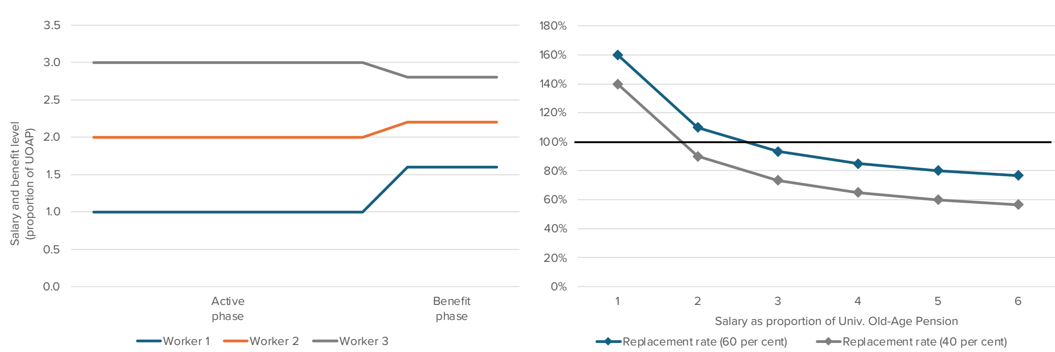
Coordination between UOAP (pillar zero) and components of COAPs (pillar 1) is key. In this regard, there is room to build on the proposals made by L&C. As we have seen, they designed a mandatory scheme with contributions in T_{PIT}, rather than in L_{CSI}, with benefits to be paid on top of UOAPs. However, in the way it was designed, the combination of UOAPs and COAPs could lead to unusually high replacement rates for low-income workers, as will be demonstrated in the simulation below.

Consider three workers: (i) whose average wages over their working lives would equal 1, 2, and 3 times the UOAP level, and (ii) who contributed to receiving a COAP with a (hypothetical) replacement rate of 60 per cent (which is the replacement rate observed in OECD countries for low-income workers (OECD 2019a)). As they would be entitled to **both** a UOAP and a COAP, they would end up receiving a combined benefit with replacement rates of, respectively, 160 per cent, 110 per cent, and 93 per cent (see Figure 2a). These replacement rates are unusually high, significantly overshooting the goal of smoothing consumption—and they will remain high even for those earning several times the UOAP level (see Figure 2b).

Figure 2. The hypothesis of accumulation of UOAP and COAP (with a COAP replacement rate of 60 per cent), according to average earnings (as a proportion of UOAP level)

2a. Income (wages or benefits) in the active and benefit phases (COAP replacement rate of 60 per cent)

2b. Total replacement rate in case of accumulation of UOAP and COAP (COAP replacement rates of 60 and 40 per cent)



Source: Authors' elaboration.

L&C argue that, in the presence of UOAPs, the replacement rate of COAPs could be significantly lower (we considered an alternative scenario with a replacement rate of 40 per cent in Figure 2b), but the combination would still yield very high replacement rates for low-income workers (Figure 2b). In fact, if COAP is paid on top of UOAP, workers whose income is closer to the UOAP level will have, by definition, replacement rates above 100 per cent, regardless of the COAP replacement rate.

Therefore, if a country in the region, in the context of pension reform, decides to introduce a UOAP, it must seriously ponder coordination with the occasional contributory pillar. We will address this issue later when examining the relationships between UOAPs, COAPs, and negative income taxes ($-T_{PIT}$).

There are other COAP characteristics in the proposal by L&C that merit attention. The authors posit that entitlement to a COAP should not require either a minimum period of contribution or a minimum amount contributed or saved, for benefits to be paid. In addition, there should be no minimum benefit level for COAP, since old-age poverty would be addressed by the UOAP.

These three characteristics work well together, but not independently. The lack of a minimum period of contribution or a minimum amount contributed, for instance, in a scenario where the COAP does have a minimum benefit level, could (and most likely would) lead to opportunistic behaviour. Even if this package is not fully adopted, it would still be possible to advise countries to (i) keep minimum periods of contribution relatively short, minimizing exclusions, while longer periods of contribution could be rewarded through the benefit formula; (ii) create mechanisms for workers not to lose contributions, using them to top-up non-contributory old-age benefits, for instance, or paying a lump sum (which can be used to buy an annuity), or adopting a well-calibrated moratorium[5] for those at the statutory pensionable age or older who fell short of achieving the minimum period of contribution.

Regarding statutory pensionable ages for COAPs, we believe that they should not be lower than those for UOAPs. There is evidence that many people retire as soon as they become eligible for old-age pensions (Gruber and Wise 2004; Coile and Gruber 2007; Paiva and Varella 2019) and that, in developing countries, skilled workers achieve eligibility criteria before the less qualified. Together, these facts can lead to the early retirement of the most productive workers, which would harm the economy (see Otoni, Barbosa Filho, and Nobre (2020) for the Brazilian case).

One possibly problematic policy advice proposed by L&C regarding COAPs pertains to the rate of contribution. The authors suggest that the rate of contribution for COAPs should decrease from around 20 per cent (observed in many LAC countries) to around 10 per cent. In countries with PAYG schemes, for instance, with strict fiscal commitments for the next decades, halving revenues would create (or, even worse, deepen) financial imbalances. Covering these imbalances with general taxation would be a bad idea.

[5] "Moratorium" refers to a policy mechanism for individuals who have not met the required contribution years for pension eligibility. Under this policy, people can receive their pension benefits by acknowledging and paying for missed contributions over a defined period, often with instalments deducted from their pension payments.

Nevertheless, L&C clearly define the best principle for pension reforms: a unified, single system and the same benefits for all, with the largest possible coverage, which will be equitable and help build social cohesion.

