Enhancing Social Inclusion in Latin America

KEY ISSUES AND THE ROLE OF SOCIAL PROTECTION SYSTEMS

OECD

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Regional Programme

Enhancing Social Inclusion in Latin America:

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FOREWORD

Social inclusion is a major challenge for countries in Latin America and the Caribbean (LAC) and has deep structural and historical roots. In recognition of this, the OECD LAC Regional Programme (LACRP) made *enhancing social inclusion* one of its three priorities, along with *increasing productivity* and *strengthening institutions and governance*.

Last year, the publication *Boosting Productivity and Inclusive Growth*, prepared in co-operation with the IDB for the Ministerial on the same topic held in Chile, focused on the need for productivity-enhancing reforms in the region (improving the business environment, lowering regulatory barriers, promoting competition to increase business dynamism and innovation, opening markets to reap the benefits of trade) that would boost economic growth, while ensuring a more inclusive approach to development. High levels of inequality may impact growth negatively in various forms, for instance by hindering investment in human capital among low income families. The Productivity-Inclusiveness "nexus" was the central topic of OECD's Ministerial Council Meeting in 2016, inviting policy makers to take into account the multiple interactions between inequalities and productivity and how these play out across countries, regions, firms and between individuals.

This publication describes the challenge of social inclusion in Latin America, through the prism of poverty, vulnerability and inequality, and discusses the policy levers that can be used in response, with a special focus on the role of social protection systems. It draws on the work of the OECD on inclusive growth, in line with the Organisation's long time highlight of the necessity of rethinking the traditional model of economic growth to put people's well-being centre-stage. Social inclusion can indeed be an engine for growth, with a virtuous circle where growth translates into more well-being for all and inclusiveness underpins stronger growth in a sustainable manner.

Since the turn of the century, sustained rates of economic growth, supported by the demographic transition but also regional integration in trade and investment, technological change, progress in education, expansion of social protection programmes and increased urbanisation, have transformed the face and outlook of the region. Between 2000 and 2015, poverty rates in the region were cut in half, lifting more than 83 million Latin Americans out of poverty. As household incomes increased – especially for poor families – and inequality edged downward, LAC's middle class grew from one out of five Latin Americans in 2000 to more than one out of three in 2015.

Yet, inequality of income and inequality of opportunities remain high. They constitute an obstacle for development and growth, but also tend to produce very divisive political outcomes. The average Gini coefficient went from 0.51 in the early 1990s to 0.42 in 2015, while relative poverty (i.e., households with incomes less than half of the median) decreased by only 4 percentage points between 2000 and 2014. Inequalities persist beyond income and encompass key public services, such as quality health care and education, as well as political participation. Moreover, inequality of income and of opportunities also contributes to unequal access to justice or governance structures, hindering social cohesion and making structural reforms more difficult. Conditional Cash Transfer (CCT) programmes, one of the main novelties over the past two decades, served as a good starting point to reduce extreme poverty, improve health outcomes for children and increase school attendance in the region. Now they have to be complemented with further programmes to empower women and foster productive inclusion to break the intergenerational transition of poverty and reduce inequality.

Today, a high portion of the middle-class does not have access to contributory social insurance programmes households (44% and 34% of those in the third and fourth quintile, respectively). While public social spending as a share of GDP has increased in LAC (reaching the current level of 8.6%), the region still lags way behind the OECD average (21% of GDP) and progress has not been equal across countries leaving a large share of the middle class vulnerable to economic shocks and at risk of falling back into poverty. Taking a lifecycle and comprehensive approach (from early childhood development, and basic education, to skills, jobs and savings) encompassing the socioeconomic characteristics of the different stakeholders is crucial for well-designed social protection systems.

There are a number of structural features specific to the LAC context that shape the challenge of social inclusion and inequalities in the region. First, while in OECD economies the taxes and transfers systems contribute significantly to reducing inequality (close to 16 percentage points, as measured per the Gini coefficient), in most Latin American economies that reduction is below 3 percentage points. Secondly, informal jobs constitute a trap for half of the workers in Latin America, particularly affecting youth, women and low-skilled workers, having long-term adverse effects on equity and on the productivity of the economy. Furthermore, the interaction of informality with contributory social protection systems creates a vicious cycle: the majority of informal workers contribute irregularly, if at all, thereby weakening the systems which then provide insufficient support to workers when they need it. Finally, although recent progress is notable, gender disparities remain significant; for instance, 76% of the NEETs[1] are women who continue to bear the main burden of unpaid household tasks.

In order for growth to be sustainable and inclusive, a whole of government approach is needed with mutually reinforcing effects from economic and social policies. The key elements of such a comprehensive approach are discussed in Chapter 1, presenting challenges along the lifecycle (education and skills, jobs and pensions) as well as relevant considerations related to the digital, gender and territorial divides. Policies should take into account that, in some countries, there is a dual economy where a highly productive and prosperous Latin America – characterised by high levels of education, skills and digitalisation – opens up for the very few but remains out of reach for the many. Chapter 2 provides a “zoom” into the policies that are needed to broaden the coverage and quality of social protection. It includes a focus on the transformations that many labour markets are undergoing, or may soon undergo, as a result of rapid automation and digitalisation. Looking ahead, while policy solutions will remain shaped by the specific characteristics of each country, several challenges with common ground between OECD and LAC countries can also be expected regarding policies to strengthen social protection programmes, keeping a focus on the most vulnerable and least represented groups.

This *Key Issues* publication provides a timely evidence basis from which Ministers and High-level Officials gathered at the meeting “Towards Inclusive Social Protection Systems in Latin America and the Caribbean” – Asunción, Paraguay, on November 16, 2017 – can draw useful insights. The OECD will continue supporting this dialogue for a sustainable reform agenda in the LAC countries working with national authorities and other International Organisations using the tools provided by the OECD Latin America and the Caribbean Regional Programme.

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[1] NEET stands for “Not in Education, Employment, or Training”.

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Summary of key insights and potential areas for furthering policy dialogue between OECD and LAC countries

i. ***Inclusion in Latin America is unfinished***. There are still high levels of poverty, persistent inequality and widespread informality along people's life cycle and transmitted across generations. Besides, certain socio-demographic groups are especially left behind. This is the case of women, youth, and poor populations (often indigenous) living in remote areas or metropolitan fringes.

ii. ***Policy responses fall short and in many cases are still segmented and silo-based.*** While there have been important advances in specific domains of social policy, efforts have been fragmented and their impact is therefore restrained. Conditional cash transfers have been a critical tool for poverty alleviation and have created positive incentives in favour of better education and health outcomes among poor families, but the social protection system as a whole has not been successful in allowing people to graduate from support programmes, and, for instance, does not necessarily create incentives for women's accession to the labour market. The expansion of pension coverage through non-contributory pensions has helped reduce poverty among older adults, but the adequacy of these pension benefits remains a challenge, especially for the new middle class. Also, inequality is still very high and, from a systemic view, taxes and transfers as a whole do little to redistribute and incentives are not aligned to reduce informality.

iii. ***Growth and inclusion could be mutually reinforcing.*** Economic growth in LAC since 2000 had an important impact in the reduction of poverty, inequality and facilitated the expansion of social expenditure. The current context of low growth and fiscal constraints enhances the need for more and better targeted social spending to avoid losing the terrain gained during the first decades of the century. OECD research suggests that policies to reduce income inequalities reinforce and sustain long-term growth. Focusing on families with children and youth, promoting employment for women and disadvantaged groups through active labour market policies while setting the incentives for formality among the new middle classes, childcare support and in-work benefits, bridging the digital and adopting a territorial approach to unlock the growth potential of less developed regions can serve as new internal engines of growth.

iv. ***Looking ahead, LAC countries would benefit from a comprehensive inclusive growth agenda.*** An integrated, multi-sectoral approach to inclusive growth should encompass several policy levers, which have shown to be useful for setting the enabling conditions for all individuals and groups to fulfil their aspirations. These include productivity-enhancing policies (not addressed in this publication) oriented at benefitting from the nexus between productivity and inequality and increasing business dynamism and innovation through greater competition, a sound business environment, and open markets, along with policies to enhance the participation in global value chains[2]. But it also involves addressing structural issues with significant impact in the long run, such as the establishment of progressive tax and transfer systems, changes in the social institutions and norms to eliminate all gender-based discrimination and reducing informality. And finally, it entails unlocking the growth potential of all individuals and regions through the education and skill systems, labour markets, digital infrastructure and territorial governance.

v. ***Social protection systems are central to an inclusive growth agenda in Latin America.*** Social protection in the region is often characterized by segmented social assistance and social insurance programmes rather than comprehensive systems. There are important challenges related to the unification, expansion, and design of social protection. Transforming programmes into systems that can adapt to current and future demographic, technological and geospatial dynamics, is a major challenge for the region where lessons from OECD experiences can be drawn.

vi. ***LAC needs a systemic, whole of government approach to social protection.*** Growing public social security spending in many LAC countries since the turn of the century has been essential to reduce the vulnerability to poverty and economic shocks of a larger share of the region's population. In perspective, a comprehensive growth strategy will be needed to create the extra "fiscal space" necessary to make such growing spending affordable over the longer term. To this end, the focus on tackling informality and on broadening the tax basis will be key to underpinning the broad policies for boosting inclusive growth.

vii. ***Reforms for expanding coverage and reinforcing adequacy of pension entitlements.*** Many LAC countries have pursued efforts for promoting the implementation of better national combinations between contributory and non-contributory pension schemes. A balanced approach is essential to ensure that poverty in old age is effectively reduced, but also for helping all aged individuals to maintain their standards of living. This challenge is particularly important in light of the concerns in many LAC countries for the vulnerability of those who recently joined the middle-class. The practices that a number of OECD countries have already put in place to address similar concerns could be useful to support thinking on the main challenges facing the design and delivery of such a balanced approach.

viii. ***In order to move towards universal coverage, it is crucial to make further inroads into curbing informality.*** This should involve a range of incentive measures for workers to seek formal-sector jobs, decreasing the costs of formalisation for employers and improving enforcement methods and measures. Additional policy options include more decisive actions on the supply side. For example, this can reflect the provision of and access to more and better skills for all workers, themselves backed by business-friendly policies to reduce administrative barriers to the launch of new entrepreneurial activities.

ix. ***Harnessing the opportunities provided by the growing role of ICT.*** Digitalisation is creating new opportunities for workers and communities in OECD and LAC countries alike. Both OECD and LAC countries increasingly use innovative ICT solutions and applications to monitor the effectiveness of social protection programmes and to speed-up administrative processes. At the same time, technology tools play a growing role to support the extension of coverage, to boost the quality of social services, while also securing the adoption of more

[2] See OECD (2016), The Productivity-Inclusiveness Nexus: Preliminary version, OECD Publishing, Paris. As noted in the introduction, these policies were discussed in OECD/IDB/GFP (2016) and are beyond the scope of this report.

personalised systems of delivery. This helps to limit duplication of services and risks to abuse the system. By facilitating the implementation of unique registries, they contribute to reduce the fragmentation of social protection systems, which is a broader challenge in the LAC countries.

x. ***Protecting workers against the risk of slipping through the social protection net.*** Digitalization also raises concerns associated to the growing number of individuals who have a job in declining activities and occupations. Results of recent OECD work and a growing strand of studies for LAC countries point to the risk that, rather than "massive technological unemployment", countries may end up facing higher disparities in the labour market, which could feed into already high inequalities in income and the quality of available jobs.

xi. ***The growing importance of the platform economy, which is largely based on non-standard work arrangements and independent work, is not the only dynamic to pose challenges.*** In OECD countries it adds to pre-existing concerns about access to quality social protection for non-standard workers, which stem from the increasing number of workers who only work occasionally and/or have multiple jobs and income sources, with no statutory working hours or minimum wages. Difficulties are not exactly the same in LAC countries, though they are further magnified by the fact that many more workers do not even have worker status, given that their jobs are in the informal sector.

xii. ***Ensuring that women can reach their full potential in society and in labour markets.*** Women in LAC face persistent barriers to full and equal participation in society and the economy, including inequality in unpaid care commitments and pervasive gender stereotypes. Governments are not doing enough to level the playing field and should recommit to strengthening supports for early childhood education and care; increasing fathers' leave-taking when children are born; and – through a variety of measures – changing norms around the gendered distribution of paid and unpaid work. Tackling discriminatory norms, attitudes and practices through, for example, gender awareness, training, media programmes, and the endorsement of girls' education by community leaders is a key. Incentives to delay teen marriage and curb teenage pregnancies are also critical to keeping adolescent girls in school.

xiii. ***Importantly, governments face two broad sets of skills challenges.*** First, they need to ensure that young people are equipped with the right type of skills to successfully orient themselves in an ever-changing, technology-rich work environment. This will require high-quality initial education and training, but also good skills assessment and anticipation systems, the right types of incentives for individuals to invest in those skills most needed in the labour market, and the provision of effective, up-to-date and tailored information, advice and guidance. Second, the employability of the workforce that has already left initial education must also be addressed. To help adult individuals adapt to changing labour market needs, it will be important for governments to design *high-quality lifelong learning systems* which will permit these workers to regularly update, upgrade, and sometimes even acquire completely new skills.

xiv. ***Addressing risks of stronger labour market and income inequalities.*** The OECD countries may have lessons to draw from their experiences on the policies to broaden the expansion and adequacy of social protection programmes, keeping a focus on the most vulnerable and least represented groups. Another area concerns the need to adjust skills policies to develop the right competencies for those in education, but also for giving opportunities to those already in the labour market to upgrade their competencies. Building on their experiences with CCT programmes, LAC countries might be better placed to provide a very timely contribution to the current debate about the design of the policies that aim to link entitlement rights to individuals, rather than their job history. Through sharing lessons and taking the most out of their respective comparative advantages, OECD and LAC countries can help each other to skip entire steps in the process to respond to new challenges.

1. The Social Inclusion Challenge and the need for a Comprehensive Inclusive Growth Agenda in Latin America

Introduction and proposed issues for discussion

During the first decade of the millennium, most Latin American countries experienced robust economic growth which coupled with improved macroeconomic and social policies contributed to a significant reduction in poverty and inequality. However, the second decade has been marked by slower and even negative rates of growth, which have put at risk some of the progress in the social front, threatening in particular the consolidation of the middle class. Today, poverty affects almost one out of four Latin Americans. Additionally, forty percent of Latin Americans have escaped poverty but were unable to join the middle class. This emerging socio-economic group faces substantial vulnerabilities, such as low labour income, insufficient skills, informal employment and poor access to quality public services, which put them at risk of falling into poverty.

Complementing the analysis carried out in Boosting Productivity and Inclusive Growth in Latin America (OECD/IDB/GFP (2016)), this chapter characterises the challenge of social inclusion in Latin America in terms of income and non-income disparities (section 1), and discusses the structural factors that shape inequalities in the region and influence their persistency (section 2): insufficiently redistributive tax and transfers systems, a pervasive informality, and significant gender gaps. The third section discusses some of the key factors that contribute to create inequalities in terms of opportunities for Latin American citizens, noting the granularities of social inclusion challenges along the lifecycle, exacerbated by the digital and territorial divides. Section four concludes by highlighting key insights from the chapter, including the centrality of developing integrated social protection systems that support inclusive economic growth, which is the focus of Chapter 2.

Ministers and High-Level Officials are encouraged to exchange views on:

- The evolution of social inclusion challenges in Latin America, identifying common patterns as well as distinctive developments.

- The structural confounding factors which have shown great signs of pervasiveness within the region, namely, the limits of the tax and transfer systems to reduce inequality, informality, and gender gaps.

- Policy implications for reform taking into consideration the interplay between different policy levers that have the potential to improve the equality of opportunities (education, upskilling, employment, pensions, digitalisation, place-based policies) in a comprehensive, whole-of-government inclusive growth agenda, attending to the particular circumstances of each country.

- Policy reform successes which demonstrate that stronger social inclusion is translated into an engine for growth.

At the regional level, such reflection would allow for a constructive dialogue among countries, delineating an inclusive growth agenda in the framework of the OECD Latin America and the Caribbean Regional Programme.

It is important to highlight that it is beyond the scope of this publication to discuss governance issues including the quality of government, rule of law, political capture, corruption, etc. All these issues play a definite role in growth and inclusion policies. However, in the framework of the LAC Regional Programme, these issues will be addressed during 2018.

1. The social inclusion record of Latin American economic achievements is a mixed picture

1.1 Poverty has declined, but the middle class is vulnerable

Poverty has fallen significantly since 2000. Poverty rates (i.e. the share of people living on less than 4 USD PP, Box 1) has been almost cut in half since 2000 to 23% of the population in 2015 (CEDLAS and World Bank, 2016) (Figure 1, Panel A). This decline in poverty implies that more than 80 million Latin Americans escaped poverty from 2000 to 2015.

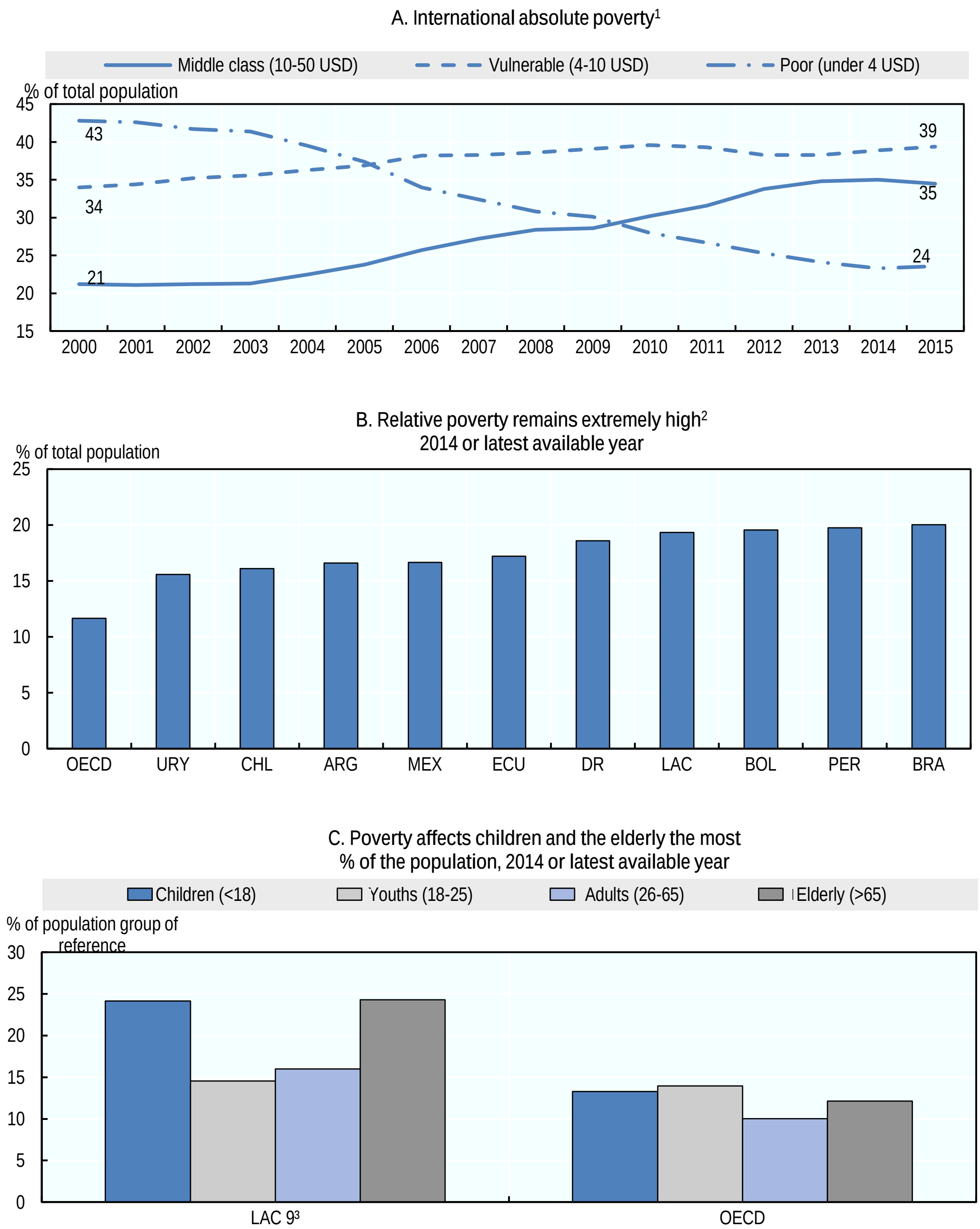
As household incomes increased - especially for poor families - and inequality edged downward, the region's middle class[3] grew from less than one out of three Latin Americans in 2000 to almost two out of five Latin-Americans in 2015 (CEDLAS and World Bank, 2016). Today, more than 248 million people in Latin America, i.e. 40% of the population, live in middle-class households.

Still, most of the poor who moved up did not join the middle class but rather joined a "vulnerable" group in between the poor and the middle class. These are individuals living in households with a daily per capita income between USD 4 PPP and USD 10 PPP, which exposes them to experiencing poverty spells in the future. Four out of ten Latin Americans stand right above the poverty line and are at risk of falling into poverty owing to substantial vulnerabilities, such as low labour income, insufficient skills, informal employment and poor access to quality public services. Efforts to reduce poverty should be complemented with policies to support this vulnerable population, which is key for the consolidation of the middle class and for the welfare and growth of the region.

Likewise, relative poverty (i.e. households with incomes less than half of median incomes) in Latin America decreased by 4 percentage points between 2000 and 2014. Almost one fifth of Latin Americans are poor as defined by the OECD definition relative poverty, with children and the elderly among the most affected (Figure 1, Panel B).The gap between the trends in absolute and relative poverty measures can be clarified by untangling the effects of growth and distribution on poverty. While the income of the poor grew faster than that of the rich, its level is still significantly lower than the median of the population.

[3] The middle class is defined as the population living in households with a daily per capita income between USD 10 PPP and USD 50 PPP, based on the notion of economic security (i.e. having enough income to absolve socks and formal job) (Ferreira et al., 2013).

Figure 1. Poverty in LAC has declined but remains high



Notes

1. Socio-economic classes are defined using the world class classification: “Poor” = individuals with a daily per capita income of USD 4 or lower. “Vulnerable” = individuals with a daily per capita income of USD 4-10. “Middle class” = individuals with a daily per capita income of USD 10-50. Poverty lines and incomes are expressed in 2011 USD PPP per day (PPP = purchasing power parity). The LAC aggregate is based on 17 countries in the region for which microdata are available: Argentina (urban), Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay (urban)

2. Relative poverty rates after taxes and transfers (threshold of 50% of the median income). Data for Argentina are from the third quarter of 2016 and are representative of urban centres of more than 100.000 inhabitants.

3. Data for Argentina are from the third quarter of 2016 and are representative of urban centres of more than 100.000 inhabitants. LAC 9: Argentina, Bolivia, Chile, Dominican Republic, Ecuador, Mexico, Peru, Paraguay and Panama.

Source: OECD Income Distribution Database (2016b), OECD estimates based on CEDLAS country micro data and Encuesta Permanente de Hogares (EPH) for the third quarter of 2016 (INDEC).

Box 1. Internationally comparable poverty indicators used for Latin America

Two different poverty indicators are used: absolute income poverty and relative poverty.

The **absolute poverty rate** is defined as the share of the population living on less than USD 3.10 a day at 2011 international prices (as defined by the World Bank for middle income countries). As most countries in Latin America and the Caribbean (LAC) have low rates of poverty using international thresholds, and given economic development level in the region, it is important also to use higher thresholds to describe the distribution of income. These are USD 4 a day for overall poverty, USD 10 a day for vulnerability and USD 50 a day for the middle class (Ferreira et al., 2013; World Bank 2017). Poverty lines and incomes are expressed in 2005 USD PPP per day. For Figure 1 Panel A, LAC countries are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru, Paraguay and Uruguay.

The **relative poverty line** is defined as 50% of the median household disposable income (OECD, 2016b).

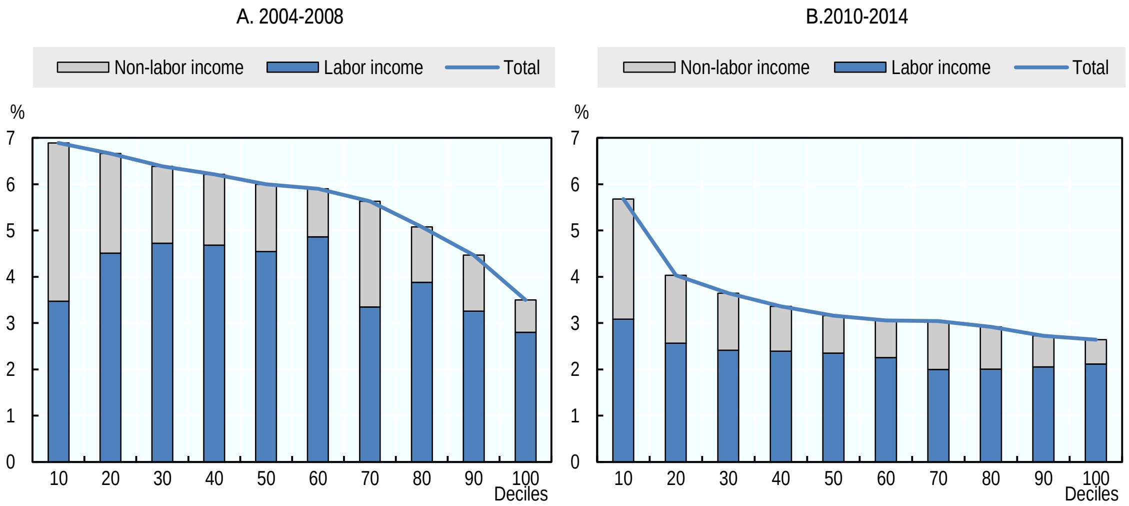
Both the World Bank and the OECD estimates are computed using each country's main household survey collecting income data. However, there are a number of methodological differences between the approaches of the OECD and the World Bank. World Bank estimates are based on per capita income including implicit rent from house ownership. OECD estimates are based on standardised income excluding imputed rent. Details about the OECD income Distribution Database methods and definitions are available at http://oe.cd/idd.

The *OECD Income Distribution Database* estimates for Latin America were computed for the 2015-16 OECD project, "Monitoring Inequalities and Fostering Inclusive Growth in Emerging Economies". These estimates are based on micro-data from the main household surveys for Argentina, Bolivia, Dominican Republic, Ecuador, Panama, Paraguay, Peru and Uruguay, as available through the Centre for Distributive, Labour and Social Issues in Latin America (CEDLAS) Universidad Nacional de La Plata, Argentina. They are also based on the same definitions and methodologies used to generate estimates for OECD countries, as available through the OECD Income Distribution Database (OECD, 2016b). However, owing to differences in survey methodologies and questionnaires' design (e.g. in terms of the recording of taxes paid and transfers received and paid by households), estimates for these Latin American countries are not fully comparable to those available for OECD countries. Additionally, Brazil, Costa Rica, Chile and Mexico are regularly computed for the OECD Income Distribution Database estimates.

