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Welfare Regimes in El Salvador, Honduras, and Guatemala: Exclusionary and Inadequate

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GOVERNANCE AND SECURITY

Welfare regimes in El Salvador, Honduras, and Guatemala: Exclusionary and inadequate

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SUMMARY

El Salvador, Guatemala and Honduras, the three countries that make up the Northern Triangle of Central America (NTCA), are known for exclusionary and inadequate welfare regimes that promote the emigration of their citizens. All three countries are characterized by poverty and inequality, especially in rural areas. Honduras, in particular, lags behind due to multiple levels of structural inequality. For a portion of the NTCA population, family remittances are a significant factor in their economic activity. Families receiving remittance assistance mostly use the funds for household expenses and healthcare. This policy brief demonstrates the principle characteristics of social expenditures in education, healthcare and social protection in these three countries. Although the budget for education is the highest, high dropout rates and limited access to K-12 schools, trade schools and universities are challenges that must be dealt with across the NTCA region. This paper concludes with a number of public policy proposals aimed at improving the welfare regimes of the Northern Triangle countries, so that citizens will not have to resort to migration as a solution to the precariousness or absence of education, health, employment, and social protection. The implementation of the proposed policies would also respond to the circumstances of returning migrants, so that they might encounter a context distinct from the one that inspired the decision to leave in the first place.

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We understand welfare regimes to include the various ways in which support is distributed by the State, private enterprise, and families through a repertoire of policies, led by national governments, to ensure a minimum well-being to all citizens. Welfare regimes protect citizens from the risks of unemployment, illness, old age, and motherhood, while providing an adequate accumulation of human capital through investment in health and education. In Latin America, welfare regimes, monetary transfers and social security, are as shown in the following table:

Table 1: Classification of welfare regimes in selected Latin American countries

Welfare Regimes Classification	Countries
Universal Stratified: broad public policies that are segmented according to occupational insertion in the national economy	Uruguay, Chile and Argentina
Dual: a combination of the Universal Stratified system in urban areas and exclusion from that system in rural areas.	Brazil and Mexico
Exclusive Frameworks: weakened States and almost absent public allocation of resources to social services.	El Salvador, Honduras, Nicaragua, Guatemala, Bolivia, Ecuador and the Dominican Republic

Source: Compiled by the authors based on Filgueira[1]

In comparison to other countries in Latin America, the welfare regimes in El Salvador, Honduras and Guatemala are exclusionary. They are characterized by scarce coverage across the population and low financial investment. Such an exclusive framework is the result of the actions taken by an economic elite (with the complicity and mutual benefit of various political actors), who control the mechanisms of the State apparatus, structure the economy around direct exports of raw materials to global markets via enclave economies divorced from local and national markets, and use the fiscal capacity of the State to extract income and assets without providing collective benefits for the general population.

A weakened state: Poverty and inequality

The economic crises at the end of the nineties in many parts of the world led to a reformulation of social policies that included a new focus on social protection for those who faced vulnerability and risk as a result of bankruptcy, poverty and exclusion.

Across the NTCA countries, poverty and inequality need urgent solutions. Honduras represents the most alarming case, and the greatest challenge, since as of 2011 almost 70% of the population was living below the poverty line.

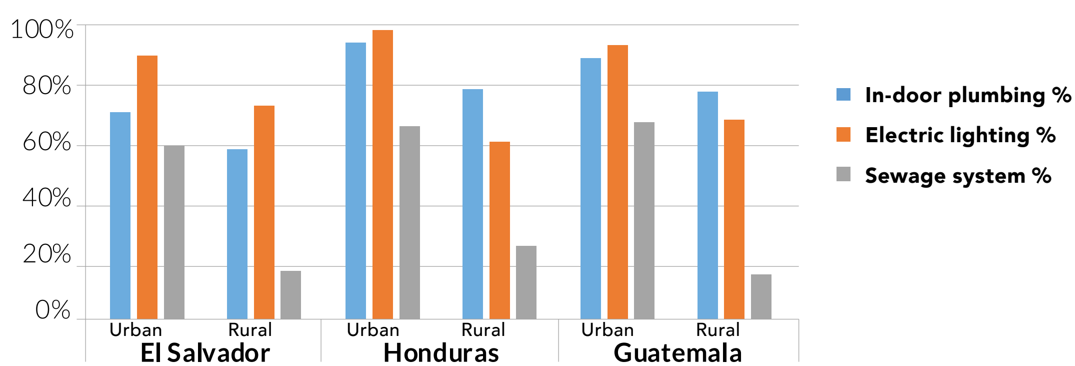
Table 2: Poverty and inequality in Central America (2011)