3.3. Negative income tax ($-T_{PIT}$)

The introduction of a negative income tax ($-T_{PIT}$) can be understood as a crucial strategy for the adoption of universal social insurance (USI), covering low-income workers for old age, disability, and survivor pensions, including periods when the workers are unemployed (or receive unemployment insurance). Although L&C did not offer many details about how $-T_{PIT}$ should be designed, we must develop the concept due to its central role[6].

What is interesting in L&C's proposal is that, if $-T_{PIT}$—and, as we will see further, T_{TRN}—do not strictly target the poorest people and have no legal restriction to the participation of formal workers (in other words, if they reach relatively poor workers and families regardless of their labour status), the implicit tax(+)/subsidy(-) for both formal and informal employment would be much more similar to each other **after the reform** than they currently are.

Today, the implicit tax(+)/subsidy(-) for formal and informal employment could be defined as in Table 5 (which partially reproduces Table 7 in L&C). Again, parameter V corresponds to the value that workers attribute to benefits and services (in this case, in $_{CSI}$, $_{NCSI}$ or $_{JS}$), and ranges from 0 to 1. If, for any reason, V<1 (and there are several reasons why workers may attribute a value less than 1 to social benefits and services), there is an implicit tax on formal employment (L&C, p. 69). Formal employment pays implicit taxes on $_{CSI}$ and $_{JS}$ and, in several cases, can be a barrier for people to receive targeted cash transfers (T_{TRN}). On the other hand, informal employment faces (as implicit tax) the probability of receiving a fine (F) (which can be very small or even negligible for self-employed workers and microenterprises), and experiences subsidies in non-contributory social insurance benefits and services (L_{NCSI}) and cash transfers. These tax/subsidy arrangements are very favourable towards informal employment.

Table 5. Implicit tax(+)/subsidy(-) for formal and informal employment, original scenario

	Tax(+)/Subsidy(-)
Formal	$+[1-V_{CSI}).L_{CSI} + (1-V_{JS}).L_{JS}] - T_{TRN}$ (?)
Informal & illegal	$+L_{ENF}.F - [V_{NCSI}.L_{NCSI}+T_{TRN}]$

Source: L&C, p. 68.

[6] As we will see in detail in the next subsection, L&C propose that poor workers (including the self-employed) should (i) register with the tax authorities, (ii) be exempt from any payment and (iii) receive a negative income tax ($-T_{PIT}$) to cover contributions to old-age pensions and life and disability insurance. This brief description does not imply that every worker should be registered with tax authorities, nor does it specify an income threshold (Y^{cutoff}) below which workers would be entitled to $-T_{PIT}$, or suggest whether the phaseout for this threshold should be sharp or soft.

After the reform, the implicit tax(+)/subsidy(-) borne by formal and informal employment would be quite similar (as depicted in Table 6). Both formal and informal employment would be entitled to the same implicit subsidies (the value workers attribute to cash transfers and negative income taxes), since these benefits would be paid regardless of labour status. The implicit tax would also be relatively similar for formal and informal employment since all workers should contribute to old-age, disability, and survivor pensions in their PITs (or receive it as a negative income tax), regardless of labour status. The only difference would be that formal employment would pay an implicit tax if $V_{CSI} < 1$ (in this case, contributions in L_{CSI} would only cover work injury and unemployment), while informal employment would face the possibility of paying a fine.

Table 6. Implicit tax(+)/subsidy(-) for formal and informal employment, after the reform

	Tax(+)/Subsidy(-)
Formal	$[(1-V_{CSI}).T_{PIT}) + (1-V_{CSI}).L_{CSI}] - [V_{TRN}.T_{TRN} + V_{PIT}.T_{PIT}]$
Informal	$[L/T_{ENF}.F + (1-V_{CSI}).T_{PIT})] - [V_{TRN}.T_{TRN} + V_{PIT}.T_{PIT}]$

The first issue is the definition of Y^{cutoff} for $-T_{PIT}$ (and for T_{TRN}, as we will discuss later). It cannot be excessively low or, otherwise, it would reach only informal workers and become, in practical terms, an N_{CSI} program. In other words, if Y^{cutoff} < MW (minimum wage), $-T_{PIT}$ would be, by definition, a subsidy to informality—exactly what the comprehensive reform intends to reduce or eliminate.

If Y^{cutoff} for $-T_{PIT}$ and T_{TRN} points to strictly targeting, implicit taxes/benefits will remain quite distinct between formal and informal employment, as only informal employment will have implicit subsidies (see Table 7).

Table 7. Implicit tax(+)/subsidy(-) for formal and informal employment, after the reform, if T_{TRN} and $-T_{PIT}$ were strictly targeted at the poorest people

	Tax(+)/Subsidy(-)
Formal	$[(1-V_{CSI}).T_{PIT}) + (1-V_{CSI}).L_{CSI}]$
Informal	$[L/T_{ENF}.F + (1-V_{CSI}).T_{PIT})] - [V_{TRN}.T_{TRN} + V_{PIT}.T_{PIT}]$

Here, again, we face a trade-off—in this case between incentives and expenditures. If one goes for relatively low eligibility criteria for the negative income tax (that is, strict targeting), the overall cost can be modest, but the intervention will be a subsidy to informality. If Y^{cutoff} is set at a higher level to also reach formal, low-income workers, it will not represent an incentive to remain (or become) informal, but its costs may increase substantially. For example, in the Brazilian case, if the intention is to have 30 per cent of formal workers among the beneficiaries of $-T_{PIT}$, the benefit should target the 30 per cent poorest. In countries with higher informality, benefits should reach a larger percentage of the population.

The tax/subsidy structure may become more complex in specific areas of the income distribution when we consider that informal income is undetectable by authorities. Poor workers (either formal or informal) and their families will benefit from $-T_{PIT}$ (and T_{TRN}), but only informal workers with income above the eligibility criteria (Y^{cutoff}) can occasionally receive these benefits, because authorities do not have appropriate instruments to verify their eligibility.

