OHCHR
Comparative analysis in the Latin American region on social protection systems in light of their fiscal systems and mapping of promising practices

-DRAFT-

May 2022

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Acronyms

ANSES	*Administración Nacional de la Seguridad Social*
AUH	*Asignación Universal por Hijo*
BEPS	*Beneficios Económicos Periódicos*
CCT	Conditional Cash Transfer
ECLAC	Economic Commission for Latin America and the Caribbean
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
ISSSTE	*Instituto de Seguridad y Servicios Sociales para los Trabajadores del Estado*
OECD	Organisation for Economic Co-operation and Development
OHCHR	Office of the High Commissioner for Human Rights
SP	Social Protection
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VAT	Value-added tax

1 Introduction

Although universal and regional human rights instruments recognise the right to social security and the right to an adequate standard of living across the globe, countries have not yet achieved universal social protection coverage. The fragmented nature of social protection delivery in Latin America, as well as the existing coverage gaps, are largely linked to the lack of or insufficient investment in the social protection sector, as well as the underlying policy choices States have made.

It has been stated that Latin America finds itself trapped in persistent high inequality and low productivity, and that one of the solutions the region has been flirting with is that of "universal, inclusive, fiscally sustainable, and growth-friendly social protection systems".[1] This major steer towards more inclusive public policies in social protection would hence better address the "segmentation of the labour market",[2] provide better coverage of risks and vulnerabilities for individuals across the lifecycle, and comply with the progressive realisation of the right to social security.

As stated by the United Nations High Commissioner for Human Rights "social protection systems are not a drain on resources: they are an invaluable investment in sound societies".[3] Moreover, States have an obligation to respect, protect and fulfil social and economic rights, such as the right to social protection. Furthermore, it has been argued that the global pandemic due to COVID-19 has "brought to the forefront the importance of developing universal, inclusive, resilient and sustainable social protection systems to achieve a transformative recovery with equality and sustainability" that requires a new social and fiscal compact.[4]

This comparative study will undertake an assessment of social protection systems -in light of their fiscal policies- in the Latin American and Caribbean region from a human rights perspective. The final objective of the regional study is to generate recommendations in support of states' commitments to achieving social protection for all. Given the economic recession, resulting from COVID-19, and the wave of fiscal stimulus packages underway in the region, the study will provide OHCHR strategies and entry points to promote universal social protection systems on the ground.

[1] (UNDP 2021). https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=27739&LangID=E
[2] (UNDP 2021).
[3] (Bachelet 2021)
[4] (ECLAC Press Release 2021).

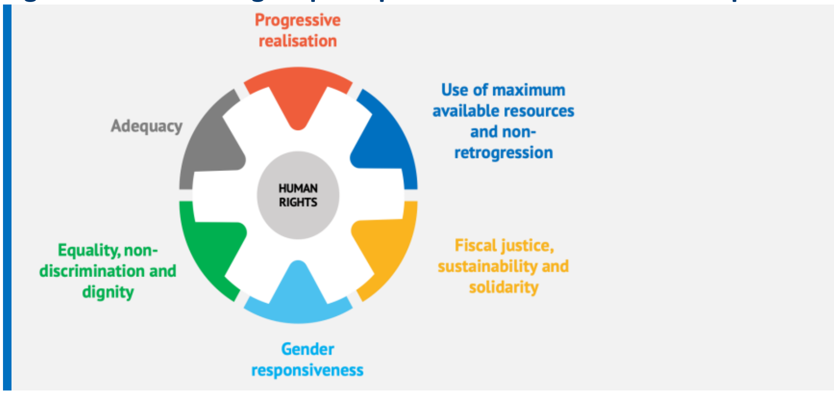
2 Description of analytical approach

In assessing Latin American and the Caribbean social protection systems in light of their fiscal systems, this comparative study will be guided by core human rights considerations, including:

- States' obligation of progressive realisation and ensuring minimum essential levels of social protection[5]
- States' obligation to use the maximum of available resources and the prohibition of retrogression
- Fiscal policies from a framework of human rights principles (fiscal justice, sustainability and solidarity pillar)
- Equality, non-discrimination
- Human dignity principles and respect to autonomy of individuals
- Gender responsiveness
- Coordination and coherence
- Adequacy
- Obligation of international cooperation

The study's conceptual framework is based on a human rights-based approach to social protection; the core elements of an inclusive lifecycle social protection system; and some of the key human rights principles, standards and obligations that should guide policymaking and implementation in this sector. The human rights framework, when applied to social protection provides governments with clear guidance on the principles, standards and obligations that should be followed in the design and implementation of public policies in this sector. Social protection programmes and services design parameters not only have technical implications, but also impact the realisation of human rights, and further have considerable budgetary aspects that must be taken into consideration. Social protection policy and design decisions are not made in a vacuum, and should take into consideration human rights frameworks that governs them. Figure 2-1 shows some of the human rights principles, standards and obligations that apply to the right to social protection, as pertinent to this particular comparative study.

Figure 2-1: Human rights principles and standards for social protection[6]



[5] (According to General Comment No. 19: The Right to Social Security (Art. 9 of the Covenant) 2008, is States obligation to ensure on a non-discriminatory basis a social security scheme that provides a minumum essential lievel of benefits.

[6] Please note that only those most pertinent to the comparative study have been selected.

According to current conceptualisations around fiscal space for social protection (for example, ILO's publication "Fiscal Space for Social Protection" (Ortiz et al. 2019)), it is imperative that governments explore all possible alternatives to expand fiscal space to promote national development and ensure social protection.[7] Some of the main considerations to assess fiscal policies for social protection (in addition to the human rights principles, standards, and obligations mentioned above), include the following:

- Improving efficiency and reallocating public expenditures
- Increasing tax revenues
- Expanding social security coverage and contributory revenues
- Increasing aid and transfers
- Eliminating illicit financial flows
- Tapping into fiscal and foreign exchange reserves
- Managing debt: borrowing or restructuring sovereign debt
- Adopting a more accommodative macroeconomic framework

This paper analyses quantitative and qualitative information for Latin America on current trends in terms of social protection, tax and fiscal policies. For this assessment, the extensive bibliography covers reports authored by several international organisations, UN human rights mechanisms, media outlets, as well as academic literature. Regarding quantitative statistical information, most of the data has been obtained from international organizations' databases, such as ECLAC, OECD, ILO, UNICEF and World Bank consolidated data. Social protection budget and related indicators were taken from the ILO's World Social Protection Report and ECLAC. Data on social protection measures in response to COVID-19 was obtained from UNICEF reports. Tax data was taken from the OECD Tax Database Revenue Statistics. Most qualitative data is based on secondary data and desk literature review.

Based on this information, a descriptive analysis is proposed with the objective of showing the existing gaps in the scope of different indicators for Latin American countries compared to global standards, as well as to highlight the differences amongst countries in the region. In addition, the study seeks to draw some conclusions and provide policy recommendations for the expansion of fiscal space in the region, to further contribute towards States' compliance with the right to social protection.

[7] (Ortiz et al. 2019; Ortiz, Cummins, and Karunanethy 2017).

3 Comparative analysis on social protection and fiscal systems from a human rights lens

Based on the conceptual and human rights framework described previously, this section will provide a comparative analysis of Latin American, and some Caribbean countries advances from a human rights perspective.

3.1 Right to social protection and coverage

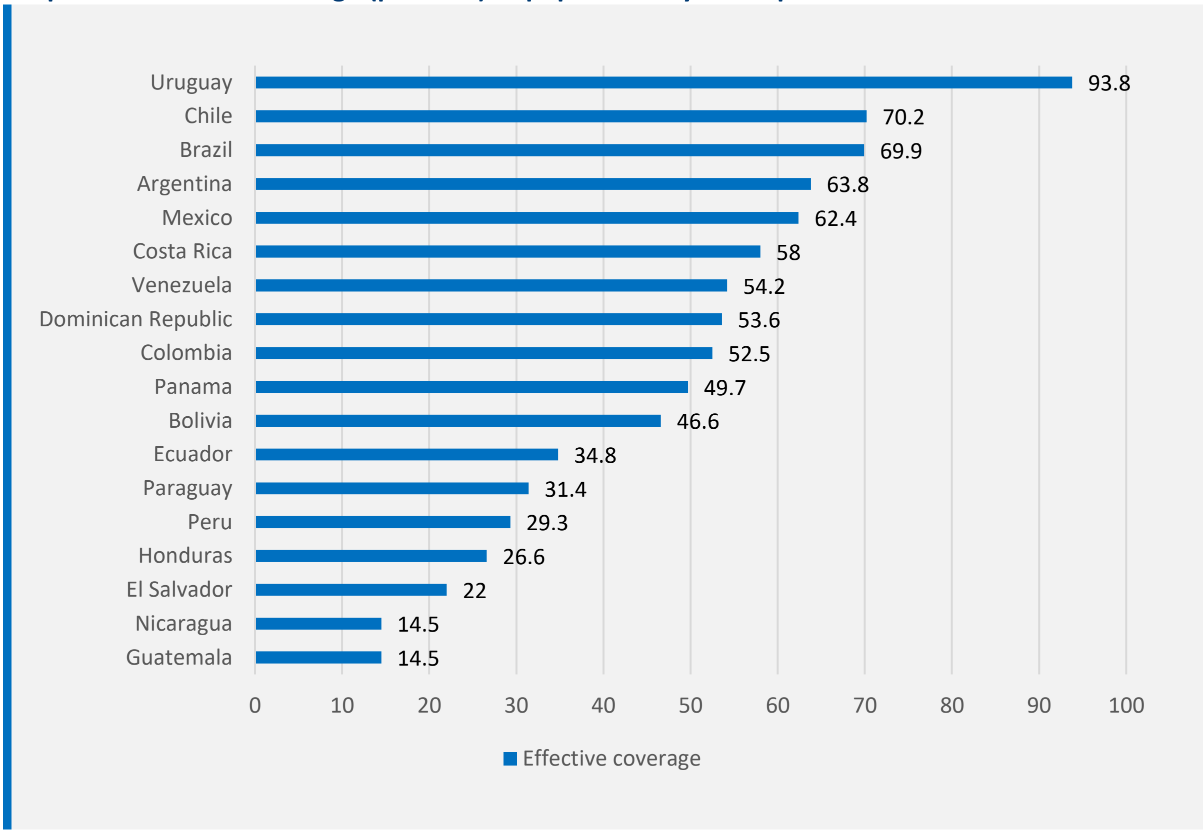
The international normative framework around social security ends up being, in many instances, translated into national legislation, further consolidating the right to social security. In general terms, Latin American constitutions are among the most advanced and detailed when it comes to the incorporation of the right to social security.[8] Furthermore, constitutions in the region also provide several social security provisions covering risks and vulnerabilities over an individual's lifecycle, thus indicating the role of State responsibility and a more inclusionary approach than other regions.[9]

In general terms, it has been shown "that most countries in the region have legislation providing benefits for at least seven of the eight main social security branches (i.e., old age, disability, survivorship, maternity, sickness, unemployment, work injury and family benefits)".[10] Data on the evolution of coverage in terms of contributory social protection shows that it has increased over the last two decades, in particular when it comes to "the ratio of contributing members to the system to the employed population indicator for countries in the region".[11]

As can be seen in Graph 3-1 below, Latin American countries also vary greatly in terms of effective coverage[12] by at least one social protection cash benefit (both contributory and non-contributory), ranging from 93.8 per cent in Uruguay to 14.5 per cent in Nicaragua and Guatemala. This compares to an average of 90.4 per cent in the region of Northern, Western and Southern Europe and an average of 13.7 per cent in the region of Sub-Saharan Africa. In part, differences around coverage rates in the region respond to the policy choices countries have taken, as Latin American systems deliver fragmented social protection schemes across different segments of the population.

[8] International Labour Conference, *Social Security and the Rule of Law* (2011)
[9] International Labour Conference, *Social Security and the Rule of Law* (2011)
[10] (ISSA 2021)
[11] ('Overview of Social Protection Systems in Latin America and the Caribbean: Progress and Setbacks in the Face of the Pandemic' 2021).
[12] Effective coverage is defined by the ILO as "Population covered by at least one social protection cash benefit (effective coverage): Proportion of the total population receiving at least one contributory or non-contributory cash benefit, or actively contributing to at least one social security scheme." The social protection programmes considered are those covering children, mothers with newborns, persons with severe disabilities, unemployed persons, older persons, and vulnerable persons covered by social assistance.

Graph 3-1: Effective coverage (per cent) of population by social protection



Source: Data from the ILO World Social Protection Data Dashboards with most up to date data from the 2020-2022 World Social Protection Report

Contributory coverage in the region increased by 5.6 percentage points between the 2005-2010 period, and from 36.6 per cent to 42.2 per cent respectively.[13] However, this increase has not impacted all age groups the same way, as the age that benefited the most is the middle-aged groups, vis a vis the younger and elderly segments of societies.[14] Discrepancies in coverage expansion can also be seen across quintiles, as no country in the region reaches 40 per cent coverage in the first quintile (versus the highest quintile that does reach 40 per cent in all countries, and up to 80 per cent coverage in some countries), due to the high informality rates in the region.[15] Furthermore, differences in terms of coverage of contributory schemes can also be seen when disaggregated by gender. In addition, around 65 per cent of workers in the informal labour market do not benefit from any form of social protection and in some countries with very hight informality rates, around 80 per cent of women have no social security coverage.[16]

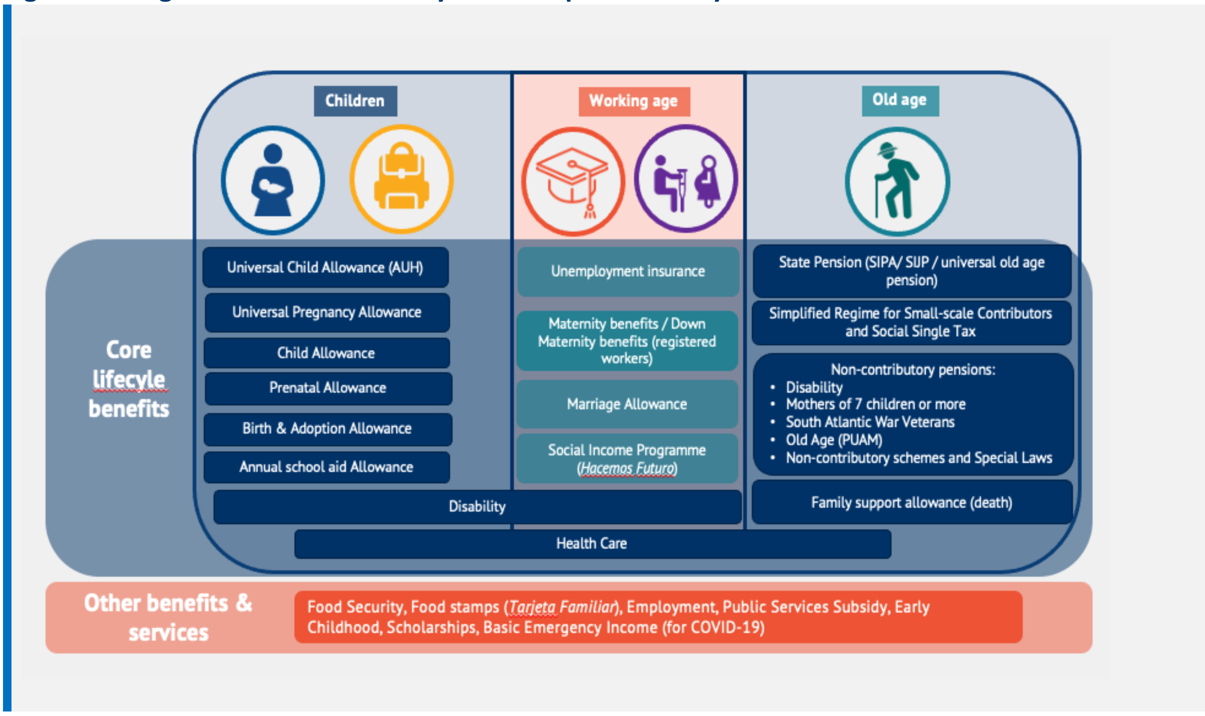
There has also been an increase in non-contributory social protection programmes, reaching a total of 30 programmes in addition to 72 labour and productive inclusion programmes and 34 social pensions in 2017.[17] These non-contributory programmes, when designed on a universal basis, help diminish fragmentation in terms of delivery in each of these countries. This has meant that non-contributory social protection schemes have been some of the key

[13] ('Overview of Social Protection Systems in Latin America and the Caribbean: Progress and Setbacks in the Face of the Pandemic' 2021).
[14] ('Overview of Social Protection Systems in Latin America and the Caribbean: Progress and Setbacks in the Face of the Pandemic' 2021).
[15] ('Overview of Social Protection Systems in Latin America and the Caribbean: Progress and Setbacks in the Face of the Pandemic' 2021).
[16] (ISSA 2021).
[17] ('Overview of Social Protection Systems in Latin America and the Caribbean: Progress and Setbacks in the Face of the Pandemic' 2021).

measures to respond to COVID-19. Indeed, COVID-19 responses led to the implementation of 273 non-contributory measures of which 64 per cent were new programmes.[18]

However, Latin American social protection systems are very different in terms of coverage gaps. There is a wide range of commitment towards investment in the social protection sector in Latin America, ranging from 10.9 per cent for a country like Argentina, to around 0.4 per cent for countries like Honduras or Nicaragua. Likewise, the data around coverage also shows ample differences, with countries like Uruguay reaching a coverage of around 93.8 per cent, Argentina around 63.8 per cent, down to 14.5 per cent for countries such as Guatemala and Nicaragua. The levels of investment in social protection, as well as the coverage rates would provide an indication of how countries have advanced in terms of ensuring inclusive and lifecycle social protection systems. Figure 3-1 below shows the case of a country such as Argentina, that has progressively and deliberately expanded the coverage of its social protection system, by also investing more heavily in a lifecycle system, instead of focusing on less inclusive social protection schemes such as poverty targeting programmes. One innovation coming from Argentina (Uruguay has a similar scheme) has been the establishment of the Simplified Regime for Small-scale Contributors in 1998, known as Monotributo, and the General Self-Employed Regime to cover independent workers. This scheme provides an optional tax regime that allows the target population to enter the formal economy by adhering to the regime. On the other hand, one would expect that a country such as Honduras, Nicaragua or Guatemala would have a social protection system structure that leaves many behind.

Figure 3-1 Argentina's national lifecycle social protection system[19]



Source: Barrantes (2020), UNDESA Country Study: Argentina.

[18] ('Overview of Social Protection Systems in Latin America and the Caribbean: Progress and Setbacks in the Face of the Pandemic' 2021).
[19] This figure only incorporates national social protection schemes. As such, the wide array of provincial social insurance schemes and other provincial and/or municipal programmes are not included.

Other Latin American countries have also actively engaged in expanding social protection coverage. In the case of Colombia, the government established a Social Protection Floor[20], that has 3 functions: it is part of the country's social security systems through the Periodic Financial Benefits (Beneficios Económicos Periódicos, BEPS); it is targeted at those individuals that earn less than the national minimum wage and are attached to the SISBEN health insurance; and it includes all individuals that do not have a full-time employment, but are employed by an individual or employer.[21] Moreover, as this programme is based on individual accounts, it "allows workers with low and irregular income to voluntarily save for retirement and provides affiliates with an incentive payment equal to 20 per cent of their account balance once they reach the retirement age".[22]

The design trends and the views on the role of the State seem to have shifted somewhat with the global COVID-19 pandemic that not only affected the lives of the 'poor' but also everyone else's. Suddenly, a much larger population was at risk of falling into income poverty and everyone could stand to benefit from a guaranteed right to social protection. In fact, UNICEF and Save the Children had estimated in 2020 that almost half of all children (48.5 per cent) in Latin America could be living in monetary poverty following the monetary impacts of the pandemic.[23]

As States were being placed in a precarious situation as a duty bearer in terms of providing support to all citizens, the social protection sector seems to have found the need to adapt social protection systems by creating new programmes and/or expanding programme's beneficiary registries or transfer amount. These circumstances have led to the following trends within the region: a rise in innovation; strengthening of the contributory systems; including informal workers into the social security system; and suspension of conditionalities.

Addressing these trends individually, first, in terms of the rise in innovations, a significant number of new programmes were created to better address the specific needs of people within the lifecycle stages that were most affected by COVID-19, i.e., working age adults experiencing unemployment or working age having difficulties working within their informal sector. Other innovation trends included utilising new registers to enrol additional individuals into social protection programmes, digital payments using coded mobile text messages, phone applications, free social digital accounts or electronic wallets, and implementing new identity authentication systems.

Second, vis-à-vis trends in strengthening contributory systems, measures such as paid sick leave, bans on dismissals, and advanced payment of wages were adopted throughout the region.[24] Strengthening contributory systems is particularly important in Latin America as the region is still representative of low effective coverage for unemployment protection with only 6.35 per cent coverage.[25] Access to unemployment insurance with government participation is only provided in 6 countries (Argentina, Brazil, Chile, Ecuador, Uruguay and

[20] Official website for the initiative: https://www.colpensiones.gov.co/pps/publicaciones/4721/que-es-el-piso-de-proteccion-social/
[21] (Villa 2021).
[22] (ISSA 2021).
[23] (Rubio et al. 2020)
[24] (ECLAC and UNICEF 2020)
[25] ILO World SP report.

