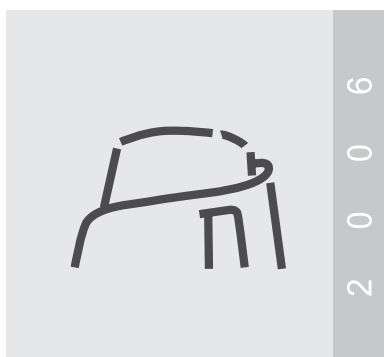


Shaping the Future of Social Protection:

Access,
Financing and
Solidarity



Summary



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Shaping the Future of Social Protection: Access, Financing and Solidarity has been prepared by the Economic Commission for Latin America and the Caribbean (ECLAC) for presentation at the thirty-first session of the Commission (Montevideo, Uruguay, 20-24 March 2006). This publication is a summary of that document.

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Why social protection?

Social protection within the framework of ECLAC proposals

The concept of development that ECLAC began to forge in its early years placed the modernization of production at the centre of the development process as the lynchpin between economic growth and social integration. Since the start of 1990s, in an effort to reshape its lines of thinking to fit in with the changing historical context, the Commission and has been advocating a new development paradigm for the open economies of today's globalized world. This model retains the Commission's long-standing emphasis on seeking out positive synergies between economic growth and social equity as part of a productive modernization process that focuses on boosting competitiveness, safeguarding macroeconomic balances and strengthening a participatory and inclusive form of democracy. The idea at the core of this proposal is that the Latin American and Caribbean economies will need to transform their production structures, as well as embarking upon an intensive process of human capital formation, in order to move their development process forward. The more that the competitiveness of the region's economies rests on the use of trained human resources and a selective yet broad incorporation of technical progress, and the less it is based on low wages and over-exploitation of natural resources, the more sustainable its long-term growth and the greater its distributive effect on the whole of society will be.

Based on this proposal, ECLAC has been providing new baseline analyses and economic and social policy recommendations on a regular basis and has presented these findings and proposals in the studies

prepared for its biennial sessions over the past 15 years.¹ In the social arena, particular importance has been placed on fostering greater equality of opportunity by promoting education and the positive returns it has for poor households, on addressing and working to counteract the exclusionary dynamics of structurally heterogeneous labour markets, on working to ensure that the benefits of the information society are made available to the most underprivileged groups in the population, on using social expenditure to redistribute assets, and on promoting the full exercise of citizenship, thereby strengthening democracy and laying the political foundations for more inclusive societies.

One of the main messages that ECLAC is trying to send within the framework of these proposals is that, in order to achieve a more just and more sustained form of development, the region's societies will need to become more fully integrated, especially in terms of mechanisms for human capital formation, productive employment and citizen participation. Social policy takes on particular significance in this context and must be dedicated to the pursuit of universal coverage, efficient resource use, solidarity and the capacity to merge responses to short-term emergencies with the promotion of social inclusion over the long term.

ECLAC has prepared the present study on social protection as a means of taking this line of thought one step further. This focus fits in with the Commission's approach in a number of different ways. First of all, the concept of social protection is in keeping with the idea that growth should be based on systemic competitiveness, since it is a factor in the process of human capital formation.² Second, proposals regarding the consolidation of citizenship that have been formulated in other ECLAC documents are revisited here, inasmuch as social rights that can be demanded by citizens

¹ See *Changing Production Patterns with Social Equity: the Prime Task of Latin American and Caribbean Development in the 1990s* (LC/G.1601-P) (1990); *Social Equity and Changing Production Patterns: an Integrated Approach* (LC/L.668) (1992); *Education and Knowledge: Basic Pillars of Changing Production Patterns with Social Equity* (LC/G.1702/Rev.1-P) (1992); *The Fiscal Covenant. Strengths, Weaknesses, Challenges* ((LC/G.1997/Rev.1-P)) (1998); *Equity, Development and Citizenship* (LC/G.2071/Rev.1-P) (2000); *Globalization and Development* (LC/G.2157(SES.29/3)) (2002); and *Productive Development in Open Economies* (LC/G.2234(SES.30/3)) (2004). This last study contains a more detailed examination of proposals having a particular bearing on the relationship between productive development and social inclusion as it refers to the various levels (or 'speeds') of the production apparatus and employment and as it concerns the establishment of a covenant of social cohesion.

² As pointed out in the first three studies cited in the preceding footnote, authentic competitiveness revolves around the incorporation of technical progress into the production apparatus, whereas spurious competitiveness is based on the advantages afforded by low wages and an over-exploitation of natural resources.

and translated into policy measures constitute the frame of reference for social protection. Third, the special importance placed on the need for a covenant on social protection complements the Commission's previous proposals concerning fiscal and social cohesion covenants.³

Social protection is now a key item on the social equity agenda, since it is currently implemented under the terms of social contracts that deprive many people of such benefits because of their precarious employment status or their lack of access to social safety nets. In fact, existing inequalities are clearly mirrored by people's degree of exposure to risk and, in particular, by their ability to cope with those risks. Accordingly, this study assigns particular significance to the use of solidarity-based transfer mechanisms in social protection systems.

For some time now ECLAC has been focusing on equity from the standpoint of equality of opportunities for social inclusion. Now the time has come to complement the priority placed on this principle with an emphasis on equality of opportunities for access to social protection, based on the understanding that risks are simply the other side of the coin of opportunity and that, when there is a lack of equity, underprivileged groups bear the brunt of the disadvantages associated with social exclusion and greater exposure to risk.

Social protection at a turning point in history

The promotion of social protection calls for a change in how the region responds to the new global order and its impact on national societies. The main reason why solidarity-based social protection mechanisms need to be rethought is that the labour market has not demonstrated a capacity for greater inclusiveness, either through high-quality job creation or in terms of social security contributions. Thus, it cannot serve as the sole mechanism, either in the short run or over the medium term, for protecting the bulk of the population from the risks associated with a possible loss of income, health, ageing or other factors.

With the emergence of the new development dynamics that have been gathering momentum over the past decade, employment is becoming less effective as an integrating force, and the countries are thus being deprived of a means to protect their populations against the risk of exclusion from

³ See ECLAC (1998) and ECLAC (2004a), respectively.

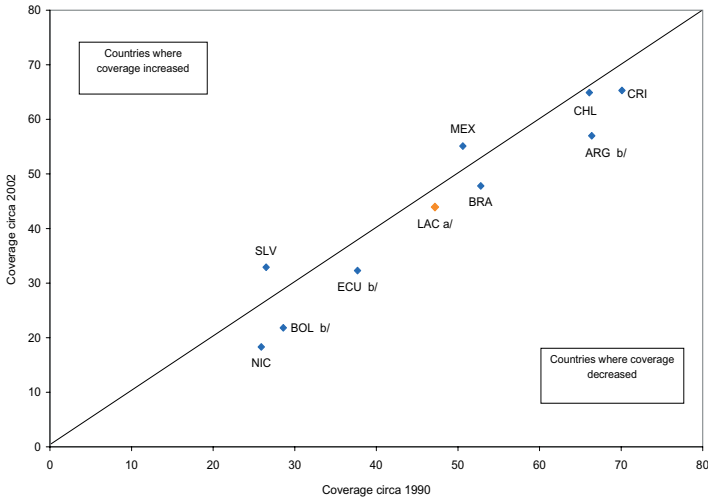
the formal labour market. Consequently, social protection cannot be confined to the contributory mechanisms offered by the labour market. The main challenge at this point is to reassess the concept of solidarity as it relates to social protection in its entirety, both within and outside the labour market, and then, on that basis, to redesign transfer mechanisms that will give expression to that integral concept of solidarity.

The welfare-State model that was advanced as a paradigm for social protection between the end of the Second World War and the mid-1970s was based on the notion of a labour-based society. This presupposed an ideal situation of full and increasingly formal employment as the basis for a social protection system that would gradually provide more and more benefits to the workforce. Social citizenship was to be linked to “labour citizenship”, and it was the State’s job to provide universal coverage of basic services and formal education. These benefits were to be paid for by means of a tripartite scheme of contributions from the State, employers and workers (the Bismarckian model), with the assumption being that workers (heads of household) would provide for their entire families with their income and social protection benefits.

This model, which relied on formal employment as its foundation, has always been a partial one in Latin America and the Caribbean because the region has not succeeded in turning its labour markets into a universal, dynamic gateway to social protection. Evidence in this respect includes the region’s high unemployment rates (over 10% in 2003-2004) (ECLAC, 2005a) and the size of its labour markets’ informal sector (47% of total employment at the start of this decade) (ILO, 2005). Moreover, the available data indicate that contributory coverage in the region actually declined between 1990 and 2003 (see figure 1).

Any reversal in today’s labour market dynamics is unlikely to occur in the short or medium term. Despite the Latin American and Caribbean region’s long-standing tradition of social insurance, only a fraction of its workers are currently members of contributory social protection schemes. This is particularly the case in rural areas and the informal sector of the economy. Furthermore, not even all workers who are formally employed in the region’s urban centres and high-productivity sectors are necessarily guaranteed entry to contributory systems of social protection. In addition, gender-based social constructs that delegate unpaid domestic work and childcare to women hinder their entry into the workforce and, as a result, they must often rely on their spouses for access to contributory social protection services.

Figure 1
COVERAGE OF EMPLOYED WORKERS
(Circa 1990-2002)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of household surveys.

^a Countries that have conducted surveys in urban areas.

The decrease in contributory social security coverage can be attributed to the weakness and volatility of economic growth, as well as to changes in the labour market that have caused the formal employment sector to shrink and the various forms of employment to become more precarious.