Thus, for workers receiving income marginally above Y^{cutoff}, $-T_{PIT}$ could be an incentive to informality, since the tax/subsidy structures would be very different for formal and informal workers. These incentives to informality would be even stronger if the design for T_{TRN} and $-T_{PIT}$ were to adopt a sharp cutoff, implying a 100 per cent marginal tax rate (up to the benefit level)—that is, if any income increase above the eligibility criteria leads to workers/families losing their targeted benefits altogether (cf. Table 8).

Table 8. Implicit tax(+)/subsidy(-) for formal and informal employment, after the reform, for workers with income marginally above Y^{cutoff}, in case of sharp eligibility criteria (100 per cent marginal tax rate)

	Tax(+)/Subsidy(-)
Formal	$[(1-V_{CSI}).T_{PIT}) + (1-V_{CSI}).L_{CSI}]$
Informal	$[L/T_{ENF}.F] – [V_{TRN}.T_{TRN} + V_{PIT}.T_{PIT}]$

One possible adverse effect of special tax regimes on self-employed and micro and small enterprises is that owners could deliberately avoid growing their businesses so as not to face a sharp increase in labour costs and taxes. Could $-T_{PIT}$ be a disincentive for low-income self-employed people to grow their enterprises? Possibly yes, if a sharp Y^{cutoff} is adopted; perhaps, if the design adopts a phaseout with a marginal tax rate significantly less than 1; and most likely not, if the subsidy is universal for the first Y^{cutoff} of the earnings.

But perhaps the most relevant point regarding $-T_{PIT}$ is the **assumption that the Government has perfect information** about earnings, labour market participation, or occupations. $-T_{PIT}$ should reach only low-income workers. To operationalize such a program, the administration would need information regarding occupations and earnings. As we will see later in this note, governments have little or no information about this for poor people or informal workers.

Thus far, two pieces of advice for countries inclined to adopt $-T_{PIT}$ are that they should avoid: (i) strict targeting for the poorest (that is, an excessively low Y^{cutoff}); and (ii) a sharp cutoff (that is, an eligibility criterion that implies a 100 per cent marginal tax rate). It is worth noting, not only regarding design but also for cost estimations, that the assumption that governments would have access to perfect information is mistaken; they do not possess exact information about who is self-employed and what their earnings are.

3.4. Interactions between UOAP, COAP and $-T_{PIT}$

As we have seen, the coordination between UOAP and COAP could render a total old-age pension with unusually high replacements for low-income workers, if COAP is paid on top of UOAP. Things get more complex with the adoption of a negative income tax ($-T_{PIT}$), earmarked for contributions to old-age, disability, and survivor pensions. In this case, many low-income workers could receive total old-age pensions (universal + contributory) with unusually high replacement rates **without making any actual contribution**.

This may raise an additional concern regarding $-T_{PIT}$. While UOAP would be universal with reference to all older persons, $-T_{PIT}$ should reach only low-income workers. However, as briefly mentioned in the last section, it would be very difficult for governments to verify if a person is poor and self-employed or, for instance, someone outside the labour force (who should not be entitled to $-T_{PIT}$). In other words, it would probably be possible for someone outside the labour force not only to receive a UOAP, but also, a COAP entirely financed by $-T_{PIT}$ on top of it. Governments also do not have access to information about the earnings of informal workers, which would introduce other perverse incentives.

L&C suggest, for example, an administrative procedure to pay $-T_{PIT}$: poor workers should: (i) “register with tax authorities”; (ii) “be exempt from any payments”; and therefore (iii) receive $-T_{PIT}$ as a contribution to their pensions. The assumption is that the government knows who is poor and who is an active worker. Yet, in practical terms, it is very difficult for governments to know if any given person is poor; or if someone is an informal worker, a self-employed worker, or is out of the labour force (and therefore should not be entitled to $-T_{PIT}$). When estimating costs, L&C state that “if we assume that labour earnings of the poor are 4 per cent of GDP and contribution rates add up to 10 per cent, the costs of negative income taxes could potentially be as high as 0.4 per cent of GDP”. Again, the assumption here is that the government knows which people are poor **and has perfect information about their earnings**—but in reality, for the majority of informal workers, it does not have any real information at all. If the administration were to pay 10 per cent of earnings (up to Y^{cutoff}) as a contribution to pensions, there is a strong incentive for non-workers to declare themselves as workers and for all of them, including informal workers who earn less or marginally more than Y^{cutoff}, to declare their earnings as equal to Y^{cutoff}.

There is another interesting aspect regarding the interaction of UOAP and $-T_{PIT}$. As we have already seen, in the absence of $-T_{PIT}$, UOAP could represent a disincentive for low-income workers to contribute to their pensions (that is, to be formal). If Y^{cutoff} for $-T_{PIT}$ were to be set at a lower level than UOAP, this same incentive would be in place for informal workers whose earnings are between these two values. In other words, those entitled to $-T_{PIT}$ would register themselves with tax authorities, but there would be no incentive for those with earnings above Y^{cutoff} yet lower than the UOAP level to pay their contributions.

To summarize, these are the possible perverse incentives mentioned so far:

- If COAP is paid on top of UOAP, low-income workers might have total old-age pensions with unusually high replacement rates.
- In the absence of $-T_{PIT}$, UOAP will be an incentive for low-income workers to be informal.
- Strictly targeted, $-T_{PIT}$ will work as an L_{NCSI} program and be an incentive to informality.
- If a sharp cutoff is adopted, $- T_{PIT}$ would be an incentive to informality for workers with earnings marginally above Y^{cutoff}.

- If $-T_{PIT}$ finances a COAP on top of UOAP, there will be an incentive for persons out of the labour force to declare themselves as self-employed and claim the benefit.

If $-T_{PIT}$ finances a COAP on top of UOAP, there will be an incentive for low-income workers to declare their incomes as equal to Y^{cutoff} and receive the largest $-T_{PIT}$.