1.2 Income inequality declined but remains high

The less well-off households benefited the most from Latin America's recent period of growth (2003-2011). More than 60% of the decline in poverty in the region can be attributed to higher labour incomes (both from more people working and people earning more), while transfers accounted for 23% and pensions for 13% (World Bank, 2013). Poverty can decline as a result of growth: if growth affects all people equally, then relative poverty would remain stable while absolute poverty decreases. Also, it can decline as a result of changes in the distribution of income amongst people. In Latin America's case, both phenomena happened at the same time. As the countries experienced a period of growth, the income of the households at the bottom of the income distribution grew significantly faster than those at the top of the income distribution between 2004 and 2008, albeit starting from low income, contributing to the reduction of poverty and inequality. Two factors account for much of this faster growth of the bottom earners: the region experience a decrease in the wage gap between skilled and low-skilled labour, and governments significantly increased transfers targeted to the poor (López-Calva and Lustig, 2010). Yet, as from 2010, after the 2009 international crisis, the annual average per capita household income growth decelerated – and even became negative for certain households in certain countries – threatening the gains of the previous period (Figure 2).

Figure 2. Income growth in LAC by decile

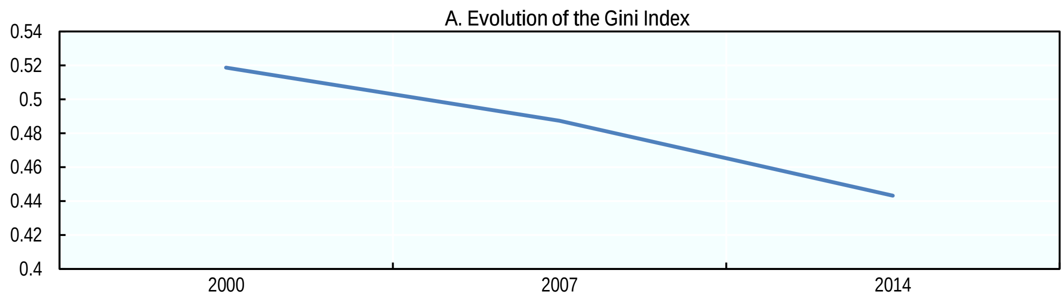


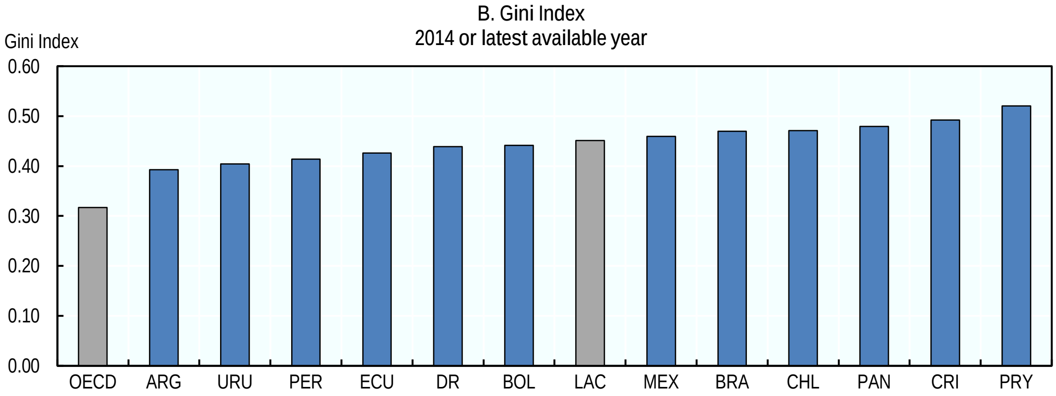
Note: growth incidence curves (GIC) show the annualized growth rate of income for every percentile of the income distribution and are calculated using pooled harmonized data from 17 countries: Argentina (urban), Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay (urban). In order to analyse the same set of countries every year, interpolation was applied when country data were not available for a given year.

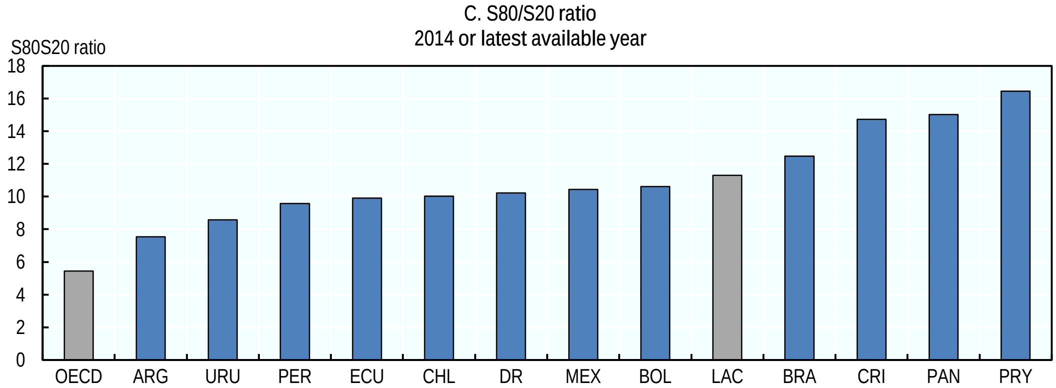
Source: CEDLAS and World Bank (2016).

Despite these improvements, income inequality remains high. Since the start of the 21st Century, income inequality, as measured by the Gini coefficient, decreased by close to eight percentage points in Latin America, remaining close to 0.42 (still, more than 10 percentage points higher than the OECD average) (Figure 3, Panels A and B). In addition, the wealthiest 20% of the population holds 11 times the income of the poorest 20%, compared to 5 times in OECD countries (Figure 3, Panel C) (OECD, 2017d). Similar to poverty trends, income inequality in Latin America significantly decreased from 2000 to 2009, but the reduction pace has decelerated since then.

Figure 3. Inequality measures and evolution in LAC







1. The S80/S20 ratio is the ratio of disposable income of the 20% of people with highest disposable income to that of the poorest 20%.

2. OECD Gini Index estimates are based on standardised income excluding imputed rent. Details about the OECD income Distribution Database methods and definitions are available at http://oe.cd/idd

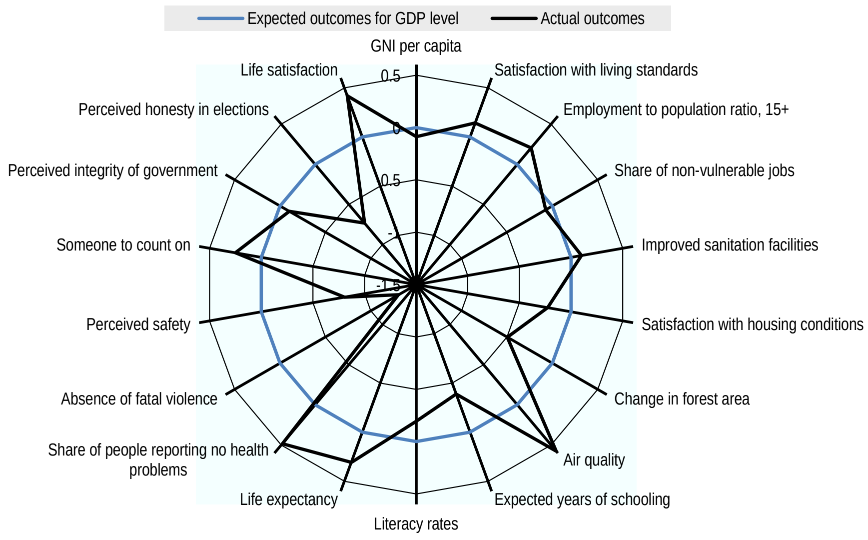
Source: OECD Income Distribution Database (2016b), and OECD estimates based on CEDLAS country micro data.

1.3 Inequalities extend beyond income to touch many vital areas of life

Inequalities in LAC countries (as in other regions of the world) are also reflected in the multiple dimensions of people's lives (OECD, 2011a). Macroeconomic variables, such as GDP and GDP per capita, used to measure a country's level of development can misrepresent actual living conditions and wellbeing. A comprehensive look at inequality encompasses not only economic factors but is compounded with non-economic dimensions as well, providing a broader view of the state of social inclusion in a country or region.

To understand people's life conditions, and to design policies that aim to achieve inclusive and sustainable wellbeing, the OECD has developed a comprehensive set of indicators that encompass both income and non-income dimensions (see Box 2). Although data showing disparities along these different dimensions are not available for LAC countries, the OECD *How's Life* index provides a useful insight of the strengths and weaknesses of LAC societies and economies in terms of people's wellbeing. Figure 4 presents a selection of indicators, comparing the region's average outcomes against what could be expected given the average GDP level for each group of countries. The region performs well in areas such as health, social connections and life evaluations (a large majority of Latin Americans saying they have someone to count on for help when needed), but sees important challenges in terms of political institutions, education, vulnerability, and empowerment and participation.

Figure 4. Current and expected wellbeing outcomes for LAC, 2016



Note: The lines represent the observed wellbeing values for LAC economies and the zero line shows the expected values based on its level of GDP per capita obtained from a set of bivariate regressions with GDP as the independent variable and the various wellbeing outcomes as dependent variables from a cross-country dataset of around 150 countries with a population over a million. All indicators are normalised in terms of standard deviations across the panel. The observed values below the zero line indicate the areas where each Latin American and Caribbean economy performs poorly in terms of what could be expected from a country with a similar level of GDP per capita. All indicators had been normalised so the higher the cross, the better the outcome. Average performance in the Latin American region, which has been calculated on the basis of a simple average for 21 Latin American countries with a population of over 1 million people: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Trinidad and Tobago and Uruguay

Source: OECD calculations based on Gallup (2016), Gallup World Poll, http://www.gallup.com/services/170945/world-poll.aspx (accessed 1 June 2017), Work Bank (2016), World Development Indicators (database), Washington DC, http://data.wroldbank.org, UNESCO Institute of Statistics (UIS), PISA scores (2009), and Transparency International (2016), Corruption Perception Index http://www.transparency.org.

Box 2. The OECD *How's Life* Initiative

The OECD *How's Life?* Initiative was developed under the inclusive growth framework (OECD, 2011a). It is an exercise of going beyond macro-economic variables and looking at more specific dimensions to get a clearer picture of people's experiences across a broad range of life areas, and to understand whether or not wellbeing is actually improving in a country or region. It was conceived as a flexible tool rather than a straightjacket. While the 11 dimensions of current wellbeing are intended to be universally relevant, the indicators can be adjusted to reflect societal preferences that may vary across countries and groups.

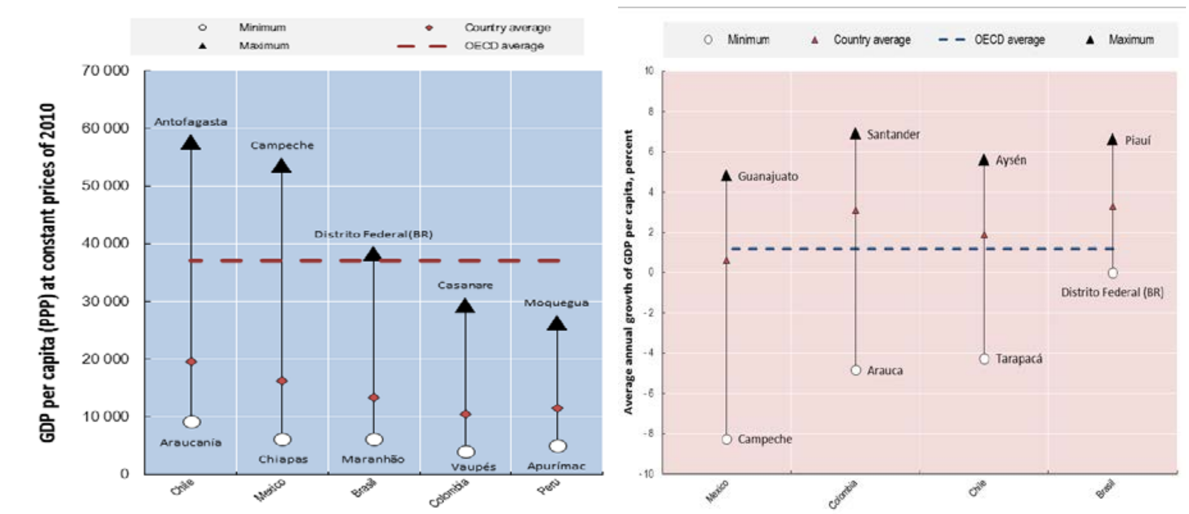
An adapted version of the framework intended for application in developing countries has already been developed (Boarini, Kolev and McGregor, 2014). The OECD and UN Economic Commission for Latin America and the Caribbean (ECLAC) are working with the statistical offices of 11 countries from Latin America and the Caribbean to identify concepts and indicators that are especially relevant for the region. A consultation carried out with participating agencies in 2016 highlighted a number of important issues for the region that are not emphasized in the original framework. These include food security, child labour, gender-based or intra-family violence, environmental rights, social protection, unpaid work and inclusiveness of institutions. Work is ongoing to identify the most appropriate comparable indicators to measure these aspects of wellbeing in the region (OECD/ECLAC/CAF, forthcoming).

1.4 The socio-spatial dimension

Latin American countries have very large disparities in terms of regional GDP per capita (Figure 5, left). An analysis of the relative gaps – the ratio between the richest and the poorest region – in Chile, Mexico, Brazil, Colombia and Peru, reveals quite similar patterns among these five countries[4], with richest regions having income levels that are between 6 and almost 9 times higher than that in the poorest region. The highest regional disparity is found in Mexico, where the GDP per capita of Campeche represents close to 9 times the GDP per capita of Chiapas. Only the regions of Distrito Federal (Brazil), Antofagasta (Chile) and Campeche (Mexico) show levels of GDP per capita higher than the OECD average; whereas all the regions of Colombia are below this number.

The growth of GDP per capita across Latin American countries has been uneven across regions; absolute differences between the fastest and the slowest-growing region go from 6.5 percentage points in Brazil to 13 percentage points in Mexico. Relative to the OECD area, some regions in Mexico, Colombia, Chile and Brazil have grown at a higher rate during the period 2009-2014 (Figure 5, right).

Figure 5. Regional disparities in GDP per capita (PPP) (left) and annual growth of GDP per capita (right)



Note: Left figure: Regional disparities in GDP per capita (PPP), 2015; constant prices of 2010; Brail 2014. Right figure: regional disparities in the annual growth of GDP per capita, 2009-2015; Brazil 2009-2015.

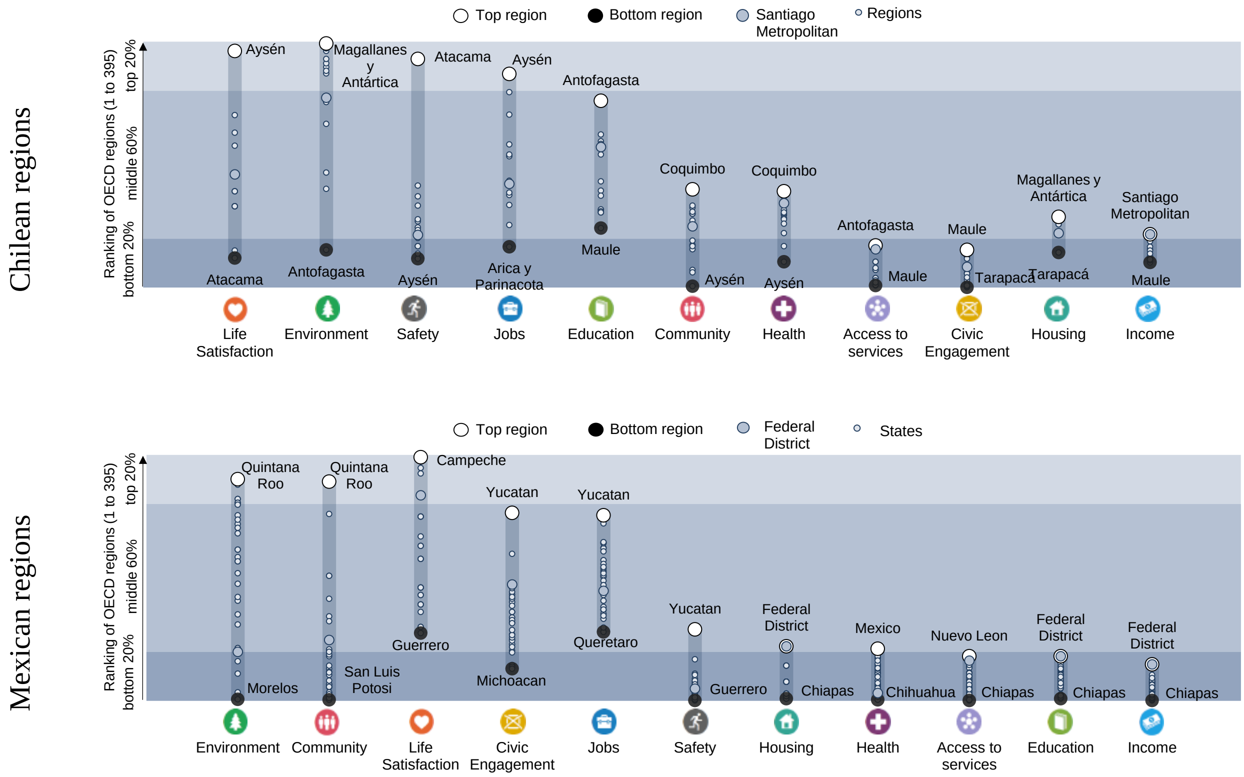
When considering a poverty line defined at 50% of the national median income, Mexico and Chile are part of the six countries with the highest differences in income poverty rates across regions. The state of Chiapas in Mexico experienced the highest poverty rate among OECD regions with almost 50% of its population being below 50% of the national median income of Mexico. Disparities are not only strong between regions but also within them. The high levels of poverty in urban centres are evidence of this.

Regional disparities are relatively high in Chile and Mexico compared to other OECD countries. In terms of wellbeing outcomes, such as environment, both countries have regions among the top 20% and the bottom 20% of the 395 OECD regions. Population perspectives on wellbeing in the different

[4] Analysis of income inequality within and between regions deserves further examination for these countries and for a larger set of countries in Latin America subject to data availability.

regions of these countries also show large differences, namely the perception of social support (community) in Mexican states and life satisfaction in Chilean regions (Figure 6).

Figure 6. Relative performance of Chilean and Mexican regions by wellbeing dimensions



Note: Relative ranking of the regions with the best and worst outcomes in the 11 wellbeing dimensions, with respect to all 395 OECD regions. Each circle represents a region. The eleven dimensions are ordered by decreasing regional disparities in the country, and are related to data around 2014.

Source: OECD Regional Wellbeing Database: www.oecdregionalwellbeing.org

Inequalities between population groups also tend to have a clear geographic pattern in Latin America. One of the most vulnerable population groups in the region is indigenous peoples. They are estimated to constitute 8.7% of the population of Chile (1.6 million), 2.5% of the population of Costa Rica (105,000), 0.5% of the population of Brazil (900,000), 12.4% of the population of Mexico (15.7 million), 4% of the population of Peru (4 million), and 3.4% of the population of Colombia (390,000) (OECD, 2016a). Indigenous people have generally benefited less from the decade or so of strong growth across many countries in the region (Freire *et al*, 2016). Across LAC countries indigenous people generally experience higher levels of poverty and socio-economic disadvantage, and levels of poverty are often worse in rural areas. For example, in Peru nearly half of the individuals affected by poverty live in rural areas, and close to half of this cohort live in the Andes, which has the highest proportion of indigenous peoples of any area in the country (OECD, 2016i).

Disparities in the spatial distribution of activities, opportunities and services exacerbate socio-economic inequalities in Latin American cities. In that sense, increasing transport accessibility and particularly through quality public transport plays a key role. In many urban areas, low-income communities living in peripheral areas require making long commutes for accessing services and jobs, as well as education institutions and health facilities. In Santiago, for example, spatial distribution of economic activities and services, along with a relevant gap between job accessibility through public and private transport modes has an important impact on social exclusion for low-income groups. The lack of public transport options in areas where poorer groups are concentrated poses relevant limitations in terms of their access to overall opportunities, as reaching opportunities in the northern-eastern sector (where jobs are concentrated) implies traveling through large areas where public transport accessibility is very poor (ITF, 2016a). Evidence also suggests that low-income groups of population tend to spend more on transport. Bogota's 2014 Multi-Purpose Survey highlights that households in the poorest areas of the city spend a greater percentage of their income on public transport, between 16% and 27%, compared to a maximum of 4% in the relatively richer areas (ITF, 2016b).

2. Structural factors behind inequalities

A growing body of research points to the interplay between domestic forces and the configuration of the international economy in shaping a country's inequality trajectory (Boyer, 2016). The OECD report *Bridging the Gap: Inclusive Growth 2017 Update* (OECD, 2017c) points in particular to several structural factors and trends that have contributed to the increase in inequalities observed in OECD countries:

- Increased levels of capital mobility have exacerbated the difficulty governments face in taxing mobile capital income. This has reduced the progressivity of tax systems and contributed to increased inequalities.

- Digitalisation has been shaping economies and societies and its effects reach well beyond the economic sphere. While they represent large benefits for societies in terms of communication and productivity, a steady increase in earnings inequality has been observed in many OECD economies as they become more globalised and digitalised.

- Financialisation is presumed to have exacerbated income inequality in OECD countries, to the extent that it fuelled investment opportunities mostly for high-skilled, high-income individuals.

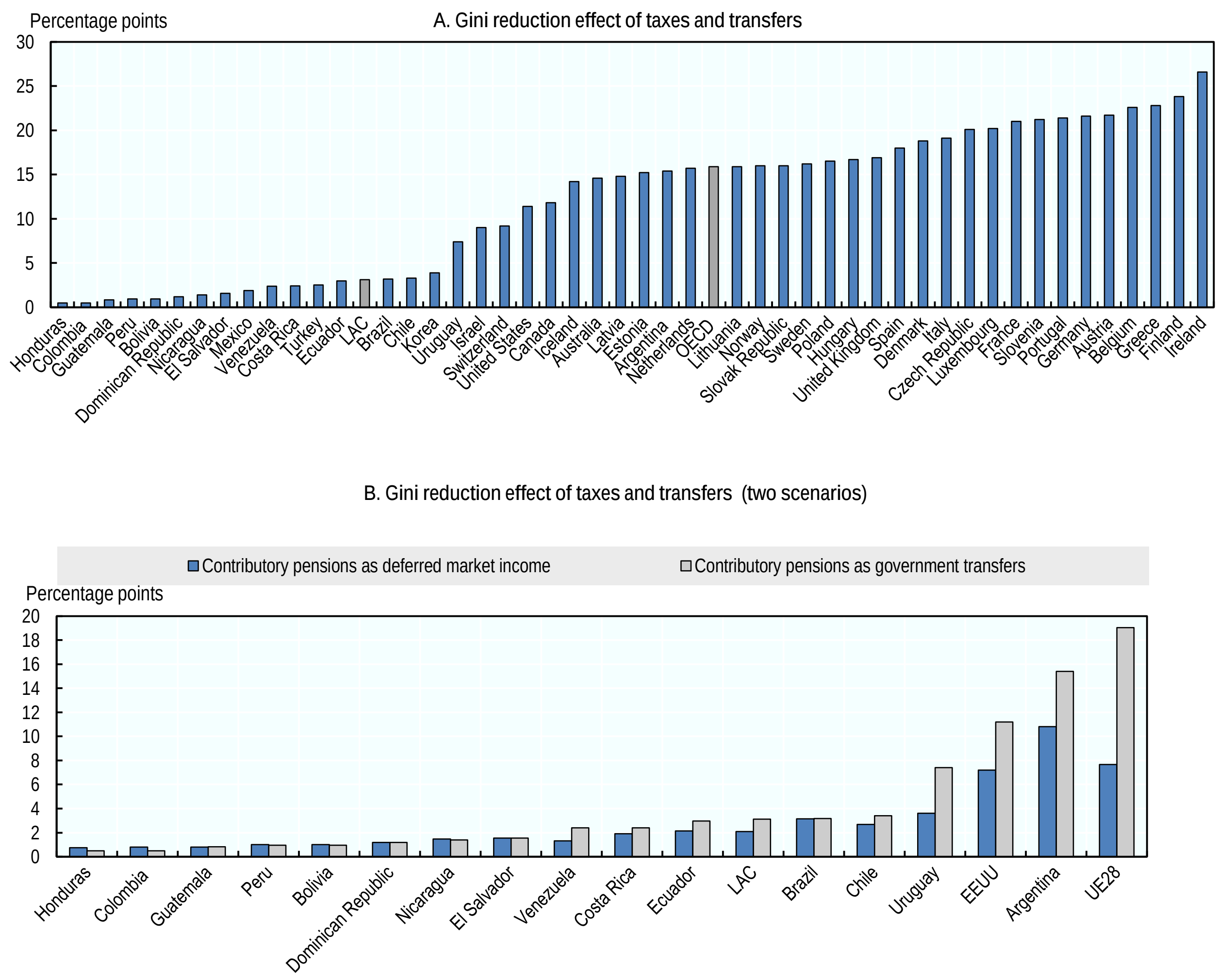
The impact of such structural factors and trends is probably less strong in LAC countries today. The relationship between growth and finance, for instance, varies greatly with the level of economic development, research suggesting that more finance is linked to higher growth at low levels of financial development, but that the link becomes gradually weaker as finance expands (Cournede et al, 2015); ensuring financial inclusion in LAC countries would contribute to drive inequality down, as the level of financial penetration remains low against OECD countries (only 47 percent of households in the region had an bank account in 2014 and around 15 percent of adults obtained credit) (Dabla-Norris et al, 2015).

It is beyond the scope of this note to elaborate on the different ways in which the economic structure and development paths of LAC countries interplay with their social inclusion and governance challenges. At this stage, it is however proposed to highlight important structural – somehow idiosyncratic – factors that shape inequalities in the LAC region and should be at the heart of an inclusive growth agenda: taxes and transfers; the challenge of informality; and gender gaps.

2.1 Taxes and transfers do little to reduce inequality

Taxes and transfers play a minor role in shaping the income distribution in most Latin American countries. While in OECD economies taxes and transfers contribute to reduce the Gini coefficient among the working age population by close to 16 percentage points, in most Latin American economies that reduction is below 3 percentage points (Figure 7, Panel A). The *Commitment to Equity* (CEQ) analysis, a comprehensive and rigorous tax and benefit incidence analysis, shows that the impact of direct taxes and direct transfers combined has an equalising income effect and reduces poverty in Argentina and Uruguay, but much more could be done in the rest of the Latin American countries analysed, especially in Honduras, Colombia and Guatemala. Under a scenario where contributory pensions are considered direct government transfers, direct taxes and transfers reduce the Gini index by 15.4 percentage points in Argentina, 7.4 percentage points in Uruguay. However, in the rest of the countries of the region analysed, direct taxes and transfers reduce the Gini index by less than 3.5 percentage points.

