Public expenditure
in Latin America and the Caribbean

Classification systems for the analysis of resource allocation

Andrea Podestá

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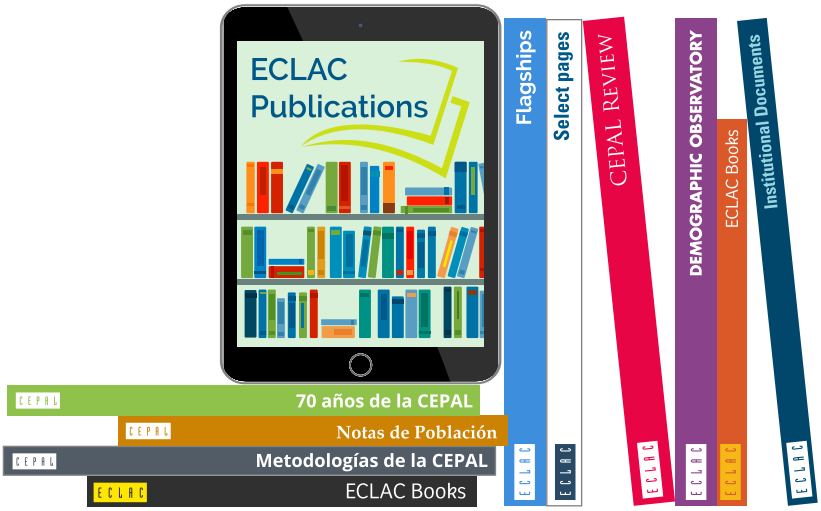

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This document was prepared by Andrea Podestá, consultant in the Economic Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC), in the framework of the activities of the fiscal policy component of the EU–LAC Regional Facility for Development in Transition (Facility-COVID II) project, financed by the European Union.

Special thanks are owed to Daniel Titelman, Chief of the Economic Development Division of ECLAC, and to Noel Pérez Benítez, Chief of the Fiscal Affairs Unit, Michael Hanni, Economic Affairs Officer, and Sandra Galaz, Research Assistant, all of the same Division, for their valuable comments and suggestions.

United Nations publication.
LC/TS.2023/162
Distribution: L

Printed at United Nations, Santiago
S.23-00717

This publication should be cited as: A. Podestá, "Public expenditure in Latin America and the Caribbean: classification systems for the analysis of resource allocation", *Project Documents* (LC/TS.2023/162), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

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Introduction

The coronavirus disease (COVID-19) pandemic has generated the region's most challenging economic and social situation in a century and has pushed the global economy into the worst recession since the Second World War. Not only has this affected health systems, public expenditure and tax revenue in the different countries, but it has also had practical implications in all areas, with major impacts on economic activity, employment and household income generation.

This profound crisis has magnified and exposed the weaknesses of the existing development model, characterized by the persistence of large structural gaps, high levels of inequality, poverty and informality, weak growth, low productivity, and vulnerabilities to climate change and natural disasters, among other factors (ECLAC, 2021a).

The undeniable impact of the pandemic on multiple economic and social areas means that the countries of Latin America and the Caribbean require a new generation of public policies to underpin their reconstruction after this crisis, with a view to creating more egalitarian economies and societies aligned with the Sustainable Development Goals (SDGs).

Against this backdrop, ECLAC has insisted on the need to foster a transformative recovery aimed at creating sustainable economies and inclusive societies. This agenda is based on a set of fiscal policies that would generate a virtuous circle of sustainable economic growth aimed at reducing inequality and poverty.

In this regard, ECLAC (2020) stresses the importance of an expansionary fiscal policy as a tool for economic recovery and the reconstruction of more inclusive, egalitarian and resilient societies. To boost aggregate demand, fiscal policy should focus on shoring up household consumption and stimulating investment. In the former case, support for poor and low-income households would be provided through unconditional cash transfer programmes, such as an emergency basic income. It is also necessary to strengthen unemployment benefit systems (in terms of amounts and coverage), pay special attention to informal and self-employed workers, and promote policies to sustain and expedite the recovery of employment through hiring subsidies or soft loans for payroll payments. In the second case, public investment needs to play a key role in reactivating economic growth and promoting investments that yield high returns in terms of growth and productivity, such as investment in economic infrastructure. Priority should be given to projects that contribute to making the production structure more environmentally sustainable

and serve as a pole of attraction for private investment in the corresponding sectors. Accordingly, the central challenges for fiscal policy in the post-pandemic period are to construct welfare states, strengthen productive development and implement policies to foster environmental sustainability.

To address these challenges, it is crucial to have up-to-date, detailed and comparable statistical information on public expenditure by purpose and function, as well as on social programmes, in order to analyse, formulate and implement new public policies. This is particularly relevant for assessing whether resources are being allocated in line with the goals of the 2030 Agenda for Sustainable Development, and whether they are supporting the reactivation and reconstruction process in individual countries.

Knowing in which areas fiscal resources are being targeted, and having access to statistics that are comparable between countries, fosters transparency in the use of public resources, which is necessary for decision making in response to this crisis that affects the whole population, growth and employment. Moreover, countries can draw on this type of analysis to make policy decisions in pursuit of the aforementioned objectives, and to target tax revenues on the areas of public expenditure that are most efficient for achieving sustainable development, eradicating poverty and reducing inequality.

Accordingly, this document aims to provide a comprehensive overview both of public expenditure in Latin American and Caribbean countries through the functional classification and of social expenditure according to the Social Expenditure Database (SOCX) methodology of the Organization for Economic Cooperation and Development (OECD). It also seeks to identify the key elements of a strategy to strengthen functional public expenditure and social expenditure statistics in the region and to serve as a guide to the standardization and comparability of public expenditure statistics. All of the above inform the regional debate on the role of the State in relation to the 2030 Agenda and thus support efforts to achieve a transformative recovery from the effects of the pandemic in the different countries.

To achieve these objectives, following this introduction, the first section of this study describes the conceptual framework to be used in measuring both functional public expenditure and social expenditure according to OECD's SOCX approach. The section also explains the main methodological considerations; analyses the differences, similarities and complementarities between the two conceptual frameworks; and explores potential synergies with other public expenditure databases. The second section then provides an overview of public expenditure by policy purpose in Latin American and Caribbean countries, analysing its composition and evolution, and identifying regional patterns in the public policies that underpin this analysis. This section ends by examining the relationship between public investment and functional public expenditure, in order to identify the sectors that have been affected by cutbacks in capital expenditure in recent years and to determine whether there is any pattern at the regional or subregional level. The following section makes a comparative analysis of social expenditure, measured according to the SOCX methodology for 12 of the region's countries, identifying both common patterns and differences between countries in terms of the level, composition and trend of public and private social expenditure. The fourth section describes the main challenges and lessons learned during the process of developing comparable and standardized statistics on public functional and social expenditure. The final section presents the conclusions and highlights the key messages of this research; and it sets forth a number of considerations aimed at strengthening and giving continuity to these statistics.

I. Review of the conceptual framework for measuring functional public expenditure and social expenditure (SOCX)

A. Brief review of the conceptual framework used to measure public expenditure by functions

The 2008 System of National Accounts (SNA) provides four classifications of expenditures by purpose. One of these is the Classification of Functions of Government (COFOG),[1] which makes it possible to analyse public expenditure for specific functions or purposes, and to ascertain how governments fulfil economic and social functions; it can also be used to make comparisons over time and across countries.[2]

According to *Government Finance Statistics Manual 2014* (hereinafter, GFSM 2014) (IMF, 2014), COFOG is a detailed classification of the functions, or socioeconomic objectives, that general government units aim to achieve through various kinds of expenditure. The functions are classified into 10 divisions (first-level COFOG) which are then subdivided into groups (second-level COFOG) and then into classes. The divisions refer to the broad objectives of government, while the groups and classes detail the means by which these broad objectives are achieved.

The divisions are as follows:

(i) *General public services*. This division includes expenditure related to the administration, operation or support of executive and legislative organs, expenditures on financial, external and fiscal affairs, the administration of foreign economic aid, expenditures on general services (administration and management of general personnel services, planning and statistical services), public debt transactions (interest payments and debt issuance expenses) and transfers of a general character between different levels of government.

[1] The other three classifications are the Classification of Individual Consumption According to Purpose (COICOP), the Classification of the Purposes of Non-Profit Institutions Serving Households (COPNI) and the Classification of the Outlays of Producers According to Purpose (COPP).

[2] See United Nations (2002).

(ii) *Defence*. This includes expenditures for military defence, civil defence and foreign military aid.

(iii) *Public order and safety*. This covers police services, fire protection services, law courts and prison administration.

(iv) *Economic affairs*. This division encompasses expenditure on general economic, commercial and labour affairs (including the administration, formulation and implementation of economic, commercial and labour policies, their regulation and promotion, the supervision of labour conditions and general employment programmes, etc.); the administration of agriculture, forestry, fishing and hunting affairs, services and programmes; spending on programmes in the fuel sector (coal, petroleum, natural gas, nuclear fuels and others) and energy (electric and non-electric); expenditure on mining, manufacturing and construction affairs, services and programmes; expenditures related to the operation, use, construction or maintenance of transport systems and facilities (road, marine, rail and air, as well as oil, gas and other pipelines); expenditure on communication systems (postal, telephone, telegraph, wireless and satellite); and expenditure on programmes for other industries (distribution, storage and warehousing, hotels, restaurants, tourism and multi-purpose development projects).

(v) *Environmental protection*. This includes waste management (collection, treatment and disposal), wastewater management (sewage system operation and wastewater treatment), pollution abatement (activities related to ambient air, climate, soil and groundwater protection, noise and vibration abatement, and radiation protection), as well as biodiversity and landscape protection (activities related to the protection of fauna, flora and habitat).

(vi) *Housing and community amenities*. This covers expenditure on affairs and services related to urbanization, slum clearance and house building, as well as expenditures related to community development and planning, water supply and street lighting.

(vii) *Health*. This includes expenditure for services provided to individuals and services provided on a collective basis. It is subdivided into the following groups: medical products, supplies and equipment (spending on drugs, prostheses, medical supplies and equipment, and other health-related products consumed outside health facilities or centres); outpatient services (medical, dental and paramedical services provided to patients attending outpatient clinics); hospital services (services of general and specialized hospitals, military hospitals, medical centres, maternity centres, nursing and convalescent homes, as well as rehabilitation centres that provide services primarily to inpatients) and public health services (blood bank management, disease diagnosis and prevention, epidemiological data collection, and family planning services, among others).

(viii) *Recreation, culture and religion*. This includes the provision of recreational, sporting and cultural services and the operation of facilities for such activities (playing fields, courts, stadiums, parks, beaches, camping grounds, libraries, museums, art galleries, theatres, monuments and others), as well as the administration, supervision and regulation of radio, television and publishing services and spending related to religious and other community amenities.

(ix) *Education*. This division covers expenditure for services provided to individual pupils and students and expenditure on services provided on a collective basis. Collective educational services are concerned with the formulation and administration of government policy, setting and enforcement of standards; regulation, licensing and supervision of educational establishments, and applied research. Expenditure on education is subdivided into the following groups: pre-primary and primary education; secondary education; post-secondary non-tertiary education; tertiary education; education not definable by level; and subsidiary services to education.

(x) *Social protection*. This comprises expenditure on services and transfers provided to individuals and families and expenditures on services provided on a collective basis. Collective social protection services are concerned with the formulation and administration of social policy, such as formulation and enforcement of legislation and other regulations on providing social protection, and applied social protection research. It covers the following groups: sickness and

disability (benefits in cash or in kind for sickness or disability, payment of sick leave, disability pensions, care services for the disabled, assistance with daily tasks for sick persons, housing for persons with disabilities, and others); old age (benefits in cash and in kind to cover risks related to old age, such as old-age pensions and care, housing and food services); survivors (cash and in-kind benefits to survivors of a deceased person, such as pensions and funeral expenses); family and children (cash benefits and benefits in kind to families with dependent children, such as maternity and dependent child allowances, childbirth payments, childcare leave, housing allowance, provision of food for pre-school children, childcare services, expenditure on orphanages and foster families, among others); unemployment (unemployment benefits, early retirement due to unemployment, job training programmes, and provision of housing, food or clothing to unemployed persons and their families); housing (benefits in kind to help vulnerable families with housing costs and rent, as well as construction of social housing); and other policies against social exclusion (cash benefits and benefits in kind to indigent persons, immigrants, indigenous people, refugees, alcoholics or drug addicts, and victims of violent criminal acts, among others).

Each of the foregoing 10 divisions also includes expenditure on related research and development.

The classification by government functions also makes it possible to distinguish between goods and services for individual consumption and those for collective consumption, since public expenditure can benefit the community either individually or collectively. A collective service is one that is provided simultaneously to all members of a community or a specific segment of it. Such services are normally used passively, and provision of the service to one individual does not diminish the amount available to others (its consumption is non-rival). In contrast, individual consumption goods or services are those that households use to satisfy their own needs; they are essentially "private", as distinct from "public" goods and services. In these, it is possible to register the beneficiary of the good or service and the time at which it is acquired; the household must have agreed to accept the provision of the good or service; and there is rivalry in consumption.[3]

In terms of the institutional coverage of the government level at which public expenditure is measured, GFSM 2014 distinguishes the following:

- Central government: the political authority of this level of government extends over the entire territory of the country and is usually composed of a budgetary central government, extra-budgetary units and social security funds (unless the country in question records these funds in a separate subsector).
- General government: this encompasses both the central government and subnational governments (intermediate and local governments) and social security.
- Nonfinancial public sector (NFPS): in addition to general government, this includes nonfinancial public corporations, in other words public entities whose main activity is to produce market goods or nonfinancial services.
- Public sector: this consists of the NFPS and public financial corporations (such as the central bank and public commercial banks).

Public expenditure databases by purpose and function, that is with information classified according to COFOG, have been developed at ECLAC for decades, and have been strengthened in recent years by the activities of the public finance component of the European Union's Regional Facility for Development in Transition for Latin America and the Caribbean. The project was conceived prior to the crisis caused by the COVID-19 pandemic, to support the region's countries in designing and implementing policies to achieve the Sustainable Development Goals and to accompany them in the transition to high-income countries. However, the pandemic has created a complex environment that has made the objectives of the project even more relevant.

[3] See *Government Finance Statistics Manual 2014* for further details.

These databases include information on all government functions for 33 countries in Latin America and the Caribbean, the only one of its kind covering all Caribbean countries. It has also been expanded to compile the largest number of years, with information spanning 1990–2020. However, the time period with available data and the degree of disaggregation, especially at second-level COFOG, varies across the countries of the region. In addition, it compiles information on public expenditure by cross-referencing the economic and functional classification for eleven countries in the region, with data spanning 2010–2019 (table 1).

Table 1
ECLAC database on functional expenditure at the central government level

Country	Years	First-level COFOG	Second-level COFOG	Cross-referenced
Argentina	1990–2020	Yes	Yes	Yes
Bolivia (Plurinational State of)	1990–2018	Partial (social only)	Yes	No
Brazil	1990–2020	Yes	Yes	Yes
Chile	1990–2020	Yes	Yes	Yes
Colombia	1990–2019	Yes	Yes	No
Costa Rica	1993–2020	Yes	Yes	Yes
Cuba	2002–2019	Yes	Yes	No
Dominican Republic	1990–2020	Yes	Yes	Yes
Ecuador	2000–2020	Yes	Yes	No
El Salvador	1990–2020	Yes	Yes	Yes
Guatemala	1991–2020	Yes	Yes	Yes
Haiti	2012–2014	Yes	Yes	No
Honduras	2000–2020	Yes	Yes	No
Mexico	1999–2020	Yes	Yes	Yes
Nicaragua	1990–1994, 1998–2020	Yes	Yes	No
Panama	2000–2017	Yes	Yes	Yes
Paraguay	1990–1993 2000–2020	Yes	Yes	No
Peru[a]	1999–2020	Yes	Yes	Yes
Uruguay	1990–2020	Yes	Yes	Yes
Venezuela (Bolivarian Republic of)	1997–2017	Yes	Yes	No
Antigua and Barbuda	2016–2020	Yes	Yes	No
Bahamas	1990–2020	Yes	Yes	Yes
Barbados	2006–2020	Yes	No	No
Belize	1990–1997, 2012–2020	Yes	Yes	No
Dominica	2017–2019	Yes	Yes	No
Grenada	1991–1995, 2017–2020	Yes	Yes	No
Guyana	2004–2020	Yes	Yes	No
Jamaica	1992–2020	Yes	Yes	No
Saint Kitts and Nevis	2016–2019	Yes	Yes	No
Saint Lucia	2016–2020	Yes	Yes	No
Saint Vincent and the Grenadines	1990–1999, 2016–2020	Yes	Yes	No
Suriname	2013–2020	Yes	Yes (partial)	No
Trinidad and Tobago	2008–2020	Yes	Yes	No

Source: Prepared by the author.
[a] General government.

Section II of this document reports and analyses trends in functional public expenditure, based on the results obtained in this database for the countries of the region in 2000–2019, with a first-level COFOG breakdown. A second-level COFOG analysis is also performed for the economic affairs function; and, in the countries with available information, the research is taken further by cross-referencing the data from the public expenditure databases by economic classification with statistics according to the classification of expenditure by functions of government.

The analysis is performed, initially, for the central government of each country, because there is more data available at this level, and also to maintain consistency with other analyses published by ECLAC, such as for public social expenditure. However, in some countries, such as those that are organized federally or are highly decentralized, the expenditure executed by intermediate and local governments is usually significant; so, when information is available, a broader institutional coverage is also reviewed, since it represents reality more faithfully.

B. The definition and measurement of social expenditure according to SOCX

The OECD SOCX methodology defines social expenditures as: "the provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer" (OECD, 2019, p. 8). Social benefits include cash transfers (such as pensions, maternity leave payments and social assistance payments), social services (for example child care, care for older persons and persons with disabilities) and tax reductions for social purposes (including tax support for families with children, or favourable tax treatment for contributions to private health plans). In this definition, two main criteria have to be met simultaneously for an expenditure item to be classified as "social". First, the benefits must pursue one or more social purpose. Second, the programmes governing the provision of benefits must involve either (a) interpersonal redistribution, or (b) compulsory participation (OECD, 2019).

SOCX divides social expenditures into nine policy areas: old age, survivors, incapacity-related benefits, health, family, active labour market policies, unemployment, housing, and other areas of social policy. These nine policy areas are described below:

(i) *Old-age*: this policy area comprises all cash expenditures (including lump-sum payments) on old-age pensions. Old-age cash benefits provide an income for people retired from the labour market or guarantee incomes when a person has reached a 'standard' pensionable age or fulfilled the necessary contributory requirements. This category also includes supplements for dependants paid to old-age pensioners with dependents, and social expenditure on services for elderly people, such as day care and rehabilitation services, nursing homes, home help services and other benefits in kind.

(ii) *Survivors*: this area corresponds to benefits paid to the spouse or dependent of a deceased person (either in cash or in kind); it also includes allowances and supplements for dependent children of a recipient of a survivors' benefit.

(iii) *Incapacity-related benefits*: these include cash payments because of complete or partial inability to participate gainfully in the labour market, owing to a disability or health problem. It includes paid sick leave, special allowances, and disability-related payments such as pensions. Social expenditure on services for person with disabilities encompasses services such as day care and rehabilitation services, home help services and other benefits in kind.

(iv) *Health*: the categorization of social expenditure data in the health policy area corresponds to the System of Health Accounts 2011. Expenditure by general government and social

insurance systems are included in public health expenditure, while spending on compulsory private health insurance programmes is included under mandatory private health expenditure. Voluntary private social health expenditure includes expenditure by voluntary health insurance schemes, expenditures by non-profit non-government schemes and enterprise financing schemes. Household out-of-pocket spending is not included in the social domain. Expenditure in this category includes spending on inpatient care, ambulatory medical services and pharmaceutical goods.

(v) *Family*: this category includes benefits that support families, generally related to the costs associated with raising children or supporting other dependents. It includes expenditure related to maternity and parental leave.

(vi) *Active labour market programmes*: these include all social expenditures (other than education) that aim to improve the beneficiaries' prospects of finding gainful employment, or to otherwise increase their earning capacity. This category includes expenditure on public employment services and administration, labour market training, special programmes for young people in transition from school to work, labour market programmes to provide or promote employment for the unemployed and other persons, and special employment programmes for persons with disabilities.

(vii) *Unemployment*: this includes all cash expenditure to compensate individuals for a situation of unemployment. It covers redundancy payments to people who have been dismissed through no fault of their own by a firm that is ceasing or downsizing its activities. It also includes early pensions to facilitate the full or partial retirement of older workers.

(viii) *Housing*: this item includes rent subsidies and other benefits for individuals to help defray housing costs.

(ix) *Other social policy areas*: these include social expenditure (both in cash and in kind) for persons who, for various reasons, fall outside the scope of the programme covering a particular contingency. Social expenditure related to immigrants, refugees and indigenous people is recorded in this category. All social expenditure not attributable to other categories is included in the subcategory "Other".

Table 2 summarizes mandatory public and private programmes by social policy area and type of support (cash benefits or benefits in kind) according to the OECD SOCX methodology:

Table 2
Categorization of public and mandatory private social expenditure in SOCX

Policy areas	Type of support
1. Old age	Cash benefits
	Pension
	Early retirement pension
	Other cash benefits
	Benefits in kind
	Residential care / Home help services
	Other benefits in kind
2.Survivors	Cash benefits
	Pension
	Other cash benefits
	Benefits in kind
	Funeral expenses
	Other benefits in kind

Policy areas	Type of support
3. Incapacity-related benefits	Cash benefits Disability pensions Pensions (occupational injury and disease) Paid sick leave (occupational injury and disease) Paid sick leave (other sickness daily allowances) Other cash benefits Benefits in kind Residential care / Home help services Rehabilitation services Other benefits in kind
4. Health	Benefits in kind
5. Family	Cash benefits Family allowances Maternity and parental leave Other cash benefits Benefits in kind Preschool education and care Home help / housing Other benefits in kind
6. Active labour market programmes	Public employment services and administration Training Employment incentives Sheltered and supported employment and rehabilitation Direct job creation Incentives for the start-up of new businesses
7. Unemployment	Cash benefits Unemployment compensation / severance pay Early retirement for labour market reasons Benefits in kind
8. Housing	Benefits in kind Housing assistance Other benefits in kind
9. Other social policy areas	Cash benefits Income maintenance Other cash benefits Benefits in kind Social assistance Other benefits in kind

Source: Organisation for Economic Co-operation and Development (OECD), *The OECD SOCX Manual 2019 Edition: A Guide to the OECD Social Expenditure Database*, Paris, 2019.

In this methodology, public and private social expenditure are distinguished on the basis of whoever controls the relevant financial flows. Public social expenditure is executed with financial flows controlled by general government, that is by the different levels of government and social security funds, while all social benefits not provided by the general government are considered "private". These, in turn, can be divided into two categories. Firstly, mandatory private social expenditure is a form of social support established by legislation, but operated through the private sector. Examples include sickness benefits paid directly by employers to their absent employees as legislated by public authorities, or benefits accruing from mandatory contributions to private insurance funds. Secondly, voluntary private social expenditure consists of benefits managed by the private sector, involving the redistribution of resources across households.

The SOCX methodology also classifies programmes according to the influence of income and wealth in establishing eligibility for support, distinguishing three categories:

- *Non income- or means-tested benefits*: benefits that are available to all citizens, for which eligibility may depend on past contributions, or benefits targeted to specific population groups (for example, children) regardless of their income or wealth;

- *Means-tested benefits:* benefits that aim to prevent income from falling below a certain level, with eligibility dependent on the beneficiary's current income and assets;
- *Income-tested benefits*: benefits that aim to prevent income from falling below a certain level, with eligibility conditional on the beneficiary's current income only.

It is important to note that SOCX includes public expenditure on early childhood education and care for children under six years of age (in the "Family" category), but does not include expenditure on education above that age.

SOCX also generally excludes administration costs, in other words the costs incurred in providing the benefits, as these expenses do not go directly to the beneficiary. Administration costs cover expenditure on the general overheads of a social expenditure programme, such as registration of beneficiaries, administration of benefits, collection of contributions, controls, inspection, evaluation and reinsurance. However, in the provision of services such as active labour market programmes, child care services and public expenditure on health, the respective administration costs are included in the totals.

Transactions are recorded on an accrual basis and, in principle, so are capital expenditures (construction costs). In general, the methodology excludes loans and specific disaster relief.

Lastly, the SOCX methodology takes into account the effect of tax systems on social expenditure levels through the following channels:

- *Direct taxation of benefit income*: governments may levy income taxes and social security contributions on cash transfers to beneficiaries, in which case the redistribution of resources is less than that suggested by gross expenditure indicators.
- *Indirect taxation of consumption by benefit recipients*: indirect taxes reduce the consumption of goods and services that can be financed out of a given level of benefit income.
- *Tax breaks for social purposes*: governments can use the tax to pursue social policy goals directly. Fiscal measures with social effects can be seen as replacing cash benefits (child tax allowances for instance), or as stimulating the provision of private benefits (such as tax relief towards the provision of private health plans or for non-profit non-governmental organizations).

The adjustments for the direct and indirect taxation of benefits do not affect expenditure on the services provided, but only the cash benefits.

The table below presents, in schematic form, the net social expenditure framework.

Table 3
From gross public to net total social expenditure

+/-	Line	Item
	1.	Gross direct public social expenditure
-		Direct taxes and social contributions paid out of public cash benefits
	2.	Net cash direct public social expenditure
-		Indirect taxes on private consumption financed by net cash transfers
	3.	Net direct public social expenditure
+	R1	Tax breaks for social purposes that mirror cash benefits
-		Indirect taxes on private consumption financed by tax breaks similar to cash benefits
	4	Net tax reductions for social purposes similar to cash benefits
+	R2	Tax breaks for social purposes towards current private social benefits

+/-	Line	Item
	5	Net tax reductions for social purposes (not including pensions)
	6.	Net current public social expenditure [3 + 5]
	7.	Gross mandatory private social expenditure
-		Direct taxes and social contributions paid out of mandatory private cash benefits
-		Indirect taxes on consumption purchased out of mandatory private cash benefits
	8.	Net direct mandatory private social expenditure
	9.	Net publicly mandated social expenditure [6 + 8]
	10.	Gross voluntary private social expenditure
-		Direct taxes and social contributions paid out of voluntary private cash benefits
-		Indirect taxes on consumption purchased out of net voluntary private cash benefits
	11.	Net direct voluntary private social expenditure
	12.	Net direct private social expenditure [8 + 11]
	13.[a]	Net total social expenditure [6 + 12-T2]

Source: Organisation for Economic Co-operation and Development (OECD), *The OECD SOCX Manual 2019 Edition: A Guide to the OECD Social Expenditure Database*, Paris, 2019.
Note: The shaded areas represent tax adjustments.
[1] To avoid double counting, net total social expenditure is obtained by adding net private and net public social expenditure and subtracting tax breaks towards current private benefits.

Based on this methodology and as part of the activities of the aforementioned project with the European Union, ECLAC, with technical support from OECD, prepared a new database of social expenditure according to the SOCX approach. This contains information for 2010–2018 covering 10 Latin American and Caribbean countries: Argentina, Brazil, the Dominican Republic, El Salvador, Guatemala, Peru, Trinidad and Tobago and Uruguay (in addition to Chile, Colombia, Costa Rica and Mexico, which are OECD members). For the first time, a Latin American and Caribbean database has comparable figures on social expenditure, both public and private, at the level of the main programmes and areas of social protection. This makes a significant contribution to understanding the extent to which a country's policies are geared towards achieving the 2030 Agenda and post-pandemic reconstruction.

This database makes it possible, for example, to determine whether public resources are allocated mainly to pensions or to cash transfers for the working-age population, such as family, disability or unemployment benefits; or whether more is spent on health policies or other social services. It also makes it possible to evaluate whether access to social programmes is universal or depends on having made previous contributions; or whether, on the contrary, an evaluation of the income or assets of the individual or his or her family group is required. Moreover, social expenditure is estimated not only when financed out of taxes, but also when funded privately.

Table 4
ECLAC social expenditure database according to the SOCX methodology

Country	New country?	Years	Public	Private
Argentina	Yes	2010–2018	Yes	Yes
Brazil	Yes	2010–2018	Yes	Yes
Chile	No	1980–2019	Yes	Yes
Colombia	Yes	2010–2018	Yes	Yes
Costa Rica	Yes	2011–2018	Yes	Yes
Dominican Republic	Yes	2008–2018	Yes	Yes
El Salvador	Yes	2010–2018	Yes	Yes

Country	New country?	Years	Public	Private
Guatemala	Yes	2010–2018	Yes	Yes
Mexico	No	1985–2019	Yes	Yes
Peru	Yes	2012–2018	Yes	Yes
Trinidad and Tobago	Yes	2008–2018	Yes	Yes
Uruguay	Yes	2011–2018	Yes	Yes

Source: Prepared by the author.

In the framework of the project, not only were detailed databases developed for each country, but the corresponding technical notes were prepared, with a description of the programmes included and all relevant clarifications to enhance transparency in the construction of social expenditure statistics.

The Governments of Brazil and Colombia received technical assistance in preparing these statistics. The results obtained were thus supported and validated by the corresponding authorities. For example, in Brazil, there was collaboration with the General Coordination of Economic and Fiscal Studies of the National Treasury Secretariat (CESEF/STN). In Colombia, support was provided by the National Administrative Department of Statistics (DANE) for processing and managing the databases, and also for the consolidating and reviewing the results obtained in the project. After these processes were completed, it was institutionally agreed at the country level that DANE would produce the official report of these results to OECD in the future. Thus, the project results correspond to those sent to OECD in the official country report.

