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Crisis country case study

Southern Cone Countries

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The report was prepared by Raul Julian Ruggia Frick.

Ian Orton was responsible for the project management.

The International Social Security Association (ISSA) is the world's leading international organization bringing together national social security administrations and agencies. The ISSA provides information, research, expert advice and platforms for members to build and promote dynamic social security systems and policy worldwide.

The Crisis Country Case Studies are an integral part of the ISSA project to monitor and analyse the impact of the global financial and economic crisis on social security. These studies are based on data and research carried out between June 2009 and the first part of 2010. While every effort has been taken to ensure that the case studies are accurate, the situation in each country is constantly evolving.

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ISSA crisis case study: Southern Cone countries

Summary

The Southern Cone countries, Argentina, Chile and Uruguay, possess relatively well developed social security systems, which include contributory retirement schemes, unemployment benefits, as well as social assistance programmes.

The crisis increased unemployment in the three countries by about 0.7 per cent (Q2 2009) and seriously affected the performance of pension funds in Chile and Uruguay (about -20 per cent of real profitability in 2008). However, it is clear that specific measures softened the impact of the crisis in the three countries. Notably, the social safety net that was already in place was crucial as it permitted the implementation of further social assistance and employment promotion measures.

Nevertheless, at the time of writing it is premature to make final evaluations of the impact of the global crisis in Argentina, Chile and Uruguay. While the three countries seemed to have overcome the effects of the crisis in 2008, in 2009 they suffered a significant decline in their Gross Domestic Product (GDP) and other delayed impacts may appear as a consequence of diminishing trade.

Social security institutions covered

- **Argentina**
  - National Social Security Administration (*Administración Nacional de la Seguridad Social (ANSES)).*
  - Social Fund for Commercial Travellers of the Republic of Argentina *(Obra Social de Viajantes Vendedores de la República Argentina (OSVVRA)).*

- **Chile**
  - Superintendency of Social Security *(Superintendencia de Seguridad Social (SUSESO)).*

- **Uruguay**
  - Social Insurance Bank (*Banco de Previsión Social (BPS)).*
  - Pension Funds Management Company *(República (AFAP S.A.)).*

Overview of the social security system

Social security systems in Argentina, Chile and Uruguay include the standard social programmes: old age, disability, survivors, sickness, maternity, work injury, unemployment and family allowances (International Social Security Association (ISSA), 2009a).

With regard to the retirement schemes, the three countries naturally have both similarities and differences. Argentina complemented its social insurance scheme in 1994 with an individual account system. In 2008, Argentina unified the system under a social insuranceonly regime again, and eliminated the funded segment managed by private/public companies (AFJPs). The pension funds are now administered by ANSES.

Chile introduced an individual account system in 1981 substituting it for the social insurance scheme. In 2008, Chile reinforced its social assistance scheme, thereby reinforcing the integration of programmes.

Uruguay launched a mixed system in 1995, by complementing its social insurance scheme with an individual account scheme, which is mandatory for dependent workers earning more than a minimum salary (ISSA, 2009a).

Over recent years, social security programmes in the three countries have played a significant role in facing both the local and regional crises, in reducing poverty and enhancing social cohesion in the three countries. While Argentina and Uruguay had to contend with a severe crisis in 2002, Chile has had to deal with relatively high poverty rates. These circumstances have led the countries to start large social programmes during the period 2005-08.

Impact of the crisis

The economy and the labour force

According to the United Nations (UN)'s Economic Commission for Latin America and the Caribbean (ECLAC) and the International Labour Organization (ECLAC/ILO, 2009), during the international crisis Argentina, Chile and Uruguay experienced a decline in the employment rate. This was a result of weak demand for labour and reflected a decrease in overall global economic activity. Table 1 shows the annual decline in the employment rate for the fourth quarter of 2008 to the second quarter of 2009. In Uruguay, even if indicators do not show a drastic rise in unemployment, the quantity of workers covered by the unemployment insurance increased significantly (17,466 in 2006; 19,618 in 2007; and 23,078 in 2008) (BPS). Clearly, the crisis increased the urban unemployment rate across the three countries during the time period covered by around 0.8 percent.