Country	Poverty % (2011)	Extreme Poverty % (2011)	Human Development Index (HDI) (2013)	Gini coefficient of household income per capita (2011)	Distribution of household income per capita %	
					10% poorest	10% richest
El Salvador	47.5	15.5	0.662	0.424	1.4	36.2
Honduras	67.6	43.9	0.617	0.574	0.6	45.0
Guatemala	53.7	13.3	0.628	0.524	1.1	43.2

Source: PEN,[3] PNUD[4] and The World Bank[5]

Our analysis of the levels of poverty and income inequality in Central America reveals three distinct groupings of countries: Nicaragua and El Salvador with relatively low levels of inequality but notable levels of mid-range poverty; Costa Rica and Panama with low levels of poverty but high levels of inequality; and Honduras, Guatemala and El Salvador (again) with high levels of inequality and lack of development. It is important to note that the levels of inequality in these last three countries—higher in rural areas than urban ones—extend beyond income to include the lack of access to basic services such as infrastructure, housing, healthcare and education (see Figure 1). Inequality and poverty unequivocally contribute to emigration. In 2010, according to data from the United States census, there were 1,650,000 Salvadorans, 633,000 Hondurans and 1,044,000 Guatemalans in the United States.

Figure 1: Availability of basic services in homes, in urban and rural areas, in El Salvador, Honduras and Guatemala (2013)



Source: CEPAL[7]

Production, remittances and employment

According to the Central American Institute of Fiscal Studies (Instituto Centroamericano de Estudios Fiscales -ICEFI), remittances by family members represent an important and growing component of the NTCA economies. In 2014, the nominal growth of family remittances was 6.7% in El Salvador, 8.6% in Guatemala, and 10.8% in Honduras. The currency input via remittances is greater than the contribution of foreign direct investment (FDI). In 2014, for every US dollar of FDI, NTCA economies received $4.67 in family remittances.

Table 3: NTCA family remittances from abroad, foreign direct investment and exports in 2014

Country	Family Remittances		FDI	Exports
	Millions of dollars	% of GDP	% of GDP	% of GDP
El Salvador	4,217.2	16.6%	1.1%	21.0%
Honduras	3,384.0	17.3%	5.8%	20.7%
Guatemala	5,544.1	9.4%	2.4%	18.4%

Source: Central Bank of Honduras, Guatemala Bank, Reserve Bank of El Salvador, International Monetary Fund and Executive Secretary of the Central American Monetary Council.

The contribution via remittances is also comparable to that of exports. Much more than foreign investors, immigrants sustain the external sectors of their countries' economies and cover much of the region's deficit. In 2013, these three countries (El Salvador, Guatemala, Honduras) were among the top ten recipients of remittances sent by groups of immigrants living in the United States. After Mexico, Guatemala is the second largest recipient, El Salvador the fourth, and Honduras the sixth. [10]

Remittances have macroeconomic significance, but above all they contribute to the development of the particular households that receive them. They are used mainly for household expenses (50%: food, clothing, shoes, transportation, durable goods); intermediate consumption (18.4%: products for sale, payments toward the immigrant's debt incurred by travel); investment and savings (20.5%: purchase of property and machinery, construction, insurance and savings); and, in smaller proportions, social investments in education and health (12%). In the end, very little is spent on investments in social and human capital.[11]

The distribution of remittances clearly demonstrates anemic States with little to no allocation of resources, confirming the argument[12] that State control over local economies, as well as the instrumental capacity of the State to execute public policies, has indeed been weakened by neoliberal globalization. Such factors as the trans-nationalization of fundamental economic activities have led to a decline in governmental capacity to ensure the productive base for income generation in their territories. In this case, it is the migrants who are now meeting, to a good degree, the obligations of the State.