In other words, the interaction between UOAP, COAP, and $-T_{PIT}$ is intricate and good coordination between these components should be sought. A possible way to address these issues is through L&C's suggestion that contributions to old-age pensions should be treated separately from contributions to disability and survivor pensions. In this case, we can treat $-T_{PIT}$ covering old-age pensions and $-T_{PIT}$ covering disability and survivor pensions independently.

Some of the issues would be solved if $-T_{PIT}^{old\text{-}age}$ were a flat-rate benefit earmarked to financing UOAP, reaching not only workers but also people outside the labour force. In other words, as UOAP is, by definition, universal with reference to older persons, $-T_{PIT}^{old\text{-}age}$ would be universal with reference to all working-age people. The level of this negative income tax can be expressed as (2).

$-T_{PIT}^{old\text{-}age}$ level = UOAP level * contribution rate (2)

With this mechanism, there would be no: (i) replacement rates above 100 per cent for low-income workers (since they would receive a UOAP, and not a COAP on top of a UOAP); (ii) incentives for persons outside the labour force to declare themselves as self-employed (since they would be covered anyway); or (iii) incentives for very low-income workers to declare their earnings as equal to Y^{cutoff} (since they would receive a flat-rate benefit, regardless their earnings).

As previously seen, if $-T_{PIT}$ adopts a sharp Y^{cutoff}, there will be an incentive for workers with earnings marginally above Y^{cutoff} to become or remain informal.

Ideally, **from the perspective of incentives/disincentives**, $-T_{PIT}^{old\text{-}age}$ should be a universal benefit, covering everyone regardless of income level. Better-off workers would pay contributions for their COAP on earnings above the UOAP level. Effective contribution rates for old-age benefits would increase with earnings and be defined as in (3).

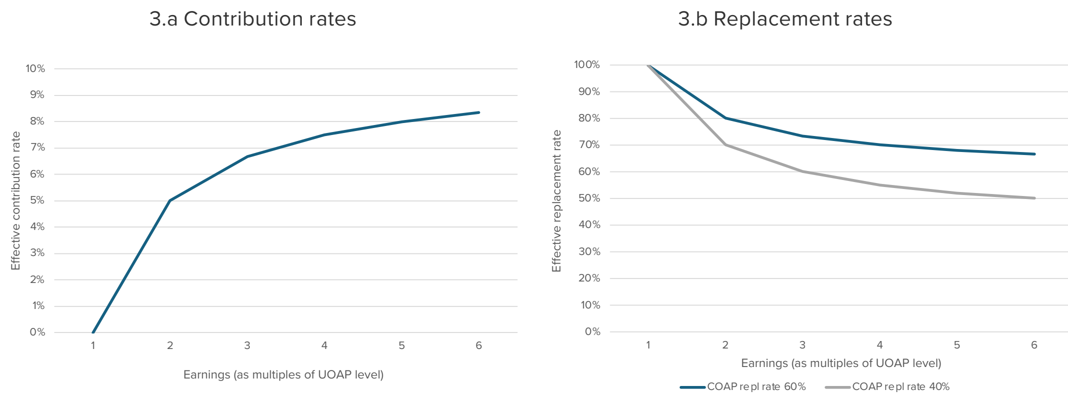
$$\text{Effective contribution rate} = \frac{\text{(earnings above UOAP level*COAP standard contribution rate)}}{\text{total earnings}} \quad (3)$$

Replacement rates of the total old-age benefit would decrease with earnings and be defined as in (4).

$$\text{Effective replacement rate} = \frac{\text{(UOAP+(earnings above UOAP level*COAP replacement rate)}}{\text{total earnings}} \quad (4)$$

If the standard contribution rate for COAP is set at 10 per cent and its replacement rate is 60 per cent (or 40 per cent), effective contribution and replacement rates for the total old-age pension, by earnings (as multiples of UOAP), would look like in Figure 3.

Figure 3. Effective contribution and replacement rates for the total old-age pension (UOAP+COAP), by earnings as multiples of UOAP level



Assumptions: standard contribution rate for COAP of 10 per cent; replacement rate for COAP of 60 per cent (40 per cent).

Source: Authors' elaboration.

Obviously, a universal -T_{PIT} would cause minimum distortions (if any at all), but from the perspective of public expenditure, different designs could be adopted, such as a sharp Y^{cutoff} (that is, a flat-rate benefit for those out of the labour market and workers with earnings up to the UOAP level, and a marginal tax rate of 100 per cent for those with earnings above this threshold); or a benefit with a soft phaseout for those with earnings above Y^{cutoff} (that is, with a relatively low marginal tax rate). In these two options, workers with earnings above Y^{cutoff} would directly contribute to financing their UOAP.

Again, there is a trade-off between incentives and expenditures. A design that reduces perverse incentives would lead to larger expenditures; one that reduces expenditures would probably cause more distortions. Anyway, if -T_{PIT} avoids a strictly targeted design and a sharp Y^{cutoff}, potential incentives to informality would also be limited in the worst-case scenario.

3.5. Disability and survivor pensions

L&C posit that contributions for pensions in T_{PIT} should not have a minimum value, and consequently contributory pensions would not have a minimum level. This argument works well for old-age pensions: given that UOAP already protects older persons from poverty, there is no reason why COAP should have a minimum level. COAP would be a complimentary benefit with the purpose of consumption smoothing.

Accordingly, the authors also state that disability and survivor pensions should be "proportional to foregone earnings". But here, these benefits would not be paid on top of a universal (disability or survivor) pension designed to protect workers' families from poverty. In other words, if the objective is to protect workers' families against the death or disability of one of their working members, these pensions need to have a minimum level—otherwise, they would simply keep the families of poor workers in… poverty.