Structural changes in employment in the Latin American countries, combined with a more unstable economic environment, have made the workforce more vulnerable to unemployment and have led to greater precariousness and informality in the labour market. In addition, the higher unemployment levels seen in recessions take quite some time to recede during economic recoveries. This situation is compounded by the fact that the upturns in unemployment seen during slack periods in the 1990s were only partially rolled back when growth picked up again, and the “natural” unemployment rate thus appears to have risen. This trend is at least partially attributable to some of the reforms instituted during that decade, which had the effect of reducing employment in some sectors of the economy.

Hence the importance of leveraging non-contributory social protection mechanisms. The use of such mechanisms is currently limited by the general scarcity of fiscal resources and, as a result, large sectors of the population lack access to formal social protection systems. Consequently, together with an effort to find ways of building up the economies' capacity to create decent jobs and widen the tax base, the countries will need to work towards ensuring a stable flow of sufficient funding to supplement employment-based protection with non-contributory solidarity mechanisms. The adoption of proactive labour-market policies is a high-priority task, but since this is a slow process that is sensitive to the business cycle and the economies' structural limitations, it will be difficult to expand social protection solely via contributory means in the short or medium term.

In addition to labour market issues and the countries' fiscal constraints, other factors that heighten the pressure on social protection systems include changes in family structure and women's increasing entry into the workforce, the demographic transition and heightened economic volatility.

The traditional model of a nuclear, two-parent family headed by a male provider served as the frame of reference for the design of today's social protection systems. This model is now rapidly changing, however, in response to demographic, economic and cultural shifts, and households corresponding to the traditional nuclear family model (comprising a father, mother and children, with the wife carrying out the household duties) are no longer in the majority in Latin America (ELCAC, 2004b; Arriagada, 2004).

As the family structure changes, more and more women are joining the workforce. In fact, between 1990 and 2002, the female participation rate in urban areas of Latin America climbed from 37.9% to 49.7% (ECLAC, 2004b). The gap between male and female contribution rates in the region is significant, however, with only 19% of women between the ages of 15 and 64 paying into the social security system, compared to 32% of men.

The demographic transition and the ageing of the population are having an adverse impact on all of the countries' protection systems, and particularly in the case of health-care and elder-care programmes. The extension of life expectancies places an added burden on pension systems, drives up health-care costs and raises the ratio between contributors and beneficiaries.

In sum, the emergence of new risks, in conjunction with pre-existing ones, may prompt many people to alter the employment and childbearing decisions they take during their lifetimes. Until recently, the predominant model was based on the assumption that people would have stable jobs and families. Now, however, men and women are increasingly likely to go through numerous cycles of employment, unemployment and inactivity, knowledge acquisition and family formation. This is reflected in greater vulnerability and a feeling of insecurity on the part of the general population, rather than solely among those groups that have traditionally been excluded from employment-based social integration mechanisms. Today, a large percentage of the economically active population in Latin America and the Caribbean repeatedly alternates between employment and unemployment and, when employed, between jobs that afford social protection and jobs that do not. In other words, in the course of their lifetimes, workers are moving in and out of the framework of social integration and protection provided by formal employment over and over again. Social protection systems should cover the cost of these interruptions in order to prevent, in particular, a loss of human capital and basic assets during the turning points in the cycle that would otherwise have negative impacts on people and their families –impacts that may take the form of an increased school drop-out rate, undernutrition, child labour or any of a wide range of other phenomena. Social protection systems should also safeguard the population's ability to exercise basic rights of access to health services and to a decent life during old age.

The region thus stands at a crossroads in history at which its approach to social protection must be recast within a framework of comprehensive solidarity based on a combination of contributory and non-contributory mechanisms. The question of how to go about universalizing and improving social protection is a key issue of debate in political and academic circles, makes headlines and is a pressing matter of keen interest to the people of Latin America and the Caribbean. A vast number of men and women in the region face an uncertain future with regard to their careers, access to healthcare, social security coverage and household income levels.

Thus, as the region moves into the twenty-first century, it looks to a future in which many of the problems to be dealt with seem familiar

but have actually diverged from their previous, long-standing patterns. It has reached a stage in its history of heightened uncertainty, mounting instability in terms of people's life paths, and vulnerabilities linked to these new signs of the times. Against this backdrop, we must ask ourselves –or ask ourselves again– a key question concerning the ethical foundations of development: How can social rights, and particularly the right to social protection, be guaranteed?

Towards a rights-based social protection system and covenant

Social protection and economic and social rights

Today, social protection can no longer be considered outside the context of the human rights upheld by all States in their Constitutions and in international treaties. This is all the more true because the fundamental aim of social protection is to provide the population with coverage against the risks of disease, vulnerability during old age and the possibility that households will not have enough resources to cover their basic needs. Viewed in this light, social protection is necessarily related, in the final analysis, to the right to life and well-being.

Social rights are increasingly being invoked as a guiding principle for social policy. Given the imperative nature of these rights, steps should be taken, as a matter of urgency, to strengthen distributive mechanisms that can help the region move towards a less exclusive society. This does not entail a dichotomy between a rights-based development process and approaches centering on economic growth. On the contrary, the focus is on searching for the first-best option for setting economic growth within a policy framework that will foster social citizenship while at the same time contributing to political stability (through the reduction of social disparities), the legitimation of democracy (by linking it to a general improvement in well-being) and increased human capital formation (through expanded access to education, health and the necessary conditions for employability).

Within this framework, social protection constitutes a basic right that goes along with membership in society and, as such, is a social imperative. Piron contends that the most important contributions of a rights-based

approach to social protection are the duties that it assigns to the State, the priority it places on the citizenry, the enforceability of certain conditions based on internationally recognized mechanisms through which people can participate and make their demands heard, and the political nature of benefits that uphold the exercise of human rights (Piron, 2004). Nor is the concept of rights-based social protection limited to palliative measures, since it also encompasses policies for human capital development and risk prevention as part of an integrated system for providing universal access to explicitly guaranteed benefits.

In the case of what are considered to be universal needs and rights, the State should focus on supporting those members of society who are not in a position to fend for themselves and whose voice is most tenuous in the forum of public debate. Thus, far from running counter to the universal nature of social rights, selectivity and targeting –when understood correctly– are redistributive instruments that can be employed to uphold, while taking into account the available pool of resources, the exercise of a given social right by those who have been denied that right. This cannot, however, justify a policy under which the State would provide services and benefits to the poor alone, since such an approach would clearly be at odds with the universal nature of social rights.

The region has reached a point in its history where it is called upon to make the transition from a set of social policies to a social protection system that integrates those policies. This transition is in keeping with the need to embrace a rights-based concept of development, but it nonetheless raises some substantive and procedural difficulties. The first such difficulty has to do with conflicts between rights, resources, distributional patterns and institutional design. And because such conflicts exist, there is no such thing as a universal solution. In each individual country, and at each point in time, the actual nature of social rights necessarily depends on the supply of resources that is available for distribution and on the nature of exogenous and endogenous constraints.

Box 1

Social protection as viewed from a rights-based perspective

According to the classifications devised by Piron (2004), the consideration of social protection, in both normative and conceptual terms, from the standpoint of human rights leads to the following conclusions:

- Social is a right and entitlement, and not just a matter of charity;
- States have a clear obligation to guarantee social protection;
- The core obligations and minimum standards that can be expected, as well as the specific requirements of vulnerable groups, should guide State action;
- Human rights principles not only justify social protection but should also influence the overall design of social protection schemes based on equality and non-discrimination, participation and accountability;
- The social and political context should be incorporated into the design and delivery of social protection services;
- Steps should be taken to enhance citizens' ability to claim their social protection entitlements;
- Accountability mechanisms and mechanisms for building institutional capacity should be used to ensure the appropriate design and delivery of social protection services;
- Demand-side and supply-side considerations relating to social protection services should be linked.

Towards a social protection covenant

The affirmation of democratic values and the advocacy of globally shared ethical principles and agreements by the States of the region place social protection at the crossroads where the effectiveness of public policy and the normative power of social rights converge. Living under the protection of social rights is not simply a social or governmental “achievement”; it is an enforceable imperative of citizenship.

A social covenant therefore needs to be forged within this framework. This pact must reflect the achievement of a political agreement and permit the social protection system to be recast in the light of universally recognized rights. There are at least two major reasons why this should be done. First, the scope of the task at hand is so great that a broad national consensus is required in each country in order to undertake the

necessary social reforms (institutional innovations, resource levels and allocation, and the actual transfer mechanisms used to give expression to the principle of solidarity). The second is the essential importance of having stable policies and institutions whose continuity extends beyond the terms of individual Administrations.⁴

A social covenant structured around the concept of protection involves both substantive and procedural elements. Its substantive aspects refer to its irreducible guarantees, tangible solidarity mechanisms and transfers, progressive coverage, quality benefits and expanded access. A social protection covenant of this nature should be governed by the principles of universality, solidarity and efficiency. This does not mean that any and all benefits can be universalized, but rather that society must establish, on the basis of a dialogue among all relevant stakeholders, what standards of quality and coverage it should ensure for all its members. In addition to setting forth clear-cut, explicit rules and standards of governance, it must also adhere to criteria of macroeconomic stability that will underpin the socialization of benefits and sacrifices. The two sides of the development coin –growth and social equity– can be reconciled only by an economy with a stable and vigorous production structure that incorporates vast sectors of the population and that adheres to the principle of solidarity-based transfers while striving to universalize social protection and the development of capacities and opportunities.

The procedural aspects of a social covenant have to do with how to go about calling upon stakeholders to enter into such a covenant, who is to be involved, what deliberative and representational processes are to be employed, what kind of oversight is to be performed, how the implementation of agreements is to be monitored, and how the State is to fulfil its regulatory role. In the absence of agreements or covenants, any achievements in these connections will be subject to the changeable outcomes of negotiations, their continuity over the medium term will not be assured, and their social legitimacy may be called into question. All of these factors may interfere with efforts to shape a social protection system that can serve as a policy framework and as a foundation for coherent linkages between social and economic policies.