Venezuela) and unemployment is not ensured for in the law in 7 countries (Cuba, Nicaragua, Paraguay and the Dominican Republic).[26] Moreover, the unemployment schemes can also provide a gateway for emergency disbursement of funds, such as in Chile where the government enacted Law 21,227 to supplement the length of the unemployment insurance by 3 extra months.

Third, Latin America is made up of a high percentage of households without formal workers throughout all income quintiles.[27] When entire households are composed of informal workers, their vulnerability to shocks is particularly high as it limits the possibility of consumption smoothing between household members. As one of the most effective health measures responding to the global pandemic prevented informal workers from operating as social distancing was enforced, it was therefore necessary to create systems/programmes to incorporate these workers into the social security system.[28]

Fourth, the effectiveness of conditionalities have long been disputed with continuous evidence that unconditional programmes, key messaging and accompanying measures often deliver similar/better impacts. However, as Latin America is the birthplace of conditionalities, it still took a global pandemic to derail the trend. When health measures such as lockdowns prevented beneficiaries from fulfilling their conditions to access social protection benefits, it became obvious to several countries that suspension was necessary. Nevertheless, it remains to be seen if the suspensions exemplified in the table above will remain permanent.[29]

3.2 Social protection design and delivery

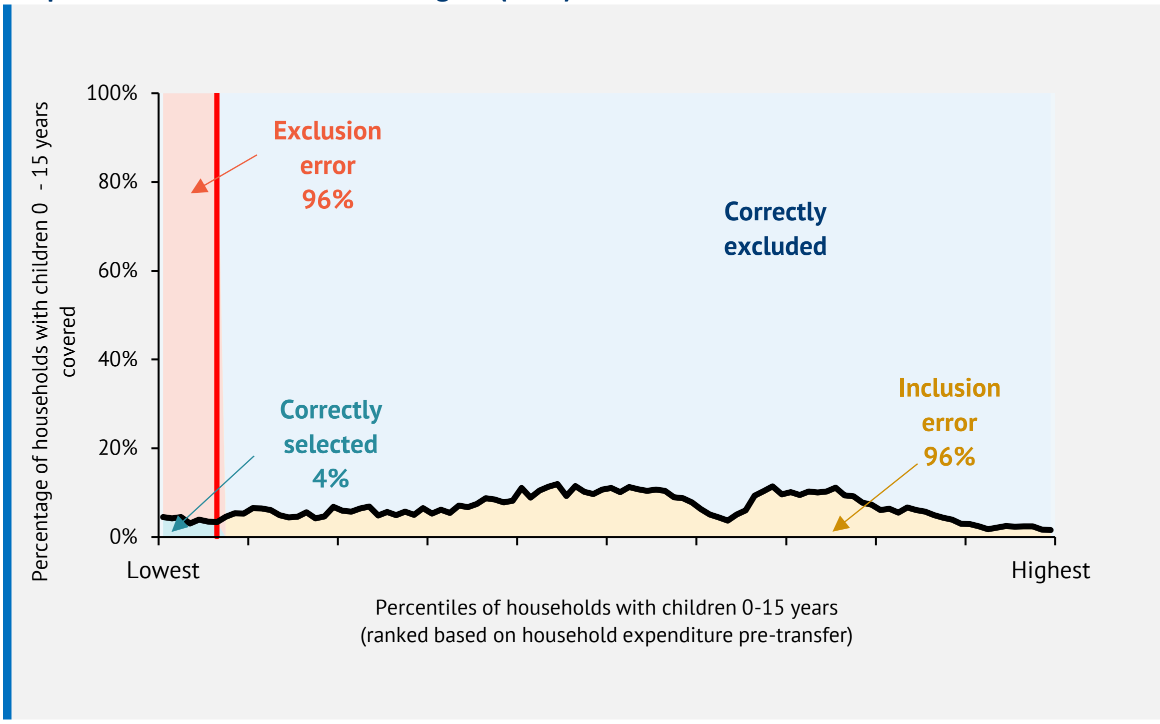
Given the fragmented nature in which social protection systems were developed throughout the Latin American region, most countries started investing more than two decades ago in non-contributive social protection schemes for the poor perceived as deserving[30], as many segments of society were left behind and not covered by contributive schemes. This is of course linked to the high levels of informality in the Latin American labour markets. As part of this trend, many Governments decided to ration the use of public resources and use them "efficiently" in targeting the poorest segments, as well as imposing conditionalities to programme beneficiaries to positively impact human capital (in particular school attendance and health).

Nevertheless, and in addition to human rights concerns around poverty targeting mentioned before, as global evidence has suggested, poverty targeting tools applied to social protection programmes have faced considerable challenges in achieving what they were initial meant to achieve: targeting the poorest in society.[31] As Graphs 5-2 to 5-5 below indicate for some Latin American countries including Brazil, Guatemala, Mexico and Peru, poverty targeting using either a Proxy Means Test (PMT) or means testing, has resulted in

[26] (Rubio et al. 2020)
[27] (IADB 2020).
[28] (Busso et al. 2020)
[29] (ECLAC and UNICEF 2020)
[30] Individualistic and stigmatizing narratives of poverty perceive the poor as "deserving" as far as they are believed to be "not guilty" of being poor, commonly related to age, disability, or any other characteristic perceived to be far from male able-bodied. Historically, this term "attempted to separate the genuinely needy from rogues, vagabonds, and sturdy beggars" (Katz, 2013).
[31] (Kidd and Athias 2020).

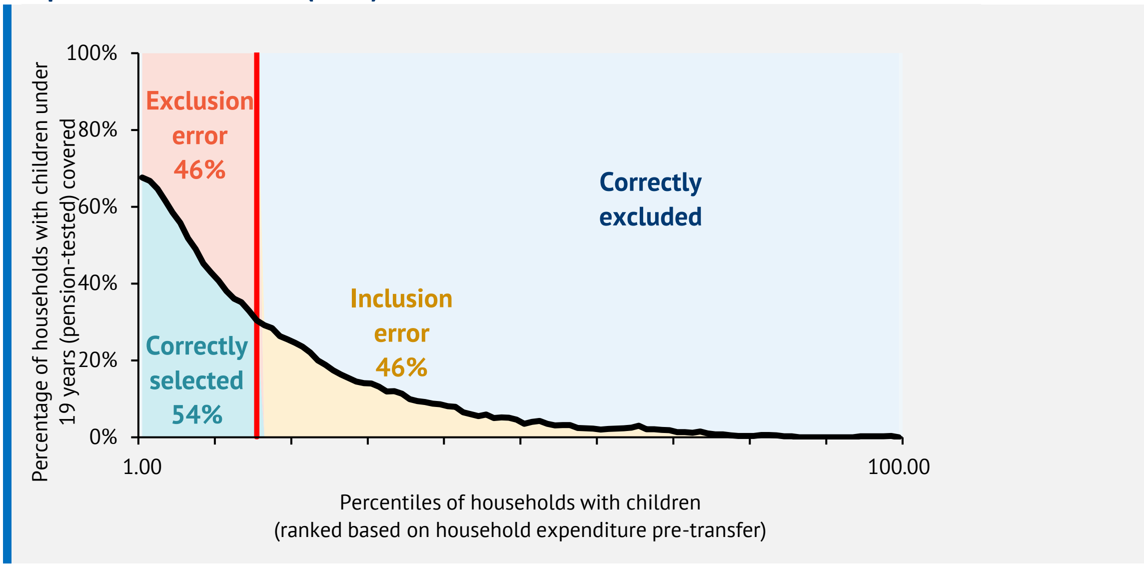
high exclusion errors. The exclusion errors in these countries range from 96 per cent in Guatemala for the "*Mi Bono Seguro*" programme, 54 per cent of the former "*Prospera*" programme in Mexico, 46 per cent for the "*Juntos*" programme in Peru, to 44 per cent for "*Bolsa Familia*" in Brazil. This, compared to the cases of two universal programmes in Bolivia, the "*Renta Dignidad*" old age pension and "*Bono Juancito Pinto*" school stipend that have exclusion errors of around 8 per cent (see Graphs 3-6 and 3-7 below), mostly likely linked to exclusion of people with disabilities and other segments being excluded.[32]

Graph 3-2: Guatemala's Mi Bono Seguro (PMT)



Source: Kidd and Athias 2020

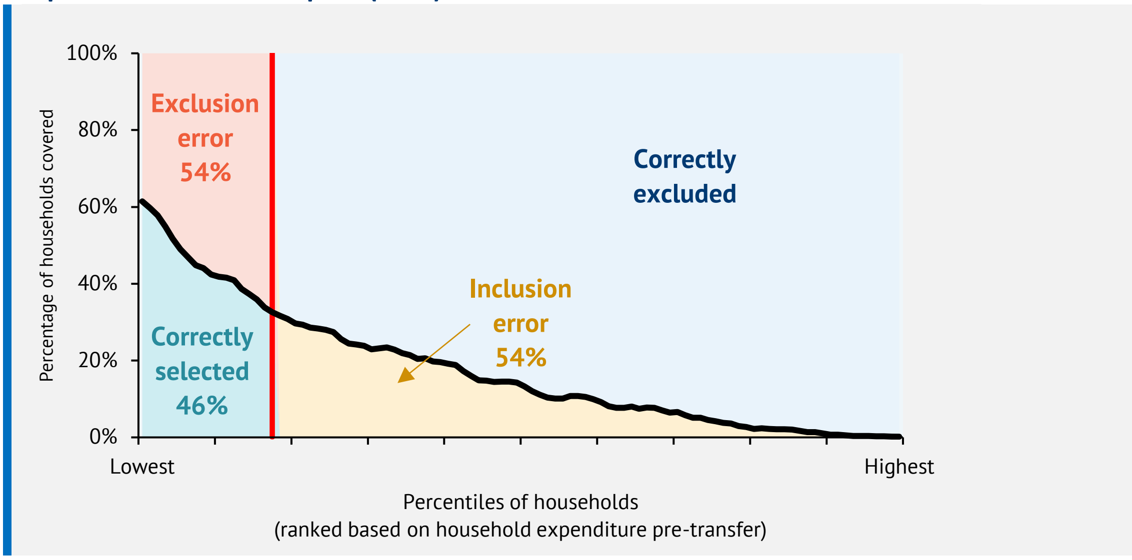
Graph 3-3: Peru's Juntos (PMT)



Source: Kidd and Athias 2020

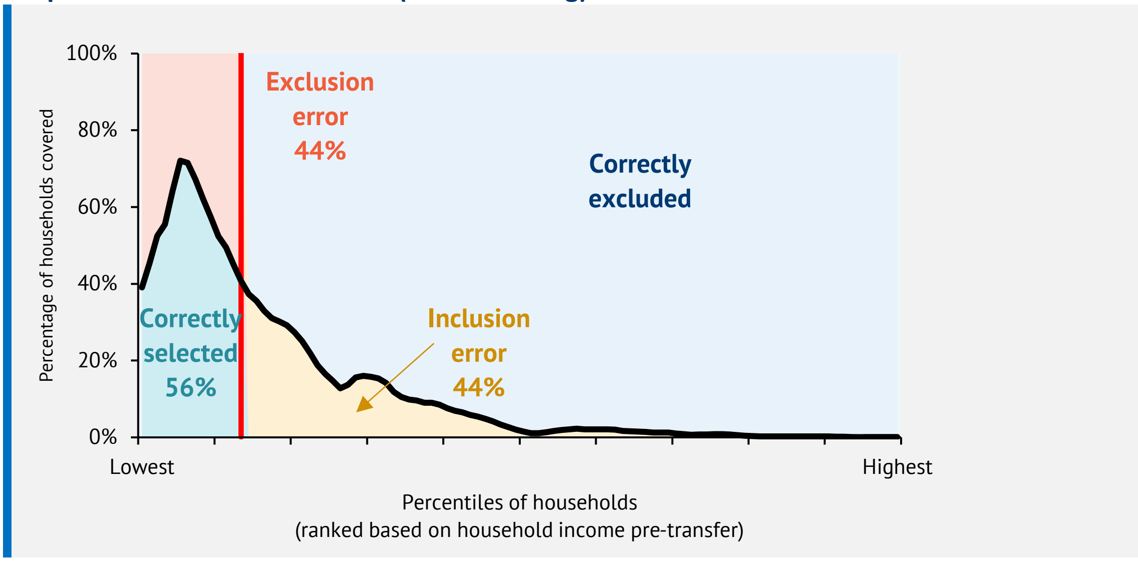
[32] (Kidd and Athias 2020).

Graph 3-4: Mexico's Prospera (PMT)



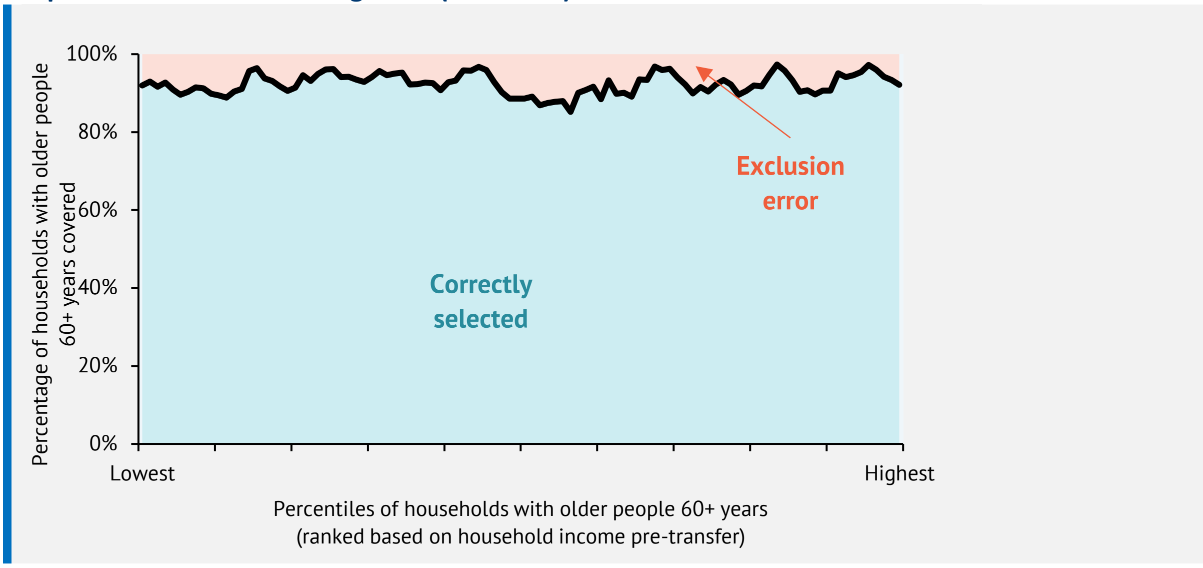
Source: Kidd and Athias 2020

Graph 3-5: Brazil's Bolsa Familia (Means testing)



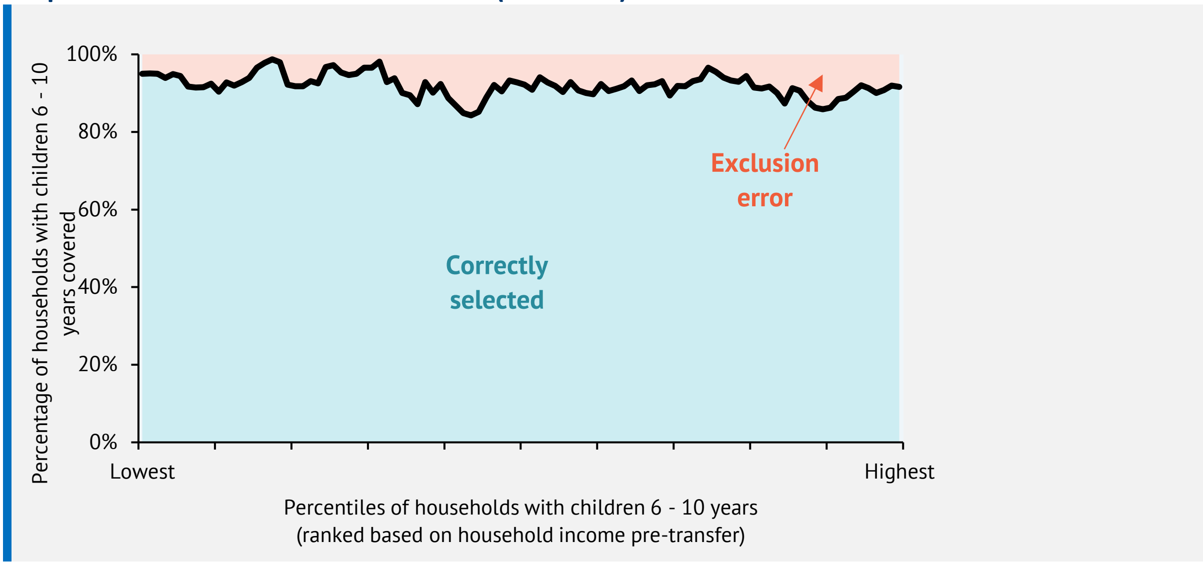
Source: Kidd and Athias 2020

Graph 3-6: Bolivia's Renta Dignidad (Universal)



Source: Kidd and Athias 2020

Graph 3-7: Bolivia's Bono Juancito Pinto (Universal)



Source: Kidd and Athias 2020

Poverty targeting exclusion errors in some of the countries in the region point to a crucial aspect around policy choice. In a region of mostly upper or lower-middle income countries, there should have been a substantive push to introduce lifecycle social protection schemes that are more inclusive in nature, and that cover most risks that right-holders face throughout their lifecycle (for example social pensions, disability benefits, or universal child benefits). On the contrary, by investing in programmes that ration public resources and focus on the "deserving poor", countries have left many behind, and created parallel and fragmented social protection delivery that might also lead to discriminatory practices and mechanisms. Unfortunately, the COVID-19 pandemic has only made this worse, as several countries in the region were not well prepared to cover larger segments of the population, due to the fragmented nature of the existing systems. It is to be seen if the temporary expansion of some of these programmes are to be consolidated post-COVID-19.

In addition to the already exposed issues with poverty targeting efficiency and the human rights considerations around it, in a recent regional report, UNDP has pointed out the trade-offs of poverty targeting from a fiscal perspective, as follows:

> "From a fiscal point of view, they are substantially less costly and more effective than generalized transfers. If only 25 percent of the population is poor, there seems to be little point in including the other 75 percent who do not need them. However, any targeting mechanism involves an implicit tax because the poor lose the transfer if they earn additional income that lifts them above the threshold stipulated in the targeting mechanism to qualify (…). The net income from their efforts is then the additional income earned, less the value of the transfer forgone. If the transfer is high, the implicit tax is high, and poor households near the thresholds may be caught in a poverty trap. This is an important issue, which speaks to the potential pitfalls of overreliance on targeted transfers."[33]

Another key aspect around most poverty targeted and conditioned schemes in Latin America, is that there is also the consideration of individual entitlements versus household benefits. As most of these programmes are focused on household welfare rankings, it is at the household level that benefits are assigned to those "deserving" support (for example, the former "Prospera" in Mexico or "Bolsa Familia" in Brazil have used this ranking methodology). As mentioned previously, this policy choice does not provide protection for all right holders to be protected against shocks, risks and vulnerabilities they might face throughout their different lives.

An additional point of concern from a human rights perspective is the issue of using conditionalities in social protection. Inflicting conditionalities on individuals (or households in most cases), is not the best way to support families experiencing poverty. In addition to the human rights concerns raised previously, there are additional elements that impact on fragmented social protection delivery: not only do many of the contributory cash transfer programmes impose conditionalities, but there are some that are conditional on labour status (informal versus formal). This was the case for both the "Bono de Desarrollo Humano" programme in Ecuador, and the initial iteration of Argentina's "Asignación Universal por Hijo" (AUH) programme, as eligibility was based on limiting access to workers in the informal market.[34] This in turn did not contribute towards improving labour market conditions, as it disincentivised formalisation efforts and created an informality trap.[35] It also further fragmented social protection delivery.

Since, and due to the COVID-pandemic, many countries suspended the conditionalities, due to health measures and lockdowns. As mentioned beforehand, the extent to which these conditionalities are to be lifted for good or are just temporary measures is still to be seen.

[33] (UNDP 2021).
[34] (UNDP 2021)
[35] (UNDP 2021).

One key driver of social protection fragmentation in the region is the difference in social protection access among those working in the formal and the informal economy, as "entitlements and obligations with respect to social insurance differ depending on how workers participate in the labour market".[36] Of particular concern are the coverage gaps of contributive social protection programmes mostly catering towards the formal workers, those of non-contributive programmes such as those targeted at segments experiencing poverty, and all those segments that do not fall within any category of non-inclusive social protection programmes, and thus fall through the cracks.

Furthermore, the fragmentation, stratification and challenges in coordinating a wide range of programmes in many Latin American countries has led to duplication "often result in duplication of effort and high administrative costs".[37] This complex context has been described as follows:

> *"The result is that the structure of social protection in LAC is substantially different from that in OECD countries. Furthermore, the diversity of funding sources, the multiplicity of programmes, the differences in rules on who is entitled to what and when, and the weakness of the institutions enforcing contributions and delivering benefits make for a complex environment."*[38]

Moreover, another sticking point is the fragmentation of the financing of social protection systems, i.e., the tax system in the countries. Part of the problem around financing fragmentation relates to the separation between contributory and non-contributory social protection schemes within a system, which is based on direct taxation via social security contributions (in the case of contributory) and total national taxation that finances non-contributory systems, but that in the end comes from taxes paid by all citizens.