Figure 7. Gini reduction effect of taxes and transfers



1. Data for Argentina are representative of urban centres of more than 100.000 inhabitants.

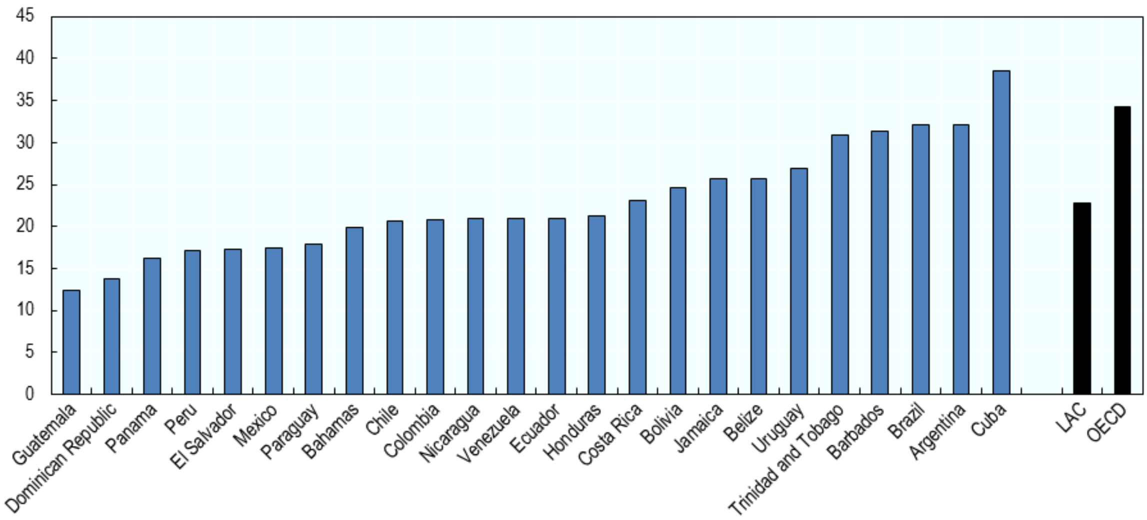
Source: OECD Income Distribution Database (2016b), OECD calculations based on the Encuesta Permanente de Hogares (EPH) for the third quarter of 2016 (INDEC), and Lustig (2017).).

Similar to OECD countries, most of this impact on inequality is explained by transfers rather than taxes. More than two thirds of the Gini reduction in Argentina and Uruguay can be attributed to direct transfers. Most direct cash transfers are progressive in absolute terms, since they benefit the less well-off households (Lustig, 2017). The redistributive effects of transfers are much milder when contributory pensions are treated as deferred market income (future wage) for most countries, especially those which redistribute the most (Figure 7, Panel B). In Argentina and Uruguay pensions play an important role in reducing poverty and inequality, and as a result old age adults are the demographic group with the lowest incidence of poverty contrarily to the rest of the countries in the region.

Fiscal policy is a key tool for development. Almost all countries would benefit from a structural tax reform. Changes in the tax mix and broader tax reforms should be focused on strengthening incentives for entrepreneurship, innovation and productivity, at the same time paying close attention to increasing the impact of taxes on reducing income inequality. LAC countries should strive at achieving a more balanced tax mix that enhances business climate by shying away from excessive high taxation on businesses within the formal economy. Tax reform efforts to improve domestic resource mobilisation should also acknowledge the large segments of the informal economy experienced by most LAC countries. In this regard, the tax system can play a useful role in incentivising businesses to become formal.

Tax systems in the region should be enabled to mobilise enough domestic resources to provide an adequate mix of public goods and services that can guarantee social inclusion**.** While public revenues as a percentage of GDP are close to OECD levels in Argentina and Brazil, elsewhere in the LAC region tax revenues are relatively low and important variations persist across countries. As a result, despite a period of steady increases since the 1990s, in 2015 tax revenues on average across Latin American countries reached 22.8% of GDP, which compares to an average of 34.3% of GDP for the OECD (OECD/ECLAC/CIAT/IDB, 2017). The wide heterogeneity in tax ratios across both OECD and Latin American and Caribbean countries is evidenced in Figure 8.

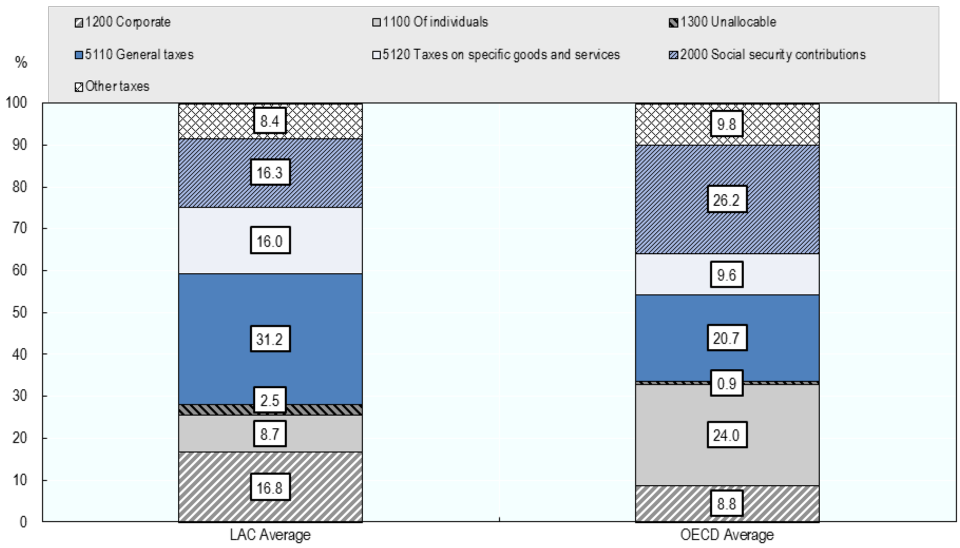
Figure 8. Total tax revenues as percentage of GDP, 2014



Source: OECD/ECLAC/CIAT/IDB (2017), Revenue Statistics in Latin America and the Caribbean 2017, OECD *Publishing, Paris.* *http://dx.doi.org/10.1787/rev_lat_car-2017-en-fr*

How tax revenues are collected is as important as how much is collected. In contrast to most OECD economies, tax structures in Latin America and the Caribbean are more dependent on indirect taxes, rather than direct taxes such as corporate and personal income taxes (Figure 9). Such structure reflects the relative ease of taxing consumption vs income in a context of high informality, evidencing the low progressivity of the system as a whole. In 2014, taxes on income and profits accounted for 28.1% of tax revenues on average across LAC countries and social security contributions represented 16.8%. In the OECD, the corresponding figures were 33.7% and 26.2% of total tax revenues, respectively. On the other hand, consumption taxes (mainly VAT and sales taxes) accounted for 47.2% of tax revenues in the LAC countries in 2014 compared with 30.3% in OECD countries (OECD/ECLAC/CIAT/IDB, 2016). In addition, while taxes on corporate income accounted for 16.8% of total tax revenues, the personal income tax only represented 8.7% of total tax revenues in the LAC region in 2014. In contrast to Latin America and the Caribbean, personal income taxes account for a larger share of taxes in OECD economies (24.0% of total tax revenues) compared to corporate income taxes (8.8% of total tax revenues) (OECD/ECLAC/CIAT/IDB, 2017).

Figure 9. Tax structures in LAC and the OECD, 2014



Source: OECD/ECLAC/CIAT/IDB (2017), Revenue Statistics in Latin America and the Caribbean 2017, OECD Publishing, Paris. http://dx.doi.org/10.1787/rev_lat_car-2017-en-fr

Prevalent informality and high levels of exempt income hinders tax collection from wages. The tax burden or tax wedge[5] on labour-income in Latin America (21.7% of total labour costs) is considerably lower than the average in OECD economies (35.9%). For LAC countries, the tax burden is mainly explained by the levies imposed by mandatory social security programmes (21.3%). Personal mandatory social security contributions average rates are similar to those of OECD countries (22.6%). In contrast, the main difference between LAC and OECD economies is the income tax, which is levied only at very high levels of wage-earnings. For an average wage earner, the income tax has very little theoretical incidence (0.3%), considerably lower than in the case of OECD economies (13.3%), due to high levels of exempt income and generous standard deductions which erode the income tax base and as a consequence the ability to raise revenues from wages (OECD/CIAT/IDB, 2016).

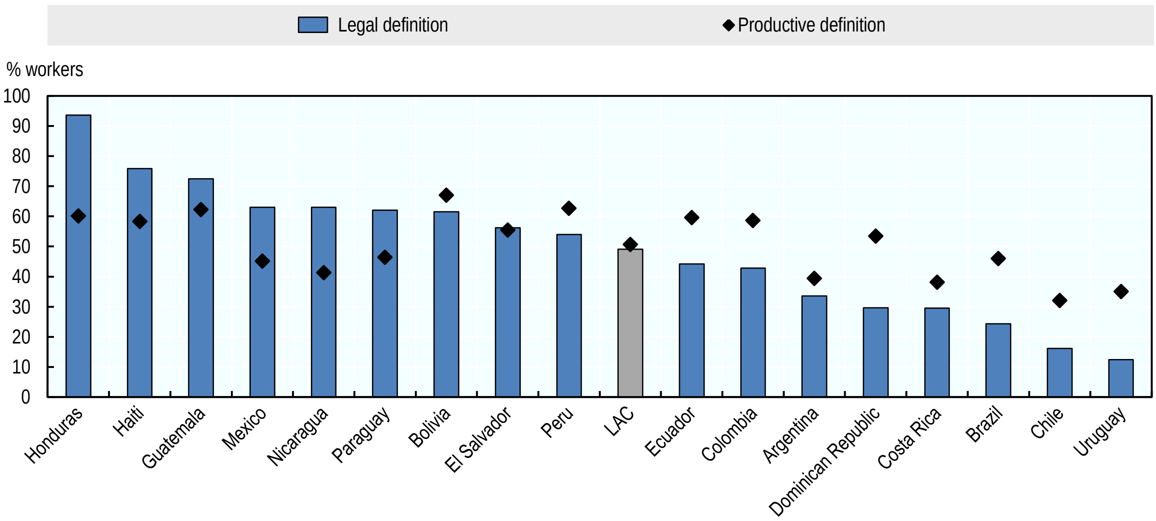
[5] Calculated by taking the taxes levied on earnings from labour, all the compulsory social security contributions paid by the employees and employers, minus, where applicable, family benefits received as a share of the total labour cost for employers.

The regressive nature of some generalised subsidies in the region deserves also attention. In particular fossil-fuel subsides. Not only do these subsidies undermine global efforts to mitigate climate change, but they also aggravate local pollution problems, causing further damage to human health and the environment. They represent a considerable strain on public budgets as well, draining scarce fiscal resources that could be put to better use, such as strategic investment in the education, skills, and physical infrastructure that people value most in the 21st century. Lastly, fossil-fuel subsidies distort the costs and prices that inform the decisions of many producers, investors, and consumers, thereby perpetuating older technologies and energy-intensive modes of production.

2.2 Informality as a driver and manifestation of inequality

A key obstacle to making Latin America more inclusive is informality. Informal work, by definition, leaves workers without the social protection and general entitlements of the formal sectors. Informality represents large losses not only for workers (in the form of social protection, upskilling, etc.) but also for firms as well as the wider economy (reducing productivity and tax revenues, for instance). Its interaction with contributory social-protection systems creates a vicious cycle: the majority of informal workers contribute irregularly, if at all, thereby weakening the systems which then provide insufficient support to workers when they need it. Although informality has declined in the past decade in most countries in the region, it still affects around half of its wage workers (Figure 10). The incidence of informality is much larger for workers poor and vulnerable households, youth, the less educated and women (Figure 11).

Figure 10. Informality rates by country in LAC, 2014

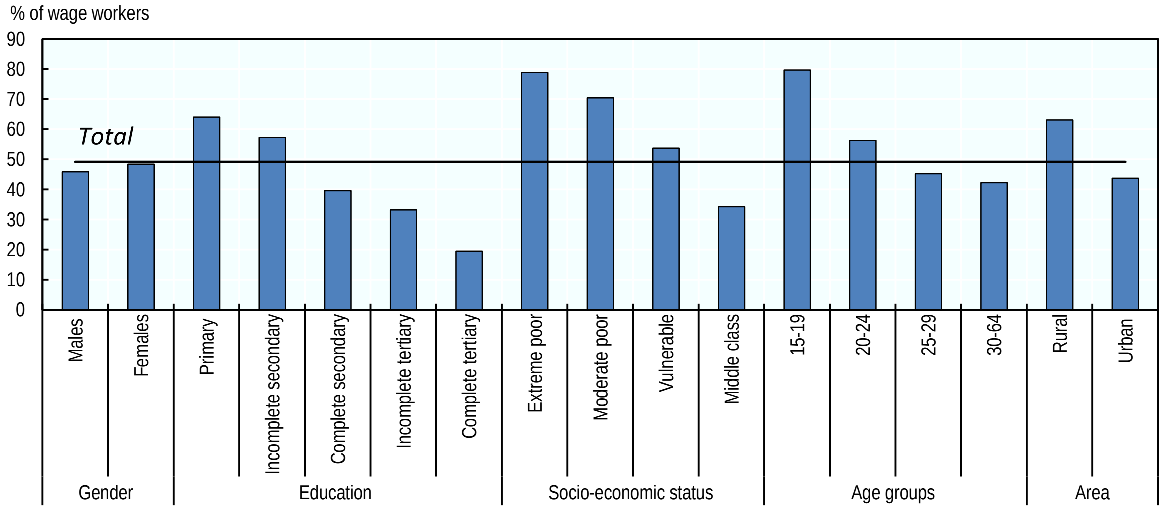


Note: Legal definition of informality: a worker is considered informal if (s)he does not have the right to a pension when retired, for cross country comparability rates are calculated for wage and salary workers only. Productive definition of informality: a worker is considered informal if (s)he is a salaried worker in a small firm, a non-professional self-employed, or a zero-income worker. LAC average of 17 countries: Argentina, Bolivia, Brazil, Chile, Costa Rica, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti , Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay. Data of Argentina are only representative of urban areas and wage workers.

Source: OECD and World Bank tabulations of SEDLAC (CEDLAS and the World Bank, 2016).

Youth are more likely than their adult counterparts to end up in informal employment or in other unprotected work in the formal sector. Similar to overall informality rates, youth informality has decreased by almost ten percentage points over the past ten years. Young people from poor or vulnerable families are more likely to have informal work than middle-class youth. Starting in the informal rather than in the formal sector can lead to very different labour market outcomes. This suggests that a certain degree of labour market segmentation exists in Latin America, making the transition from school to work a particularly relevant stage in young people's careers and futures (OECD/CAF/ECLAC, 2016).

Figure 11. Informality rates in LAC by characteristics, 2014



Note: Informality rates are calculated for wage and salary workers using the SEDLAC legislative definition of informality. In this case, access to pension eligibility is the proxy. LAC average of 17 countries: Argentina, Bolivia, Brazil, Chile, Costa Rica, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti , Honduras, Mexico, Nicaragua, , Paraguay, Peru, Uruguay. Data of Argentina are only representative of urban areas and wage workers.

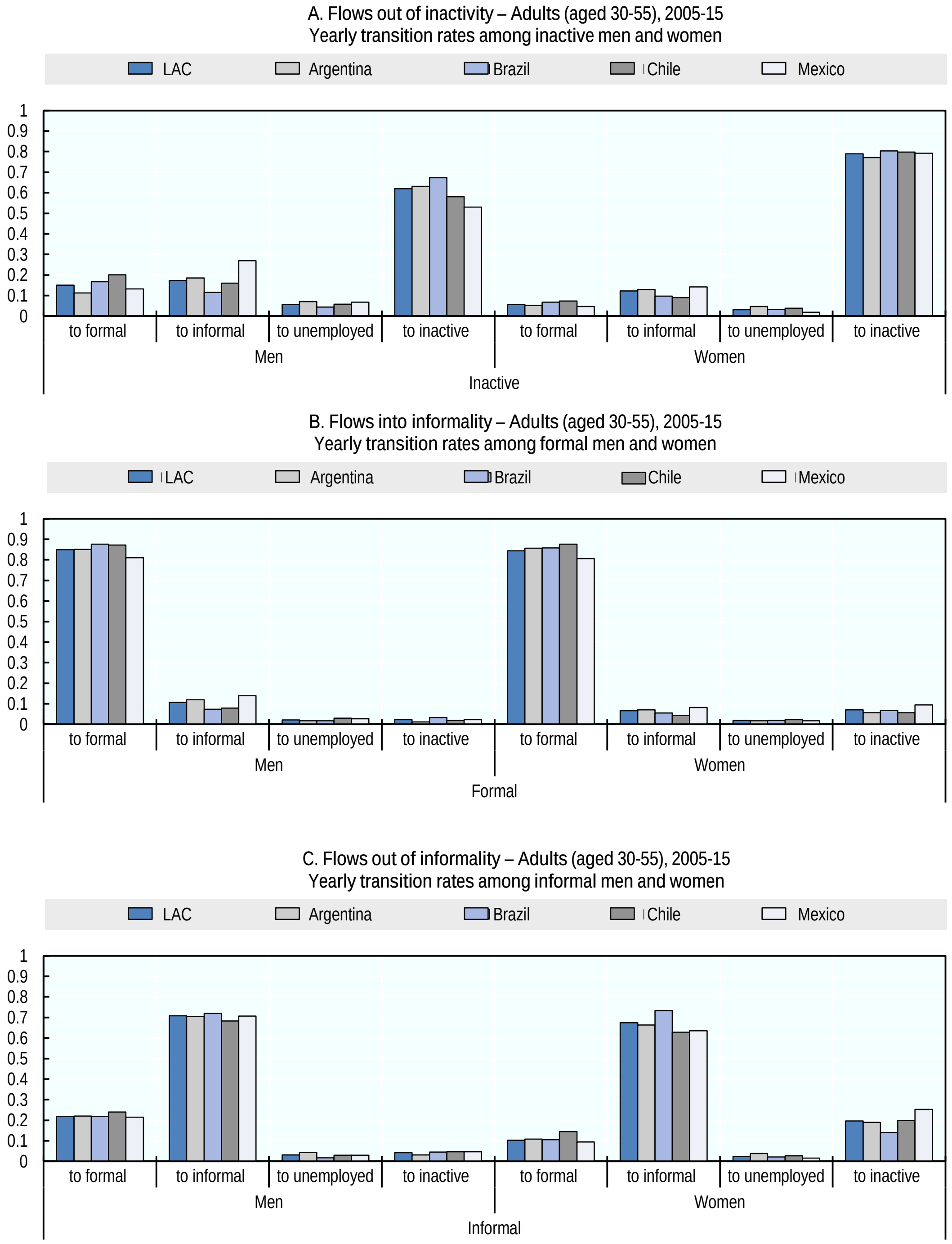
Source: OECD and World Bank tabulations of SEDLAC (CEDLAS and the World Bank, 2016).

Latin America's labour market exhibits frequent flows between formal "good" jobs and informal "bad" jobs (Bosch, Melguizo and Pages, 2017). Flows out of informal jobs are more common than those out of formal jobs, as a considerable share of informal workers make the transition into formal jobs every year. Panel data capturing the dynamics of how workers aged 30 to 55 move in and out of informal employment in Argentina, Brazil, Chile and Mexico show that on average 34% of female workers and 29% of male workers who are currently in the informal sector will not remain there after a year (Figure 12, Panel A). Almost 10% of female informal workers will move into formal jobs, and 22% of male will do so.

Flows out of the formal sector and into the informal sector are sizeable, stressing the need to place better incentives to stay in, or move towards formality. On average, 15% of workers who are currently in the formal sector will not be so within a year. Almost 10% will be informal workers a year later, compared with 3% who will be unemployed (Figure 12, Panel B). This raises three labour policy issues in Latin America. First, formal jobs are scarce, and more quality jobs are needed. Second, unemployment benefits might not be generous enough to support the unemployed while they look for quality jobs, forcing them to take lower quality jobs instead. And third, in some countries, relative high cost of formalisation for workers might encourage some of them to prefer informal types of employment.

This pattern of entering and leaving the formal sector is also evidence that informal jobs are more unstable owing to higher risk of job loss. Informal jobs appear to be associated with a higher probability of making the transition into unemployment or inactivity than formal jobs, particularly among women. Transitions from informality into unemployment do not seem much higher for women than men, while transitions from informality to inactivity are quite high for women. Almost two out of three informal female workers who transition out of informality every year become inactive, compared with only 14% of informal men workers. Certainly, this can also result from personal choice. Women who are planning to leave the labour force soon for family reasons, for example, may be more likely to look for more flexible work, and thus self-select into informal work (OECD/CAF/ECLAC, 2016).

Figure 12. Flows in Latin America's labour market



Note: Results show yearly transition rates into and out of informality. This analysis is limited to urban populations in four countries (Argentina, Brazil, Mexico, and Chile) owing to data limitations. Data for Argentina are representative of urban centres of more than 100.000 inhabitants.

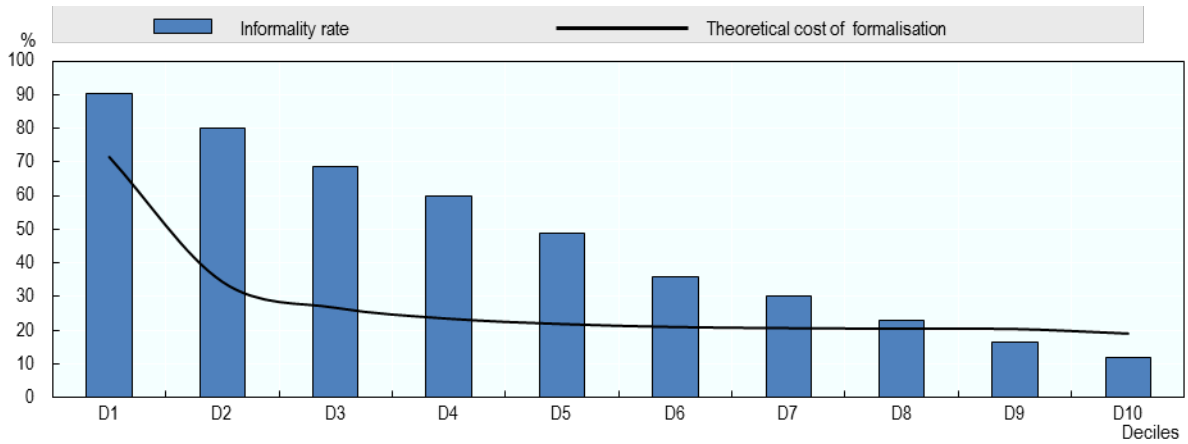
Source: OECD and World Bank tabulations of LABLAC (CEDLAS and the World Bank, 2016).

Overall, informal jobs seem to be a trap for most workers, particularly for youth, women and low-skilled workers, having long-term adverse effects on equity. While holding an informal job might be a "springboard" for some, it can have scarring effects for workers' employment prospects and future wages. Bosch and Maloney (2010), and Cunningham and Bustos (2011) found that informal salaried work may actually act as a preliminary step towards the formal sector. In fact, it might be a standard queue towards formal work, especially for younger workers, which can serve as training time and not necessarily harm an individual's career path. However, Cruces, Ham and Viollaz (2012) found strong and significant scarring effects in Argentina: people exposed to higher levels of unemployment and informality in their youth fare systematically worse in labour markets as adults (OECD/CAF/ECLAC, 2016). Additionally, informal firms generally provide workers with fewer opportunities for human capital accumulation and are less productive (La Porta and Schleifer, 2014). All of this might thus pose the most vulnerable an additional burden in earnings and career advancement (OECD/CAF/ECLAC, 2016).

Social insurance financing lacks progressivity in the LAC region. In some countries, regulatory frameworks render these too high for low-paid workers to join the formal sector. In Argentina, Brazil, Uruguay, Colombia and Costa Rica social security contributions are similar to those of OECD member countries (OECD/CIAT/IDB, 2016). And in most LAC countries, contributions to social security programmes are too costly relative to informal workers' income, especially for those at the lower end of the income distribution (Figure 13). Breaking these vicious circles can be challenging.

Figure 13. Informality and formalisation costs in Latin America and the Caribbean

Percentage of a worker's income



Note: LAC is the arithmetic mean of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela.

Source: OECD/CIAT/IDB (2016), Taxing Wages in Latin America and the Caribbean, http://dx.doi.org/10.1787/9789264262607-en.

In many LAC countries, registration of businesses and workers in the formal sector can be burdensome and costly, while workplace controls are weak and infrequent. In Peru, for example, informality is partially explained as a by-product of excessive regulations and barriers to entry into the formal sector. This is especially true for SMEs that are affected by the overlap of several tax regimes targeted at a similar base (OECD, 2016m). At the same time, in Panama, higher informality rates among wage earners do not correlate with higher formalisation costs (OECD/CIAT/IDB, 2016); poor controls and enforcement are much more relevant here.

Usually informal workers have low skills and poor upgrade opportunities. This makes it hard to escape the low productivity trap and find jobs that are a good fit for their capabilities. Getting a formal job is difficult for people with low skills. Almost three-quarters of the informal workers in LAC have not completed secondary education, compared with one-third of those holding formal jobs (OECD and World Bank tabulations of SEDLAC, 2016). Additionally, informal firms generally provide workers with fewer opportunities to accumulate human capital and are less productive (La Porta and Schleifer, 2014). All of this might thus pose an additional burden to the earnings and career advancement of the most vulnerable (OECD/CAF/ECLAC, 2016). Low productivity sometimes translates into workers not being sufficiently productive to offset the costs of formalisation (IDB, 2015).

Labour market institutions can help provide better quality, formal jobs, increase fiscal revenues, expand social protection coverage and strengthen the social contract (OECD/CAF/ECLAC, 2017). From the demand side, more incentives are needed in the formal sector to benefit from the relatively easy transitions from informality to formality. Such incentives may include – but are not limited to – improving the quality of public services, reducing the costs of formalisation and improving enforcement methods. Creating formal, good quality jobs entails policy action on the supply side too. This occurs mainly by upskilling the workforce to improve productivity and reduce the skills mismatch in the labour market as well as through productive development policies to support sectors with potential for the creation of formal jobs. Chapter 2 provides a deeper dive into informality-tackling mechanisms and related social protection policies.

2.3 The gender gap

Latin America has made important progress in terms of reducing the gender gaps in education and participation in economic and political life over the past two decades. Indeed, it is one of the top performers in the 2014 edition of the OECD Social Institutions and Gender Index (SIGI) (OECD, 2017b). Although female employment rate in 2015 (50%) remains lower than the OECD average (67.4%), the gap with their male counterparts has decreased by approximately 13 percentage points since 2000, which is over double the rate of progress for OECD countries (OECD, 2016c, 2016f). The share of women without personal income has decreased from 47% in 1997 to 32% in 2015, suggesting gradual improvement in women's financial autonomy. Moreover, the region has made impressive strides in challenging gender-based discrimination in social institutions, notably in land, property and financial rights, as well as in legal reforms to eliminate gender-based violence.