⁴ A social (and fiscal) covenant provides "armour plating" for the most essential items of social expenditure and fulfils a dual purpose. First, their priority is established by an explicit political agreement reached by Congress; and second, a steady stream of fiscal resources ensures these social programmes' continuity.

The countries of the region therefore need to agree on the path to be followed in combining a rights-based form of development with the design of institutions and policies capable of generating and allocating the necessary resources to permit the full enjoyment of those rights. This entails the establishment of pacts or agreements among the various agents of the State and civil society, together with a corresponding social institutional structure and social authority to engender the political force and viability needed to move in that direction. Fiscal covenants will also have to be reached in order to endow society with the resources it will need to implement the constituent agreements of such a social protection covenant.⁵

More egalitarian societies that are equipped with the necessary political and technical resources can boast greater achievements in terms of social protection and are therefore in a better position to make the concept of “social citizenship” (the genuine and universal exercise of social rights) a reality than societies with a similar level of development but a higher concentration of income and benefits. Furthermore, a better distributive structure not only facilitates the financing of more inclusive social protection systems, but also contributes to the design of suitable institutions and policies by predisposing stakeholders to seek common guidelines and agreements.

The desire to forge a social protection covenant must be accompanied by an evaluation of existing financial constraints and of policy mechanisms for dealing with them. It is not merely a question of developing suitable technical guidelines for optimizing the generation and use of resources for these purposes, however. There is a political challenge to be overcome in this respect, and a key –and problematic– component of that challenge has to do with resource distribution. Within this context, the tax structure and burden, the expansion and selectivity of social expenditure and the degree of decentralization are all crucial, but controversial, factors in enhancing social protection by achieving a better redistribution of its costs and benefits.

In order to expand the social protection system and meet the growing demand for non-contributory benefits, social expenditure will have to be reoriented, and tax-generated funding will have to be increased. The latter

⁵ The notion of fiscal and social covenants is not a new feature of the Commission's thinking. See the proposal for a fiscal covenant as set forth by the Commission (ECLAC, 1998 and 2000) and, more specifically, the proposal for a social cohesion covenant put forward by the Commission in the position paper submitted at its thirtieth session (ECLAC, 2004b).

will involve setting priorities on the basis of the specific situation in each country and taking into account its strengths and weaknesses.

The concern about social expenditure should focus both on its volume and on its structure and efficiency. While raising social expenditure and using such funds more efficiently should clearly be an objective for all governments, and although achievements in this connection constitute significant advances, this should not be used as an argument for ruling out the “taxation option”. On the contrary, progress on these two fronts should be mutually complementary. In most countries of the region, the tax burden is actually either comparatively or extremely low. Development efforts based on social rights should therefore aim to strengthen both social spending and progressive tax structures while maintaining a position of fiscal responsibility and providing an adequate stimulus for competitiveness.

In comparative terms, the Latin American and Caribbean countries’ tax burden of just under 17.5% of GDP is substantially lower than the average for the OECD countries, although the size of the national tax burden varies a great deal from one nation to the next. In a number of Latin America and Caribbean countries, tax revenues are virtually the only source of current income for the central government, while in others these flows are supplemented by proceeds from the sale of natural resources. These differences are partially accounted for by the marked dispersion in per capita income levels, which mirror the traditional pattern whereby fiscal revenues rise in step with economic development. This poses yet another challenge, inasmuch as the countries where the need for social protection is the greatest (i.e., those with lower per capita income levels) are also the ones that have the lowest financing capacity.

Latin American and Caribbean tax systems are primarily based on indirect levies, and the level of direct taxation is lower than it is in other regions. Recent trends in this area include the declining share of revenues provided by foreign trade taxes, a relative increase in VAT receipts, the absence of any substantial upswing in income tax revenues, a concentration of taxes in fewer types of levies and the increasing use of special or emergency taxes (Gómez Sabaini, 2005). Given these shared characteristics, steps should be taken to expand the range of sources of tax revenues, build up the tax base and fine-tune the redistributive effects of the tax system while taking into account, of course, these measures’ impact on the economy’s competitiveness.

In the future, improvements in tax administration and in distributive mechanisms within the framework of decentralization processes will also have an important role to play.

In most cases there is some margin for raising tax revenues, especially when the macroeconomic environment is favourable. In situations where it is becoming increasingly difficult to introduce new taxes or raise existing rates, the elimination of exemptions and limitation of deductions can be valuable sources of additional tax revenues; the impact of these modifications can also be leveraged by improvements in tax administration.

Far from proposing a simple, one-size-fits-all solution, the idea is to introduce a series of reforms on a sustained basis and thus build a stronger, mature system for providing the State with funding for social protection measures. Sound consensus-building processes are unquestionably an essential component of such an effort.

A social covenant should focus on human rights and on the need for an integrated form of solidarity or, in other words, a system of transfers to ensure protection via both contributory and non-contributory means. This is the only available pro-equity avenue for universalizing the right to social protection, especially at a time such as now, when, because of the present state of the employment structure, large sectors of the population are left outside the contributory system and are thus unshielded from risk. Thus, the covenant should not only set out ways of converting the entitlement to rights into actual access to them, but should also specify what kinds of solidarity-based financing measures can be used to ensure that all members of society have such access. An added difficulty in this connection is that ways to strengthen the system's non-contributory solidarity component have to be found that will take into account its impact on incentives for paying into the contributory component.

Within this context, the concept of social protection stems from two different rationales: one in which there is a fairly linear relationship between contributions and benefits, and one that clearly separates contributions from benefits through the use of taxes or cross-subsidies. The first rationale, whereby there is a clear relationship between what an individual pays into the system and the benefits that he or she receives, is governed by the principle of individual equity. The second, in which benefits do not necessarily reflect the level of contributions, is governed by the principle of collective equity.

Poverty reduction programmes aimed at promoting social inclusion via solidarity-based financing mechanisms are one of the most tangible expressions of the principle of collective equity. Under such schemes, taxpayers contribute to the system, and the level of benefits is independent of the beneficiaries' own contributions. In fact, the beneficiaries of social assistance programmes tend to be those who pay the least taxes throughout their working lives. This is precisely why social programmes function as a redistributive mechanism, since they channel transfers from the people who have the most to those who have the least. The definition of which rights are guaranteed and which risks society is willing to assume as its collective responsibility should lead to an explicit designation of public goods whose provision by the State –and only by the State– is indelegable, regardless of whether the delivery of such goods is conducted by public or private institutions.⁶

Within this framework, a social covenant or contract that sets acceptable standards of social protection for all citizens will invariably be situated somewhere between the extremes of individual equity and collective equity. The ideal balance is one that permits the mobilization of a maximum amount of resources while achieving an optimum distribution of the available resources for social protection.

Any social protection covenant based on an explicit recognition of economic, social and cultural rights should use social policy as a tool for promoting equity and upholding the principles of universality, solidarity and efficiency. As stated by ECLAC, "...universality does not do away with the need to apply particular degrees of selectivity, and it cannot provide a basis for levels of protection for which financing is simply not available; the degree of solidarity must be compatible with the demands of social integration and with the structure of income distribution; and efficiency cannot be viewed solely in microeconomic terms, but must ultimately be understood as the capacity for maximizing social objectives within a context marked by the scarcity of resources" (ECLAC, 2000a, p.13).

⁶ The State must control, regulate and monitor the provision of public goods to ensure that they meet quality standards and are distributed to recipients in the quantities stipulated and at an acceptable cost.

The content of a social protection covenant

As noted at the outset, a covenant focusing on social protection represents the culmination of an agreement in which social rights are seen as the normative horizon while budgetary restrictions and inequalities are viewed as constraints to be dealt with. The ethical imperatives that underpin a social rights-based covenant must thus be reconciled with the financial constraints generated by the dynamics that will be described in the following pages. In addition, resources have to be used as efficiently as possible in order to expand the coverage and raise the quality of services, especially for those people with little or no access to them. The proposals put forward in this document are designed to build bridges between social rights and policy guidelines aimed at broadening access, increasing the supply of financing and strengthening solidarity.

Special attention is therefore devoted to some of today's main social protection issues, including the reform and design of health and social security systems, taking into consideration both labour-market dynamics and the countries' fiscal positions. Support programmes for the poorest sectors of society are also examined. These analyses seek to pinpoint and delimit the necessary components of a new social covenant or contract that will enshrine the right to social protection.

This social covenant should also determine how to give expression to the principle of solidarity in the design of health and pension systems. It is not a question of simply choosing to raise social spending levels or increase the tax burden. Solidarity transfer mechanisms must also form part of the benefits system. The region therefore needs to take a fresh look at its social protection systems from the vantage point of an integral concept of solidarity so that it can link those systems' supporting pillars (especially their contributory and non-contributory components) by means of effective solidarity financing mechanisms.

At this juncture in their history, it is imperative for Latin American and Caribbean societies to devise ways of integrating individual equity with collective equity, the rationale for incentives with the rationale of solidarity. These are also the challenges that have prompted this study, in which ECLAC seeks to analyse viable options for consolidating Latin American and Caribbean citizens' full exercise of their social rights while at the same time rectifying the inequalities and managing the constraints and opportunities associated with the current globalization process.

Towards guaranteed universal health-care coverage

A complex picture

Health problems are one of people's greatest causes of apprehension. As society organizes itself to minimize health risks and guarantee health care for all its members, this feeling of vulnerability is largely alleviated, and citizens have a greater sense of protection and of belonging to the community.