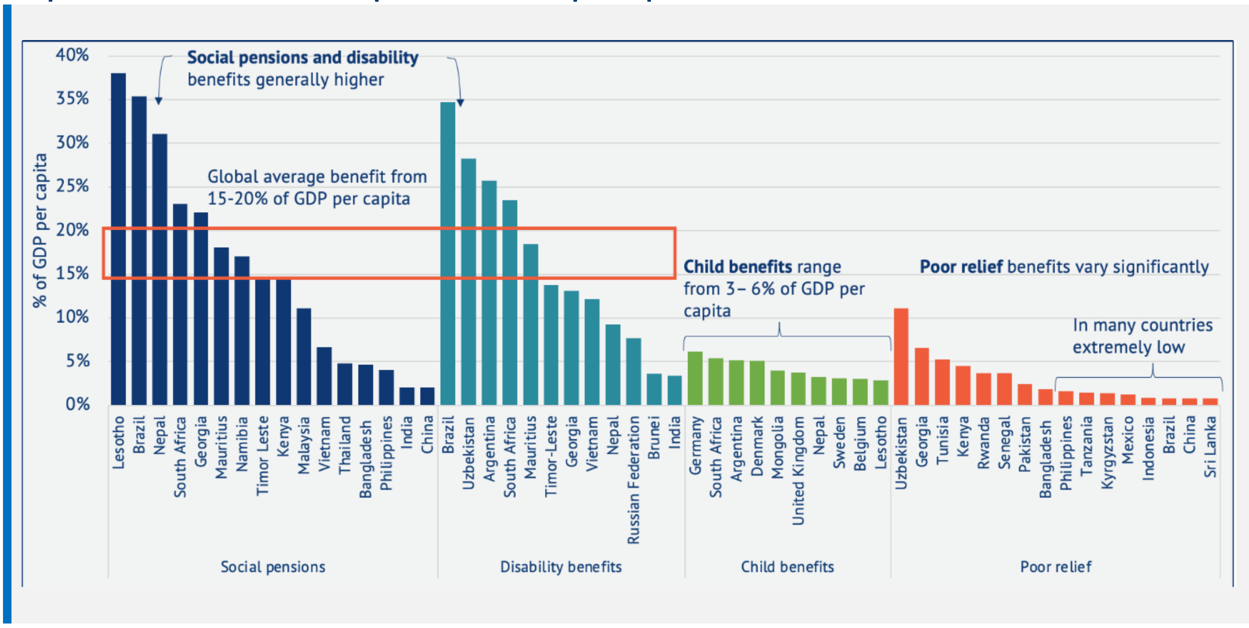
Linked to the point around investment in the sector, is the adequacy of social protection benefits. So, from a human rights approach, it begs the question on how adequate some of the benefits in the region are. It is interesting to note that when one of the first CCTs programmes was first established (the Mexican Prospera), its justification included the idea that "benefits provided (…) should be of quality that, while effective, also operate as discriminating device: basic levels of preventive health and nutritious foods that are mostly consumed by low-income households".[39] That is, the benefits are so low or of such poor quality that they are of no interest to individuals or segments outside the target population (i.e., non-poor). It may work as a self-selection mechanism, but it also implies inadequate social protection benefits.

As shown in Graph 3-8 below, there is a wide array of differences between transfer values as a percentage of GDP per capita in countries across the globe. The data also illustrates another point that is important for policy choices at the national level: lifecycle schemes such as child benefits, social pensions and disability benefits usually provide higher benefit transfers than poor relief programmes targeted at those experiencing poverty. This is also true for the Latin American countries contained in the graph. The transfer value of social

[36] (UNDP 2021).
[37] (ISSA 2021).
[38] (UNDP 2021).
[39] (Levy 1991).

pensions and disability in Brazil both reach 35 per cent of GDP per capita, and about 30 per cent in Argentina for disability. In contrast, transfers for poor relief policies in Mexico and Brazil are well below 5 per cent.

Graph 3-8: Transfer value as a per cent of GDP per capita



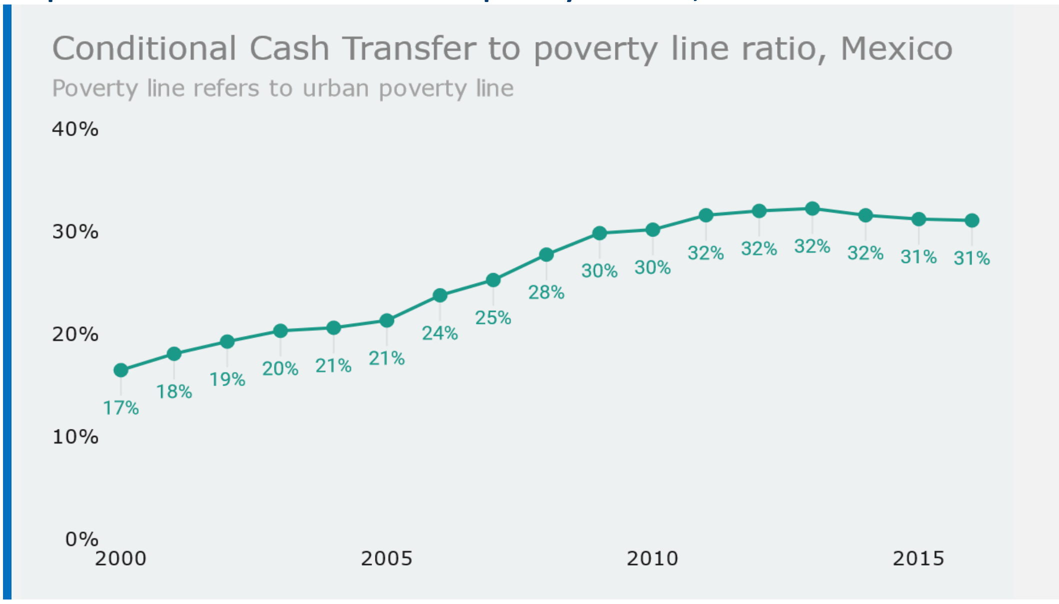
Source: Development Pathways 2021.

The Graph above also shows that there is a linkage between higher transfer values of more inclusive social protection schemes such as social pensions, disability benefits, and child benefits with higher coverage rates, versus the lower transfer values poor relief programmes provide. From a political economy perspective, the choice for investing in less adequate transfer values for those experiencing poverty, seems to go hand in hand with political and economic choices undertaken by the elites.

While in some cases, social protection benefits in the region can reach significant levels of coverage, they are most often inadequate when it comes to non-lifecycle social protection schemes such as poor relief programmes that are targeted at those experiencing poverty. This is often justified by the lack of sufficient resources to carry out adequate universal social protection programs, such as the case of the former "Prospera"[40] conditional cash transfer programme in Mexico, which transferred an amount per family depending on some variables such as number of children, school attendance, among others. According to official data from the programme, the percentage that the cash transfer represented compared to the urban poverty line began at 17 per cent by the year 2000, and was rising steadily, reaching 32 per cent in 2011, a level at which it stagnated until its disappearance (see Graph 3-9 below).

[40] This program began in 1997 and ended in 2018.

Graph 3-9: Conditional cash transfer to poverty line ratio, Mexico



Source: Data from "Prospera" social program.

It has also been suggested that Latin American CCTs, are a continuation of neoliberal policies, and attempts to reduce State responsibility, by "providing poor families with meagre amounts of money, barely sufficient for their subsistence".[41] The investment that States are undertaking in terms of improving human capital for children is hence supposed to result in future gains, but that support ceases to exist for those experiencing poverty in adulthood, and as such, "the state's period of investment ends, and the "direct relationship" with the state is abruptly severed or, in the case of new mothers, reconfigured".[42]

In many countries, social support for low transfer amounts in conditional cash transfer programmes for example, is reinforced and legitimised by a narrative (from the rest of society), which considers that these transfers must be low in order to avoid "dependence" among beneficiaries. This stigmatising narrative usually applies to poor relief programmes (such as poverty targeted schemes), but not to contributive schemes. Thus, society at large (and richer segments in particular) seems to usually have very little disagreement with the minimalist approach of poor relief programmes.[43]

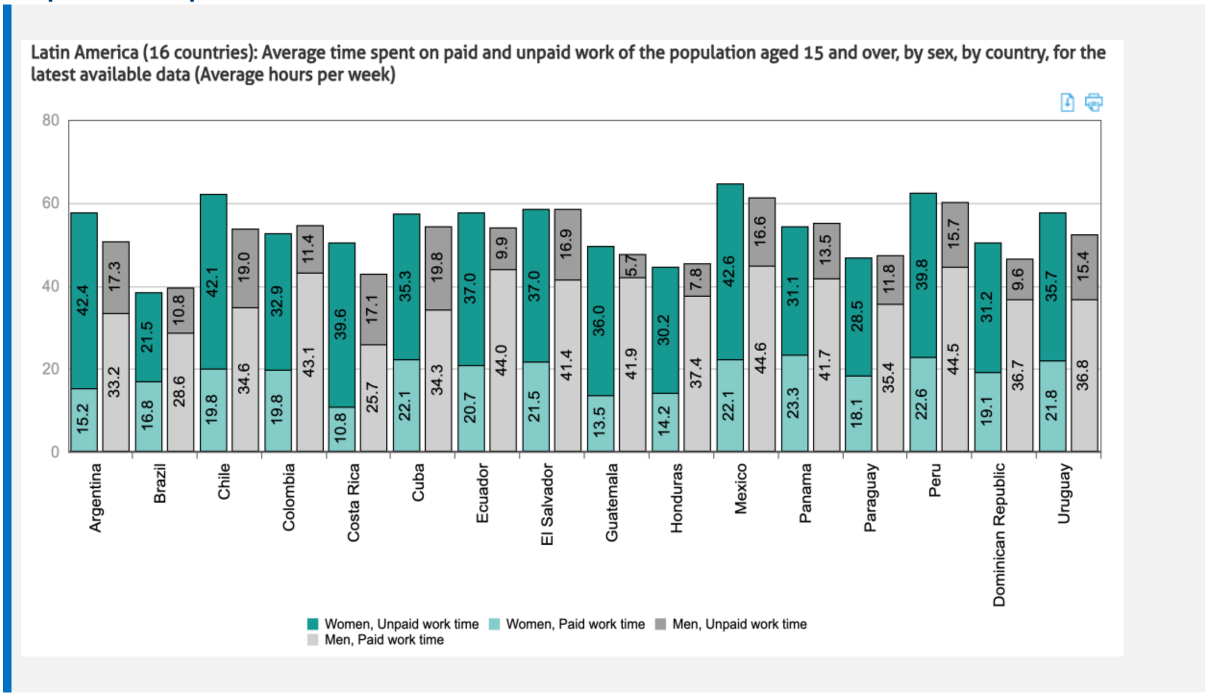
3.3 Gender responsiveness and equity

While the COVID-19 social protection responses brought along new trends for the social protection sector in Latin America, they also highlighted ongoing gaps. Most importantly, the pandemic highlighted the enormous gap of social protection coverage in the care economy. The pandemic exacerbated pre-existing gender inequalities by deepening women's care burden in a region where already 78 per cent of carers are women, where 80 per cent of household work is done by women and where 80 per cent of them are likely to be working within the informal sector without a reliable safety net.[44] Moreover, as seen in the Graph 3-10 below, women's unpaid work time takes up the majority of their week. Only

[41] (Dapuez et. al 2016).
[42] Dapuez et. al, 2016).
[43] (Kidd, 2018).
[44] (Rubio and Escaroz 2020)

five countries in the region are currently providing 18 weeks of maternity leave, on average up to 5 days of paternity leave, paid parental leave remains a rare benefit and informal workers generally do not have access to family support policies. As the care burden predominantly falls on women, the lack of social protection coverage threatens to block women's access to the labour market, in which in Latin America, only 50 per cent of women are currently participating.[45] In addition, disparities are also reflected in terms of access to social insurance schemes, as many women work in the informal market, and are hence not able to contribute towards these systems.

Graph 3-10: Unpaid care in Latin America



Source: https://oig.cepal.org/en

Despite the bleak outlook, inspiration can be drawn from a few Latin American countries who have implemented programmes catering to the care economy (as seen in Table 3-1 below), as well as cash transfers for care work as a COVID-19 response.

Table 3-1: Programmes linked to care economy in Latin America

Country	Measure
Uruguay	The National Integrated System of Care (*Sistema Nacional Integrado de Cuidados*) was created in 2015 with the objective of generating a co-responsible model of care between families, the state, the community, and the market. Its conception was built on: care as a universal right; gender equality as a cross disciplinary principle; and children, elderly people and people with disabilities in a situation of dependency, and both paid and unpaid care givers as target populations. It was created as law and established a governance that coordinates ten public institutions in a National Board of Care ("Junta Nacional de Cuidados") and institutionalizes social participation in a Care Advisory Committee ("Comité Consultivo de Cuidados"). Its actions are structured in five-yearly Plans which outline the following components: Services; Training; Regulation; Generation of Information; and Awareness and Communication.

[45] (Rubio et al. 2020)

Costa Rica	The National Network of Childhood Care and Development (*Red Nacional de Cuido y Desarrollo Infantil*) has been in place since 2010 with the objective of establishing a public-access, universal and solidarity-based system of care and development that puts together different forms of public and private provision of care services for children from 0-6 years old. The programme also looks to promote social co-responsibility and brings together different actors, alternatives and childhood care and development services. Work is currently underway to create a National Care System that will bring together three population groups (children, elderly people, and people with disabilities).
Mexico	The country aims to place Care onto the public agenda through the establishment of a National Care Strategy, which brings together already existing programmes and actions from a rights-based focus and a viewpoint towards co-responsibility. Additionally, the National Survey of Time Use ("Encuesta Nacional de Uso del Tiempo – ENUT") in Mexico constitutes one of the most thorough producers of expertise in the region, especially based on its contribution to the estimates by the Satellite Account of Unpaid Work (Cuenta Satélite del Trabajo No Remunerado – CSTNRHM), whose aim is to raise the awareness around the economic value of unpaid work which members of the household carry out via productive activities, making it possible to measure their contribution to the national economy more precisely.
Argentina	An "Emergency Family Income" has been established for the unemployed, informal workers and workers employed in private homes.
Ecuador	A single cash transfer of $120 was established and paid in two equal shares in the months of April and May 2020. This transfer was aimed at affiliates without unit with an income below a Unified Basic Salary ($400 per month), persons affiliated of the Peasant Social Security and the Unpaid Household Work System, except for those who have contributory social security. Among its beneficiaries, it included domestic workers.

Source: (Bango 2020)

According to current evidence[46], at least five Latin American countries (Argentina, Colombia, Ecuador, Guatemala, and Mexico) have quantified the degree of gender-related public spending, with the lowest indicator in Colombia (0.4 per cent of total budget goes to gender-related public spending) and the highest is Guatemala (6.4 per cent of total budget). Although gender-related budget classifiers are important tools for budget planning, it is recommended[47] that gender-responsive policies should be programmed policies with more accurate detail (at the *activity* level) and that more capacity should be built in the bureaucracy to be able to give continuity to the planning from the gender approach.

3.4 Financing social protection floors and fiscal policies

The relationship between tax and social protection systems and compliance with human rights obligations has been extensively studied in the literature over the past few decades. As Famulska et. al. (2020) shows**,** there are at least four hypotheses about the relationship between the (general) public expenditure and tax revenue, which are described in Table 3-2 below. Each of the four hypotheses has been supported by numerous studies, compiled by Famulska et. al., for different historical contexts and stages.

[46] (ECLAC 2021).
[47] (ECLAC 2021).

Table 3-2: Hypothesis about relationship between tax revenue and public expenditure

Hypothesis 1	Tax revenue influences public expenditure (tax-spend hypothesis).
Hypothesis 2	Public expenditure affects tax revenue (spend-tax hypothesis).
Hypothesis 3	Tax revenue and public expenditure influence each other (fiscal-synchronization hypothesis).
Hypothesis 4	Tax revenue and public expenditure do not influence each other (institutional separation hypothesis).

Source: Own elaboration with data from Famulska et. al. (2020).

Particularly, Famulska et. al. (2020) shows that, in the case of the European Union countries there is a high statistical association between the tax revenue and public expenditure to-GDP-ratio (i.e. the so called tax-spend hypothesis) between the 2004-2019 period. When it comes to breaking down the total public expenditure into different categories, they find that only social protection spending is related to tax revenue, while the rest of the categories of public expenditure are not related to the level of tax revenue.

Linking these results with the options for expanding fiscal space, it could be assumed that as long as States have higher tax collection, they would have greater fiscal space and greater possibilities to finance social spending broadly. The following figure shows the direct relationship between the total taxes collected by country and social protection spending levels in Latin America. The relationship is extremely clear: countries that collect higher taxes tend to finance higher social protection spending. In particular, the trend shows that a 1 per cent increase in GDP in tax collection would be associated with an increase in social protection spending close to 0.27 per cent of GDP.

States are obliged to undertake steps – both individually and through international cooperation – to the maximum of its available resources, with a view to progressively achieving the full realisation of right to social security and ensuring minimum social protection floors. In assessing this aspect from a comparative perspective in the Latin America region, one first step is looking at how individual countries have strived to achieve this.

Moreover, States are obliged to implement all possible strategies and options to increase fiscal space, such as increasing tax collection, expanding social security coverage and contributory revenues, eliminating illicit financial flows, among others. In the region, there are stark differences in efforts made by States to comply with the adoption of inclusive social protection policies both in terms of the resources that they could potentially obtain, as well as the resources they currently receive. While some countries such as Brazil, Colombia, Mexico and Paraguay dedicate more than 40 per cent of their tax revenue to social protection expenditure, other countries such as Guatemala and Panama use only 9 per cent of their resources, while in the most extreme case, Honduras and Nicaragua only allocate less than 2 per cent.

In order to fully understand the human rights dimension of social protection policies in light of fiscal systems, it is important to deepen the understanding of Latin American tax fiscal policies. This of course, will also subsequently frame policy options and highlight windows of opportunity for tax collection increases, as well as opportunities to increase the redistributive power of fiscal policy in the region.

To guarantee an adequate compliance with and access to social protection from a human rights-based approach, States must ensure an adequate and sufficient taxation to finance it. But, in addition to the above, an important part of fiscal justice lies specifically in the redistributive power that the very same taxation policies provide. This particular characteristic of tax policy is often forgotten or ignored by governments, in some cases due to pressure from social groups that believe they could be affected by more progressive collection.[48]

In that sense, then, tax systems fulfil a double objective: to raise sufficient resources for the financing of social protection systems and to reduce income inequality (as illustrated in Figure 3-2). With Latin America being the most unequal region in the world, and the double redistributive capacity of tax revenues (via the differentiated incidence in the income of individuals and the ability to finance redistributive fiscal and social protection policies), it is the responsibility of States to strengthen their fiscal systems to increase tax revenue.

Figure 3-2: Double role of tax systems in the region

3.5.1 Tax revenue (tax-to-GDP ratio) and historical trends

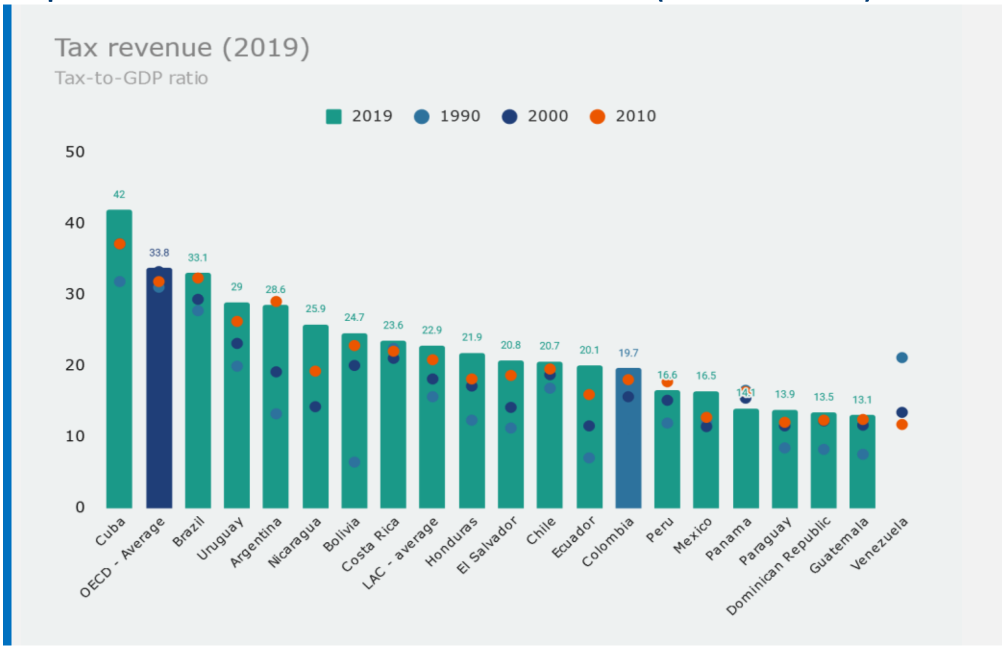
For Latin American governments to guarantee fiscal justice, as well as inclusive social protection systems, it is essential to rely on a tax system with high revenues that can finance social protection policies, but also that it has a progressive differentiated impact on the diverse segments of society, as well as on the most vulnerable segments.