Section III of this study reviews the main results obtained by applying OECD's social expenditure measurement methodology (SOCX) to this sample of Latin American and Caribbean countries.

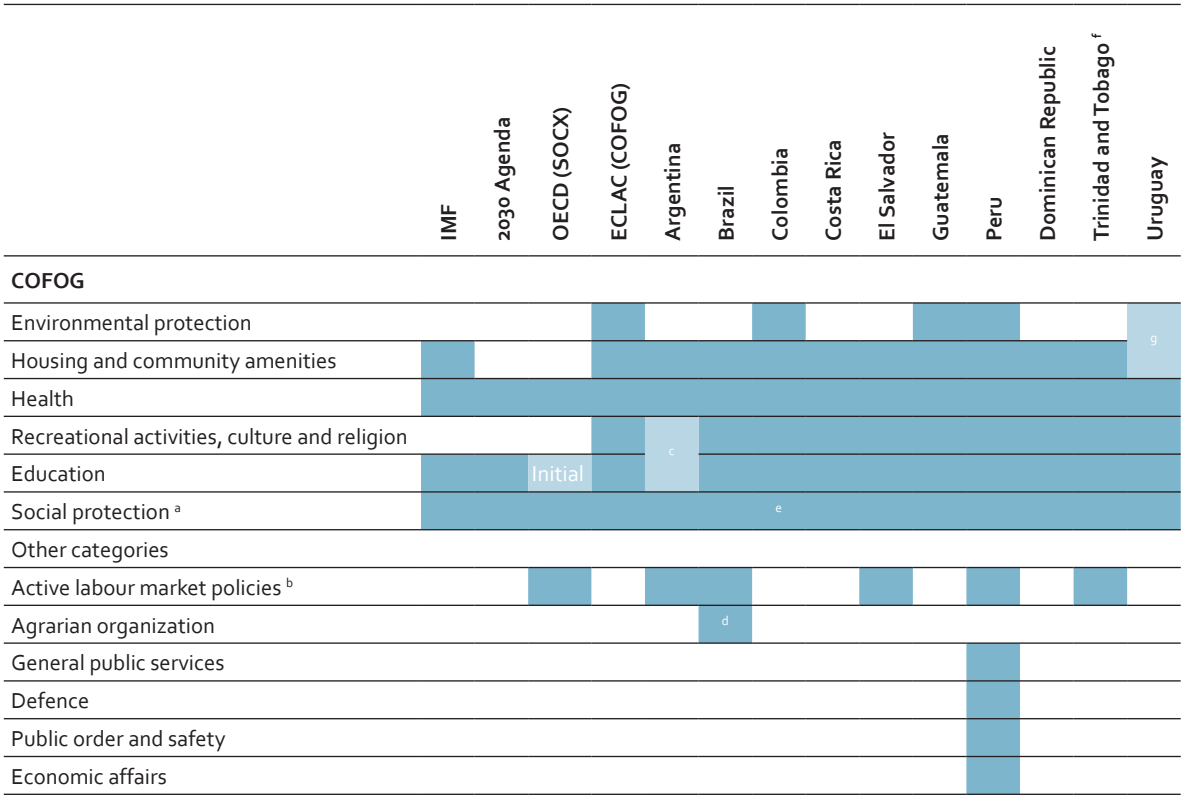
C. Identification of complementarities and discrepancies between the conceptual frameworks that measure public expenditure by functions and public social expenditure

The data on public expenditure according to the classification of functions of government can be used to obtain a measurement of public social expenditure.

However, as Tromben and Podestá (2018) note, there is no single international definition of social expenditure. For example, in GFSM 2014 the International Monetary Fund (IMF) presents a list of fiscal indicators that can be obtained from government finance statistics, and includes an indicator that proxies for social expenditure through the functional classification of spending on housing, health, education and social protection. In the 2030 Agenda for Sustainable Development of the United Nations, Sustainable Development Goal 1 "No poverty" has an associated indicator that can be assimilated to social expenditure, namely target 1.a.2 "Proportion of total government spending on essential services (education, health and social protection)". In the case of Latin America and the Caribbean, the methodology used by ECLAC to measure social expenditure is based on two guidelines agreed upon with the respective countries: (i) the countries and ECLAC work with the Classification of the Functions of Government (COFOG), which is the international standard; and (ii) the following functions of this classification are deemed to be social: environmental protection; housing and community amenities; health; recreational activities, culture and religion; education and social protection.

Table 5 compares the definitions of public social expenditure according to the aforementioned institutions, the OECD SOCX methodology, and the official definition used by each of the 10 countries included in the new Social Expenditure Database (SOCX) of Latin America and the Caribbean.

Table 5
Definition of public social expenditure according to international organizations and Latin American countries



Source: Prepared by the author.

[a] According to IMF (2014), this includes the following categories: sickness and disability; old age; survivors; family and children; unemployment; housing; social exclusion not elsewhere classified (n.e.c.); research and development related to social protection; and social protection n.e.c.

[b] This line does not correspond to a COFOG function, since active labour market policies are included in other functions, such as economic affairs, education and social protection.

[c] In Argentina, expenditure on education, culture, science and technology are included in the same category. In COFOG, in contrast, research and development expenditures are included in the category most closely related to their purpose.

[d] In Brazil, the agrarian organization category is subdivided into agrarian reform and family farming, irrigated agriculture, and others, and includes programmes such as land regularization, food purchases for family farming and interest equalization for rural productive activities.

[e] In Colombia, this item includes expenditures for disaster response and prevention, reintegration projects and support for post-conflict recovery following the peace process.

[f] In Trinidad and Tobago, official social expenditure statistics are based on the expenditure executed by the main social sector ministries and the social services of the *Tobago House of Assembly*, instead of following COFOG.

[g] In Uruguay, spending on housing, environment, water and sanitation are included in a single category.

Of the definitions used by international organizations, the ECLAC definition is the broadest since it covers six functions, and is the only one that includes environmental protection programmes as part of social expenditure. In contrast, the definition of the OECD SOCX methodology is the narrowest, since it includes the social protection, health and labour market functions; and, in the case of education expenditure, it only considers the initial level within the social domain.

All classifications, whether of international organizations or of official country methodologies, coincide in including health and social protection functions in the social domain; and the definitions used by IMF, the 2030 Agenda, ECLAC and the 10 countries of Latin America and the Caribbean all consider spending on education as a component of public social expenditure. The only methodologies that add spending on general labour issues are SOCX and those of Argentina, Brazil, El Salvador and Peru. For example, they may include within social expenditure public employment services, administration of labour affairs and services, monitoring and regulation of working conditions, programmes to facilitate employment mobility, direct job creation, and employment subsidies and incentives, among others.

The official definition used by three countries (Colombia, Guatemala and Uruguay) coincides fully that of ECLAC, since it covers the same six functions, with environmental protection programmes included within social expenditure. Although Peru also includes spending on this government function within the social domain, its definition of social expenditure is the broadest, because it considers all budgetary functions and includes programmes not only in education, culture, health, sanitation, and social assistance and welfare, but also some pertaining to the general public services, defence, public order and safety, and economic affairs functions.

The housing and community amenities function, which includes expenditure on urbanization, community development, water supply and public lighting, is included in the definitions of IMF, ECLAC and the 10 countries of the region considered in the study. However, the approach of OECD and the 2030 Agenda includes the housing category within the social protection function, and includes benefits in kind to help families with housing costs: rent subsidies, payments to help with mortgages or interest payments, construction of social housing, etc.

Additionally, in the methodology used by ECLAC and the 10 countries analysed, the recreational activities, culture and religion function forms part of social expenditure and includes, for example, the provision of sports, recreational and cultural services; facilities for these activities; radio, television and publishing services;[4] support and facilities for religious and other community amenities; etc.

Unlike the other approaches, Brazil's National Treasury Secretariat considers the agrarian organization category as part of social expenditure, which includes spending on land regularization, agrarian reform, family farming, and other programmes.

In short, unlike the approach used by most of the region's countries, the SOCX methodology does not consider all spending on education, culture, sports and religion as part of the social sphere; and it omits certain drinking water, sewerage, urban planning and housing programmes.

Moreover, as noted in the previous subsection, the SOCX methodology also differs from that of the countries studied by presenting the composition of social expenditure in detail at the programme level, grouped into nine areas. These coincide with the expenditure breakdown in the COFOG social protection function (sickness and disability, old age, survivors, family, unemployment, housing and others), along with spending on health and labour policies.

Another difference between this methodology and that of the countries in question concerns the level of government coverage (table 6). In SOCX, the information on public social expenditure refers to general government, defined as central government plus intermediate and local governments and social security, whereas the coverage of official public expenditure statistics varies across the countries analysed. Some countries (El Salvador, Guatemala and Trinidad and Tobago) only cover central government; while others include social security (Brazil); some refer to general government (Colombia, Costa Rica and Peru);[5] and others (Argentina, the Dominican Republic and Uruguay)[6] cover the non-financial public sector (NFPS), in other words they include non-financial public enterprises in addition to general government

[4] However, Colombia's official methodology excludes the subgroup of expenditures on "Radio, television and publishing services" from the classifier "08 Recreational activities, culture and sports", on the grounds that it is not a component to be considered in the measurement of public social spending.

[5] Although Peru's official social expenditure data is of general government coverage, that is central government plus intermediate and local governments, in the case of social security expenditure, it only includes social security for pensions, but not social security for health (EsSalud). In contrast, SOCX considers the entire social security system.

[6] In Uruguay, public social expenditure statistics cover central administration, decentralized agencies, social security, the public water company (OSE), and other agencies; but they exclude departmental governments.

Table 6
Level of government coverage in official statistics on social expenditure in Latin American countries and in the SOCX methodology

	OECD (SOCX)	Argentina	Brazil	Colombia	Costa Rica	El Salvador	Guatemala	Peru	Dominican Republic	Trinidad and Tobago	Uruguay
Central government	■	■	■	■	■	■	■	■	■	■[a]	■
Social security	■	■		■	■			■	■		■
Subnational governments	■	■		■	■			■	■		
Non-financial public companies		■							■		■

Source: Prepared by the author.
[a] Includes the Tobago House of Assembly.

In both the SOCX and country methodologies, the execution of public social expenditure is recorded on an accrual basis of accounting. However, SOCX does not include administrative expenditure whereas the countries do.

Although differentiated tax treatments may have social content, whether in the form of deductions, tax credits, exemptions or reduced rates, tax expenditures for social purposes are not recorded in the countries' public social expenditure, except in Brazil; but they are included in the SOCX statistics.

In brief, the official measurement of social expenditure in the region's countries differs from the SOCX methodology with respect to level of government coverage (which is narrower in some countries and broader in others), the functions included in the social sphere (which are more expansive), the level of disaggregation of spending categories (which is lower), and also in terms of including tax rebates for social purposes (which are only considered in Brazil).

D. Potential synergies between databases of expenditure by functions, SOCX and other public expenditure databases

The databases of public social expenditure according to the government functions classification can be complemented with social spending statistics according to the SOCX methodology and with other public expenditure databases from international organizations.

The second-level COFOG breakdown of the social protection function coincides with seven of the major areas of SOCX: sickness and disability, old age, survivors, family, unemployment, housing, and other social policy areas. However, the classification of expenditure by government functions at third-level COFOG does not have the detail provided by SOCX, since it does not distinguish between cash benefits and benefits in kind, nor does it show details by type of support and programmes. Therefore, the social expenditure database according to the SOCX methodology is a very important complement to the database of expenditure by functions.

The following table compares the broad areas of the SOCX approach of OECD with the corresponding public expenditure categories according to the functions of government, both at the level of major divisions (first-level COFOG) and by groups (second-level COFOG). Moreover, when relevant, classes are considered (third-level COFOG). However, as noted in the previous section, the figures obtained by the two approaches differ in certain methodological respects, such as the inclusion of administrative expenditure in the case of COFOG.

Table 7
Comparison between the SOCX and COFOG classifications

SOCX	First-level COFOG	Second-level COFOG / Third-level COFOG
1. Old age	710. Social protection	7102. Old age
2. Survivors	710. Social protection	7103. Survivors
3. Incapacity-related benefits	710. Social protection	7101. Sickness and disability
4. Health	707. Health	7071. Medical products, appliances and equipment 7072. Outpatient services 7073. Hospital services 7074. Public health services 7075. Health-related research and development 7076. Health care n.e.c.
5. Family	710. Social protection 709. Education	7104. Family and children 7091. Pre-primary and primary education/ 70911. Pre-primary education 7096. Subsidiary services to education (only school feeding programmes for poor children)
6. Active labour market policies	704. Economic affairs 709. Education 710. Social protection	7041. General economic, commercial and labour affairs/ 70412. General labour affairs Programmes relating to labour affairs of a given industry, classified in 7042 to 7047[a] 7095. Education not definable by level (training programmes only) 7105. Unemployment (training programmes for unemployed only)
7. Unemployment	710. Social protection	7105. Unemployment
8. Housing	710. Social protection 706. Housing and community amenities 705. Environmental protection	7106. Housing Certain programmes only (targeted on poor or vulnerable population) of: 7061. Housing development 7062. Community development 7063. Water supply 7064. Street lighting 7052. Waste water management
9 . Other social policy areas	710. Social protection	7107. Social exclusion n.e.c. 7109. Social protection n.e.c..

Source: Prepared by the author, on the basis of Organisation for Economic Co-operation and Development (OECD), *The OECD SOCX Manual 2019 Edition: A Guide to the OECD Social Expenditure Database*, Paris, 2019; International Monetary Fund (IMF), *Government Finance Statistics Manual 2014*, Washington, D.C., 2014.

[a] These are: 7042. Agriculture, forestry, fishing and hunting; 7043. Fuels and energy; 7044. Mining, manufacturing and construction; 7045. Transport; 7046. Communications; 7047. Other industries.

On the other hand, the functional expenditure database is more detailed than the SOCX database in the case of public health expenditure. At second-level COFOG, it is possible to distinguish the following groups of health expenditures: medical products, appliances and equipment; ambulatory services; hospital services; public health services; etc., although this only corresponds to public expenditure, while SOCX also considers information on voluntary and mandatory private expenditure. Further detail on public and private health expenditure can be obtained from the Global Health Expenditure Database (GHED) of the World Health Organization (WHO), which applies the System of Health Accounts (SHA2011) methodology. In fact, some of the data used in this document to develop the SOCX database in the countries of the region draw on this source, especially for private health spending.

Another international database that can be very useful for supplementing the information on the functional expenditure and SOCX databases is that of the United Nations Educational, Scientific and Cultural Organization (UNESCO). This organization maintains internationally comparable data on public expenditure on education, with a breakdown by education level. This database can supplement the SOCX data, because the latter only covers public expenditure on initial education; and it can also supplement the functional expenditure database, especially in countries where second- or third-level COFOG data is not available.

II. An analysis of expenditure by government functions shows that social spending explains most of the increase in public expenditure in recent decades

This section analyses the main trends in public expenditure according to the classification of central government functions for 16 countries in Latin America[7] in 2000–2019 and five in the English-speaking Caribbean[8] with information available between 2008 and 2019. The analysis also includes the English-speaking Caribbean countries with respect to their situation as of 2019. Where information is available, box 1 complements the study with a broader institutional coverage.

Box 1
Priorities are even more skewed towards social expenditure when broader institutional coverage is considered

This chapter has followed the same approach as other ECLAC publications, by firstly making a complete analysis at the central government level, since this is the only institutional coverage for which information is available for all of the region's countries. This box complements the foregoing analysis by considering broader institutional coverage in 10 countries that have statistics that admit a functional classification of expenditure: Argentina, Brazil, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Mexico, Paraguay and Peru.[a]

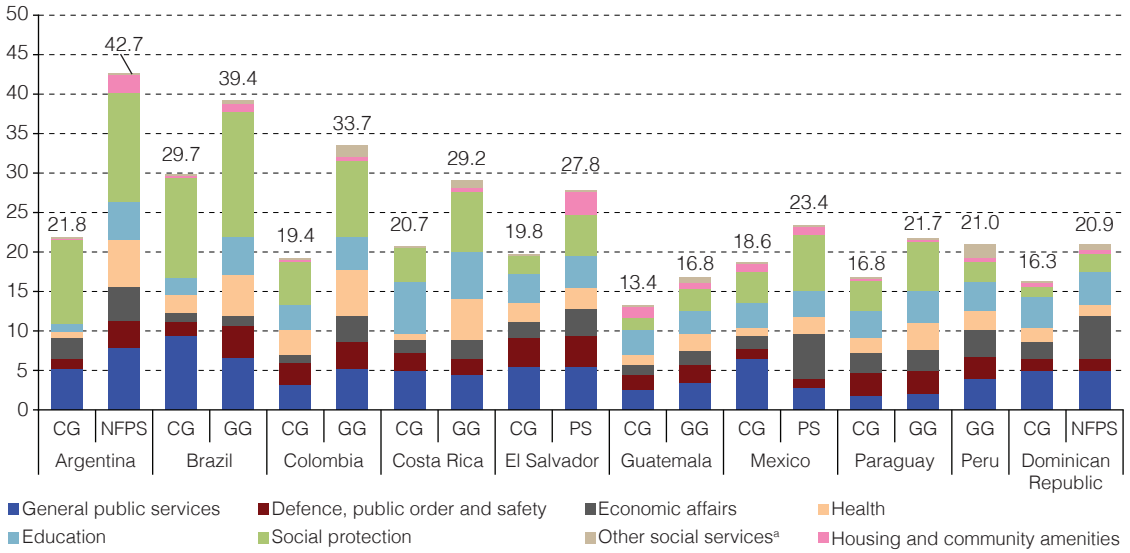
Public expenditure as a percentage of GDP changes considerably when comparing central government expenditure with that of broader coverage, encompassing intermediate and local governments and other public entities. However, the size of the discrepancy varies from country to country, depending mainly on the political and institutional organization in each case and on whether or not central government coverage encompasses social security data.

The largest variation with respect to total expenditure occurs in Argentina, but there are also significant gaps in Brazil, Colombia, Costa Rica and El Salvador. In federal countries, such as Argentina and Brazil, total public expenditure exceeds or approaches 40% of GDP, while in the other countries it is close to 30% (Colombia, Costa Rica and El Salvador) or 20% (the Dominican Republic, Mexico, Paraguay and Peru).

[7] Owing to the lack of data disaggregated by function of government and updated for the entire series considered, data for the Bolivarian Republic of Venezuela, Cuba, Haiti and Plurinational State of Bolivia are not included.

[8] These countries are: Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago.

Latin America (10 countries): expenditure by function according to institutional coverage, 2019
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
Note: CG: central government; GG: general government; NFPS: non-financial public sector; and PS: public sector.
[a] This category encompasses the following government functions: environmental protection and recreational activities, culture and religion.

When broader institutional coverage is considered, expenditure increases in nearly all government functions, but the distribution of priorities varies by coverage and country.

In the case of the defence, public order and safety function, broader coverage reveals larger increases in Argentina and Brazil, where public expenditure for this purpose reaches levels close to 4% of GDP when information on subnational levels of government is included. In Argentina, for example, the provinces execute more than 60% of expenditure for this function.

With respect to public expenditure on economic affairs, central government spending in Mexico represented 1.6% of GDP; but when coverage is expanded to the federal public sector (which also includes directly controlled entities and State-owned productive enterprises), the figure rises to 5.6% of GDP. In the Dominican Republic, expenditure on economic development, increases by more than 3 percentage points to 5.4% of GDP when public enterprises and subnational levels of government are included in the institutional coverage. Expenditure on the fuel and energy sector is what increases the most in these two countries when institutional coverage is expanded. Expenditure on this function also increases significantly in the cases of Argentina, Colombia and El Salvador.

In all countries other than the Dominican Republic, priorities tend towards higher social expenditure when institutional coverage is expanded, either because of the important role played by subnational governments in providing social services, or because of the inclusion of social security in countries where this is considered a separate subsector of the central government. Most of the countries analysed (including Argentina, Brazil, Colombia, Costa Rica and Paraguay) allocate close to or more than 65% of total public expenditure to the social sectors, compared to 54%–59% in El Salvador, Mexico and Peru, and 43% in the Dominican Republic. Relative to GDP, social expenditure is highest in Argentina and Brazil (27.2% and 27.5%, respectively); Colombia and Costa Rica are at an intermediate level (21.7% and 20.2% of GDP, respectively); and El Salvador, Paraguay, Mexico, Peru, Guatemala and the Dominican Republic are all below 15% (14.9%, 13.9%, 13.9%, 13.9%, 10.9%, 9.4% and 9.1%, in that order).

These countries differ in the importance of the functions included in the definition of social expenditure used by ECLAC. In terms of health expenditure, when comparing central government with broader coverage, the largest increase is in Argentina, because of the magnitude of health benefits provided by the provinces and social works, and in Costa Rica, because social security is included in general government coverage. There are also significant increases in Brazil and Colombia.

In the case of expenditure on education, subnational governments are particularly important in Argentina and Brazil, where this type of spending is more decentralized. Thus, when moving from central government to a broader coverage, education spending increases from 1.1% to 5.0% of GDP in the first country, and from 2.2% to 5.1% of GDP in the second.

Expenditure on social protection increases considerably in all countries when other government units and agencies are included, with increases ranging from 1% to 4.1% of GDP depending on the country. The largest increase is in

Colombia, where pensions and other social security benefits are included in the broadest coverage, thereby raising social protection expenditure in this country from 5.6% to 9.7% of GDP. The increases in Costa Rica, El Salvador, Mexico, and Paraguay, albeit somewhat smaller, are also explained mainly by the inclusion of social security in general government coverage.

Lastly, in the case of housing and community amenities, the largest increases in expenditure occurs in Argentina and El Salvador, while in other social services (including environmental protection and recreational activities, culture and religion), the changes are smaller.

In short, this analysis shows how important it is that the countries of the region take steps to publish functional expenditure statistics at the general government or other broader coverage levels, periodically and in a timely manner, if they do not already do so.

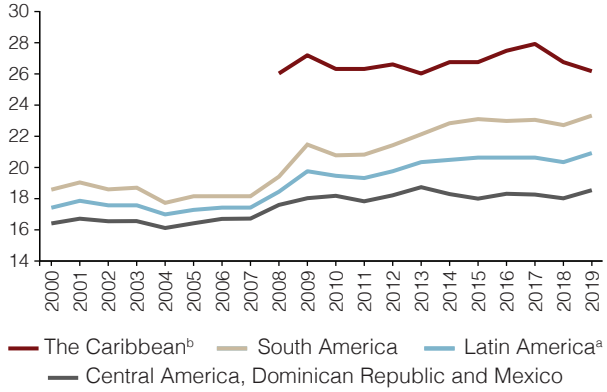
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

[a] Institutional coverage corresponds to general government (that is central government, subnational governments and social security institutions), except in Argentina, the Dominican Republic, El Salvador and Mexico, where public enterprises are also included, although subnational governments are excluded in the latter country. In the case of Peru, the series is the same as in the other sections of the document, since only general government data are available. However, the country does not include social health insurance (EsSalud) spending in the definition of general government, whereas expenditure on social security benefits is considered.

A. Average public expenditure in Latin America has risen to 20.9% of GDP in recent decades, while in the Caribbean it has remained around 26%–27% of GDP

The average central government public expenditure of 16 Latin American countries has trended upwards in this century, rising from 17.5% of GDP in 2000 to 20.9% in 2019, although in recent years the series has flatlined in the wake of the fiscal consolidation deployed in the individual countries (figure 1)[9].

Figure 1
Latin America and the Caribbean (16 countries): central government expenditure by subregion, 2000–2019[a]
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
Note: The level of public expenditure presented here according to the functional classification does not necessarily coincide with the economic classification of expenditure published in other ECLAC documents.

[a] Refers to the simple average for 16 countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay. In the case of Peru, coverage corresponds to general government.

[b] Refers to the simple average for five Caribbean countries: Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago.

[9] The level of public expenditure according to the functional classification does not necessarily coincide with that of the economic classification of expenditure published in other ECLAC documents. This is mainly because the institutional coverage does not fully coincide in some countries, and the number of countries included in the average differs, among other methodological considerations.

Following the 2008–2009 global economic crisis, most countries in the region implemented expansionary fiscal policies to shore up aggregate demand. Expenditure on subsidies, transfers and certain social programmes was thus increased, which, while helping to mitigate the impact of the crisis on the most vulnerable sectors, in some cases led to a permanent increase in spending. The increase in debt interest payments over the last seven years also fuelled the rising expenditure trend.

Although central government expenditure has been trending up both in South America and in the subregion formed by the six Central American countries plus the Dominican Republic and Mexico, in the South American countries it starts from a higher level and displays a higher growth rate. The greater momentum of expenditure in these countries is explained partly by the commodity price boom of the decade of 2000, which boosted fiscal revenues in economies with large commodity exporting sectors and increased the public expenditure share of GDP.

In 2019, the average expenditure of the eight South American countries represented 23.3% of GDP, compared to 18.4% in the group formed by Central America, the Dominican Republic and Mexico. Thus, central government in the first group of countries spends on average almost 5 percentage points of GDP more than that of the second group, compared to 2.2 percentage points more at the turn of the century. However, in most of the countries in the second group and some of those in the first, central government data do not include social security expenditure, as this is considered a separate subsector.

In the sample of five English-speaking Caribbean countries, between 2008 and 2019 average central government expenditure was broadly stable around 26% –27% of GDP, although with two peaks reaching 28% of GDP in 2017. Public expenditure then slipped back to 26.2% of GDP in 2019, owing to the fiscal consolidation policies implemented in these countries. This level is above the average values of the other two subregions analysed.

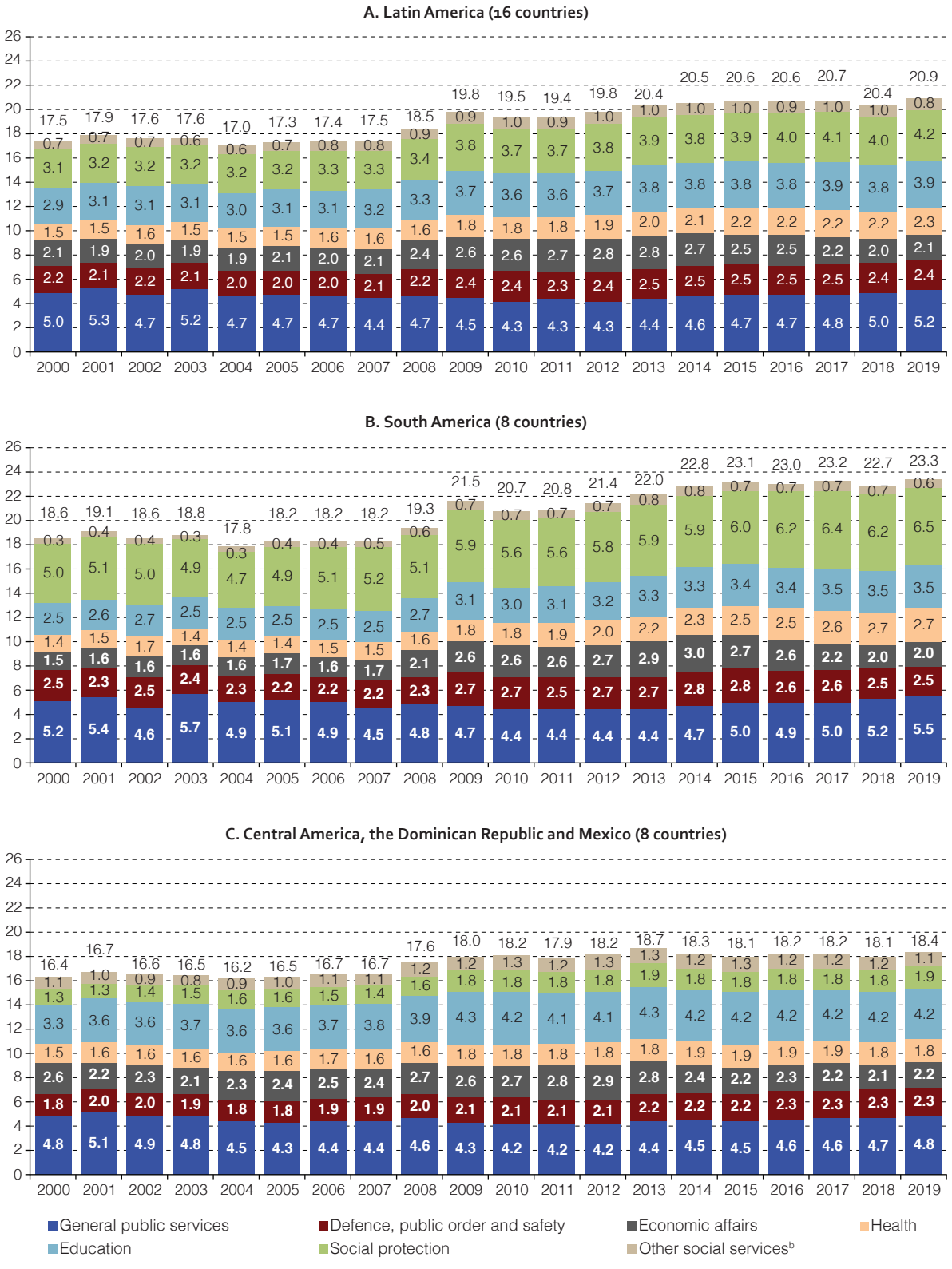
B. Social expenditure increased in all three subregions, especially in the health, education and social protection areas

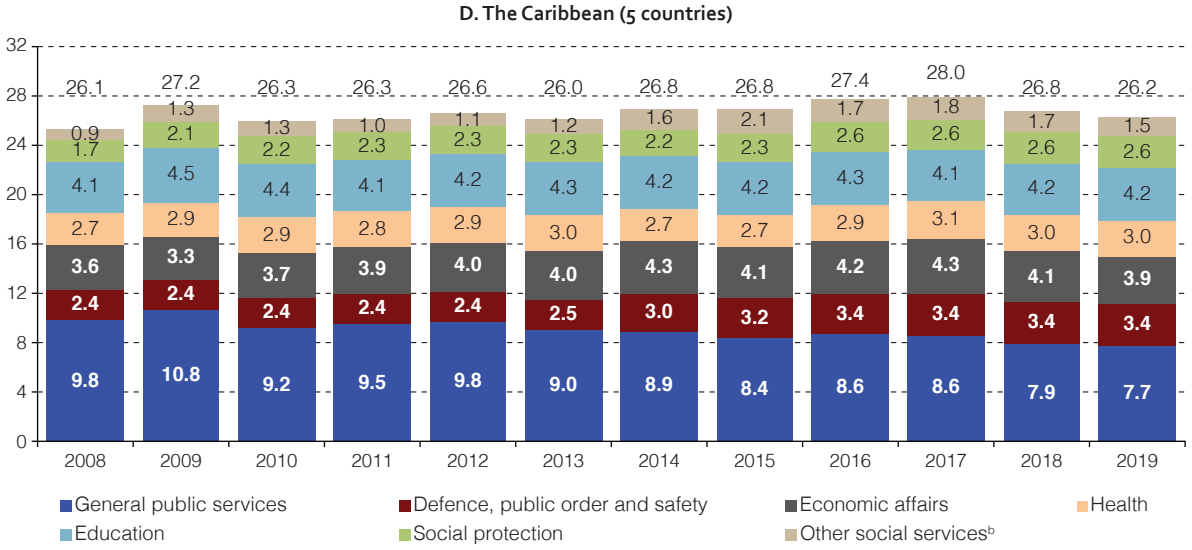
Analysis of the composition of public expenditure according to COFOG makes it possible to identify the type of policies to which resources have mainly been directed, and the areas that explain the increase in spending. This reveals priorities in the provision of public goods and services, and how these have changed over time (figures 2 and 3).