Even as national governments have lost the ability to offer stable jobs to their populations, social protection continues to be exclusively tied to formal employment. Consequently, informal work has become the backbone of family strategies to address risks such as illness and old age.

Current policies for job creation have been founded on a paradigmatic policy of attracting investment through the granting of tax concessions. However, studies by the Inter-American Development Bank (IDB)[13] and the Economic Commission for Latin America and the Caribbean (ECLAC)[14] have underlined the need for reorientation by adopting instruments that complement productive development with the ultimate goal of generating positive effects in the local and national economy.

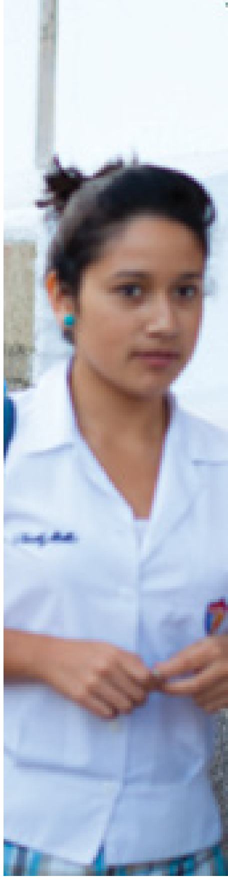
ECLAC warns of the risk of revenue loss from tax exemptions granted to foreign direct investment (FDI), wherein the richest and most dynamic companies pay no taxes and the tax burden becomes regressive. Tax exemptions for FDI carry a high opportunity cost in terms of the investments that the State fails to make due to the lower tax revenues. Exemptions also include the risk that such incentives will only deepen asymmetry among local, national and transnational companies and further degrade the already poor distribution of wealth. FDI and export companies tend to have higher productivity and higher incomes, favoring companies or sectors unlinked to the growth of the rest of the country. For these reasons, it is important to design new incentives to create mechanisms for the promotion of small business development. Thus, the incentives for FDI would be less likely to deepen the divide between companies producing for the external sector and those producing for the domestic market.

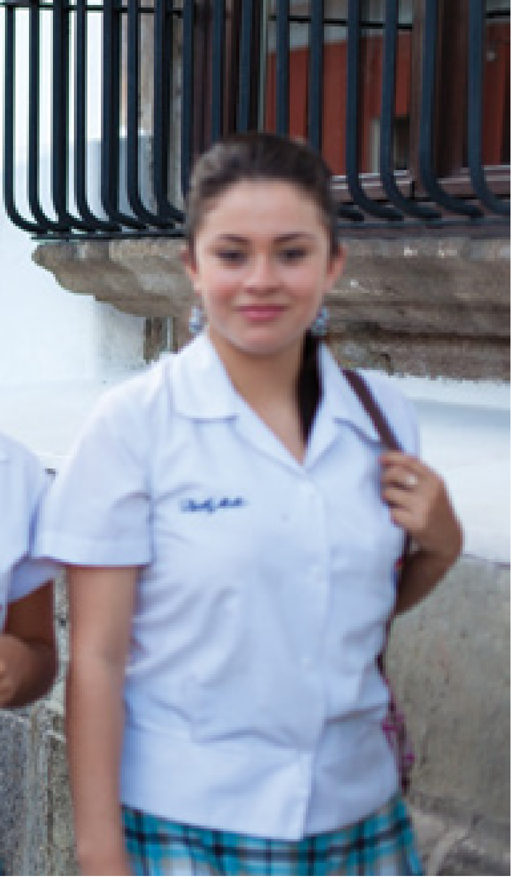
Social spending in the NTCA

One of the determining factors for guaranteeing access and quality in education, health and public aid to the population is by financing public spending, because it allows welfare regimes to address the basic needs, quality of life, and inherent risks faced by the population. Tax revenues can prevent the growth of inequality, but their greatest contribution to equality is through public spending.

Although the percentage of social spending has significantly increased in the last ten years, expenditures still remain low. The largest increase was in Guatemala, rising from 1.5% to 9.8%; followed by Honduras, which grew from 3.1% to 7.9%. In El Salvador the increase was small, increasing from 2.2% to 2.9%.