In general, except in the case of Cuba, Latin American countries have a taxation lower than the OECD average, whose tax revenues are equivalent to 33.8 per cent of GDP (see Graph 3-11). The average tax-to-GDP ratio in Latin America is 22.9 per cent, i.e., only two-thirds of what is collected in the OECD. In addition, tax systems in Latin America are highly heterogeneous, ranging from 13 per cent of revenue (compared with GDP) in the case of Guatemala and the Dominican Republic, to the case of Cuba with 42 per cent, that is, a taxation three times larger (see Graph 5-11). Of a set of 19 countries in Latin America, only 2 exceed the total revenue of 30 per cent of GDP (Cuba and Brazil), while other 3 are between 25 and 30 per cent (Uruguay, Argentina, and Nicaragua), and 7 collect between 20 and 25 per cent. The rest of countries tax less than 20 per cent of GDP.

[48] (Atria et al., 2019).

Over the past 30 years, average revenue in Latin America has been steadily increasing, at a faster rate than the average changes in OECD countries. In 1990, the average revenue in the region was 15.7 per cent of GDP, increasing almost at a steady rate of 2 per cent every 10 years. If the rate of increase in revenue remains constant in the future, it would take the Latin American region 50 years to reach the average OECD taxation (assuming it remains constant for half a century). Bolivia and Argentina are the countries that have increased their collection of taxes the most in the last 30 years, with an increase in their tax revenues of 18 per cent and 15 per cent of GDP, respectively. In absolute terms, the highest increase in revenue in the same period has been that of Brazil and Mexico, although as a percentage of GDP they only represent 5.3 and 4.4 per cent more of GDP.

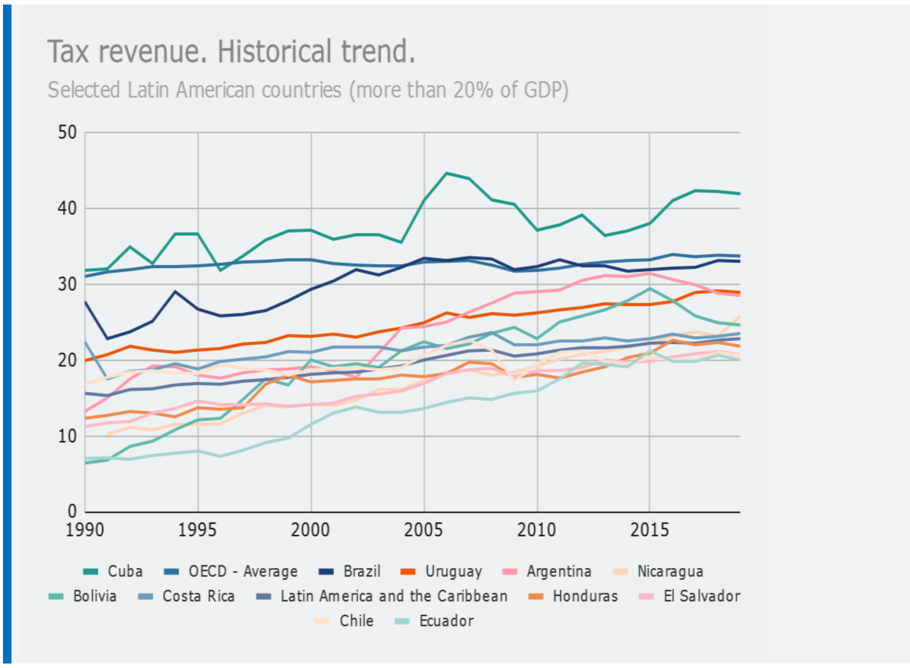
Graph 3-11: Tax Revenue in Latin American countries (tax-to-GDP ratio)



Source: Data from "Revenue Statistics", at OECD Tax Database.

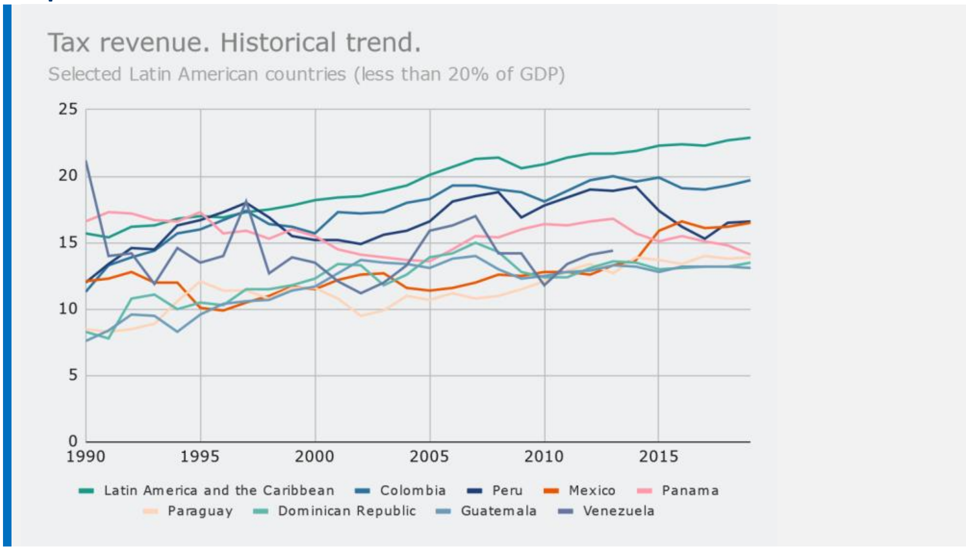
The following two Graphs (3-12 to 3-14) show the historical trend of tax revenue in Latin American and Caribbean countries, between 1990 and 2019 in detail. It is clear how Brazil and Uruguay have historically led tax collection in Latin America. In addition, Argentina and Bolivia show particularly important increases in tax collection. On the other hand, Paraguay, Mexico and Peru stand out among the countries with the lowest collection.

Graph 3-12: Tax revenue - Historical trend in selected Latin American countries



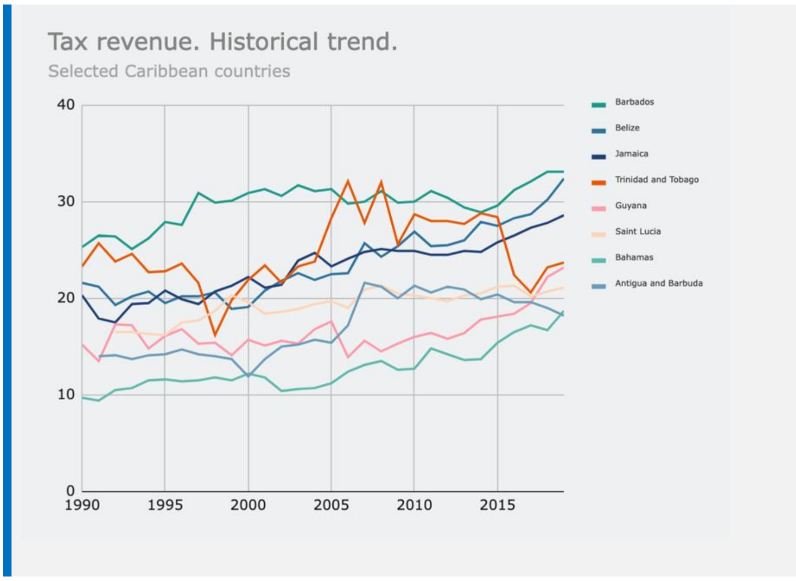
Source: Data from "Revenue Statistics", at OECD Tax Database.

Graph 3-13: Tax revenue - Historical trend in selected Latin American countries II



Source: Data from "Revenue Statistics", at OECD Tax Database.

Graph 3-14: Tax revenue - Historical trend in selected Caribbean countries



Source: Data from "Revenue Statistics", at OECD Tax Database.

The historical permanence of low tax collection in some countries is increasingly being studied from the perspective of "political capture" (see Box 3-1 for a country example). At the global level, Oxfam has promoted the analysis of the reproduction of inequality from this concept of "political capture", defined as "the exercise of abusive influence by economic and political elites, so that laws and governments function according to their interests and priorities, and to the detriment of the general interest of the population".[49]

Box 3-1: Obstacles to increasing tax revenue in México

Mexico is one of many cases where the permanence of the low level of taxation has been the result of political capture exercised by the economic elite over fiscal policy decisions in the country. This has been done through historical direct intervention, with lobbying discouraging fiscal reforms by pointing out the economic risks of scaring away investment, as well as the dissemination of popular narratives, similar to those existing in the United States, regarding "tax relief" and the rejection of citizens to any type of tax.[50]

As such, despite the urgent need to increase tax revenues (especially due to the fall in oil revenues on which the government depended for a long period), the country has not accounted for a tax reform that redesigns the structure of tax collection. Thus, Mexico continues to collect about 16 per cent of GDP at the federal level and remains one of the countries with the lowest tax collection in Latin America, below other countries with lower income levels and higher poverty indicators. This of course also ends up benefiting the richest household much more, and also leads to pressures from elites to avoid higher redistribution by the State.

Source: Own elaboration with data from World Bank.

In addition to political capture, the political economy of social protection seems to indicate that fiscal space is also linked to prioritisation within a country. Evidence suggests that higher budgets and transfer values are linked to higher coverage. When Governments

[49] (Cañete Alonso 2018).
[50] (Cañete Alonso 2018).

decide to invest in social protection schemes that are only targeted at the 'poor,' it can be inferred that the beneficiaries are weak politically compared to the elites (in particular in a region such as Latin America given high levels of inequality). On the contrary, if Governments invest in programmes that include a broader group beyond those experiencing poverty, beneficiaries become more powerful, arguably increasing political pressure for more investment and higher quality social protection schemes.

Countries with huge lags in terms of their revenue will typically have less fiscal space and may be associated with lower social spending and more precarious protection systems. The next section provides a more in-depth analysis of the relationship between these variables. In general terms, countries identified with low levels of collection, do not seem to be doing enough in regard to fulfilling their obligations in terms of human rights principles linked to the right to social protection and fiscal policies. Among the obligations of States is to use the maximum of their resources and, in particular, to explore all possibilities to increase their income to obtain resources.

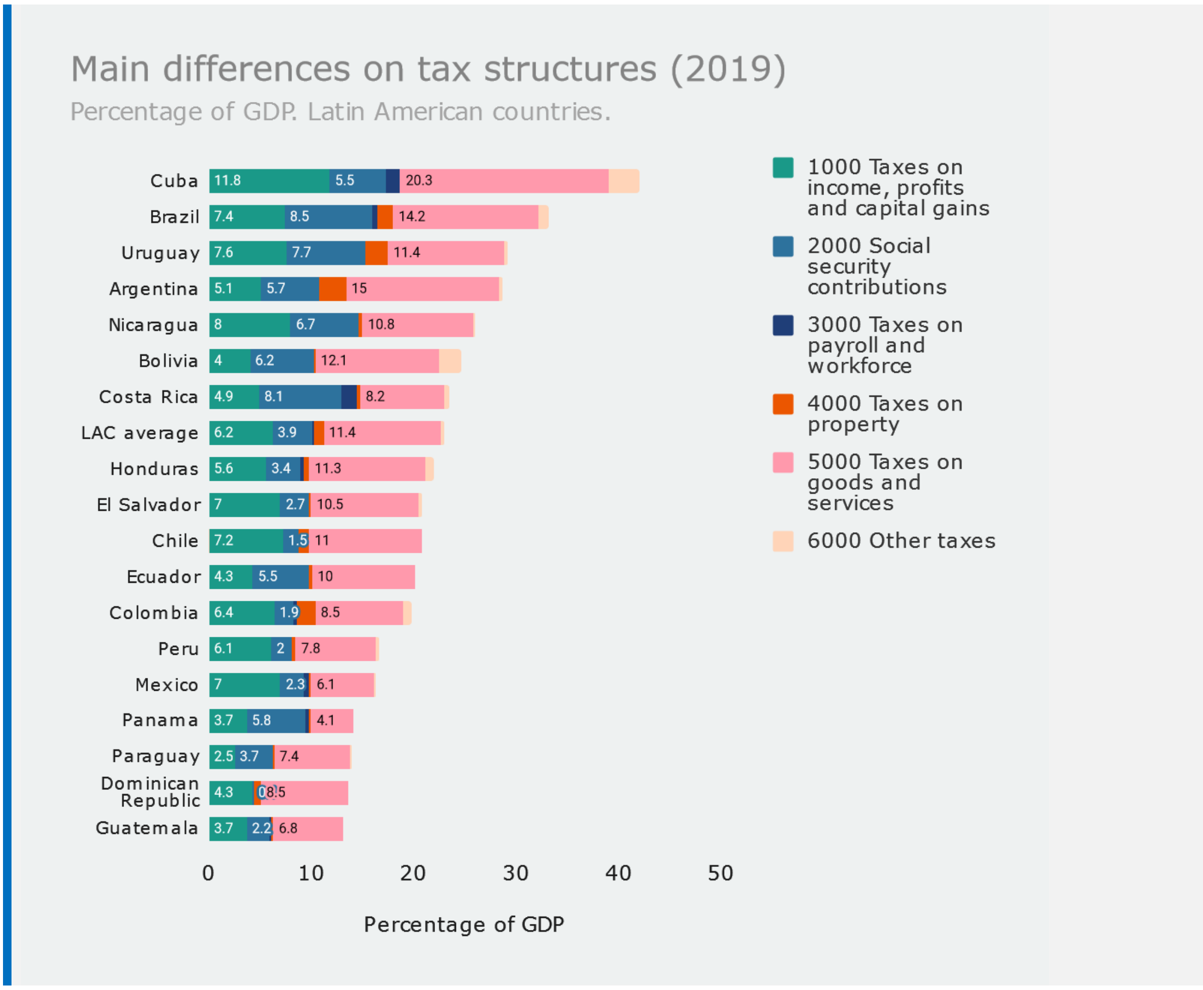
3.5.2 Main differences in tax structures

To understand the degree to which Latin American States guarantee tax justice, it is important to also analyse tax system's design. The degree to which tax systems can generate a higher level of economic equality is closely related to the design of how tax collection is structured. This is because some taxes are progressive, that is, they charge more to individuals who have greater ability to pay, as opposed to proportional taxes, which charge equal rates to all people, regardless of their level of income or wealth.

As Saez & Zucman (2019) state, one of the problems of global revenue is that it is mainly based on taxing labour more than capital. In addition, the legal tax privileges enjoyed by the richest individuals and transnational corporations in many countries, added to the use of offshore tax mechanisms[51] (to pay lower taxes in other countries) further enhance these inequities. Graph 3-15 shows the structure of Latin American tax systems. The Latin American average, indicates that the main source of tax collection is on goods and services, commonly associated with the Value Added Tax (VAT), which represents 50 per cent of the total taxes collected. In turn, taxes on income, profits and capital gains, represent only 27 per cent of the total taxes collected in the region. The rest come from social security contributions (17 per cent) and finally taxes on property, on payroll and workforce and others.

Graph 3-15: Main differences in tax structures (2019- percentage of GDP) in Latin America

[51] (Obermaier and Obermayer 2016; 'Pandora Papers Archives - ICIJ' 2021; Zucman 2016).



Source: Data from "Revenue Statistics", at OECD Tax Database.

Following the idea that not all types of taxes have the same redistributive effect, it can be said that tax systems that rely mostly on *proportional* taxes such as VAT, will achieve less redistribution than those that are based on more progressive taxes, such as taxes on property or on income and profits.

Box 3-2: Bolivia's tax collection and social protection system

One of the most notorious cases in recent years in Latin America is Bolivia's boom on economic growth and tax revenue. The country has managed to grow economically at a higher rate than the Latin-American average, increasing 50 per cent more of average income from 2006 to 2018 (Arauz et al., 2019). Through a combination of orthodox and heterodox economic policies, Bolivia achieved in just a couple of decades a significant improvement of its economic and social conditions.

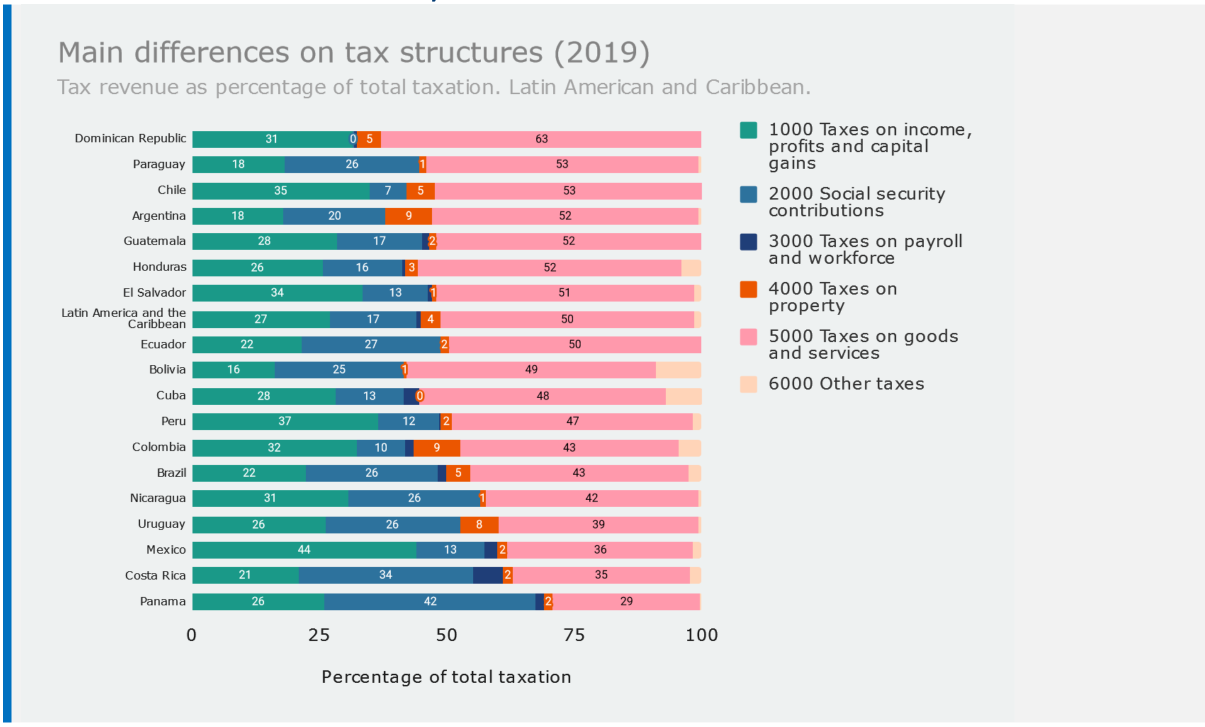
Bolivia's tax revenue multiplied by four times in just three decades, one of the largest increases in the region and in the world. Bolivia is among the countries that the World Bank identifies with "zero tax multiplier" (Vegh et al., 2018), meaning that raising taxes would not have an impact on the country's economic growth. In fact, until a few years ago, the Bolivian government argued that the increase in revenue was due to a greater extent to economic acceleration, and not to a high percentage of tax rates charged to citizens (Quenallata, 2018).

The country has also benefited from other economic policies to increase public revenues, such as the boom in commodities, especially in natural gas (after the nationalization in 2006 of hydrocarbons), which account for 28 per cent of total exports.

Bolivia has managed to double the percentage of public investment in this period (Vegh et al., 2018), which has allowed expansion of social protection system, especially increasing social spending on housing and health. On the other hand, a pending agenda item seems to be the generalized increase in social spending: until a couple of years ago, Bolivia continued to allocate only 4.5 per cent of GDP to social spending, a figure that is below the average in Latin America (6 per cent). Given the increase in tax revenue, with stable macroeconomic indicators and a public debt below 50 per cent of GDP, it seems that the conditions are conducive for the country to increase the budget aimed at creating a more robust social protection system.

As Graph 3-16 shows, some countries like the Dominican Republic collect most of their total tax revenues from taxes on goods and services, which, are regressive in the sense that they are proportional but, in addition to the case of consumption taxes, they tax the poorest households more in relative terms, since the consumption of these households is higher than their income. On the other hand, there are countries that base a greater proportion of their tax revenues on progressive taxes, such as income taxes, taxes on profits or capital gains, and property taxes. Income taxes exceed 40 per cent of total tax revenues in the case of Mexico. As for property taxes, which also have a high redistributive effect (although they are characterized globally by low relative percentages of collection), are important in countries such as Colombia, Uruguay and Argentina. These are the taxes that Piketty (2017) and Saez and Zucman (2019) have highlighted as important and necessary to curb the exponential and global increase in inequality, witnessed during the last decades.