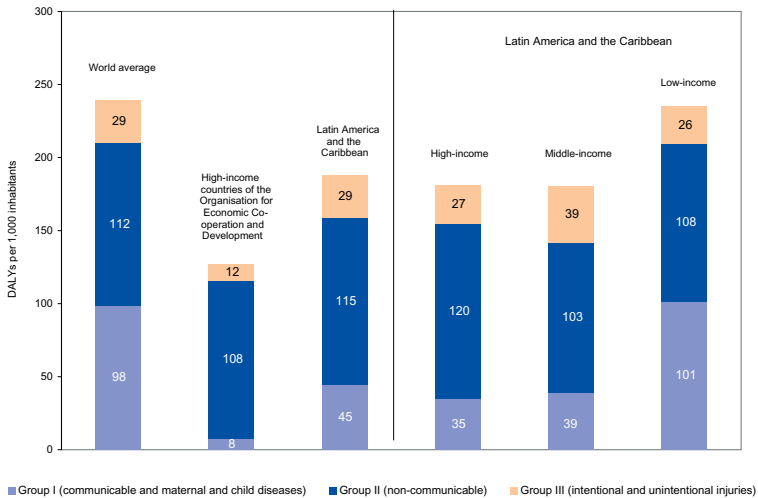
In the countries of Latin America and the Caribbean, health policies are facing both emerging and older challenges. As in the developed world, new challenges are arising from demand shifts driven by demographic, epidemiological and technological change. These shifts are making new services and treatments both possible and necessary, and are thereby increasing health service costs and the associated expenditures. The older challenges stem from the region's long-standing shortcomings in terms of access to responsive, high-quality health services, human and financial resources, and articulation of the different systems involved. The imperative to move towards universal health-care provision is a factor that is undoubtedly adding to the pressures on demand and expenditure in the sector.

If the right to health is to be firmly established, a twofold objective has to be pursued in the regional reform agenda. The first is a gradual strengthening of solidarity mechanisms designed to provide equitable access to health services for the whole population, regardless of individual risk or income. The second is a supply-side focus on increasing the efficiency of the region's allocation of scarce resources. The spectrum of health system reforms that can be adopted in the region will be determined

by the existing situation in each country, the level of coverage, financing methods and capacity, and demographic and epidemiological trends.

The situation as regards health-care needs in Latin America and the Caribbean is highly variable and, in some cases, disturbing (see figure 2). While, at the aggregate level, the region is rapidly closing in on the developed countries in terms of the effects of non-communicable diseases, it has yet to come fully to grips with the ailments associated with underdevelopment, such as communicable diseases and conditions affecting mothers and children. This phenomenon, which is often referred to as the “epidemiological backlog”, poses a twofold challenge for health-care systems in Latin America and the Caribbean. This backlog is much more severe in lower-income countries and weighs most heavily on their child populations.

Figure 2
**LATIN AMERICA AND THE CARIBBEAN AND THE REST OF THE WORLD:
 BURDEN OF DISEASE INDICATORS, 2002**
(Disability adjusted life years lost (DALYs) per 1,000 inhabitants)



Source: Figures provided by the Global Burden of Disease Project, World Health Organization (WHO), Geneva.

This complex epidemiological picture indicates that there is little scope for “quick-fix” improvements in the region’s health status. While greater investment in public health and service delivery is essential in some countries to bring down the high incidence of communicable and maternal and childhood diseases, because of the increasing incidence of non-communicable diseases, low-cost solutions are generally not going to be sufficient. In addition, the ageing of the population means that the burden of non-communicable diseases will inevitably increase as time goes on, and the demand for health services can therefore be expected to rise and to become more expensive to meet.

The countries’ ability to expand health-care coverage and access will largely be determined by the way health systems are organized in the region. These systems encompass a wide range of financing, insurance, regulation and service-delivery mechanisms and institutions. The functions involved are usually coordinated through a public health system, a social security system and the private sector. The differing ways in which these three subsectors are coordinated and interlinked give rise to different forms of operation and thus to different dynamics in terms of health-sector coverage, equity and efficiency.

Over and above the specific characteristics of each country, a number of common criteria can be identified which need to be taken into account in health sector reforms in the region’s countries. First, the countries will need to move ahead with the development of coverage mechanisms for costlier and more complex diseases. Second, given the need to deal with problems of social exclusion and inequity in health care, policies and instruments will have to be developed for the progressive universalization of coverage. Third, given the technological changes that have occurred in the health sector, constantly escalating costs and the projected growth in demand and financing requirements, measures to improve efficiency and reduce costs have become crucial elements in health reforms and policies.

For population coverage to be expanded effectively, health policies will have to enhance and universalize risk protection so that people are not prevented from seeking treatment because they cannot afford it. This will require simultaneous efforts in three directions: expansion of universal compulsory insurance systems, enhancement of traditional public-sector health services, and a renewed emphasis on efficiency and cost reduction in service provision.

Policies for effective coverage of health risks

If financing is to be based on universal insurance schemes, a number of elements need to be put in place. First, the relationship between the different sources of financing (general tax revenues, social security contributions and private expenditure) needs to be determined, since the degree of integration achieved will be the main determinant of solidarity and equity in health systems. Second, the mechanisms or instruments used to guarantee solidarity need to be explicitly defined. Third, the criteria for determining which services are to be covered by health insurance need to be established.

Integration of health systems and equity: towards integrated solidarity

Where health is concerned, solidarity can be said to exist when access to services is independent of people's contributions to the system and their actual ability to pay. While contributory and non-contributory financing are interrelated in the region's countries in different ways and to differing degrees, greater integration between social security and the public system can increase the synergies between the two, raising the level of financing available for solidarity purposes and enhancing equity. Furthermore, articulation between social security and public systems can have a positive effect on efficiency in cases where the subsystems' integration can lead to a fuller utilization of installed capacity and rationalization of resource use through the improved management and administration of those subsystems.

Given that most of the region's countries have only limited tax revenues and that social security health-care contributions are a major source of financing, the integration of contributory and non-contributory financing must be an option in the short and medium term. The integration of these two forms of financing could be carried out in many ways, and the region possesses a great variety of institutional mechanisms for this purpose, ranging from the financing of public healthcare provision exclusively out of general revenues, to systems in which there is a degree of integration between contributory financing and the national budget and, at the other extreme, countries where there is little or no integration or linkage (see table 1).

Table 1
**LATIN AMERICA AND THE CARIBBEAN: INTERACTION BETWEEN
 PUBLIC FINANCING AND SOCIAL SECURITY CONTRIBUTIONS
 IN THE HEALTH SECTOR**

Type 1	Type 2	Type 3
Financing: general revenue, systems integrated on the basis of non-contributory financing	Financing: integration of general revenue and social security contributions	Financing: little or no integration of general revenue and social security contributions
<i>The structure of provision differs between public and private providers</i>	<i>In all cases, financing and provision functions are explicitly separated to some degree. The level of financing integration also varies</i>	<i>The structure of public provision is heterogeneous and there are different types of linkage between the public and private sectors</i>
<i>Public and private provision:</i> Bahamas, Barbados, Belize, Brazil, Dominica, Grenada, Guyana, Haiti, ^a Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Bolivarian Republic of Venezuela ^b	<i>Type 2A:</i> Integrated, with contributory financing maintained and one standard level of coverage provided by social security: Costa Rica <i>Type 2B:</i> Integrated, with differentiated coverage between contributory and non-contributory financing: Colombia, Antigua and Barbuda, ^c Dominican Republic ^c	Argentina, Bolivia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay
<i>Public-sector provision only:</i> Cuba	<i>Type 2C:</i> Partially integrated dual model: Chile	

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Note: In all countries other than Cuba there is a private subsector that also provides health services.

^a In Haiti, social insurance is practically non-existent and provision and financing come essentially from the public sector and non-governmental organizations.

^b The reforms of recent years have increased public system participation and coverage.

^c Both Antigua and Barbuda and the Dominican Republic are in a transition period, implementing health reforms designed to make financing more integrated.

Whatever route is chosen, progressively greater integration and linkage between the social security health-care system and the public system is vital for improving the management of people's health risks, boosting the supply of services and enhancing the equity of coverage. The more segmented these two subsectors are, the harder it will be to finance solidarity mechanisms and the more inefficient the service-provider structure will be.

Definition of enforceable coverage guarantees

The universal right to health care is enshrined in the legislation of virtually all Latin American and Caribbean countries. When there are no guaranteed services and public financing is inadequate, it is difficult to ensure that the entitlement to that right will be respected, and it is often rationed by means of waiting lists, with little certainty regarding treatment times or transparency concerning the criteria used to prioritize different medical conditions. One way of making rights more enforceable and of dealing with funding problems and inequity in coverage is to create packages of universal, explicitly guaranteed services. These required treatment packages have to be available to the whole population, regardless of risk and income. The decision as to which types of treatment to include must be based on the health needs of the population as a whole.

A package of benefit entitlements is a useful way to facilitate insurance coverage, since it explicitly lays out the benefits to be financed and helps set prices for the different services. In addition to providing an organizational tool and reflecting budgetary constraints, the purpose of creating a package of universal, guaranteed rights is not to reduce individual coverage but to guarantee a level of health service coverage that is enforceable and, in principle, the same for all. These packages should be seen, not as a rigid structure, but as a way of setting priorities that can then be gradually extended. These treatment priorities must not be allowed to crowd out conditions that are not part of the package, however, and this means that care needs to be taken to see that the package's coverage does not absorb the entire capacity of the public system.

Efficiency, organization and oversight of the health system

One very common problem, both in the countries of the region and elsewhere, is that of rising health system costs. As noted earlier, a combination of demographic, epidemiological and technological factors has generated demand for new products and processes that require greater financial resources. Meanwhile, information problems and other failures in the health-care market are compounding the structural tendency for system costs to rise. Health expenditure has also been affected by the structural changes that have taken place in public and private health-care systems.