Table 1. ***The Southern Cone countries: Urban employment and unemployment rates, seasonally adjusted for the fourth quarter of 2008 to second quarter of 2009***

	Urban employment rate			Urban unemployment rate		
	Q4-2008	Q1-2009	Q2-2009	Q4-2008	Q1-2009	Q2-2009
Argentina	54.7%	54.8%	53.5%	7.9%	7.9%	8.7%
Chile	51.7%	50.7%	50.4%	7.9%	9.1%	9.8%
Uruguay	58.9%	58.5%	57.6%	7.5%	7.6%	8.2%

Source: ECLAC/ILO (2009)

Investment performance

Investment performance was affected by the crisis. According to the International Association of Fund Supervision Institutions (AIOSFP), the profitability of pension funds plummeted. Although funds were mainly based on national government financial instruments, the preference of international investors presiding over funds in developed countries generated a capital flight from the public bonds of developing countries. This resulted in a fall in the profitability of the pension fund especially in 2007-08 (ISSA, 2009b).

Table 2. ***Real profitability (rentabilidad real) of pension funds***

Country	June 2005-July 2006	Dec 2005-Dec 2006	June 2006-July 2007	Dec 2006-Dec 2007	June 2007-July 2008	Dec 2007-Dec 2008	June 2008-July 2009
Argentina	8.7%	14.0%	18.5%	2.2%	-8.7%	(*)	(*)
Chile	2.7%	15.8%	20.8%	5.0%	-5.0%	-18.9%	-6.6%
Uruguay	7.4%	9.5%	8.5%	0.5%	-4.6%	-21.5%	-0.3%

(*) Since October 2008, Argentinian pension funds were discontinued.
Source: AIOSFP.

In Uruguay, the strong fall in the Uruguayan public bonds, which represent practically 90 per cent of the funds' portfolio, severely affected the profitability of pension funds (ISSA, 2009b).

Administrative capacity

In response to the crisis all three countries reinforced their administrative capacity and implemented several new social programmes.

Between 2005 and 2006, Argentina and Uruguay strengthened their financial systems and their social security capacity as a response to the regional crisis of 2002. These countries took advantage of economic growth during 2005-07 to implement such measures. As a consequence, in 2008 the countries were prepared to face the new global crisis. However, these measures have accounted for an increase in government expenditures. This is illustrated well by Table 3 which shows the rising central government capital expenditures in 2008-09. Although greater government expenditure permitted a strengthening of social programmes and improved administrative capacity, it also may imply an increased burden that compromises the development of new programmes in the future, especially in the context of low economic growth (International Monetary Fund (IMF) 2009, 2010).

Table 3. ***Central government capital expenditure, first half of 2008 and 2009 (percentage of GDP)***

Country	1st half of 2008	1st half of 2009 (estimate)	Real year-on-year 1st half of 2008 1st half of 2009
Argentina	2.0	3.0	54.3
Chile	3.4	4.6	31.4
Uruguay	1.6	2.4	50.9

Source: ECLAC/ILO (2009).

Responses to the crisis

The three countries implemented a wide variety of measures to address the effects of the global crisis.

Pension scheme sustainability

With regard to pension funds, Chile and Uruguay kept their two-pillar schemes. In spite of the fall in profitability, fund managers did not see this fall as extreme and remained confident that they would recover their former profitability rates. Pension funds have long-term investments and unrealized losses generated by the crisis invariably do not affect historical levels of profitability (ISSA, 2009b). As a consequence of the crisis, fund administrators in Chile and Uruguay started to identify ways in which fund management could be improved. While Chilean institutions focused on risk management through "multifunds" with different risk-return profiles, Uruguayan organizations have addressed the portfolio composition issues and are looking for new investment alternatives, such as AAA-rated bonds (ISSA, 2009b).

In addition, Chile carried out a social security reform (*Reforma Previsional*) in July 2008, revamping the social pension and reinforcing the mixed system. This pension programme delivers social protection for retired people with low incomes. Beneficiaries of this scheme belong to the poorest 40 per cent of families in the country, and it is hoped that the coverage can be extended progressively to cover 60 per cent of the population over the next four years (ECLAC, 2009; ISSA, 2009b).

The most drastic measures were carried out in Argentina, where the system was unified again under a state-run social insurance regime and the funded segment managed by the private Retirement and Pension Fund Administrators (AFJPs) was discontinued. The assets administered by the AFJPs, which represented approximately 10 per cent of GDP, were transferred to the public sector and were used as initial funding for the newly created National Reserve Fund. The flow of contributions, which were formerly allocated to individual accounts managed by the AFJPs and represented about 1.5 per cent of the GDP, were also transferred to the National Social Security Administration (ANSES) which is now charged with the responsibility of administering it (ECLAC, 2009; ISSA, 2009b).