In this case–even more than for COAP–there is an argument to be made for a flat rate -T_{PIT}

^{dis,sur}, financing a minimum pension level (preferably at the same level as UOAP) that could prevent families from falling (or remaining) in poverty when one of their members is no longer able to work. The minimum contribution for these pensions would be covered through $-T_{PIT}^{dis,sur}$, paid to poor workers. Its relatively low level should avoid any strong incentives for those out of the labour force to declare themselves as self-employed. $-T_{PIT}^{dis,sur}$ could be a universal benefit (covering earnings of all workers up to the minimum benefit level) or adopt a Y^{cutoff} associated with a smooth phaseout design (that is, with a relatively low marginal tax rate).

3.6. Work injury and unemployment benefits

Work injury and unemployment benefits would fundamentally remain as L_{CSI} programs, with contributions paid by firms. Hence, these benefits would be universal with reference to workers in firms and would not cover the self-employed. L&C justify this exclusion from coverage against work injury by stating that they are covered by disability and survivor pensions, however, these benefits cover permanent—not temporary—events, which is the function of work-injury benefits.

The same occurs with unemployment. Self-employed workers are subject to cyclical and structural unemployment, but if unemployment benefits are in the realm of L(.), they will not be covered. This is not a knock on L&C—the discussion on how to improve coverage against unemployment among self-employed workers is still open and seems far from reaching a consensus, even in developed countries (see, for instance, OECD 2018; ILO-OECD 2020).

The three-layered model for the unemployment benefit deserves attention, especially the redundancy between the termination payment and unemployment insurance. The mere introduction of unemployment insurance would already be very novel in most LAC countries. If it were to include contributions to old-age, disability, and survivor pensions while the benefit is being paid (EUI, according to L&C), it would border on revolutionary.

But the rationale for the introduction of a termination payment is not clear. In Brazil, where the FGTS plays a similar role, the benefit is believed to work as an incentive to labour turnover: workers, especially in periods of lower unemployment, when finding a new job is relatively easy, actively seek to be fired to have access to their FGTS balance. Although this argument is contested (see Pinto 2015 for a review), it is the reason why Firpo and Portella (2021) suggest unifying the FGTS and the UI in Brazil.

If workers, in favourable economic contexts, decide to separate from firms merely to have access to these resources accumulated in their termination-payment account, such a benefit would run contrary to one of the objectives in L&C's proposal—reducing labour turnover.

Overall, (i) the redundancy between termination payment and UI does not seem well-grounded, and (ii) a limitless accumulation of resources in a termination-payment account could end up generating incentives for unnecessary separation between workers and firms.

The introduction of a regular unemployment insurance financed by LCSI contributions would be a huge step forward for many LAC countries. If its design could incorporate coverage for old-age, disability, and survivor pensions, it would represent a major achievement in terms of social protection. It would leave political space for a reduction in job stability (JS) regulation and the introduction of simple and effective dismissal compensation, such as proposed by L&C.

However, it is important to note that estimates made by Bosch and Esteban-Pretel (2015) point to very high costs of adopting unemployment insurance if the benefit was supposed not to be co-financed by the government. This needs to be clear for any informed advice to countries in the Region.

3.7. Cash transfers

In the short term, L&C suggest that cash transfers (T_{TRN}) should (i) be expanded to avoid exclusion errors, and (ii) have no restrictions as to the participation of households without children or with formal workers in their composition. In the long term, after a period of formalization and stronger economic growth, these programs should perform a secondary role and transfers should be temporary.

As we saw in subsection 3.3, expansion is a necessary step not only to reduce exclusion errors but also to allow households with formal workers to benefit from the program. In Brazil, for instance, if we want 30 per cent of the program's target audience to come from households with at least one formal worker, the T_{TRN} should cover at least 26 per cent of the population. In most countries of the region, this coverage would need to be even larger for these programs not to have any de facto restriction on the participation of households with formal workers.

L&C also suggest that the T_{TRN} should have a design with a soft phaseout (that is, a relatively low marginal tax rate), to avoid perverse incentives for families with income marginally above Y^{cutoff}.

Beyond these recommendations, we believe there is an extensive agenda for cash transfer programs that should be considered by UNDP LAC in their work of advising Country Offices and national governments. For the foreseeable future, they will continue to be one of the main alternatives for the strategy of leaving no one behind and achieving some of the SDGs (UNDP 2021c).

Targeting is one of the possible topics on this agenda. In a targeted program, for any given coverage, inclusion and exclusion errors are positively associated.[7] In other words, increasing coverage (as suggested by L&C) is a relevant strategy to reduce exclusion errors, but improving a program's targeting (that is, reducing its inclusion errors) will also result in fewer exclusion errors. These strategies can be adopted in tandem, since (i) there is room for improving the targeting of these programs in the region; and (ii) increasing coverage tends to lead to a decrease in exclusion errors and improved program resilience.

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[7] The literature generally suggests a tradeoff between inclusion and exclusion errors in welfare programmes (see Hanna and Olken 2018 for a didactic approach). This negative relationship is actually expected to be observed at varying levels of coverage: ceteris paribus, low-coverage programs are expected to have lower inclusion errors but higher exclusion errors compared to high-coverage programmes. However, for any given level of coverage, reducing the inclusion error (i.e., excluding those who are not eligible) would inherently lead to the inclusion of eligible non-beneficiaries, thereby also reducing the exclusion error.

Guidance may be provided by UNDP LAC based on the rich combinations that countries in the region have made of different targeting mechanisms and coverage levels. The potential use of multidimensional poverty and vulnerability indexes not only for measurement purposes but also with the operational objective of improving targeting is also something to be considered.

A second topic is the adoption of conditionalities. There is a rich discussion on several related aspects, such as their independent effect on expected outcomes (Baird et al. 2013), the necessary conditions for them to be adopted and the relevance of cost/benefit analysis (Pellerano and Barca 2014), and how to maintain the focus on human capital in the framework of a rights-based approach to these programs.