Separation of functions

The adoption of insurance systems makes it easier to separate financing from service delivery in health care. It can also generate incentives for cost savings through the articulation of public and private providers. In the context of the health sector, the function of insurance providers should not be confined to paying out on insured events. In other words, they should act not merely as payment dispensers but as health risk administrators, and they should be actively involved in the purchase of health services for their subscribers. By acting as efficient buyers on behalf of their subscribers, insurance providers can mitigate the problems of information asymmetries between providers and consumers, which in turn reduces the problem of induced demand. This also facilitates the use of payment mechanisms that encourage rationalization of resource use, since, as institutional buyers, insurers can encourage the progressive adoption of the capitation systems analysed later in this document.

Health service procurement mechanisms

The main advantage of separating the various functions is that it opens the way for the introduction of incentives to rationalize and improve the health service procurement capacity and operations of the funding institutions, be they health ministries, social insurers or private insurance firms. Rationalization of the procurement system entails, among other things, the use of payment instruments that shift part of the financial risk to service providers by bringing factors relating to the level and type of projected demand into the equation.

Although prospective mechanisms encourage efficiency and cost control, they also tend to restrict and lower the quality of services, since the provider has only these two parameters for aligning revenues with production costs. Retrospective payments, on the other hand, encourage an excess supply of health services and drive up expenditure owing to problems of induced demand and moral hazard.

Consequently, experience to date suggests that health systems need to use an appropriate combination of the two mechanisms. Ideally, the method chosen should be the one most appropriate to each situation, so that the payment unit employed is the one that best suits the financing organization and risks are distributed between this organization and the

provider in such a way that the latter bears the risks associated with the greater or lesser efficiency of service provision. Health ministries and social security institutions should also be allowed to purchase services outside the public sector in order to optimize the use of the country's installed capacity. This does not entail diluting the functions of public hospitals, however. In this case, as well as providing services, they play a key role in establishing protocols and shaping the cost structure, thus providing a benchmark and a discipline device for private providers in a context of yardstick competition.

Regulation and oversight

As reform drives change in the public/private insurance, financing and service provision mix, it is essential to progress with the development of regulation and oversight mechanisms. This is an issue that cuts across all types of financing and delivery systems, however they may be organized.

In health care, the market failures deriving from information asymmetries, which affect service provision and insurance alike, are compounded by the characteristics of the sector. While introducing competition is certainly desirable, it can only be effective and stimulate efficiency, given the existence of market failures, if the model to be used includes a sound regulatory structure. This applies to the regulation of both the quality and efficiency of service provision and the financial and actuarial aspects of insurance. In the interests of strong, vigorous oversight, it is best for a single body to be in charge of regulating and supervising the different subsectors.

Public health policies

In addition to the organization of insurance schemes, health policies need to include measures to encourage the entire population to use health services that yield major reductions in the incidence of disease. These services include highly cost-effective public health activities such as promotional campaigns and preventive or curative activities at the primary care level.

Expanding primary care

Increasing the coverage of primary care is crucial to the effort to improve access to health goods and services and thus improve the health of the population. Although expanding the coverage of primary care is always desirable, it is especially important in countries with low health-care coverage and a high prevalence of non-communicable diseases.

As part of reforms aimed at extending health-care coverage to lower-income populations and remote rural areas, efforts have been made to move primary care centres out of hospitals and into the heart of the beneficiary communities. This has been the strategy implemented by many countries in the region, either by engaging outside providers and non-governmental organizations (to take advantage of existing private-sector infrastructure) or by building and operating new medical facilities and health centres under the auspices of the health or social security ministry, as the case may be. A vital element in these initiatives has been a commitment to improving performance by using new resource allocation tools and separating financing from provision.

The new primary care models that have been developed in Latin America and the Caribbean have yielded not only substantial results but also valuable lessons for the redesign of health policies in the region. One such lesson is the importance of strengthening the primary care system across its components or health care, prevention and promotion, although this last aspect has been less developed than the other two. This being so, initiatives cannot be approached as isolated programmes; instead, the entire network needs to be redesigned, and the different levels of care have to be very closely coordinated. Costa Rica has piloted the most ambitious initiative of this kind, increasing the treatment and referral capability of out-patient facilities and establishing fairly clear gateways into the system for patients, along with referral and cross-referral procedures.

Coordination and compensation in decentralized systems

Since the 1980s, and especially during the 1990s, the decentralization of public health service delivery has come to play a central role in Latin American and Caribbean public policy. In the last few years, many of the region's governments have embarked upon processes that include reforms of the structure of powers and responsibilities. Generally speaking, these

processes are identified by the common denominator of “decentralization”, although in point of fact they are distinguished from one another by a number of specific characteristics. Be that as it may, they result in a larger role for subnational governments in managing public affairs.

Examination of health-care decentralization initiatives in Latin America reveals a great variety of patterns, with differences in the speed, sequencing and nature of the process used to reassign functions. In some cases, decentralization has been seen as a way of encouraging greater civic participation and supporting the region’s recent democratization processes. As decentralized health service provision has become increasingly dependent on local financial and human resources, however, the countries run the risk of witnessing a widening of quality gaps in situations where existing regional imbalances are already very pronounced. This being so, it is very important for reform policies to include the design and implementation of regional articulation and compensation mechanisms in order to foster equity and intraregional solidarity in the reform process.

Pension system reforms

Despite the many and varied efforts made by the region's countries to improve and reform their pension systems, they have been unable to provide adequate protection to large sections of the population. Thus, expanding coverage is still the main task at hand. Currently, just 4 out of every 10 people aged over 70 are in direct receipt of some type of pension or retirement income. Indeed, in some countries with lower per capita incomes, this proportion is below 20%, which signifies that inequalities in access to well-being are reproduced at every stage of people's lives.

To the extent that the pensions provided by contributory systems depend on people's ability to pay into these systems regularly over their working lives, pension coverage or benefits will be limited if contribution rates are low. Thus, the region's precarious labour market structure, as reflected in the low level of such rates and the close relationship between the type of position that people occupy within the labour market and their ability to contribute, tends to be carried over directly into the contributory social security system. Consequently, people in Latin America and the Caribbean have to live with uncertainty about the quality of life they can aspire to in old age. This makes the extension of coverage of non-contributory pension schemes all the more important.

Furthermore, the major demographic changes that are now approaching will eventually place growing financial pressures on pension systems throughout the region. Increasingly, countries using pay-as-you-go (PAYG) schemes will be forced to make substantial changes in their system parameters. This means there are enormous challenges to be overcome in

terms of the entitlement to social rights and their enforceability that can guarantee all members of society a decent and secure old age. For progress to be made in this direction, improvements must be made in pension systems' coverage, solidarity and financial viability. These objectives, which reinforce one another, must be present in any reform process.

Problems with contributory systems

One cause of the region's limited pension coverage is an excessive emphasis on traditional social security systems that rely on contributions to finance consumption needs in old age. Although these schemes have made a substantial contribution to protecting workers and their families in Latin America and the Caribbean against the risks of disability, old age and death, they have left out large sections of the population, particularly those working in seasonal, informal or low-productivity activities.

In most of the region's countries, the financing deficit of contributory pension systems has absorbed a large portion of scarce social funding, leaving little scope for the development of non-contributory schemes that could be used to extend solidarity-based pension coverage to all sections of the population. Most traditional PAYG defined-benefit social insurance schemes based on intergenerational "contracts" have begun to exhibit a number of financial problems in recent decades. Among other factors, these problems can be put down to demographic changes, unsustainable designs, the creation of sectoral privileges and a failure to make the necessary adjustments to system parameters in order to ensure sustainable financing over time (see table 2).

Table 2
**COMMON CRITICISMS OF PAYG AND
 DEFINED-BENEFIT SCHEMES**

Problem	Characteristic	Policy recommendations
Segmented systems with little portability ^a	Multiple high-cost private and public systems and special schemes	Standardize, unify and promote portability
Evasion or avoidance in pension or tax systems	Limited capacity for financing pensions out of contributions from wages or general taxation	Use individual accounts (financial or notional) to move to a conception of contributions as a form of saving and not as a tax
Complex benefit rules	Redistribution lacks transparency and is not necessarily progressive, providing little incentive to switch to formal working	Separate the contributory component from the non-contributory one, make solidarity more transparent and progressive
Low returns on reserve fund investments	Inadequate protection and oversight of returns on the funds used in social policies	Need for clear pension fund investment and oversight rules
Adverse demographic and labour market trends	Informal working and population ageing	Need to expand the contribution base and extend non-contributory coverage
Over-generous defined-benefit rules	The weakness of the link with contributions means that people pay in too little when young and too much in the latter years, creating a financial imbalance	Relate contributions more closely to benefits (defined contributions)
High administration costs	Caused by multiplicity of systems, duplication of functions and administrative inefficiency	Need to reform administration or introduce competition for fund administration

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ECLAC, "Pension systems in Latin America: diagnosis and reform alternatives. Case studies in Latin America and the Caribbean; conclusions and recommendations, *Financiamiento del desarrollo series*, No. 9 (LC/L.656), Santiago, Chile, 1991; Andras Uthoff, "Reforma a los sistemas de pensiones en América Latina y el Caribe", *Financiamiento del desarrollo series*, No. 29 (LC/L.879), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 1995; and Daniel Titelman and Andras Uthoff, "The role of insurance in social protection in Latin America", *International Social Security Review*, vol. 58, No. 2-3, 2005.

^a The problem of excessive segmentation has been most common in the countries of the region which established social security programmes earliest or had particularly decentralized State structures. In Colombia, some 1,000 social insurance programmes coexisted in the public sector at one point, while in Chile the year before the 1990 reform there were "cajas" (funds) for workers in different sectors. In Mexico, special systems for private-sector workers (12 million), federal employees (2.5 million), state employees (900,000) and para-State employees (247,000) currently coexist with special schemes for public-sector universities, development banks and municipalities. The average pension paid by the para-State sector in 1997 was about twice the average for other public-sector employees and over six times the average for workers in the private sector (Aguirre, 2005).