The growth of central government expenditure in the sample of 16 Latin American countries is explained by higher outlays to finance social policies, particularly in the areas of health, education and social protection.[10] The average spending of Latin American countries in these three functions increased from 1.5%, 2.9% and 3.1% of GDP, respectively, in 2000 to 2.3%, 3.9% and 4.2% of GDP in 2019 (figure 2.A). Among other programmes, the social protection function includes pension payments and conditional transfer programmes, which have expanded in recent decades. The increase in expenditure in these three areas is linked to greater coverage in education (especially at the secondary level, since primary coverage rates were already relatively high in the last century), as well as in health and social security, where contributory and non-contributory pensions have both grown (figure 3.A).

[10] For a detailed analysis of social spending in the countries of the region, see ECLAC (2021b).

Figure 2
Latin America and the Caribbean (16 countries):[a] central government expenditure by function, 2000–2019
(Percentages of GDP)





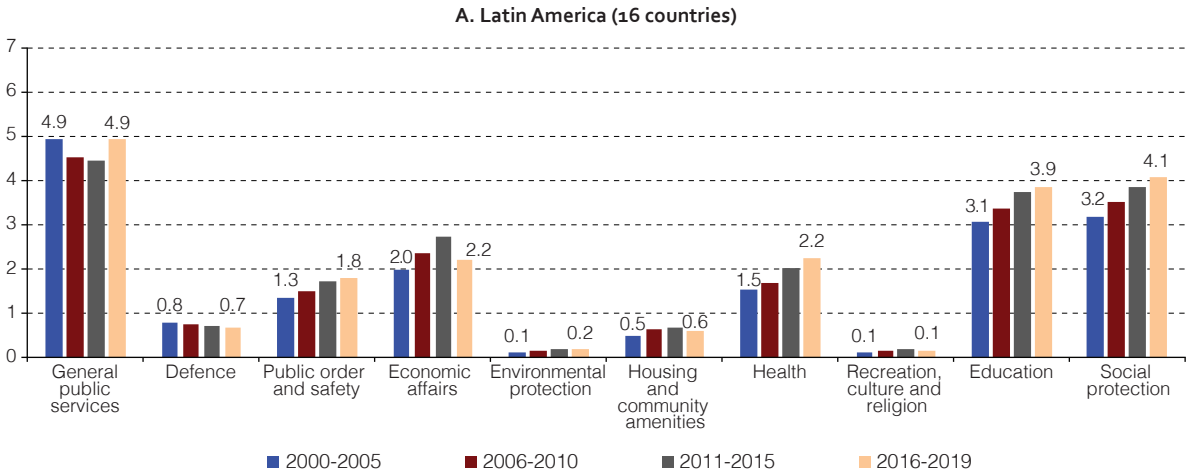
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

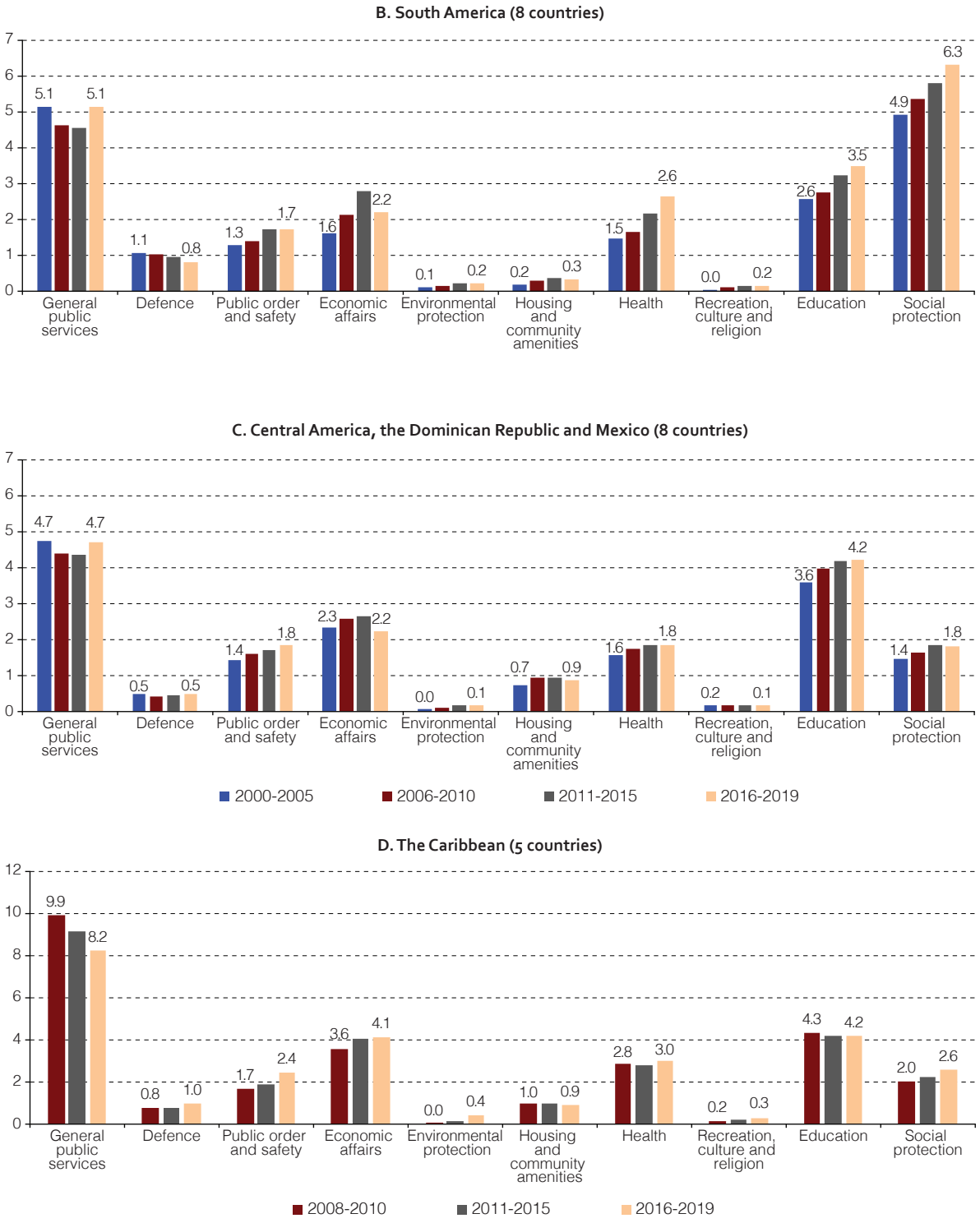
Note: The level of public expenditure presented here according to the functional classification does not necessarily coincide with the economic classification of expenditure published in other ECLAC documents.

[a] Latin America (panel a) corresponds to the simple average for 16 countries, which are divided into two groups (panels b and c): eight from South America (Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay) and eight from the group comprising Central American (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) plus the Dominican Republic and Mexico. In the case of the Caribbean (panel d), the figures include five countries: Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago.

[b] This category encompasses the following government functions: environmental protection; housing and community amenities; and recreation, culture and religion.

Figure 3
Latin America and the Caribbean (16 countries):[a] trend of central government functional expenditure by subperiod, 2000–2019
(Percentages of GDP)





Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
Note: The level of public expenditure presented here according to the functional classification does not necessarily coincide with the economic classification of expenditure published in other ECLAC documents.

[a] Latin America (panel a) corresponds to the simple average for 16 countries, which are divided into two groups (graphs b and c): 8 from South America (Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay) and 8 from the group comprising Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), Dominican Republic and Mexico. In the case of the Caribbean (panel d), five countries are included: Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago.

Expenditure on general public services, which includes interest on the public debt, had been trending down between 2004 and 2012, before ticking up in keeping with the region's higher debt level: in 2019 the debt reached a level similar to that prevailing at the turn of the century (5.2% of GDP) (figure 2.A). The flip side of this dynamic is the trend of resources allocated to the economic affairs function, which encompasses a large part of public investment and has been trending in the opposite direction: rising between 2003 and 2013 but declining since then. Thus, expenditure on economic functions decreased from 2.8% of GDP in 2013 to 2.1% in 2019. Expenditure on housing and community amenities, which also has a significant public investment component, displays a similar pattern (figure 3.A).

Expenditure on defence and on public order and safety display contrasting dynamics. While the former has trended down during the period analysed, the latter has grown from an average of 1.3% of GDP in 2000–2005 to an average of 1.8% of GDP between 2016 and 2019 (figure 3.A).

The regional trend is determined mainly by the behaviour of expenditure in the South American countries, where, on average, there was a significant increase in all social policy areas (health, education, social protection and other social services). Social expenditure grew by 4.1 percentage points of GDP in the period analysed (figure 2.B). In the group of countries comprising Central America, the Dominican Republic and Mexico, there were smaller increases, although expenditure grew in all social areas. The main changes in policy priorities boosted education, social protection and public order and safety (figure 2.C).

In both subregions, expenditure on economic affairs and general public services (the behaviour of which is explained basically by interest payments on the public debt) displays the same contrasts as described above for the Latin American region as a whole. However, the starting point for expenditure on economic affairs in the South American countries was lower relative to GDP than in the group comprising the Central American countries, the Dominican Republic and Mexico (1.5% versus 2.6% of GDP in 2000, respectively) (figures 2.B and 2.C). In 2019 this ratio was very similar between the two groups: 2.0% and 2.2% of GDP, respectively. Thus, following the adjustment of public investment and other expenditures on economic services in recent years, the values corresponding to the South American countries are still higher than in early 2000, while those of the second group of countries are below their initial levels.

The trend of defence spending has varied across the subregions. On average, in the countries of South America, expenditure in this category fell from 1.1% to 0.8% of GDP in the period analysed, while in the Central American countries, the Dominican Republic and Mexico, average defence spending remained constant at close to 0.5% of GDP (figures 3.b and 3.C). In contrast, disbursements in respect of public order and safety display similar values and a rising trend in both groups.

Public expenditure trends in the sample of five English-speaking Caribbean countries differ from that of Latin America, increasing during the great recession of 2009, then remaining relatively constant before growing again in 2016 and 2017. The expenditure function that increased by most in 2009 was general public services, owing to higher debt interest payments in these countries (figure 2.d). However, the rise in interest is mainly explained by the large increase that occurred in Jamaica that year, since interest payments declined sharply thereafter, following the country's debt restructuring in 2010.

Furthermore, in this group of countries, social expenditure also increased as a share of GDP during the 2009 crisis in the areas of education, health, housing and social protection; and, in general, these increases were not temporary. Social expenditure rose from 9.5% of GDP in 2008 to 10.8% of GDP in 2009, and reached 11.3% of GDP in 2019.

The expenditure growth recorded in the Caribbean countries in 2016 and 2017 partly reflects the expansion of expenditure on economic affairs produced by a faster pace of public investment. However, in the context of policies to curb the growth of public outlays, investment and expenditure on economic services contracted in 2018 and 2019, to represent 3.9% of GDP. In 2018, spending on general public

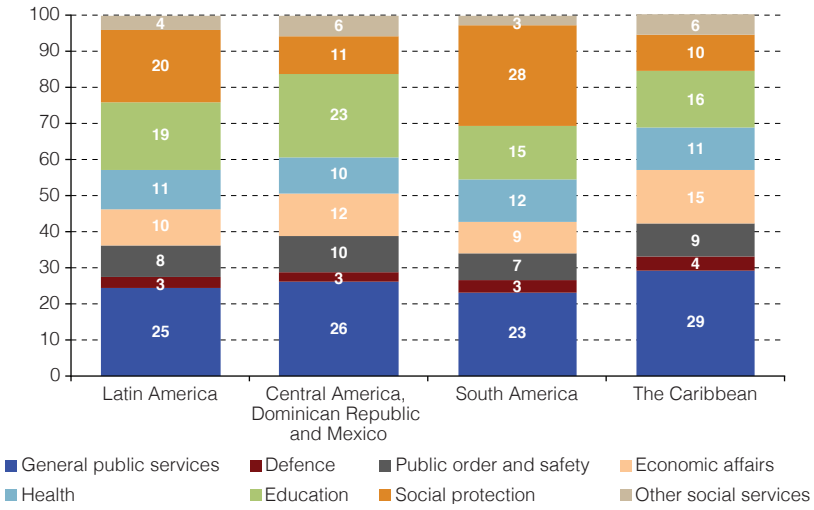
services also declined in the wake of fiscal consolidation policies and lower interest payments, thanks to the reduction in public debt in this group of countries. In particular, the reduction in that function is explained mainly by the decision adopted by Barbados to suspend interest payments and past-due amortization of the external public debt, with a view to negotiating a restructuring agreement with its creditors, which was finalized in 2019. In addition, in 2018 the Barbadian Government signed a four-year extended facility arrangement with IMF that included significant fiscal consolidation.[11]

In contrast to the other groups of countries, there was an increase in defence spending in the Caribbean during the period under analysis. Outlays on public order and safety also trended upwards (figure 3.D).

C. On average, the countries of Latin America and the Caribbean allocate half of their fiscal resources to social expenditure and a quarter to general public services

In terms of how expenditure in Latin America was directed to different purposes, data on expenditures by government function show that, in 2019 on average, over half of total spending was devoted to social functions: social protection (20%), education (19%), health (11%) and other social services (which includes environmental protection, housing and community amenities, and recreation, culture and religion). Another government function that absorbs a large share of total public expenditure is general public services (25%), given the magnitude of the interest paid on public debt in most countries in the region. This category is followed in order of importance by economic affairs (10%) and public order and safety (8%), while the remaining functions absorb small shares, as exemplified by defence spending, which accounts for 3% of the total (figure 4).

Figure 4
Latin America (16 countries) and the Caribbean (5 countries):[a] relative share of central government expenditure by function, 2019
(Percentages of total expenditure)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] Latin America (panel a) corresponds to the simple average for 16 countries, which are divided into two groups: 8 from South America (Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay) and 8 from the group consisting of Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), Dominican Republic and Mexico. In the case of the Caribbean, five countries are included: Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago.

[11] See ECLAC (2019a and 2019b).

The distribution of central government expenditure priorities also varies between subregions. In the South American countries, an average of 57% of total expenditure was allocated to social functions in 2019, while in the group comprising Central American countries, the Dominican Republic and Mexico, social spending absorbed 49% of the total in the same year. In the South American countries, social protection (which includes payments for old-age, survivor and disability pensions, conditional transfer programmes, unemployment benefits and other social programmes) absorbs 28% of the total. Expenditure on health services is also relatively greater in this subregion than in Central America, the Dominican Republic and Mexico, while the latter subregion spends a larger proportion of its resources on education (23% of the total).

However, these data have a major shortcoming, since, as noted above, they only measure central government expenditure while ignoring the subnational levels, which in federal and more decentralized countries execute a large part of spending on education and health. Moreover, in some countries, social security funds are considered as a separate subsector of the central government, so social protection expenditure figures are not strictly comparable either.[12]

In the group consisting of the Central American countries, the Dominican Republic and Mexico, the proportions of total expenditure absorbed by general public services and public order and safety (26% and 10%, respectively) are higher than in their South American counterparts. Similarly, the first group of countries prioritizes housing and community amenities more highly, whether expenditure on this function is measured as a proportion of GDP or relative to total expenditure.

In the case of expenditure on defence and economic affairs, the priorities assigned to these functions by the two subregions differ by less. On average, the countries of Central America, the Dominican Republic and Mexico allocate 3% of their total spending to defence and 12% to economic affairs, compared to 3% and 9% of the total, respectively, in South American countries.

In the sample of English-speaking Caribbean countries, the leading public expenditure functions are general public services (29%) and economic affairs (15%). Although the level of public debt in these countries has been receding in recent years, interest payments remain high, which has an impact on the large proportion of expenditure on general public services. In the case of economic affairs, as noted above, this expenditure category includes a large public investment component, which has been greater in this subregion than in Latin American countries in the last three years of the period analysed.

In the English-speaking Caribbean, social benefits absorb 43% of total public expenditure. As a result, social expenditure represents a smaller share of the total in Caribbean countries than in Latin American ones. This mainly reflects the smaller proportion allocated to social protection (10% of total expenditure), since social security systems in these countries are run by private entities, and benefits are financed through mandatory social contributions. In contrast, the proportion of central government expenditure allocated to health services in the English-speaking Caribbean countries is similar to the average for the 16 Latin American countries (11%).

As in the other subregions, the other functions account for smaller shares of total central government spending in the Caribbean: public order and safety represents 9%; defence 4%; housing and community amenities 3%; and environmental protection 1%; and recreation, culture and religion also 1%.

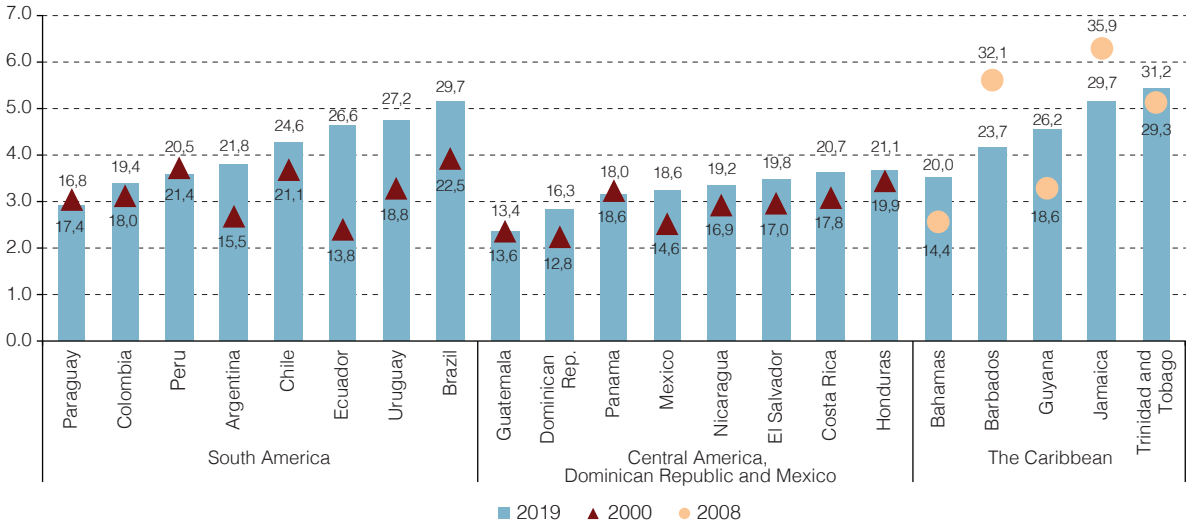
D. Regional trends and averages conceal a diversity of situations with respect to the trend, level and composition of public expenditure

In all of the South American countries analysed, public expenditure outpaced GDP in 2000–2019, except in Paraguay and Peru. However, the increase in spending varied across the countries. The central governments of Argentina, Brazil, Ecuador and Uruguay saw the greatest expenditure growth, ranging between 6 and 13 percentage points of GDP. Thus, in 2019, the central government of these countries, along with that of Chile, spent the most relative to GDP: between 22% and 30%, which is more than in

[12] On this point, see box 1, which analyses information of broader institutional coverage for countries in which the relevant statistics were available.

the other Latin American countries (figure 5). In federal countries such as Argentina and Brazil, such spending approaches or even surpasses 40% of GDP when a broader institutional coverage is considered that includes intermediate and local governments, as discussed in box 1. There is a similar pattern in Colombia, where general government expenditure exceeds 30% of GDP.

Figure 5
Latin America and the Caribbean (21 countries): central government expenditure by country and subregion, 2000 or 2008 and 2019[a]
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] Coverage in Peru corresponds to general government.

In the group consisting of the six Central American countries, plus the Dominican Republic and Mexico, only in Guatemala and Panama was the ratio of public expenditure to GDP lower in 2019 than in 2000.

In contrast, in the Dominican Republic and Mexico, central government expenditure rose by more than 3 percentage points of GDP, while in El Salvador and Costa Rica it increased by about 3 percentage points, and in Honduras and Nicaragua it increased by 1.2 and 2.3 percentage points of GDP, respectively. The countries in this group with the highest levels of central government spending relative to GDP are Honduras and Costa Rica, at around 21%. In the latter country, however, this indicator approaches 30% of GDP when subnational government and social security spending is included.

In contrast, the countries with the lowest levels of central government spending relative to GDP in Latin America are Guatemala (13.4%), the Dominican Republic (16.3%), Paraguay (16.8%) and Panama (18.0%).

In the sample of five English-speaking Caribbean countries, central government expenditure exceeds 23% of GDP in four cases (Barbados, Guyana, Jamaica, and Trinidad and Tobago), while in the Bahamas fiscal expenditure represents 20% of GDP. Only in Barbados and Jamaica is expenditure relative to GDP lower in 2019 than in 2008, as a result of the expenditure cuts implemented by the authorities in these countries, with reductions of between 6 and 8 percentage points of GDP over this period.

Considering the way in which public expenditure priorities evolved, more funding was provided to the different areas of social policy in the eight South American countries analysed. The increase in central government social expenditure ranged from less than 2 percentage points of GDP in countries such as Paraguay and Peru to more than 6 percentage points in Ecuador and Uruguay during the period reviewed (figure 6.A).

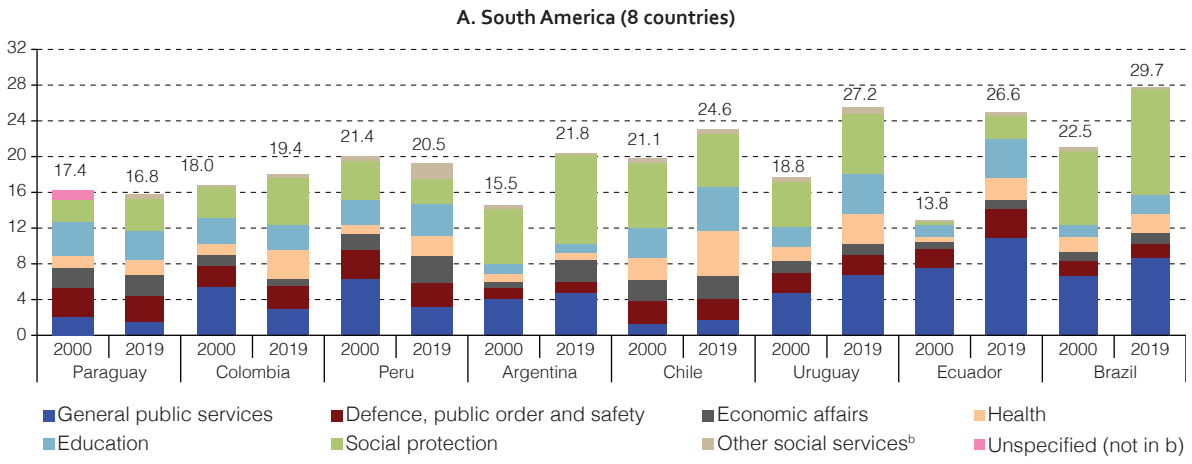
In addition, in some countries, such as Argentina and Peru, expenditure on economic affairs increased —especially in the transport, fuel and energy sectors in Argentina, and in the transport sector in the case of Peru. The relatively larger outlays in Argentina reflected the policy of subsidizing firms to mitigate the rise in the prices and tariffs of these public services. This lasted until 2016, when a policy of subsidy removal was implemented. That is why the increase in this expenditure category was concentrated more in current transfers than in public investment. Conversely, in Peru, most of the increase in expenditure on transport was absorbed by public investment in roads and urban transport systems. Examples include the expansion of the Peruvian road network and the second line of the Lima and Callao Metro, among other investment projects.

Brazil and Uruguay, among other countries, have spent more on general public services, as a result of higher interest payments on their public debt. Between 2000 and 2019, interest payments increased by almost 1 percentage points of GDP in those two countries. In Colombia and Peru, the debt interest burden decreased by 1.1 percentage points of GDP, which made it possible to reduce expenditure on general public services.

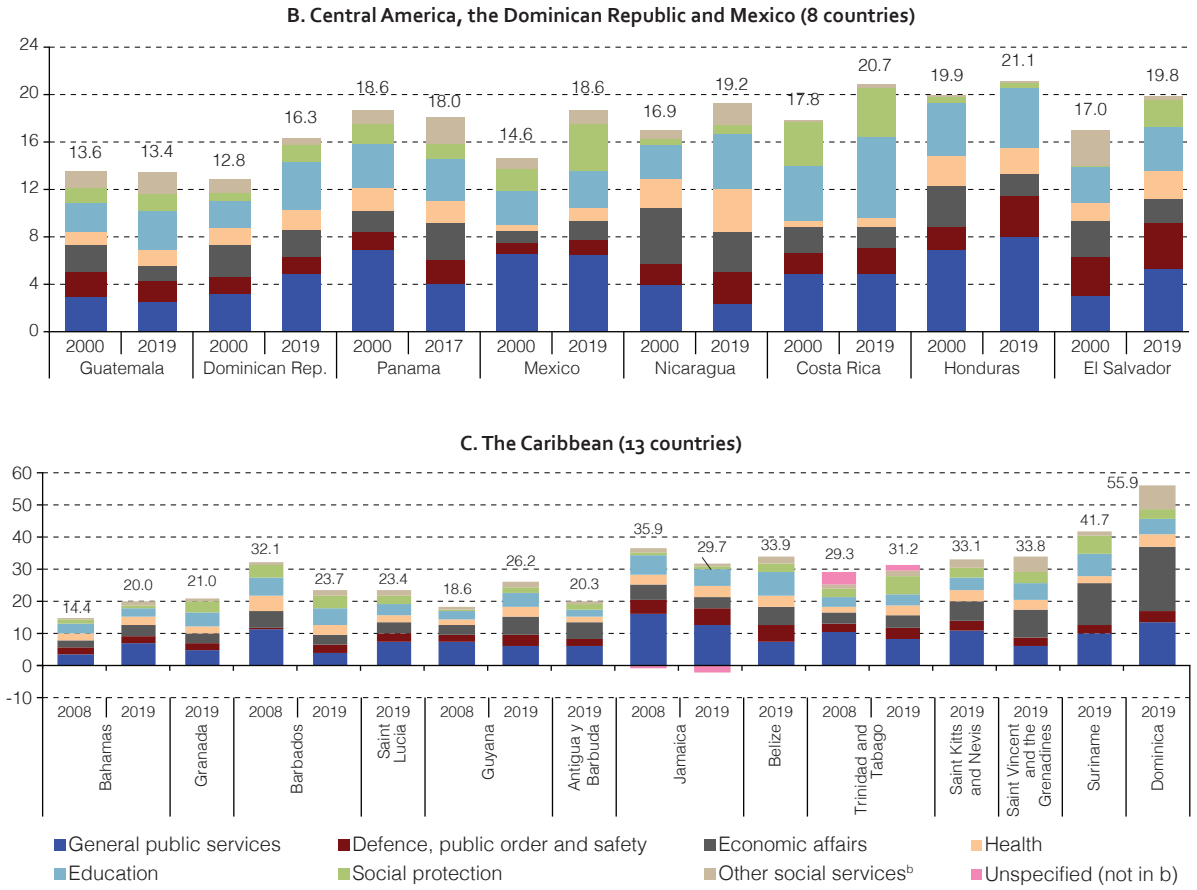
Expenditure, relative to GDP, on the defence, security and public order functions does not vary significantly among the South American countries.