A third topic is benefit design. For the same budget, different benefit designs may produce different impacts on poverty and inequality. The basic principle is that benefit levels must be sensitive to family size and composition. Benefit designs must also reflect other political/policy options (such as investing in early childhood or keeping girls in school for longer, for example). Suggestions of specific benefit designs may be based on microsimulations that anticipate possible impacts or be associated with impact evaluation proposals.

Other topics (which will be briefly discussed in section 4) include the risks and opportunities of digitalization and opportunities for the coordination/integration of targeted cash transfers with other incidental transfers (income tax deductions for parents with children; transfers for formal workers with children etc.).

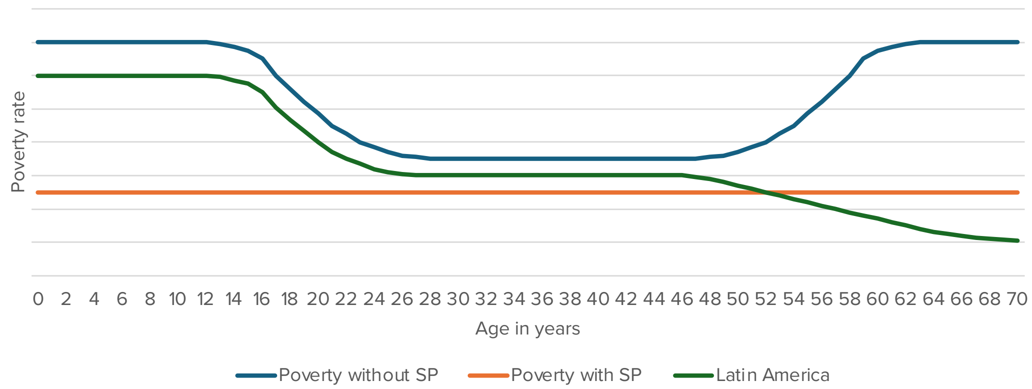
4. Other relevant topics, not covered by L&C

In this section, we cover topics that were not addressed by L&C but that we nonetheless consider relevant to the discussion about possible reforms of social protection systems in the region.

The first two are related to demographics: child poverty and ageing.

In countries without social protection systems in place, one should expect the figure of poverty by years of age to be U-shaped—that is, a higher incidence of poverty among children and older persons. This is depicted in Figure 4 (for merely illustrative purposes). Effective social protection systems would reduce overall poverty and focus particularly on these two demographic groups. The poverty-by-age curve of an effective social protection system would not only be below the original curve (i.e., the curve that would be observed without social protection) but also flatter. In turn, in a typical Latin American country, old persons receive the largest share of social protection expenditures and are expected to experience lower-than-average poverty rates, while children face much higher-than-average poverty rates.

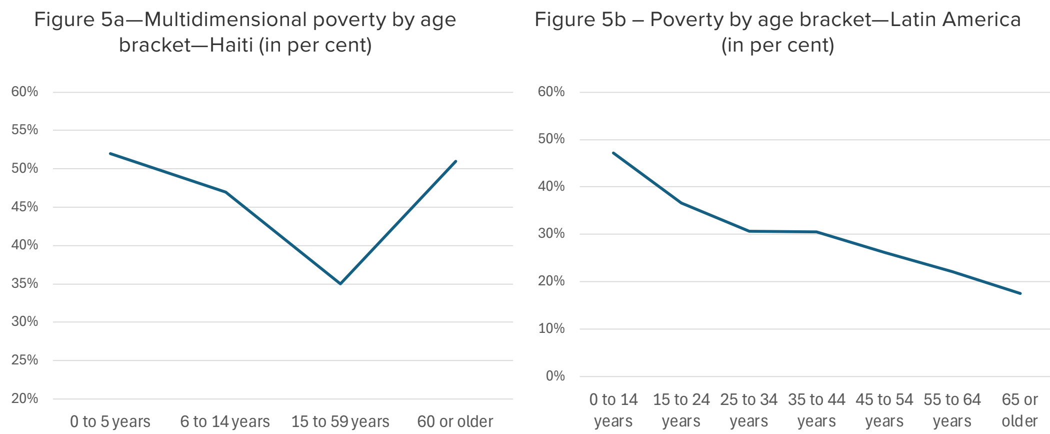
Figure 4. Illustration of expected poverty-by-age curves



Source: Authors' elaboration.

In the region, Haiti is an example of a country with a very limited social protection system and, therefore, a U-shaped poverty-by-age curve (here, multidimensional poverty rates presented by Tromben, Cecchini, and Gilbert (2020)) (see Figure 5a). As expected, in Latin America as a whole, older people are better protected against poverty than the average citizen and much better protected than children (Figure 5b).

Figure 5. Poverty rates in Haiti and Latin America



Source: Tromben, Cecchini and Gilbert 2020 (Haiti); CEPALSTAT—www.eclac.cl (Latin America).

Thus, child poverty is a major social protection issue in the Region and there is not much in L&C about it. The authors state that, through their proposal, poor households would be entitled to a larger (and more intertemporally balanced) package of benefits: (i) healthcare services; (ii) universal old-age pensions; (iii) negative income taxes for old-age, disability, and survivor pensions; and (iv) targeted cash transfers. However, as a rule, poor children and their households will not benefit from universal old-age pensions and the negative income tax will protect their future consumption, leaving their present consumption fundamentally untouched. In other words, under L&C's proposal, the present consumption of poor children and their families will mostly depend, as it does today, on their occasional earnings and targeted cash transfers.

While microsimulations support the idea that the adoption of a universal basic income in developing countries would demand a significant increase in expenditures for poverty rates to remain as they are today (Enami et al. 2021), other exercises suggest that a universal child benefit in LAC countries, exactly for their high child poverty rates, would be a well-targeted program, not much more expensive than current cash transfers and an effective way to fight child poverty (Bacil et al. 2022). Universal child transfers may be combined with targeted transfers to poor adults, into programs with a strong potential to fight poverty (cf. Paiva et al. 2022, for Brazil).