Reforms

Earlier reforms did not deal adequately with the complexity of the problems presented by pension systems in the region. On the whole, countries that opted to bring in individual capitalization schemes continued to have difficulties with financial sustainability and fiscal deficits, as the transition costs were higher and longer-lasting than anticipated (Uthoff 1995, ECLAC 1998). From this point of view, parametric reforms were more successful in some cases, since, with a few notable exceptions, they did not generate these kinds of costs. A common characteristic of all reforms, however, is that they have not succeeded in spreading the benefits of growth and modernity to the sectors traditionally excluded from contributory social protection. Thus, dealing with coverage problems is still one of the main challenges that lie ahead.

Structural reforms can be divided into three major types: (i) substitutive reforms, which completely replace the PAYG regime with an individual capitalization scheme; (ii) reforms that bring in parallel regimes, i.e., maintain the PAYG scheme but establish an individual capitalization component as an alternative to it; (iii) reforms that create mixed regimes, bringing in an individual capitalization component to supplement the PAYG regime.

Most of the region's countries have opted to keep their PAYG public-sector systems (although in some cases certain fundamental parameters have been altered) to avoid the fiscal cost of transition to a capitalization scheme. Parametric reforms designed to re-establish the financial equilibrium of PAYG systems, meanwhile, can be classified into two basic types: (i) those that tend to narrow the gap, at the individual level, between payments into the system and the pensions paid out by it, and (ii) those that tend to increase system revenue, reduce benefits or restrict eligibility.

It has recently been shown that, contrary to expectations, introducing capitalization components did not result in an increase in contributory participation. This is because of the low saving capacity of large sections of the population, the infrequency of their contributions, and the fact that their unmet basic needs make discount rates for future benefits so high that they have a strong preference for present consumption. Consequently, in the absence of reforms to strengthen the non-contributory components of pension systems, the most vulnerable groups (and women in particular) will be left outside contributory systems or their pensions will be quite small.

As well as being ineffective in extending pension coverage to sectors traditionally excluded from the formal economy, the introduction of individual capitalization accounts did away with much of the solidarity inherent in PAYG systems. As a result, the inequities people experience in their working lives have tended to be carried over and transformed into inequities in terms of pension benefits (ECLAC, 2002). To prevent this, some countries have introduced guaranteed minimum pensions or subsidies for pension contributions, but these mechanisms have proved ineffective in reaching the population with the least contributory capacity.

Where financing is concerned, capitalization-oriented pension reforms do, in principle, improve long-term fiscal solvency. In most cases, however, the cost of the transition has created large short- and medium-term fiscal imbalances that have sometimes become so severe that they have jeopardized macroeconomic stability and could ultimately undermine the protection for older adults that the reform was intended to secure.

The reform agenda

The region's countries are now faced with the twofold challenge of extending pension coverage to all older adults and ensuring the short- and long-term financial sustainability of the system as a whole. Perhaps one of the greatest lessons that has been learned is that, the situation in the countries of the region being what it is, pension system reform cannot be based exclusively on the contributory component.

The emphasis of each country's policy agenda will depend, among other factors, on the situation from which its pension system starts out, its public financing capacity, its level of pension-related contingent liabilities, and each society's preferences in relation to efficiency and solidarity. A number of aspects that need to be considered in national debates on the issue are outlined below.

Coverage and solidarity

Given that large sections of the population have little or no saving capacity, and in view of the trend towards increasing informality and precarization of employment over the last two decades, reforms should be aimed at developing or improving non-contributory schemes to increase

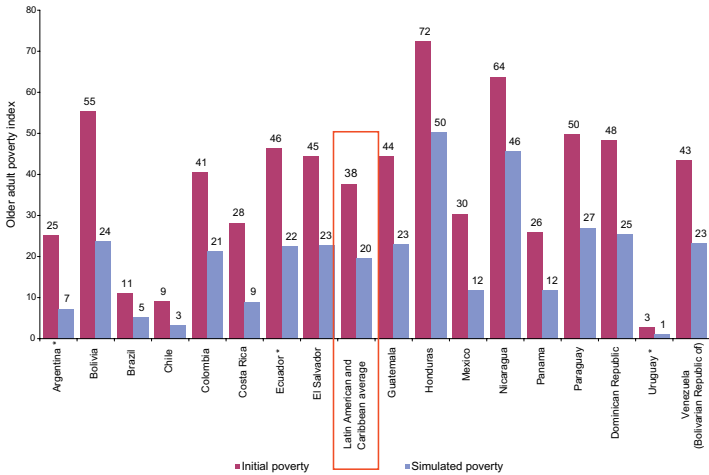
coverage, without neglecting the necessary changes in contributory systems. Non-contributory schemes should be regarded as essential tools for providing access to decent pensions for all people who are unable to pay contributions, rather than as a means of providing handouts based on uncertain funding arrangements. Steps also need to be taken to strengthen solidarity schemes for lower-income contributors, to encourage contributory participation by workers who have some saving capacity but do not at present pay into the system, and to ensure that the contributory and non-contributory schemes are properly integrated.

Strengthening the non-contributory component

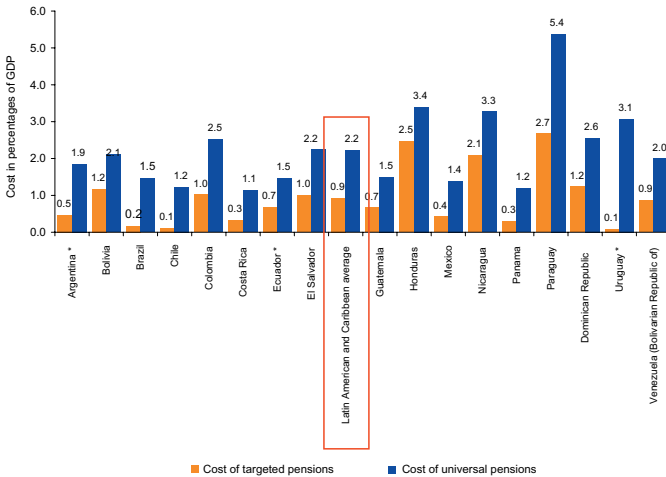
The most direct way of attaining universal coverage is to guarantee a minimum income to everyone over a certain age, regardless of their contributory history or alternative income sources. Because of budgetary constraints, however, these non-contributory pensions have to be targeted at older adults with lower incomes. As figure 3 shows, providing a large enough targeted pension to halve the incidence of poverty among over-65s costs an average of 0.9% of GDP. A universal pension would have the same effect on poverty, but at a cost of the equivalent of 2% of GDP. As may be seen from figure 3, countries vary greatly in this respect; in some cases, even a targeted pension would cost more than 2% of GDP.

Figure 3
LATIN AMERICA: COST AND EFFECT ON POVERTY OF TARGETED AND UNIVERSAL PENSIONS

Effect on poverty
(Older adult poverty index)



Cost of targeted and universal pensions
(Percentages of GDP)



^a Urban surveys.

Fuente: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of household surveys conducted in 2002, except Paraguay (2000), Brazil, Nicaragua and El Salvador (2001) and Chile (2003).

*Incentives for participation in contributory regimes
and contributory solidarity*

Although it has been shown that efforts to encourage people to pay contributions have not solved pension coverage problems at the aggregate level, a proper incentive structure can be effective in raising contributions among certain segments of the population and in helping to reduce underreporting.

The strategy followed by numerous reforms to encourage contribution has been to increase the correlation between the amount paid in and the benefits received. This correlation should not be absolute, however, since (contributory and non-contributory) solidarity mechanisms are required to help improve pension quality for lower-paid workers. This is particularly important since, as the ratio between contributions and benefits narrows, the contributory solidarity inherent in traditional PAYG schemes tends to be undermined.

The relationship between contributory and non-contributory components has to be carefully assessed in order to ensure that the compatibility rules applying to pensions of the two types and the mechanisms used to target non-contributory pensions do not create incentives for non-contribution. The system design has to allow non-contributory pensions to be compatible with contributory ones –i.e., a person must be able to receive benefits from both systems simultaneously– and it has to include a phase-out mechanism for non-contributory benefits. In other words, the targeting of non-contributory benefits has to be calibrated in relation to a basic pension amount, but once a certain cut-off point has been reached, this amount needs to be reduced as a function of the applicants' degree of unmet need.

Financial viability and transition costs

Most of the region's countries are currently having difficulties in financing pensions for their populations. The problem will be compounded by future requirements deriving from the ageing of the population. Consequently, full financial sustainability for pension systems has to be a key element in any reform. Inasmuch as pension systems in the region need to incorporate contributory and non-contributory components, the financial viability of any reform process

will depend on both fiscal trends and the actuarial trends of the contributory models used by the countries.

Where contributory pensions are concerned, as noted earlier, the introduction of individual capitalization schemes tends to improve the long-term actuarial situation of pension systems but also entails transition costs that can seriously undermine the reforms' financial viability. To reduce these costs, reforms need to move gradually towards contributory systems that combine a unified and reformed PAYG component with an individual capitalization component.

This not only holds down transition costs but can also facilitate the diversification of economic risk, since the financial viability of a PAYG system is more sensitive to variations in the real sector of the economy, whereas a capitalization system is more responsive to changes in the financial domain. This combination also facilitates better diversification of demographic risks when dependency ratios change.

As previously stated, parametric reforms can be classified into two basic types: those that tend to narrow the gap (at the individual level) between payments into the system and the pensions paid out by it, and those that tend to increase system revenue, reduce benefits or restrict access. The first category encompasses modifications that increase the number of contributions used to compute the base revenue from which pensions are calculated, as well as rules that tend to penalize early retirement and reward those who retire later. Notional account schemes are an example of a reform of this kind. These schemes, under which benefits are calculated from an individual's complete contribution history, plus other demographic variables, can be used to correlate contributions and benefits more closely and reduce transition costs. Parametric reforms of the second type include those that increase overall system revenues or reduce the total amount of benefits paid, either by raising contribution rates, changing pension indexation mechanisms, or increasing the legal retirement age (on the basis of greater life expectancy) or the number of contributions required to qualify for a pension.