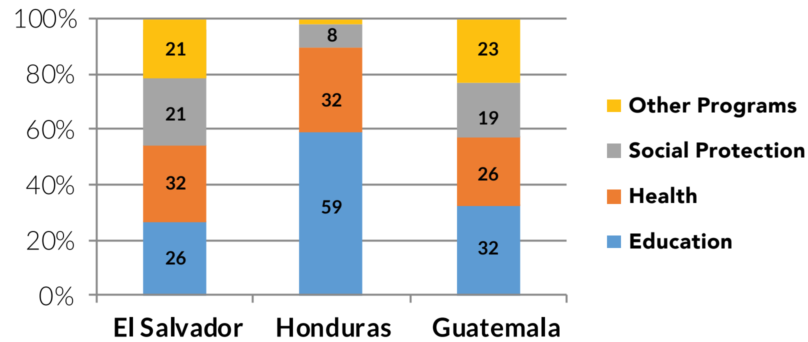
Figure 2 shows the structure of social expenditures for 1) education, including formal education (preschool, grade school, secondary school, university, and job training), as well as scholarship programs that operate independently of the school systems, and 2) health, which includes all levels of care (primary, outpatient and inpatient), and related activities. It is important to highlight that in the case of social security institutions, care for illness and maternity is differentiated from pension systems.[16] Figure 2 also includes 3) social protection, including pensions, retirement and financial assistance programs. Programs or institutions that provide for the protection and development of families and family members (such as girls, chil-





dren and women) also fall under social protection programming. In all three countries the least amount of social spending is designated toward social protection.

Honduras, El Salvador and Guatemala are the three countries in Central America that spend the least on education, health and social protection, and also manifest the most development deficiencies.



Source: ICEFI[17]

Figure 2. Structure of social spending on education, health and social protection (% of average total annual expenditure 2001-2010)

Note: For comparison purposes across countries and throughout the decade, these are per capita measurements in US dollars for the year 2000. The remaining 21% of social spending in El Salvador went to housing; 1% in Honduras to housing; and in Guatemala, 20% to housing as well as 3% to other expenses.

a) Education

Countries such as Brazil, Argentina and Peru have reduced inequality through increased and more effective investment in education. In the Northern Triangle, on the other hand, public spending on education has not led to sufficient improvements in enrollment and quality. Despite the fact that education receives the most public spending in comparison to other areas and should represent one of the principal pathways to reduce poverty and inequality, adequate reform continues to lag behind the urgent need.

The largest percentage of funds is destined for primary school education, neglecting pre-school and continuing grades. For these three countries, access to pre-school education is scarce. The entry level for children from 0 to 4 years old, particularly in the rural areas, does not exist at all. The lack of early education contributes to subsequent early exiters, or students who “drop out” of school, as well as other problems.

In Guatemala, the shortcomings in bilingual education are particularly significant given that more than 40% of the population is indigenous. In regards to secondary and higher education, public spending is geared towards the middle and high-income quintiles (income levels). This results in a scenario where the students who can take advantage of higher levels of schooling are mainly those living in urban areas and those who are not obliged to leave school to seek employment. This situation partly explains the low enrollment of economically disadvantaged youth in secondary and higher education, where the average enrollment in secondary school

In 2012, more than 50% of Salvadoran, Honduran and Guatemalan immigrants living in the United States were older than 25 years old and had not completed high school

during 2000-2013 was 30%, compared to 92% in primary school. These numbers are similar in El Salvador, where an average of 55% attended secondary levels of education, and in Honduras, where 24% attended secondary school while 88% attended primary school.

In this context, the population that migrates to the United States does so with low education levels. The Center for Latin American Monetary Studies notes that, in 2012, more than 50% of Salvadoran, Honduran and Guatemalan immigrants living in the United States older than 25 years old had not completed high school. On average, only 23% had continued their studies beyond high school, the same percentage among the non-migrating population in their countries of origin.

The returning migrant population comes back with the same level of schooling as when they left. Although it is common for returning migrants to have acquired new skills via their working experience in the US, they have scarce or non-existent opportunities to continue formal studies. The challenge for many of these people is how to put new technical knowledge and skills into practice in their areas of origin.