In the sample formed by the six Central American countries, plus the Dominican Republic and Mexico, only in Guatemala and Panama did central government expenditure decline relative to GDP (figure 6.b). Spending on general public services decreased in both countries, although in Panama the reduction was greater because interest payments on the public debt fell by 2.5 percentage points of GDP in the period under analysis. In Guatemala, there was also a contraction in capital expenditure, reflected in smaller disbursements for the economic affairs function. Conversely, in Panama public investment increased, which expanded the share of the housing and economic affairs functions; in the latter, public expenditure increased in the transportation sector. Investments included the expansion of the Panama Canal, construction of the Panama City subway, road reorganization projects, and construction of the hospital city and the Colón corridor.[13]

Figure 6
Latin America and the Caribbean (21 countries): central government expenditure by country and function, 2000 or 2008 and 2019[a]
(Percentages of GDP)



[13] See ECLAC (2015).



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

[a] In Peru, coverage corresponds to general government.

[b] This category encompasses the following government functions: environmental protection; housing and community amenities; and recreation, culture and religion.

The six countries in this group in which total expenditure grew (Costa Rica, the Dominican Republic, El Salvador, Honduras, Mexico and Nicaragua) prioritized the different areas of social expenditure, especially education. Nonetheless, some countries increased expenditure by more than 1 percentage point of GDP on social protection policies (El Salvador and Mexico) and on health and housing (Nicaragua).

Expenditure on economic affairs also rose in Mexico, from 1% of GDP in 2000 to 1.6% in 2019, owing mainly to policies targeting the fuel and energy sector.

As noted above, in two English-speaking Caribbean countries, Barbados and Jamaica, central government spending contracted between 2008 and 2019 (figure 6.c). These countries made substantial expenditure cuts in general public services, owing to fiscal consolidation policies and public debt restructuring that reduced the interest burden. They prioritized expenditure on public order and safety, but cut spending on economic affairs and on social policies. Expenditure on health and education declined in Barbados, whereas spending on education decreased in Jamaica.

In the central governments of the three Caribbean countries in which expenditure grew relative to GDP in 2008–2019 (Bahamas, Guyana and Trinidad and Tobago), there was an increase in social expenditure, particularly on social protection programmes, but also on health and education policies. In the Bahamas, the main drivers of the growth of public expenditure were debt interest payments and other expenditures included in the general public services function. In Guyana and in Trinidad and Tobago, in contrast, spending on this function fell sharply, while spending on public order and safety and on social protection increased. In addition, expenditure on economic affairs grew significantly in Guyana, especially in sectors related to agriculture, transport and communication.

E. The allocation of public expenditure by purpose varies widely between countries

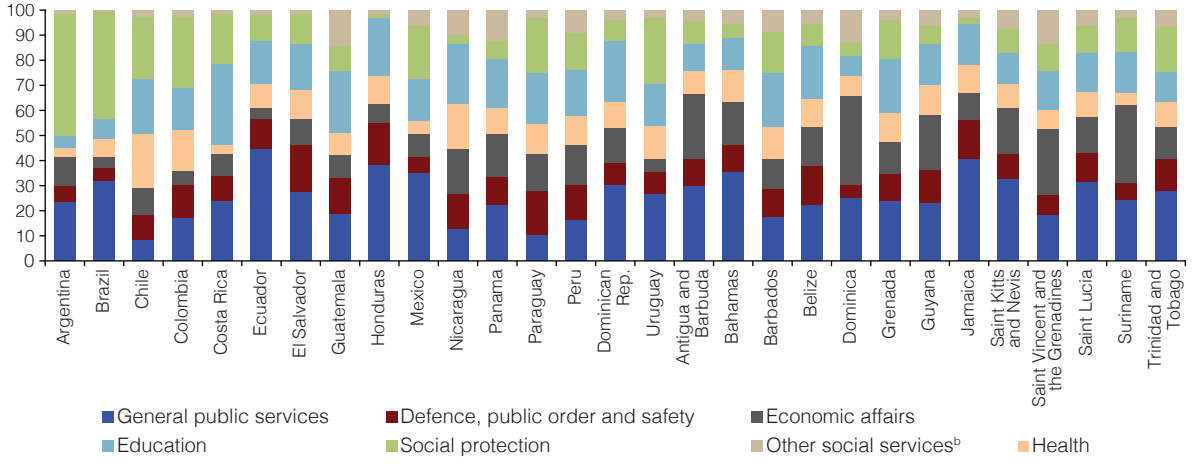
In some of the region's countries, such as Argentina, Barbados, Brazil, Chile, Colombia, Costa Rica, Guatemala, Paraguay and Uruguay, the central government[14] allocates close to, or more than, 60% of its resources to finance social expenditure (figure 7).[15]

Among the social expenditure functions, social protection predominates in these countries, except in Barbados and Costa Rica, which allocate a larger share to education (22% and 32% of the total, respectively). Other Latin American and Caribbean countries which channel at least 20% of total expenditure to education are Belize, Chile, the Dominican Republic, Grenada, Guatemala, Honduras, Nicaragua, Panama and Paraguay. In Chile and Nicaragua, the share of health in total expenditures is among the highest in the region.

At the other extreme, the countries that spend relatively less on social benefits are Antigua and Barbuda, Bahamas, Dominica, Ecuador, Honduras, Jamaica, Saint Kitts and Nevis, and Suriname, where social spending absorbs between 30% and 40% of total central government expenditure. In these countries the education function has the highest priority among the social policy areas.

In the case of economic affairs, some Caribbean countries, such as Antigua and Barbuda, Dominica, Guyana, Saint Vincent and the Grenadines, and Suriname allocate between 22% and 36% of total expenditure to this function, reflecting the higher level of capital expenditures in these countries. In Latin America, the countries that spend most on economic services are Nicaragua, Panama and Peru, which assign over 15% of the budget to this purpose. These three Latin American countries, and the Caribbean countries with disaggregated information (Antigua and Barbuda, Dominica and Guyana), channel most public expenditure on economic functions to transport, although Guyana and Peru also spend significant amounts on agriculture.

Figure 7
Latin America and the Caribbean (29 countries): distribution of central government expenditure by function, 2019[a]
(Percentages of total expenditure)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] In Peru, coverage corresponds to general government.
[b] This category encompassoes the following government functions: environmental protection; housing and community amenities; and recreation, culture and religion.

[14] The results presented here are sensitive to the definition of central government used by the country, since, in some cases, central government coverage includes social security but in others it does not.
[15] For further information on social expenditure in Latin America and the Caribbean, see ECLAC (2021b), *Social Panorama of Latin America 2019*.

In the case of economic affairs, some Caribbean countries, such as Antigua and Barbuda, Dominica, Guyana, Saint Vincent and the Grenadines, and Suriname allocate between 22% and 36% of total expenditure to this function, reflecting the higher level of capital expenditures in these countries. In Latin America, the countries that spend most on economic services are Nicaragua, Panama and Peru, which assign over 15% of the budget to this purpose. These three Latin American countries, and the Caribbean countries with disaggregated information (Antigua and Barbuda, Dominica and Guyana), channel most public expenditure on economic functions to transport, although Guyana and Peru also spend significant amounts on agriculture.

In general, the Central American countries spend relatively more on the defence, public order and safety functions: El Salvador, Guatemala, Honduras and Nicaragua all allocate between 14% and 19% of total expenditure to this function. These countries are joined by Belize, Jamaica, Paraguay and Peru.

Lastly, expenditure on general public services accounts for more than 30% of total central government spending in Antigua and Barbuda, Bahamas, Brazil, the Dominican Republic, Ecuador, Honduras, Jamaica, Mexico, Saint Kitts and Nevis, and Saint Lucia. In most of these cases, the large share of spending absorbed by this category is the result of debt interest payments, except in Mexico, where general transfers to subnational governments have an impact on the total for this function; in Ecuador, expenditure by the executive branch is also significant.

F. There is a high correlation between capital expenditure and expenditure on economic affairs

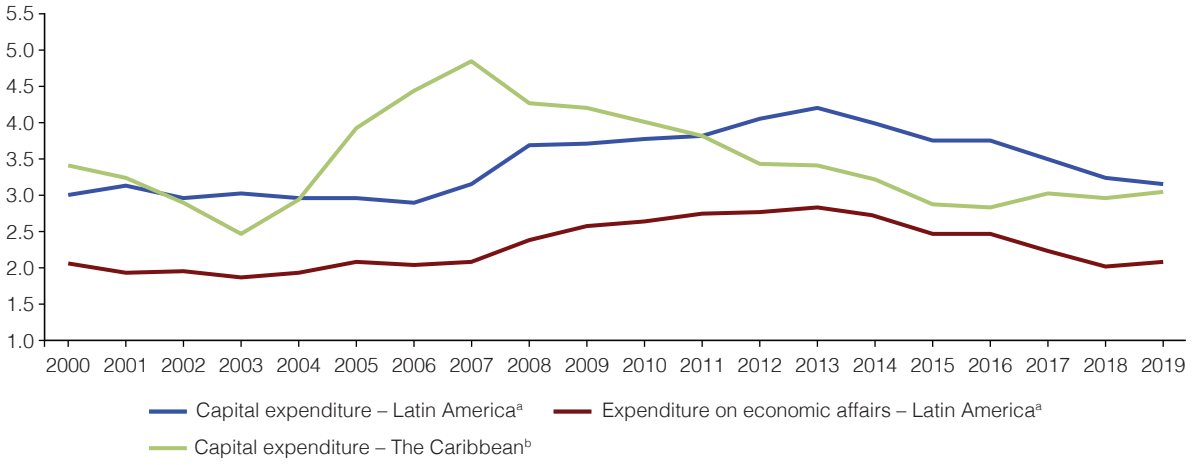
As shown by empirical research on the fiscal multipliers,[16] public investment plays a key role in economic growth and post-pandemic recovery, and also in achieving the Goals of the 2030 Agenda. Accordingly, this section makes a detailed analysis of capital expenditure priorities and how they have evolved; in other words in which functions and sectors the region's governments have invested and in which they have reduced capital expenditure during the last few years.[17]

In the 16 Latin American countries for which information is available for 2000–2019, the trend of central government capital expenditure is highly correlated with spending on economic affairs, because a large share of public investment is allocated to this government function (figure 8). Public investment in the region started to recover in 2007; and it grew even more vigorously in 2008–2009, as governments took advantage of fiscal space and used capital expenditure as a countercyclical policy tool in response to the global financial crisis, thereby supporting the recovery of economic activity. This trend continued until capital expenditure peaked in 2013. Thus, the simple average of public capital expenditure in the 16 Latin American countries increased by 1.2 percentage points, from 3.0% to 4.2% of GDP between 2000 and 2013, while expenditure on economic affairs grew from an average of 2.1% of GDP to 2.8% over the same period. Starting in 2014, in a context of economic slowdown, falling commodity prices, declining revenue intake and deteriorating fiscal accounts, public capital expenditure gradually receded to an average of 3.2% of GDP in 2019 in the sample of Latin American countries. The cutback in capital expenditure was also reflected in less resources allocated to spending on economic affairs, which fell back to 2.1% of GDP in 2019 in the average of Latin American countries.

[16] See ECLAC (2020), *Fiscal Panorama of Latin America and the Caribbean,* 2020.

[17] This section uses capital expenditures as a proxy for public investment. The expenditures in question include the acquisition of fixed capital assets, capital transfers and other capital expenditures.

Figure 8
Latin America and the Caribbean (16 countries): central government capital and economic expenditure, 2000–2019
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] Refers to the simple average of the values of 16 Latin American countries: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay. Coverage in Peru corresponds to general government.
[b] Refers to the simple average for five Caribbean countries: Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago.

The contraction of capital expenditure between 2013 and 2019 was quite widespread in the region, although there are some exceptions. Between these two years, capital expenditure was cut in 12 of 16 Latin American countries: Argentina, Brazil, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru. In Chile and Uruguay, meanwhile, the 2019 values are similar to those of 2013; and Costa Rica and Paraguay are the only two countries in which capital expenditure was higher in 2019 than six years earlier.

In the case of the sample of five English-speaking Caribbean countries, the period of fastest growth in public investment was from 2003 to 2007. The simple average of public capital expenditure in these countries climbed from 2.5% to 4.8% of GDP over the period, although this was primarily a result of rises in public investment in Guyana, Jamaica and Trinidad and Tobago, in the context of the boom in oil and mineral prices. From 2008 to 2016, the average capital expenditure of the five Caribbean countries instead shows a downward trend; this is followed by a small recovery from 2017 onward, reaching an average of 3.1% of GDP in 2019.

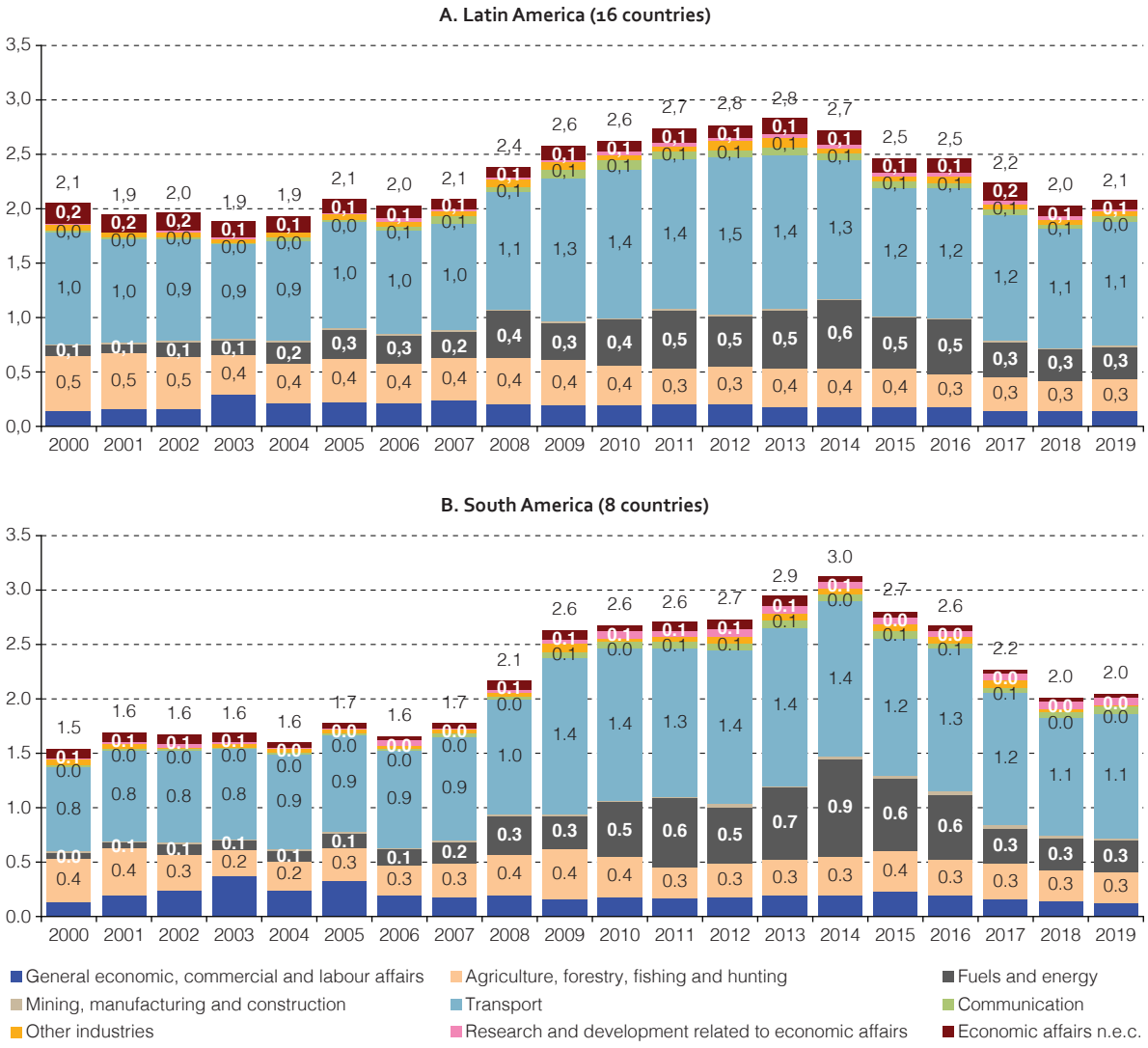
Because public investment and governments' economic expenditure are highly correlated, patterns and structures of economic expenditure in each subregion are examined in the following section.

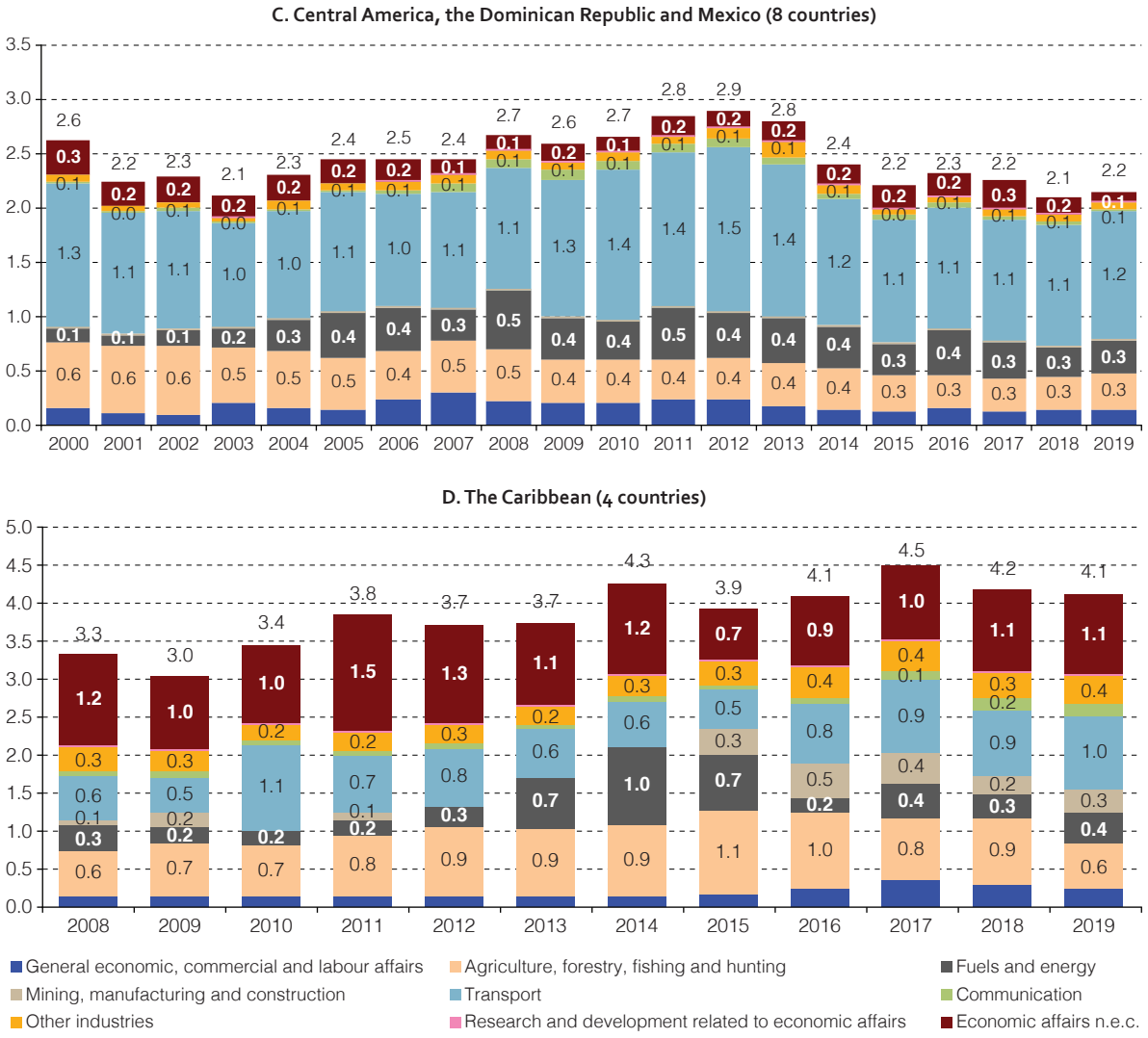
G. Economic expenditure in Latin American countries rose between 2000 and 2013, but then declined, while in the Caribbean it increased, mainly because of buoyant growth in the transport sector

The pattern in economic expenditure in Latin America, like that in total expenditure, was largely driven by the countries of South America (figure 9). Since 2007, there has been a recovery in economic expenditure. Growth accelerated in response to the great recession of 2008–2009, but a downward trend began in 2014. Although this trend can be seen in both the sample of eight South American countries and the group of six Central American countries, Mexico and the Dominican Republic, it is more pronounced in South America.

The fastest-growing sector, with the largest share of public economic expenditure, was transport in both South America and the subregion comprising the Central American countries, Mexico and the Dominican Republic. In the transport sector, average expenditure as a proportion of GDP for the 16 Latin American countries rose rapidly over ten years, from 0.9% of GDP in 2003 to a peak of 1.5% in 2012. Expenditure then declined to 1.1% of GDP in 2019, the latest year for which disaggregated information is available. In the case of South America, the fuel and energy sector also saw spending rise between 2008 and 2014 and then fall, although this trend is primarily a result of subsidy measures applied to the sector in Argentina and Ecuador. One area in which allocated public resources fell in both subregions is agriculture, forestry, fishing and hunting, with central government spending almost halving in terms of GDP between 2000 and 2019.

Figure 9
Latin America and the Caribbean (16 countries): central government expenditure on economic affairs by country grouping, 2000–2019[a]
(Percentages of GDP)





Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

[a] Latin America (panel a) corresponds to the simple average for 16 countries, which are divided into two groups (graphs b and c): eight from South America (Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay) and eight from the group comprising Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), the Dominican Republic and Mexico. In the case of the Caribbean (panel d), the figures are preliminary and include four countries: Bahamas, Guyana, Jamaica and Trinidad and Tobago.

In the case of the English-speaking Caribbean, disaggregated data on spending for the economic affairs function spanning 2008–2019 is only available for four countries. Average expenditure on economic services displays a gently rising trend, before declining since 2018, owing to the implementation of fiscal consolidation policies. Despite this drop, in the sample of these four Caribbean countries, twice as much is spent on this function as in their Latin American counterparts: 4.1% versus 2.1% of GDP in 2019, respectively (in the sample of 13 Caribbean countries the figure rises to 6.4% of GDP in 2019).

The increase in spending on economic affairs in the Caribbean in 2008–2019 is due mainly to the expansion of public outlays in the transport area, although also in the mining, manufacturing and construction sectors. As in the Latin American countries, transport expenditure was the most buoyant, as public resources allocated to this sector increased significantly in the last decade, rising from 0.6% to 1.0% of GDP between 2008 and 2019.

Although central government expenditure on economic affairs for the average of the 16 Latin American countries was 2.1% of GDP in 2019, there are differences between countries. For example, some countries (Chile, Nicaragua, Panama and Peru) spend around 3% of GDP on this function, while others (Brazil,

Colombia, Ecuador and Guatemala) spend around 1%. In terms of average expenditure on economic affairs in Latin America, public outlays on transport amounts to 1.1% of GDP, or more than half of expenditure on this government function, followed in importance by expenditure on the agriculture, forestry, fishing and hunting sector, and also in the fuel and energy sector, each of which represents 0.3% of GDP (14% of total expenditure on that function). The remaining sectors receive less than 10% of expenditure on economic affairs.

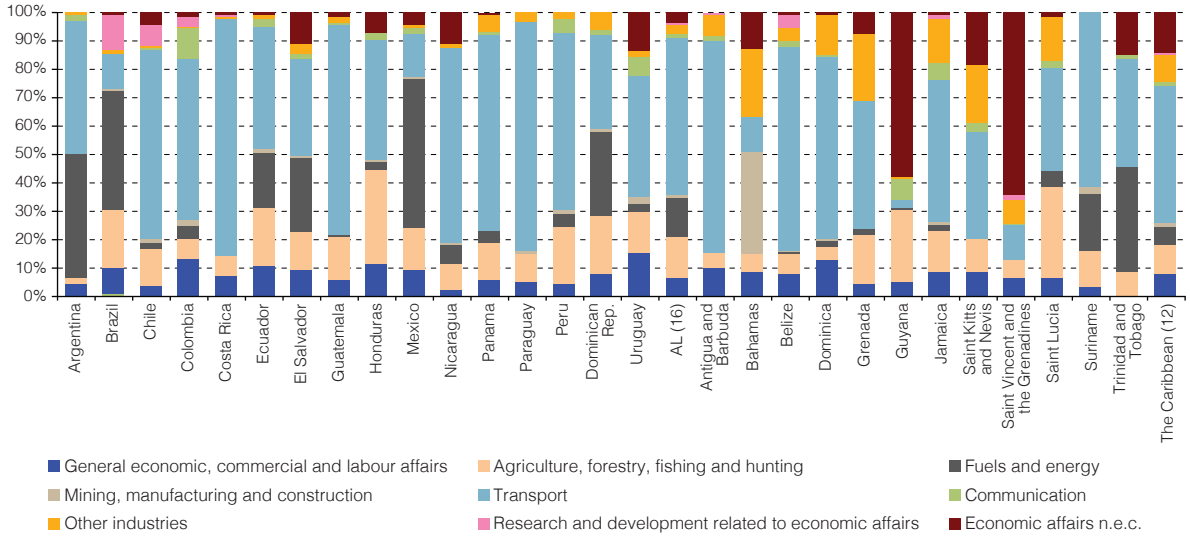
Although in the sample of four Caribbean countries average expenditure on the economic affairs function represented 4.1% of GDP in 2019, the diversity among the countries is even greater. For example, Guyana spends almost 6% of GDP on this function, while the remainder of the countries allocate between 3.4% and 3.9% of GDP to economic development programmes. In the Caribbean countries, expenditure on economic affairs is led on average by transport, at 1.0% of GDP, followed by spending on agriculture, forestry, fishing and hunting, which represents 0.6%. This means that these two sectors jointly absorb 39% of the resources allocated to this function.

H. The composition of outlays on economic affairs reveals similarities and differences between countries

Although in nearly all cases the sector that absorbs the largest amount of public resources is transport, which encompasses expenditure on roads, railroads, air, maritime and other transport systems, in some countries spending in other economic domains predominates.

For example, central government expenditure on fuel and energy sector programmes is similar to or greater than that of the transport sector in Argentina, Brazil, the Dominican Republic, Mexico and Trinidad and Tobago. In Brazil and Guyana, spending on central government programmes related to agriculture, forestry, fishing and hunting is greater than expenditure on transport; while in the Bahamas, expenditure is greater in the mining, manufacturing and construction sectors. In several Caribbean countries (Bahamas, Dominica, Grenada, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, and Saint Lucia), programmes targeting other industries, including the tourism sector, are also important (figure 10).

Figure 10
Latin America and the Caribbean (28 countries): distribution of central government expenditure on economic affairs, by country and grouping, 2019[a]
(Percentages of expenditure on economic affairs)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] Coverage in the case of Peru refers to the general government. Figures for Caribbean countries are preliminary.

Box 2
Expenditure on economic affairs by subsector with broader institutional coverage

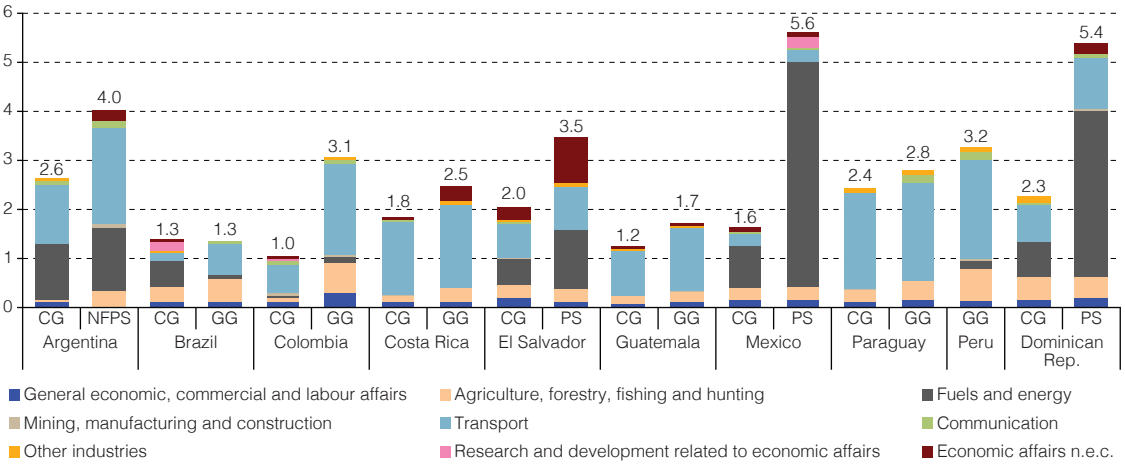
Box 1 analysed the functional classification of expenditure considering broader institutional coverage in 10 countries that have information available (Argentina, Brazil, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Mexico, Paraguay and Peru).[a] This box makes a more in-depth analysis of spending on economic services by subsector of activity in these same countries, at either the general government or public sector level, as the case may be.

