

# Aspects of Chilean and Peruvian safety nets

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This **One Pager** aims to synthesise the broader findings of a larger working paper (Arruda et al. 2016) regarding the social policies and programmes of Chile and Peru. The social protection networks of these countries are largely the outcome of responsive actions determined by their socio-political and economic contexts.

Both countries hold constant surveys to monitor prices, and their domestic poverty and extreme poverty thresholds are defined accordingly. They also feature national household surveys that, among other things, enable the authorities to estimate the incidence of poverty. Both feature targeting instruments that prioritise the most vulnerable households for social policies and programmes. The Chilean targeting instrument—the *Fichas de Protección Social* (FPS)—derives from a previous instrument dating back to 1979, and thus allows for broader coverage and a more accurate protocol for validating data than the Peruvian one, which is as recent as 2007.

Regarding health, educational and social security policies and programmes, the two countries face different challenges as a result of their past history. In Chile, services were largely privatised during the Pinochet years, but following the re-democratisation of the country, the limitations of this model were made clear in terms of the lack of coverage, the excessive burden on the poorest families, and resulting inequalities. In Peru, these services were historically made universal and public, though serious quality bottlenecks and a scarcity of resources have led the government to seek supplementation from private institutions, as well as to tailor distinct contributory schemes and benefits to different population groups.

Chile's health care system, which until 1973 was public and universal, was privatised, resulting in increased health insurance costs and less coverage. The educational system transferred responsibilities to the sub-national government and also became very dependent on public-private partnerships, whereas social security was fully privatised (except for the remaining beneficiaries of the old pension system). With the re-democratisation, however, a minimum set of guarantees was required by health insurance policies, a limit was enforced on beneficiary contributions, and a non-contributory health care system was created for the poorest people.

Funding for education started benefiting schools with a higher number of students below a given threshold of vulnerability (mostly public schools), and additional programmes—such as *Chile Cresce Contigo*—were established to provide income benefits, priority health, education and psychosocial care for the poorest children and their families. In addition, the budget for the Chilean school feeding programme increased significantly; generally, these initiatives operate in tandem so that vulnerable families gain access to services they cannot afford and to other available programmes and initiatives. The country's social security system began to incorporate semi-contributory and non-contributory components, as well as taking steps to assure basic benefits even for those who were unable to contribute regularly.

Peru's public health care system has traditionally suffered from serious quality and financial bottlenecks, leading the government to split the system in two (contributory and non-contributory) in 2009, in addition to stimulating the private sector. This duplicity is often criticised as, historically, beneficiaries of one system cannot be serviced by hospitals funded by the other. Recent efforts that include clearer paths for one fund to refund the other for services provided have been made with the aim of alleviating user restrictions.

The supply of public education in Peru, despite representing the government's second largest social expenditure, is still below Latin American average, and should be expanded and better managed to achieve better quality and coverage. However, the recent national roll-out of the *Qali Warma* school feeding programme indicates that the central government realises it can play an active role in improving the situation.

Both countries' social security systems have become multi-pillared. The Peruvian trajectory was very different from the Chilean one, as the expansion of private pension funds was stimulated in Peru as a strategy to alleviate—not terminate—the publicly provided 'pay-as-you-go' (PAYGO) system. More recently, Peru has also launched important non-contributory and semi-contributory pension systems that try to cover people who are served by neither the public PAYGO nor the private individual capitalisation schemes. A lesson to be learned from Peru pertains to the inertial burdens that early pension systems lacking progressivity and fiscal sustainability can cause to the State. Even today, the country has to incur extremely heavy public expenditures to maintain contributory systems for the higher echelons of the army and public bureaucrats, which is neither progressive nor financially sustainable.

Both countries feature conditional cash transfer (CCT) programmes for people living below poverty thresholds. Chile's traditional CCT—*Chile Solidario*—is gradually giving way to *Ingreso Ético Familiar*—which intensifies the focus on psychosocial care to protect elderly people and promote participation in the labour market. It pays larger cash benefits while also ensuring that a portion of the payments reaches beneficiaries without conditionalities; there is also a sum that is paid as a premium bonus for specific achievements (e.g. women finding employment, students performing the best in their class etc.).

In closing, both countries have comprehensive safety nets providing relevant services in core areas such as health, education, social security, income security and social assistance. These services are set to operate progressively, based on objective criteria based on national poverty thresholds, which are monitored by robust surveys. Some of Peru's main challenges pertain to supply gaps and fiscal constraints, as well as to reducing overlaps in certain areas (e.g. health services and social security), whereas Chile seems to be pressed by the need to further expand the role of the State in certain areas such as education and social security.

#### Reference:

de Arruda, Pedro Lara et al. 2016. "Overview of Chilean and Peruvian social policies: impressions from a study tour." IPC-IG Working Paper No. 148. Brasília: International Policy Centre for Inclusive Growth.