Nevertheless, important gaps remain in women's development throughout the lifecycle. For instance, PISA results reveal that gender differences in education are particularly pronounced in mathematics, where boys outperform girls by an average of about 25 points in Chile and Colombia and by 19 points in Peru[6]. Gender gaps in the workforce stubbornly persist and are made evident through lower female labour force participation rates, lower quality employment, and inferior earnings together with higher rates of unpaid work (see Section 3.3). Wage gaps worsen with childrearing, as women spend between two to five times more time on unpaid caring than men across the region. This

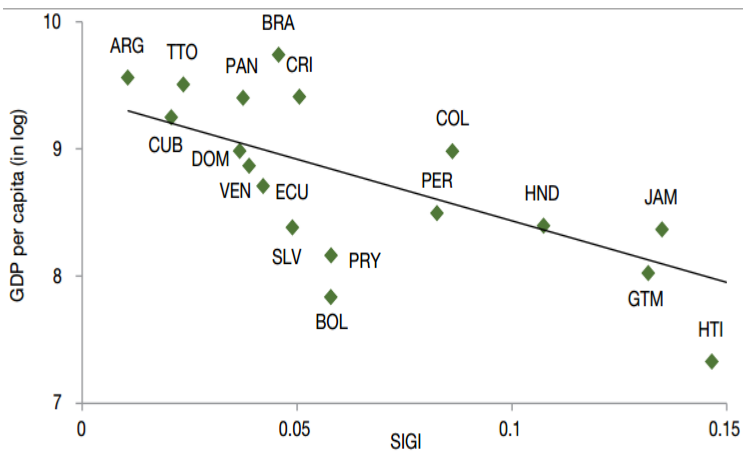
[6] Data available for Chile, Colombia, Mexico and Peru. OECD PISA Database (2012), www.oecd.org/pisa/.

affects women's ability to pursue vocational training and professional opportunities, and largely explains their concentration in part-time or vulnerable jobs. All these factors can have negative effects on earnings, career progression and poverty risks across the life cycle.

Persistent glass ceilings prevent women from reaching senior leadership positions. Within the region, higher gender-based discrimination in social institutions, as measured by the SIGI, is associated with lower levels of income per capita (Figure 14). Although causality might go both ways, given the strong interrelation between both variables, closing gender gaps and eliminating all forms of discrimination against women could yield substantial economic benefits for the region. Such gains should emerge from equal outcomes in education and work, together with a socially transformative change aimed at eradicating discriminatory social institutions and norms. Non-discriminatory and gender-sensitive laws are the first step, but entrenched acceptance of discriminatory norms and stereotypes by communities also need to be challenged.

Figure 14. The cost of gender-based discrimination in social institutions

Higher gender-based discrimination in social institutions in LAC, lower income per capita



Source: Social Institutions and Gender Index.

Addressing norms around women's caring responsibilities through the 3 *R*s strategy (Recognising, Redistributing and Reducing) would favour female participation in the formal labour market. This implies recognising the economic contribution of unpaid care work (nearly one third of the GDP in LAC countries) through legislation and national accounting; and second, by redistributing and reducing women's caring responsibilities through family-friendly policies, such as strengthening public support in fathers' uptake of parental leave and early childhood education and care, as well as investing in time-saving technology and public infrastructure. Countries in the region can also look to the OECD's 2013 Gender Recommendation and the 2015 Recommendation on Gender Equality in Public Life for more comprehensive guidance on using legislation, policies, monitoring and campaigns to enhance gender equality in education, employment, entrepreneurship and public life.

3. Fostering equality of opportunities

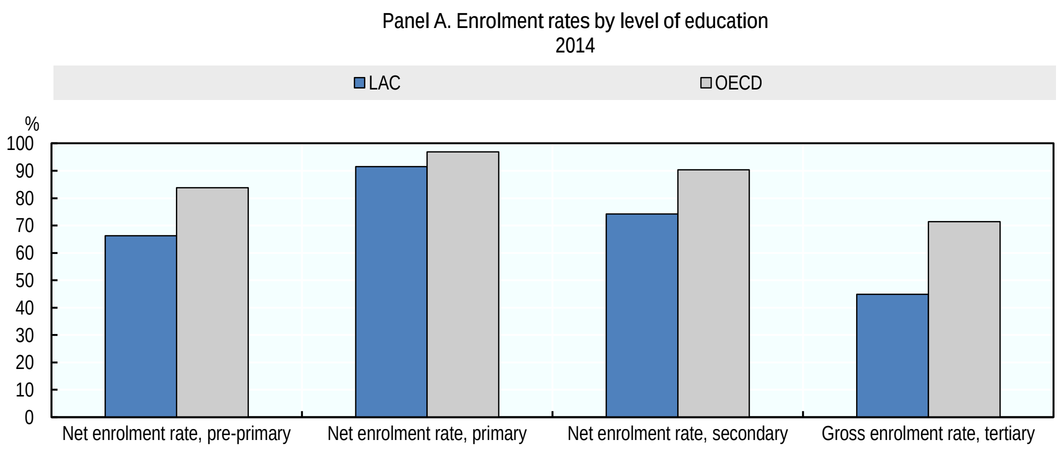
The previous section pointed to some of the structural factors behind the social inclusion challenge in Latin America. Reforming tax and benefit policies is the most direct instrument for increasing redistributive effects. However, redistributive strategies based on government transfers and taxes alone would not be neither effective nor financially sustainable (OECD, 2011b; IMF, 2017). Policies that invest in the human capital of the workforce and encourage access to quality employment are also key. Indeed, equality is also determined by the extent to which the policy environment contributes, or not, to foster opportunities. This section sheds light on how education, labour markets, pension schemes, digital infrastructure and territorial governance affect different population groups along the life cycle and foster social mobility.

3.1 Good primary education coverage, but pre- and post-primary coverage remains low

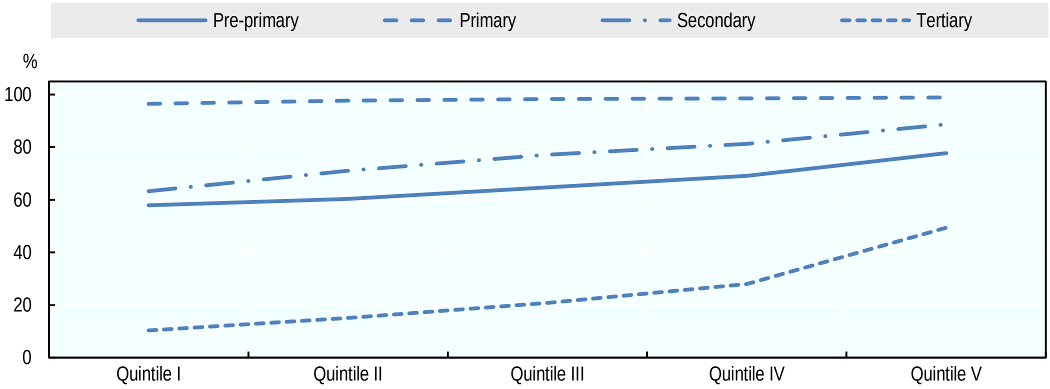
A person's place of birth is a strong determinant of his or her life perspectives, as social mobility rates are low and inequality tends to perpetuate throughout the lifespan. In this sense, there is a clear dual economy where a highly productive and prosperous Latin American – one that values high-level education, skills and digitalisation – opens up for the very few but remains out of reach for the many. From a life-cycle perspective, education is one of the key elements of any social inclusion strategy.

Latin America has taken great strides in education investment and coverage, but challenges remain, especially in increasing pre-primary education coverage and reducing the drop-out and repetition rates at a secondary and tertiary level. There is now almost universal access to primary education. Total public investment in education has risen considerably in recent years and now accounts for about 5% of GDP (vs. 5.6% average for OECD countries in 2012). There has been a marked increase in school life expectancy, from 8 years in 1971 to 13 years over the last four decades (in the OECD it increased from 11 to 17 years). However, coverage remains low in pre-primary education (66% of the pre-primary aged population in Latin America, compared with 83% in the OECD). Enrolment remains low at higher levels of education: 74% in secondary education (vs. 91% in the OECD countries) and 44% in tertiary education (vs. 71% in the OECD countries) (OECD, 2016a; CEDLAS and the World Bank, 2016). Furthermore, higher opportunities in the access to the education to the poor and vulnerable, particularly in tertiary education, remain a key challenge (Figure 15).

Figure 15. Education in LAC countries (enrolment rates)



Panel B. Enrolment rates by quintiles
2014



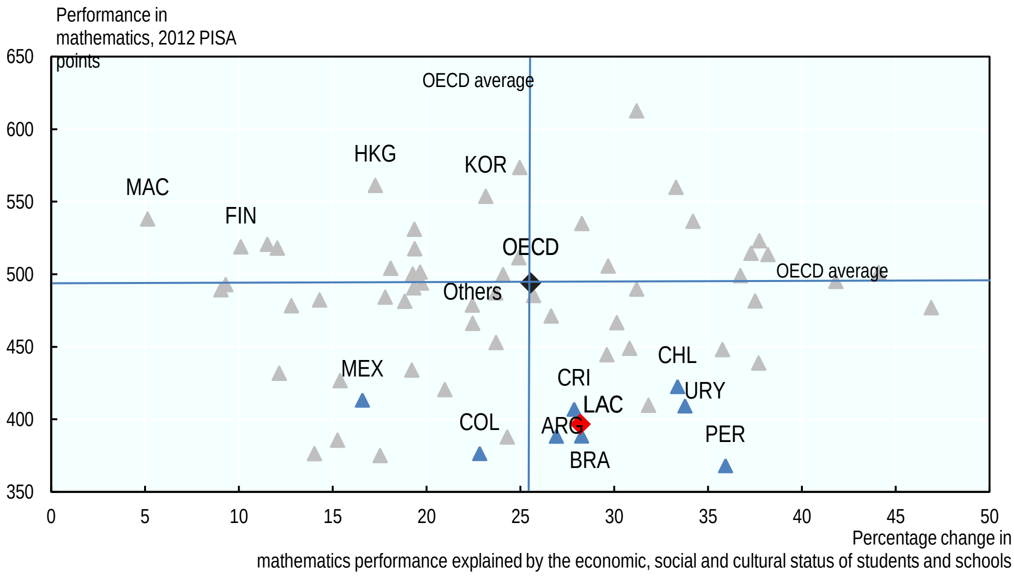
Source: UNESCO (2016) and CEDLAS and the World Bank (2016)

Education quality is still an issue in the region. More than half of young Latin Americans enrolled in school do not acquire basic-level proficiency in reading, mathematics and science, according to PISA results (OECD, 2016a). Less than 1% of LAC students perform among the highest levels of proficiency in mathematics, reading or science. This constitutes an obstacle to further develop more specific skills and, at the same time, the small portion of top performers may hamper innovation and entrepreneurship. This presents a major challenge for LAC countries that are transitioning into knowledge-based economies where citizens need to innovate, adapt and leverage advanced human capital.

Inequities in education start early: 64% of the children between the ages of 3 and 5 in Latin America are enrolled in education, compared with 86% in OECD countries (CEDLAS and the World Bank, 2016; OECD, 2016a). While 77% of Latin American children from households in the highest decile of the income distribution attend school, only 54% of those from the lowest decile do so. This is particularly relevant, as pre-primary education has a long-term impact on student performance: secondary-school performance improves by the equivalent of almost a full school year among those who had pre-primary education (OECD/CAF/ECLAC, 2014). Disadvantaged students benefit the most since pre-primary education allows them to “catch up”, at least partly, with their peers. Furthermore, PISA results suggest that attendance in early childhood education decreases the likelihood of low educational performance at age 15. Students who attend school at this level tend to perform better than those who did not, even after accounting for their socio-economic backgrounds, gender, immigrant background, language spoken at home, family structure, location of student’s school (rural area, town or city), grade repetition and programme orientation (vocational or general) (OECD, 2016l).

The socio-economic status of students and schools has a powerful influence on learning outcomes of students in Latin America. Access to education, completion rates and relative performance of students from poor families compared to their more affluent peers is significantly worse than among students in the same position in other regions of the world (OECD, 2016d). Strikingly, only 56% of those in the lowest income quintile attend secondary school and only 9% continue into tertiary education, compared with 87% and 46%, respectively, for those in the highest income quintile (OECD/CAF/ECLAC, 2014). PISA also shows that, in Latin America, educational systems are more unequal. Almost 30% of the variation in students’ results in secondary education is associated with socio-economic factors, compared to 26% in OECD (Figure 16). The differences in performance and quality between public and private education, and between rural and urban areas, are another reason why the objective of equity should be at the heart of countries’ agendas.

Figure 16. Young student performance in mathematics and equity (PISA 2012)



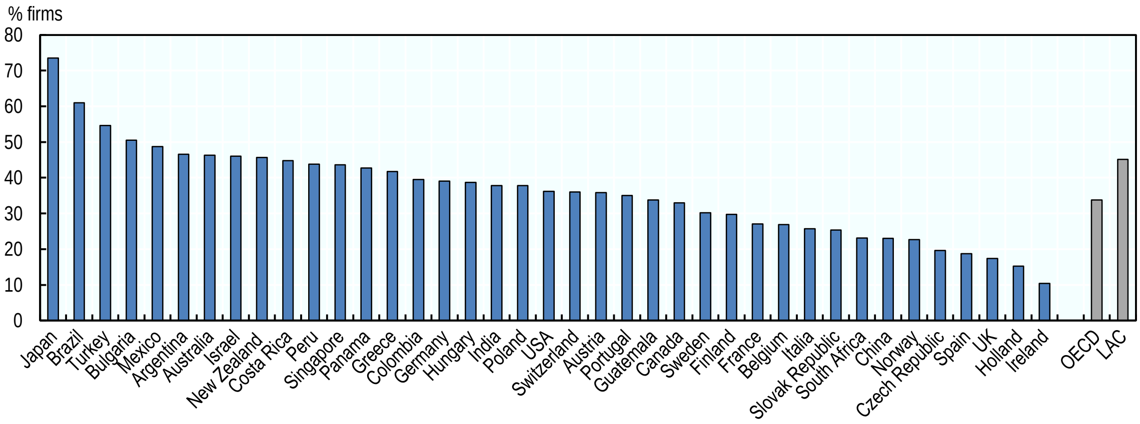
Source: OECD/CAF/ECLAC (2014), based on OECD/PISA 2012 database.

3.2 Labour markets do not facilitate sufficiently upward social mobility

Labour markets do not facilitate sufficiently upward social mobility. Many working-age Latin Americans encounter labour-market difficulties; employability barriers are related to insufficient and inadequate work-related capabilities and skills, lack of financial incentives to look for a job (such as low potential pay and bad quality jobs) and scarce good quality job opportunities.

The region has the widest gap in the world between the pool of available skills and those skills that the productive sector requires, affecting both productivity performance and the social elevator potential of the labour market. Skills refer not only to the capacity to solve problems but also to the “soft skills”, such as interpersonal communication and perseverance, supposing that to acquire the skills needed in the life cycle should go beyond the classroom (CAF, 2016). In Latin America, around 50% of formal firms do not find the workforce with the skills they need, compared to 36% of firms in OECD countries (OECD/CAF/ECLAC, 2016). This is a particularly pressing issue in countries like Peru, Brazil and Mexico (Figure 17). As a consequence, one-third of employers need to use foreign talent to meet skills shortages, and firms take longer than in any other region to fill job vacancies. Among sectors, motor vehicles and machinery shows the most acute skill gaps, accentuating the challenge to diversify into activities deemed more beneficial for development and industrial upgrading (OECD/CAF/ECLAC, 2014).

Figure 17. Percentage of firms identifying difficulty filling jobs, average 2006-2015



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law

Source: OECD Development Centre, based on Manpower Group (2016 and previous waves).

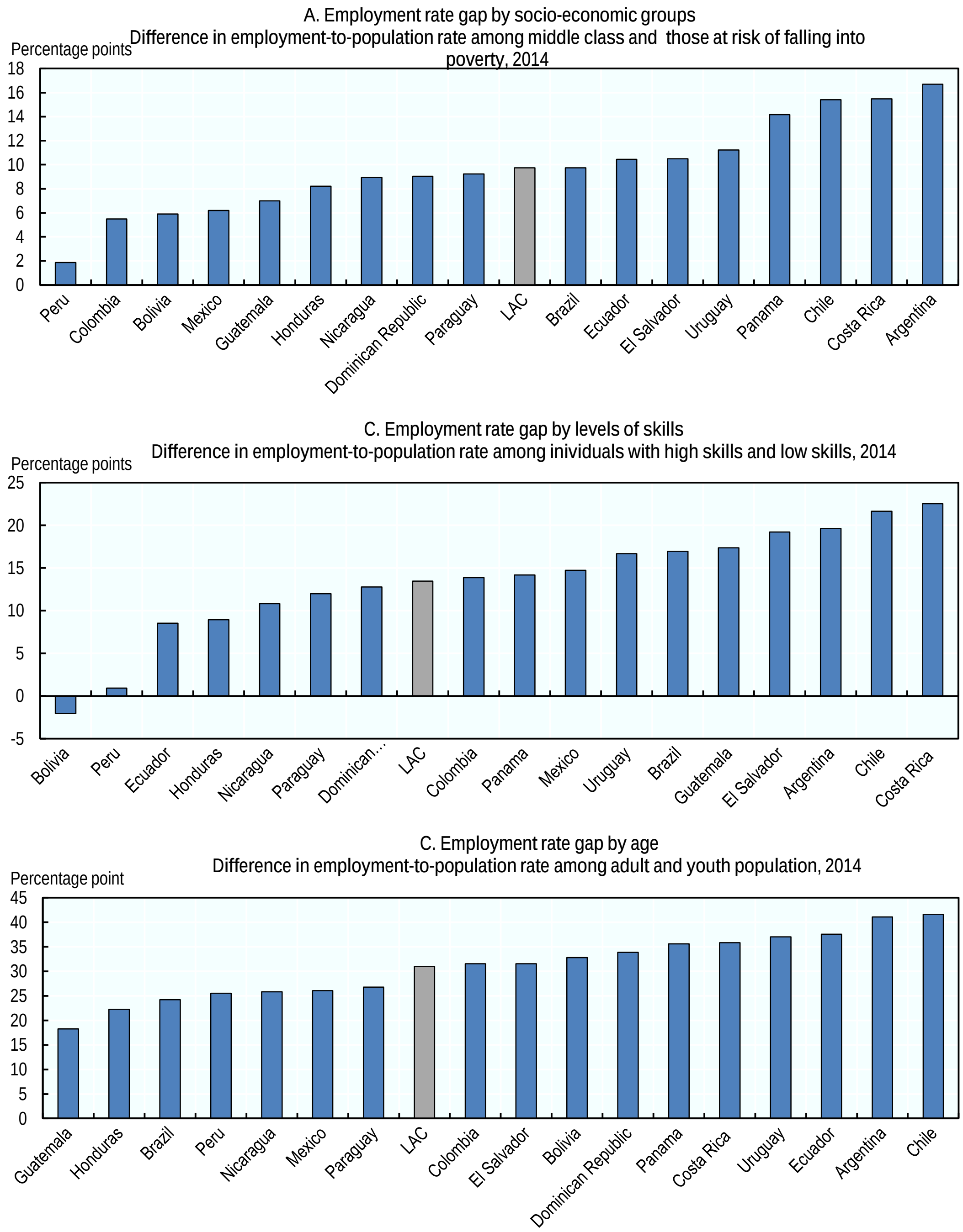
Skills are not only low in Latin America, but unequally distributed among individuals living in low- and high-income households. Skills disparities are marked along individual's life. The sharp socioeconomic gradients in skills development start even before children turn two years of age, as shown by the large scores difference between the richest and poorest quintiles in the Regional Program of Indicators of Early Child Development initiative (PRIDI, for its Spanish acronym). This skills gap lingers large through childhood, adolescence, and adulthood. LAC third grade students in the poorest quintile performed significantly worse than those in the richest quintile in the 2013 Third Regional Comparative and Explanatory Study (TERCE) tests. Likewise, the average 2015 PISA test score among Latin American and Caribbean 15 year old students in the lowest quintile was about 85-95 points lower than the average score among their wealthiest peers (equivalent to more than two years of formal schooling). Finally, the World Bank's Skills Towards Employability and Productivity Program (STEP), which measures a wide range of cognitive and non-cognitive skills in low- and middle-income countries, found a significant impact of the socioeconomic background among adults in academic and socioemotional skills, as well as wages in both Colombia and Bolivia. While the region is slowly catching up with the developed world in terms of school enrolment gaps, skills differences between rich and poor students are much smaller in developed countries (IDB, 2017a).

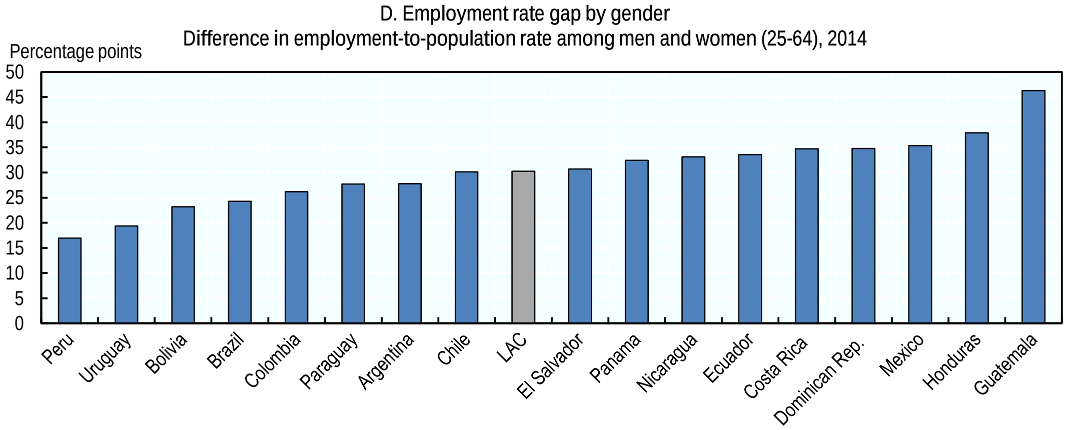
In addition to the high proportion of low-skilled workers in jobs requiring basic skills in the region, returns to education have been declining. In Latin America, the skills of workers by level of education (primary *vs*. secondary vs. tertiary) and by job position based on the tasks required (from machine operations to executive roles in companies) are both lower than in the OECD countries. Since 2000 there has been a fall in the returns on education in the region, as measured by the salary premium paid skilled workers over non-skilled ones (Gasparini, et al, 2011). That being said, returns to education indicate that obtaining a tertiary qualification is still worth the investment, even though they are subject to high variability, depending upon the fields of study and the quality of the educational institution.

The scarcity of adequate employment opportunities is another obstacle to making the labour market more inclusive, displaying significant variations across income levels, gender and age groups (Figure 18). Labour market participation gaps across different socio-economic groups are large: 71%

of the adults from vulnerable households work, compared to 81% of their peers from middle class households. These marked differences mainly reflect the experience of youth and women. Likewise, 69% of the population with less than 8 years of education (low skilled) are employed, while 83% of those who studied more than 13 years (high skilled) are employed.

Figure 18. Inclusiveness challenges in LAC's labour markets



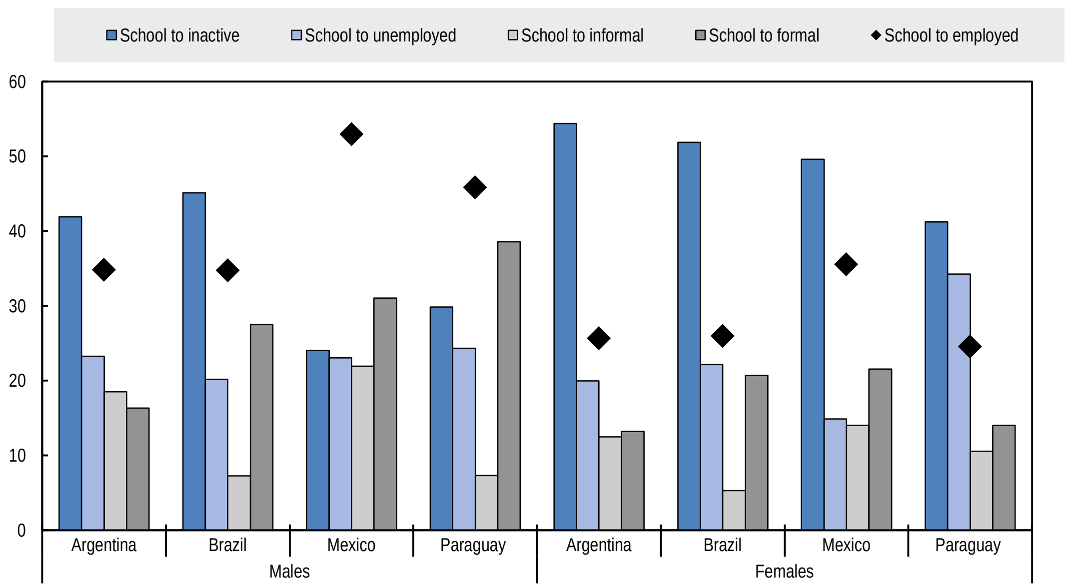


Notes: Employment rate for population of 30 to 64. Youth is defined by the population aged 15-29. An individuals have "low skill level" if have completed 8 years of education or less, and "high skilled level" if completed 13 years of education or more. Data for Argentina are representative of urban centres of more than 100.000 inhabitants.

Source: CEDLAS and World Bank (2016) and OECD and World Bank tabulations of SEDLAC (2016).

The inclusion of youth in society is also hindered by the lack of adequate employment opportunities. Most youth leaving school enter inactivity or unemployment, and when they do find employment it is usually an informal, low-quality job (Figure 19). Only two out of ten young Latin Americans are employed in the formal labour market. Additionally, unemployment rates are almost three times higher for youth (11.2%) than for adults (3.7%) in all countries in Latin America and the Caribbean; this situation is prevalent among the most disadvantaged youth (OCDE/CAF/ECLAC, 2016). Low employment may translate into better employment opportunities in the future if lower participation is reflected in higher school enrolments or training. Unfortunately, secondary enrolment rates in the region fall short, and more than 30% of the Latin American youth has left school without completing a secondary degree.