Graph 3-16: Main differences in tax structures (2019 - tax revenue as percentage of total taxation in Latin America and the Caribbean)



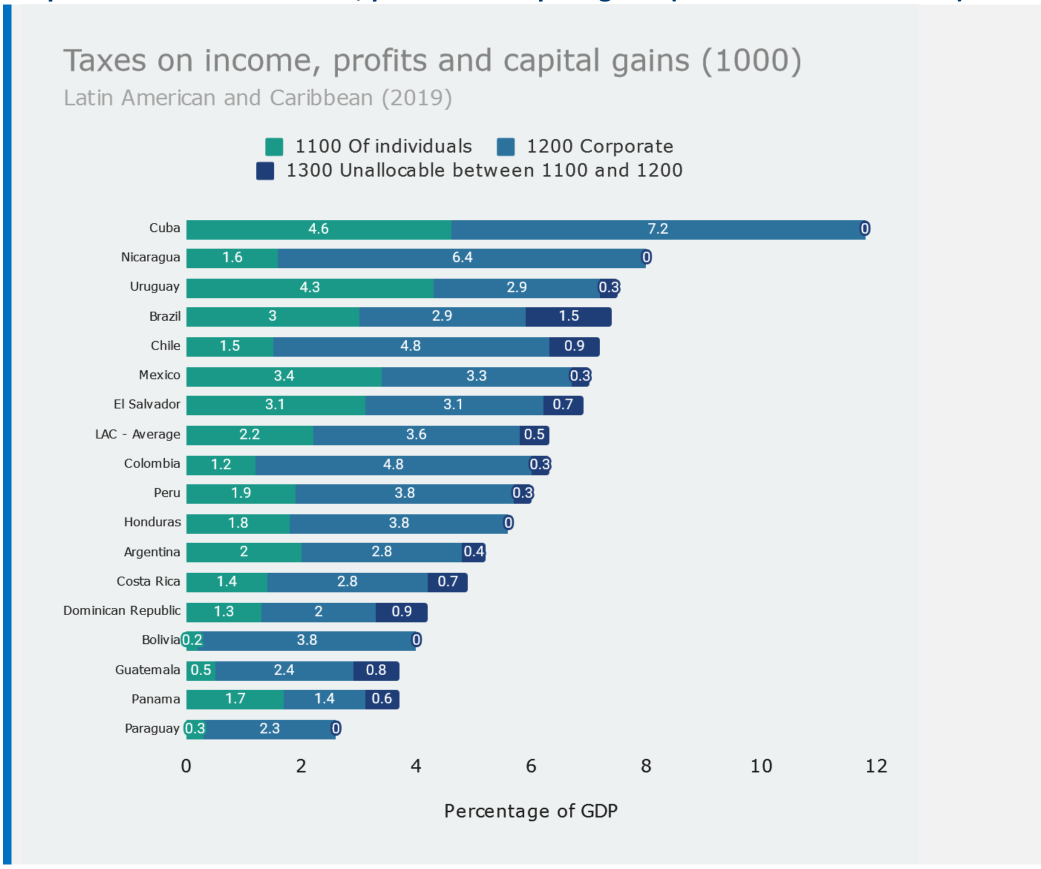
Source: Data from "Revenue Statistics", at OECD Tax Database.

3.5.3 Personal and corporate taxes

Income, profit and capital gains taxes are among the best tax collection tools when it comes to countries trying to generate greater redistributive impact. Therefore, Piketty (2017) cites them as the best invention of redistributive politics of the twentieth century.

Graph 3-17 illustrates the differences in the collection of this type in Latin American countries, according to tax source payment: individuals, corporate or others that are not necessarily attributable to individuals or corporations. While some countries derive more tax revenue from capital, that is, from the income obtained by companies (such as Nicaragua, Colombia or Chile), others do so from the income of individuals, mostly workers, such as Uruguay and Mexico. It follows that a country that collects more taxes on corporate income will achieve greater equality than one that taxes workers more. In the case of Uruguay, there might be other equalising considerations, as it has less individuals working in the informal sector, among other considerations.

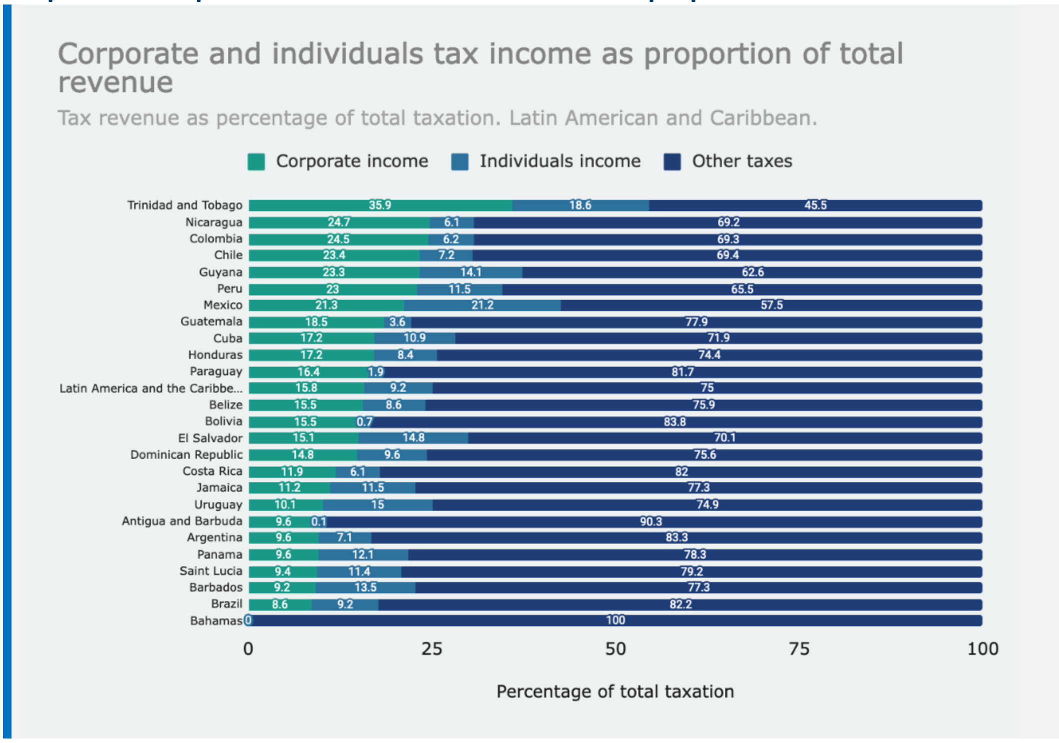
Graph 3-17: Taxes on income, profits and capital gains (1000 - in Latin America)



Source: Data from “Revenue Statistics”, at OECD Tax Database.

The graph also shows important differences within the region in terms of the tax contribution made by corporations. While some countries such as Nicaragua, Colombia and Chile collect almost 25 per cent of their total taxes from corporate income taxation, in countries such as Brazil and Barbados their contribution is only 9 per cent. It is of course important to note that companies need to pay their fair share.

Graph 3-18: Corporate and individuals tax income as proportion of total revenue



Source: Data from "Revenue Statistics", at OECD Tax Database.

Based on a justice criterion, in which labour contributes to society with adequate taxes according to the income it obtains from the market, it is interesting to analyse the percentage of labour income ratio-to-GDP, while observing linkages to the percentage occupied by labour income (from individuals, instead of corporations) as a component of the revenue of income and gains tax. Contrary to what could be expected, there seems to be a negative relationship between lower percentages of labour income ratio to GDP with higher percentages in labour income through income taxes and gains. A progressive tax system would be based on a greater share of income tax on corporate or capital, and less on labour income.

3.6 Social protection expenditure, poverty narratives and fiscal austerity

In many instances, the persistence of discussions around deservingness of Government assistance, some of the pervasive negative poverty narratives around poverty in such an unequal region (see box 3-3), and the blaming of those experiencing poverty for their own demise, has resulted in many Latin American countries investing in social protection systems targeting "the poor", in addition to conditioning assistance in the case of CCTs. This is particularly true in those countries that have very low social protection coverage rates and have less inclusive social protection systems. Conversely, these narratives around deservingness and the need to target scarce resources to "the poor" has impacted on the levels of investment in social protection.

Box 3-3 Poverty and deservingness narratives in Latin America: impacts on policy choice

The right to social security is based on social justice principles and is meant to promote solidarity among individuals in society. That was, in part, the transformative push for social protection in post- Second World War Europe, together with increased investment in universal social policies. Several countries in Latin America followed this path during the 20th century whilst establishing their welfare systems.

However, the current state of the art of many Latin American social protection systems indicates that the solidarity pillar and the transformative nature of these policies is deficient. This can be seen in the high levels of inequality impacting on policy choice; the existing coverage gaps; fragmented delivery; and the persistence (or re-surgency) of negative narratives around poverty and the other side of that same coin: the notion that the winners in society are "self-made", and thus the myth around meritocracy.

The latter unfortunately permeates media, policy discourse, and overarchingly, mainstream views around those experiencing poverty versus those that "contribute" towards and hence are deserving of Government benefits, such as social protection.[52] Negative poverty narratives reinforce personal responsibility on those experiencing poverty (versus structural failings in the most unequal region in the world) hinder the social contract needed for solidarity purposes, and moreover, hampers fiscal pacts around the need to invest in inclusive and universal social protection systems.

In Chile, a study[53] indicated that 41 per cent of those interviewed believe poverty is caused by laziness and lack of initiative, and another study suggested that poverty as seen as a violation of rights for only 17 per cent of respondents, and that although 54 per cent believed that the State was responsible for "the poor", when asked how to help "the poor" 48 per cent mentioned not discriminating, and 32 per cent mentioned donating things they no longer use.[54] This is also a country that has a very limited concept of social protection in its Constitution, and has seen significant social unrest including clear demands for better social policies. In Mexico, a survey[55] indicated that 41.9 per cent of men and 36.7 per cent of women think the poor do not put enough effort into getting out of poverty.

These poverty narratives, together with the views on the need of changing bad habits of those experiencing poverty, in part gave rise in Latin America to poverty targeted schemes and the imposing of conditionalities. When the Mexican CCT was established, it was meant to have "(…) an incentive dimension: policies that help the poor need to avoid the creation of a class of 'welfare dependents'; the incentive structure must be such that, at the margin, it always benefits the poor to work and earn additional income".[56] Moreover, it was also stated that "Policies for the extremely-poor should be based on their special needs and behavior".[57]

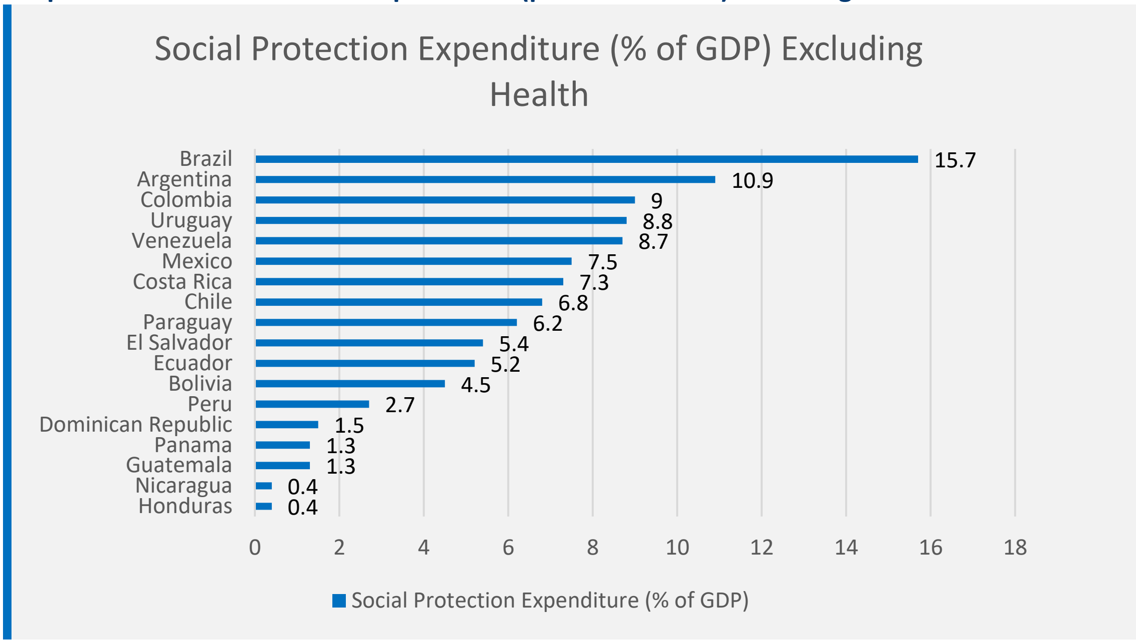
As an example, in the case of the SISBEN in Colombia (a system that collects personal data, classifies people according to their level of poverty on a numerical scale, and uses this qualification to decide if they deserve access to state benefits and services) was established in the 90's during fiscal austerity policies, and became one of the Government's main tools to target

[52] (Barrantes 2020).
[53] (CEP 2015).
[54] (Hogar de Cristo & Adimark 2017).
[55] (INEGI, Encuesta Nacional sobre Discriminación 2017).
[56] (Levy, 1991).
[57] (Levy, 1991).

social spending.[58] However, from a human rights perspective, concerns persist, as there is strong focus on registering individuals and determining deservingness, finding individuals providing false information ("welfare cheaters"), as if it were a tool for policing those experiencing poverty.[59] There are also apprehensions regarding the algorithms and how data is used, as it not necessarily known to citizens how they are included in the database, as well as issues around transparency and accountability.[60]

According to most recent data available and as can be seen in Graph 3-19 below, the levels of investment vary greatly across the region. Compared to the highest investment made by OECD countries at an average of 14.4 per cent, Latin America averages at a level of investment of 5.6 per cent with wide variations from 15.7 per cent by Brazil to 0.4 per cent by Nicaragua and Honduras. These trends do not indicate significant increases in expenditure in the social protection sector, other than in the case of Brazil and Argentina,[61] and in some instances, the historical trend even shows a decline in expenditure.

Graph 3-19: Social Protection Expenditure (per cent of GDP) excluding Health

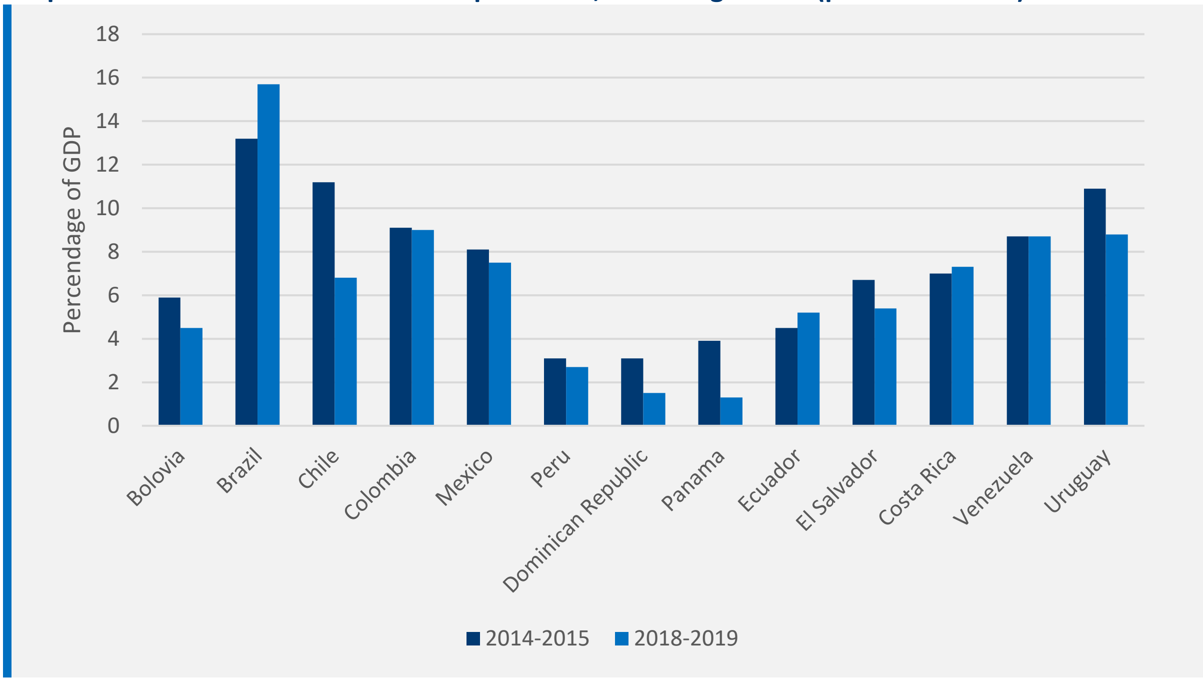


Source: Data from the ILO World Social Protection Data Dashboards with most up to date data from the 2020-2022 World Social Protection Report

As per the policy choices mentioned above, Latin American countries show different levels of investment and coverage. As can be seen in Graph 3-20 below, the levels of investment in social protection have been decreasing in the region.

[58] (López Joan 2020).
[59] (López Joan 2020).
[60] (López Joan 2020).
[61] (CEPAL 2021).

Graph 3-20: Public Social Protection Expenditure, excluding health (per cent of GDP)



Source: data excel sheets from the ILO World Social Protection Report 2017-2018 and 2020-2022

These narratives at the national level can also be found in the recommendations international organisations and financing institutions provide, hence linking foreign loans and funding to fiscal austerity measures.

In a global review of fiscal austerity measures pushed by the IMF, one of the most frequently used measures include: rationalizing and/or further targeting non-contributive social protection schemes, reforming old-age pensions, and labour flexibilization reforms.[62] When it comes to non-contributive social protection schemes, these are mostly geared at rationalising spending for these programmes and seeking to ensure poverty targeting tools, which ultimately, reduce social protection coverage. Similarly, pension reforms include increasing eligibility periods, prolonging the retirement age and lowering benefits.[63] In general terms, IMF reports seem to link poverty targeting with poverty reduction in the framework of fiscal austerity measures, but “rather than targeting more and scaling down safety nets to achieve cost savings over the short term, there is a strong case for scaling up in times of crisis and building social protection floors for all”.[64]

Recently, one Latin American country that experienced IMF conditions with regards to fiscal austerity, including the reduction of social spending and poverty targeting non-contributive social protection is Ecuador. The fiscal consolidation recommendations provided by the IMF have resulted in social spending cuts (including social security and health) and, due to these cuts, in substantial social protests.[65]

Unfortunately, COVID-19 has not stopped fiscal consolidation recommendations by the IMF, which is of concern, as it will undermine social spending and thus, the State being able to

[62] (Ortiz et al. 2015).
[63] (Ortiz et al. 2015).
[64] (Ortiz et al. 2015).
[65] (Progressive International 2020; Iturralde 2020).

guarantee the right to social protection. Oxfam has also pointed out concerning pushes for fiscal austerity by the IMF in other Latin American countries, such as El Salvador, Costa Rica, Nicaragua, Peru, and Colombia.[66] So although the IMF promoted the idea of countries increasing their social spending (both in health and social protection) to respond to the COVID-19 crisis, the recommendations it provides countries individually is not following this same path. This is the case for the Latin American countries mentioned above, where in some instances it is recommending that countries focus on measures such as poverty targeted social protection programmes.[67]

The pitfalls of poverty targeting applied to social protection delivery in low and middle-income countries have already been described in detail. As such, IMF's recommendation to shift to targeted social assistance as part of fiscal austerity or fiscal consolidation efforts in some Latin American countries, including Colombia, Costa Rica, Ecuador, and Panama,[68] is poorly aligned to a human rights perspective, and certainly does not allow countries to invest in more inclusive social protection systems.

Projections of Ortiz & Cummins (2019) shows that austerity cuts were expected in more than 150 countries in 2021 and 2022, a trend that will continue at least until 2025. Of course, the probability of countries allowing international institutions to promote austerity measures in their territory, is also related to their fiscal space and their dependency on international loans. In other words, the smaller the fiscal space available in countries, the greater the chance that they will have to consider austerity recommendations, with all that this might imply from a social rights perspective. The map below (Figure 3-1) shows an estimate of the fiscal space for some selected countries, estimated by IMF (2018). Also, there are other interesting estimations, as fiscal space depends on many factors.[69] As mentioned in this paper, tax revenues show the wide collection gaps between Latin American countries, ranging from 13 to 42 per cent tax-to-GDP ratio. Similarly, section 5.3 shows the wide differences around public debt, which also ranges from 21 per cent to 90 per cent (in the case of Central Government debt-to-GDP ratio).

Figure 3-3: The global state of fiscal space

Source: IMF 2018

[66] (Oxfam 2020).
[67] (Oxfam 2020).
[68] (Oxfam 2020)
[69] (Kose et al. 2017).

In any case, the fiscal space depends not only on the total collection and the public debt,[70] but also on factors that restrict the possibility of relocating public spending, or the percentage represented by fiscal rigidities on the total public budget,[71] among others. Hence the importance of observing the options for expanding the fiscal space, also further analysed in this document.

Unfortunately, in Latin America, it is common for citizens to think that social justice (redistribution) is only a particular objective of certain social policies, and not for the tax system to consider, which is commonly believed to aim only for efficiency (revenue).[72] However, the same authors contend that “fiscal sociology” (an emerging field in academic research) aims precisely at uncovering the tension between revenue and expenditure activities, by sustaining and making a fiscal pact viable.[73]

According to various analyses of the redistributive effect of tax systems in Latin America, the low redistributive power of these countries is one of the main reasons that explains it being one of the most unequal regions in the world. For example, when comparing the performance of redistribution in Latin America and Western Europe, studies find that tax systems widen the differences between the two regions, due to the strong redistributive effect of the tax system in Europe on income, compared to the extremely low impact in Latin America.[74] Such weakness of the fiscal system, the authors emphasize, is based above all on the low redistributive impact of taxes, much less than the redistributive effect of social programs.