Public expenditure on economic affairs as a percentage of GDP increases when moving from central government to a broader coverage that includes intermediate and local governments and other public entities, although the magnitude of the increase varies between countries. The largest increases occur in the Dominican Republic and Mexico, but there are significant differences also in Argentina, Colombia and El Salvador. In the Dominican Republic and Mexico, expenditure by the public sector on economic affairs is 4.0 and 3.1 percentage points of GDP higher, respectively, than expenditure by central government alone; while in Colombia spending related to economic development increases by 2.0 points of GDP when institutional coverage includes not only central but also subnational levels of government.

The countries with the highest levels of expenditure on this function of government are Argentina, the Dominican Republic and Mexico, at 5% of GDP or more. They are followed, in order of importance, by Panama, El Salvador, Peru and Colombia, where such expenditure accounts for between 3.1% and 3.6% of GDP. Lastly, Paraguay and Costa Rica post figures of between 2.5% and 2.8% of GDP, while in Brazil these expenditures amount to no more than 1.3% of GDP.

Latin America (10 countries): expenditure on economic affairs by subsector and institutional coverage, 2019

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
Note: CG: central government; GG: general government; NFPS: non-financial public sector; and PS: public sector.

When institutional coverage is expanded, expenditure on economic affairs increases in certain branches of economic activity, thereby changing the sectoral distribution of economic development expenditure priorities in some countries.

In all countries, the broader coverage reveals increases in expenditure targeted on agriculture, forestry, fishing and hunting, with the exception of the Dominican Republic, El Salvador, and Mexico, where it remains almost constant. Public expenditure in this sector averages 0.4% of GDP when information from subnational levels of government and/or other state agencies is included.

In these countries, expenditure related to the fuel and energy sector averages 1.1% of GDP, but there is considerable heterogeneity. When the institutional coverage is expanded to encompass the nonfinancial public sector (which

includes public enterprises), the Dominican Republic and Mexico show a significant increase, with expenditure in this sector reaching 4.6% and 3.4% of GDP, respectively. Increases were also recorded in Argentina and El Salvador, but of smaller magnitudes.

In most of the countries, public expenditure linked to the transport sector increases by most when comparing central government with a broader coverage, owing to the role played by subnational governments and other public entities in this type of expenditure. On average, public expenditure allocated to transport accounts for more than 40% of total expenditure on economic affairs in the sample of 10 Latin American countries that have information available. Thus, the transport sector becomes the highest priority in the allocation of public resources for economic development in seven of the 10 countries analysed, while in three (the Dominican Republic, El Salvador and Mexico) spending on fuel and energy is greater.

Thus, expenditure on transport is close to or exceeds 2% of GDP in Argentina, Colombia, Paraguay and Peru; it is at an intermediate level in Costa Rica, Guatemala and the Dominican Republic (1.7%, 1.3% and 1.1% of GDP, respectively), while in the other countries this expenditure represents less than 1% of GDP.

In the remaining sectors within the economic affairs function, changes in public expenditure are negligible when moving to broader government coverage.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

[a] Institutional coverage corresponds to general government (that is central government, subnational governments and social security institutions), except in Argentina, the Dominican Republic, El Salvador and Mexico, where public enterprises are also included, although in the latter country subnational governments are excluded.
The inclusion of expenditure by public enterprises in these countries biases the analysis to some extent, as expenditures in some sectors, such as fuel and energy, are high owing to public enterprise activities.
In the case of Peru, the series is the same as in the other sections of the document, since data are available for general government coverage only.

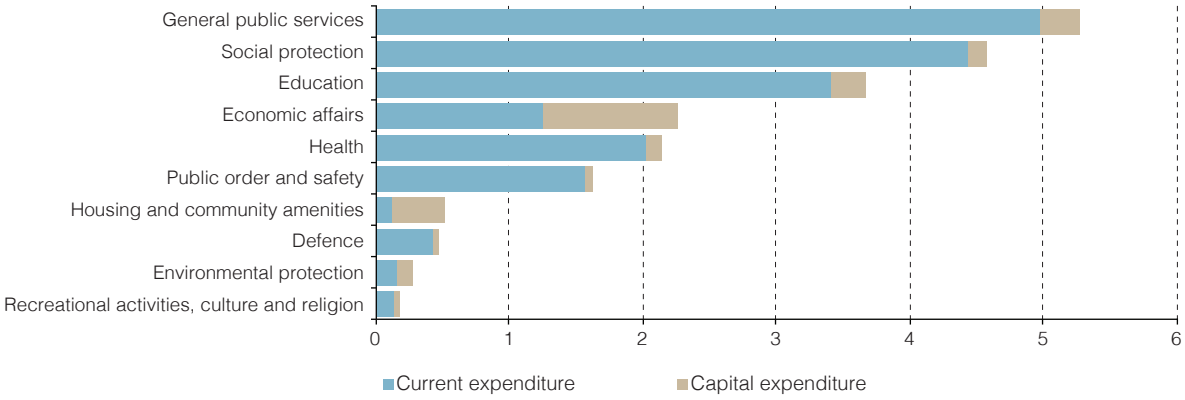
I. Capital expenditure is more important in functions related to economic affairs and housing

It is also interesting to analyse public expenditure by cross-referencing the economic and functional classifications. This affords a more complete and granular view of the destination of public investment, since it also encompasses functions such as housing, education and health, in addition to economic affairs. Moreover, expenditure on economic affairs includes not only capital spending, but also current expenditure, such as the purchase of goods and services, the payment of wages and current transfers. However, this information is not easily accessible for all countries, so the following analysis focuses on a sample of 12 countries in the region that publish detailed data for 2011–2019.[18] The purpose of this analysis is to determine which sectors have suffered most from public investment cuts in recent years.

Figure 11 shows the average composition of expenditure in a sample of 12 Latin American and Caribbean countries, by government function and economic classification. Some 90% or more of expenditure on general public services, defence, public order and safety, social protection, health and education corresponds to current spending, while capital expenditure is more important in functions related to economic affairs and housing. Of total capital expenditure, 40% goes to the economic affairs function, 16% to housing and community amenities, 12% to general public services and 10% to education. These are followed in order of importance by social protection, health and environmental protection, representing between 4% and 6% of total capital expenditure. The remainder is distributed among defence, public order and safety, and recreation, culture and religion.

[18] In the case of the Bahamas, disaggregated information has only been available since 2015.

Figure 11
Latin America and the Caribbean (12 countries):[a] central government expenditure by functional and economic classification, 2019
(Percentages of GDP)

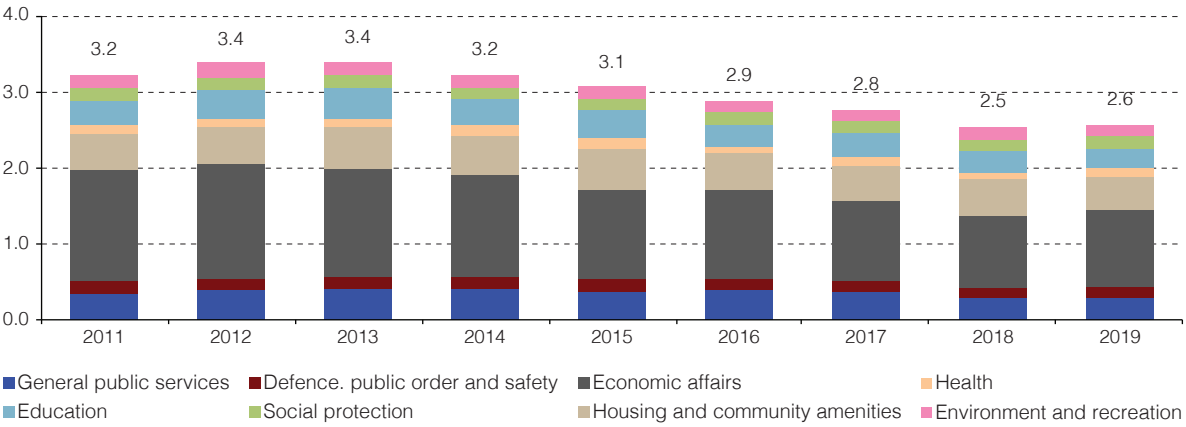


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] Refers to the simple average for 12 Latin American and Caribbean countries: Argentina, Bahamas, Brazil, Chile, Costa Rica, Dominican Republic, El Salvador, Guatemala, Mexico, Panama, Peru and Uruguay. Coverage in Peru corresponds to general government.

J. The recent-years' cutback in public investment in Latin America affected all central government functions, except for social protection, although it was more significant in economic affairs

As described above, since 2014 capital expenditure has been trending down in the wake of fiscal consolidation policies, weak growth of economic activity and heightened global uncertainty. In the average of the 11 Latin American countries for which information on the cross-classification of spending is available, cutbacks in capital expenditure affected all central government functions, except for social protection programmes. These have a very small public-investment component, since 95% of expenditures in this function represent current spending. Owing to the weight of public investment in economic affairs expenditure, this government function alone explains half of the drop in capital expenditures in recent years. Housing and education policies were also affected by the reduction of public investment (figure 12).

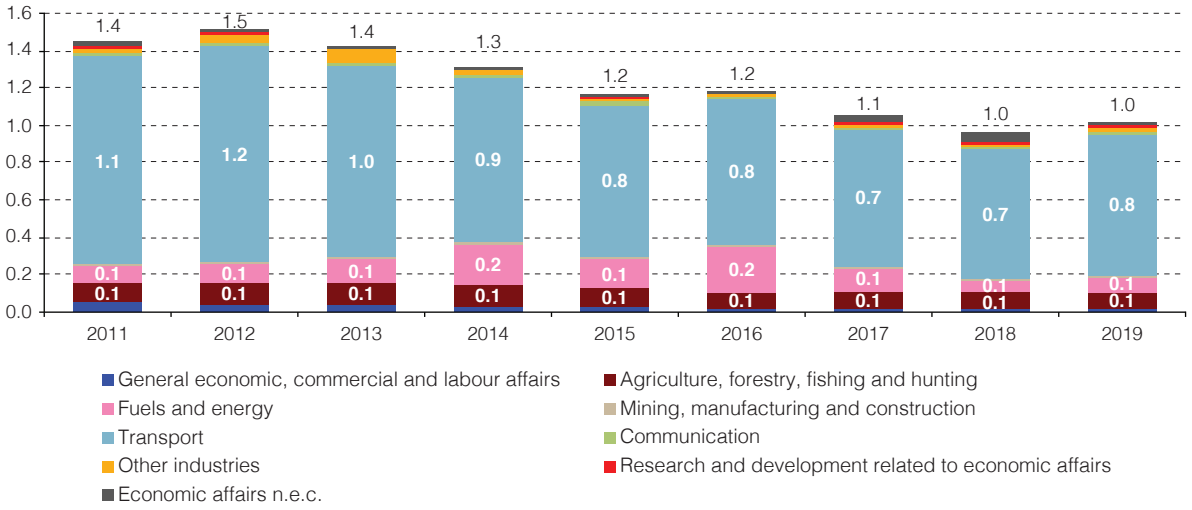
Figure 12
Latin America (11 countries):[a] central government capital expenditure by function, 2011–2019
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] Refers to the simple average of the values for 11 Latin American countries: Argentina, Brazil, Chile, Costa Rica, Dominican Republic, El Salvador, Guatemala, Mexico, Panama, Peru and Uruguay. Coverage in Peru corresponds to general government.

In the average of these 11 countries, transport was the sector most affected by the contraction of capital expenditure, absorbing more than 80% of the reduction in this type of expenditure in the economic affairs function. Investments in that sector declined from an average of 1.2% of GDP in 2012 to 0.8% in 2019 (figure 13).

Figure 13
Latin America (11 countries):[a] central government capital expenditure on economic affairs by sector, 2011–2019
(Percentages of GDP)

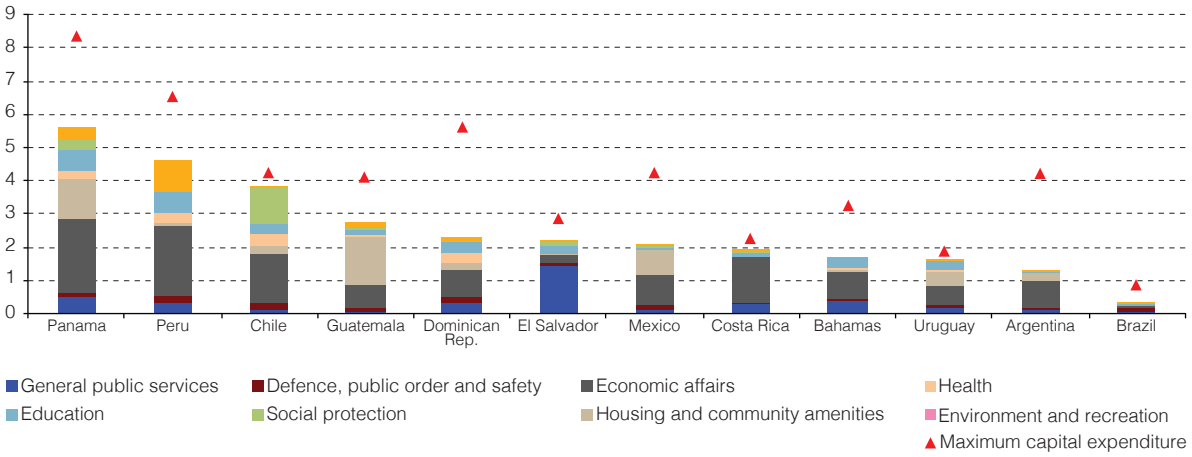


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] Refers to the simple average for 11 Latin American countries: Argentina, Brazil, Chile, Costa Rica, Dominican Republic, El Salvador, Guatemala, Mexico, Panama, Peru and Uruguay. Coverage in Peru corresponds to general government.

K. Countries differ in their level of capital expenditure, extent of adjustment and areas in which public investment suffered the deepest cuts

The central governments with the highest levels of capital expenditure include Panama and Peru, at 5.6% and 4.6% of GDP, respectively, according to the latest available information (figure 14). In these countries, economic functions absorb close to 40% or more of capital expenditure, but public investment in educational infrastructure and other capital expenditures in the education function (in both countries) is also important, as well as public investment in housing and community amenities (Panama) and environmental protection (Peru). Chile is another country in which public capital outlays exceed the average of the sample of countries in the region: central government capital expenditure in that country represented 3.8% of GDP in 2019. In addition to prioritizing public investment in economic affairs, substantial public funds were also allocated to capital expenditure in the social protection function.

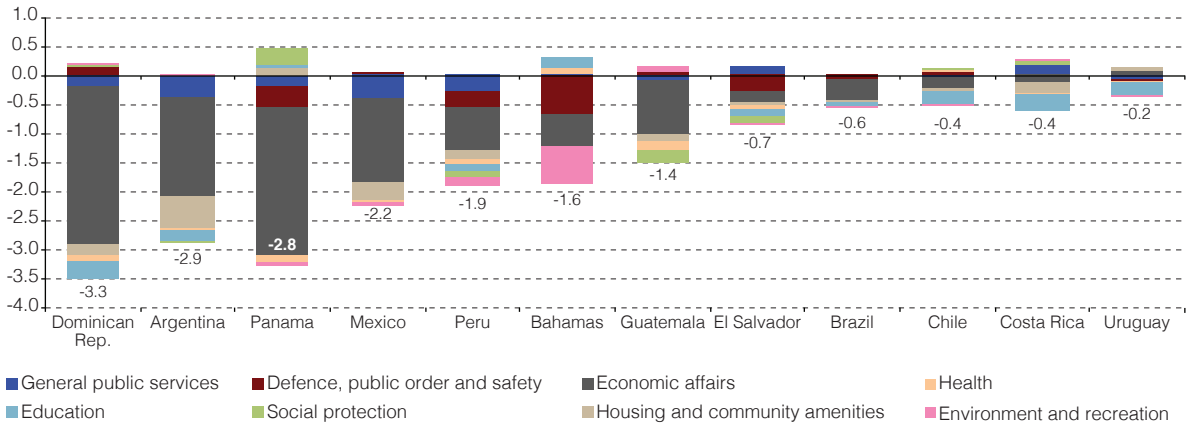
Figure 14
Latin America (12 countries): composition of capital expenditure by central government function and maximum expenditure for the period, by country, 2010–2019[a b]
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] The composition of capital expenditure refers to 2019 or the latest figure available (Peru 2018). The maximum expenditure refers to the period 2010–2018, except for Bahamas which refers to 2015–2018.
[b] Maximum capital expenditure is reached in 2014 in Argentina; in 2015 in Bahamas and Chile; in 2010 in Brazil, Costa Rica, El Salvador and Guatemala; in 2016 in Mexico; in 2013 in Panama and Peru; in 2012 in the Dominican Republic; and in 2011 in Uruguay.

At the other extreme, Argentina, the Bahamas, Brazil and Uruguay and report the lowest levels of central government capital expenditure, although, in Argentina and Brazil, intermediate-level governments, which are not included in this measurement, also make substantial investments.

Figure 15
Latin America (12 countries): variation in capital expenditure by central government function and country, 2019 compared to peak level in 2010–2018[a]
(Percentage points of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] The variation in capital expenditure is calculated by comparing expenditure in 2019 or the latest year available (Peru 2018) with the maximum expenditure of each country in 2010–2018. Capital expenditure peaked in 2014 in Argentina; in 2015 in Bahamas and Chile; in 2010 in Brazil, Costa Rica, El Salvador and Guatemala; in 2016 in Mexico; in 2013 in Panama and Peru; in 2012 in the Dominican Republic; and in 2011 in Uruguay.

The economic affairs function has the greatest weight in total central government capital expenditure in all of the countries analysed, apart from Brazil, El Salvador and Guatemala. In the first of these, capital expenditure is greatest in the defence and public order and safety functions, while in Guatemala, public investment is greatest in housing and community amenities, equivalent to 1.4% of GDP in 2019 and

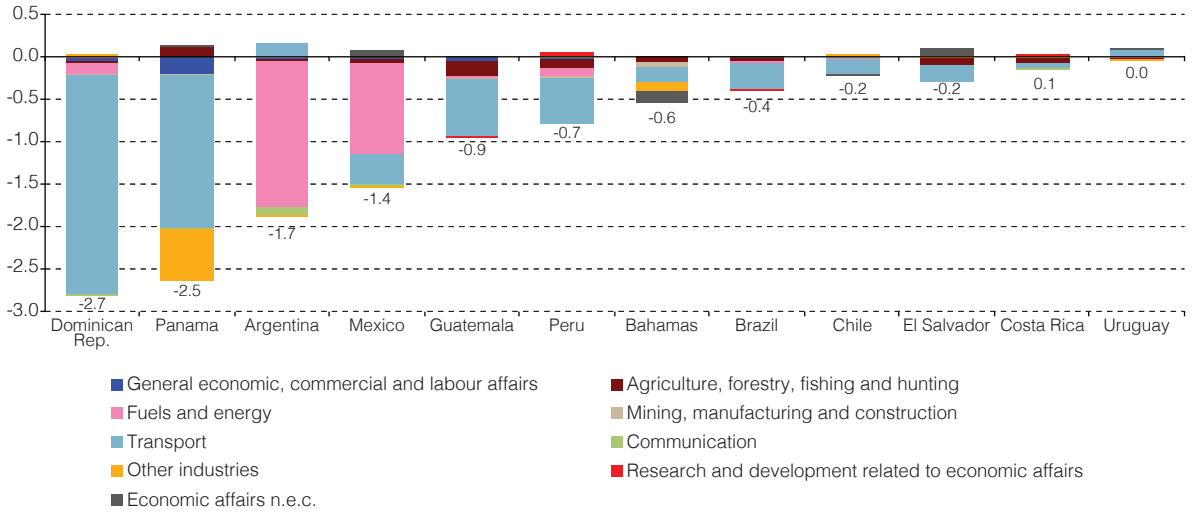
representing 53% of the total. In El Salvador, capital expenditure in the general public services function is greatest owing to the magnitude of capital transfers to the municipal economic and social development fund.

The contraction of central government capital expenditure in recent years also varies from country to country (figure 15). In Argentina, the Dominican Republic and Panama, it retreated by around 3 percentage points of GDP, although in the case of Panama the comparison base is considerably higher (figure 14). In other countries, such as the Bahamas, Guatemala, Mexico and Peru, capital expenditure was cut by between 1.4 and 2.2 percentage points of GDP, while in Brazil, Chile, Costa Rica, El Salvador and Uruguay, the reduction was smaller.

In the majority of the countries, the programmes most affected by the cuts in public investment in recent years have been those related to economic development, since the decline in capital expenditure on economic affairs explains, on average, about 50% of the total contraction in central government capital expenditure in the sample of countries analysed. The reductions in this function are steepest in Argentina, the Dominican Republic, Mexico, Guatemala and Panama. The cuts in capital expenditure were also reflected in lower rates of public investment in housing, especially in Argentina, Costa Rica, the Dominican Republic and Mexico. In some cases, such as Chile, Costa Rica, the Dominican Republic and Uruguay, the reduction in public investment also had an impact on lower capital expenditure for education, while in others, such as the Bahamas, El Salvador, Panama and Peru, public investment in defence, public order and safety was accorded a lower priority.

Lastly, it is interesting to consider which sectors of the economy experienced the largest reduction in public investment, especially in countries where capital expenditure for the economic affairs function decreased the most (figure 16). In most of the cases analysed, capital expenditure cuts in the transport sector predominated, with exceptions being Argentina, Mexico, Costa Rica and Uruguay. In the first two of these, the largest reduction in this type of expenditure occurred in the fuel and energy sector, while in Costa Rica and Uruguay, capital expenditure on programmes related to agriculture, forestry, fishing and hunting fell by relatively more. Other governments, such as those of the Bahamas, Brazil, El Salvador, Guatemala and Peru also cut capital expenditure in this sector, although to a lesser extent than in transport. In addition, public capital expenditure in the Bahamas and Panama contracted in other industries, a group that includes the tourism sector.

Figure 16
Latin America (12 countries): variation in central government capital expenditure on economic affairs, by group and country, 2019 versus peak level in 2010–2018[a]
(Percentage points of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] The variation in capital expenditure is calculated by comparing expenditure in 2019 or the latest figure available (Peru 2018) with the maximum expenditure of each country in 2010–2018. Capital expenditure peaked in 2014 in Argentina; in 2015 in Bahamas and Chile; in 2010 in Brazil, Costa Rica, El Salvador and Guatemala; in 2016 in Mexico; in 2013 in Panama and Peru; in 2012 in the Dominican Republic; and in 2011 in Uruguay.

III. Public social expenditure, measured by the SOCX approach, represents 12.1% of GDP in the countries of Latin America and the Caribbean, rising to 13.7% of GDP if private social expenditure is included

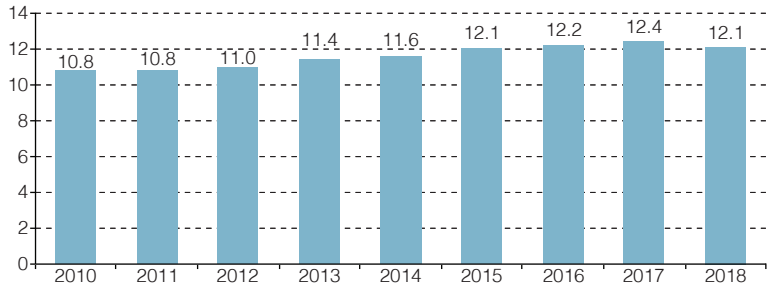
The analysis presented in section II above corresponds to central government spending. However, in some countries, such as those with a federal organization or a high degree of decentralization, expenditure by intermediate and local governments is often significant. These levels of government often play a key role in financing certain social expenditures, such as the provision of health services, social housing programmes, child care services and various social assistance programmes. Also, in some cases, social security funds are considered a separate subsector of the central government, so it is important to consider this area when measuring public social expenditure within countries.

Moreover, part of social expenditure, whether on health or social protection, is financed with private funds, and the amounts in question can be significant in some countries, especially with respect to the payment of pensions and health services. Accordingly, the following subsection reports the main results obtained by applying the OECD's social expenditure measurement methodology (SOCX) to a group of Latin American and Caribbean countries.

A. Public social expenditure increased over the last decade to reach 12.1% of GDP in 2018 on average for 12 countries

Publicly funded social expenditure increased between 2010 and 2018 in the sample of 12 Latin American and Caribbean countries, rising from an average of 10.8% of GDP at the start of the decade to 12.1% in 2018. However, in the latter year it slipped by 0.3 percentage points of GDP relative to 2017, returning to 2015 levels (figure 17).

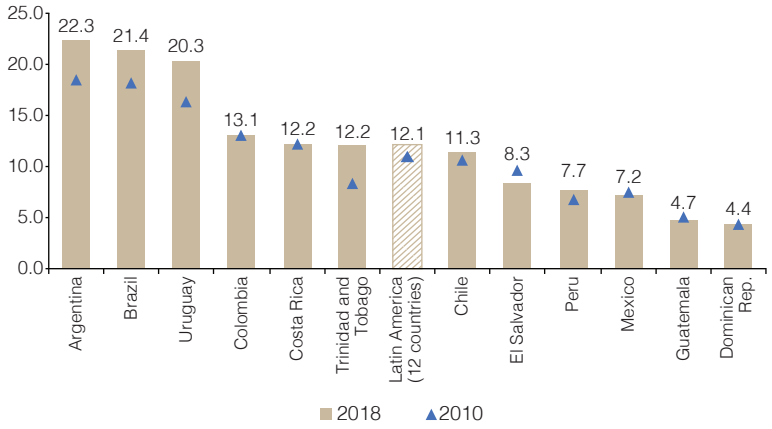
Figure1 17
Latin America and the Caribbean (12 countries): trend of public social expenditure, 2010–2018
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

However, the variation, level and composition of public social expenditure all differed significantly between countries (figure 18). Those in which public social expenditure grew most strongly relative to GDP were: Uruguay, Argentina, Brazil and Trinidad and Tobago, with increases of between 3 and 4 percentage points of GDP, owing mainly to an increase in expenditure on pensions, but also on health services. These countries were followed by Peru and Chile, with increases of close to 1 percentage points of GDP, in which the expansion of health spending predominated. In contrast, in the other countries, public social expenditure broadly kept pace with GDP growth, except in El Salvador, where public social expenditure grew by less than GDP. In the latter country, as will be shown below, this reduction is explained basically by a contraction in public expenditure on health care, cuts in electricity and liquefied gas subsidies, and a decrease in spending on public pensions as a result of the 2017 pension reform that created a collective savings fund managed by pension fund managers (AFPs), called the Solidarity Guarantee Account (*Cuenta de Garantía Solidaria*).

Figure 18
Latin America and the Caribbean (12 countries): public social expenditure, 2010 and 2018 [a]
(Percentages of GDP)



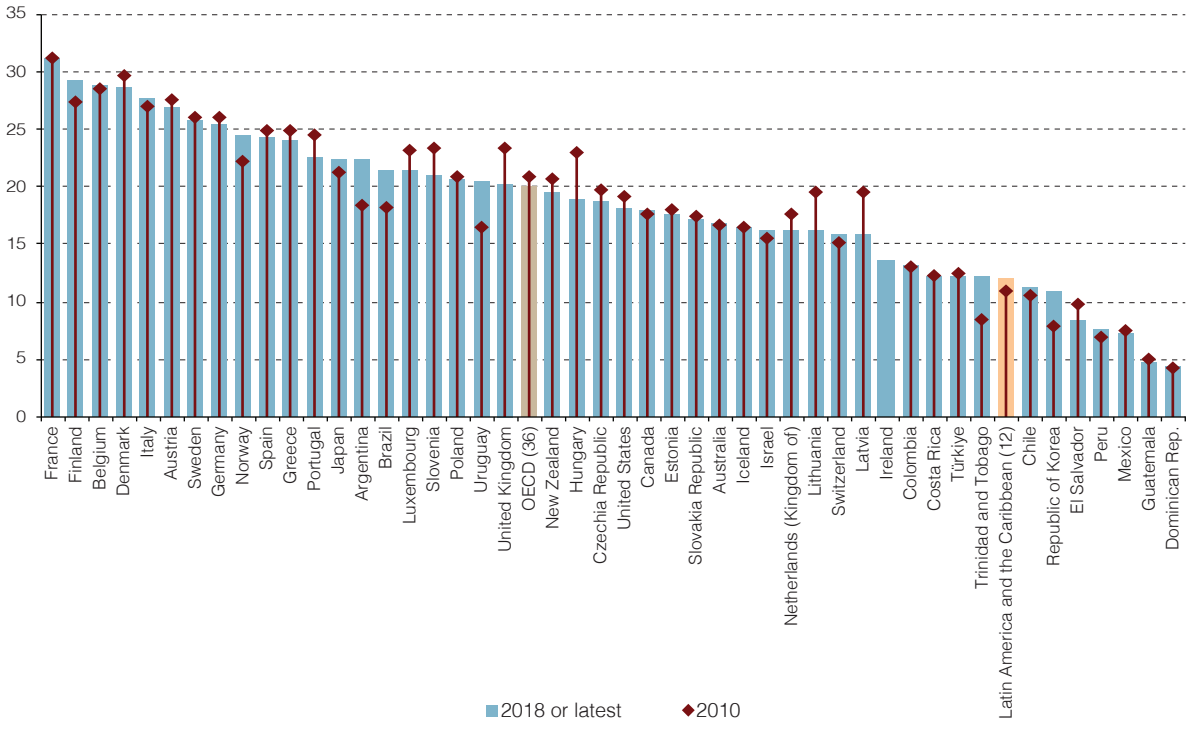
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.
[a] In Uruguay, Costa Rica and Guatemala, 2011 is considered instead of 2010, and in Peru the figure refers to 2012.