A possible way to create a universal child benefit in at least some LAC countries would be to unify targeted transfers with other occasional child transfers and tax benefits that reach those who are better-off (Bacil et al. 2022; Soares et al. 2019). We consider that there is ample room for UNDP LAC to work with Country Offices on this topic.

The second topic is ageing. The fast demographic transition that most LAC countries are experiencing has (or will soon have) a strong impact on pension schemes. Defined benefits and pay-as-you-go schemes will depend on increasing contribution rates, combined with politically difficult parametric reforms to stay afloat. But defined contribution, fully funded schemes should also face the relevant consequences of ageing. Their benefits' replacement rates depend on the rates of return on the accumulated capital, which tend to be lower in a scenario where the labour force is increasing at a slower pace or even starting to decrease. In other words, although difficulties faced by PAYG and fully funded schemes will be put in different categories (sustainability and adequacy, respectively), they are equally related to ageing. In both cases, however, reforms must be made to adapt existing schemes to the demographic transition. In LAC, it seems important for UNDP to engage in pension reforms in partnership with the World Bank and the IADB, which have strong human and technical resources (such as the Pension Reform Options Simulation Toolkit—PROST)[8] and are very well positioned in these issues.

Another set of topics is related to relevant social protection benefits that were not considered in L&C's analysis—more specifically, sickness and maternity benefits (both defined in ILO Convention 102 on minimum standards for social security) and social pensions for persons with disabilities (which exist in several LAC countries).

Most countries in the region state that they already include sickness and maternity benefits in their social insurance systems (ISSA-SAA 2020). Ideally, these benefits should be made universal with reference to all workers and be financed (and occasionally subsidized) in the same way that contributory old-age, disability, and survivor pensions would be. In other words, if countries opt to collect contributions for pensions through an earmarked T_{PIT}, with subsidies in the form of a negative income tax ($-T_{PIT}$), these mechanisms should also be adopted for sickness and maternity benefits.

Many countries in LAC also have social pensions that cover persons with disabilities. They have a broader reach than disability pensions since they can be paid to people who are out

8 The World Bank's PROST estimates revenues and expenditures for social insurance systems in the long run.

of the labour force or not of working age, such as children. For countries considering the adoption of a UOAP, a possible option would be studying the feasibility of simultaneously introducing a universal disability pension. If this is the case, the coordination between this benefit and the disability pension should be carefully addressed, exactly as the coordination between UOAP and COAP was analyzed in this Note.

Social protection systems in Latin America have been defined by Barrientos (2004) as belonging to conservative-informal or liberal-informal models (that is, conservative or liberal, according to the typology proposed by Esping-Andersen (1990), but heavily marked by high informality in the labor market). Among the many characteristics of these models is the fact that they leave significant room for families to act as providers of social protection, compared to the role performed by the State and the market.

The strong role of the family in social protection leads to undesirable consequences from both a gender equality and an economic standpoint, particularly the low participation of women in the labor market: unsurprisingly, most Latin American countries have gender participation gaps that exceed the global average.

While policies that reinforce the role of the family in caregiving activities can reduce poverty (compared to situations where there are no caregiving policies at all), they tend to be less effective at reducing poverty than policies that defamiliarize caregiving through public services and are particularly ineffective for certain family arrangements, such as those headed by single women (Misra and Moller, 2005).

There is thus significant room for social protection systems in the region to adopt or revise social policies aimed at achieving greater gender equality and better economic and social outcomes.

Maternity benefits, for instance, should be examined from the perspective of gender equality, one of the principles of the Global Social Protection Offer (UNDP 2021b). Its transformation into parental leave with a minimum period to be paid to each of the parents is a design that can potentially contribute to a better distribution of care work within households.

This is also the case for care services, which are relevant from both the social protection and the gender perspective and extend the discussion of social protection beyond the formality/informality issue to also encompass the issue of labour market participation. Publicly financed care services seem essential to increase women's labour market participation and to avoid that they assume most of the burden with unpaid care services. Moreover, with the rapid demographic transition experienced by many countries in the region, the demand for public care services for older persons will certainly increase. Well-structured care services are essential for gender equality and probably more effective in the long run than social security compensations (like lower statutory pensionable ages for women), still relatively common in LAC countries.

Both parental leave and care services may have effects not only on the distribution of care work within households and on women's labour market participation, but also on wage differentials between genders.

Until measures like these have desirable effects, other social protection compensations (such as recognizing unpaid care work to meet time-of-contribution requirements for pensions, for instance) can be maintained or incorporated by social protection systems in the Region.[9]

It is crucial that the initiatives aimed at expanding social protection, as discussed throughout this document, effectively reach populations living and working in rural areas. Levels of formality (and consequently, social security contributions) are significantly lower in rural regions compared to urban areas, leaving agricultural workers particularly vulnerable. Children, women, rural workers, Afro-descendants, Indigenous peoples, and members of the LGBTQIA+ community are among the groups that require targeted attention from social policymakers, as they experience disproportionately high levels of social exclusion. These groups, therefore, are central to efforts to ensure that no one is left behind.

Finally, there is a need to ensure that social protection instruments and policies contribute to initiatives to prevent and recover from shocks, especially those of a climate-related nature. Adaptive social protection is a concept that integrates social protection with climate change adaptation and disaster risk reduction policies. It aims to strengthen the resilience of vulnerable populations by providing services and benefits that not only address poverty and social exclusion but also enhance the ability to cope shocks. As climate change increases the frequency and intensity of natural disasters, adaptive social protection becomes crucial for helping households recover from these shocks while reducing their long-term vulnerability. By aligning social protection policies and programs with climate resilience strategies, adaptive social protection ensures that vulnerable populations, especially those living in disaster-prone areas, are better prepared for the challenges posed by climate change (Malerba, 2021).