In that sense, evidence seems to suggest that tax justice in Latin America is a human rights consideration that is not commonly fulfilled by States with all the policy options (and obligations) that States have at hand. Following the meaning of the principle of solidarity that should be behind tax justice, it is necessary to analyse the redistributive effect between social strata resulting from both the social protection system and the tax system.

As described before, one of Latin America’s tax systems’ key challenges is that it is strongly based on indirect taxes, such as the Value-Added Tax (VAT), which is usually proportional or even regressive, as the poorest households consume a greater percentage of their income. According to Goñi et al. (2011), the reason for this is not that VAT in Latin America has higher rates than the rest of the world, but rather that its “productivity” is much higher than that of income taxes in the region. While VAT manages to collect 23 per cent of the potential it could collect, the income tax in the region only collects 5 per cent. As a result, the tax system in Latin America fails to deliver on its full potential in terms of fiscal justice.

However, the lack of tax justice is also, to a certain extent, linked to social protection choices in the region. Of six Latin American countries analysed, Goñi et al. (2011) found that transfers for social assistance, social security and in-kind transfers grant a greater share of resources to the richest quintile of the population, in Argentina, Brazil, Colombia, Mexico

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[70] (Cheng & Pitterle 2018).
[71] (Cetrángolo & Jiménez 2010).
[72] (Atria et al 2019).
[73] (Atria et al 2019).
[74] (Goñi et al. 2011).

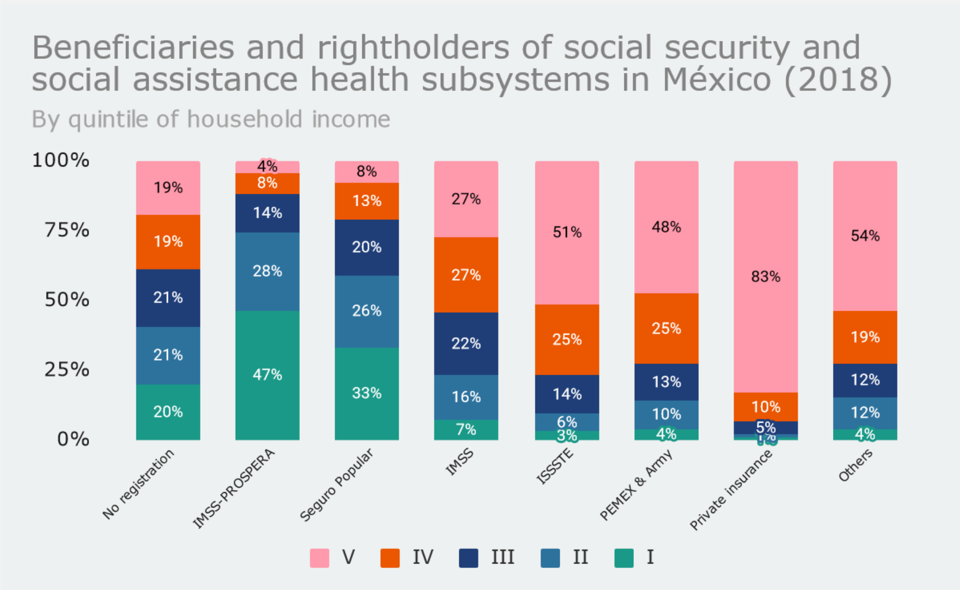
and Peru, with Chile being the only country of this group that gives almost the same percentage of transfers to all income quintiles.

To a large extent, this problem is largely attributed to social insurance schemes, at least more so than to non-contributive schemes and in-kind transfers. Social security transfers are highly skewed to upper-income households (see Box 3-4 below). Meanwhile, in-kind transfers are large in amount, but proportional for most countries (except Chile and Colombia), so they have almost no redistributive effect. Finally, social assistance policies, although redistributive in some countries, provide very low absolute amounts, so they cannot be sufficient to significantly reduce inequality.[75]

Box 3-4 Quintile gap between social security right-holders and social assistance beneficiaries

In most Latin American countries, and in the rest of the world in general, there is a significant gap between individuals entitled to social security schemes and those that are social assistance beneficiaries. This is associated with the differences between those who access and those who do not access the formal labour market, which is usually the common denominator behind being able to access social insurance schemes.

Using the case of Mexico as an example, the gap between those who access social insurance and those who only receive social assistance can be seen very clearly. In terms of access to health subsystems in the country, 51 per cent of the beneficiaries of the ISSSTE (the social security subsystem for state workers) belong to the highest quintile (i.e., the richest 20 per cent). On the other hand, 47 per cent of IMSS-PROSPERA beneficiaries (a CCT), belonged to the lowest quintile (the poorest 20 per cent).



Note: Note: IMSS-PROSPERA and Seguro Popular are social assistance health subsystems. IMSS, ISSSTE and PEMEX & Army are Social Security systems.

Source: Own elaboration with data from INEGI.

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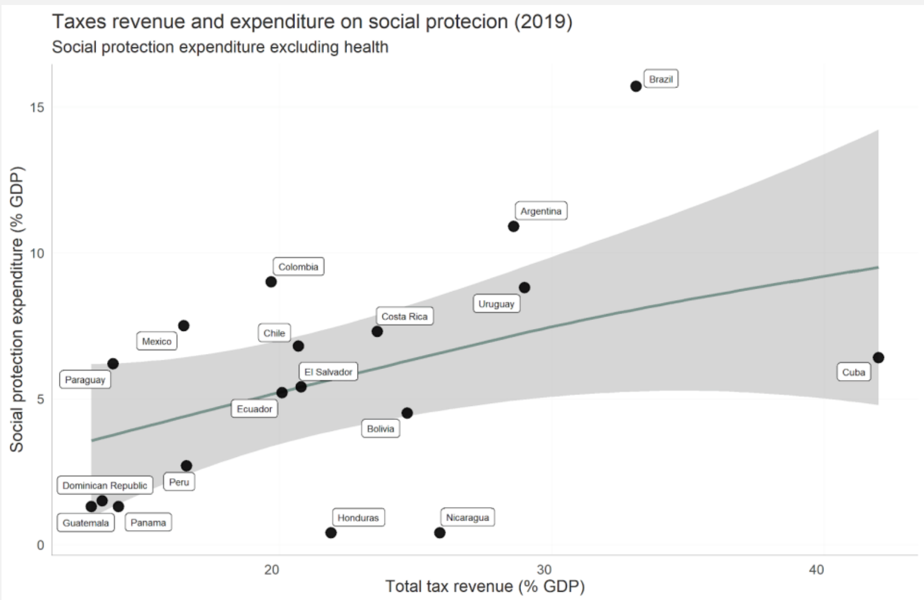
In conclusion, the redistributive power of social and fiscal protection systems in Latin America depends to a large extent on the distribution between the social security component (which in principle is less supportive if it excludes large segments of society not working in the formal labour market) and the non-contributory social protection component. In any case, the lag in tax collection in the region is commonly used as the reasoning behind why States cannot increase the non-contributory component of social protection (although in some countries, such as Argentina, the ANSES social security system has a social mixed security scheme, with contributory and non-contributory financing). Another problem for redistribution is the low productivity of tax income, compared with VAT.

3.7 Tax revenues and social protection expenditure

Evidence suggests that there are wide differences in the relationship between tax revenue and social protection spending across Latin American countries (see Graph 3-21). For example, Brazil, Argentina and Colombia are countries that allocate higher percentages of social protection spending (compared to GDP) than would be expected based on their levels of tax revenue. On the other hand, Honduras and Nicaragua are countries that collect a significant percentage of taxes (greater than 25 per cent of GDP in the case of Honduras, but whose social spending does not even reach 0.5 per cent of GDP), thus being one of the countries that present the greatest discrepancy between their fiscal context and their social protection spending.

Graph 3-21: Taxes revenue and expenditure on social protection



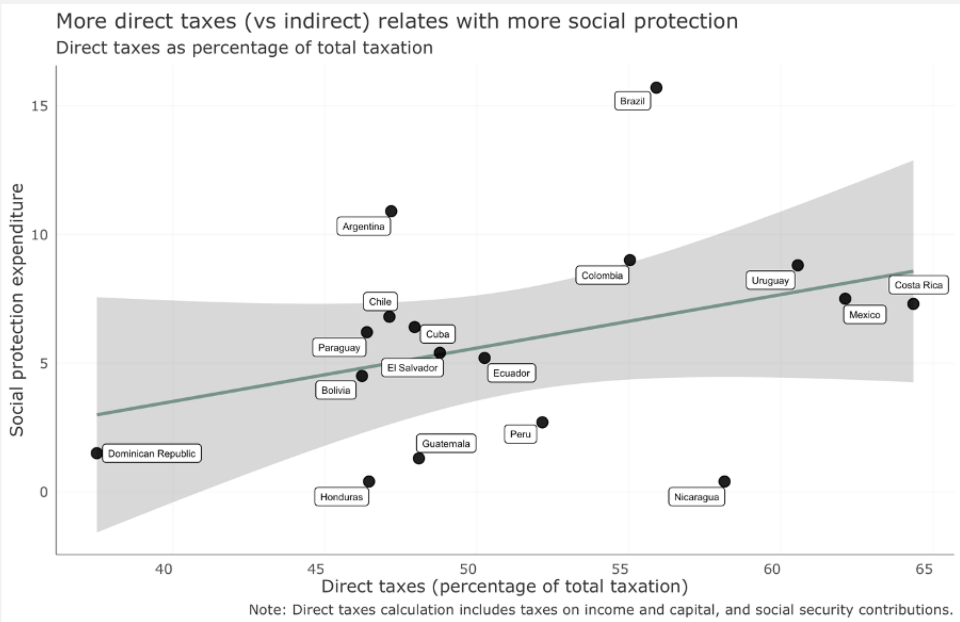
Source: Data from "Revenue Statistics", at OECD Tax Database and ILO World Social Protection Data Dashboards

Another issue pointed out by research on tax systems and redistribution in Latin America is the tax collection capacity of countries related to the distribution of direct and indirect taxes, on which depends the possibility of financing broad social protection systems and the guarantee of human rights, as well as the broad or low effect on redistribution and inequality.

As mentioned in the previous section, much of the differences in the redistributive effect of tax systems come from the percentage that direct and indirect taxes contribute to the total collection of a country. ECLAC (2021) points out in its Fiscal Outlook for 2021 that the main problem of Latin America and its tax systems is the low collection of direct taxes: while in the OECD direct taxes represent almost two thirds of the total taxes collected (66 per cent), in Latin America the division between both types is practically the same (48 per cent direct taxes, 52 per cent indirect taxes).

The relationship between total collection and the percentage of direct taxes collected is clear. The countries that collect the best are those that collect more from direct taxes. Similarly, the countries that collect the highest percentage of direct taxes are those with more robust and inclusive social protection systems. This is because within its "welfare regime" or its fiscal policy model, the objective of redistribution is clear both through taxes and social spending. Graph 3-22 shows that Latin American countries that have a higher percentage of direct tax collection are also the countries that have the highest spending on social protection (with some exceptions that move away from the linear trend such as Brazil and Nicaragua).

Graph 3-22: More direct taxes (vs indirect) relate with more social protection



Source: Data from "Revenue Statistics".

Similarly, ECLAC (2021) points out that in order for countries to move towards higher, more progressive collection and to finance social protection systems, it is necessary to strengthen direct taxes, but especially personal income taxation. This is because in Latin America an average of 3.2 per cent of GDP is collected by corporate tax income, very similar to the OECD with 3.1 per cent, but the region's main gap with respect to the OECD is found in the personal income tax, which collects 1.8 per cent of GDP in Latin America and 8.1 per cent in the OECD.

This issue has been covered by existing research (Barreix, Roca and Villela, 2006; Barreix, Bès and Roca, 2009; IDB, EuroSocial and IEF, 2010), which shows how personal tax income in Latin America is progressive, but extremely low, so it does not deliver to its full potential in terms of its redistributive incidence on in the post-tax income inequality. Lustig, Pessino and Scott (2013) find relationships between the levels of direct taxes and cash transfers with redistributive power in Argentina, Brazil and Uruguay, and low redistributive power in Mexico, and practically no effect in Bolivia and Peru. Thus, the authors previously cited and Hanni, Martner and Podestá, (2015) find that, although direct taxes in Latin America are usually progressive, they really have little impact on the income of households, especially the richest, and do not have a significant redistributive power, in addition to implying a low level of collection that also hinders the financing of social protection systems, and compliance with the guarantee of social rights.

The low collection of personal income tax in Latin America has different causes, but among them is the low incidence of the income tax of the richest households (Barreix et al 2017). On average, this tax only taxes 2.3 per cent of the income of average households in the region. In fact, the personal income tax only taxes 9.2 per cent of the income of people from the richest 10 per cent (X decile) as seen in Table 3-5, while in the OECD it taxes 26 per cent. According to estimates, if in Latin America it were possible to collect at least 20 per cent of the income of decile X with this tax, a social protection system could be financed that would reduce inequality measured according to the Gini coefficient to 0.36, similar to the average levels of the OECD (Atria. et al, 2018).

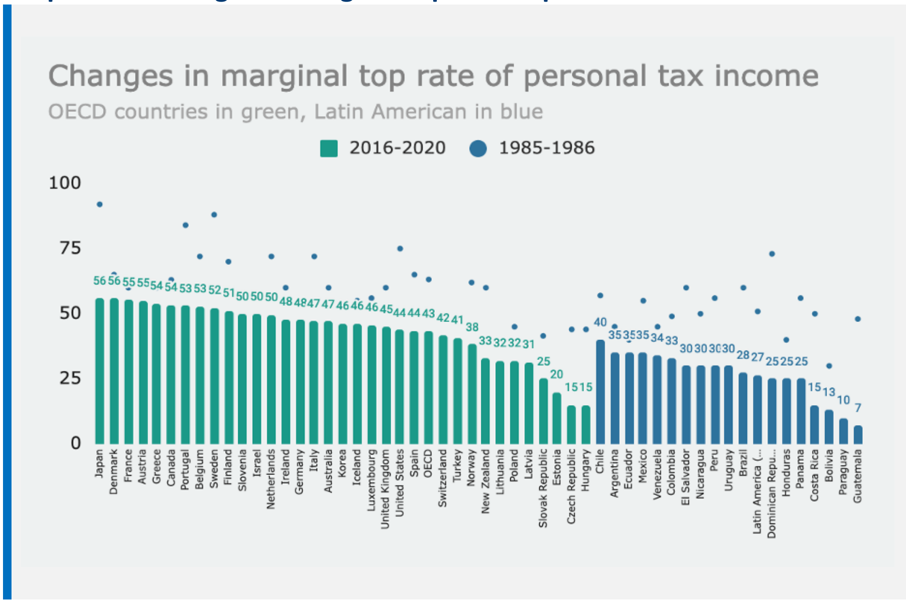
Table 3-3: Personal income tax: Observed average rates by labour-income deciles (Tax paid as a share of gross income, 2013)

Deciles	1	2	3	4	5	6	7	8	9	10	Unweighted average
Argentina[a]	2.6	3.1	3.9	6.0	7.7	8.6	10.1	11.9	14.3	20.5	**8.9**
Bolivia	0.0	0.0	0.6	2.6	4.1	5.4	6.7	7.7	8.8	11.3	**4.7**
Chile	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3	0.8	10.4	**1.2**
Costa Rica	0.0	0.0	0.1	0.1	0.1	0.3	0.4	1.2	1.9	4.5	**0.9**
Honduras	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.8	**0.6**
Ecuador[a]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.9	2.6	**0.4**
Mexico	-0.2	0.0	0.3	0.9	1.1	1.6	2.8	3.3	5.8	6.8	**2.2**
Paraguay	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.03	**0.0**
Peru	0.2	0.3	0.4	0.4	0.3	0.3	0.5	0.7	2.8	13.2	**1.9**
Dominican Republic[aa]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	12.6	**1.4**
Uruguay	0.0	0.0	0.0	0.0	0.0	0.1	1.5	4.5	8.3	14.0	**2.8**
Unweighted average	**0.2**	**0.3**	**0.5**	**0.9**	**1.2**	**1.5**	**2.0**	**2.7**	**4.0**	**9.2**	2.3

Source: Barreix et al (2017).

There are several factors related to the low levels of personal income tax collection in Latin America. One of the most important is the low maximum marginal rates charged in this tax. Graph 3-23 shows significant differences (2020) between the maximum marginal rate charged on average in Latin America (26.6 per cent) with respect to the OECD average (42%). During the eighties, the difference was smaller, since in the OECD the average maximum marginal rate was 63 per cent, while in Latin America it was 51 per cent. This abysmal difference specifically benefits the richest people in countries and, at the same time, harms the poorest households by preventing the financing of more robust social protection systems.

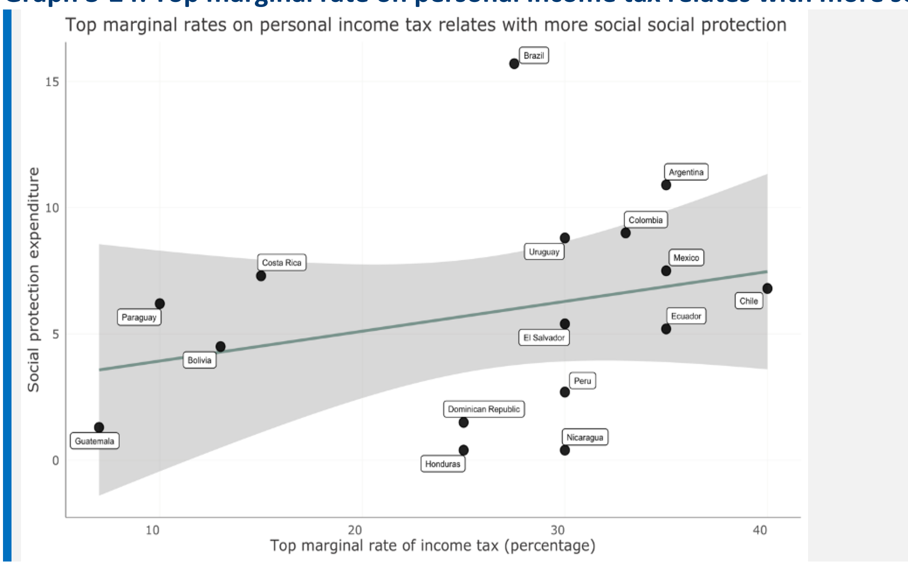
Graph 3-23: Changes in marginal top rate of personal income tax



Source: Data from "Revenue Statistics", at OECD Tax Database & OECD (2011).

These fiscal structures that benefit the richest in the region hinder the financing of extensive social protection systems that benefit all and are related to almost imperceptible levels of redistribution and effect on inequality, not infrequently defended and promoted by the economic elites in each country. As such, Latin American governments are characterized by their poor redistributive achievement, for not taxing in a significant way or guaranteeing social protection systems, so that inequality remains almost intact after governments' policies are put in place.

Graph 3-24: Top marginal rate on personal income tax relates with more social protection



Source: Data from "Revenue Statistics"

Social security contributions play an important role in financing social protection. Unlike health or education fees, social security contributions are progressive, since they are transfers from employers to employees, and from healthy workers to the sick, persons with disabilities, or unable to work (Ortiz, 2017).

By design, one of the multiple factors that determine tax revenue coming from social security contributions is the extension of the population that contributes to these social security systems, closely related to the formal percentage of employment. Some countries have managed to increase their revenue by social security contributions in recent years, such as Brazil, China, Costa Rica, Ecuador, Lesotho, Namibia, South Africa and Thailand, mainly increasing the percentage of workers in the “formal” sector, with different "formalization" policies (Ortiz, 2017). See Box 3-5 for a country example.

Box 3-5: Increasing formality – Colombian case

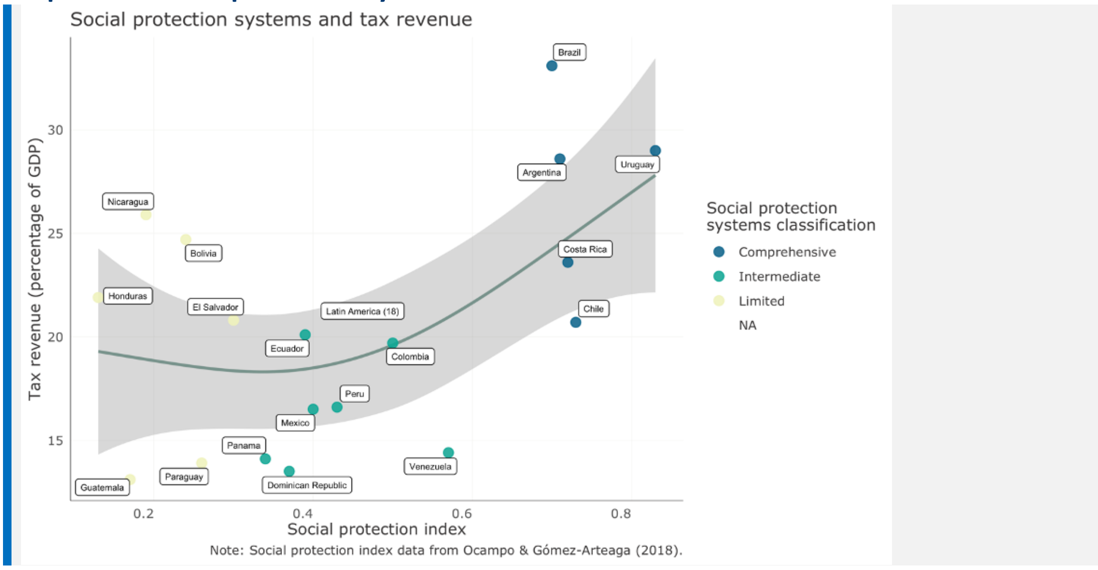
An example is that of Colombia (ILO, 2014) which undertook as its central strategy the implementation of a strong formalization strategy in recent years, through the "Law 1,429 on the Formalization and Creation of Employment", which included some incentives for microenterprises to formalize themselves as well as their workers (such as the temporary reduction of taxes) and the "Colombia Goes Formal" strategy. The strategy has had mixed results. On the one hand, it has managed to formalize a significant percentage of microbusinesses (going from 43 per cent to 70 per cent formally registered). On the other hand, although informal employment is declining, the pace of progress is slow: from 68 per cent in 2010 to 62 per cent in 2019 (Statista, 2021).