Figure 19. Youth (aged 15-29) school to labour market transitions in selected Latin American countries, 2005-15



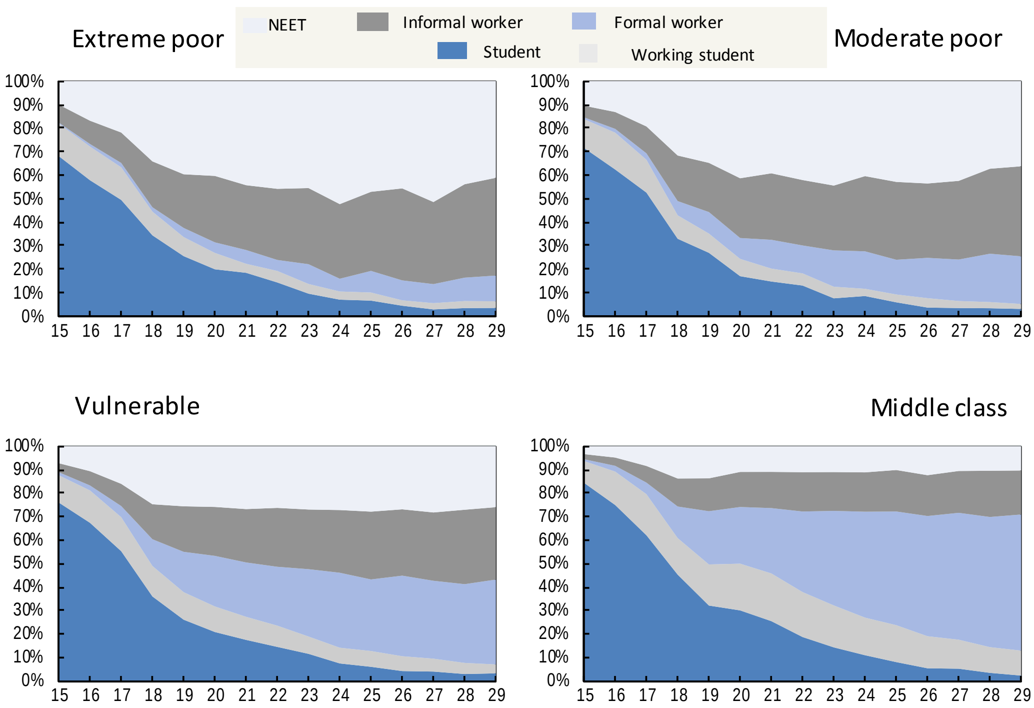
Note: Results show yearly transition rates out of school for the pooled period 2005-15. Transition rates are calculated as the ratio between flow of people moving that transitioned from Condition 1 (school) to Condition 2 between time 0 and time 1, over the total stock of people in the population in Condition 1 in time 0 (i.e. in school: only in school, and in school and working). The transitions are year to year. This analysis focuses on urban populations due to data limitations.

Source: OECD and World Bank tabulations of Labour Database for Latin America and the Caribbean – LABLAC (CEDLAS and the World Bank, 2016).

The challenges that young Latin Americans face in their path to work are severe, particularly among those from disadvantaged socio-economic backgrounds. The transition from school to work explains the poor labour market outcomes experienced by young people in LAC, especially those from more poor and vulnerable households. Youth from these households leave school earlier than their peers in better-off households, and when employed mainly work in informal jobs (Figure 20). At age 15, almost seven out of ten youth living in poor households are in school; at age 29, however, almost three out of ten youth in this group are NEET, another four work in the informal sector, only two work in the formal sector and the remaining one is either a working student or a student. These labour market outcomes are very similar for youth aged 21. In vulnerable households, around half of young people aged 29 are working in the informal sector or NEET. In contrast, remarkable differences are observed among consolidated middle-class households: around 80% of youth are in school at age 15, while 77% of youth are working and 76% have a job in the formal sector at age 29 (OCDE/CAF/ECLAC, 2016).

Figure 20. Activity status by age and socio-economic status, Latin America and the Caribbean average

Percentage of youth aged 15-29, 2014



Note: Socio-economic classes are defined using the World Bank classification: “Extreme poor” = youth belonging to households with a daily per capita income lower than USD 2.50. “Moderate poor” = youth belonging to households with a daily per capita income of USD 2.50-4.00. “Vulnerable” = individuals with a daily per capita income of USD 4.00-10.00 “Middle class” = youth from households with a daily per capita income higher than USD 10.00. Poverty lines and incomes are expressed in 2005 USD PPP per day (PPP = purchasing power parity). LAC weighted average of 17 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

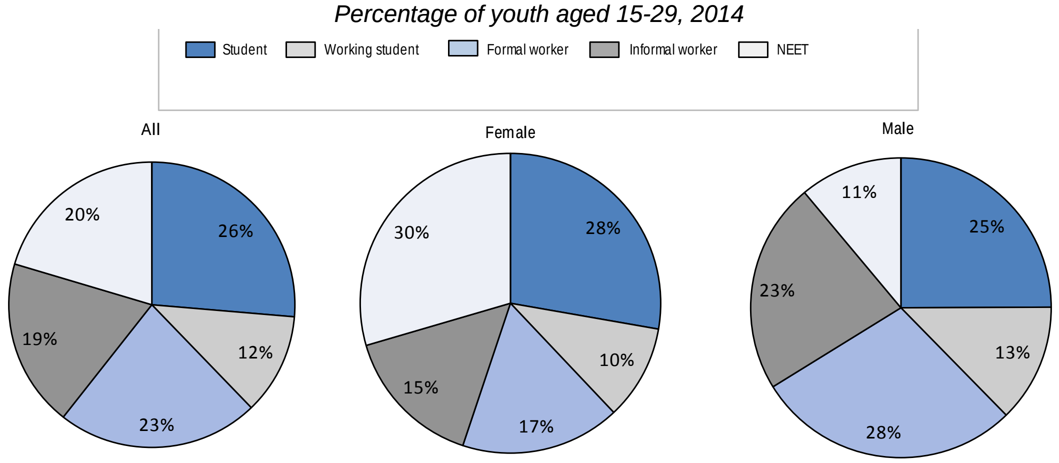
Source: OECD and World Bank tabulations of SEDLAC (CEDLAS and the World Bank, 2016).

Around 30 million young people (21% of youth) are NEET in the region, compared to 15% among OECD countries (OCDE/CAF/ECLAC, 2016). This means they are not positioned within either one of the main channels of social and economic inclusion: the education system or labour markets. The largest percentages of NEETs are found in Honduras, El Salvador, Guatemala and Mexico, where NEET rates surpass 25%. This status contributes to the intergenerational persistence of inequality, prevents economies in the region from exploiting the demographic window of opportunity and can even be associated with risky behaviour such as crime and violence (De Hoyos et al., 2016).

NEET is primarily a female phenomenon in Latin America, since 76% of NEETs are women; however, many of these young women actually contribute to the economy from unpaid jobs. NEET rates for women reach levels of around 30%, much higher than for men (11%, Figure 21). In fact, 70% of NEET women are engaged in unpaid domestic work or caregiving, compared to 10% of NEET men (Table 1). In addition to distinguishing between discouraged youth (i.e. youth who have given up on job searching) and jobless youth, the marginalisation of young women through home-care contributions must be recognised both to promote shared responsibility by men and women for these tasks and to advocate for a work-life balance for both sexes (ECLAC, 2016).

Figure 21. Activity status of youth by gender, Latin America and the Caribbean average

Percentage of youth aged 15-29, 2014



Note: LAC weighted average of 17 countries: Argentina, Plurinational State of Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

Source: OECD and World Bank tabulations of SEDLAC (CEDLAS and the World Bank, 2016).

Table 1. Youth (aged 15-29) neither in education nor employment by type of activity in Latin America

	Male						Female					
Country	Unemployed	Seeking employment for the first time	Pensioners	Unpaid domestic or care work	Disabled	Other inactive	Unemployed	Seeking employment for the first time	Pensioners	Unpaid domestic or care work	Disabled	Other inactive
Argentina	35.6	7.8	2.7	11.2	4.6	38.1	16.1	3.3	1.9	62.9	1.0	14.6
Bolivia	20.2	20.4	0.0	9.1	16.7	33.7	5.8	4.7	0.0	82.2	3.2	4.2
Brazil	24.2	9.1	7.9	19.4	0.0	39.4	12.1	6.8	10.3	64.0	0.0	6.7
Chile	37.3	6.0	1.2	3.2	7.7	44.6	17.2	4.4	0.4	29.0	3.1	46.0
Colombia	50.0	9.9	0.0	9.5	4.1	26.5	24.5	5.9	0.0	62.2	0.7	6.7
Costa Rica	45.7	6.9	4.1	25.3	3.8	14.1	15.9	4.3	1.2	75.4	0.7	2.0
Dominican Rep.	54.4	13.8	0.3	0.4	15.1	16.0	33.0	7.0	0.0	43.2	9.3	7.3
Ecuador	50.1	0.0	0.0	1.2	17.7	30.7	13.4	0.0	0.0	72.1	4.6	9.9
El Salvador	51.0	12.5	0.1	6.8	17.2	12.4	6.4	3.0	0.0	86.2	3.0	1.4
Guatemala	29.6	6.3	0.1	12.2	24.1	27.7	2.8	0.8	0.0	93.9	1.7	0.9
Honduras	27.8	6.1	0.2	23.8	8.2	33.7	5.0	2.5	0.1	87.1	1.1	4.3
Mexico	71.6	0.0	0.0	10.8	8.0	9.5	8.0	0.0	0.0	89.9	0.9	1.1
Nicaragua	41.3	11.1	0.0	9.5	8.2	29.9	6.1	3.2	0.0	86.7	1.8	2.1
Panama	38.8	15.0	0.0	10.3	4.3	31.6	7.0	3.4	0.0	84.3	0.7	4.6
Paraguay	29.5	9.9	0.0	2.5	19.2	38.9	11.6	5.4	0.0	41.9	5.0	36.1
Peru	26.5	5.0	0.0	31.6	10.6	26.2	12.7	3.6	0.0	72.5	3.6	7.6
Uruguay	37.8	6.3	3.5	5.0	8.3	38.9	22.3	4.4	2.0	47.3	3.6	20.2
Venezuela	47.0	8.1	0.0	3.5	5.9	35.6	13.3	4.6	0.0	71.9	1.7	8.4
Latin America	**39.9**	**9.6**	**1.1**	**10.9**	**10.8**	**29.3**	**13.0**	**4.2**	**0.9**	**69.6**	**2.7**	**10.2**

Note: Data are for 2012, with the exception of Bolivia, Chile, Costa Rica, Panama, Paraguay and Uruguay (2011), Guatemala (2006), Honduras (2010) and Nicaragua (2009). Latin America average is computed as the simple average of results from the 18 countries included in the measurement. The category "pensioners" includes all people who receive some type of pension from the state – for this age group, these are mostly disability pensions or, in fewer cases, widowhood pensions.

Source: OECD/CAF/ECLAC (2016).

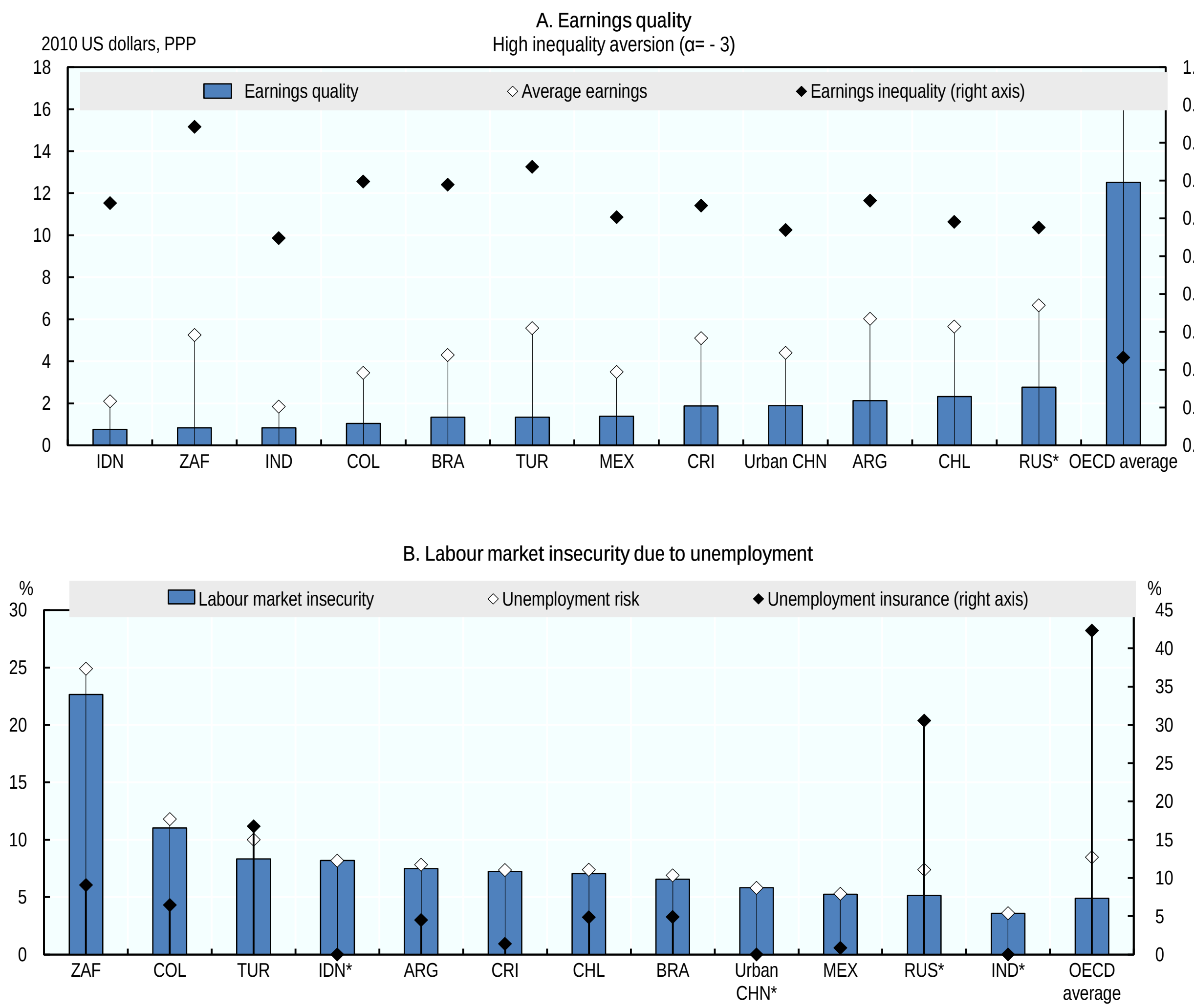
Inequalities between men and women go beyond youth. Employment rates for Latin American women are low compared with OECD economies, being especially low Guatemala, Dominican Republic, Costa Rica, Honduras and Mexico where female participation rates (25-64 years old) are lower than 55% (CEDLAS and the World Bank, 2016). Most affected are vulnerable women; *i.e.*, those with low education, living in small cities, with children or married to low-earning spouses. There is a dual scenario. On the one hand, skilled higher-income women living in large cities have labour participation levels similar to those of developed countries; and, on the other, low-skilled vulnerable women living in smaller cities with poorer services have substantially lower levels, leading to increasing inequality and poverty cycles (Gasparini and Marchionni, 2015; OECD/CAF/ECLAC, 2016).

Job quality is an inherently multi-dimensional concept that refers to those job characteristics that contribute to the wellbeing of workers. The OECD *Job Quality Framework* is structured around three dimensions that are closely related to people's employment situation: earnings quality (a combination of average earnings and inequality); labour market security (capturing the risk of unemployment and extreme low pay); and the quality of the working environment (measured as the incidence of job strain or very long working hours).

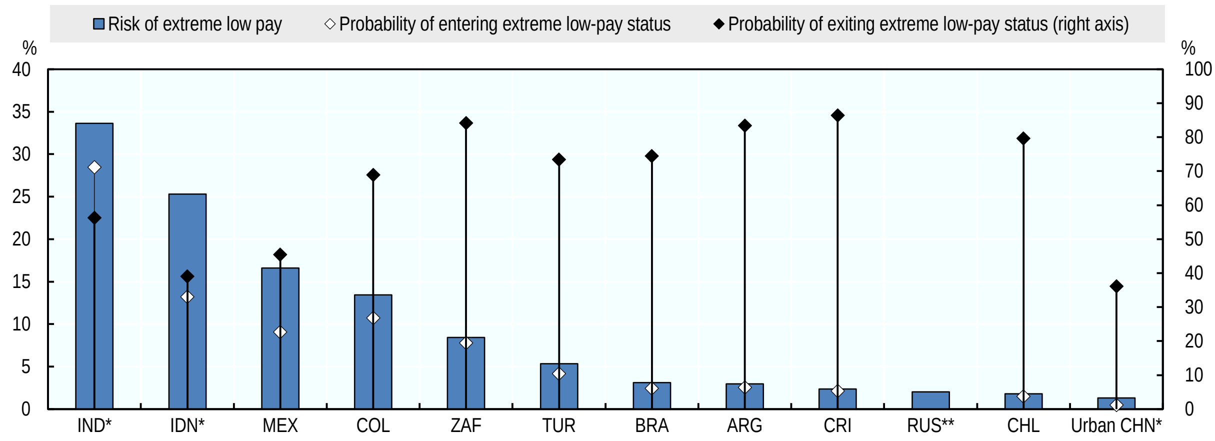
These three dimensions jointly define job quality and should be considered simultaneously, together with job quantity, when assessing labour market performance. OECD (2015a) has adapted the job quality framework to emerging economies by taking into account their labour market specificities, such as the weakness of social protection (inadequacy of benefits and low coverage of social insurance schemes) and high rates of working poverty, and, at the same time, the more limited data available for these countries.

The Latin American countries analysed in OECD (2015a) – Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico – present levels of job quality that are much lower than the OECD average in all three dimensions (Figure 22). The main issue for Latin American countries, like for most emerging economies, is not the lack of jobs, as such, since open unemployment tends to be low. Rather, it is the lack of quality jobs that raises the greatest concerns. This partly reflects the inadequacy of social protection, which pushes workers into occupations with subsistence-level earnings. Data show that, on average, low-skilled workers earn one-third of what high-skilled workers receive for every hour of work; they also face combined risks of job loss and extreme low pay that are almost four times higher. Workers in informal jobs – many of whom are low skilled – are particularly affected by poor job quality: they typically lack access to social protection and earn less than two-thirds of what workers in formal occupations earn. They also face the risk of extreme low pay that is nearly eight times higher than for formal workers (OECD/CAF/ECLAC, 2016).

Figure 22. Job quality in Latin America



C. Labour market insecurity due to extreme low pay



1. Calculations are based on net hourly earnings and concern 2010 values, except for Brazil (2009), Chile (2009), China (2009) and India (2011). The OECD average is a simple cross-country average of earnings quality, as calculated in the OECD Employment Outlook 2014. The figures for Russia are based on imputed data on households' disposable income from information on income brackets, and therefore include the effect of net transfers. Individual hourly income for two-earner households was calculated using available information on partners' employment status and working hours.

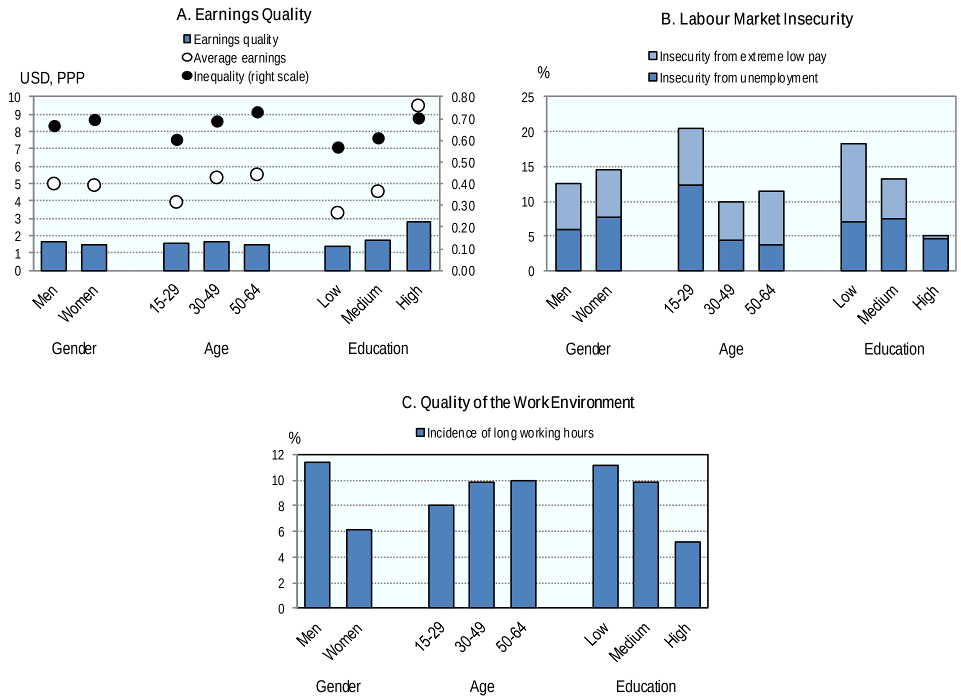
2. Unemployment risk denotes the (scaled transformation of the) probability of becoming unemployed times the expected duration of unemployment, which may be interpreted as the average expected earnings loss associated with unemployment as a share of previous earnings. Unemployment insurance captures the average effective net individual replacement rate of unemployment and social assistance benefits in terms of previous earnings, for the median earner. Labour market insecurity is calculated as unemployment risk times one minus unemployment insurance and may be interpreted as the expected earnings loss associated with unemployment as a share of previous earnings.

3. The low-pay threshold is set at USD PPP 1 in terms of net hourly earnings and corresponds to a disposable income per capita of USD PPP 2 per day in a typical. The probability of entering and exiting low-pay status are calculated by the pseudo-panel methodology proposed by Dang and Lanjouw (2013) using the sample of employed individuals. The risk of low pay is calculated by (the scaled transformation) of the probability of entering low-pay status times the inverse of the exit probability, and shows the likelihood that an individuals’ earnings below the low-pay threshold at any given time.

Source: OECD (2015a).

Women, young people and low-skilled workers face the most dramatic challenges – they not only perform poorly in terms of job quantity (i.e. lower employment rates) but also in terms of job quality (i.e. lower earnings quality, higher insecurity and lower quality of the working environment, as captured by working long hours) (Figure 23) (OECD/CAF/ECLAC, 2016).

Figure 23. Job quality and quantity outcomes by socio-demographic groups in Latin America



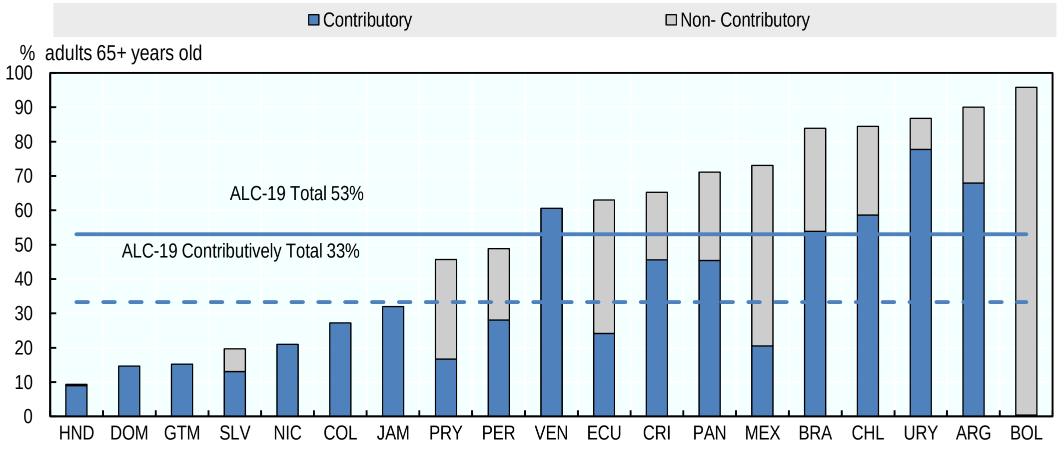
Notes: Unweighted country average for six Latin American countries: Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico.

Source: OECD calculations based on national household surveys (EPH - Argentina, PNAD - Brazil, CASEN - Chile, GEIH - Colombia, ENHAO - Costa Rica, ENIGH - Mexico), in OECD (2015b) “Enhancing job quality in emerging economies”, Employment Outlook 2015.

3.3 Vulnerability in old age, in spite of improving pension schemes

In the region today, according to national household surveys, six out of ten citizens aged 65 and older are receiving a pension, with about two thirds of them being from contributory schemes. Recently, many countries have substantially increased pension coverage through programmes focused on expansion of non-contributory pensions. This expansion has helped raise the proportion of older adults who receive a pension to more than six out of ten. Yet, the majority of pensions (either contributory or non-contributory) pay less than 10 dollars a day. This means that two of the key objectives of pension systems – elimination of poverty in old age and maintenance of an adequate living standard for workers once they stop working (Barr and Diamond, 2006) are still only achieved for a small number of the region’s elderly (Figure 24) (OECD/IDB/The World Bank, 2014). Argentina, Brazil, Chile and Uruguay are exceptions in this regard, as their pension systems achieve almost universal coverage and lift pension recipients above national poverty lines. While Bolivia has universal coverage, the benefit adequacy is still poor.

Figure 24. Old age pension coverage in Latin America, 2015



Source: IDB Labor Markets and Social Security Information System - SIMS Database

In the absence of further reforms, the percentage of workers who contribute to the pension system is not expected to increase significantly, implying that many will have either a limited or non-existent access to an adequate future pension in the region. In such case, stylized projections show that between 50% and 60% of the 140 million elderly adults in 2050 (70-80 million people) will reach retirement without having generated the savings needed to fund an adequate pension in their old age (Bosch, Melguizo and Pagés, 2017).

A large share of older people in LAC will have to rely on other sources of income than contributory pensions, such as work income, assets such as housing, transfers, social pensions and informal family support. Household structure, an important factor for the wellbeing of the elderly, shows that poorer older people are more likely to be living with a family member. Moreover, most of the elderly poor in the region live in multi-generational households, suggesting that their welfare is closely tied to that of their family. The long-term trends of increased urbanisation and lower fertility will likely weaken these ties in the future, which will make access to the formal pension system more important.

This is particularly worrisome, given that saving rates in Latin America are low. In terms of GDP, the region saved 17.5% of GDP in the last decades (1980-2014), 10-15% less than the most dynamic countries of emerging Asia. Additionally, a significant portion of the savings that are generated in the economy are not formally and efficiently intermediated. The two problems – low and inefficient savings - are connected and reinforced by the financial system, and are significantly more relevant for low and middle-income households (Cavallo and Serebrisky, 2016).

3.4 Low digitalisation levels exacerbate the digital divide

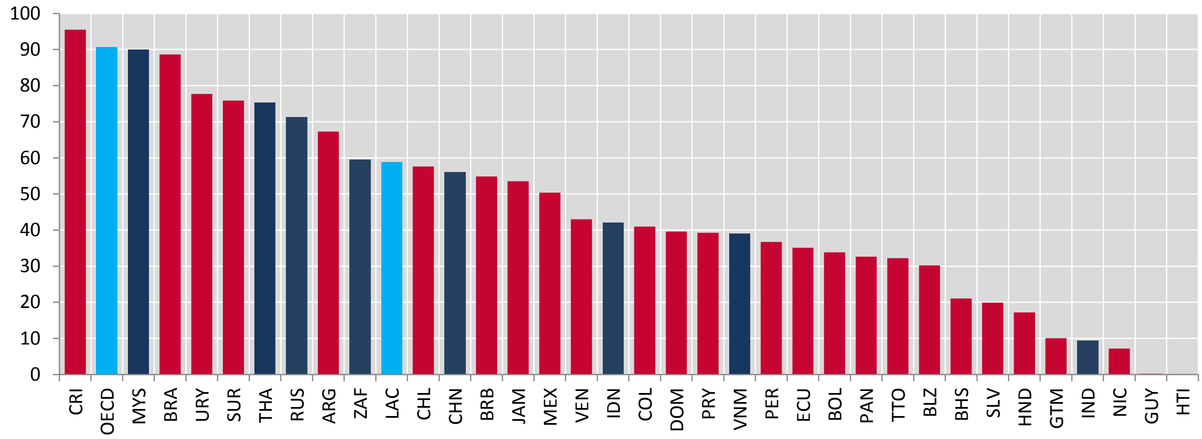
Innovation and digitalisation have the power to promote greater social inclusion at the same time as they contribute to growth and productivity. Their potential stems not just from their impact on businesses, jobs, productivity and growth that they can spur, but also through their impact on other dimensions of wellbeing, such as health, education, social connections, empowerment, and trust in governments and institutions. But the benefits of innovation and digitalisation are not automatic. Harnessing them for social inclusion requires LAC governments to take a forward-looking and coherent approach to policy, aiming to both maximise the opportunities and manage the challenges these phenomena bring.