In order to improve career continuity and the supply of skilled labor in the region, the United States and Mexico must promote mechanisms to recognize and re-validate studies in secondary and higher education, and increase availability and access to secondary education. Both countries must also make greater efforts to improve bilingual education where appropriate, in primary schools and in regards to English as a foreign language.

b) Health

Spending on healthcare constitutes almost a third of all social spending (Figure 2). Guatemala spends the least. Over the last ten years, Guatemala has assigned the equivalent of 2% of its GDP to heath care, including health insurance. As shown in Figure 3, health services in the Northern Triangle countries are characterized by segmented systems with differentiated public programs for union members and privatized care for the high-income population.

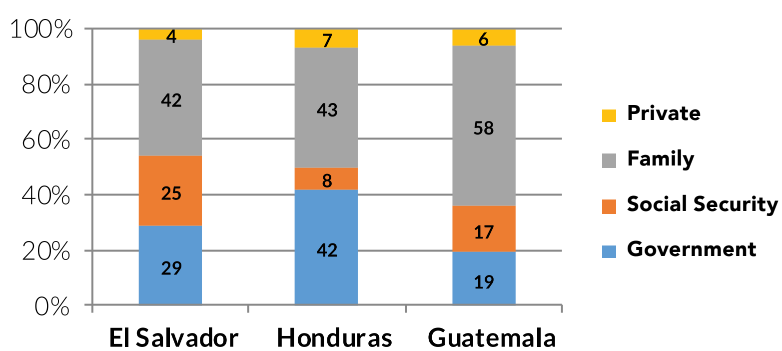
The NTCA countries have a three-part system of health care coverage (shared by government, employers, and employees) in which public and private

insurance companies participate. The coordination across the system is disconnected, covering between 57% and 73% of the population. Such fragmentation evolves from the coexistence of secondary systems with distinct methods of financing, membership acquisition, and provision of services. Each subsystem focuses on different segments of the population according to their employment status, income levels, ability to cover costs, and social status.

Both public and private institutions offer health insurance and retirement plans. Plans with the most coverage are offered by the ministries or departments of health and social security. Other important sources of coverage—linked to trade unions— are exclusively available for members of the military and teachers. In the private sector, both nonprofit and for-profit organizations offer health services that are regulated but not adequately managed by the public sector.

The existence of multiple agents operating without sufficient mechanisms for coordination prevents the necessary standardization of quality, content, cost, and implementation. This leads to increased costs of intervention and promotes an inefficient use of resources. Mirroring the patterns of extreme social stratification, the inefficient healthcare system constitutes a potent obstacle to exercising the universal right to adequate healthcare. Rather than depend on such systems, families end up taking healthcare concerns upon themselves. According to the Pan American Health Organization, a poor household spends more on healthcare than one that is not poor due to the lack of access to health services. Furthermore, the percentage of the population in poverty has increased in 18 countries across Latin America as a result of household healthcare expenses. According to data from 2004, the poverty rate increased by 25% in Honduras, while, according to 2006 data, the poverty rate increased by 17% in Guatemala and 9% in El Salvador.

Figure 3. **Structure of healthcare financing: El Salvador, Honduras and Guatemala % (2007)**



Source: ICEFI[17]

Poverty, social exclusion, moderate economic growth and violence exacerbate the situation, especially in Honduras. Honduras is one of the most violent countries in the world with a rate of 90.4 homicides per thousand inhabitants. In comparison, the homicide rate in Guatemala is at 39.9 and in El Salvador it is 41.2.

Guatemala also reports high mother-infant mortality rates. Additionally, half of the children under five (mostly among indigenous populations) suffer from chronic malnutrition. In Honduras, chronic malnutrition affects 29% of children, compared with 19% in El Salvador. Some of the factors related to widespread child malnutrition include large-scale agricultural concentrations, income levels, access to and quality of education, the coverage and quality of the healthcare system, as well as the availability of water and adequate sanitation.

C) Social Protection

Across NTCA countries, social protection and the public funding designated for it are minimal. This translates into high levels of poverty and inequality. Coupled with the lack of opportunities, particularly in education, this leads to a significant proportion of the population entering the labor market in precarious conditions. Furthermore, social security coverage in these three countries is very low and is designed to cover only the population employed in the formal economy.