In 2018, levels of public social expenditure relative to GDP were highest in Argentina, Brazil and Uruguay (between 20% and 22% of GDP), and lowest in the Dominican Republic and Guatemala (no more than 5% of GDP).

B. Latin American countries vary widely in terms of the level and trend of public social expenditure, and in most cases it is lower than in OECD countries

In an international comparison encompassing more than 40 countries (figure 19) from both OECD and Latin America and the Caribbean, the ratio of public social expenditure to GDP in Argentina, Brazil and Uruguay is above the average of OECD economies (20% of GDP in 2018). The first two of these countries even attain rates similar to those of Portugal and Japan and slightly below those of Spain, Greece and Norway. The level of public social expenditure relative to GDP in these countries is almost double that of Chile and more than double the levels recorded in the Dominican Republic, El Salvador, Guatemala, Mexico and Peru. Furthermore, in the group of 10 countries with the lowest level of public social expenditure, eight are Latin American.

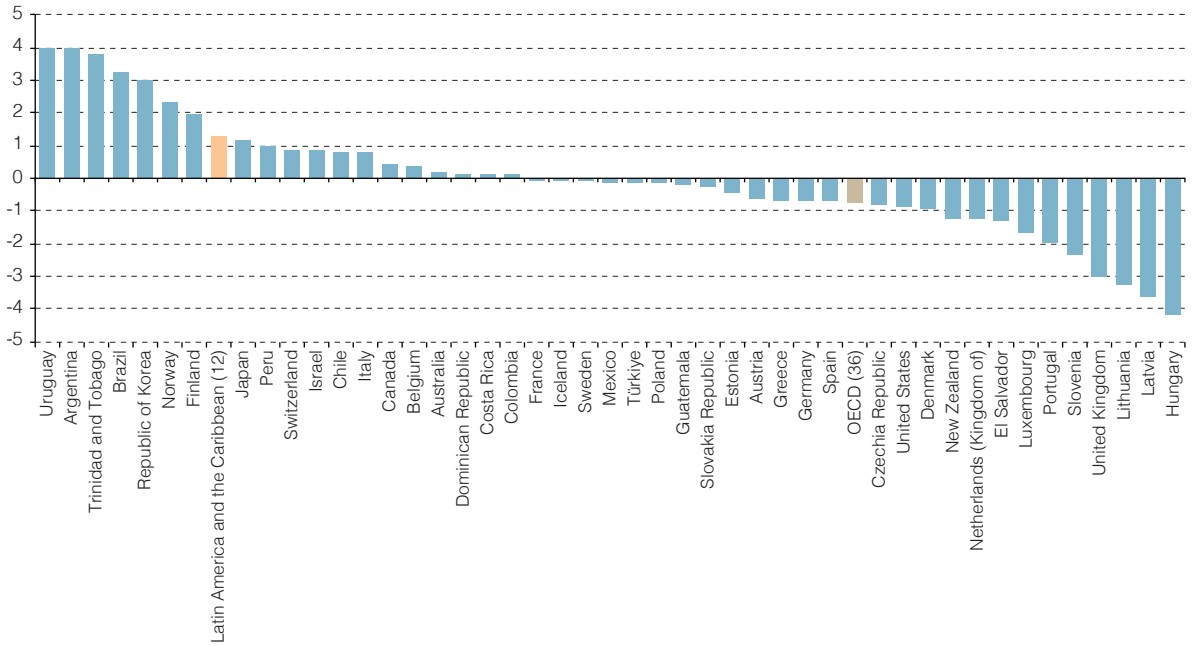
Figure 19
Selected countries: public social expenditure, 2010 and 2018
(Percentages of GDP)



Source: Prepared by the author, on the basis of Organisation for Economic Co-operation and Development (OECD), Economic Commission for Latin America and the Caribbean (ECLAC) and official figures.
Note: Instead of 2010, figures for Peru refer to 2012 and those for Costa Rica, El Salvador and Uruguay refer to 2011.

However, unlike most OECD members, nine of the 12 Latin American and Caribbean countries included in the sample (Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Peru, Trinidad and Tobago, and Uruguay), experienced growth in public social expenditure relative to their GDP between 2010 and 2018, with Argentina, Brazil, Trinidad and Tobago, and Uruguay recording the largest increases (figure 20). On average, the 12 countries in the region increased their public social expenditure by 1.3 percentage points of GDP, while the OECD economies recorded an average reduction of 0.8 points.

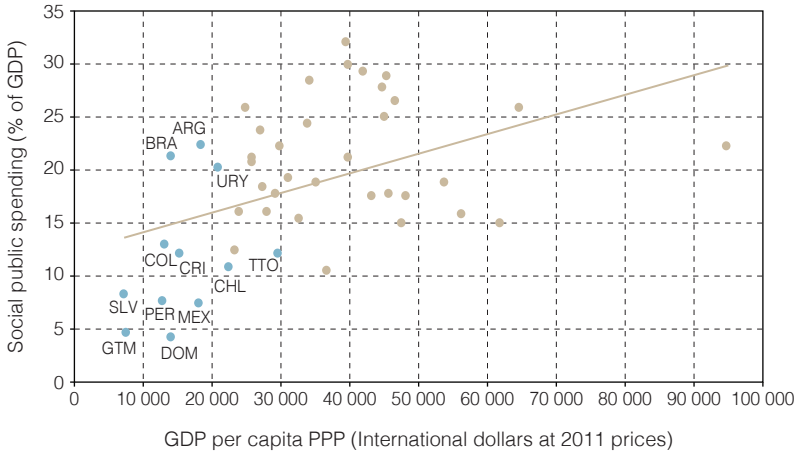
Figure 20
Selected countries: variation in public social expenditure, 2010–2018
(Percentages of GDP)



Source: Prepared by the author, on the basis of Organisation for Economic Co-operation and Development (OECD), Economic Commission for Latin America and the Caribbean (ECLAC) and official figures.
Note: Instead of 2010, figures for Peru refer to 2012 and those for Costa Rica, El Salvador and Uruguay refer to 2011.

Compared to other countries with similar per capita GDPs (measured on a purchasing power parity (PPP) basis), Argentina, Brazil and Uruguay also maintain high levels of public social expenditure (figure 21). In these countries public social expenditure surpasses that of several countries with higher per capita GDPs, including the Eastern European countries, Japan, the United Kingdom, Ireland, the Kingdom of the Netherlands, Australia, New Zealand and the United States. In general, the other Latin American countries have a low shares of public social expenditure compared to other countries with similar per capita GDPs.

Figure 21
Selected countries: public social expenditure and GDP per capita (PPP), 2018
(Percentages of GDP and dollars at constant 2011 international prices)



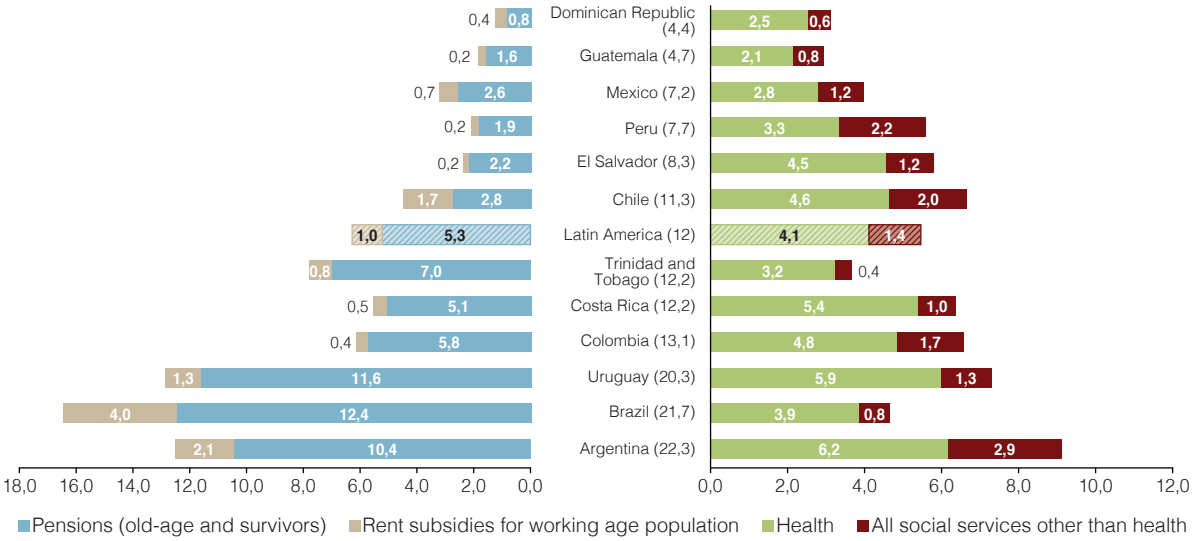
Source: Prepared by the author, on the basis of Organisation for Economic Co-operation and Development (OECD), Economic Commission for Latin America and the Caribbean (ECLAC), World Bank and official figures.

In short, three groups of Latin American and Caribbean countries can be distinguished according to their level and trend of public social expenditure. A first group (Argentina, Brazil and Uruguay) consists of countries with a high level of public social expenditure, both in relation to their GDP and compared to other countries with similar per capita income levels, and which also report higher growth in this expenditure in the last decade. A second group of countries (Chile, Colombia, Costa Rica and Trinidad and Tobago) report a level and growth rate of public social expenditure that is closer to the average of the sample of countries in the region, but the level is well below that of developed countries. Lastly, the third group (the Dominican Republic, El Salvador, Guatemala, Mexico and Peru) has still low levels of public social expenditure, both relative to the size of their economies and in comparison with other countries, whether OECD members or other countries with similar GDP per capita levels; in addition, this group reports lower rates of growth in this expenditure category in recent years.

C. Pensions and health services are the main areas of public social expenditure

Although situations vary widely between countries, public pension payments are the largest item of public social expenditure, equivalent to 5.3% of GDP on average among 12 countries in Latin America and the Caribbean. However, in several cases, pension spending is well below the average, mainly owing to lower pension coverage (the Dominican Republic, El Salvador, Guatemala and Peru) or because of the existence of privately funded pension systems (Chile, the Dominican Republic, El Salvador and Mexico). The area with the second highest public social expenditure is health services, averaging 4.1% of GDP (figure 22).

Figure 22
Latin America and the Caribbean (12 countries): public social expenditure by broad social policy area, 2018
(Percentages of GDP)



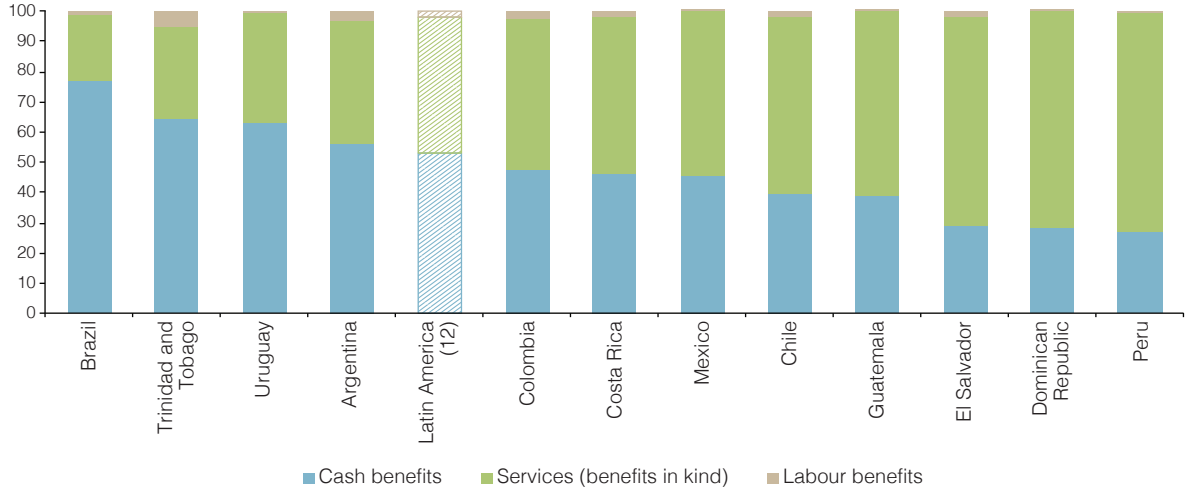
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries
Notes: Expenditure on active labour market programmes cannot be broken down into the cash/service categories, but is included in the value of total public social expenditure (on the vertical axis). Cash benefits for the working-age population refer to the following categories: disability benefits, family cash benefits, unemployment and other categories of social policy areas (see OECD, 2020).

Expenditure on social services other than health, which includes housing programmes, child care services, family services, services to the elderly, other social services and so forth, represents an average

of 1.4% of GDP. Cash benefits for the working-age population average 1% of GDP, led by family cash benefits, including conditional transfer programmes. Expenditure on active labour market programmes that cannot be split between cash and services averages 0.3% of GDP.

On average for this group of countries in the region, 53% of public social expenditure takes the form of cash benefits (equivalent to 6.4% of GDP); 45% is executed through social services (5.5% of GDP); and the remaining 2% corresponds to work programmes. Eight of the 12 countries analysed spend more on social and health services than on cash benefits. The four countries where the latter are greater (Argentina, Brazil, Trinidad and Tobago and Uruguay) have high levels of expenditure on old-age and survivors' pensions (figure 23).

Figure 23
Latin America and the Caribbean (12 countries): composition of public social expenditure according to cash benefits, benefits in kind and labour benefits, 2018
(Percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

Brazil is the country of the sample in which cash benefits are relatively most important, since they account for 77% of public social expenditure. It is the country with the highest expenditure on public pensions, both old-age and survivors' pensions (12.4% of GDP); and it also has the highest level of income support for the working-age population (3.9% of GDP), which mainly includes disability pensions, unemployment benefits and cash transfers to families, in programmes such as *Bolsa Família*. Cash benefits are also particularly important in Trinidad and Tobago and Uruguay, with about 64% of public social expenditure transmitted in this form, representing the payment of retirement and old age or survivors' pensions. Uruguay maintains much greater levels of coverage than the average for the region, for both employed and inactive persons, comparable to the levels prevailing in developed countries. It operates a very advanced social protection system and was the first country in the world to create a national non-contributory pension system (Arenas de Mesa, 2019).

At the other extreme, the Dominican Republic and Peru spend more on benefits in kind, which represent 72% of public social expenditure. In Peru, there is a low level of expenditure on public pensions (1.9% of GDP), and a level of public expenditure on health (3.3% of GDP) which, although also still low, has been rising. Although this country created a non-contributory pension in 2011, called the "Pension 65" National Solidarity Assistance Programme, and thus increased the coverage of inactive persons in the pension system, its coverage remains well below the average for Latin American countries. This

reflects the high levels of informality existing in the Peruvian economy. Public expenditure on health in this country has been trending up, thanks to a health system reform process that began in 2013 and implied growth in the coverage of affiliates to the Comprehensive Health Insurance (*Seguro Integral de Salud* – SIS) and an expansion of the benefits provided.[19] In addition, expenditure on non-health social services has also increased, especially for services provided to families, such as those related to initial education and combating chronic child malnutrition, and certain housing programmes.

In the case of the Dominican Republic, the smaller share of cash benefits reflects the low level of expenditure on public pensions (0.8% of GDP), owing to the poor coverage of inactive persons —just 15.2% in 2017, one of the lowest levels in the region compared to an average of 76.2%. However, in 2019, the National Social Security Council started to deliver solidarity pensions, targeted to older persons, single mothers and persons with permanent severe disabilities, who are in a vulnerable situation owing to their meagre income.

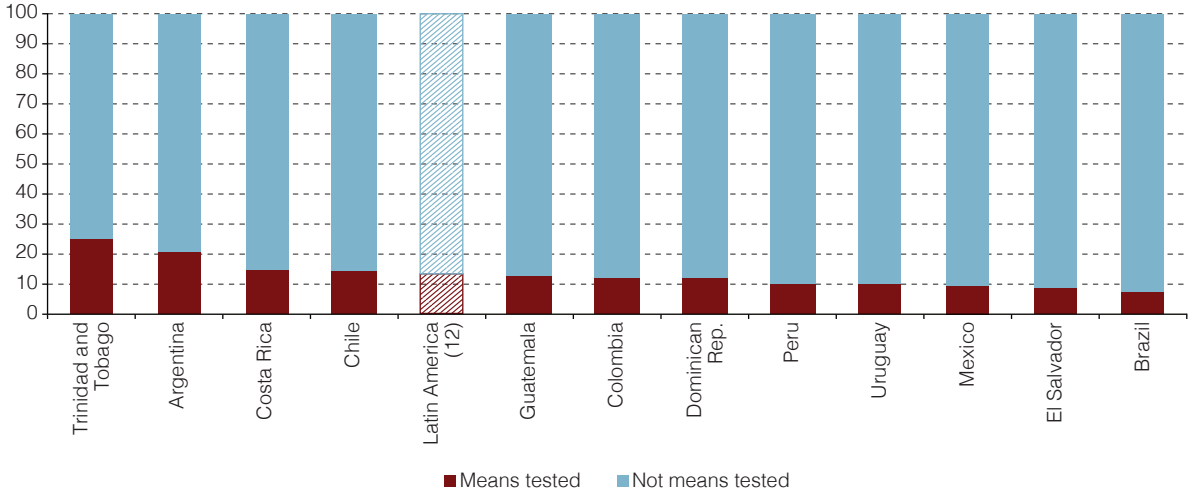
D. On average, 87% of expenditures on public benefits in the countries of the region are universal or depend on past contributions

Another important classification made possible by the OECD SOCX methodology is the definition of eligibility criteria.

In 2018, on average, 87% of expenditure on public benefits in Latin American and Caribbean countries corresponded to programmes that were not income- or means-tested, in other words programmes that are essentially universal or rely on past contributions (figure 24). The remaining 13% were means- or income-tested, such as conditional transfer programmes, non-contributory or solidarity pensions, social housing and other social assistance programmes.

The larger share of "non-tested" programmes is explained by the magnitude of expenditure on contributory pensions and health services, compared to programmes targeted to the lower-income population.

Figure 24
Latin America and the Caribbean (12 countries): composition of public social expenditure by eligibility criterion, 2018
(Percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

[19] For further detail, see Velásquez, Suarez and Nepo-Linares (2016).

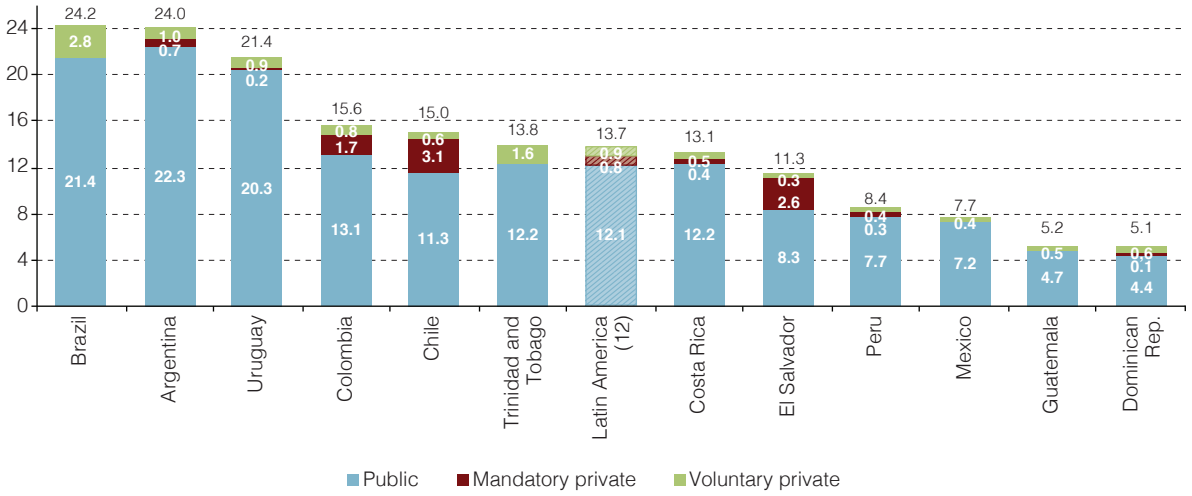
E. The importance of private social expenditure varies between countries

In most of the countries analysed, over 80% of social expenditure is financed by the public sector, except in Chile and El Salvador, where public social expenditure accounts for almost 75% of the total.

In some countries, private social expenditure represents close to, or above 3% of GDP. Examples include Brazil, Chile and El Salvador, where private pension payments (in the latter two cases) and expenditure financed by private contributions for the provision of health services (in all three) play a leading role. Private social expenditure is also important in Argentina, Colombia, Trinidad and Tobago, and Uruguay, albeit to a lesser extent (1.7%, 2.5%, 1.6% and 1.1% of GDP, respectively). In these countries, private expenditure mainly finances health services, and, in Colombia and Trinidad and Tobago, private pensions also.

Total social expenditure relative to GDP also varies widely among the countries included in the study (figure 25). Argentina, Brazil and Uruguay display rates of around 24% of GDP for the first two and 21.4% for the latter. These are followed by Colombia, Chile, Trinidad and Tobago, Costa Rica and El Salvador, with rates between 15.6% and 11.3%, while the other countries report rates in single-digits.

Figure 25
Latin America and the Caribbean (12 countries): public and private social expenditure, 2018
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

Lastly, expenditure on health and old age continues to absorb the largest share of total social expenditure (table 8), representing between 64% and 85% in the countries of the sample, although the magnitudes relative to GDP vary widely. For example, expenditure on the old-age population represents 1% of GDP in the Dominican Republic and 1.5% of GDP in Guatemala, but more than 8% of GDP in Argentina, Brazil, Trinidad and Tobago and Uruguay. Similarly, health expenditure absorbs 6% of GDP or more in Argentina, Brazil, Chile, Colombia, Costa Rica and Uruguay; but 3% of GDP or less in Guatemala, the Dominican Republic and Mexico.

Table 8
Latin America and the Caribbean (12 countries): composition of total social expenditure (public and private) by category, 2018
(Percentages of GDP)

Category	Argentina	Brazil	Chile	Colombia	Costa Rica	El Salvador	Guatemala	Mexico	Peru	Dominican Republic	Trinidad and Tobago	Uruguay	Latin America (12)
Old age	8.9	9.3	3.6	6.2	5.4	4.2	1.5	2.6	2.0	1.0	7.9	10.0	5.2
Survivors	1.8	3.2	0.8	0.0	0.0	0.4	0.1	0.0	0.1	0.0	0.4	1.8	0.7
Disability	1.5	1.9	1.0	0.3	0.1	0.4	0.1	0.0	0.2	0.0	0.7	0.4	0.6
Health	7.2	6.7	6.1	6.3	5.8	5.0	2.6	3.2	3.7	3.2	3.7	6.9	5.0
Family	1.7	1.2	1.7	1.9	0.6	0.5	0.7	0.8	1.3	0.5	0.3	1.2	1.0
Labour	0.7	0.3	0.2	0.4	0.3	0.2	0.0	0.0	0.1	0.0	0.7	0.2	0.3
Unemployment	0.0	1.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.2
Housing	1.0	0.0	0.8	0.2	0.7	0.5	0.0	0.6	1.0	0.0	0.0	0.5	0.4
Other social areas	1.2	0.1	0.4	0.2	0.3	0.0	0.1	0.3	0.1	0.4	0.1	0.1	0.3
Total social expenditure	24.0	24.2	15.0	15.6	13.1	11.3	5.2	7.7	8.4	5.1	13.8	21.4	13.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

In short, the diversity of situations in the countries in respect of the level and composition of social expenditure highlights the importance of adopting reforms that protect this expenditure category and make it more efficient, in order to support the process of reactivation and reconstruction of the countries and boost sustainable and inclusive development in line with the Goals of the 2030 Agenda.

Box 3
Health expenditure in 12 Latin American and Caribbean countries

Public and private social expenditure on health services represented 5% of GDP in 2018 on average among 12 Latin American and Caribbean countries

The coronavirus disease (COVID-19) pandemic found the countries of the region in varying situations in terms of the fiscal resources allocated to health policies and services. Several countries are still far from the target proposed in the Sustainable Health Agenda for the Americas 2018–2030, to achieve public expenditure on health equivalent to at least 6% of GDP by 2030. This is in order to achieve adequate and sustainable health financing and thus move towards universal health access and coverage.[a]

Over the last two decades, the governments of Latin America and the Caribbean have been increasing the fiscal financing of health services (see figure 2). Although the rising trend in health expenditure by central governments is common to all subregions, the increase is more pronounced in the countries of South America than in the group formed by the countries of Central America, plus the Dominican Republic and Mexico. Both subregions started in 2000 with central government health expenditure averaging 1.5% of GDP, but the first group of countries reached 2.7% of GDP in 2019 and the second group 1.8%. In the sample of five English-speaking Caribbean countries with information available for the last 12 years, average central government health expenditure rose from 2.7% of GDP in 2008 to 3.0% in 2019, levels that have remained above the Latin American average.

As noted above, however, these data only include public expenditure by the central government. They do not consider subnational governments or social security in some countries, nor do they include health expenditure funded by private institutions, through either mandatory or voluntary contributions.

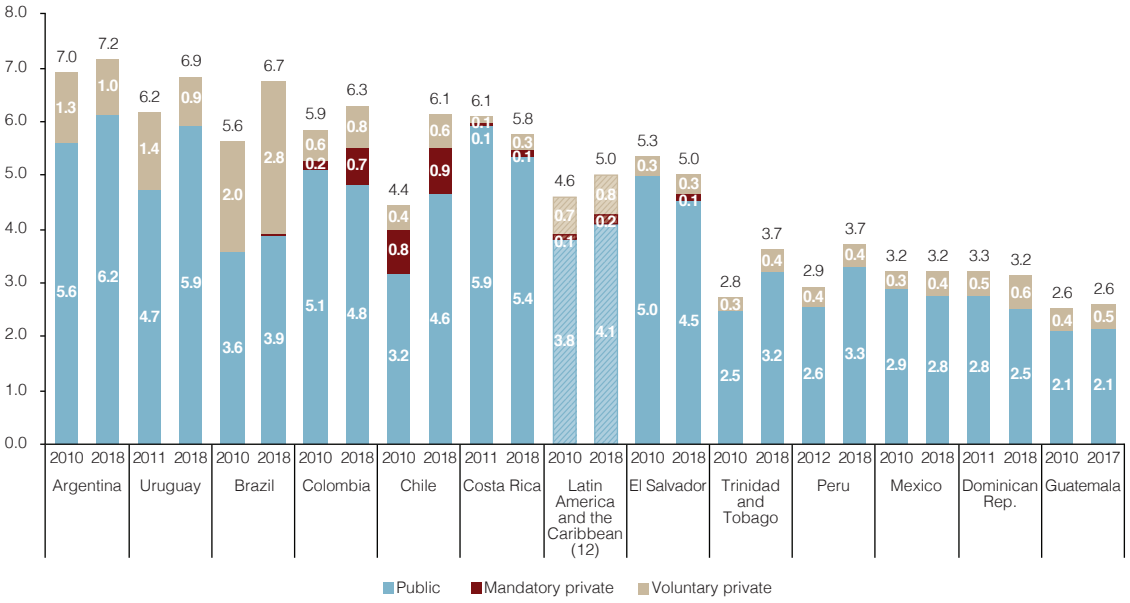
Application of the SOCX methodology thus makes it possible to determine the amount of resources contributed by both the public and private sectors to finance health services.

In general, close to, or more than 80% of health expenditure in the sample of 12 countries in the region is funded publicly (general government and social security spending), except in Brazil, where the proportion is below 60%.

Countries also differ in terms of levels of health spending. Only two of the 12 Latin American and Caribbean countries included in the study (Argentina and Uruguay) have attained the target of allocating at least 6% of GDP to public expenditure on health, in order to move towards a universal system. If mandatory private spending on health is added, three other countries are approaching this target: Chile, Colombia and Costa Rica (each at levels of 5.5% of GDP). At the other extreme, the Dominican Republic, Guatemala and Mexico report public expenditure on health of less than 3% of GDP (see the figure below).

Latin America and the Caribbean (12 countries): public and private health expenditure by country, 2010-12 and 2018

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), World Health Organization (WHO) and official figures.

In conclusion, although the countries of the region have endeavoured to increase public funding for health services in recent decades, in most cases it remains insufficient to ensure universal access to health services for the population, let alone respond to a pandemic situation.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Pan American Health Organization (PAHO), *Sustainable Health Agenda for the Americas 2018–2030: A Call to Action for Health and Well-Being in the Region*, Washington, D.C., 2017; Organisation for Economic Co-operation and Development (OECD), World Health Organization (WHO) and official figures.

[a] See Goal 4 (target 4.1) of the Sustainable Health Agenda for the Americas 2018–2030 (PAHO/WHO, 2017).

Box 4
Public and private pension expenditure

Public and private social expenditure on old-age or survivors' pensions averaged 5.9% of GDP among 12 Latin American and Caribbean countries in 2018

As the countries of Latin America and the Caribbean have adopted different pension-system models, funded either publicly or privately, or both, it is important to consider both public and private pension expenditure.

Total spending (public plus private) on pensions averaged 5.9% of GDP in the 12 countries, with 90% funded publicly.

