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EXECUTIVE SUMMARY

Efficiency and Effectiveness of Social Public
Spending in the Context of a Pandemic

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Efficiency and Effectiveness of Social Public Spending

The economic impact of the COVID-19 pandemic is unprecedented in Chile and the world. In the country, it has caused the death of nearly 38.5 thousand people and 1.8 million confirmed cases, leading to various contingency measures such as mass vaccinations and, significantly, mobility restrictions to curb the spread of the virus.

To counteract the effects on the economy, following the global trend, the country implemented fiscal and monetary policies with two primary objectives: to protect the most vulnerable and preserve productivity (OECD, 2020).

This present study, commissioned by the National Productivity Commission in August 2021, aims to measure the impact of this health emergency on household income and employment in Chile, evaluate the efficiency and effectiveness of state contributions made in this context, and present public policy recommendations to promote more efficient social public spending.

To counteract the economic impact of the pandemic on households, work, and SMEs, the government implemented economic support measures, primarily through direct transfers, allowing beneficiaries to improve their financial situation. During the first wave, the distancing measures adopted in the country reduced mobility by 27.1% (March-July 2020) and 16.3% during the second wave (March-July 2021), significantly decreasing economic activity. The GDP contracted by 5.8%¹ in 2020, and employment was affected by a reduction of 1.8 million² jobs in the same year.

¹ See IMF (2021)

² See Mercado Laboral (2021)

By September 2021, the total expenditure on direct transfers³ reached 26.8 billion dollars, while the total committed by December 2021 would amount to 33.8 billion dollars.⁴ In this scenario, it is important to underscore that from the second quarter of 2020 through the fourth quarter of 2021, Chile allocated an equivalent of 12.7% of its 2020 GDP^{5,6} on direct economic aid. This substantial expenditure positions Chile among the top ten nations—out of 189—that committed the highest percentage of their GDP to such assistance, as documented by the International Monetary Fund (IMF).⁷ The Emergency Family Income (IFE) represented, on average, 65% of these transfers.

This expenditure is financed by 74.6% through debt issuance.⁸ Additionally, it is noteworthy that Chile's growth projections are significantly lower compared to countries with similar levels of pandemic-related social assistance spending (as a percentage of GDP), raising concerns about the capacity to generate flows to repay the debt issued and the future of fiscal reserves.

The present study is divided into three sections and is written in numbered paragraphs to facilitate overall understanding. Secondary sources of information were used for the analysis, as primary sources were unavailable due to existing legal frameworks and information flow barriers within the government.⁹ The methodology used by the Central Bank of Chile in the

³ (i) Middle Class Bonus; (ii) COVID-19 Emergency Bonus; (iii) Guaranteed Minimum Income; (iv) Emergency Family Income. In the case of indirect supports to families, they include among others: (i) Middle Class Solidarity Loan; (ii) Solidarity Fund for Municipalities; and (iii) Tax measures. Tools were also implemented to reduce the impact of the pandemic on SMEs and employment. In direct transfer, there was the MYPE Bonus, and in indirect support: (i) Fogape Covid; (ii) Fogape Reactiva; and (iii) Tax measures. In the case of employment, it was implemented: (i) Employment Subsidy; and (ii) Employment Protection Law; (iii) IFE Labor (Ministry of Finance, 2021; MINSEGPRES, 2021).

⁴ See Ministry of Finance (2021). The 33.8 billion is equivalent to 13.2% of the GDP.

⁵Of which 0.6 points were allocated exclusively to the health sector.

⁶ In addition to this, the fact that withdrawals from the pension system would accumulate close to 17 percentage points of the GDP projected for 2021, according to data from the Superintendency of Pensions, updated as of October 2021 (Superintendency of Pensions, 2021).

⁷ According to the IMF's monitoring of COVID-19 related economic support provided by 189 countries.

⁸ It is estimated based on information from the Public Finance Report (DIPRES, 2021).

⁹ To fulfill the tasks entrusted to this study, by means of the ORD 3238 letter dated September 24, 2021, information from the Social Information Registry was requested from the Undersecretariat for Social Evaluation of MDSF. This request was denied because, according to Article 6 of Law 19.949, the information contained in this registry is available to municipalities, with regard to data related to the respective

December 2020 Monetary Policy Report (IPoM)¹⁰ was referenced, along with information from the Social Household Registry (RSH), CASEN, ESC-19, and EPS.

The first section measures the health contingency's impact on household income and employment in Chile. It evaluates the effects of *labor income* on *household disposable income*¹¹ and the variation in formal and informal work by sector and gender. An average quarterly decline in *labor income*, equivalent to 6.1% of *household disposable income*,¹² was estimated for the last three quarters of 2020. Job losses, which peaked at 20.6% during the May-July 2020 quarter compared to the same period in 2019, mainly explains this job decline. The adverse effects of the health contingency on the labor market are magnified in certain particularly vulnerable groups, such as informal workers, women, and youth. While employment data suggests a significant recovery, as of the September-November 2021 moving quarter, employment levels were still below those of 2019 (487 thousand fewer occupations). A growth projection of 1.1% in household *labor income* compared to 2019 is projected for 2021.