In the light of the principles set forth in this document, mechanisms that tend to sacrifice benefits in pursuit of financial sustainability should be used with caution if the means are available to share out the burden of making PAYG public-sector schemes financially viable among all workers.

Gender considerations

One of the greatest changes to occur in Latin American society has been the gradual shift in family structures away from two-parent households with children and a single provider and towards households in which women play a greater role in the labour market. Given the unequal division of household functions, women have had to find ways to reconcile family care with participation in the workplace. As a consequence of this, and in conjunction with the tradition of gender discrimination seen in the region's labour markets, women's capacity for contributing to pension schemes has remained low.

While pension systems cannot solve this problem, it would be advisable to review the use of mortality tables to prevent discrimination associated with demographic factors and to promote gender solidarity in financing. Measures are also needed to cover the enormous contingent liabilities resulting from the difficulties women face in financing their own benefits under present conditions.

System unification

The coexistence of a variety of special pension regimes within a single system has become a major source of inequity and has generated additional financial pressures, as these regimes tend to absorb substantial resources and benefit only a small fraction of the population. Above and beyond the question of equity, then, the unification of such systems is therefore worthwhile from a long-term financial perspective. To achieve this, reforms are needed to promote standardized, unified and portable benefits. The solidarity component aside, relating pension contributions more clearly with benefits tends to facilitate unification.

Social programmes and the challenges they face

In recent years, a great deal of attention has been paid to the link between poverty and other types of needs that account for its presence and are intertwined with it. Examples include a lack of productive skills, assets and access to social and symbolic capital, as well as other social, cultural and political components. People's exclusion from or lack of these capabilities, assets and networks is synonymous not just with poverty, but with an inability to fully exercise their citizenship. This prevents people from participating fully in society and from properly enforcing their rights. Consequently, the State and society at large have a responsibility to provide resources, both material and symbolic, that can enable people to escape poverty; indeed, this is a key area of public policy.

Social programmes whose aim is to lift people out of poverty should not be restricted to covering urgent short-term needs. They should also foster the development of networks and capabilities that can further the social inclusion of beneficiaries in the medium and long terms. Furthermore, the persistence of poverty and indigence among significant segments of the population has given rise to a consensus in the region about the impossibility of finding a rapid solution and to agreement on the need to grasp the complexity of poverty's different manifestations. This is due as much to economic volatility as to shortcomings in terms of human capital and constraints on the creation of stable, high-quality employment. Because of these factors, some public-sector activities may have a short-term effect but may fail to equip families with the tools they need to escape from poverty through their own efforts in the long run.

This is why programmes designed to relieve the manifestations of poverty in the short term need to be supplemented by measures to remove its structural or intertemporal causes. Along with low income levels, poor families suffer from shortfalls in human capital in the areas of nutrition, health and education, among others, which undermine their younger members' future prospects, as well as equality of opportunity. Other factors that systematically contribute to the intergenerational reproduction of poverty are gender, membership in an ethnic minority and residence in rural areas, which constitute clear social disadvantages. Again, repeated exposure to temporary adversities tends to penalize the poor most, as they have fewer resources with which to confront them.

Poverty is a process and a relationship, and policies to combat it need to take account of this fact, as well as of its multidimensional nature. The diversity of social programmes in the region reflects this multidimensionality, which translates into a great variety of goals and approaches. Indeed, the spectrum runs from social benefits (in the form of payments in cash or in kind, or social housing) to networks for managing risks and vulnerabilities among particular population groups and initiatives with a productive orientation.

A variety of social programmes in the region's countries have set out to stimulate human capital development. Directly or indirectly, this objective underlies projects in the areas of nutrition, childcare, education, health, training, housing, infrastructure and sanitation. Social programmes have increasingly focused on the synergies between the different dimensions of human capital as an element in long-term development and anti-poverty efforts. Accordingly, special attention will be paid in the pages that follow to employment-related emergency programmes, which have great coverage and visibility at times of crisis, and to conditional transfer programmes, which are being widely applied in the region and are a promising area of endeavour in terms of their potential for innovation.

This spectrum by no means includes all policies for dealing with poverty and raising the level of social protection for the most vulnerable groups. Nonetheless, it is particularly representative of the work being done to combine short-term emergency assistance with the expansion of capabilities over the medium and long terms and with efforts to promote productive employment opportunities.

Other high-budget, wide-coverage or innovative social initiatives in the region have also been undertaken in recent years. Cuba's unrestricted universal access to health care, education and social protection represents an alternative approach to human capital development. The country's comprehensive network consists of 167 social programmes, accounting for over 65% of the State budget. Other examples are the Bolivarian Republic of Venezuela's "missions", particularly the Misión Mercal, which directly retails food at low prices, the Misión Barrio Adentro in the area of health care, and the Misión Robinson, which provides literacy training; childcare programmes such as the child welfare homes of the Instituto Colombiano de Bienestar Familiar (Colombian Family Welfare Institute (ICBF)) and the Programa de Atención Integral a la Niñez Nicaragüense (Comprehensive Nicaraguan Childhood Assistance Programme); skills and training initiatives such as Jóvenes en Acción (Youth in Action) in Colombia, the Programa de Becas de Capacitación para Trabajadores Desempleados (Programme of Training Grants for Unemployed Workers (PROBECAT)) in Mexico and the Programa Nacional de Qualificação do Trabalhador (National Worker Training Plan (PLANFOR)) in Brazil, among others; and numerous programmes for mothers and children, such as the Programa Arranque Parejo en la Vida (Fair Start in Life Programme) in Mexico and Maternidad Gratuita (Motherhood for Free) in Ecuador.

Although solving social protection problems is an indelegable responsibility of the State, participation by citizens and civil society can enhance State initiatives because it provides a way of passing on the social learning that is spread throughout a community, thereby making programmes more adaptable to people's needs and cultural heterogeneity at the local level. Accordingly, it is worth touching on the different social innovation programmes developed by communities, by civil society and, within the framework of corporate social responsibility initiatives, by the private sector.

Employment-related emergency programmes

Today's employment-related emergency programmes were first developed as a response to the crisis that hit the region in the 1980s. However, as a consequence of the problems of structural unemployment and persistent poverty associated with the region's low and volatile economic growth rate, these programmes have often become permanent features,

regardless of what phase of the business cycle the region is experiencing or whether any crisis is in progress or not. Thus, at this point they can be regarded as employment-targeted poverty reduction programmes.

These initiatives have a direct and countercyclical effect on household income, as they allow households to earn extra income during times of economic hardship. They also play an important social protection role, as they provide transfers that prevent household incomes from falling below critical levels.

The experience to date indicates that a typical employment-related emergency programme in the region provides short-term jobs for semi-skilled or unskilled workers in labour-intensive projects involving the creation and repair of economic, social and community infrastructure. In return for participating in such projects, beneficiaries are provided with cash transfers or food.

These programmes have some operational advantages as a method of coping with crisis situations. They are flexible, they can be implemented quickly when emergencies arise, and they can be used to channel resources and capabilities from the third sector, businesses and the beneficiary communities.

Temporary employment programmes are being used in Latin America and the Caribbean to cope with phenomena as diverse as seasonal fluctuations in agricultural work, the consequences of natural disasters, the aftermath of armed conflict and food insecurity. Coverage as a proportion of the economically active population has been considerable. In GDP terms, the cost of these programmes is about 0.43% of GDP, but it has reached levels of close to 1% of GDP in the largest-scale programmes.

The available impact assessments indicate that employment-related emergency programmes have been fairly effective in responding to crisis situations, as they have provided incomes to the population groups that are the most vulnerable to economic crises in the region. In the programmes for which information is available, a majority of beneficiaries have been below the poverty or indigence line. Their positive short-term effects in terms of monetary incomes have primarily benefited women, and the initiatives with the highest levels of coverage have brought down indigence or extreme poverty rates. Although these programmes have created temporary employment in the short term, there is no consensus concerning their ability to create stable jobs.

The main challenge, therefore, is to equip beneficiaries with productive skills so that these programmes are not relegated to a role as stop-gap mechanisms. This calls for the introduction of stronger vocational training components, better linkages with production policies and predetermined programme exit mechanisms for beneficiaries.

Human capital and long-term effects: conditional transfer programmes

Poverty shapes the development opportunities that families transmit from generation to generation. The low educational level of large strata of the population is an important mechanism in the intergenerational transmission of poverty. For young people in the poorest strata, low levels of schooling and a lack of access to high-quality education close off the main channel of social mobility and inclusion. Again, lack of food and unequal access to infrastructure (drinking water, sanitation) and adequate health services result in physical underdevelopment, thereby further reducing people's ability to acquire knowledge.

In response to these situations, social programmes in Latin America and the Caribbean have a long history of initiatives aimed at enhancing human capital. Using different mechanisms and working in different dimensions, these initiatives have sought to provide opportunities for productive employment and to influence the family and community environment. In recent years, these interventions have been supplemented by a new generation of initiatives, namely conditional transfer programmes. These programmes combine immediate poverty relief aimed at covering income deficits with measures to strengthen the human capital of the younger generations, thereby fostering positive synergies between these short- and long-term goals and between different dimensions of human capital. This is done by making assistance in cash or in kind contingent upon compliance with health or education requirements.