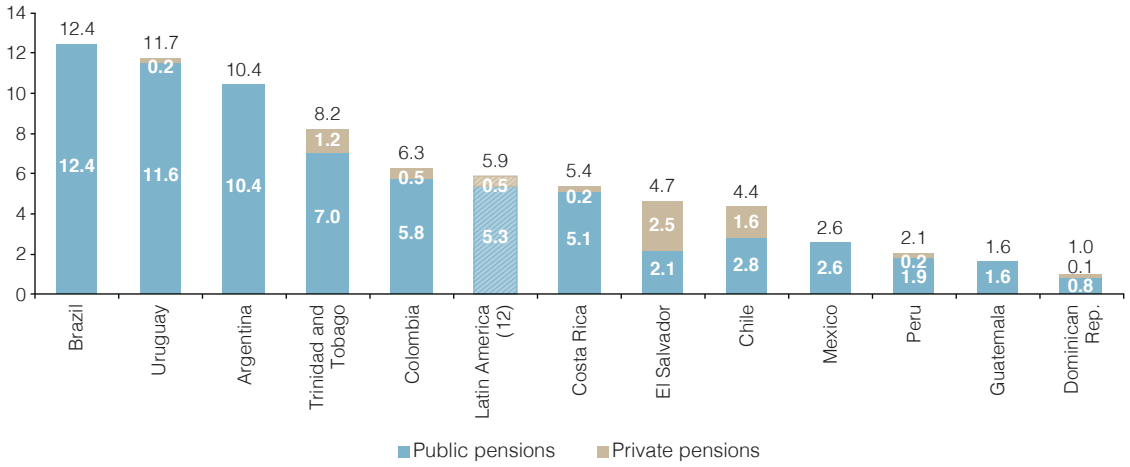
However, pension expenditure displays significant dispersion among the countries examined, both in terms of its overall level and in relation to its financing structure.

When evaluating the composition of pension expenditure by source of financing (public or private), the models that exist in each of the countries studied need to be kept in mind:[a]

- Pay-as-you-go or collective partial capitalization model (public system):[b] Argentina, Brazil, Guatemala, and Trinidad and Tobago.
- Substitute model (individual capitalization scheme managed by the private sector): Chile, the Dominican Republic, El Salvador, Mexico and Mexico, although non-contributory pensions also exist in these countries.
- Parallel model (workers choose between the pay-as-you-go system or individual capitalization): Colombia and Peru.
- Mixed model (pay-as-you-go system complemented by individual capitalization): Costa Rica and Uruguay.

Latin America and the Caribbean (12 countries): public and private pension expenditure by country, 2018

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD) and official information from the respective countries

In general, expenditure on pensions is greater in several South American countries than in the Central American countries or the Dominican Republic or Mexico. This can be explained partly in terms of population ageing. In South America, persons aged 65 or older on average represent 8.1% of the total population, compared to 6.3% in Central America, the Dominican Republic and Mexico.

Moreover, the average level of pensions expenditure in the region is below that of OECD economies, where pension systems absorb an average of 8.9% of GDP. According to Arenas de Mesa (2019), the most important factors explaining this differential are: (i) the fact that per capita income in OECD countries is more than double that of Latin American countries, thus making it possible to sustain a higher level of pension spending; (ii) a more advanced ageing process, since persons aged 65 or older represent 16.2% of the total population of OECD countries —more than double the proportion in Latin America; (iii) greater social protection, in terms of both sufficiency and coverage of inactive persons, since in the OECD this coverage is 95%, compared to 78% in Latin America; and (iv) the higher level of social security contributions.

In terms of differences in the level of total pension expenditure, three of the region's countries (Brazil, Uruguay and Argentina) exceed the average pension expenditure of OECD countries, with rates ranging from 10.4% to 12.4% of GDP, while another country (Trinidad and Tobago) is very close to that level, with pension expenditure equivalent to 8.2% of GDP. In another group of Latin American countries (Chile, Colombia, Costa Rica and El Salvador) pension expenditure represents between 4.4% and 6.3% of GDP, while in the others (the Dominican Republic, Guatemala, Mexico and Peru) it is less than 2.6% of GDP.

In terms of financing, private pension expenditure plays a larger role in El Salvador, Chile and Trinidad and Tobago, where it represents 2.5%, 1.6% and 1.2% of GDP, respectively.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. Arenas de Mesa, *Los sistemas de pensiones en la encrucijada: desafíos para la sostenibilidad en América Latina*, ECLAC Books, No. 159 (LC/PUB.2019/19-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2019; Organisation for Economic Co-operation and Development (OECD) and official information from the respective countries.

[a] See Arenas de Mesa (2019) for an in-depth study of these systems.

[b] A collective partial capitalization system is based on a graduated average premium that makes it possible to accumulate reserves for an initial period; these reserves are invested and their yields and subsequent contributions finance the pensions (Arenas de Mesa, 2019). This is the regime that exists in Guatemala.

IV. Lessons learned in the process of compiling functional public expenditure and social expenditure statistics

A. Public expenditure statistics

1. Availability and transparency of data sources

(a) Functional expenditure databases

The data sources used by ECLAC to prepare expenditure databases according to the classification of functions of government have been changing in 1990–2020, reflecting the evolution of both budgetary systems and fiscal statistics in the region.

Several countries have improved the quality of the statistics they issue and have gone from publishing tables with fiscal statistics or portals with open data on expenditure, according to a functional classification or by the country's own purpose, to publishing statistics by government functions (first-level COFOG) and subfunctions (second-level COFOG) based on GFSM 2014. However, some Central American and Caribbean countries only publish information on the budget as executed; while others present data with a functional classification or by country's own purpose, and others publish the budget by programme or ministry.

The quality of data in the functional expenditure database thus depends largely on the source of information available for each country, and can be classified as follows (from higher to lower quality):

- Statistics in COFOG format according to GFSM. For example, Brazil, Chile and Guatemala publish tables with statistics by functions and subfunctions (second-level COFOG), while Costa Rica and the Dominican Republic disseminate open data with a functional structure that adheres to GFSM. In addition, the Bahamas and Nicaragua publish data by function (first-level COFOG), in the context of general budget execution.
- Portals with open data on public expenditure that maintain a country-specific classification by purpose and function, but from which is possible to construct statistics by functions and subfunctions (second-level COFOG). This reflects the fact that the open data in the transparency portals are sufficiently disaggregated to assign the different expenditure lines to the corresponding subfunctions. Examples in the region include: Brazil (2000–2009), Ecuador (since 2009), Mexico (since 2008), Paraguay (since 2003), Peru and Uruguay (both since 1999).

- Tables with fiscal statistics based on a functional classification and country-specific purpose, for example: Argentina, Barbados, the Bolivarian Republic of Venezuela, Cuba, Jamaica, Panama, and Trinidad and Tobago. In all of these cases, except Barbados, the information makes it possible to construct statistics in second-level COFOG format.
- Budget execution according to a country-specific classification by purpose and function, as in Honduras and Mexico (until 2007), for example.
- Budget execution at the programmatic level (programme, executing unit, etc.), from which ECLAC reconstructs the series to obtain the statistics in COFOG format. Most Caribbean countries are in this situation: Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.
- Budget execution by ministry: El Salvador (2002–2006), Paraguay (2000–2002) and Suriname.

Thus, one challenge faced by ECLAC in preparing the databases was to ensure the comparability of statistics between countries and through time, owing to changes in the sources and quality of the official information provided. Moreover, variations in sources over time have given rise to breaks in the series in some countries, with respect to either the level or degree of detail of the functional expenditure statistics.

In addition to differences in data quality, each type of data source also entails different levels of effort and work in compiling and processing the information. Statistical tables and open data with a COFOG level of detail obtained from GFSM are the easiest to work with. Then, tables with fiscal statistics or budget execution that follow a country-specific functional classification are easy to handle if the classification systems do not undergo multiple changes year after year, either in the classification criteria or in their format. In contrast, open public expenditure data that have a country-specific functional classification and are used to construct statistics in first- and second-level COFOG format generally have to be reprocessed each year, owing to changes in names or budget structures. This involves a moderate effort to prepare the databases, since the different expenditure lines need to be reviewed to maintain consistency with the codes used in previous years. Lastly, the processing of data from programme budget execution is more complex and requires a greater effort, since tools have to be used to convert the different files, generally PDFs, to Excel; and then the information has to be purged and the figures checked to ensure that they were converted correctly.

In cases where statistics are compiled from budget execution or open data, it is also necessary to ensure that the figures do not include public debt amortization or other below-the-line financial transactions, in order to maintain consistency with the economic classification of the expenditure.

(b) Social expenditure databases according to the SOCX methodology

Preparation of the social expenditure databases following the OECD SOCX methodology for a sample of 10 Latin American and Caribbean countries has been a complex task, not immune from difficulties, problems and challenges.

As the data are obtained from different sources, it is important to analyse their consistency, both to ensure the comparability of statistics over time and across countries, and to avoid double counting in the case of certain expenditures.

In general, the countries studied have budget transparency portals or digital platforms that publish open data on the budget and its execution. In most of these countries the information is easily accessible, especially for central government. It can be downloaded in a database or spreadsheet format, although it is usually necessary to download each year separately and then merge the databases for processing. As a result it is very important that the programmes are identified with the same code each year, and that the databases contain the same fields or variables, to maintain the consistency of the series when consolidating all the databases.

In some countries, however, such as the Dominican Republic and El Salvador, one of the chief constraints on the processing and consolidation of the databases was that the information published for more distant years was only available in PDF format.

In contrast, in Trinidad and Tobago, an official report on expenditure on social programmes, based on general budget execution, was used to construct the SOCX figures.

In Brazil, while open data portals, such as SIGA BRASIL operated by the Federal Senate,[20] can be searched for detailed budgetary information at the central government level, this study used the internal platform of the Federal Government's Integrated System of Federal Government Financial Administration (SIAFI). This is a computerized system that processes and controls the budgetary, financial, capital and accounting execution of this level of government.

In Colombia, collaboration with DANE and other government agencies made it possible to use detailed databases for all government entities, since these are the sources used to calculate the national accounts, government expenditure accounts by purpose, and satellite accounts. Box 5 provides further details on the process of producing SOCX social expenditure statistics, describing the main challenges and the strategies implemented to institutionalize this methodology successfully in the country.

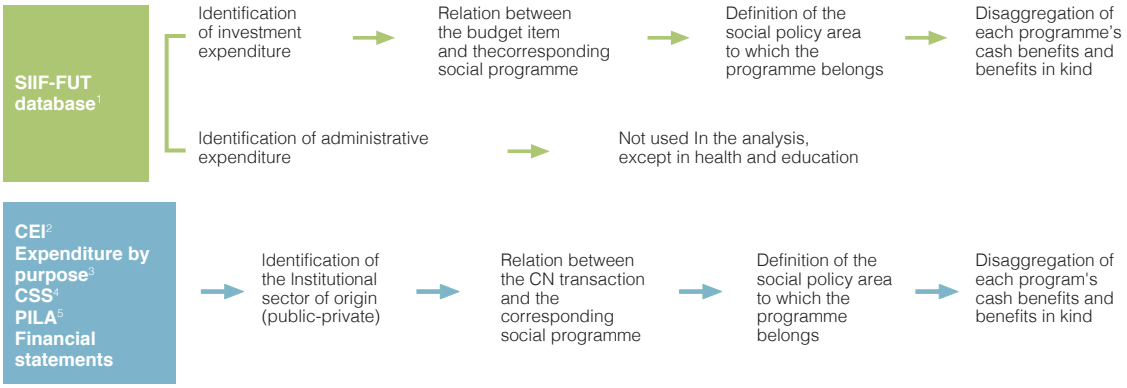
Box 5
A successful experience of work coordinated with the Colombian authorities

The measurement of social expenditure according to the SOCX approach in Colombia formed part of the country's accession to OECD. To this end, the National Administrative Department of Statistics (DANE) and ECLAC joined forces, with the latter providing technical advice, and DANE providing staff to adapt and implement the standards of the OECD's SOCX manual and thus prepare a social expenditure series spanning 2010–2019.

The application of the SOCX approach meant that DANE expanded the use of administrative records for the production of statistical information. The starting point for the social expenditure calculations consisted of the databases used by DANE to measure general government expenditure by purpose, for the central, local and social security levels. Thus, the main sources used were central government budget data obtained through the Integrated Financial Information System (SIIF), budget executions at the subnational government level reported through the Single Territorial Form (FUT), and the information on institutions that make up social security and other entities, provided by the Office of the Accountant-General of the Nation, which consolidates the financial statements of the general government and public enterprises. Other important sources for this process were the statistics derived from the annual National Accounts (such as the Integrated Economic Accounts), the Government Expenditure by Purpose series and the Health Satellite Account. It was also complemented with information from the Family Saving Funds (*cajas de compensación familiar*) and other administrative records.

In this way, DANE developed the following production chain that made it possible to apply the SOCX methodology to calculate social expenditure in Colombia:

Diagram 1
Challenges and strategies for estimating SOCX social expenditure in Colombia



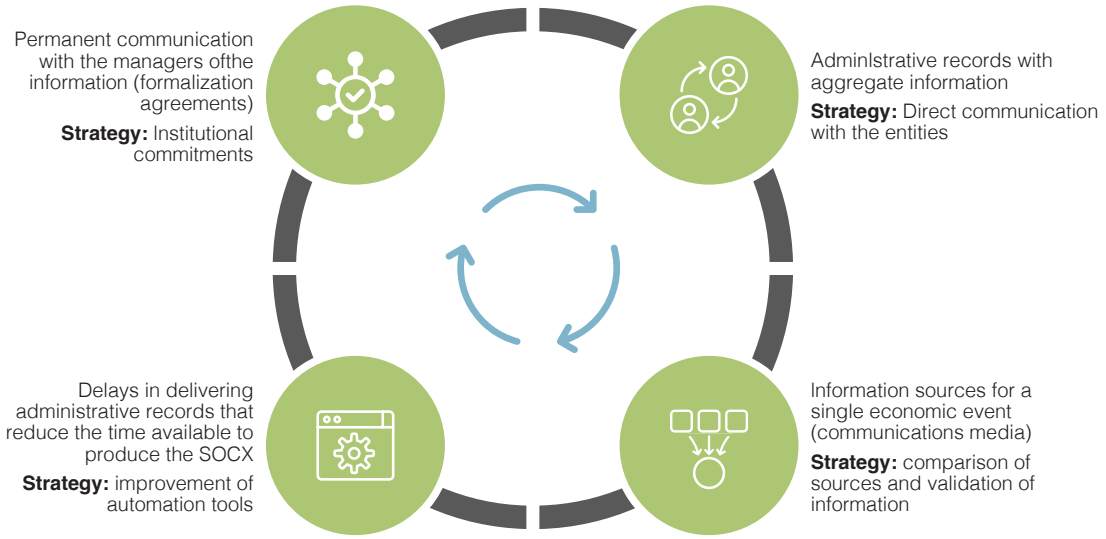
Source: National Administrative Department of Statistics (DANE).
[1] SIIF: Integrated Financial Information System, FUT: Single Territorial Form. The subaccounts of the financial statements are standardized to the corresponding policy area.
[2] CEI: Integrated economic accounts.
[3] Expenditure by general government functions by purpose.
[4] Health satellite account.
[5] Integrated contribution self-assessment form.

[20] SIGA Brazil is a federal public budget information system that enables broad and easy access to data from the Integrated System of Federal Government Financial Administration (SIAFI) and other databases on public plans and budgets.

In this production chain, one of the most challenging tasks was to relate the budget line to the corresponding social programme, in order to define the social policy area to which the programme belongs and then disaggregate each programme's cash benefits and benefits in kind. This required verification processes between the different sources of expenditure and beneficiaries of the programmes.

One of the key challenges in producing SOCX social expenditure statistics was the interaction with administrative records, where the necessary disaggregation of information was not always available. Therefore, an interdisciplinary dialogue was established with the entities that administer and register these resources, in order to achieve a greater level of detail in the data. In addition, through this dialogue, information delivery schedules were agreed upon to avoid delays in obtaining the administrative records; and automation tools were applied to address these delays and reduce the time taken to produce SOCX statistics. The use of administrative records thus entailed greater dialogue and the definition of new standards for sharing, formalizing agreements and, above all, standardizing processes to ensure successful statistics production, as summarized in the following diagram.

Diagram 2
Challenges and strategies for estimating social expenditure SOCX in Colombia



Source: National Administrative Department of Statistics (DANE).

In this way, inter-agency work was performed by DANE and other government entities such as the National Planning Department (DNP), the Ministry of Health and Social Protection, the Ministry of Labour, the Ministry of Finance and Public Credit, the National Superintendency of Health and the Office of the Accountant-General, and others. DANE processed and consolidated the databases and analysed the results, which were reviewed and discussed on an inter-agency basis before the official report was produced. The collaboration between ECLAC, DANE and these entities focused on validating the results and the methods used to obtain them. Thus, the SOCX measurement methodology was consolidated and established at the country level by DANE and by DNP as the agency responsible for the official reports to OECD.

Based on this ECLAC-led cooperation and OECD good practices, the statistical capacities of DANE to use administrative records for measuring social expenditure were strengthened; and, in 2020, for the first time, Colombia was able to supply OECD with the data series and the technical note with the methodological detail applied to the country.

This inter-agency exercise made it possible to continue producing results officially and with reports to OECD, thus institutionalizing this methodology for the production of official statistics. This is a good practice that should be encouraged and adapted in other countries.

Additionally, thanks to the use of administrative records and the tools developed in DANE to obtain SOCX social expenditure statistics, this entity was also able to analyse how the special assistance measures adopted in response to the pandemic curtailed the growth of poverty in 2020.

Source: Prepared by the author, on the basis of National Administrative Department of Statistics (DANE).

Special mention should be made of the Economic Transparency Portal in Peru, which provides fiscal data in real time, since it is updated daily and monthly and can be consulted with a very broad level of detail and according to different options. It has been publishing budget execution monitoring by programmatic category since 2012 with general government coverage. Although there is an option to download the data from the Internet to a spreadsheet format, this is a very slow process because every time an opening level is selected (budget category; product, project or activity; investment action or work, etc.) it is necessary to export that part of the database to a file, and to repeat this for each item and year. Given this difficulty, it was decided to use the World Bank's "Boost" database, which uses the economic transparency portal of the Ministry of Economy and Finance as its source. However, as this database has not been updated for the last few years, the National Accounting Integration System (SICON), database provided by MEF's General Directorate of Public Accounting, was used.

In addition, information published as open data corresponds to the central government level in most countries; so in some cases it was necessary to draw on other sources to include subnational governments, social security institutions, or other public entities not included in the open fiscal databases.

Accordingly, statistical reports published by other official bodies were used to supplement the information that was available on the transparency portals. These were often not in a format that was easy to work with, such as a database or spreadsheet, and thus consolidate with the rest of the information. Moreover, the published data did not always span the entire period, or it was necessary to search for and download a document (generally in PDF format) for each of the years analysed.

In Peru, for example, each of the annual reports issued by the EsSalud (social health insurance

had to be analysed to obtain the amounts of the funeral subsidy, the temporary disability allowance, the breastfeeding allowance and the maternity allowance. Similarly, information from Uruguay's Social Security Institute was obtained from the statistical bulletins published by the Social Security Bank (BPS), to obtain figures for expenditure on disability, old age and survivors' benefits, health insurance, work accident subsidies, unemployment insurance, family allowances, maternity, paternity and parental care subsidies, and other social benefits.

In the Dominican Republic, El Salvador and Guatemala, construction of the SOCX figures was also based on open data on central government expenditure execution, supplemented by information from other sources, such as financial or accountability reports from social security institutions.

An additional difficulty was that, in certain cases, unlike the data from the transparency portals, these reports or complementary statistics were updated with a lag. For example, in the case of Argentina, the tables of consolidated public expenditure by purpose and function, published by the National Economic Policy Secretariat, were completed with information from the provinces, municipalities, social works and other public institutions; but the latest official data published at the time of this study related to 2017, so the 2018 expenditure figures for these entities had to be estimated.

2. Public expenditure universe covered

(a) Functional expenditure databases

As noted in section I, the database on functional public expenditure prepared by ECLAC provides statistical information for central government operations in 33 Latin American and Caribbean countries. These data are largely consistent with the fiscal statistics according to economic classification published by the countries. The information thus makes it possible to analyse changes in public expenditure according to different purposes at the central government level (generally using the country's own definition, rather than being based on GFSM or SNA), which complements the traditional analysis made with fiscal expenditure data from the economic classification.

However, central government figures do not fully capture the effort made by the public sector. This is particularly important in most countries where data from social security institutions are not consolidated with those of the central government. The scope of the definition of central government thus varies across countries, depending on whether it includes all social security institutions and other decentralized agencies, which biases the comparative analysis in the region.

In this regard, to analyse key issues such as social expenditure, it is important to have data of broader government coverage, preferably general government, in order to eliminate any bias caused by the performance of public enterprises.

As central government statistics are not sufficient to analyse the purpose of public expenditure in a country, ECLAC has also compiled information of broader institutional coverage in 12 countries where the available statistics permit a functional classification of expenditure. These countries are: Argentina, Brazil, Colombia, Costa Rica, Cuba, the Dominican Republic, El Salvador, Mexico, Panama, Paraguay, Peru and the Plurinational State of Bolivia (social expenditure only). Coverage in most cases is at the general government level, except in Argentina, the Dominican Republic, El Salvador and Mexico, where it corresponds to the nonfinancial public sector, although in Mexico subnational governments are excluded.

However, broader coverage data also have problems. In several countries (for example Argentina and Panama) they are updated with a significant time lag. Moreover, the data for the countries of the region are not strictly comparable with the functional expenditure statistics of the OECD countries, because the levels of government are often defined differently. In Latin America a country-specific definition is generally used, whereas OECD and SNA2008 use GFSM criteria.

(b) Social expenditure databases according to the SOCX methodology

In both the expenditure databases according to the functional classification and those based on the SOCX methodology, it is best to have broader government-level coverage, to encompass not only central government expenditure, but also that corresponding to intermediate and local governments and social security institutions. This is particularly relevant in federal or more decentralized countries where expenditure programmes executed by subnational governments play a prominent role.

In the case of Argentina, one of the main challenges has been to incorporate the social expenditure of the provinces and municipalities. Although this represents 46% of consolidated social expenditure, the open fiscal data portal only publishes information at the national government level. Owing to the lack of detailed statistics at the programme level for all provinces and municipalities, steps have been taken to include the social expenditure of these subnational levels of government, based on information from the consolidated public expenditure by purpose and function, especially in the categories of pensions, initial education, health, labour, housing and other areas. Since the information at the programme level of the national administration already includes transfers to enable provincial and municipal governments to execute social programmes, these were subtracted in the corresponding categories when using subnational government data obtained from the consolidated public expenditure statistics, to avoid double counting.

In order to include the social expenditure executed by the states and municipalities in Brazil, use was made of the data reported to the federal government by the subnational entities in the annual accounts of the Brazilian Public Sector Accounting and Tax Information System (SICONFI), where they submit financial and budgetary information. However, the National Treasury Secretariat (2020) warns that this database does not cover all of the country's more than 5,000 municipalities, since not all of them submit their accounts, or else they often only submit them to the subnational audit office. Moreover, since it is an informative database, it suffers from several inconsistencies, such as the large number of null declarations.

Although this made it possible to incorporate subnational social expenditure in both Argentina and Brazil, the level of disaggregation is much lower than the detail available for central government.

In Colombia, inter-agency collaboration with DANE meant that this agency already had the information from the general government. In particular, data for the subnational levels of government were processed from the Single Territorial Forms (FUT), available from DANE under previous inter-agency support agreements for the production of national accounts and general government sector statistics. The FUTs collect information on budgetary execution of income, expenditure and other basic official information of the territorial entities (departments, districts and municipalities) that are reported to the national entities.

As noted in the previous subsection, spending by social security institutions in most of the region's countries, which includes both health and pension expenditure, is not consolidated in official figures with central government data, but is treated as a separate subsector.

To address this situation, the information obtained from the transparency portals that corresponded to the central government subsector only was supplemented and consolidated with data on expenditure by social security institutions in the Dominican Republic, El Salvador, Guatemala, Peru and Uruguay.

For example, Peru's Transparency Portal includes expenditure on public pensions, but does not contain figures for the social security health institution, so this information was obtained from the EsSalud Annual Report, as noted above. In Uruguay, detailed information on social security benefits was extracted from the statistical bulletins of Banco de Previsión Social (BPS), while consolidated public expenditure on inactive persons by type of pension system was provided by this country's Ministry of Social Development and Ministry of Economy and Finance.

In the cases of El Salvador, Guatemala and Trinidad and Tobago, disaggregated information on social security expenditure was compiled from the annual reports and statistical yearbooks of the corresponding institutions.

In Argentina and Brazil, information on expenditure by national social security institutions was already included in the open databases. In Argentina, it was supplemented with official statistics on consolidated public expenditure by purpose and function, to include provincial and municipal government social security spending, and also expenditure on social benefits by social security institutions and the National Institute of Social Services for Retirees and Other Pensioners (PAMI). In Brazil, information from SICONFI was used to complete the data with statistics on expenditure by the individual social security systems of the states and municipalities.

In Colombia, expenditure executed by the social security institutions was processed from budgetary data of the different entities included in the sector, as reported in the financial statements of the Office of the Accountant-General of the Nation.

3. Breakdown of the available statistical information

(a) Availability of functional expenditure statistics based on GFSM 2014

Although at the central government level, the database developed by ECLAC contains functional expenditure statistics for 33 countries in Latin America and the Caribbean, the degree of disaggregation and the time span with available data varies from country to country.

In the first case, this database contains complete first-level COFOG data for all countries, except for the Plurinational State of Bolivia, which only has statistics for social expenditure. In addition, second-level COFOG data have been collected in all cases, but the quality of the information and the level of detail is not consistent across countries. As explained above, this is because in several countries ECLAC had to construct the series based on each country's own classifications by purpose and function, with the result that the disaggregation achieved has not been sufficiently detailed or homogeneous.

Constructing these databases with second-level COFOG statistics has been a major challenge, since it requires a very high level of institutional knowledge of the country, especially when processing open data or budget information, which requires knowledge and experience in handling data of this type.

As regards the time period, it has been possible to collect information since the 1990s for most Latin American countries, although in some cases the series starts in the decade of 2000. The main obstacle when constructing time series data has related to the Caribbean countries, since few of them publish their historical budgets. Only five countries in the database (Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago) include statistics prior to 2008.

With respect to the database of 12 countries that consider broader institutional coverage, seven of them have compiled complete second-level COFOG data covering the entire period of the series: Argentina, Colombia, El Salvador, Mexico, Panama, Paraguay and Peru. In other countries, such as Brazil and Costa Rica, second-level COFOG detail has been obtained for some years only, while the Dominican Republic only has the detail for the economic services function.

Information on public expenditure has also been compiled by cross-referencing the economic and functional classification with data spanning 2010–2019 for 11 Latin American countries: Argentina, Brazil, Chile, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Mexico, Panama, Peru and Uruguay.

In general, these statistics come from the same source as was used to prepare first- and second-level COFOG functional expenditure data for these countries; in other words, they are collected either from tables with fiscal data published by the countries, or by working with open databases. In both cases, this information can follow either the GFSM functional or purpose classification, or a country's own classification; and the same code can be used for the functions, disaggregated by type of expenditure. In the ECLAC database, each function has been broken down into current and capital expenditure.

Although statistics of this type require somewhat more complex processing owing to the multiple dimensions involved (year, functions, expenditure type), a database has been built to visualize and work with this information.

(b) Availability of programmatic budget statistics for the SOCX database

One of the key challenges when applying the SOCX methodology to 10 countries in the region was gaining access to detailed information on expenditure execution by programmes. Moreover, several countries publish each fiscal year separately, either on their transparency portal, or in statistical tables, in documents or in PDF reports. This makes the process of compiling statistics more complex, especially if countries do not use codes to identify each programme. This is essential to ensure data consistency and comparability throughout the period, since programme names may change from one year to another, be replaced by a similar one, or are sometimes simply typed in a different way and thus recorded on different lines.

Ideally, programme expenditure data should be published in the same database for several years; or else codes should be used to identify each programme, and uniformity should be maintained in the variables and fields used, so that the databases can be merged properly.

It is also essential to have a complete description of each programme, containing the objectives, the beneficiary population, details of the benefits provided, the eligibility criteria to receive the benefit, the year of implementation, name changes over time, and so forth. Ideally, this information should be published on the same portal as the official data; or else consistency should be maintained between the name of the programme in the database and that used in the programme description in other official reports or documents.

In most of the countries, the description of the programmes was obtained outside the portal on which the data is published, which complicates the analysis considerably. This involved consulting the respective budget laws or other legislation, or else individually through each ministry or executing unit, or by consulting with government officials if the description was not available on the Internet.

In addition, as the SOCX methodology only includes public expenditure on education for children under six years of age, it was necessary to obtain figures on education expenditure by level, in order to distinguish that corresponding to initial education. In countries where this information was not available, UNESCO statistics had to be consulted.

Moreover, as the SOCX approach generally excludes administrative costs, it was also important to have sufficiently detailed information to be able to deduct these expenses for each category or programme, except for certain services where those costs are included (such as labour programmes, child care services, and health spending).

