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CENTRAL AMERICA: Social policy improvement is unlikely

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Abstract

Social policy in Central America -- and its economic impact.

Since the early 1990s, democratic transitions have delivered some positive changes in levels of social spending as well as a timid -- but more inclusive -- policy design in El Salvador, Guatemala, Honduras and Nicaragua. Basic transfers and services have been created and strengthened; these advances have been particularly significant in El Salvador. A virtuous combination of democratic competition and international ideas lie behind this positive change. Nevertheless, high segmentation in social provision remains, and excessive reliance on private supply of health and pensions remain significant problems.

Full text

SUBJECT: Social policy in Central America -- and its economic impact.

SIGNIFICANCE: Since the early 1990s, democratic transitions have delivered some positive changes in levels of social spending as well as a timid -- but more inclusive -- policy design in El Salvador, Guatemala, Honduras and Nicaragua. Basic transfers and services have been created and strengthened; these advances have been particularly significant in El Salvador. A virtuous combination of democratic competition and international ideas lie behind this positive change. Nevertheless, high segmentation in social provision remains, and excessive reliance on private supply of health and pensions remain significant problems.

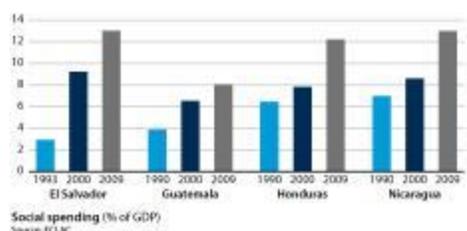
ANALYSIS: Impacts.

Organised crime undermines tax collection, creates migratory pressures and threatens business interests in the region.

Regardless of ideological preferences, electoral competition will contribute to expansionary policies.

Medium to long-term redistributive effects depend on a design that counteracts the temptation to expand short-term 'flagship' programs.

With the exception of Costa Rica, Central American countries have exclusionary social policy regimes, which offer little help to families. Yet with the democratic transitions of the 1990s, they succeeded in reformulating their social policy interventions. Poverty consistently dropped throughout the 1990s and 2000s in El Salvador, Guatemala, Honduras and Nicaragua, while inequality dropped in the four countries during the 1990s -- but fell only in El Salvador and Nicaragua during the 2000s. These changes reflect the increasing role of social policy:



Social spending has increased in all four countries since the 1990s. This trend was most remarkable in El Salvador, where social spending surged six-fold.

Disaggregation by policy sector shows positive trends for a progressive redistribution, in so far as the increase is highest in education, followed by healthcare. Increased spending in these sectors is positive for a poor and historically excluded population.

The same holds for lower increases in social security, which benefits only formal salaried workers -- and excludes the poorest citizens, who are often employed in the informal sector.

All countries had only small percentages of their public expenditure devoted to housing and associated services. Guatemala was the best performer in this area. The frequently documented lack of access to housing and infrastructure for those in rural areas, combined with structural inequalities and higher poverty, points to a continuing requirement for development in this area --although corruption is especially problematic in the housing sector.

In terms of policy design, changes revolve around guaranteeing access to basic social services:

Unified services. A significant problem in Central America has always been the uneven access to social services for different people depending on their income, and the lack of proper regulation of private services. In 2007 a legal reform in El Salvador established unified criteria for service provision -- for both public and private providers. Although incipient and lacking well-defined incentives (such as funding), this change did move in the direction of guaranteeing a set of services to the whole population. Two years later, the new government introduced legal reforms to eliminate out-of-pocket payments involved in public facilities.

Conditional cash transfers (CCTs). CCTs have expanded, although with uneven participation (see INTERNATIONAL: Cash transfer schemes could hit limits - April 11, 2012). In 2008 the Honduran program reached 6-10% of the population while the Salvadorian and Nicaraguan programs reached under 6%, according to one study published that year. By 2011 coverage in El Salvador and Honduras had increased to 8.2% and 8.7%, respectively, while in Guatemala it reached 22.6%.

Social assistance. In El Salvador and Guatemala, governments created non-contributory pensions for elder people or those living in extreme poverty, respectively. These initiatives guarantee a monthly payment for about 80% of the economically active population that lacks access to a contributive scheme. In Honduras a program created in 1993 remains in place. These vary considerably in amount and coverage. Only Nicaragua lacks these

benefits.

Regulation of services. A imminent major breakthrough concerns the regulation of markets related to social services. El Salvador has passed a law that for the first time will regulate prices, quality and access to medicines in a country where eight out of ten prescriptions are handled in pharmacies and clinics rather than in public facilities.

New social service floors. Emerging out of the 2000s and reflecting the role of international organisations, governments have begun addressing care services through 'social protection floors'. For example, El Salvador in 2009 passed a law establishing universal care services coverage for children aged under four. At the time the law was passed, only 1.8% of all children had access to either public or private services, according to a study published in 2011 by the International Labour Organisation and the UN Development Programme.

However, according to estimates based on data from Pan-American Health Organization and UNESCO, private spending on healthcare grew during the second half of the 2000s and, except in El Salvador, private per capita spending is higher than public per capita spending. In Guatemala, the gap is particularly large (77 to 46 dollars, at least in 2006). The quality of public health and education services remains low, and suffers from funding and bureaucratic bottlenecks.

Problems ahead .

Further improvements in the quality and generosity of social services are unlikely unless a new cross-class political coalition is created. Currently, most public social programs (including primary education and public sanitation) are only used by the poor. As a result, quality remains low and resistance to paying for better services through taxation is high (see PROSPECTS 2013: Central America - November 15, 2012).

Government involvement in social services remains limited and most programmes require beneficiaries, families and communities to contribute via what is often referred to as 'voluntary work'.

Furthermore, social reforms have hardly altered the previous social order. The state continues to play a relatively minor role compared to the one played by families -- both for subsistence and social protection. This is demonstrated by the fact that state funding is extremely limited and provides only basic services, such as primary healthcare. In this context, social policy is not contributing to social cohesion, income redistribution and the creation of human capital and productive assets (Costa Rica is the key regional exception to this trend).

CONCLUSION: Positive social policy trends are unlikely to deepen and achieve political and fiscal sustainability in Central America, as they depend on several contingent factors -- namely, whether international donors are willing to condition aid and loans to a new social pact that reshapes budgets and leads to more robust public goods, the ability of governments to expand the tax base, and more effective government regulation of private markets for social services.

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