Furthermore, although elite social groups in some countries think that the high prevalence of informality is the main obstacle to increasing revenue, the reality may be less clear. Estimates on the impact of formalizing all workers in the informal sector in Mexico calculate that the revenue would rise to barely 1 per cent of GDP, due to the very low income received by many of these workers, so they would pay low rates of income tax, and also in many cases they would qualify for a subsidy (instead of paying a tax) (Casar, 2021).

Given the high correlation that exists between the dimensions of collection, social protection and its redistributive effect, various classifications of Latin American countries have been developed that seek to characterize these wide regional differences. Both the classifications of social protection systems (Ocampo and Gómez-Arteaga,2018) and the classifications in terms of welfare regimes (Barba and Valencia, 2013; Barba et al, 2020) basically agree on dividing countries into three groups, according to their level of state presence on redistribution, the provision of welfare, the guarantee of social protection and tax collection (in the case of welfare regimes).

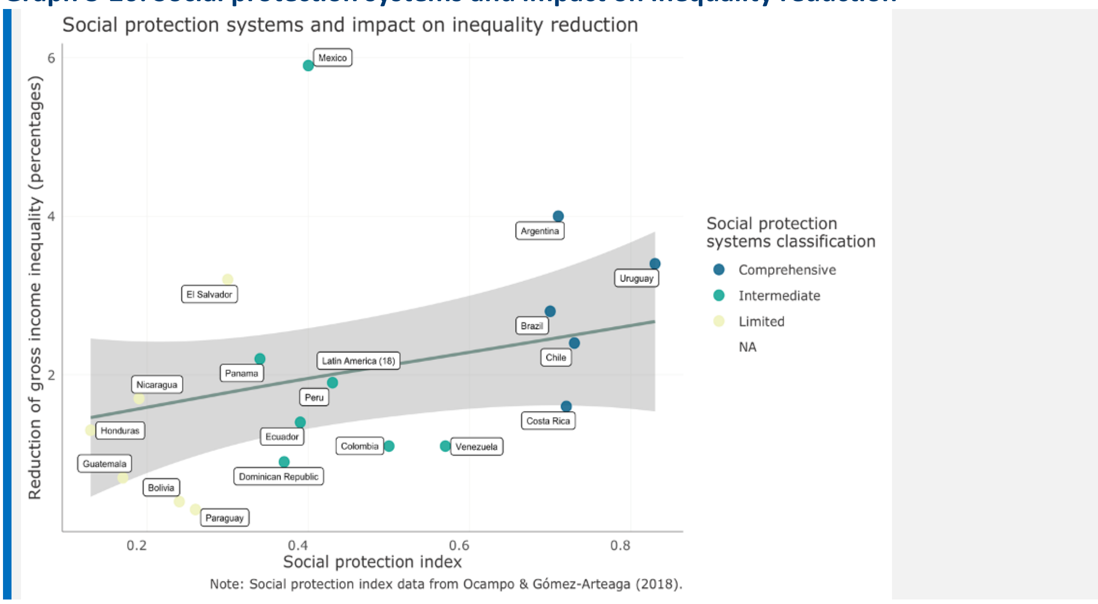
According to these studies and classifications, countries in Latin-American with “limited” (Ocampo and Gómez-Arteaga, 2018) or “exclusionary” (Barba and Valencia, 2013) systems, tax collection is low and linkages with weak social protection system can be encountered. These countries also show high levels of poverty and inequality, high ethno-racial heterogeneity, high levels of job insecurity and, more broadly, a situation of exclusion for the vast majority of the population in terms of accessing human rights. On the other hand, countries with “intermediate” or “dual systems” have relatively adequate access to the fulfilment of social rights for a part close to or less than half of the population, linked to intermediate collection levels in regional relative terms. Finally, "comprehensive" or "universalist systems" have the highest levels of guarantee of rights in the region, as well as more robust and higher tax revenue systems, and the greatest redistributive power in their chosen policies, thus having the lowest levels of poverty and inequality in relative terms. Graphs 3-25 and 3-26 illustrate the relationship between a social protection index (developed by Ocampo and Gómez-Arteaga (2018)) and the level of tax collection, as well as the redistributive power of policies in each country. An important association between the three variables is clear.

Graph 3-25: Social protection systems and tax revenue



Source: Data from "Revenue Statistics" and Ocampo & Gómez-Arteaga (2018)

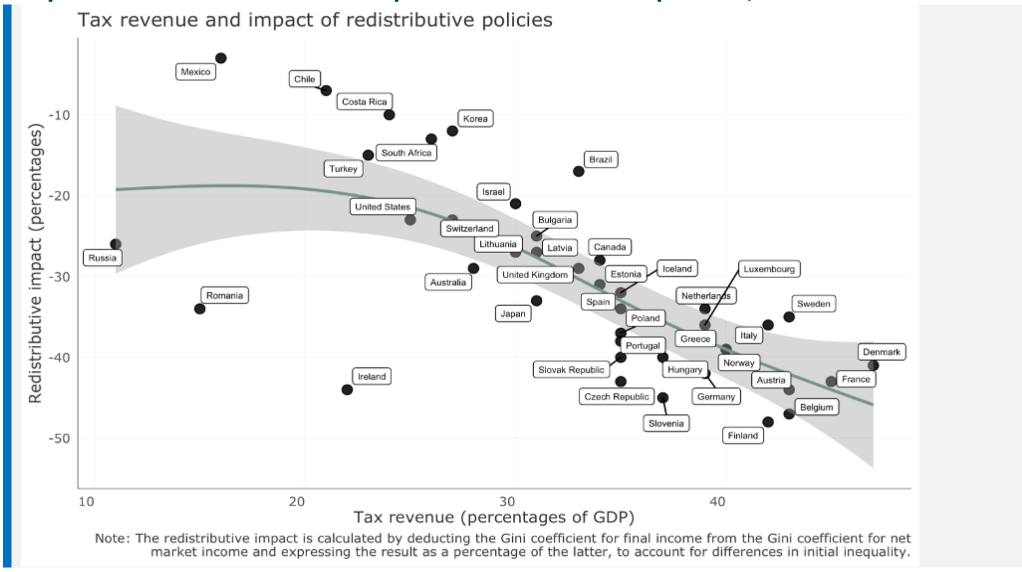
Graph 3-26: Social protection systems and impact on inequality reduction



Source: Data from OECD and Ocampo & Gómez-Arteaga (2018*)*

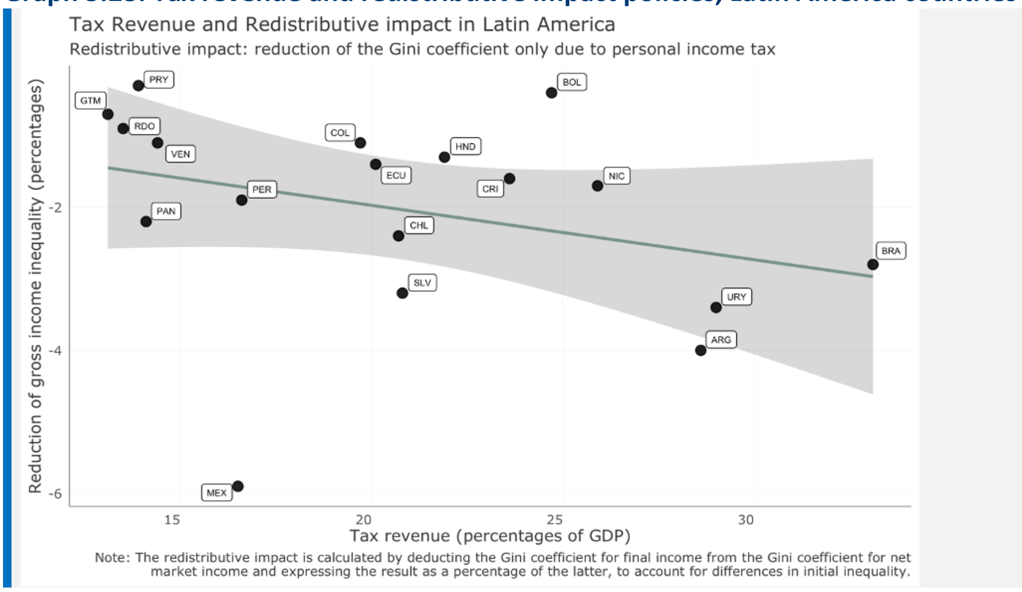
Another interesting linkage is that between tax systems, tax collection and the redistributive power countries can achieve by investing in sound social protection policies. The following two graphs show the relationship between these variables, first for a group of countries worldwide (OECD members and non-members) and then for Latin America. In both cases, there is a clear association between higher revenues and more pronounced decreases in inequality due to redistributive policies. It is also possible to observe that this relationship is lower for the Latin American region, with clearly lower redistributive impacts.

Graph 3-27: Tax revenue and impact of redistributive policies, OECD countries and others



Source: Data from "Revenue Statistics" and OECD

Graph 5.28: Tax revenue and redistributive impact policies, Latin America countries



Source: Data from "Revenue Statistics" and OECD

Similarly, at the global level, a decrease in the redistributive power of different welfare regimes of high-income countries (liberal, conservative, social democratic and Mediterranean regime) has been found, linked to the renunciation of greater tax collection, which has had serious consequences in terms of the size of their social protection systems (Causa & Hermansen, 2019). On the contrary, according to the estimates of Ocampo and Gómez-Arteaga (2018), social protection systems have been expanding in Latin America, at least for the period between 2002 and 2012.

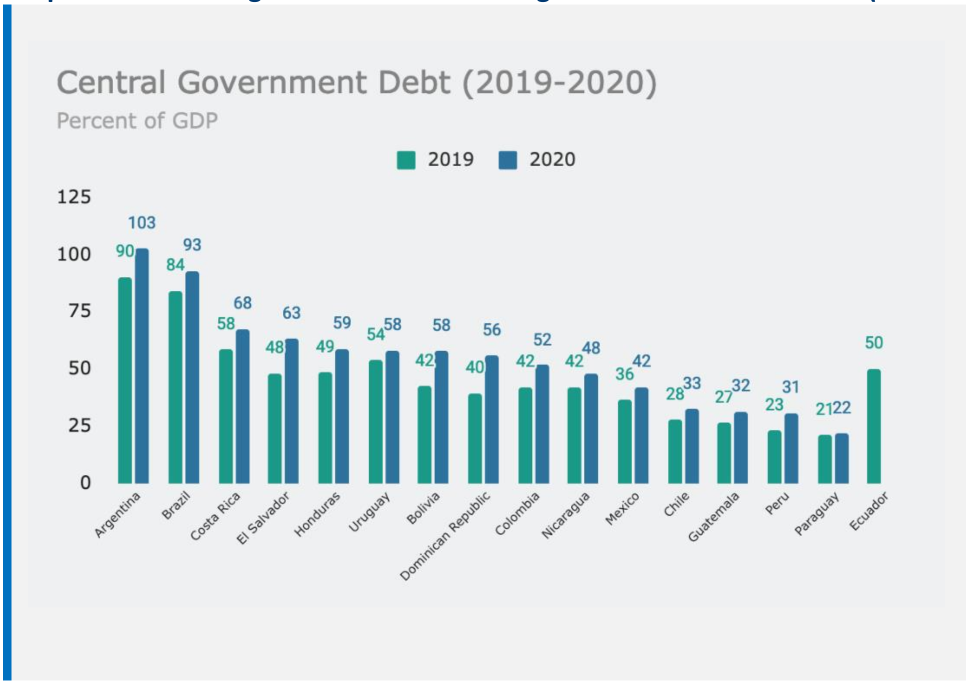
Hence, for Latin America, it is very important to make visible the importance of each country's tax system, its design, structure, and possible improvements, in order to strengthen social protection systems and for countries to achieve a more robust welfare regime.

3.8 Public debt and illicit financial flows

Public debt is one of the areas of fiscal policy that is often used as a justification for not expanding social protection expenditure and, in that sense, for non-compliance with human rights obligations. The simple average of public debt in Latin America (specifically using Central Government Debt indicators) is equivalent to 46 per cent of GDP in 2019, and 54 per cent in 2020. The regional level of public debt is not necessarily high, especially when compared to high-income countries, such as the United States, the United Kingdom and France, whose percentage is above 80 per cent, or extreme cases such as Italy and Portugal that exceed 120 per cent, or Japan, with 201 per cent.

In any case, the average of public debt in Latin America hides wide differences as seen in Graph 3-29. At the lowest end are Paraguay and Peru, with a debt indicator of less than 25 per cent (2019). At the highest end are Brazil and Argentina, with 84 per cent and 90 per cent in 2019, respectively, and 93 and 103 in 2020. The vast majority of Latin American countries are between a range of 40 per cent and 60 per cent. It is very important to note that the average change in public debt in this group of countries between 2019 and 2020 was almost 10 per cent of GDP, which implies a reduction in the region's fiscal space.

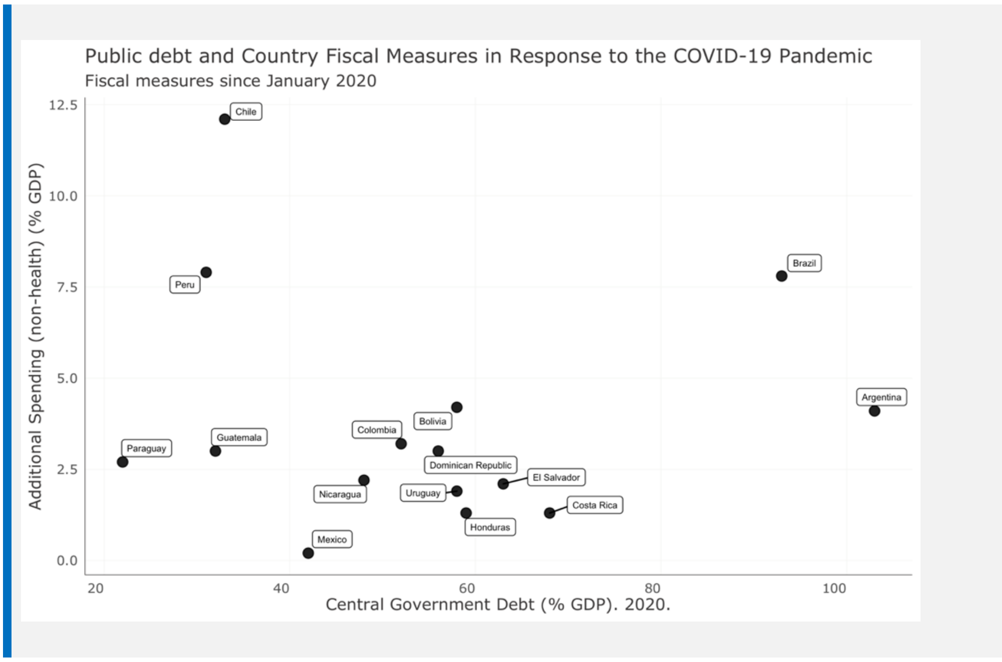
Graph 3-29: Central government debt among Latin American countries (2019-2020)



Source: Data from International Debt Statistics, IMF

The level of countries' public debt can also be linked to the size of the fiscal measures put in place in response to the COVID-19 pandemic. In Latin American countries, at first glance it seems that there is no significant relationship between the two indicators. However, if we separate the outliers (Brazil and Argentina with the highest levels of public debt in the region and also of the countries whose fiscal measures represent the highest percentage of GDP), there is a solid relationship between lower levels of public debt and a more robust fiscal response to the pandemic as shown in Graph 3-30.

Graph 3-30: Public debt and fiscal measures since January 2020 in response to the COVID-19 Pandemic



Source: Data from International Debt Statistics (IMF) and Country Fiscal Measures in Response to the COVID-19 Pandemic (IMF)

A major obstacle to the increase of tax revenue in Latin American countries are illicit financial flows and evasion via tax havens. Thanks to these tax evasion mechanisms, mobilized by a complex apparatus of accountants, lawyers and, in some cases, the complicity of the local governments themselves, the richest and the best connected manage to avoid paying taxes as they should, according to justice criteria and their level of income and wealth, benefiting from an immense amount of money that should have been transferred to the government, generating a gap in the budget that normally ends up being filled and charged to the rest of the citizens (Ortíz et al., 2019).

According to some estimates, one in every ten dollars of the total output of all the economies in the world, is in "shell companies", that is, companies that only exist on paper and that benefit from the benevolent tax havens tax rates. It is estimated that the loss of tax revenue because of tax havens is around 800 billion a year (ICIJ, 2021).

Some investigations such as the Panama Papers and Pandora Papers have revealed that businessmen, politicians, artists, athletes, and members of different elites have used these mechanisms, not always legal, to avoid paying the taxes they should. In the face of such scandals, some measures have been taken, such as the exchange of information between countries to avoid the use of tax havens. But it still seems insufficient.

The damage of tax evasion mechanism on countries is serious. An example for Spain shows that every year 46,000 million euros are lost in collection by different tax evasion mechanisms, which is equivalent to eight times the budget of the Ministry of Education (Pérez and Hidalgo, 2021). In Mexico, it is estimated that because of these mechanisms, 4 per cent of GDP is no longer collected (Gallegos et al., 2021), which is equivalent to practically 25 per cent of the total budget, or the total cost of federal social programs (Jaramillo-Molina, 2021).

The data suggests that in order to ensure that countries in the region are doing as much as possible within their means to ensure human rights, and that principles, standards and obligations are abided by when it comes to social protection and supporting fiscal policies, it is clear that there is room for improvement. In particular, human rights standards, principles and obligations point to the maximum mobilization of available resources and the non-retrogression in protection of human rights. In this sense, the high levels of public debt, as well as low levels of tax revenue, are not enough of an excuse for States to avoid their responsibility to ensure the fulfilment of the right to social protection.

4 Policy recommendations

Evidence from this regional comparative study suggests that weak and more regressive fiscal systems are associated with weaker, more fragmented and lower coverage social protection systems, that do not fully guarantee the right to social security. As such, from a human rights perspective, it is advisable that governments in the region increase investments in inclusive and lifecycle social protection policies, so as to increase coverage and fulfil their human rights obligations.

It is key to note that these recommendations are not a silver bullet to solving poverty, inequality and informality in Latin America, but they strive to provide considerations from the social protection and fiscal policies linkages perspective.

This section will provide policy recommendations for Governments to increase tax collection and fiscal space, so that social protection systems can be expanded.

4.5 Realisation of the right to social protection

Investing in state-run public social security, such as the well-known welfare states in Europe, has constituted a key element in building more just societies, as well as consolidating peace and democracy at a crucial moment in time after the great wars.[76] As such, by reinforcing the social solidarity pillar (in particular, among active and inactive members of society or high and low-income groups) on which social security systems rely, social security has played a transformative role (together with other social policies and public services) in terms of social justice and also in increasing citizens' trust in Governments. This in turn, has spurred a virtuous circle of more willingness by citizens to contribute towards tax systems that help finance inclusive social protection systems that are able to cover the risks, vulnerabilities and contingencies to which all individuals are exposed at some stage during their lifecycle.