LAC countries currently face three important challenges in putting in place the conditions for innovation and digitalisation to take hold. Despite substantial progress in increased internet usage and mobile penetration in the last decades, the region still lags behind OECD countries and emerging economies in Asia in measures of digital infrastructure development, such as access to broadband networks. In 2015, the average mobile broadband penetration in Latin America was 59%, compared to the OECD average of 91% (Figure 25). Affordability is the biggest barrier hindering middle- and low-income groups from using online and ICT services. Boosting broadband access is thus essential, as not only do infrastructure gaps hold back potential growth, but they can also undermine social cohesion by restricting the dividends people can draw from their skills and experience as well as limiting them in their ability to increase their skills and experience.

In addition, the region is grappling with sluggish business dynamics characterised by declines in entry rates, ageing firm populations and low-performing SMEs (OECD/IDB/GFP 2016). These carry significant implications for social inclusion, as the declining ability of new firms to enter and grow hampers productivity and particularly job creation, while the slowdown in technology and knowledge diffusion from the frontiers to the laggards exacerbates inter-firm wage inequalities.

Figure 25. Mobile broadband penetration in LAC countries

Subscriptions per 100 inhabitants, 2015



Note: OECD average includes Chile and Mexico.

Source: ITU World Telecommunication/ICT Indicators database 2016 for all countries, except OECD for OECD average.

LAC countries will need to implement fresh approaches to tackle these challenges. A number of priority actions can yield significant rewards. Within overarching broadband strategies, investment in digital infrastructure, especially broadband and data, needs to be prioritised and competition in telecommunication markets strengthen, as part of a drive to ensure affordable access to digital services for all, including disadvantaged groups, firms and rural or remote areas. Government subsidies and tax incentives to expand and enhance digital infrastructure in rural and remote areas are critical to fill gaps in where private financing had not been attracted based on an assessment of likely returns (OECD, 2015c). Sweden has adopted a unique solution to enhancing rural local fibre networks. The "fibre to the farm" programme targets last mile digital connections by offering a subsidy to farmers in order to establish their own connections to the main fibre-network. Municipal co-operation between different villages and between rural municipalities close to cities can help to expand digital network, as can community based models of collaboration. A mixture of competition-enhancing reforms coupled with active measures to target underserved communities has shown to be effective and can be leveraged by cross-border co-operation that helps promote economies of scale, better service offerings for consumers, and opportunities for regional experience-sharing (Box 3).

Box 3. Boosting access to affordable digital infrastructure – policy example from the LAC region on expanding access to disadvantaged groups and remote regions

In Mexico, the *Red Compartida* is a wholesale mobile telecommunication network for the provision of services in a non-discriminatory manner. This programme intends to create an open access wireless market in Mexico, by having the private sector fully design, finance, deploy, operate and promote *Red Compartida*'s 4G network. To this end, a self–financed PPP has been granted a 20-year concession, renewable for an equal period, along with a pair of *Red Troncal* fiber optic strands for the operation of this project. Conditions and milestones have been set for the contractor, Altán Redes, which require 0.15% coverage to rural populations for every one percent of urban population covered, and 92.2% of the population to be covered by January 2024 (OECD and IDB, 2016).

Furthermore, the recent Telecommunications reform in Mexico induced significant price reductions (of up to 75%) in mobile broadband packages, better quality services and the addition of 50 million mobile broadband subscriptions since 2013, thus effectively fostering inclusive growth in the country (OECD, 2017e)

3.5 Adopting a territorial approach to foster inclusiveness in Latin America

As mentioned in section 1.4, inequality has a marked socio-spatial dimension. The territorial "axis" of inequality reinforces with other forms of exclusion (ECLAC 2017). Fostering nationwide inclusiveness requires attention to the less developed regions, as unlocking their growth potential is good for equity, resilience and national fiscal health. This is because broader regionally based growth is likely to be more diversified, in turn making the economy more resilient to external shocks. "Catch-up" growth in poorer regions is also likely to reduce inequalities in economic opportunities across regions and individuals. Lifting regions from under-performance limits the cost of fiscal equalisation transfers while strengthening national cohesion.

The key message for policymakers is to have integrated and complementary policies, adapted to the needs and circumstances of different towns, cities, or regions. This requires not only a better coordination across ministries and levels of government but also a better integration of local authorities during the policy-design process.

As cities (and their metropolitan areas) bring together both high and low-skilled workers and often include local concentrations of poverty and exclusion, urban policies provide a good opportunity to address spatial and social segregation by offering a range of new opportunities for social mobility. This is particularly relevant in the LAC region where almost 90% of the population is expected to live in urban areas by 2050. Many cities do not have integrated land use or transport planning. This has led to unmanageable urban sprawl that hinders the conditions for sustainable and inclusive mobility. Low-income communities tend to live in the peripheral areas that require long commutes to services, jobs, schools and hospitals that are commonly concentrated in the downtown and high-income areas. This accessibility gap is further exacerbated by the underdevelopment of affordable public transport options, as a result of a decades-long planning giving priority to private vehicles.

In this regard, increasing transport accessibility, notably through affordable and financially sustainable public transport services, plays a key role in reducing social exclusion and poverty trap for the vulnerable urban dwellers. Adopting inter-sectoral approach linking housing, spatial planning and transport policies is also a good way forward to enhance mobility while minimising displacement of the poor. In addition, recent advancements at the OECD on the elaboration of functional urban areas recognise the role of medium-sized towns and cities and promote urban-rural linkages to foster more balanced subnational development.

Rural regions, on their part, strongly contribute to national growth and above all have significant potential for growth. Notwithstanding, poverty pockets tend to be located in rural regions. For example, in Peru, 50% of the rural population lives below the poverty line. Unlocking the full potential of rural areas will not only contribute to national aggregate growth but will also have a strong impact on improving inclusiveness in the region. This entails designing inclusive policies for indigenous populations which, as seen in Section 1.4, can constitute large shares of the total population in rural areas in LAC countries. In this sense, OECD countries have experienced a policy shift, referred to as the "Rural Policy 3.0", whose key features are: i) a place-based and investment-oriented approach; ii) a holistic focus on the entire rural economy and not just a few sectors; iii) a bottom-up development strategy that reflects local priorities and an inclusive style that encourages the participation of all potential stakeholders – the public and private sectors and the third sector (i.e., non-governmental organisations and civil society) (OECD, 2016j,k).

Remoteness compounds both the territorial and digital dimensions of inequality. There is an important challenge in terms of rural access to digital infrastructure. Strong digital infrastructure is important for the diversification of the rural economy, enhancing firm productivity and supporting the delivery of e-service in rural locals (Salemink, Strijker and Bosworth, 2015). Many Latin American countries have targeted specific programmes in order enhance and extend digital infrastructure into rural areas. For example, Brazil has developed a plan to further Internet adoption among rural youth; Bolivia, has implemented broadband access in strategic rural community places such as telecentres, schools and community centres; Argentina and Colombia have targeted connection efforts at public schools in isolated areas; and in that past five years, Chile has subsidized infrastructure connection in more than 1,400 areas with limited or no connectivity (Correa, Pavez, and Contreras, 2017). However, the rate of adoption remains slow in rural communities in these countries despite these efforts.

To make the most of public investments, there is an increasing recognition that appropriate governance arrangements should be developed seeking cross-sectoral complementarities, as well as co-ordination across levels of government and between jurisdictions. In OECD countries – and increasingly in Latin America- subnational governments are key economic actors and play an important role in public investment. Countries of the LAC region on average tend to be more centralised than OECD countries: subnational government expenditure is three times lower in the LAC region than the OECD average. Subnational expenditure represents 6.5% of GDP and 20.9% of public expenditure, compared with 16.6% and 40.2% respectively in OECD countries – and 9% and 23.9% worldwide (OECD/UCLG, 2016). Subnational investment in many LAC countries is also highly centralised and below the OECD average; in Paraguay, Chile and Costa Rica for example, subnational governments are responsible for less than 14% of public investments compared to an average of almost 60% in the OECD.

Several LAC countries have started decentralisation reforms in the past two decades or are currently discussing them. When well conducted, decentralisation can benefit local productivity growth and employment, which in turn enables more inclusive territorial development. The mutual dependency across levels of governments, notably in the way responsibilities are assigned, will likely be a key challenge for the region, from federal countries like Mexico or Brazil to centralised ones like Chile or Costa Rica. To make the most of public investments in an increasing decentralisation process, it is crucial to adopt a flexible framework for multi-level governance, where balance can be sought between the interests, capacities and objectives of national and subnational levels. Concretely, a number of conditions must be met, as recognised by the OECD Recommendation on Effective Public Investment across Levels of Government. These include: ensuring sufficient resources to meet new responsibilities; developing and strengthening adequate capacities at the subnational level; designing proper co-ordination mechanisms across levels of government and between jurisdictions; and implementing effective monitoring systems or balancing in the way various policy functions are decentralised.

4. The way forward: prioritizing interventions for an inclusive growth agenda

Key insights from the chapter and potential areas for furthering policy dialogue between OECD and LAC countries are outlined below:

i. ***Inclusion in Latin America is unfinished***. There are still high levels of poverty, persistent inequality and widespread informality along people's life cycle and transmitted across generations. Besides, certain socio-demographic groups are especially left behind. This is the case of women, youth, and poor populations (often indigenous) living in remote areas or metropolitan fringes.

ii. ***Policy responses fall short and in many cases are still segmented and silo-based.*** While there have been important advances in specific domains of social policy, efforts have been fragmented and their impact is therefore restrained. Conditional cash transfers have been a critical tool for poverty alleviation and have created positive incentives in favour of better education and health outcomes among poor families, but the social protection system as a whole has not been successful in allowing people to graduate from support programmes, and, for instance, do not necessarily create incentives for women's accession to the labour market. The expansion of pension coverage through non-contributory pensions has helped reduce poverty among older adults, but the adequacy of these pension benefits remains a challenge, especially for the new middle class. Also, inequality is still very high and, from a systemic view, taxes and transfers as a whole do little to redistribute and incentives are not aligned to reduce informality.

iii. ***Growth and inclusion could be mutually reinforcing.*** Economic growth in LAC since 2000 had an important impact in the reduction of poverty, inequality and facilitated the expansion of social expenditure. The current context of low growth and fiscal constraints enhance the need for more and better targeted social spending to avoid losing the terrain gained during the first decades of the century. OECD research suggests that policies to reduce income inequalities reinforce and sustain long-term growth. Focusing on families with children and youth, promoting employment for women and disadvantaged groups through active labour market policies while setting the incentives for formality among the new middle classes, childcare support and in-work benefits, bridging the digital and adopting a territorial approach to unlock the growth potential of less developed regions can serve as new internal engines of growth.

iv. ***Looking ahead, LAC countries would benefit from a comprehensive inclusive growth agenda.*** An integrated, multi-sectoral approach to inclusive growth should encompass several policy levers, which have shown to be useful for setting the enabling conditions for all individuals and groups to fulfil their aspirations. These include productivity-enhancing policies (not addressed in this publication) oriented at benefitting from the nexus between productivity and inequality and increasing business dynamism and innovation through greater competition, a sound business environment, and open markets, along with policies to enhance the participation in global value chains[7]. But it also involves addressing structural issues with significant impact in the long run, such as the establishment of progressive tax and transfer systems, changes in the social institutions and norms to eliminate all gender-based discrimination and reducing informality. And finally, it entails unlocking the growth potential of all individuals and regions through the education and skill systems, labour markets, digital infrastructure and territorial governance.

v. ***Social protection systems are central to an inclusive growth agenda in Latin America.*** Social protection in the region is often characterized by segmented social assistance and social insurance programmes rather than comprehensive systems. There are important challenges related to the unification, expansion, and design of social protection. Transforming programmes into systems that can adapt to current and future demographic, technological and geospatial dynamics, is a major challenge for the region where lessons from OECD experiences can be drawn.

Box 4. OECD Tools to support countries setting up an Inclusive Growth Strategy

The Inclusive Growth Framework

The OECD defines inclusive growth as growth that (i) translates into improvements in a range of outcomes that matter most to people's lives; and (ii) ensures that these improvements benefit all groups in the population, not just a few.

The OECD launched its Inclusive Growth Initiative in 2012 against the backdrop of rising inequalities, persistently high unemployment, and falling living standards worldwide; trends which had been exacerbated as a result of the financial crisis. It was born from the dual recognition that inequalities extend beyond income to affect many areas of people's lives essential for their wellbeing, and that the persistently high levels of inequality present in many countries have taken a substantial toll on the social fabric of communities, placed a profound economic cost on future growth, and reduced trust in government and institutions.

During the initial phase of work, the OECD gathered evidence and raised the profile of the challenge of growing inequalities of income and opportunities in OECD member and partner countries. Subsequent phases also involved emerging countries. As a result, two of the most important multilateral platforms, the G7 and the G20, embraced the Inclusive Growth Agenda in their most recent statements and committed to pursue collective and individual efforts to deliver inclusiveness and growth that benefits everyone.

Economic Surveys and Multi-Dimensional Economic Reviews from the OECD systematically incorporate the Inclusive Growth Framework in their analysis. The framework builds on the extensive empirical research on the effects of pro-growth structural policies on income inequality and, more broadly, inclusiveness outcomes. In particular:

- Empirical evidence on the impact of structural reforms on household disposable incomes across the distribution, hence on income inequality (OECD, 2011b; Causa et al. 2015; 2016) and on wage dispersion among employees (OECD, 2011b; Braconier and Ruiz-Valenzuela, 2014).

- Empirical evidence on the impact of pro-growth reforms on labour market insecurity, informality and labour market inclusion of specific population groups (Gal and Theising, 2015).

- Empirical evidence on the impact of pro-growth reforms on intergenerational social mobility (Causa and Johansson, 2009).

[7] See OECD (2016), The Productivity-Inclusiveness Nexus: Preliminary version, OECD Publishing, Paris. As noted in the introduction, these policies were discussed in OECD/IDB/GFP (2016) and are beyond the scope of this report.

- Empirical evidence on the impact of pro-growth reforms on poverty (Marx et al., 2015; World Bank, 2015).

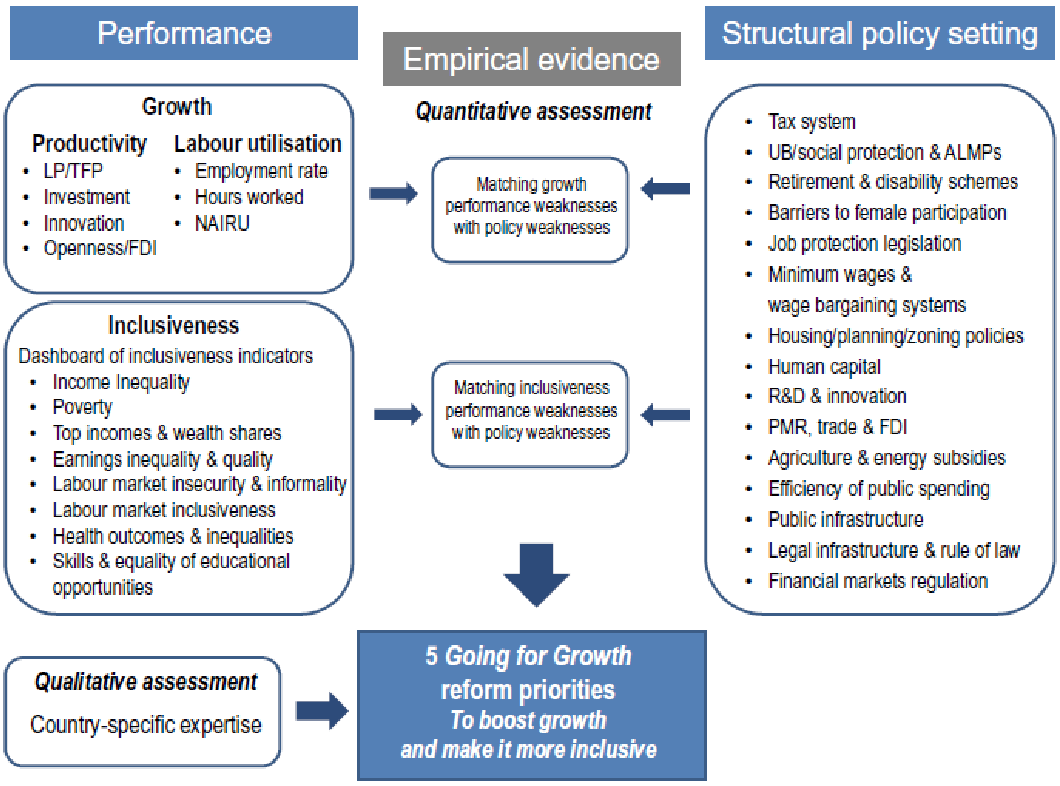
Coordinating and setting policy priorities for inclusive growth

For sectoral policies to be effective in promoting inclusive growth, a holistic approach is needed to maximize their potential synergies and mitigate the trade-offs and inconsistencies. This requires new mechanisms and platforms to facilitate the implementation of "whole-of-government" reforms that align visions, incentives and delivery mechanisms throughout the policy-making cycle. A whole-of-government approach to inclusive growth begins with a compelling vision of what the challenges and opportunities are, and what the desired outcomes should be.

Over the past years, the OECD has placed significant attention to the constraints and challenges of making reform happen, highlighting the need for a new approach to policy making that accounts for complexity and allows for new responses and more systemic change that deliver greater value, effectiveness and public satisfaction (OECD, 2017f). The *Going for Growth* framework developed by the OECD provides a practical tool for informing policymakers on how to design a coherent reform package and which policy priorities to select.

The Going for Growth priority-setting process is based on matching performance weaknesses and policy weaknesses, taking the OECD average outcome as a benchmark. In this regard, the priority-setting is extended to the inclusiveness dimension. The identification of reform priorities and the formulation of underlying recommendations build on a "mixed" approach under which the quantitative assessment delivered by the matching between outcome indicators and policy indicators is complemented by a qualitative assessment so as to tailor reform strategies to country-specific context and circumstances (see figure below). Such a qualitative assessment is based on local expertise, that is, in consultation with OECD country specialists. This allows also for capturing reform imperatives in policy areas which cannot be easily quantified and therefore which are not covered by the quantitative matching.

An overview of the extended Going for Growth priority-setting process



Source: OECD (2017a)

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2. Towards inclusive social protection systems in Latin American Countries

Introduction and proposed issues for discussion

As discussed in Chapter 1, a protracted period of relatively strong economic growth since the turn of the century, and well-targeted programmes, have allowed most Latin American Countries (LAC) to contain extreme poverty. However, given the persistently small social budgets and high informality, income inequality and poverty remain daunting policy challenges in the majority of the region's countries. Many workers and households who are not at the risk of extreme poverty remain exposed to idiosyncratic and general economic shocks. Informality is an important stumbling block to the expansion of social protection programmes that today fail to reach even half of the middle class, leaving many workers without adequate employment protection and access to social safety nets. This situation represents a pressing challenge for public policy, since low levels of affiliation in social insurance programmes and irregular contribution histories put people at a high risk of significant downward social mobility when they get sick, lose their job or retire. Against this backdrop, the present chapter discusses the state of social protection in the LAC region; the challenges that they set for social policies; and possible options for a policy response drawing from international experience. It also highlights some of future challenges for social protection associated with the rapidly changing world of work. Ministers and High-Level Officials are encouraged to exchange views on lessons and policy practices that will help them to further develop a comprehensive, adaptable and resilient social protection system, especially on the following key aspects:

1. How to promote more inclusive social protection systems, including reforms aimed at expanding non-contributory social protection, while at the same time supporting labour formalisation efforts and flexible mechanisms to increase social insurance contributions and benefits.

2. How to exploit the potential of Information and Communication Technologies (ICT) to improve decision making and speed-up administrative processes of social security systems, while at the same time boosting the quality and coverage of their services.

3. How to make social security systems "future proof", in particular to minimise the chances of people slipping through the cracks as an increasing number of workers will be independent service providers, work only occasionally and/or have multiple jobs and income sources.

4. How to prepare young people for the jobs of the future by ensuring that they are equipped with the right type of skills to orient themselves successfully in an ever-changing, technology-rich work environment, and give them the opportunity to maintain their skills, upskill and/or reskill throughout their working lives.

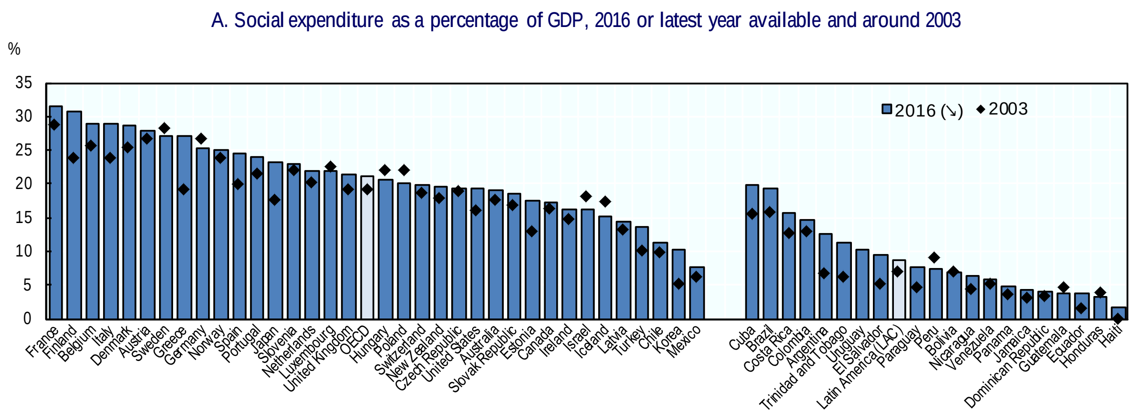
1. Background to the state of social protection in the LAC region

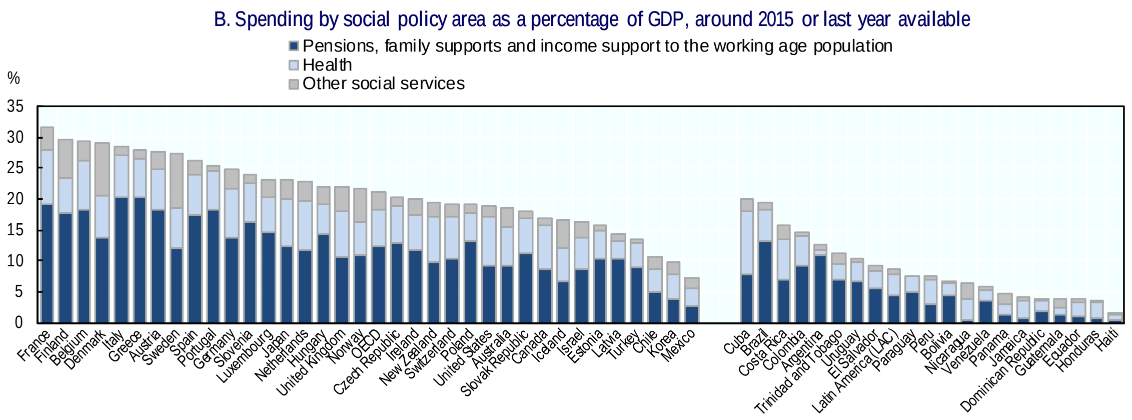
1.1 Social spending has increased, but it is still low compared to the OECD

Efforts to expand social protection across the LAC region have come with an important increase in social spending since the turn of the century. Between 2003 and 2016, public social spending increased from 7% to almost 9% of GDP (Figure 26, Panel A), mainly driven by higher health and social protection expenditures (insurance and social assistance). There remains however a wide variation across countries, ranging from comparatively low levels in Haiti, Honduras and Ecuador, for example, to levels close to the OECD average in Cuba, Brazil and Costa Rica. Seen in perspective, total social spending as a percentage of GDP is overall less than one half of the OECD average (21%). Although such a significant gap reflects differences in levels of per-capita incomes, policies could also play a role. Particularly, a whole-of-government policy approach for the promotion of inclusive growth (Chapter 1), with a focus on reducing informality, as well as broadening the tax base, could be instrumental to the creation of the extra “fiscal space” needed to continue to strengthen the protection of the most vulnerable population through higher public social spending.

In both LAC and OECD economies, public spending on old age pensions, families and income support are the most important areas of social expenditure (Figure 26, Panel B).) Nevertheless, at 4.5% of GDP the LAC average public spending on these categories is significantly lower than across OECD (12.4%).While there have been significant improvements in access to health care provisions in some LAC countries, e.g. universal health coverage in Colombia among others, the share of public expenditure on health is lower in LAC (3.2%) than the OECD average (5.9%). Housing and other social services account for 1% of GDP, which is about less than half the average expenditure among OECD countries.

Figure 26. Public social expenditure in OECD countries and LAC





Note: A. For OECD countries, instead of 2016, data for Mexico refer to 2012, 2013 for Japan, 2014 for Turkey and 2015 for Canada, Chile and New Zealand. For Latin American countries (right panel) data are not fully comparable with OECD countries, 2015 except for Panama 2014 and Venezuela 2009. Instead of 2003, data refer to 2009 for Colombia.

B. Data for OECD and Latin American countries are not fully comparable since they refer to different sources and methods. The OECD defines social expenditure as "pensions, family supports and income support to the working age population", "health" and "other social services".

Source: OECD Social Expenditure Database (2016), www.oecd.org/social/expenditure.htm, for Latin American countries: CEPAL (2016), Base de Datos de Inversión Social, http://dds.cepal.org/gasto/indicadores/ficha/2016 as extracted in August 2017.

1.2 Access to social insurance and non-contributory programmes remains low

Compared with most OECD countries, coverage of contributory social insurance programmes remains relatively low. For instance, only four out of ten individuals aged 65 and older are receiving a contributory pension. The expansion in non-contributory pensions has helped raise the proportion of adults who receive a pension to more than six out of ten. However, the majority of pensions (either contributory or non-contributory) pay less than 10 dollars a day (Bosch, Melguizo and Pages, 2017). Data on the coverage of unemployment benefits is limited and available evidence suggests that the share of the unemployed effectively covered by unemployment benefits is much lower than in advanced economies. Furthermore, these schemes tend to be less generous than the OECD average, with lower replacement rates and shorter duration of entitlements in most of LAC (OECD, 2015a).