A major constraint in some countries was the fact that there are broad categories that group several items and do not contain details by programme. For example, in Peru's official database, approximately 60% of expenditure corresponds to budget allocations that do not result in outputs; in other words, they are not identified with a particular programme. To assign these items to SOCX categories, each one had to be analysed by function, subfunction and project. However, since most of the expenditure corresponded to a "No output" category, the information was also disaggregated to the most detailed level possible (activity/investment action/work), in order to identify the most relevant items and group them under the corresponding SOCX heading.

A further difficulty arises when the available data are not sufficiently detailed to be classified in the different SOCX categories. This happens most often in the case of pension benefits, because some countries do not publish separate figures for the payment of old-age, survivor and disability pensions. In cases where there is also no information available to consistently estimate the proportion of outlays corresponding to each SOCX category, the expenditure was recorded in the category in which it was presumed to be of greatest relative importance. For example, in Argentina, data on expenditure on retirement and other pensions under the pay-as-you-go regime includes both contributory old-age and disability pensions and was recorded in the old age category, whereas the payment of non-contributory pensions was recorded in the disability category. The latter programme provides economic assistance to individuals in a situation of social vulnerability, and includes old age pensions, pensions for mothers of seven or more children and disability pensions. Nonetheless, almost 75% of the number of pensions granted are for disability.

B. Public and private health expenditure statistics

In the case of public expenditure on health, the aim was to use a source that considered general government outlays, in other words one that included the different levels of government and social security institutions.

Official sources were used in Argentina, Colombia and Uruguay. In Argentina, official statistics on consolidated public expenditure by purpose and function were used; in Colombia the data were sourced from the results of the Health Satellite Account, while in Uruguay, health expenditure figures were obtained from the consolidated public expenditure series provided by the authorities. The trends in public expenditure on health obtained from these official sources are generally similar to those reported by WHO statistics. In the other countries, data on public health expenditure were sourced from the figures published by this international organization, so as to have complete coverage at the general government level (including social security).

However, as cautioned by OECD (2019), the inclusion of WHO data in SOCX could potentially introduce inconsistencies with respect to certain health-related programmes already accounted for in another SOCX category. Examples include items recorded as expenditures on services for older persons or persons with disabilities, provided by institutions other than hospitals, that are also included in public health expenditure. Given this difficulty, experts in WHO databases were consulted to determine whether a given expenditure or subsidy was already included in the figures published by WHO.

Broadly speaking, according to the OECD manual (2019), spending on long-term care services is divided into a "health" component and a "social" component for treatment in the 2011 System of Health Accounts. Expenditure on care services for dependent persons, in respect of daily living activities (help with mobility, bathing, eating, etc.) is included in long-term care in the health component; while expenditure on services for dependent persons in terms of instrumental activities of daily life (cleaning, cooking, shopping, etc.) is considered long-term care in the social component and falls outside the health care domain.

In the case of private health expenditure, both mandatory and voluntary, in nine of the 10 countries studied, the information source was the WHO Global Health Expenditure Database (GHED), which applies the methodology of the System of Health Accounts (SHA 2011). The exception was Colombia, where the DANE health satellite account (CSS) database was used directly, which also applies the SHA 2011 methodology and uses the same data sources.

In cases where WHO statistics had not been updated for the latest year, these were estimated either by considering the rate of change in health spending from official figures to estimate public health expenditure, or by assuming the same percentage of GDP as in the previous year in the case of private health expenditure.

C. Statistics on private social expenditure

As noted in OECD's *SOCX Manual 2019 Edition*, data on private social expenditure are considered to be of poorer quality than information on public social spending and are not readily available in all countries.

In some countries, such as Brazil and Guatemala, it was only possible to access private health expenditure. In Brazil, statistics on private social expenditure in areas other than health are not available, since there are practically no consolidated databases of non-governmental organizations with reliable data. Accordingly, only private social expenditure on health was considered.

In Argentina, Colombia, Costa Rica, the Dominican Republic, El Salvador, Peru, Trinidad and Tobago, and Uruguay, statistics on private social expenditure in other SOCX categories were also obtained. All of these (except for Argentina) include information on the payment of private old-age pensions and, in some cases, also on survivors' and disability pensions. The information on private pensions generally comes from financial or accountability reports (sometimes in PDF format) of the superintendencies or regulatory agencies of the institutions that provide these benefits, together with statistics published by these or other entities, such as central banks.

In Argentina, it was impossible to obtain information on the amount of pensions and benefits paid by pension funds for professional persons such as lawyers, notaries, architects, engineers, economic science and health professionals, etc., although the public pay-as-you-go system is clearly predominant in such cases. However, private spending on incapacity-related benefits granted by the labour risk insurance companies is included, with information obtained from the Superintendency of Employment Risks.

In addition, Colombia considers the expenditure of the family saving funds (*cajas de compensación familiar*), the main function of which is to administer the Family Subsidy, which is especially important in the "Family" social expenditure item, although it also includes other SOCX areas, such as the unemployment subsidy and the family housing subsidy.

V. Conclusions, key messages and considerations for strengthening public spending statistics

The purpose of this study has been to provide a comprehensive overview of public expenditure in Latin American and Caribbean countries, both by analysing the functional classification of expenditure and by applying OECD's SOCX methodology for measuring social expenditure in 10 of the region's countries. This is expected to contribute to the regional debate on the role of the State in the context of the 2030 Agenda, and in each country's process of recovering from the effect of the pandemic. The main conclusions and results of this research are as follows:

Public expenditure at the central government level:

- Over the last two decades, average public expenditure at the central government level has increased to 20.9% of GDP in 2019 in Latin America, despite stalling in recent years in the wake of fiscal consolidation processes.
- The South American countries entered the twenty-first century with a higher level of expenditure than the subregion comprising the Central American countries, the Dominican Republic and Mexico, and a higher rate of expenditure growth.
- In the sample of five English-speaking Caribbean countries, average central government expenditure remained broadly stable around 26%–27% of GDP between 2008 and 2019, although there was a sharp reduction in spending on the general public services function.
- In all three subregions, the relative importance and growth of social expenditure are notable, especially in the areas of health, education, and social protection, although social expenditure is higher in the South American countries.
- In general, in periods of increasing debt interest payments (included in the general public services function), resources for the economic affairs and the housing and community amenities functions, which absorb a large part of public investment, are reduced.
- Close to, or more than a quarter of total expenditure in Latin America and the Caribbean in 2019 was allocated to general public services, given the magnitude of public debt interest.
- In the South American countries, expenditure on social protection plays a leading role (28% of the total); in the group of Central American countries, plus the Dominican Republic and Mexico, education is the leading sector (23% of the total); while in the average of 13 Caribbean countries, education receives the largest share (16% of the total).

- Countries vary widely in terms of the priorities assigned to the different purposes.
- In the Latin American countries, expenditure on economic affairs grew between 2000 and 2013, but then trended down. Spending in the transport sector has been the fastest-growing and relatively the most important in this function, while expenditure on agriculture, forestry, fishing and hunting declined throughout the period.
- In the Caribbean countries, the trend of expenditure on economic services was slightly rising and is explained mainly by increased outlays in the transport domain, but also in the mining, manufacturing and construction sectors.
- In some Latin American countries, programmes in the fuel and energy sector are also important; in others, agriculture absorbs the largest share of expenditure, while in several Caribbean countries, programmes targeted to other industries, including tourism, play a major role.
- There is a high correlation between public investment and government expenditure on economic affairs.
- Capital expenditure is more important in functions related to economic affairs and housing.
- The cutback in public investment in recent years affected all central government functions. However, the economic affairs function was impacted the most, accounting for more than 50% of the total contraction on average.
- The reduction in capital expenditure also affected housing programmes, and in some countries it impacted education, defence, law and order and security functions.
- In most of the cases examined, capital expenditure cuts in the transport sector predominated, but in some cases they affected fuels, energy and programmes linked to agriculture, forestry, fishing and hunting.
- However, there are differences between countries in terms of the level of capital expenditure, the degree of retrenchment, and the areas in which public investment was pared back the most.

Public and private social expenditure:

- According to the results of the SOCX methodology, public social expenditure increased over the last decade, to represent 12.1% of GDP for the average of 12 countries in the region in 2018.
- There are wide discrepancies between Latin American countries in terms of the level and evolution of public social expenditure.
- Public social expenditure is higher in Argentina, Brazil and Uruguay, at levels similar to those of OECD economies: between 20% and 22% of GDP.
- In the other countries, public social expenditure is well below the OECD average, and even less than 5% of GDP in Guatemala and the Dominican Republic.
- Three groups of Latin American and Caribbean countries can be distinguished according to their level and trend of public social expenditure, as follows:

  Group 1: countries with high levels of public social expenditure, both relative to their GDP and compared to other countries with similar per capita income levels, and higher rates of growth in this expenditure in the last decade: Argentina, Brazil and Uruguay.

  Group 2: countries with a level and growth rate of public social expenditure close to the average of the Latin America and the Caribbean sample, but well below that of developed countries: Chile, Colombia, Costa Rica and Trinidad and Tobago.

  Group 3: countries with low levels of public social expenditure, both in relation to the size of their economy and compared to other countries (OECD or others with similar GDP per capita levels); and with lower growth in this expenditure in recent years: Guatemala, El Salvador, Mexico, Peru and the Dominican Republic.

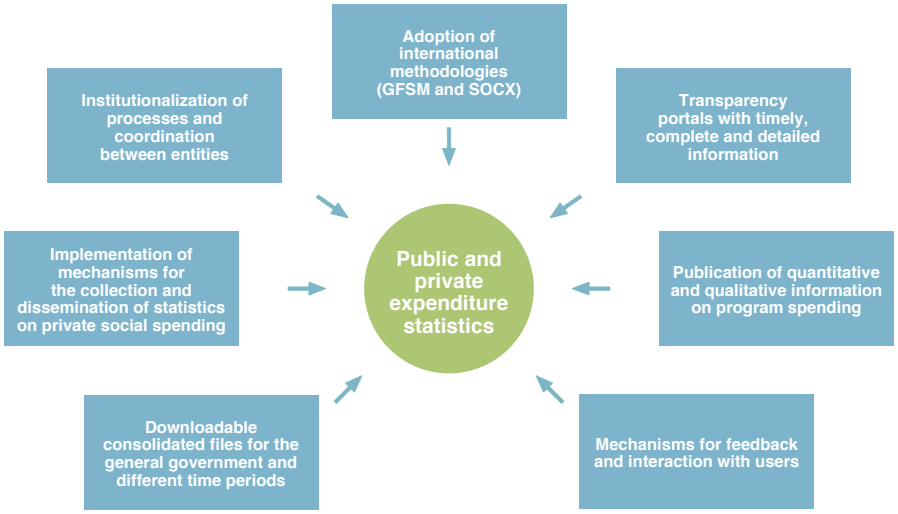
- Pensions and health services are the main areas of public social expenditure: 5.3% and 4.1% of GDP, respectively, on average for the sample of countries in the region.
- On average, 53% of public social expenditure in these 12 countries involves cash benefits; 45% is executed through social services (benefits in kind), and the rest corresponds to spending on labour market programmes.
- Most of the countries analysed spend more on health and social services than on cash benefits (pensions and income support), exceptions being Argentina, Brazil, Trinidad and Tobago and Uruguay.
- On average, 87% of expenditure on public benefits in the countries of the region is universal or depends on past contributions, owing to the magnitude of spending on contributory pensions and health services, compared to programmes targeted to the lower-income population that require proof of income or resources to be a beneficiary.
- The importance of private social expenditure differs between countries, being greater in Brazil and Chile, where private pension payments (in the latter) and private health spending (in both countries) are significant.
- Total social expenditure (public and private) represents 13.7% of GDP, on average in the countries analysed.
- After accounting for private social expenditure, Brazil reports the highest level of social expenditure, at 24.2% of GDP, followed by Argentina (24%) and Uruguay (21.4%).
- Over the last two decades, governments in Latin America and the Caribbean have been increasing fiscal funding for the health sector.
- Close to, or more than 80% of total health expenditure is financed publicly, the exception being Brazil where the proportion is less than 60%.
- Public and private social expenditure on health services represented 5% of GDP in 2018 for the average of 12 countries in Latin America and the Caribbean.
- The countries differ in terms of levels of social expenditure on health, both public and private.
- Only two of the 12 countries studied allocate at least 6% of GDP to public expenditure on health: Argentina and Uruguay.
- Public and private social expenditure on old-age or survivors' pensions represented 5.9% of GDP in 2018 for the average of 12 countries in Latin America and the Caribbean, albeit varying widely between countries, both with respect to its total level and in relation to the structure of its financing.
- As regards total pension expenditure, three of the region's countries (Brazil, Uruguay and Argentina) exceed the OECD average (8.9% of GDP), while expenditure in Trinidad and Tobago is very close to that level. In another group of Latin American countries (Chile, Colombia, Costa Rica and El Salvador) pension expenditure represents between 4% and 6% of GDP, while in the Dominican Republic, Guatemala Mexico and Peru it is below 2.6% of GDP.
- In terms of the financing structure, private pension expenditure is greatest in El Salvador, Chile and Trinidad and Tobago, where it represents 2.5%, 1.6% and 1.2% of GDP, respectively.

Based on the experience and challenges that had to be surmounted to develop the functional and social expenditure databases according to the SOCX methodology, the following recommendations are proposed to strengthen and give continuity to these statistics:

- Institutionalize the production of expenditure statistics within the national statistics institutes or ministries of finance; and also in coordination with other key agencies or entities such as social security institutions, ministries of education, health, labour and social development, the national accountant general's office, agencies in charge of consolidating information from subnational governments, etc.

- Adopt internationally recognized methodologies, such as GFSM 2014 for functional expenditure and SOCX for social expenditure, in each country's statistical production processes. The availability of fiscal statistics is fundamental for enhancing accountability and transparency in public finances. Moreover, the adoption of internationally accepted standards allows for cross-country comparative analyses, both with respect to the purpose of government expenditures and, for example, to examine the scope of their economic and social functions, and to assess the programmatic composition of social expenditure and to conduct various types of analysis on the effects of social policy.
- In particular, in the course of adopting GFSM 2014, countries can take steps to publish more disaggregated statistics (second-level COFOG), and even make progress in cross-referencing economic and functional expenditure data. Another area where progress can be made is in the publication of public expenditure by function in the system of national accounts, as Colombia is doing through DANE.
- Implement public finance transparency portals (or strengthen them if they already exist), on which fiscal statistics are published in a timely, complete and detailed manner. In addition to including downloadable open data files in accessible formats such as databases or spreadsheets, metadata should also be published to help users understand the structure of the databases and guide their interaction with the data.
- The information provided by transparency portals becomes highly valuable when programme expenditures are included, as a fundamental input for the development of SOCX social expenditure statistics. It is therefore important to adopt programme budgets, not only to be able to construct these databases but also to establish results-based budgeting frameworks.
- Transparency portals should contain a description of each programme, including its objectives, beneficiary population, the benefits delivered, eligibility criteria for receiving the benefit, year of implementation, name changes over time, etc. It is also useful to include links to the different data sources, should the user need further information, as well as the date of the last publication of the data, the date of the next update, and a record of changes made to the databases.
- It is important to create different feedback mechanisms with users that are easy to locate on the portal and include interaction through different social networks, various forms of contact that allow queries about the information published, mechanisms for evaluating and assessing the response and assistance received by users, as well as a record of statistics usage.
- These portals should make it possible to download the entire panorama of public expenditure in consolidated files for different fiscal periods (not only the current year but also historical series), and with broad government-level coverage that considers both the central level, social security institutions, and intermediate and local governments.
- Statistics on functional and social expenditure under the SOCX approach could be published as open data on transparency portals, to be readily available to government authorities and officials, as well as to researchers, academics and the public at large. This would make it possible to analyse trends in the allocation of fiscal resources and priorities in the provision of public goods and services, and to identify potential sources of expenditure inefficiencies, which would contribute to greater transparency in the use and destination of public resources.
- Implement mechanisms to collect and disseminate statistics on private social expenditure. To this end, it is important that the ministries of finance or the competent authorities ask the superintendencies or regulators of the institutions that provide benefits to publish timely and detailed information on private social expenditure, such as the payment of private old-age, disability and survivor's pensions.

Diagram 1
Summary of strategies to strengthen expenditure statistics



Source: Prepared by the author.

This project has created a regional public good with unique statistics that make it possible to analyse the entire region in depth for the first time. It is thus possible to obtain up-to-date, detailed and comparable statistical data on public expenditure by purpose and function, as well as on social programmes, for the purpose of analysing, formulating and implementing new public policies.

In addition, the detailed publication of social expenditure, using the SOCX methodology, and of functional expenditure is very important for addressing problems of tax morale (which occur when citizens and firms consider it unnecessary to pay taxes), since these statistics make a fundamental contribution to reinforcing the link between taxes and public expenditure.

Access to these databases with well-classified, highly disaggregated, comparable and complete data from Latin American and Caribbean countries is a basic tool for improving decision-making processes, policy analysis, and evaluation, transparency and accountability. This is particularly relevant for assessing whether resources are being allocated in line with the goals defined in the 2030 Agenda and whether they are supporting the countries' recovery process.

Ultimately, strengthening expenditure statistics makes it easier for countries to exercise accountability for the impact of public expenditure in general, and social expenditure in particular. It thus helps guide policy actions for a transformative recovery towards inclusive and environmentally sustainable growth in a post-pandemic world.

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Annex

Statistical annex

Argentina

Table A1
Argentina: composition of public social expenditure by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	6.5	6.8	7.6	7.8	7.5	8.4	8.9	9.2	8.9
Survivors	1.4	1.5	1.7	1.8	1.7	1.8	1.8	2.0	1.8
Disability	0.6	0.7	0.9	1.0	1.0	1.1	1.0	1.0	0.9
Health	5.6	5.8	6.2	6.4	6.5	6.8	6.6	6.7	6.2
Family	1.3	1.4	1.3	1.4	1.4	1.5	1.7	1.7	1.7
Labour	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.8	0.7
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	1.0	1.0	0.9	1.1	1.2	1.3	1.0	1.0	1.0
Other social areas	1.1	1.2	1.1	1.1	1.1	1.2	1.1	1.2	1.2
Public social expenditure	**18.4**	**19.0**	**20.3**	**21.2**	**21.1**	**22.8**	**22.7**	**23.6**	**22.3**

Source: Prepared by the author.

Table A2
Argentina: composition of total social expenditure (public and private) by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	6.5	6.8	7.6	7.8	7.5	8.4	8.9	9.2	8.9
Survivors	1.4	1.5	1.7	1.8	1.7	1.8	1.8	2.0	1.8
Disability	1.2	1.3	1.5	1.7	1.7	1.9	1.8	1.8	1.5
Health	7.0	7.0	7.3	7.3	7.2	7.6	7.3	7.7	7.2
Family	1.3	1.4	1.3	1.4	1.4	1.5	1.7	1.7	1.7
Labour	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.8	0.7
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	1.0	1.0	0.9	1.1	1.2	1.3	1.0	1.0	1.0
Other social areas	1.1	1.2	1.1	1.1	1.1	1.2	1.1	1.2	1.2
Total social expenditure	**20.3**	**20.8**	**22.1**	**22.9**	**22.5**	**24.4**	**24.3**	**25.5**	**24.0**

Source: Prepared by the author.

Brazil

Table A3
Brazil: composition of public social expenditure by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	7.0	6.8	7.1	7.1	7.4	8.0	8.4	9.1	9.3
Survivors	2.7	2.6	2.7	2.7	2.8	2.9	3.2	3.2	3.2
Disability	1.7	1.7	1.7	1.7	1.8	1.7	2.0	2.0	1.9
Health	3.6	3.5	3.4	3.6	3.7	3.8	4.0	4.0	3.9
Family	1.3	1.4	1.5	1.4	1.5	1.4	1.5	1.2	1.2
Labour	0.4	0.4	0.4	0.4	0.5	0.3	0.4	0.3	0.3
Unemployment	1.4	1.4	1.5	1.6	1.6	1.8	1.8	2.4	1.6
Housing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other social areas	0.1	0.2	0.1	0.1	0.1	0.3	0.2	0.1	0.1
Public social expenditure	**18.1**	**18.0**	**18.3**	**18.6**	**19.3**	**20.3**	**21.4**	**22.4**	**21.4**

Source: Prepared by the author.

Table A4
Brazil: composition of total social expenditure (public and private) by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	7.0	6.8	7.1	7.1	7.4	8.0	8.4	9.1	9.3
Survivors	2.7	2.6	2.7	2.7	2.8	2.9	3.2	3.2	3.2
Disability	1.7	1.7	1.7	1.7	1.8	1.7	2.0	2.0	1.9
Health	5.6	5.5	5.4	5.7	6.0	6.3	6.7	6.8	6.7
Family	1.3	1.4	1.5	1.4	1.5	1.4	1.5	1.2	1.2
Labour	0.4	0.4	0.4	0.4	0.5	0.3	0.4	0.3	0.3
Unemployment	1.4	1.4	1.5	1.6	1.6	1.8	1.8	2.4	1.6
Housing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other social areas	0.1	0.2	0.1	0.1	0.1	0.3	0.2	0.1	0.1
Total social expenditure	**20.2**	**20.0**	**20.3**	**20.8**	**21.6**	**22.8**	**24.1**	**25.2**	**24.2**

Source: Prepared by the author.

El Salvador

Table A5
El Salvador: composition of public social expenditure by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	2.2	2.2	2.2	2.3	2.4	2.4	2.5	2.6	2.0
Survivors	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Disability	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Health	5.0	4.9	4.7	5.1	5.0	5.0	5.1	4.6	4.5
Family	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5
Labour	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	1.2	1.4	1.5	1.5	1.3	0.9	0.6	0.4	0.5
Other social areas	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Public social expenditure	**9.6**	**9.8**	**9.5**	**10.2**	**9.8**	**9.6**	**9.5**	**8.9**	**8.3**

Source: Prepared by the author.

Table A6
El Salvador: composition of total social expenditure (public and private) by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	2.8	2.8	2.8	3.0	3.3	3.5	3.7	3.9	4.2
Survivors	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Disability	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Health	5.3	5.3	5.0	5.5	5.4	5.5	5.6	5.0	5.0
Family	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5
Labour	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	1.2	1.4	1.5	1.5	1.3	0.9	0.6	0.4	0.5
Other social areas	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Total social expenditure	**10.7**	**10.8**	**10.6**	**11.4**	**11.4**	**11.3**	**11.4**	**11.0**	**11.3**

Source: Prepared by the author.

Guatemala

Table A7
Guatemala: composition of public social expenditure by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	1.5	1.5	1.4	1.4	1.4	1.4	1.5	1.5	1.5
Survivors	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Disability	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Health	2.1	2.0	2.1	2.2	2.2	2.2	2.2	2.1	2.1
Family	0.9	0.8	0.8	0.7	0.8	0.6	0.6	0.6	0.7
Labour	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Other social areas	0.1	0.1	0.1	0.2	0.3	0.1	0.1	0.2	0.1
Public social expenditure	**5.0**	**4.7**	**4.6**	**4.8**	**5.0**	**4.7**	**4.7**	**4.7**	**4.7**

Source: Prepared by the author.

Table A8
Guatemala: composition of total social expenditure (public and private) by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	1.5	1.5	1.4	1.4	1.4	1.4	1.5	1.5	1.5
Survivors	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Disability	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Health	2.6	2.5	2.5	2.6	2.6	2.7	2.7	2.8	2.6
Family	0.9	0.8	0.8	0.7	0.8	0.6	0.6	0.6	0.7
Labour	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Other social areas	0.1	0.1	0.1	0.2	0.3	0.1	0.1	0.2	0.1
Total social expenditure	**5.4**	**5.1**	**5.1**	**5.2**	**5.4**	**5.1**	**5.1**	**5.4**	**5.2**

Source: Prepared by the author.

Peru

Table A9
Peru: composition of public social expenditure by category
(Percentages of GDP)

Category	2012	2013	2014	2015	2016	2017	2018
Old age	2.2	2.3	2.3	2.1	2.0	2.0	1.9
Survivors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disability	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Health	2.6	2.7	3.0	3.1	3.2	3.2	3.3
Family	1.0	1.2	1.3	1.4	1.3	1.3	1.3
Labour	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	0.8	0.9	1.0	1.0	0.8	1.4	1.0
Other social areas	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Public social expenditure	**6.8**	**7.3**	**7.9**	**7.9**	**7.5**	**8.2**	**7.7**

Source: Prepared by the author.

Table A10
Peru: composition of total social expenditure (public and private) by category
(Percentages of GDP)

Category	2012	2013	2014	2015	2016	2017	2018
Old age	2.3	2.4	2.4	2.3	2.2	2.2	2.0
Survivors	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Disability	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Health	2.9	3.0	3.4	3.5	3.6	3.6	3.7
Family	1.0	1.2	1.3	1.4	1.3	1.3	1.3
Labour	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	0.8	0.9	1.0	1.0	0.8	1.4	1.0
Other social areas	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total social expenditure	**7.4**	**7.9**	**8.6**	**8.6**	**8.2**	**8.9**	**8.4**

Source: Prepared by the author.

Dominican Republic

Table A11
Dominican Republic: composition of public social expenditure by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.9	0.9
Survivors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health	2.6	2.8	2.8	2.8	2.8	2.8	2.7	2.7	2.5
Family	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Labour	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other social areas	0.4	0.3	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Total social expenditure	**4.3**	**4.3**	**4.6**	**4.6**	**4.5**	**4.5**	**4.4**	**4.5**	**4.4**

Source: Prepared by the author.

Table A12
Dominican Republic: composition of total social expenditure (public and private) by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	0.8	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.0
Survivors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health	3.1	3.3	3.4	3.3	3.3	3.3	3.2	3.2	3.2
Family	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Labour	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other social areas	0.4	0.3	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Total social expenditure	**4.8**	**4.8**	**5.2**	**5.1**	**5.1**	**5.1**	**5.1**	**5.2**	**5.1**

Source: Prepared by the author.

Trinidad and Tobago

Table A13
Trinidad and Tobago: composition of public social expenditure by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	3.8	4.0	4.2	4.4	4.5	5.5	6.8	6.7	6.7
Survivors	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.4
Disability	0.5	0.5	0.5	0.5	0.5	0.6	0.8	0.8	0.7
Health	2.5	2.4	2.4	2.6	2.6	3.1	3.4	3.7	3.2
Family	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Labour	0.8	0.7	0.27	0.9	1.0	1.2	1.0	0.8	0.7
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other social areas	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Public social expenditure	**8.4**	**8.3**	**8.4**	**9.1**	**9.3**	**11.4**	**12.9**	**12.7**	**12.2**

Source: Prepared by the author.

Table A14
Trinidad and Tobago: composition of total social expenditure (public and private) by category
(Percentages of GDP)

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018
Old age	4.5	4.6	4.7	5.3	5.3	6.6	8.1	8.0	7.9
Survivors	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.4
Disability	0.5	0.5	0.5	0.5	0.5	0.6	0.8	0.8	0.7
Health	2.8	2.6	2.7	2.9	3.0	3.6	3.9	4.1	3.7
Family	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Labour	0.8	0.7	0.7	0.9	1.0	1.2	1.0	0.8	0.7
Unemployment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other social areas	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Total social expenditure	**9.3**	**9.1**	**9.3**	**10.2**	**10.5**	**13.0**	**14.7**	**14.5**	**13.8**

Source: Prepared by the author.

Uruguay

Table A15
Uruguay: composition of public social expenditure by category
(Percentages of GDP)

Category	2011	2012	2013	2014	2015	2016	2017	2018
Old age	8.0	8.2	8.4	8.4	8.8	9.0	9.5	9.8
Survivors	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.8
Disability	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Health	4.7	5.1	5.2	5.3	5.5	5.7	5.9	5.9
Family	1.0	1.0	1.0	1.0	1.0	1.1	1.2	1.2
Labour	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unemployment	0.3	0.3	0.3	0.4	0.5	0.4	0.4	0.4
Housing	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Other social areas	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Public social expenditure	**16.4**	**17.2**	**17.5**	**17.8**	**18.5**	**19.0**	**19.9**	**20.3**

Source: Prepared by the author.

Table A16
Uruguay: composition of total social expenditure (public and private) by category
(Percentages of GDP)

Category	2011	2012	2013	2014	2015	2016	2017	2018
Old age	8.0	8.3	8.4	8.5	8.9	9.1	9.7	10.0
Survivors	1.6	1.7	1.7	1.6	1.7	1.7	1.8	1.8
Disability	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Health	6.2	6.3	6.5	6.5	6.6	6.8	6.9	6.9
Family	1.0	1.0	1.0	1.0	1.0	1.1	1.2	1.2
Labour	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unemployment	0.3	0.3	0.3	0.4	0.5	0.4	0.4	0.4
Housing	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Other social areas	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total social expenditure	**17.9**	**18.5**	**18.8**	**19.1**	**19.7**	**20.2**	**21.0**	**21.4**

Source: Prepared by the author.

The purpose of this document is to provide a comprehensive overview of public expenditure in Latin American and Caribbean countries, through the functional classification and social expenditure on the basis of the Social Expenditure Database (SOCX) methodology of the Organisation for Economic Co-operation and Development (OECD). The detailed and comparable statistical information on public spending by purpose and function, as well as by social programme, makes it possible to analyse, formulate and implement public policies that are more efficient and effective. It also allows for greater transparency on the use of public resources. This paper also seeks to examine the key elements of a strategy for strengthening statistics on public expenditure by function and on social expenditure in the region to guide the standardization and comparability of public expenditure statistics.

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LC/TS.2023/162