In Guatemala, Honduras and El Salvador, most do not have formal social protection. Over 80% are unaffiliated and 90% of men and women over 60 have no pension. In other words, people are in a very vulnerable situation. The sectors with the least probability of a pension are 1) the informal sector, part-time employment, the self-employed, and domestic service, 2) construction, agriculture and trade, and 3) people between 15 and 29 years of age. In 2011, salaried workers with a right to a pension comprised 38% of the work force in Guatemala, 39% in Honduras, and 47% in El Salvador. Even the retirement and insurance plans that do exist, designed to cover formally employed populations, have very low coverage nationwide.

In 2013, mother/child mortality rates in El Salvador, Honduras and Guatemala were between 20 y 27 out of one thousand live births, while in Panama, Belize and Costa Rica, the rates were between 8.5 and 14.8.

Such low percentages confirm that the welfare regimes of the NTCA countries are exclusionary and inadequate: unable to attend to the basic needs of the population and to distribute social wellbeing. The failure of the social protection mechanisms to do so is reflected in the high rates of poverty and malnutrition, low levels of education, high dropout rates, as well as limited job opportunities and access to productive resources.

In light of these facts, the NTCA governments are now establishing new social protection programs, such as conditional cash transfers and non-contributory pension schemes, in an effort to focus public policy on families in extreme poverty. Nevertheless, these measures must be backed up by broader reforms to the general social security programs and the issues around access to educational and health services.

The new assistance programs known as Conditional Cash Transfer programs (CCT)—all of which receive minimal funding—regularly provide money or other forms of support to poor households with the condition that they meet certain requirements. The objectives of these programs are: 1) in the short term, to provide material support to ensure the minimum level of basic needs, and 2) in the long term, to facilitate access to public services (education and healthcare) for these citizens. The long-term goal is based on the widespread knowledge that access to healthcare and education are fundamental components for reducing poverty and preventing its intergenerational reproduction. Table 4 shows the main features of the CCT programs that were first introduced in Honduras with the Family Allowance Program (Programa de Asignación Familiar).

Table 4. Characteristics of CCT in Guatemala, El Salvador and Honduras

Country	Program/funding source	Objective
Guatemala	Mi Familia Progresa (2008)/Government Mi Bono Seguro (2012)	Increase human capital in extremely poor families with pregnant women and children under 15 years old by promoting investment in education, health and nutrition.
El Salvador	Comunidades solidarias (previously called Red Solidaria) (2005)/Government, BID and other sources	Improve the living conditions of families in extreme poverty, expanding their opportunities and capabilities.
Honduras	Asignación Familiar (1991) Bono 10,000 2006/Government and BID Bono para una vida mejor (2014)	Contribute to the breaking of intergenerational cycles of extreme poverty in families through the creation of opportunities, capacity-building, and skills in education, health and nutrition.

Fuente: The authors based on data from the Estado de la Región/Transparency International[23] and the Instituto Centroamericano de Estudios Fiscales[24]

While these programs have the potential to address the deficiencies of the current social protection system, widespread challenges, such as institutionalization and transparency within new and old public programs, must also be overcome in Central America. It is important to remember that CCT programs are inserted into current policies of social protection, and do not represent a new public policy to address entrenched, extreme poverty.

Conclusion

- The current welfare regimes in El Salvador, Guatemala, and Honduras—each with a chronically weak State that has shifted public power to the private sector accompanied by increasingly high levels of corruption—are exclusionary and inadequate. However, the welfare regimes concept makes it possible to envision more integral social interventions in the face of the widespread fragmentation of public policies (educational, healthcare, social security, etc.). The concept also emphasizes the importance of not only the quantity of social spending, but also the quality of social spending in terms of effectiveness and efficiency.

- While it is true that the economies of the NTCA countries are growing, such growth is oriented towards the exportation of low value-added products. Public policies do not represent the interests and needs of the most vulnerable people. On the contrary, public policies offer tax privileges and promote production in favor of large enterprises, as opposed to small and medium ones which comprise the majority of economic activity. This favors the expulsion, principally to the United States, of thousands of people each year. When some of these migrants return, their chances of finding sustainable employment, or the potential to generate their own economic initiatives, are the same or worse than when they decided to migrate. Furthermore, conditions in their countries have continued to worsen as a result of increased violence and other socioeconomic problems. For many, it is difficult to survive without governmental support.