From the governance perspective, the 2000s saw important efforts to institutionalize and integrate the delivery of services. This process was driven by the creation of new institutions for the coordination and implementation of social protection programmes, including, for example, the establishment of new ministries of social development in Chile, Colombia, Guatemala, and Peru, as well as the creation of a number of inter-ministerial committees. Despite these achievements, the World Bank has recently pointed to the need for further progress in the reduction of institutional fragmentation, supported by the development of efficient administrative tools for cross-programme coordination. This is also with a view to allow individuals and families, whose needs differ and vary overtime, more promptly finding their way to the appropriate segment of the system (World Bank, 2012; Cerutti et.al., 2014).

In response to the problem of the low coverage of contributory social insurance and the difficulty to reach out to informal sector workers, many LAC economies have increased non-contributory programmes. This led to the expansion of (conditional) cash-transfer programmes and the development of health-assistance programmes to provide income support and health services to those excluded from contributory systems -- primarily the poor and informal sector workers. The conditionality attached to these programmes is because, in addition to directly tackling poverty, they are also intended to improve school attendance and the health status of mothers and children (e.g. the Brazilian *Bolsa Família*; Mexico's *Prospera*, former *Oportunidades*; Colombia's *Familias en Accíon*; Argentinian *Asignación Universal por Hijo*; and Peru's *Juntos*). A testimony of the centrality that CCTs programmes have acquired for public policies to overcome poverty in the region, today as many as 30 such programmes are implemented by LAC countries (Cecchini and Atuesta, 2017; Molina-Millan, et. al., 2016). In parallel to the expansion in the number of programmes, target beneficiaries have also expanded -- from less than one million people in 1996 to 132 million in 2015, which represent 20.9% of the population and 17.5% of households in the region. Nevertheless, both the coverage and incidence of cash transfer programmes vary greatly across LAC countries. Moreover, available figures point to a downward trend in the size of spending commitments in recent years.

The current mix of social assistance and social insurance linked to labour market participation has resulted in segmented social protection, leaving unprotected some groups of the population including a large and growing share of the middle-class, which remains vulnerable to the risk of falling back into poverty. Social insurance for instance is still low even among the middle class. On average 44 per cent and 34 per cent of households in the third and fourth quintile respectively, do not have access to some kind of contributory social insurance. Although those in the poorest quintile have even lower access to social insurance, this group in most cases is eligible for social assistance programmes. Evidence suggests that around 65 per cent of the first quintile has access to social assistance programmes. In contrast, workers from the middle class (part of third and fourth quintiles), who do not have access to contributory social insurance are also not eligible to receive social assistance, since these are targeted to the poorest population groups (Ocampo and Gomez-Arteaga, 2016).

1.3 The need to tackle gender disparities and discriminatory attitudes

Gender gaps compound social and economic inequalities in Latin America (OECD, 2017a; OECD, 2016b), and public policies have been inadequate in empowering women. Gender gaps in labour force participation are much larger in the LAC region than in the OECD on average. Women who *do* engage in the labour force often hold informal, insecure jobs, with little employment-related social protection, including paid maternity leave (OECD, 2017a).

Women's disproportionate responsibility for unpaid childcare and eldercare illustrates the need for government support in caregiving. Yet LAC countries generally lag behind OECD countries in the availability of good-quality, affordable childcare – a crucial policy tool for promoting gender equality in society and in the workforce. In Mexico, the programme *Estancias Infantiles para Apoyar a Madres Trabajadoras* has been effective at creating childcare spaces for women who work informally, though questions about the quality of care persist (OECD, 2017a). Chile's *Crece Contigo* programme, too, has helped provide childcare for low-income families. Overall, demand still far outpaces supply in the region (OECD, 2016b).

Ensuring that fathers take leave to care for children when they are born is also important for establishing egalitarian behaviours in caregiving and enabling mothers to return to paid work. LAC countries are increasingly offering paid leave for fathers' around childbirth, but more needs to be done to ensure that enough leave is offered and that fathers actually take the leave for which they are eligible. Mexico, for example, recently took the good step of introducing paternity leave, but the five-day leave period is too short compared to the OECD average of eight weeks (among countries that offer leave), and the leave period should be publicly-funded rather than employer-funded. The latter arrangement risks discouraging fathers from taking leave for which they are eligible (OECD, 2017a).

In many LAC countries, policies to lower the direct cost of schooling for girls should be combined with policies to reduce the opportunity cost of their caring and housework responsibilities. They include childcare programmes for siblings and flexible school times in the harvesting season. Tackling discriminatory norms, attitudes and practices through the media, religious institutions and community leaders can also help to dismantle some of the barriers to girls' education.

Incentives to delay marriage and reduce adolescent pregnancy – including cash-transfer programmes, and sexual and reproductive health education – are also an effective way of keeping adolescent girls at school. Although Mexico has effectively achieved gender parity in upper-secondary school completion rates with a gender gap of less than 1 percentage point, it has very school high drop-out rates – more than 40% of male and female 15-to-19 year-olds were not enrolled in education in 2013 – and the lowest upper-secondary graduation rate in the OECD. Of the 15-to-29 year-old female drop-outs, 8% listed pregnancy or having a child as the reason for leaving school early, and 11% cited getting married or entering a union. Accordingly, Mexico's Secretariat of Education (SEP) has made a serious financial commitment to keeping at-risk students – such as teenage mothers – in school by offering scholarships with a gender component. From 2013 to 2015, SEP offered over 700 000 scholarships aimed at keeping girls in school (OECD, 2017s).

2. Expanding the coverage of social protection systems: lessons from OECD countries

The contribution of high labour market informality, low coverage by contributory social protection, and the weak redistributive impact of fiscal policy and of social protection, means that new solutions are needed to achieve a sustainable and efficient anti-poverty strategy and also protecting the new lower-middle class falling back into poverty and destitution. This requires further reforms in social protection including an expansion of non-contributory social protection, in parallel with labour formalization efforts and flexible mechanisms to increase social insurance contributions and benefits.

2.1 Consolidating pensions systems

The expansion in non-contributory pensions (also known as “social pensions”) or cash transfers targeted to the elderly have been effective in increasing the number of people with access to income in old-age and come in different forms. Bolivia for example pays a universal pension although with some reduction for those receiving contributory pensions. Venezuela makes eligibility contingent on not receiving a contributory pension as does Mexico. Peru’s pensions system contains a non-contributory pillar, managed by the State, which is destined to the elderly living in poverty and social exclusion, targeting in particular the rural poor. In Argentina, eligibility restrictions for contributory pensions were relaxed for certain cohorts but the change is temporary (OECD/IDB/The World Bank, 2014).

The important works of the OECD in the pension area offer a wide variety of country experiences and models for non-contributory pensions. These range, for example, from means-tested old age benefits in Australia to income tested basic pensions in Norway and Canada to residency based basic pensions in the Netherlands and New Zealand, each with its own advantages and disadvantages. Box 5 provides a few examples of the OECD’s leading role to support the policies to strengthen social protection in both member and non-member countries.

However, non-contributory pensions are only part of the solution to low coverage. Although they can reduce poverty in old-age, they are not likely to be effective in ensuring that individuals, particularly those in the middle-class, maintain their standards of living in old age. All but one of the countries mentioned above have an extensive mandatory contributory pension system in addition to non-contributory pensions. Australia relies on defined contribution pension plans, Norway has both a public notional defined contribution scheme as well as a private defined contribution plan, Canada has a public defined benefit scheme and the Netherlands has private defined benefit schemes. The only exception is New Zealand with only a mandatory basic pension. However, this pension is relatively high and both home ownership and private savings, through the *KiwiSaver* scheme in New Zealand, are substantial. Each of the different pension systems work in distinct ways with different implications for financial sustainability and pension adequacy.

To generate adequate levels of future pensions, attention must also be paid to their broader design (Garcia-Huitron and Rodríguez-Montemayor, 2017), including withdrawal of savings before retirement age and/or taking pensions out as a lump sum, rather than regular payments (so that people can outlive their resources), and the non-indexation of pension payments. In addition, minimum years of contributions are very high in LAC countries so people with incomplete careers in the formal sector lose entitlements. In Chile for instance, in order to receive the basic pension one needs to have lived in the country for at least 20 years.[8] In addition, the contribution rate for the defined contributions scheme is relatively low, leaving many people with low pension incomes at old age (OECD/IDB/The World Bank, 2014). This has raised discontent with the pension system among Chileans. To address such a discontent a reform has recently been proposed and is currently under review by Congress. The contribution rate would significantly increase (by 5 percentage points). The increased revenue from contributions would be managed by a new public institution. The additional contributions would be split between an individual account (3 percentage points) and a collective account for redistribution purposes (2 percentage points).

Resetting administrative defaults has been increasingly used around the world in the design of pension systems: rather than letting people opt-into a pension scheme, they are automatically enrolled and are instead given the option to opt-out. Also known as "nudging", this technique steers people into making better decisions in the long term, while preserving their freedom to make their own choices (Thaler and Sunstein, 2008). Furthermore, in Latin America behavioural economics is being increasing applied to the so-called 'matching contribution schemes', where financial and non-financial incentives are combined to increase pension savings (e.g. Colombia and Mexico). Although they have mainly focused on increasing the voluntary private savings of formal workers up to now, appropriate incentives should be established to reduce informality through innovative contribution matching schemes that extend into mandatory programmes (Carranza, Melguizo and Tuesta, 2013).

2.2 Improving the adequacy and responsiveness of unemployment benefits

Most of LAC's income protection systems for those who are unemployed still rely on severance pay (Bolivia, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Peru and Paraguay). Experience shows that this is not the most effective way to smooth the consumption of workers who lose their jobs. Some LAC countries have implemented systems based on risk-pooling (Unemployment Insurance, UI) and/or savings arrangements but poor design is seen to limit their effectiveness to protect workers in case of job loss. Further reforms can be made to improve adequacy and responsiveness, drawing on strengths of unemployment insurance schemes in OECD countries. This includes: i) introducing restrictions on withdrawal until the event of unemployment; ii) payment schedules to distribute benefits over several months instead of as a lump sum; and iii) an increase in the amount deposited into savings accounts (for instance through contributions by employees and the state). One problem with UI is that the implicit redistribution within the programme can create negative incentives for work (moral hazard), increase the length of unemployment periods, and, increase the unemployment rate. Therefore, combining income support with activation regimes is desirable (e.g. obligations to job-search and participate in active labour market programmes) as successfully done in many OECD countries, as a condition for getting income support.

2.3 The fight against informality

In order to move towards universal coverage, it is crucial to make further inroads into curbing informality. This should involve strengthening incentives for workers to seek formal-sector jobs, decreasing the costs of formalisation for employers and improving enforcement methods. Firms and workers need to clearly recognise the benefits of formalisation. Governments should improve the quality of the public services they deliver and strengthen the link between contributions and benefits in social protection schemes. The introduction of individual unemployment saving accounts (as in Chile)

[8] By contrast in the Netherlands and New Zealand this is 1 year and 10 years respectively.

is a good example of how the costs of formalisation can be clearly linked to its benefits, providing incentives to workers to join the formal sector.

At the same time, introducing progressivity into social security contributions could encourage both workers and businesses to register. Lowering these same contributions temporarily for low-paid workers whose jobs are brought into the formal sector can also support transitions out of the informal sector., This is especially important for groups typically less likely to contribute to the pension system or unemployment insurance, such as young people, self-employed and wage earners in small businesses. Colombia's recent tax reform cut formal labour costs by 13 percentage points (from 37.5% to 24% of wages) for all workers. Brazil has eliminated social security contributions for strategic sectors with the aim of increasing formal employment. Generous government contributions in Costa Rica to the self-employed have contributed to the declining levels of informality among this group while experiencing a dramatic increase in the proportion of self-employed workers who pay social insurance taxes (OECD, 2017d).

Enforcement methods should be improved. Enforcement agencies, such as labour inspectorates, should be given sufficient resources to carry out their work effectively. Workplace inspection visits are the basic procedure used by inspectorates to identify informal workers. The number of workers per labour inspector remains very high in countries like Colombia, Peru or Mexico (28,000, 33,000 and about 50,000 respectively). Labour inspectors should be adequately qualified and able to use modern statistical techniques to increase the efficiency of their work. These techniques include statistical profiling so as to identify the workers and firms who are most at risk of informality and selective targeting of enforcement actions. One important policy lesson that can be drawn from these experiences is that good enforcement should be transparent and strict, but not be overly harsh, as informality ultimately constitutes a means of survival for many people.

Creating formal, good quality jobs can also be supported by policy action on the supply side. For example, this can reflect the provision of and access to more and better skills for all workers, themselves backed by business-friendly policies to reduce administrative barriers to the launch of new entrepreneurial activities. Skills certification mechanisms that acknowledge competencies acquired outside formal education, hence including while working in informal jobs, could be very effective in increasing matching the skills in offer with the needs of the business sector. In turn, this will have positive effects on productivity.

In OECD member countries, active labour market policies (ALMPs) also play a key role in raising the likelihood of getting a quality job, trough job profiling, counselling and adapted training, including on how to develop small business (OECD, 2015d). These policies can be particularly helpful to support the employability of young workers. At the same time, ALMPs must also secure adequate support to displaced workers who need to find a new work quickly. Additional activation measures will be needed to target these workers; particularly, they will require, alongside adequate social safety nets, an effective framework which: (i) motivates jobseekers to actively pursue employment; (ii) improves their employability; and (iii) expands the set of opportunities for them to be placed and retained in appropriate formal jobs, through adapting their skills (OECD/CAF/ECLAC, forthcoming).

Finally, experience highlights the crucial importance of managing well the "political economy" of these reforms, particularly through maintaining a high level of social dialogue. In Peru, a 2014 initiative aimed to improve youth employability and foster formalization, aimed to reduce hiring costs through subsidizing contributions to health insurance, resulted in massive protests because it was combined with the elimination of several benefits (i.e. bonuses and compensation for the time of labour). It was ultimately repealed in early 2015. In response to that, Peru has introduced a special Labour Scheme for Micro- and Small Enterprises, which provided significant reductions in non-wage costs of employment, including discounts in contributions to healthcare and pension systems, in exchange of strengthening compliance to labour regulations and improving working conditions.

2.4 Harnessing the potential stemming from technological change for improving social protection systems

Information and Communication Technology (ICT) is an integral part of today's social security organisations and their operations. All countries, regardless of their stage of development, look to ICT solutions and applications to improve decision making and speed-up administrative processes.[9] At the same time, ICT tools play an increasingly prominent role to boost the quality of social security services and extend coverage, while also securing the adoption of more personalised systems of delivery. These are essential attributes to satisfy the needs of a diverse population, thus fostering the social and labour market inclusion of under-represented groups, such as poor families, women, low-skilled workers and people with disabilities.

However, international practices show that the introduction and management of ICT is not straightforward. At the outset, sizeable investment efforts may be required in both the physical infrastructure and human capital (staffing and adequate training). Moreover, ICT processes must be managed efficiently to ensure that outcomes meet expectations. Furthermore, a good deal of strategic planning is of essence since administrations must build solutions that, while well-tuned to local circumstances, remain sufficiently adaptable to changing needs.

Uses of ICT to foster existing social policies

ICT allows recurrent tasks to be performed more efficiently, thanks to the possibility to improve the management of existing national services by relying on more advanced processes and procedures (Misuraca et.at. 2017). Within the European Union, the single point contact in Estonia (*EESTI.EE*); the digitalisation of Italy's social security services (*INPS*); the reform of the employee insurance institutions in the Netherlands (*PES*); and Denmark's Strategy for Digital Welfare (*SDW*) are often quoted as good practice examples. All these initiatives have had the dual objective of reducing costs and simplifying citizens' access to social services.

LAC countries can draw useful insights from these experiences. Some observers even argue that emerging economies are at a comparative advantage and that new technologies will allow them to "leapfrog" advanced economies. Moldova is often pointed out as a successful example of this. Part of the drive towards combating contribution evasion in Moldova relies on the support of ICT and today Moldavian employees can check in real time whether their employers have paid the contributions due. Other countries, such as Argentina, Estonia, the People's Republic of China and Mexico, have implemented mechanisms to allow the checking of contribution payments between the social security administration and the collection agencies (typically the tax authorities). Tanzania's *National Social Security Fund* (NSSF), the largest pension fund in East Africa, has implemented an ICT-supported scheme (*Wakuluma*) to extend social assistance to small farmers in the informal sector. Enrolled members benefit from both short-term assistance (health insurance and access to small credits) and long-term benefits (pension).

[9] See Henman (2010), ISSA (2012), Barca and Chirchir (2014), GIZ (2017a) and Misuraca et al (2017) for recent reviews of how ICT is making a major positive contribution to the transformation of the operation and administration of social security agencies worldwide. OECD (2016c) discusses key challenges for the implementation of digital government strategies in public welfare services in OECD Nordic countries.

ICT as a tool to adapt social security to new realities

In many countries, ICT is increasingly used to enable the implementation of new and innovative social services. It is all the more important for countries to exchange ideas and share their experiences. Concerning family benefits, for example, growing emphasis is directed towards data matching – i.e., the process by which data records are cross-checked with other institutions, thanks to the possibility to manage complex datasets simultaneously and using parallel computing techniques (Henman and Adler, 2001). For example, the *Canada Revenue Agency* (*CRA*), the institution responsible for the management of family benefits, has created an *Automated Benefits Application* for beneficiaries. The province registering the birth is connected directly, through a secured link, to the CRA, which then determines if the applicant is eligible for benefits. Such practices have played a pivotal role to enhance targeting, a progress of key importance to reduce fraud and overpayments in social security disbursements.

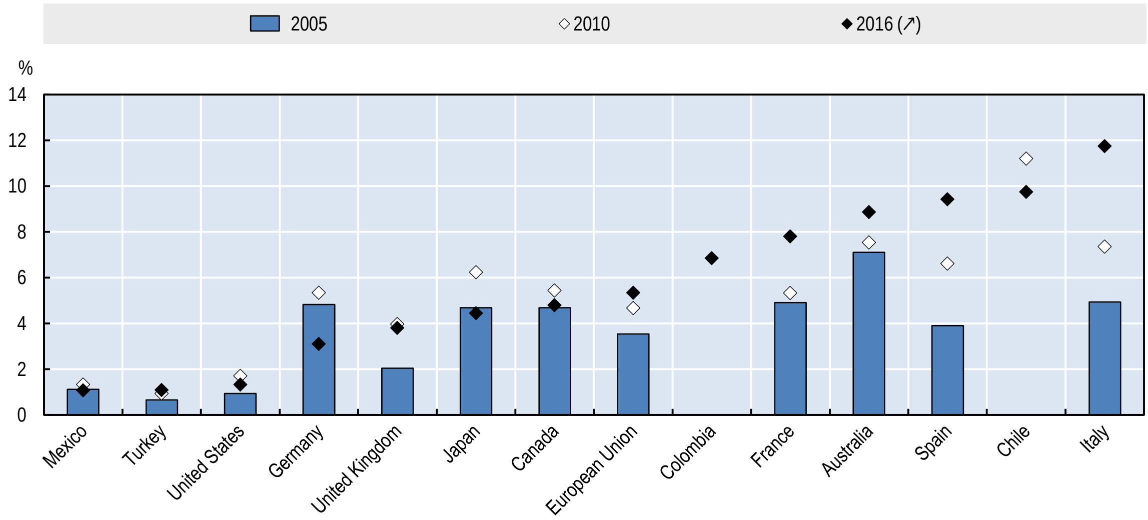
In some countries, similar use of ICT has raised the impact of conditional transfer schemes. This largely reflects the positive effects on "tracking" practices and their effectiveness. In Mexico *Prospera* encompasses a Web application that allows doctors (teachers) to consult the register of beneficiary families assigned to their health unit (school), to assess compliance of health (education) responsibilities and to report the information to *Prospera*. In a similar vein, *Centrelink* in Australia extensively relied on ICT support services for the launching of the *Maternity Immunisation Allowance*, a universal payment to parents of children who are fully immunized at 18 months of age.

ICT applications are also found in the area of disability policies. ICT favours the introduction of new personalised ways of assessing remaining work capacities, of supporting activation through rehabilitation schemes and of reducing risks of disability benefit dependency. The *Social Security Administration* (*SSA*) in the United States recently designed a single tool for case processing, which is seen to be essential to contain costs, to simplify system support and maintenance and to improve the speed of assessments (Kimberly, 2016). In addition, the United States, Australia, Canada, Israel and the United Kingdom have recently used their ICT methods to strengthen fast-track procedures (Rajnes, 2012). These allow prioritising the claims deemed to merit special handling because of the severity of the disability – e.g., people who are blind, or with a terminal illness.

The 2008 global economic and financial crisis has contributed to shift the focus of policy-makers on the use of ICT to support employment and employability. In Australia, *Centrelink* uses ICT to maintain a *Job Seekers Classification Index*, which allows breaking the client population into different segments of risks and actual needs. Gains are visible in better matched unemployment benefits and training services, which is particularly important to deal with low skilled jobseekers, typically most exposed to the risk of long-term unemployment. In France, the transformative use of ICT by *Pôle Emploi* is apparent in the more effective interactions between jobseekers and counsellors that it allows (Misuraca et.al. 2017). *Pôle Emploi* has also launched a new initiative named *100% Web*, which consists in a portal for active social inclusion, including through closer interactions between employers and job seekers.

Over the coming years, new questions about the role of ICT for innovative social security institutions can be expected to stem from changing labour markets and skills needs, both driven by the move towards more globalised and technologically advanced economies. ICT-based solutions will play an essential role to support the adjustments by countries to these mega-trends, in particular the implementation of flexible social protection approaches to address the circumstances of intermittent and casual employees. For example, between 2005 and 2015, the share of involuntary part-time workers in total employment saw very large increases in several OECD countries (Figure 26). The evidence for the LAC countries is scant due to data limitations but a similar pattern could compound the long-standing problem of irregular earnings associated to informality. Among the solutions that are emerging to address these concerns, the launch of France's *Compte personnel d'activité* (*CPA*) has generated considerable attention recently. An ICT-supported platform, *CPA* shifts the focus of protection from the labour contract to the individual worker and makes vocational training a tool of continuity in the acquisition of knowledge and skills. To this effect, *CPA* allows each worker to gradually build up a training capital, whose defined rights will be portable across different occupational spans. *CPA* has been in vigour since January 2017 and will be extended to the self-employed from January 2018. Other countries are watching this model very closely. The next section elaborates further on these issues using a labour market perspective.

Figure 27. Involuntary part-time workers (as a share of total employment) in some OECD countries



Source: OECD Labour Force Statistics Database.

Lessons of the past may not always apply to the future. Yet, it is worth highlighting that in the mid-1990s Australia made extensive uses of ICT to develop an innovative *Earning Credit* (later renamed *Working Credit*), specifically aimed to smooth the social security benefits of unemployed workers with casual earnings (Henman and Adler, 2001). Prior to the scheme, a few days' casual work would have been enough to disqualify unemployed workers from the right of access to income support. With the introduction of the scheme, computer technology has enabled unemployed workers to build up a credit account allowing them to earn some amounts of paid salary at irregular intervals without losing the entitlement to income support. Other similar ICT-based schemes included the (now dismantled) *Back to Work Bonus* in the UK.

ICT to implement and administer social policies

Social protection administrations increasingly rely on ICT to integrate data and information management across programmes (Barca and Chirchir, 2014; GIZ, 2017b). OECD countries (*e.g.*, Belgium, Estonia, Italy, New Zealand, UK and Norway) have recently adopted one-stop-shop solutions in the provision of benefits and services. The positive effects of these initiatives are multiple: lowered payments of undue benefits, both strengthened and streamlined collections, increased transparency and stronger accountability of systems. Other examples include Turkey's *Integrated Social Assistance Information System*, a process management and information system for carrying out a full range of social assistance procedures -- applications, enquiry, delivery and monitoring.

Some emerging economies are concentrating their efforts on the objective of data integration and to this end are prioritising the establishment of unified record keepings. The Indian government initiative for equipping all citizens with a digital identity, known as *Aadhaar*, provides a reference example. It was designed with an eye to the particular circumstances of the country, notably the presence of a large rural sector and sizeable urban informal economic activities. Benefits include extended access by these populations to financial services, such as daily bank transfers. In addition, *Aadhaar* allows streamlining the payment of subsistence benefits to low-income households who are eligible for the "cooking gas subsidy" and "social assistance pensions". *Aadhaar* is not compulsory yet, but reaches out to about 4 out of 5 Indian citizens. In a move towards the consolidation of fragmented schemes but also to enhance its readiness to respond to the onset of sudden crises, Kenya has consolidated into a Single Registry five social assistance programmes: i) Hunger Safety Net Programme; Person with Severe Disability Programme; Older Person Cash Transfer; Urban Food Subsidy Programme; and Orphans and Vulnerable Children Programme.

Recourse to systems of unique identification number and unified contribution collections has been marked across LAC countries. The establishment of Brazil's database *Cadasdro Unico* dates back to 2001. It was built on the initial data collection efforts for *Bolsa Família* and now covers more than 20 million households and is used to coordinate several different social safety programmes. Chile's *Integrated System for Social Information* (*SIIS*) is an ICT platform conceived to link many databases belonging to public entities through the internet. *SIIS* is often cited as one of the most advanced example of integrated data management across the social protection sector and beyond (Barca and Chirchir, 2014). In Peru, the civil identification system, *Reniec*, allows social security services to reach out to remote populations in the Andean and Amazonian areas and to indigenous communities (Reuben and Carbonari, 2017). The benefits to the population of these practices are visible in terms of reduced fragmentation of services and reduced administrative costs and errors. At the same time, the administrations gain in terms of improved data exchanges across institutions and reduced abuses. Overall, these advantages mean that, while certainly not the only contributory factor, ICT can play an essential role towards supporting the broader objective to strengthen institutional coordination of social protection systems in the region.

A further example is that without improvements on this front it would probably have been impossible for Indonesia to securitise the new application (similar to *Uber*) that the country has introduced for motorcycle taxi rides. When using the application a small amount of the tariff is automatically deducted for accident insurance of both the driver and the passenger for the length of the trip.

ICT for policy analysis and evaluation

Last but not least, governments increasingly take advantage of computerised systems to improve policy-making. This reflects the fact that the collection of large datasets, of high enough quality, enables the drawing of detailed policy assessments and to strengthen benchmarking. Models are now commonly used in the prediction of emerging needs for social assistance, forecasting of social security spending and retirement incomes projections. However, that much of the ongoing progress in performance measurement occurs alongside the creation of networked digital infrastructure is probably less known. One key outcome of such networked links is that information sharing and communications across institutions are greatly facilitated (Henman 2010). Furthermore, they enhance the capacity to draw timely decisions, since new data make it possible to generate monitoring reports and analysis in very short lapses of time. The insights gained are an invaluable source of information for refining existing social policies and identifying new reform priorities.