Activation of the economy

With reference to the economic and financial strategies that were employed, the three countries implemented different measures to protect the national economies from the effects of the global crisis. The principal measures consisted of liquidity injections into national currencies and austerity measures in the area of operative expenditures. The intention was to generate more fiscal space for manoeuvre in order to be able to implement emergency measures (ECLAC, 2009; ISSA, 2009b). As the global crisis mainly affected exports, the three countries implemented measures to promote trade, support competitiveness and assist the most hard-hit sectors in order to promote the retention of employment (ECLAC, 2009; ISSA, 2009b).

The general measures that were taken consisted of a temporary reduction in tax and social security contributions. Argentina carried out specific programmes aimed at maintaining employment levels and the employment relationship: the Crisis Prevention Procedures (*Procedimiento Preventivo de Crisis (PPC))* and the Production Recovery Programme (*Programa de Recuperación Productiva (REPRO))*. The PPC was a space for negotiation and agreement between employers and employees and it was assisted by government mediation. This space enabled the development of alternative measures to reduce working hours instead of losing jobs. In turn, the REPRO provided an economic benefit of about US-dollar (USD)150 over twelve months to employees working in enterprises affected by the crisis. The number of beneficiaries of the REPRO increased from 22,846 workers in 2008 to 139,034 in 2009 (ECLAC, 2009; ILO, 2010; ISSA, 2009b).

Expansion of social assistance and activation programmes

In addressing labour market difficulties, the three countries developed comprehensive packages, which linked employment protection to social protection measures. These are discussed below.

Argentina

Argentina implemented several programmes aimed at improving employability. The "Plan of Public Works for all Argentinians" provided an increase in resources for infrastructure works. The 2009 budget estimated outlays of USD8.5 billion, to which an additional USD6.2 billion have been added. In addition, the National Strategic Investment Plan for Development intends to promote labour-intensive small- and medium-scale public works by classifying the projects and adjusting the management practices to include a large number of workers (ECLAC/ILO, 2009). Another programme, "Youth with More and Better Work" (*Programa Jóvenes con Más y Mejor Trabajo*) targeted the employment of the 18-24-year-old population by assisting beneficiaries to finish mandatory schooling, gain skills through internships and find productive work (ECLAC, 2009; ILO, 2010; *Ministerio de Desarrollo Social, Argentina*). With regard to social assistance, the programme for "Universal Grants per Child" *(Asignación Universal por Hijo para Protección Social)* awards about USD43 per child (up to five) of parents who are unemployed or earning less than USD445.

Chile

In January 2009, a new law was approved that was tasked with improving unemployment insurance *(Seguro de Cesantía)* to facilitate better access for those workers with long-term and fixed-term contracts (ECLAC/ILO, 2009; SUSESO).

In addition, specific measures are being implemented to support unemployed workers in two ways: (i) to assist the employee to obtain unemployment compensation, and (ii) to improve the emergency employment programmes *(Programas de Empleo de Emergencia)* through different public institutions. Moreover, regionally oriented measures have been implemented as part of the contingency programme against unemployment *(Programa de Contingencia contra el Desempleo),* so that when the unemployment rate exceeds 10 per cent in a region, this programme automatically assigns resources to fund employment measures (ECLAC/ILO, 2009; SUSESO).

In addition, a number of social protection measures have been delivered under the umbrella of the Social Protection Network (*Red de Protección Social).* This network facilitates access to various social benefits provided by different ministries such as grants per child, education scholarships, unemployment subsidies, subsidies for youth employment, and old-age social assistance pensions *(Red de Protección Social).*

Uruguay

Uruguay launched a crisis response strategy that it referred to as an Equity Plan. This included an employment insertion package, "Working Uruguay" *(Uruguay Trabaja),* which combines family benefits and old-age non-contributory benefits. The main goal of Working Uruguay is to promote the employment of the long-term unemployed who come from low-income households. The programme provides eight months' economic benefit of about USD240 to those working on developing activities that are of value to the local community, such as public works and social care (ECLAC/ILO, 2009; *Uruguay Trabaja).*

On the 1 July 2008 the “Employment Target Programme” *(Programa Objetivo Empleo (O.E.))* was launched to stimulate enterprises to contract long-term unemployed workers. The benefits to enterprises participating in the programme consisted of a credit to pay social security contributions, while workers received training and an employment assessment which assisted their employment search (*Análisis y beneficios del Programa “Objetivo Empleo*” del *MTSS).* Moreover, the National Board for Employment *(Junta Nacional de Empleo (JUNAE))* made available an additional fund of USD5 million for training activities on developing industry-relevant skills and thereby supporting the reinsertion of workers into the labour market (ISSA, 2009a; *Junta Nacional de Empleo* (MTSS, Uruguay)).