The main innovative features of these programmes include the following: particular stress is placed on the co-responsibilities of beneficiary families; the conditions established for the receipt of transfers are used as incentives at the household level, rather than as a form of self-selection or targeting, and as a way of linking short- and long-term goals; explicit emphasis is placed on seeking out sectoral synergies for human capital accumulation, not only for school-age

children but in early infancy as well, and on empowering families, especially women, based on the leading role they are called upon to play as recipients and administrators of benefits and in disseminating activities and supervising operations at the local level. Many of these programmes are well funded and have fairly clear eligibility criteria. As a result, they have high coverage levels, unlike earlier initiatives that were concentrated in restricted geographical areas or had vaguer entry criteria.

These programmes' educational requirements have to do with minimum levels of school attendance by children. Health and nutrition requirements, meanwhile, make transfers conditional on visits to primary health-care centres so that mothers and their children can be provided with preventive health-care and nutritional services. Often, adults are also required to participate in health and nutrition information workshops.

These programmes have made it possible to cover significant segments of the population at a reasonable cost (see table 3). The bulk of the beneficiaries are in the poorest quintiles of the population, although there is a great deal of room for improving programme coverage in the first quintile. With most programmes, cash transfers have resulted in higher household incomes, although they have not always been set high enough to have a significant effect on poverty rates.

The available information also indicates that these programmes have had a significant effect in terms of human capital accumulation. Their impact in relation to education is positive in both the short and medium terms, and this is reflected in school enrolment and attendance rates, grade promotions and additional years of schooling, among other indicators. Child labour has also been reduced, albeit to a lesser degree. In the only case for which data on learning outcomes are available (the Oportunidades programme in Mexico), however, the results have been less encouraging.

On the whole, the various programmes' effects in the areas of health and nutrition have also been positive. There have been substantial increases in preventive health check-ups, access to health services and use of out-patient services. Evaluations show that these effects are greatest for infants and younger children.

As for the effects of conditional transfer programmes in terms of the institutional framework for social policy, considerable efforts at integration have been made at the sectoral level, although in a number of cases there

Table 3
**COVERAGE AND COST OF EIGHT CONDITIONAL TRANSFER
PROGRAMMES IN LATIN AMERICA AND THE CARIBBEAN**

Programme	Beneficiaries/Population (percentage)	Expenditure/GDP (percentage)
<i>Bolsa Família</i> (Brazil, 2003)	16.0	0.28
<i>Chile Solidario</i> (Chile, 2002)	6.5	0.10
<i>Familias en Acción</i> (Colombia, 2001)	4.0	0.30
<i>Superémonos</i> (Costa Rica, 2000)	1.1	0.02
<i>Programa de Asignación Familiar</i> (PRAF) (Honduras, 1990)	4.7	0.02
Programme for the Advancement of Health and Education (PATH) (Jamaica, 2002)	9.1	0.32
<i>Oportunidades</i> (formerly <i>Progresá</i>) (Mexico, 1997)	25.0	0.32
<i>"Mi Familia"</i> social protection network (Nicaragua, 2000)	1.2	0.02

Source: Pablo Villatoro, "Los nuevos programas de protección social asistencial en América Latina y el Caribe", working document, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2005, unpublished.

have been problems in coordinating transfer programmes with education and health-care providers (Rawlings, 2005). To cope with these difficulties, intersectoral coordination units or mechanisms have been created at differing levels for some programmes. One very important aspect is the increasing institutionalization of programme design and implementation. In the cases of the *Oportunidades* and *Bolsa Família* programmes (the two largest social programmes in the region), a number of fairly scattered initiatives have been drawn together thanks to a political consensus that has made it possible to create institutions powerful enough to coordinate these efforts. A sustained effort is required from the public sector if progress is to be made with programmes that pursue tangible goals in education, health care and nutrition. Sound social institutions capable of ensuring that programmes and their long-term goals remain consistent over time

are essential in order to move forward in this area, especially in view of the wide range of short-term demands that the region's governments must contend with (Machinea, 2005).

Future challenges

For all that has been achieved, there is still work to be done, particularly when it comes to establishing rights and obligations, empowering women, fostering citizen involvement and social capital, matching the supply of services to demand, and expanding the employment prospects of beneficiaries.

Rights and obligations

Citizenship involves relationships between rights and obligations. In conditional transfer programmes, these relationships are reflected in the complementarity between the transfer of income by the State and the commitments required from families in return. The relationship between benefits and obligations also acts as an effective tool for providing families with incentives and fosters positive synergies.

However, it is important to forestall any unwanted negative effects that conditionality might have on beneficiaries; conditionality should be seen as just one of the tools available to social programme designers and should be assessed in the light of its potential effects in each particular situation.

Another important principle when it comes to consolidating the ownership of rights is that social programmes should actively seek out eligible families and bring them into the system, rather than simply waiting for those who need help to apply for it. In many cases, the target populations of social programmes have little connection with the established institutional structure and little exposure to official information campaigns, making them unlikely to respond to public-sector initiatives on their own accord.

Citizen participation and empowerment

In programmes to support the poorest sectors of the population, empowerment, participation and the creation of social capital should be treated as both means and ends. As means, they represent tools that can be used to improve programme effectiveness through the use of

synergies and a better utilization of community assets, while at the same time enhancing the enforceability, accountability and transparency of procedures. As ends, they represent victories in the sphere of citizenship, as they engender empowerment, inclusion and a voice in public affairs for beneficiaries. However, neither the community dimension nor the creation of social capital has been singled out as an explicit priority in transfer programmes, and the social capital approach has yet to be put properly into practice in the specific areas of management and design.

Greater empowerment for women in the context of conditional transfer programmes has translated into a heavier workload for them due to programme requirements relating to their families and to their participation in the promotion of community involvement. Programmes need to be designed in a way that balances women's new role with the new obligations that are created, particularly considering the heavy workload borne by women both within and outside the family.

Citizen involvement in programme management and evaluation is another pending challenge. Greater citizen oversight translates into greater potential influence, since it opens up access to the authorities and programme managers as well as to information that can be used to evaluate the latter's performance. Beneficiary participation also provides greater influence and capacity for dialogue, endowing people who have traditionally had little access to the decision-making sphere with more of a "public voice". Yet another benefit of citizen involvement is that it inevitably leads to greater transparency and accountability in public-sector activities, thus restraining mismanagement, corruption and abuse.

The benefits of citizen participation are not confined to better social programme management. It also stimulates civil society's involvement in the design and implementation of initiatives (particularly where adaptation to local circumstances and the cultural heterogeneity of beneficiaries is concerned), resource allocation and priority-setting. Thus, greater participation should ultimately enrich social programmes themselves by encouraging transmission and utilization of the social learning that is spread through communities.

Social capital

It is also important to continue efforts to incorporate the social capital dimension into anti-poverty programmes since, by fostering the networks

that link poorer sectors to one another and the rest of society, it can be a force for greater inclusiveness. Incorporating the social capital principle into anti-poverty programmes reinforces existing social relationships in the communities where the programmes are to operate and community members' participation in decision-making. If programmes ignore the dynamics of the communities themselves and the self-management processes that form part of their historical memory and tradition of collaborative community activities, they will be unable to build on existing organizational arrangements in the target groups or on existing networks or positive leadership roles.

Matching service demand and supply

When social programmes are based on incentives designed to stimulate demand for services (education and health care, among others), a matching supply of the relevant services has to be in place. The obligation to attend school and health-care and nutrition centres involved in some of these programmes can only take full effect if there is a network of schools, medical facilities and qualified professionals to provide these services. But it is in these very areas of education and health care that the region's poor are subject to a severe deficit in terms of access. Such programmes therefore need to include a verification stage, in which the supply of services and ease of access to them are ascertained, and to have the budgetary and administrative resources available to rectify any shortfalls that are identified. Activities of this type require a level of intersectoral coordination that is not always clearly in evidence in social programmes. It is essential, therefore, to strengthen initiatives in a variety of areas, including institutional arrangements for intersectoral coordination ranging from the creation of social advisory committees and networking measures to the establishment of a lead social authority.

Service availability depends, furthermore, not just on the quantity but also on the quality and inclusiveness of the available supply. People from deeply underprivileged environments require interventions tailored to their characteristics and needs, since a homogeneous supply in heterogeneous situations can only result in the perpetuation of initial differences that are incompatible with the principle of equity. This heterogeneity of supply must take the form of greater adaptability to the particular conditions of those requiring the services, but without increasing segmentation in

respect of quality. A final point is that anti-poverty social programmes should not be coordinated solely within the framework of health and education services; it is also important to build bridges with other areas of State activity, particularly public-sector infrastructure, housing, drinking water, sanitation and transport policies.

Productivity and employability

Building human capital is one of the main mechanisms for reducing future inequalities and overcoming the intergenerational reproduction of poverty, as it improves people's capacity for productive work. It is still too soon to evaluate the effect of conditional transfer programmes on future poverty levels among today's children, however, since the outcome will depend not just on the accumulation of human capital but also on job opportunities once beneficiaries have left the programme. Improvements in the employment situation of the poor cannot be guaranteed, given the severe difficulties that the region's economies have in creating decent jobs (ILO, 1999).

These difficulties are reflected both in the economic structure and in the recent track record of the region, which has experienced severe crises and a high degree of volatility, together with the resulting insufficient, sporadic growth and rising unemployment, among other negative consequences. Accordingly, efforts to use social programmes to enhance education, health care and nutrition need to be tied in with production policies to stimulate a growing supply of decent work.

In order to do this, steps must be taken to strengthen the productive development process. Policies to improve economic performance have been analysed by ECLAC on a number of occasions, and particularly at its last session (ECLAC, 2004). A vital area of endeavour in this regard is the formulation of policies to backstop small businesses and microenterprises. These policies are an important complement to anti-poverty strategies, especially considering that some two thirds of new jobs created in the region in the 1990s were in the informal sector. It is also important for productive policies to be linked to macroeconomic policies to accelerate and stabilize growth and for policymakers to appreciate that the problem of informality is not going to be resolved in the short term. "Formalizing" employment requires sustained growth dynamics and active employment and productive modernization policies.

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