Policy lessons from ICT developments

Implementation of ICT solutions require adequate preparation and readiness to adapt to emerging challenges. International experience with ICT operations highlights that ICT is a real opportunity for the transformation of social security policy and administration. However, the introduction of complex solutions and process does not come without risks. The following lessons apply (see also ISSA, 2012):

- *Affordability*: Both implementation and running costs must be correctly estimated to avoid risks of cost overruns and disappointing return on investment. ISSA (2012) reports the example of an ICT project for the United Kingdom's *National Health Service* that was eventually abandoned in 2011 after over GBP 10 billion had been spent.

- *Suitability*: The importance of ensuring that the services provided be driven by what customers actually need, rather than what the technology does.

- *Accessibility*: The complexity of certain ICT systems poses problems - i.e., systems can be difficult to manage and when this happens expectations become difficult to fulfil.

- *Sustainability*: Too rapid an evolution of product and service offerings can impact negatively on the stability of processes, resulting in frequent and overambitious changes in approaches that are difficult to manage.

- *Preparedness*: The training of staff is a key dimension.

Beyond the policies that seek to use ICT as a catalyst of innovative social security, governments will need to equip themselves with the right institutions to successfully address a range of social policy challenges brought about by the digital technology (Henman, 2010; OECD and IDB, 2016). First, the digital transformation is often associated with the rise of concerns with regards to the respect of individual privacy and data protection. Recent OECD work shows that the countries in the LAC region generally lack a comprehensive national privacy strategy or programme. This situation is not surprising considering that the concept of a national privacy strategy is relatively new. However, law enforcement continues to be a challenge in the LAC region. The proportion of countries with an independent national *Data Protection Authority* (*DPA*) is very low. Only two countries (Mexico and Uruguay) have a fully independent and autonomous *DPA*. In other countries, the *DPA* is part of a ministry, e.g. Colombia (*Ministry of Economy*), Costa Rica and Peru (*Ministry of Justice*) and Ecuador (*Ministry of Telecommunications and Information Society*).

Second, even in the case where ICT entails positive outcomes for the country taken on aggregate, there can be trade-offs due to the emergence of a *digital divide*. As digital technology plays an increasingly essential role in citizens' life, those without access to it and/or lack of familiarity with it are at greater risk of social exclusion. For example, almost half the population of the LAC region does not yet use the Internet, compared to only 20% in OECD countries (OECD and IDB, 2016). This shows that the *digital divide* remains a structural challenge that can limit the benefits of digital government and the use of new tools, such as cloud computing and big data analytics. Even countries with considerable economic weight, such as Peru and Mexico, have Internet user rates below the regional average and in Chile and Uruguay, the regional leaders, barely 50% of the population are yet online (ECLAC, 2013). Despite the high levels of connectivity of central government institutions, the availability and quality of access to the Internet and broadband in the LAC region is sporadic. This reflects in part unsuitable legal and regulatory frameworks and the presence of barriers to entry for new providers, which reduce competition and service quality. Further to the policies to encourage the development of a market for low-cost ICT, building a stable and adaptable demand for such services will also be important. A broad range of social policies will be required to achieve this, including increasing the use of ICT in education and providing public access to ICT and training.

2.5 For a better future of work: adapting labour markets to the impact of technological change

There are significant fears associated with rapid technological progress and its implications on the labour market, particularly how it will affect what kind of work is done, who carries it out, and where and how it is carried out. The impact of technological change on jobs however is far from certain. Available estimates of the threats to jobs posed by technological change vary considerably. The analysis presented in the 2017 edition of the *OECD Employment Outlook* argues that it is highly unlikely that entire occupations will be automated given that, in practice, even occupations labelled as high-risk are likely to still contain a substantial share of tasks that are hard to automate and, also, that there is a lot of heterogeneity in the tasks performed within each occupation. Taking this task (rather than occupation) based approach, it is believed that, on average across 21 OECD countries, 9% of jobs face a high risk of automatization (i.e. where at least 70% of the tasks could be automated) - while for another 25% of jobs between 50% and 70% of the tasks could change significantly because of automation (OECD, 2017b).

There are indications that technological progress is changing the structure of occupations in a range of OECD countries, i.e. the occupational structure is "polarising" into high-skilled/high-paying jobs on the one hand, and low-skilled/low-paying jobs on the other (OECD, 2017b). Although in emerging economies the risk of polarisation is significant, it will depend to a large extent on the speed at which new technologies will be adopted (World Bank, 2016), with the adoption of such technologies likely to be slowed down, at least in the short-run, by lower wage costs. Evidence to date suggests that job polarisation might have been lower or absent in emerging economies. For example in China, there has been strong growth in both middle- and high-skill employment between 2000 and 2010, but an even larger increase in low-skill employment has resulted in the overall share of both medium- and high-skill occupations falling. In India, the shares of low and medium skill occupations have decreased relative to high-skilled occupations over the same period. That being said, the share of occupations that could experience automation tends to be larger in emerging economies: China and India together account for the largest technically automatable employment potential in the G20, with more than 700 million full-time equivalents between them (McKinsey Global Institute, 2017).

The picture depicted by a growing body of studies for the LAC countries is also quite mixed. In Chile, for example, the adoption of more complex software between 2007 and 2013 has driven companies to reallocate workers across different tasks, implying that the medium-term impact on overall employment has not been significant (Almeida et al., 2017a). In Brazil, internet access has not had significant effects on aggregate employment (Dutz et al., 2012 and 2017), although in the short run the adoption of digital technology has reduced employment in many local labour markets (Almeaida, et.al, 2017b). In Mexico, information and ICT adoption have contributed to an increase in the demand for skilled employment relative to low-skilled employment in the period between 2008 and 2013 (Iacovone, 2017). However, this outcome has not translated into a higher wage gap between the two groups, reflecting the growing sophistication of low-skilled tasks associated to the organisational adjustments that have accompanied ICT adoption. By contrast, in Argentina and Uruguay ICT seems to have led to lower the requirement for low-skilled occupations (Brambilla and Tortarolo, 2017, for Argentina and Apella and Zunino, 2017, for Argentina and Uruguay). In both Argentina and Uruguay these effects are associated to an increase in the demand for occupations that are intensive in cognitive tasks, especially non-routine ones, thus suggesting a strengthening of polarisation.

In addition, a trend with a strong impact on future jobs and the role of labour market institutions is the "sharing economy" or "gig economy". While this trend can help workers to complement their incomes with additional work in other jobs and create new job opportunities, it also brings many challenges. In particular, it raises questions about adequate social protection coverage for the increasing number of workers on non-standard work contracts and further adds to the difficulties of providing adequate cover for workers in LAC and OECD economies alike. Some 'gig' workers only work occasionally and/or have multiple jobs and income sources, with no statutory working hours or minimum wages. This means that they do not contribute regularly or in sufficient amounts to pension or social security systems. Such characteristics of gig-workers can be shared with those of informal workers in LAC countries who struggle getting adequate social protection. At the same time, the rise of platform work risks to compound pre-existing challenges. This reflects the fact that, although LAC workers who use the platforms can benefit from more flexibility and the possibility to work fewer hours than informal workers, they still suffer from a poor job security and a lack of social protection (Hunt, 2016).

How social protection systems can ensure adequate support for those who are self-employed or are gig workers is an ongoing challenge. In most OECD countries, self-employed workers are not eligible for unemployment benefits (OECD, 2015b). In the European Union, a recent study estimated that 54.5% of the self-employed were at risk of not being entitled to unemployment benefits in 2014, and 37.5% of the self-employed were at risk of not being entitled to sickness benefits (Matsaganis et al., 2016). In addition, women still have shorter contribution careers in most OECD countries, and thus face a higher risk of old-age poverty than men.

Adapting social security systems

Adapting social security systems to the new world of work may require a fundamental shift in design, where entitlements are linked to individuals rather than jobs, and where they are portable from one job to the next. Such an approach should also encourage labour mobility, since current arrangements may lock individuals in to their existing job out of fear that moving would result in a loss of their entitlements. It could also make independent work more attractive to many individuals. As discussed above, France's *CPA* provides for the possibility to link certain entitlements to the individual. In the United States, Social Security accounts are already "multiemployer" – although they are difficult to extend to platform work since they usually result from bargaining between unions and employers.

To finance benefits, new types of workers will also need to be covered by the tax system. In France, all platforms are required to provide an annual earnings statement to service providers in order to facilitate their tax returns. In Estonia, the tax authorities are working together with platform operators to develop a system whereby tax is withheld directly via the platform to facilitate income tax collection.

A crucial challenge countries will face in trying to set up a sustainable system of social protection is that new forms of work and the rise of self-employment hinder the ability of employment offices to enforce the principle of mutual obligations on unemployment benefit recipients, as it becomes more difficult to monitor work activity. At the same time, the rise of work through digital platforms can be seen as providing an opportunity, albeit still in its infancy, to obtain information on workers' activity that was not previously available, and overcome the monitoring challenge. This is an area where LAC countries may have interesting approaches and some early national or local lessons to share with the OECD countries, building on recent improvements made in their systems of unique identification number and unified contribution collections. New practices may open the way to double dividends effects, resulting from the combination between increased security and reduced informality.

Another policy option being discussed in some OECD countries is the introduction of a basic income guarantee – i.e. an unconditional income transfer that would replace other forms of public transfers without any means-testing or work requirement. Proponents of this approach see it as an important solution to the large-scale unemployment that they believe automation will generate. In some countries, a basic income guarantee could have the advantage of filling the gaps left by existing social security systems while also offering a simpler alternative to the complex mixture of in- and out-of-work benefits. The results depend very much on country context and on the social protection system that is currently in place. On the one hand, if countries aimed to introduce a basic income without reducing existing transfers that are based on specific needs (e.g. disability, child benefits, etc.), its implementation would typically require a large increase in social spending. On the other hand, a basic income that is budget neutral (and thus replaces many of the cash transfers that are currently in place) would typically correspond to an income level below the poverty line (Brown and Immervoll, 2017). In some countries, experiments with basic income guarantees are currently underway or planned (e.g. Finland, the Canadian Province of Ontario and the Dutch city of Utrecht), and evaluations of these schemes will offer useful evidence as to whether they are viable solutions for the social security challenges posed by the future of work.

This is another area where LAC countries might be at a comparative advantage thanks to the experience built with conditional cash transfer programmes. Indeed, the basic income that these programmes provide is independent of the traditional link between entitlement to benefits and specific patterns of work. The lessons from such programmes could be invaluable for policy makers in OECD countries who are thinking about the possibility of introducing a basic income guarantee. Finally, it is worth noting that some platforms have put in place their own mechanisms to improve worker protection. For example, the freelancer platform *Upwork* offers the following services: (a) calculation and payment of wages (including any applicable overtime wages); (b) collection, payment, and reporting of all required taxes on such wages; (c) unemployment insurance and workers' compensation coverage; (d) administration of legally required benefits, including health insurance, disability insurance, paid sick leave, paid vacation, severance, notice or termination costs, retirement benefits or other welfare or pension benefits; and (e) administration of legally required leaves of absence, wage garnishments, and unemployment claims. In Mexico, the on-demand platform *Aliada* ("allies"), allows service providers to rate clients on how they are treated.

Upskilling the workforce

As advanced in Chapter 1, the LAC region has the widest skills gap in the world. Poor education and skills levels make it difficult for many workers in the region to adapt to change. In particular, greater efforts need to be made in LAC economies given the low levels of foundational skills in the region, as confirmed by poor results of the OECD's Programme for International Student Assessment (PISA), as well as the concentration of university graduates in fields of study other than science, technology, engineering or mathematics (STEM) (only one out of five students graduates from STEM (OECD/CAF/ECLAC, 2014). This suggests that the region is not well prepared for the foreseeable shift in demand for skills, and that training and education systems may provide students with skills that will soon be outdated.

Moreover, the importance in digital skills will increase in future. Evidence on the individuals' ICT generic skills, such as the ability to use communication and information search or office productivity software in LAC is limited. Although the percentage of PISA students with access to a computer at school remains higher in the OECD countries (93%) than in Latin America (71%), the gap has narrowed. Nevertheless, among the few assessments that have been conducted on the effective use of ICTs for learning, some found no significant effect on cognitive skills and student performance.

The evidence suggests that there is a basis for using ICTs to support education and boost the school's educational role (OECD/CAF/ECLAC, 2014).

Overall, governments in the region face two broad sets of policy challenges. First, they need to ensure that young people are equipped with the right type of skills to successfully orient themselves in an ever-changing, technology-rich work environment. This will require high-quality initial education and training, but also good skills assessment and anticipation systems, the right types of incentives for individuals to invest in those skills most needed in the labour market, and the provision of effective, up-to-date and tailored information, advice and guidance. The second set of challenges concerns the workforce that has already left initial education. As a result of rapid technological change, the skills of adult workers will become obsolete more quickly, while at the same time the demographic transition implies that they will be required to stay in the labour force for longer. To help these individuals adapt to changing labour market needs, it will be important for governments to design *high-quality lifelong learning systems* which will permit adults to regularly update, upgrade, and sometimes even acquire completely new knowledge, skills and competences in order to stay employed and/or find new employment. Given that low-skilled workers are likely to bear the brunt of adjustment costs, efforts should be targeted on them, as well as on small- and medium-sized enterprises which tend to face greater barriers to investments in training.

3. The way forward: towards inclusive social protection systems

This chapter has reviewed areas and options for promoting sound and effective policies to foster inclusive social protection systems in LAC countries. In so doing, it has included a focus on the transformations that many labour markets are undergoing, or may soon undergo, as a result of rapid automation and digitalisation. Several elements of common grounds have emerged on which OECD and LAC countries may continue to work together in the future to promote, according to national circumstances, dynamic and resilient social protection and labour market systems.

Key insights from the chapter and potential areas for furthering policy dialogue between OECD and LAC countries are outlined below:

i. ***LAC needs a systemic, whole of government approach to support inclusive social protection.*** Growing public social security spending in many LAC countries since the turn of the century has been essential to reduce the vulnerability to poverty and economic shocks of a larger share of the region's population. In perspective, a comprehensive growth strategy will be needed to create the extra "fiscal space" necessary to make such growing spending affordable over the longer term. To this end, the focus on tackling informality and on broadening the tax basis will be a key to underpin the broad policies for boosting inclusive growth set out in Chapter 1.

ii. ***Reforms for expanding coverage and reinforcing adequacy of pension entitlements.*** Many LAC countries have pursued efforts for promoting the implementation of better national combinations between contributory and non-contributory pension schemes. A balanced approach is essential to ensure that poverty in old age is effectively reduced, but also for helping all aged individuals to maintain their standards of living. This challenge is particularly important in light of the concerns in many LAC countries for the vulnerability of those who recently joined the middle-class. The practices that a number of OECD countries have already put in place to address similar concerns could be useful to support thinking on the main challenges facing the design and delivery of such a balanced approach.

iii. ***In order to move towards universal coverage, it is crucial to make further inroads into curbing informality.*** This should involve a range of incentive measures for workers to seek formal-sector jobs, decreasing the costs of formalisation for employers and improving enforcement methods and measures. Additional policy options include more decisive actions on the supply side. For example, this can reflect the provision of and access to more and better skills for all workers, themselves backed by business-friendly policies to reduce administrative barriers to the launch of new entrepreneurial activities.

iv. ***Harnessing the opportunities provided by the growing role of ICT.*** Digitalisation is creating new opportunities for workers and communities in OECD and LAC countries alike. Both OECD and LAC countries increasingly use innovative ICT solutions and applications to monitor the effectiveness of social protection programmes and to speed-up administrative processes. At the same time, technology tools play a growing role to support the extension of coverage, to boost the quality of social services, while also securing the adoption of more personalised systems of delivery. This helps to limit duplication of services and risks to abuse the system. By facilitating the implementation of unique registries, they contribute to reduce the fragmentation of social protection systems, which is a broader challenge in the LAC countries.

v. ***Protecting workers against the risk of slipping through the social protection net.*** However, digitalization also raises concerns associated to the growing number of individuals who, as workers have a job in declining activities and occupations. Rather than "massive technological unemployment", countries may end up facing higher disparities in the labour market, which could feed into already high inequalities in income and the quality of available jobs.

vi. ***The growing importance of the platform economy, which is largely based on non-standard work arrangements and independent work, is not the only dynamic to pose challenges.*** In OECD countries it adds to pre-existing concerns about access to quality social protection for non-standard workers, which stem from the increasing number of workers who only work occasionally and/or have multiple jobs and income sources, with no statutory working hours or minimum wages. Difficulties are not exactly the same in LAC countries, though they are further magnified by the fact that many more workers do not even have worker status, given that their jobs are in the informal sector.

vii. ***Addressing risks of stronger labour market and income inequalities.*** The OECD countries may have lessons to draw from their experiences on the policies to broaden the expansion and adequacy of social protection programmes keeping a focus on the most vulnerable and least represented groups. Another area concerns the need to adjust skills policies to develop the right competencies, for those in education, but also for giving opportunities to those already in the labour market to upgrade their competencies. Building on their experiences with CCT programmes, LAC countries might be better placed to provide a very timely contribution to the current debate about the design of the policies that aim to link entitlement rights to individuals, rather than their job history. Through sharing lessons and taking the most out of their respective comparative advantages, OECD and LAC countries can help each other to skip entire steps in the process to respond to new challenges.

viii. ***Importantly, governments face two broad sets of skills challenges.*** First, they need to ensure that young people are equipped with the right type of skills to successfully orient themselves in an ever-changing, technology-rich work environment. This will require high-quality initial education and training, but also good skills assessment and anticipation systems, the right types of incentives for individuals to invest in those skills most needed in the labour market, and the provision of effective, up-to-date and tailored information, advice and guidance. Second, the employability of the workforce that has already left initial education must also be addressed. To help adult individuals adapt to changing labour market needs, it will be important for governments to design *high-quality lifelong learning systems* which will permit these workers to regularly update, upgrade, and sometimes even acquire completely new skills.

ix. ***Ensuring that women can reach their full potential in society and in labour markets.*** Women in LAC face persistent barriers to full and equal participation in society and the economy, including inequality in unpaid care commitments and pervasive gender stereotypes. Governments are not doing enough to level the playing field and should recommit to strengthening supports for early childhood education and care; increasing fathers' leave-taking when children are born; and – through a variety of measures – changing norms around the gendered distribution of paid and unpaid work. Tackling discriminatory norms, attitudes and practices through, for example, gender awareness, training, media programmes, and the endorsement of girls' education by community leaders is a key. Incentives to delay early marriage and curb teenage pregnancies are also critical to keeping adolescent girls in school.

Box 5. OECD work on social protection

The *OECD Employment Labour and Social Affairs Directorate* (ELSA) leads the Organisation's work on employment, social policies, international migration and health. As part of these activities, it regularly advises national and international institutions on countries' social situation and greatest social challenges based on latest data and policy recommendations. The Directorate's work is overseen by the Employment, Labour and Social Affairs Committee (ELSAC). Examples of key ELSA activities on social protection include:

The biennial OECD report *Pensions at a Glance* (http://oe.cd/pag) provides a range of indicators to compare pension policies and their outcomes between OECD countries and (where possible) between the other major economies that are members of the G20. The forthcoming 2017 edition will feature special chapters on latest pension reforms and examine policy measures related to flexible retirement. The 2015 edition provided deeper analysis of the role of first-tier pensions, the impact of short and interrupted careers and the sensitivity of future replacement rates to parametric pension reforms. In 2014, the OECD together with the Inter-American Development Bank and The World Bank published *Pensions at a Glance in Latin America and the Caribbean* (LAC). This report looked at trends in retirement and working at older ages, evolving life expectancy, design of pension systems, and pension entitlements before providing a series of country profiles. A special chapter analysed the coverage and adequacy of LAC pension systems.

The biennial OECD publication *Society at a Glance* (http://oe.cd/sag) addresses the growing demand for quantitative evidence on social well-being and its trends. It covers 25 indicators on demographic, labour market, education, social protection, health and social cohesion issues. The report includes data for the 35 OECD member countries and where available data for key partners (Brazil, China, India, Indonesia, Russia and South Africa); other G20 countries (Argentina and Saudi Arabia) are also included. The latest 2016 edition featured a special chapter on challenges to engage the young NEET (Not in Employment, Education or Training) population and provided policy recommendations for the integration of jobless and disengaged youth.

The *OECD Social Expenditure Database* (http://oe.cd/socx) has been developed in order to serve a growing need for indicators of social policy. It includes internationally comparable statistics on public and (mandatory and voluntary) private social expenditure at programme level as well as net social spending indicators. SOCX provides policy makers with a unique tool for monitoring trends in aggregate social expenditure and analysing changes in its composition along the following policy areas: old age, survivors, incapacity-related benefits, health, family, active labour market programmes, unemployment, housing and other social policy areas. It currently covers 35 OECD countries for the period 1980-2013/14 and estimates for 2014-2016; it also provides estimates for key partners.

The *OECD Social Benefit Recipients Database* (http://oe.cd/socr) responds to renewed and growing attention to social protection coverage following the global Social Protection Floor initiative, governments' efforts to implement and monitor the Sustainable Development Goals (SDGs), and the additional demands on social protection systems in the context of automation and the Future of Work. The database presents, for the first time, comparable information on the number of people receiving cash benefits. It includes data for the main income replacement programmes in the unemployment, social assistance, disability and old-age branches and currently covers most OECD and EU countries.

The *OECD tax and benefit policy indicators and associated policy assessment tools* (http://www.oecd.org/social/benefits-and-wages.htm) provide in-depth information on key parameters of redistribution policies and their consequences at the individual and family level. Results are used to monitor income adequacy and benefit generosity for working-age people and their families over time and across countries. They also show how much families gain from employment (work "incentives"), accounting for benefits, taxes and other work-related costs, such as for childcare. The indicators and models are updated annually, with historical series going back to the early 2000s. The OECD also uses the policy assessment tools to assess the concrete consequences of reform options on family incomes.

The *Faces of Joblessness* initiative (http://www.oecd.org/social/faces-of-joblessness.htm) sheds light on the barriers that individuals face in securing good-quality jobs. The main objective is to assist policymakers in designing, tailoring and targeting social, activation and employment-support policies. This helps, for instance, to avoid targeting costly training programmes on individuals whose main employment barriers are care responsibilities or financial disincentives, which training does not solve. The project uses novel methods for identifying groups of people with no or weak labour-market attachment, as well as their employment barriers.

The OECD has contributed to the international income inequality agenda a series of publications since the late 2000s, such as *In It together: Why Less inequality Benefits All. T*he OECD *Better Life Initiative* has led to a better understanding of what drives well-being of people and nations. With the *All on Board for Inclusive Growth* initiative launched in 2012, the OECD has developed a comprehensive framework to help countries design and implement multidimensional policies that can deliver stronger growth and greater inclusiveness. The recent publication *Inequality Patterns in Selected Emerging Countries* is a step forward in this stream of contributions.

The OECD has long championed the gender equality cause. In 2010, building on its extensive work, the OECD launched the *OECD Gender Initiative* to examine the obstacles to gender equality in the fields of education, employment and entrepreneurship. This work led to the flagship 2012 publication *Closing the Gender Gap: Act Now!* and an extensive work stream assessing policies to promote gender equality in different countries, including Mexico, for example. These country reviews have informed novel policy initiatives like *Niña STEM PUEDEN*, which the OECD and the Mexican Ministry of Education jointly launched. The OECD's online *Gender Data Portal* has become a leading global source for statistical indicators on female education, employment, entrepreneurship, political participation, and social and economic outcomes. The new report, *The Pursuit of Gender Equality: An Uphill Battle*, represents the OECD's stocktaking of how well – or not – countries are doing in implementing policy measures aimed at reaching gender equality goals. As part of this stream of works the report *Gender Equality in the Pacific Alliance: Promoting Women's Economic Empowerment* provides an assessment of gender inequalities in labour force participation, education, entrepreneurship and unremunerated work in Pacific Alliance countries (Chile, Colombia, Mexico and Peru), relative to non-Latin American OECD countries.

As part of its outreach, the OECD also regularly partners with the Asian Development Bank (ADB), the International Labour Organization (ILO) and the OECD/Korea policy centre on developing comparable social expenditure statistics in several Asian countries. For example, the new report on a *Decade of Social Protection in Selected Asian Countries*, jointly produced by the OECD, the ADB and the ILO and promoted by the OECD/Korea Policy Centre, looks back at a decade of change in social expenditures and social policy development in the region. OECD's collaborative regional activities also extend to gender inequality with the report *Strengthening Women's Entrepreneurship in ASEAN, Towards Increasing Women's Participation in Economic Activity*, developed in partnership with ASEAN, providing a comprehensive policy discussion of labour market participation of women and women's entrepreneurship in Southeast Asia.

The OECD Development Centre has a series of OECD *Social Protection System Reviews* (http://oe.cd/sps). They provide country-specific, holistic diagnoses of a country's social protection system to inform the national policy dialogue and reform proposals. They are articulated around five dimensions: (i) need – providing a forward-looking analysis of risks and vulnerabilities across the life-cycle; (ii) coverage – identifying existing social protection schemes and gaps; (iii) effectiveness – examining the adequacy, equity and efficiency of existing instruments; (iv) sustainability – analysing fiscal policy and financing; and (v) coherence – assessing institutions, policy processes and alignment with other policies. Reviews are forthcoming for Cambodia, Indonesia and Kyrgyzstan. In parallel, the Development Centre has also developed a tool using survey data to uncover the channels through which – and the extent to which – social protection investments contribute to growth and inequality reduction in a given country context. This work is currently being implemented for Brazil, Germany, Ghana, and Indonesia.

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ENHANCING SOCIAL INCLUSION IN LATIN AMERICA

KEY ISSUES AND THE ROLE OF SOCIAL PROTECTION SYSTEMS

This publication was developed by the OECD to support discussions during the OECD Latin America and the Caribbean Regional Programme's Ministerial Meeting entitled "Towards Inclusive Social Protection Systems in Latin America and the Caribbean", which took place on November 16, 2017 in Asuncion, Paraguay.

This report gives an overview of the state of social inclusion in LAC countries, highlighting the forces – both internal and external – that contribute to the persistence of inequalities in such a heterogeneous region. By recognising the deficiencies in regional redistributive systems and the perniciousness of the informality trap, the report stresses the importance of building an integrated, multisectoral approach to inclusive growth based on sustainable and well-designed social protection systems that enable all individuals and groups to fulfil their aspirations. It informs policy makers on the challenges and opportunities brought about by Information and Communication Technologies (ICT) and shares best practices on how to make social protection systems "future proof".

Launched at the OECD's 2016 Ministerial Council Meeting by OECD Secretary General Angel Gurría and the presidents of Chile and Peru, together with Ministers and representatives from 20 LAC countries, the OECD LAC Regional Programme (LACRP) aims to support the region in advancing its reform agenda along three key priorities: increasing productivity, advancing social inclusion, and strengthening institutions and governance. For each of these priorities, the Programme – in partnership with regional international organisations – works to deliver greater availability of comparable statistics; preparation of policy assessments; policy dialogue at a high and technical level; and support for implementation with policy advice tailored to specific needs of countries or sub-regional contexts. Within this comprehensive framework, the LACRP aims at bringing the views, experiences and perspectives of LAC countries into its work.

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