The second section analyzes the efficiency and effectiveness of fiscal and economic support during the pandemic. It is essential to highlight that, for this study, efficiency and effectiveness were measured as providing an appropriate amount¹³ of aid only to households in need.¹⁴ In other words, if the allocation of such benefits fell on homes that did not need them or the assigned amounts were more significant than necessary, the expenditure could have been more efficient. Similarly, the effectiveness of the allocations decreases if households in need do not receive the support or receive amounts lower than appropriate.

commune, and to institutions that manage social programs or benefits, for the administration of these. By virtue of this Law, this study could not access the respective data.

¹⁰ See *Minutas Citadas* in boxes IPoM December, 2020 (BCCh, 2020).

¹¹ The *labor income* corresponds to the household income generated by the work of its members, whether salaried (or not) and formal (or not). The *disposable income* corresponds to the sum *labor income* plus other income (dividends, interest, rent from capital and land) and net transfers linked to policies, such as pensions, health, social programs, etc.

¹² *Disposable income* is defined as the sum of the autonomous income generated by the household (*income from work* plus other income) plus the net transfers that the household receives.

¹³ That which allows maintaining the level of consumption.

¹⁴ Those vulnerable households with decreased income due to the pandemic.

Within this framework, in 2020, the Emergency Family Income (IFE) was targeted at the most vulnerable households: homes belonging to the 40%¹⁵ most vulnerable received 82% of the IFE transfers made in 2020. However, while 77% of these households reported a decrease in their income,¹⁶ only 43% reported receiving the IFE.¹⁷ Nationally, between 27% and 35% of households reported receiving this type of assistance in 2020.¹⁸ Estimations show that 34.8%¹⁹ and 41.2%²⁰ of households nationwide that experienced income reductions due to the pandemic reported receiving the IFE in 2020.

In summary, the data shows that the support targeted the most affected families (indicating efficiency). Still, it also highlights that some households affected by the pandemic did not initially receive support (demonstrating low effectiveness). This situation changed in 2021 after the expansion of eligibility criteria, reducing coverage gaps, and more households gained access to support (becoming more effective).

Furthermore, the support measures, particularly the IFE, shifted from compensating for income losses to complementing income, overcompensating for the losses. This increased coverage and the amounts of support parallel to signs of payment and employment recovery for households (indicating lower efficiency).²¹ While an argument in favor of this can be that the amounts in 2021 aimed to make up for the accumulated income losses of households, evidence also suggests that for most homes, this was achieved around the second quarter of 2021²² (indicating low effectiveness). As a result, by the fourth quarter of 2021, the sum of the contributions will have more than compensated for the accumulated loss of *labor income* during the pandemic, specifically, an amount equivalent to 31.9% of household *disposable income*. To illustrate, if this figure is prorated over the seven quarters of the pandemic, the

¹⁵ Estimated using CASEN (2020).

¹⁶ Estimated using ESC-19 (July 2020)

¹⁷ Estimated using CASEN (2020).

¹⁸ The figure changes depending on the survey used (ESC-19, CASEN, EPS)

¹⁹ According to EPS data.

²⁰ According to data from the second round of ESC-19.

²¹ Secondary data sources support the above: according to ESC-19, the coverage of IFE, BCM, and CCM increased for all income deciles in 2021 compared to 2020, thus closing the effectiveness gap. However, this occurs in a context where households report progressive improvements in their economic situation.

²² Calculations do not consider withdrawals from individual pension fund accounts, when considering them, it is concluded that the accumulated loss is compensated starting from the third quarter of 2020.

average quarterly expansion would be 4.6% of household *disposable income*. In summary, pandemic support initially prioritized efficiency over effectiveness and then transitioned to a greater focus on effectiveness over efficiency.

Finally, the third section presents recommendations to improve efficiency in allocating public social spending, considering everyday situations and future contingencies. International evidence suggests that Chile had advanced assets in operationalizing the delivery of economic support during the pandemic, such as the Social Household Registry (RSH), which allowed for the characterization of a large portion of the population and has extensive coverage compared to other countries in the region. Additionally, the government has a robust and widely-used financial system, with three quarters of the population holding checking and savings accounts.²³ However, informal employment and incomplete information in the RSH records may have negatively affected efficiency. In this regard, informality, which prevails in nearly 3 out of 10 workers, acts as a barrier to targeting since information on household incomes needs to be improved. As a result, there is a higher likelihood of error in the amount to be allocated and in determining the recipients. Furthermore, due to delays in synchronizing income information from primary sources to the RSH, income data was obtained through household self-reporting, which could have introduced potential biases. Additionally, a significant proportion of the population was not registered in the RSH at the beginning of the pandemic, which hindered the possibility of supporting a group of families affected by the crisis.

The National Productivity Commission (CNP) presents three recommendations to address these deficiencies. First, to gather and generate more and better information for the design and evaluation of social policies. Following international examples, creating an autonomous institution for centralized administration and management of public data is suggested.²⁴ Additionally, to improve the characterization and targeting of assistance, it is recommended to supplement existing health data with morbidity information of individuals, following international references. In total, the study presents 25 findings and three recommendations.

²³ CMF (216)

²⁴ Whenever it ensures the protection of information and privacy of users.