- Despite the fact that external sectors of the economies of the three countries have been significantly supported by the receipt of remittances (even more so than by foreign direct investment and in numbers comparable to exportation earnings), dependence on remittances is no substitute for development policies.

- Even though most public spending goes to education and increases in primary school enrollment are encouraging (not the case for enrollment in pre-primary, secondary and higher education), it is necessary to understand effective social protection as a fundamental condition for the economy, politics and democracy within these three countries.

- Poverty and inequality in the NTCA region severely limit access to social protections in healthcare and pensions. Unless governments implement serious structural reforms, even greater limitations in social protections can be expected alongside the continued trend of shifting the burden to the families themselves.

- Nor can it be forgotten that low levels of tax revenue and tax allocation within national budgets decisively affect the availability of resources that the State can use to promote a strong redistributive policy, designating more and better resources to education, health and rural development.

Policy recommendations

We make the following recommendations in order to improve the welfare regimes of the NTCA countries, so that their populations are no longer forced to resort to migration as a solution to the lack of access to quality education, healthcare, employment and social protection. These policy recommendations are also aimed at making it possible for migrants to return to contexts that are distinct from the one that motivated their migration in the first place.

1) Implement policies that universalize the services of healthcare, social security and education for the general population, taking into account particular circumstances and prioritizing currently excluded groups. This requires promoting effective interagency coordination and citizen participation via mechanisms for planning, monitoring, accountability and evaluation.

2) Redouble efforts to implement effective public policies that ensure progressive public spending and equality. Advocate for fiscal transparency as a fundamental aspect of any credible public agenda that legitimizes the government to its citizens. Demand accountability in order to inform citizens about the State's actions, increases in public spending, and the efficacy of public spending in the social sector.

3) Implement urgent regional measures to combat organized crime. Improve public safety and crime prevention and rehabilitation programs directed towards youth participating in the so-called "maras." Strengthen the justice system. All three recommendations are oriented towards reduction of the high crime rates.

4) Combat inequalities in tax collection and impunity in cases of tax-related crimes.

5) Launch employment-generating policies that take into account product transformation, rural/land development, regional integration, the synchronization of monetary policy for economic growth and fiscal policy, and improved use of the domestic market. Develop a model of social protection that serves as a tool to distribute employment across territories and strengthens public and private investment in the three countries.

6) Generate funding policies, technology, and organizational models for small businesses. This requires formulating and implementing economic policy proposals that maximize and redirect the benefits of the growing contribution of family remittances.

7) Improve nutrition, especially for the most vulnerable children and women of childbearing age. This is particularly imperative for Honduras and Guatemala.

8) Generate updated statistics that incorporate variables that identify the status of families with migrant and returning migrant members. Establish programs for psychosocial health care, family-based legal and economic assistance, and labor inclusion for deported persons.

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- Institute for the Study of International Migration (ISIM), Georgetown University (U.S.)
- Instituto de Investigación y Proyección sobre Dinámicas Globales y Territoriales, Rafael Landivar University (Guatemala)
- Simeón Cañas Central American University (El Salvador)
- The organization “Reflection, Research and Communication Team” (Honduras)
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SUMMARY

El Salvador, Guatemala and Honduras, the three countries that make up the Northern Triangle of Central America (NTCA), are known for exclusionary and inadequate welfare regimes that promote the emigration of their citizens. All three countries are characterized by poverty and inequality, especially in rural areas. Honduras, in particular, lags behind due to multiple levels of structural inequality. For a portion of the NTCA population, family remittances are a significant factor in their economic activity. Families receiving remittance assistance mostly use the funds for household expenses and healthcare. This policy brief demonstrates the principle characteristics of social expenditures in education, healthcare and social protection in these three countries. Although the budget for education is the highest, high dropout rates and limited access to K-12 schools, trade schools and universities are challenges that must be dealt with across the NTCA region. This paper concludes with a number of public policy proposals aimed at improving the welfare regimes of the Northern Triangle countries, so that citizens will not have to resort to migration as a solution to the precariousness or absence of education, health, employment, and social protection. The implementation of the proposed policies would also respond to the circumstances of returning migrants, so that they might encounter a context distinct from the one that inspired the decision to leave in the first place.

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