To make social protection more adaptive, policies must adopt dynamic mechanisms that allow social protection programs to quickly expand or contract based on changing needs, such as during climate-related disasters or economic shocks. Cash transfer programs, for example, can be made more flexible to allow frequent entry and exit of beneficiaries, ensuring that individuals in need receive timely support (IADB 2021, World Bank 2022). Additionally, social protection infrastructure, including social registries and payment systems, must be adaptable to support preventive initiatives and trigger benefits in response to climate shocks and other emergencies. Governments can also incorporate insurance solutions to provide financial resources for crisis response, improving both the financial sustainability and the shock-responsiveness of the system.

Digitalization has been considered by UNDP as one of the core enablers for the development of social protection systems (UNDP 2021b). It has great potential to improve the administration and delivery of social protection programs and to increase the parameter V (the value that workers attribute to benefits and services). At the micro-level, the introduction of digital alternatives for registering, claiming a social benefit, receiving payments, making contributions,

[9] Other specific social protection services and benefits should be considered for survivors of gender-based violence, in order to protect their physical integrity and promote their economic autonomy. Specific benefits in the form of cash transfers, housing policies, employment and educational policies must be worked on alongside the strengthening of care and prevention services.

etc. should be encouraged—but as a complement (not a substitute) to in-person government services, to avoid excluding the poorest. Therefore, building solid social assistance services should be encouraged just as much as developing e-government solutions.

At the macro level, as defined by UNDP (2021b), steps towards the full interoperability between, on the one hand, social registries and the management information systems (MISs) of social programs and, on the other, traditional administrative registries, should improve government services across several different levels. One of the expected results is obviously better targeting for social programs, but other areas of government may also benefit, which may occasionally be used to politically support these measures. Building or improving the national ID system that supports all the administrative registries is also key, and the role of UNDP Country Offices in its advocacy may be relevant, since investments of this nature frequently face a difficult political economy.

Building or improving social registries is a difficult technical and administrative task that sometimes does not receive adequate political support. But their relevance during the covid pandemic is a clear demonstration that they are a crucial part of the social protection infrastructure, necessary for governments to offer their social protection programs during normal times and to rapidly react in periods of crisis (local, regional and national). In normal times, they may be a useful tool, for instance, when ending generalized subsidies entirely is not politically viable but targeting them sounds feasible. They can be very useful in both small-scale crises (allowing the transfer of emergency grants to poor families affected by floods in a specific locality, for instance) and large-scale ones (reaching large parts of the population in a national health crisis, such as the current COVID-19 pandemic).

Finally, we believe that any reform advised by UNDP should contribute to strengthening the rights-based approach towards social protection. It is one of the principles of the Global Offer, but even more importantly, a common denominator for all UN agencies, ensured by the Universal Declaration of the Human Rights and the International Covenant on Economic, Social and Cultural Rights, among others.

This implies, for any reform, the existence of rules that limit discretionary behavior from politicians and bureaucrats, including clearly defined eligibility criteria, fast payment of benefits, and protection of contributions and benefits against inflation— not only for contributory but also for non-contributory (universal or targeted) benefits.

Adopting a rights-based approach also makes sense from an incentive/disincentive perspective. If access to social benefits is not guaranteed, current beneficiaries “may be reluctant to get a formal job” (L&C p. 48) or take any other risks that may lead them to lose their benefits.

5. Summary and recommendations

One of the main principles on which this document is based is the fact that very broad reforms of social protection systems, including their contributory and non-contributory subsystems and sources of financing, face a very difficult political economy in the region. Therefore, reflecting on reforms with a more limited scope is essential.

Building on the proposal by Levy and Cruces (2021), adopted in chapter 5 of the 2021 Regional Human Development Report, we define that micro or meso reforms need to be based on a broad vision of social protection, so that their results are not fragmented social protection systems with low coordination between their components.

The adoption of a universal old-age benefit or a universal healthcare service are good examples for this approach. These are broad reforms, with a complex political economy and considerable fiscal obstacles. Expanding coverage of old-age non-contributory benefits and non-contributory healthcare services are reforms of a smaller scope, which nevertheless contribute to reducing or removing this fiscal obstacle and thus may represent steps toward universality.

There are considerable challenges in coordinating universal old-age benefits, contributory pensions, and subsidies, among them informational difficulties that most likely will not be overcome in the short term. In economies with high informality, such as those in LAC, governments have little or no information about the employment and income of those out of the formal labor market. Even if benefits or subsidies cannot be universal (a design that would reduce incentives for informality), due to fiscal constraints, designs with broad coverage will tend to minimize labor market distortions and expand social protection.

Regarding the reform of cash transfer programs in the region, expanding coverage, adopting appropriate mechanisms to reduce inclusion errors, and improving benefit design to increase its impact on poverty reduction seem to be politically viable alternatives.

There is also a significant set of issues not directly addressed by L&C, but that can contribute to more robust social protection systems in the region. Child poverty is a common problem across LAC countries, and expanding cash transfer programs or creating universal child benefits would be potentially viable alternatives in some countries. Population aging in the region will bring challenges to pension systems, which will need to undergo adjustments in complex political scenarios. Maternity benefits and the adoption of care systems are important elements of social protection policy, which can have considerable effects on gender equality and increasing women's participation in the labor market.

Finally, there is an important agenda around social protection infrastructure (identification systems, social registries, and payment systems) that needs to move towards digitalization, without excluding populations with lower digital skills and resources. The combination of interoperable administrative records, robust identification systems, and flexible payment systems with in-person services for the most vulnerable populations will be necessary for a long period.

Taken together, the alternatives evaluated here from a conceptual standpoint enable UNDP to support a set of initiatives (such as the introduction or reform of components of social protection systems) and to develop a regional social protection offer for Latin America and the Caribbean, with the goal of building universal, rights-based social protection systems that provide quality benefits and services to everyone living in the region.

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