It is important to note that these measures were implemented through strong multi-institutional coordination. The Ministry of Labour and Social Security *(Ministerio de Trabajo y Seguridad Social (MTSS))* played a key role in employment and labour policies. The Social Development Ministry *(Ministerio de Desarrollo Social (MIDES))* developed the Equity Plan *(Plan de Equidad)* and other social assistance policies. The Social Insurance Bank (BPS) carried out most of the programme implementation. Such cross-ministry coordination contributed to the quality of the programmes by covering a larger population and enabling a faster delivery of benefits.

Social safety net strategy

Although most of the social programmes developed in Argentina, Chile and Uruguay were implemented prior to 2008 in order to strengthen social security systems and to address previous crises, they proved to be very useful as a means to deal with the 2007-10 crisis. These programmes enabled the quick implementation of practical measures of social protection and employment promotion. Moreover, the development of such large-scale and multi-institutional programmes reinforced the overall administrative capacity of the countries and their subsequent ability to contend with the crisis.

Lessons learned

Whilst at the time of writing the global crisis continues to affect the region, several lessons can be indentified. The fall in the value of the pension funds highlighted the necessity of reinforcing management practices as well as implementing risk-based supervision systems. In general, the crisis illustrated that diversified and multi-pillar pension models are more robust at facing these kinds of situations. The measures taken to improve pension fund management have thus far delivered positive results.

The implementation of comprehensive social safety nets has proven to be fundamental in attenuating the effects of the crisis, especially with regard to containing growing poverty and promoting employment. Furthermore, the already well-developed administrative capacity enabled the quick implementation of these social policies over a short space of time. In the three countries, the coordination between several social institutions was a key factor in the development of nationwide measures. The countries’ statistics show relevant reductions in poverty indicators in Uruguay *(Instituto Nacional de Estadística (INE)) and Argentina (Instituto Nacional de Estadística (INDEC))* during the years following the crisis of 2002. Although this trend slowed during 2008 and 2009 and reduction is not homogeneous across regions and demographic groups, the statistics do not show a global increase of poverty in these countries.

Conclusion

It would be premature to make a final evaluation of the impact of the global crisis on the social security systems of Argentina, Chile and Uruguay. More time is required to carry out a truly comprehensive assessment. However, while the three countries seem to have overcome the effects of the crisis in 2008, in 2009 they suffered a significant decline in their GDP. In the near future, they are expected to experience more modest GDP growth than that which they experienced prior to the recent crisis, as shown in predictions by the IMF (see Table 4). In addition, other late impacts may appear as a consequence of the decrease in trade, mainly with the USA and the European Union. Thus the fallout from the recent crisis is likely to continue to pose challenges for the social security systems operating in these countries.

Table 4. ***Emerging and developing economies, by country: Real GDP* (annual percentage change)***

	Average 1991-2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2014
Argentina	4.2	-4.4	-10.9	8.8	9.0	9.2	8.5	8.7	6.8	-2.5	1.5	3.0
Chile	6.5	3.5	2.2	4.0	6.0	5.6	4.6	4.7	3.2	-1.7	4.0	5.4
Uruguay	2.9	-3.5	-7.1	2.3	4.6	6.8	4.6	7.6	8.9	0.6	3.5	3.9

* Private analysts are of the view that real GDP growth has been lower than the official reports since the last quarter of 2008.

Source: IMF (2009, 2010).

Nevertheless, the three countries maintained a close watch on the evolution of this crisis and implemented specific measures to address its various effects, which enabled them to soften the overall impacts. In addition, the social safety net that was already in place was crucial as it permitted the implementation of further social assistance and employment promotion measures.

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4 route des Morillons
Case postale 1
CH-1211 Geneva 22

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