Another key aspect of a human rights approach in social protection, is that it provides the base for establishing inclusive, universal and lifecycle systems so as to better address the number of risks and vulnerabilities that right holders might face at certain stages of their lives.[77] International instruments have also recognised the value of social security in preventing and reducing poverty, inequality, social exclusion and social insecurity; in promoting equal opportunity and gender and racial equality; supporting the transition from informal to formal employment; in empowering individuals to adjust to changes in the economy and in the labour market; and finally, in acting as an automatic social and economic stabilizer.[78] Inclusive lifecycle social protection systems are thus based on the principle that

[76] (Egorov 2016a)
[77] (Barrantes 2020).
[78] (ILO 2012a)

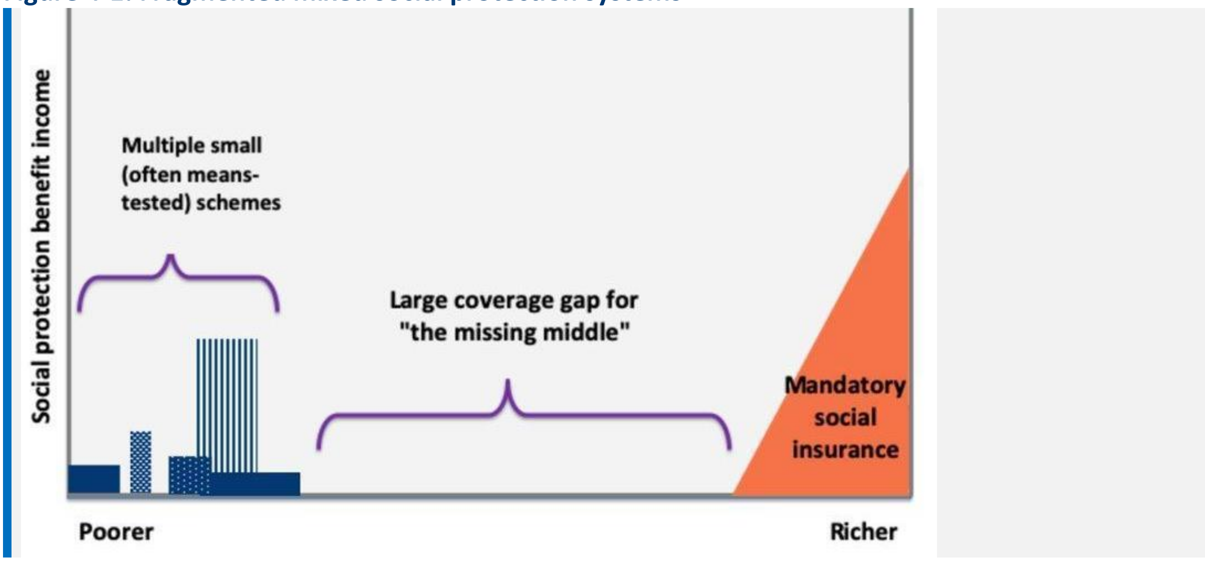
everyone is entitled to some form of protection from risks and vulnerabilities, instead of focusing just on those “deserving” protection, such as palliative poverty targeting social protection schemes.

Latin America has seen significant advances in terms of setting up social protection programmes, and in some cases, consolidating inclusive systems. But these advances have not been enough to cover large sectors of the population, and what is needed is a paradigm shift were governments (and citizens) recognise the need for progressively universal social protection systems, instead of palliative poor relief programmes that leave many behind.

If Latin American countries are to advance on the progressive realisation of the right to social protection, they will have to advance towards more inclusive social protection systems by investing more heavily in the sector and leaving pervasive (and damaging) negatives narratives around poverty and deservingness behind. It has been argued that all countries in the region have the potential to invests in social protection floors[79], and it would hence require governments finding the fiscal space to do so, by prioritising multi-tiered inclusive social protection systems, not schemes that benefit just a few.

A modern, multi-tiered social security system requires that, whenever an individual is faced with lifecycle risks and vulnerabilities, or a certain contingency happens, they are able to access support from either a tax-financed or social insurance benefit or, indeed, from both.[80] Without a comprehensive system, countries are usually left with many fragmented mixed systems providing ad hoc coverage to different groups under different conditions and leaving behind a huge portion of society commonly referred to as the ‘missing middle’ (as seen in Figure 4-1).

Figure 4-1: Fragmented mixed social protection systems



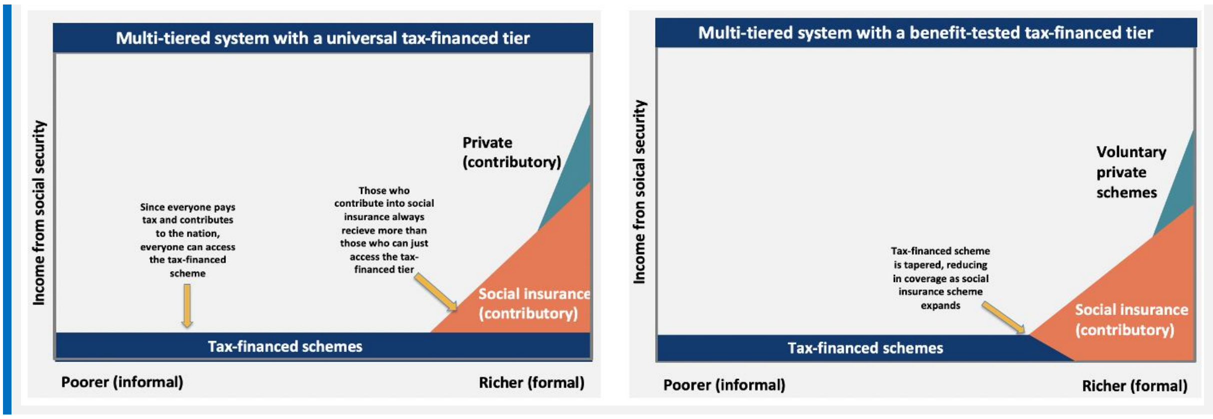
Source: Development Pathways 2019

On the contrary, a fully functioning lifecycle and multi-tiered system, as illustrated in Figure 4-2, will be able fully cover all individuals by first either providing universal tax-financed

[79] (ISSA 2021).
[80] (McClanahan & Barrantes 2021).

benefits to everyone as a floor or, alternatively, provide tax-financed schemes only to those who are not members of a social insurance scheme (or systems can be a mixture of both). On top of this base layer, countries have in place private insurance schemes to enable people to purchase additional protections, with the Government's role limited to regulation rather than provision.

Figure 4-2: Ideal depictions of multi-tiered social security systems, with either a universal or benefit-tested tax-financed tier



Source: Development Pathways

Besides, a fundamental building block of a strong social contract for any given country, is citizens being able to trust their governments. A human rights-based approach to social protection entails a social contract between right holders (citizens/individuals) and the duty bearer (the State), and shows how in this relationship right holders contribute towards the nation by paying taxes and complying with their duties, and, in exchange, they receive, among other benefits and services, social protection transfers.[81]

This also requires a fiscal pact that encourages individuals (right holders) to pay taxes more willingly, thus actively contributing towards tax collection (by the duty bearer), and thus, more investment in social policies for all. The solidarity pillar is central to the principle of tax justice, and hence, also vital for social protection systems, as well as tax system design and resulting social pacts. This of course, requires countries establishing long-term fiscal pacts, that are quite hard to reach in such unequal societies such as Latin America, and where social unrest has been such a salient feature of current times.

Paradigm shifts cannot be expected to occur from one day to the other. Nevertheless, they require firm political commitment to push for further investment in universal social services as a matter of prioritisation. The more universal and inclusive social protection schemes are, the more political support they will gain from large sectors of the population (beyond those considered as poor, in particular the missing middle shown in the graph above).

A good start in constructing the first building blocks of an inclusive social protection system is developing policy and normative frameworks around social protection, and clear political commitments towards fiscal prioritisation of social protection coverage expansion. In making the case for inclusive social protection, it is also key to remember that a significant level of investment in social protection policies is a core component of any successful

[81] (Barrantes 2020; Stephen Kidd et al. 2020).

economic development strategy. A recent comparative study on Universal Child Benefits in the Latin American region shows some of the benefits of these inclusive social protection schemes, compared to other less inclusive schemes tailored for this age group (Bacil et all, 2022).

Within this context, fiscal policies should be at the service of social rights such as social protection,[82] instead of social rights being subdued to fiscal policy restraints, as Governments should prioritise and also strive to generate resources to make the fiscal space. In order to achieve the progressive realisation of the right to social protection, as well as to establish social protection floors, Latin American countries must ensure fiscal sustainability, justice and promote solidarity in the financing of social protection systems. Policy choices around focusing on poverty targeted social protection schemes that present vast exclusion errors as the evidence suggests,[83] instead of investing in universal systems, should not be the pathway Latin American countries take in this regard.

4.6 Increase progressive tax collection

In order to guarantee the right to social protection, it is essential to maintain and/or increase the progressivity of tax collection. As such, one of the essential strategies countries should follow is to seek to increase fiscal space by increasing the progressivity of tax collection. The following are some policy recommendations to achieve this objective.

Improve income tax collection. Income taxes are undoubtedly one of the preferred fiscal tools when it comes to increasing revenues. Alternatives include:

- *Increase top marginal rate on income tax:* Increasing top marginal rates, charged to people with higher incomes in Latin American countries, can be a way to significantly increase collection in the short term, although it may have political opposition, especially by economic elites, as they are the ones who would have to pay more. As analysed previously, the maximum marginal rates charged to individuals are lower in Latin America than the OECD average and have decreased in the last three decades. Increasing the top marginal tax rate is a progressive option, as it only affects the highest income earners.
- *Increase corporate income:* There is now a global consensus that international coordination is needed to increase the rates charged on corporate income. A context of international corporate income coordination may be conducive to increasing rates in Latin America. In that sense, a global agreement was recently reached (136 countries) on a minimum tax rate of 15 per cent (Leigh, 2021) which may be seen as insufficient, but shows progress on the issue. Such an increase is a short-term action that may increase tax collection considerably, but it also runs the risk of facing political opposition (despite the international consensus for its increase). There is also a special interest in taxing the digital economy, of which there has been progress in some countries (Lucas-Mas & Junquera-Varela, 2021).

Reduction of fiscal expenditure (exemptions, deductions, others). Fiscal expenditure is quite common (globally and in Latin America), comprising different types of uncollected

[82] ('Principles for Human Rights in Fiscal Policy' 2021)
[83] (Kidd and Athias 2020).

taxes with different justifications such as economic incentives or subsidies to certain vulnerable groups. In some countries, they reach up to 4 per cent of GDP. Reducing the amount of fiscal expenditure (without affecting social fiscal expenditure) is a short-term strategy to increase revenue collection, which, in some cases, may have fewer political complications than increasing collection rates or implementing new taxes.

Increase tax collection on property taxes:

- *Increase tax collection on already existing property taxes (immovable property, and others):* In most Latin American countries there are already some property taxes, such as real estate taxes. However, many countries in the region do not take full advantage of the collection potential of such taxes. There are many possible improvements in this tax, many of which can be made in the short term and, given that the taxes already exist and are seen as legitimate in political terms, in many cases the changes may not face significant political opposition.
- *Establishing and/or increasing taxes on net wealth and inheritances:* These types of taxes are characterized as being significantly progressive, as they tax assets and wealth, which are clearly more unequally concentrated than income. Net wealth and inheritance taxes have a large tax collection potential, in the short term, and can be based on some exemplary cases in Latin America that levy them, such as Chile, Argentina, Uruguay, Bolivia or Colombia. The main problem is that they tend to be politically difficult, since they especially affect the economic elites.

Box 4-1: Special tax on net wealth in the context of the pandemic (2020-2021)

In some Latin American countries (Argentina, Bolivia, for example), a special tax (which could be levied only once) on multi-millionaire net wealth has been established to collaborate with the strategy to face the economic crisis. It would be advisable for the rest of the countries in the region to consider this option, especially those still in a situation of economic instability.

Increase or establish taxes on financial sector. More and more countries are implementing this type of special tax on financial transactions (FTT), especially on profit and remuneration of different financial entities or institutions. The transaction of various financial instruments tends to generate increasingly large profits, and many tax systems in Latin American countries have not adapted to this context. In general, these are taxes that can be applied in the short term, since financial transactions are duly identified by the countries' tax authorities. Depending on tax design they might have different political implications. Taxes on deposits or cash withdrawals tend to be unpopular, while taxes on gains from financial instruments are less publicly debated but affect the sectors with the greatest current lobbying power. In most cases they involve a large revenue-raising potential.

Taxation on natural resources or extractive industries. These types of economic activities (mining and hydrocarbon extraction) tend to have an extremely heterogeneous tax treatment worldwide. The cases of Norway at the global level, or Bolivia in Latin America, show how significant amounts can be collected to finance social spending. In any case, the taxes established for these activities can have broad collection potential, they could be established in the short term and may not have strong political opposition because they do not involve a large number of taxpayers, although this depends to a large extent on the separation of the political and economic elites in each country.

Indirect taxes (such as VAT) are not recommended. Indirect taxes, such as value added tax (VAT) or other similar consumption taxes, are not recommended because they are regressive and affect more households whose consumption represents a higher percentage of their income, i.e., poorer households. Unfortunately, many governments take this option as an easy way out to increase revenue, because although it may generate widespread opposition, economic elites tend to support it because it represents a lower overall tax burden for them.

Box 4-2: Tax innovations and coverage expansion

In some countries, such as Argentina, Brazil and Uruguay, social security contributions can be paid together with other taxes, in what they call the "monotax", which benefits small taxpayers and micro-enterprises (more details in the annex). In 2020, a new tax regime strategy was implemented in Mexico, called "*Régimen Simplificado de Confianza*" (*RISICO*) or Simplified Trust Regime, which seeks to encourage formality through simpler procedures and low-income tax rates for small taxpayers.

Another strategy implemented in Mexico was the Pilot Programme for including domestic workers in social security system (more details in the annex), which has had few results, but shows the government's intention to increase the number of economically active people paying taxes in the formal sector.

Expanding social security contributions. As mentioned in the previous section, social security contributions are an important part of tax collection, fundamental for social security systems. In Latin America, with the high rates of informal sector employment, it is clear that one of the priorities is to expand the amount collected in social security contributions. In this regard, at least two specific recommendations for increasing collection can be suggested:

- *Modify contribution rates:* Social security contributions typically come from payments from three different sources, or contributing parties: employees, employers, and the government. Modifying the rates charged is a short-term strategy that can significantly increase the total amount collected. The progressivity or regressivity of the modification will depend on the final determination of the percentage of the modifications, and on the new distribution of the tax burden among the three contributing parties; that is why it is recommended not to raise the rates for workers, especially low-income workers. The problem may arise from the fact that a new distribution which taxes employers more heavily may not generate political friction.
- *Expansion of coverage:* This possibility implies increasing the total number of contributors from the formal sector of the economy. It is a medium-term strategy, but it may have important effects in increasing the tax collected. It may cause less conflict with the corporate sector (which is already formal beforehand), although it could cause discontent in a certain sector of the population, probably in the lower income sector. It is important to say that in some countries the positive effect that the formalization of the economy that remains in the informal sector could have is overestimated. Previously, research by Casar (2021) showed that if the entire informal sector in Mexico were formalized, it would only increase revenue by 1 per cent of GDP, which is not a negligible figure for the goal of increasing fiscal space,

but it would definitely not be the silver bullet solution to the chronic problems of the fiscal systems in Latin America.

4.7 Other fiscal space options

Prevention of illicit financial flows and corruption. The category of IFF usually includes different types of financial transactions, such as funds of criminal origin and/or destination, tax evasion, among others. International coordination is particularly important for the solution. In this regard, there is increasing regional and international consensus for legislation and coordination to prevent illicit financial flows and abuse of offshore countries. Although these are policies that could have results in the medium or long term, they can significantly increase revenue collection. For example, in Mexico it is estimated that up to 4 per cent of GDP is not collected due to this type of IFF (Jaramillo-Molina & Bouchot-Viveros). The benefits of IFFs tend to be concentrated in the wealthiest individuals, so actions to prevent this would have progressive consequences. There may be some political resistance, although it would be difficult to defend any of these types of clearly unethical and/or illegal strategies. In the same sense, measures aimed at combating corruption can have positive results, in addition to increasing the legitimacy of States to collect more taxes and rely on their budgets.

Public expenditure reprioritisation. Although this strategy does not increase fiscal space in relation to a country's total budget, it is an option that consists of prioritizing government social spending and increasing the percentage it represents of the total budget, discounting or decreasing spending on high-cost investments with low social impact, as well as other types of less socially desirable spending. To achieve this, the budget must be evaluated based on criteria of effectiveness, efficiency and sustainability. Such changes should prioritize spending on social protection with a focus on human rights and avoid any cuts that could have negative social impacts. Changes can be quick, but they usually face the problems of established power spaces or acquired commitments, in addition to the fact that they have to be very well planned in order not to generate social damage. As has been mentioned throughout the study, ultimately public expenditure reprioritisation is linked to policy choices and a strong social and fiscal pact.

Restructuring and managing debt. This is an important option to increase fiscal space, whereby the fundamental requirement is to use the loan in productive projects with social impacts and/or that can generate better future economic budgetary conditions for sustainable social spending. Options such as Colombia's "Social impact bond" are interesting (here, the focus is employment, but there are other experiences in the world that focus on child welfare and education).

- *Increasing debt (when there's room to borrow):* Another fundamental aspect of public debt is that its financial service payments must be sustainable in the long term. According to the IMF (2002), in order to have an optimal level of public debt, "developing" countries can have a ceiling of 60 per cent of total GDP as a benchmark. As observed in the data of the previous section, most countries in Latin America have some "room to borrow", as only Brazil and Argentina exceeded the 60 per cent limit (with data as of 2019). In any case, what has to be ensured (as discussed in the following recommendation) is to generate optimal conditions for the payment of the annual cost of debt. Thus, it is a short-term fiscal option, which can expand the fiscal space significantly and there is usually no high political opposition (although many governments have the idea that indebtedness per se is undesirable, and not the sustainability of debt service).

- *Debt restructuring and debt relief:* Although some countries have room to borrow more, globally many countries tend to have high levels of indebtedness (nevertheless this is less common in Latin America). One option for countries that have significantly increased their debt is to apply for debt restructuring. This is particularly important. Although it is increasingly common to speak of "illegitimate debt" and to see lenders as co-responsible for countries' debt, debt renegotiation and debt relief often takes time, and political difficulties may be encountered in their approval. In any case, they can generate ample fiscal space if successful.

Macroeconomic Framework. Since the 1980s, fiscal adjustment policies promoted by international organizations were based simply on an almost universal recommendation to reduce the fiscal deficit and inflation, which resulted in increasingly narrow fiscal space. Moreover, these policies, applied in times of economic instability, were pro-cyclical, which deepened the crises, and further narrowed present and future fiscal space, leading to cuts in social protection spending. But during the last decade, there has been a growing consensus that macroeconomic stability should pursue broader objectives, such as economic growth, smoothing economic cycles, reducing unemployment, poverty and inequality (Zagha & Weltbank, 2005). Thus, the basis for achieving these objectives must be to ensure long-term sustainability, linking greater fiscal space with productive investment and development and social protection purposes. Within this new context, some recommendations that can generate more fiscal space in the future have been made more flexible, for example:

- *Flexible and sustainable policies on budget deficit and inflation:* long-term fiscal sustainability can be achieved in highly heterogeneous ways in different countries. It has been found that in some cases, acceptable levels of fiscal deficits may be sufficient to increase fundamental aspects of social protection and the immediate guarantee of human rights. It has also been found that, excluding countries with inflation above 20 per cent, there is no evidence that controlling inflation generates higher economic growth. In these cases, flexible and sustainable macroeconomic policies can be implemented in the short term, significantly increase fiscal space and with little political opposition (under the new international consensus).
- *Increase investment in social protection during crisis:* Social protection can work as a stabiliser counter-cyclical policy. For example, unemployment benefits can be important during an economic crisis to increase aggregate demand, thus generating better macroeconomic conditions. Thus, certain heterodox macroeconomic policies, such as increasing social spending, have had benefits both on unemployment and controlling inflation, and create a virtuous cycle of higher demand, higher productivity, higher economic growth and greater fiscal space. In any case, these are options that would have little political opposition, and their medium-term effects could significantly increase fiscal space.

Allocate enhancements of fiscal space directly towards Human Rights obligations. In line with the previous recommendation, and similar to the prioritisation of public spending towards social protection expenditure, a critical recommendation is that increases in fiscal space should have a priority impact on the guarantee of human rights. In addition to the fact that fulfilling the guarantee of human rights is an obligation of governments, it was also demonstrated in the previous recommendation that investing in social protection has multiple positive effects, resulting in the generation of greater future fiscal space. This recommendation is short term in its implementation, tends to have little political opposition and increases fiscal space in the medium and long term significantly.

Table 4-1: Policy recommendations for improving fiscal systems and increasing fiscal space

ID	Policy recommendation	Period	Political Viability	Potential impact on fiscal space
1	**Increase top marginal rate on income tax**	Short term	Typically contested	Significant fiscal space
2	**Increase corporate income**	Short term	Typically contested (new international coordination could be helpful)	Significant fiscal space
3	**Reduction of fiscal expenditure (exemptions, deductions, others)**	Short term	Easier	Significant fiscal space
4	**Increase tax collection on already existing property taxes (immovable property, and others)**	Requires more time	Typically contested	Limited fiscal space (specially on countries with already present adequate taxes on this category).
5	**Tax on wealth and inheritance**	Short term	Typically contested	Significant fiscal space
6	**Increase or establish taxes on financial sector**	Short term	Easier / Typically contested (depending on specifics)	Significant fiscal space
7	**Taxation on natural resources or extractive industries**	Short term	Easier	Significant fiscal space
8	**Modification of rates to increase social security contribution**	Short term	Typically contested	Significant fiscal space
9	**Expansion of coverage to increase social security contributions.**	Requires more time	Easier	Significant fiscal space (sometimes overestimated, when informality is excessively blamed for the weakness of a tax system)
10	**Prevention of illicit financial flows**	Requires more time	Easier (but can be contested because of lobbying)	Significant fiscal space
11	**Public expenditure reprioritisation**	Requires more time	Typically contested	Limited fiscal space / Significant fiscal space
12	**Increasing debt (when there's room to borrow)**	Short term	Easier	Significant fiscal space
13	**Debt restructuring and debt relief**	Requires more time	Politically contested	Significant fiscal space

14	**Flexible and sustainable policies on budget deficit and inflation**	Short term	Easier	Significant fiscal space
15	**Increase investment in social protection during crisis**	Requires more time	Easier	Significant fiscal space
16	**Allocate enhances of fiscal space directly on Humans Rights obligations**	Short term	Easier	Significant fiscal space

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