ADB

Enhancing Social Protection in Asia and the Pacific

The Proceedings of the Regional Workshop

Edited by
Sri Wening Handayani

Asian Development Bank

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Contents

Boxes

Figures

Part VIII, Chapter C

Part VIII, Chapter D

Tables

Part II, Chapter B

Part II, Chapter C

Part VIII, Chapter A

Part VIII, Chapter B

Part VIII, Chapter C

Part VIII, Chapter D

Foreword

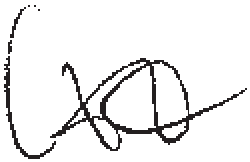
In July 2009, the Asian Development Bank (ADB) held the Regional Workshop on Social Assistance and Conditional Cash Transfers to explore the use of conditional cash transfers and other social assistance programs in different country settings. In April 2010, ADB organized the Regional Conference on Enhancing Social Protection in Asia and the Pacific. This conference brought together ADB staff, policymakers and experts from ADB developing member countries (DMCs), development agencies, research institutes, and civil society to share views and experiences on the changing nature of social protection in Asia and the Pacific, and to assess the performance of various social protection programs.

This publication assembles the proceedings of the conference which, together with the 2009 workshop and its outputs, form part of ADB's growing contribution to knowledge sharing on social protection.

A key insight emerging from the regional conference is that social protection is an investment that can strengthen human capital and reduce poverty. Indeed, social protection enhances the lives of beneficiaries and the rest of the population by fostering economic growth and improved security. DMCs are exposed to various risks including economic shocks, natural disasters, conflicts and environmental degradation. Poor, vulnerable, and marginalized groups are typically among the most exposed to and worst affected by such events. The damage done to their families, such as lost educational opportunities, reduced healthcare, and lack of employment, can be long lasting and can spill over to future generations. Therefore, building capacity and strengthening institutional structures that reduce vulnerability to and help manage risks can make an important contribution to inclusive growth in the region.

The experiences and approaches shared at the conference have made a very useful contribution to shaping ADB's agenda for supporting DMCs in strengthening their social protection systems. In his opening remarks to the conference, ADB President Kuroda recognized the great need for substantially improved social protection systems in Asia and the Pacific. He added that "coordinated efforts and strategic partnerships between developing member countries and development agencies are important to meet the needs of the region's people, particularly in the face of an increasingly globalized world, more frequent natural disasters, the risk of pandemics, and aging populations."

I sincerely hope that these conference proceedings will serve as a practical resource for people who are interested in social protection in Asia and the Pacific. ADB looks forward to working with its partners in this area of great importance to the region.



Xianbin Yao
Director General
Regional and Sustainable Development Department
Asian Development Bank

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Sri Wening Handayani, Principal Social Development Specialist RSDD, headed the team, which included Clifford Burkley, Babken V. Babajanian, Marife B. Principe, Honey May Manzano-Guerzon, Princess Lubag, Ameludin Bualan, and Charlene Tordesillas, all of RSDD.

Several organizations contributed to the success of the conference, including the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), the Philippines' Department of Social Welfare and Development (DSWD), the Harvard School of Public Health, the International Labour Organization (ILO), the Organisation for Economic Co-operation and Development (OECD), and the United Nations Children's Fund (UNICEF). Noleen Heyzer, Executive Secretary of ESCAP, served as keynote speaker. During the conference, Esperanza Cabral, former Secretary of DSWD, spoke at the launch of *Social Assistance and Conditional Cash Transfers*: the proceedings of a previous ADB regional workshop.

Myo Thant served as facilitator throughout the conference. Session Chairs were David Bloom and Ajay Mahal of the Harvard School of Public Health; Douglas Brooks, Indu Bhushan, Ashok Sharma, and Xianbin Yao of ADB; and Anupma Rao Singh and Daniele Toole of UNICEF.

The many contributing authors to this book and discussants and presenters at the conference are Willem Adema, Jaime Aristotle B. Alip, Emil Anthony, Mukul G. Asher, Babken V. Babajanian, Alicia R. Bala, Muhammad Chatib Basri, Dorjsuren Bayarsaikhan, David Bloom, Claude Bodart, Florence Bonnet, Hana Brixi, Ngy Chanphal, Ketan Chitnis, Md. Ehsan Ul Islam Chowdhury, Sining Cuevas, Astrid Gonzaga Dionisio, Odbayar Dorj, Sri Wening Handayani, Jennifer Hennig, Aidi Hu, Jun Huang, Fazal Karim Khatri, Hyung Ju Lee, Sunhwa Lee, Luca Lorenzoni, Ajay Mahal, Dalisay Maligalig, Rosario G. Manasan, Yan Mu, Isabel Ortiz, Mayumi Ozaki, Gustav F. Papanek, Rose-Anne Papavero, Donghyun Park, Nilofour Pourzand, Marife B. Principe, Isa Rachmatarwata, Lawrence E. Rosenberg, Joseph Patrick Sevilla, Amita Sharma, Weilin Shi, Valérie Schmitt-Diabate, Tsolmongerel Tsilaajav, Michiel Van der Auwera, Beth Verhey, Axel Weber, Jonathan Wood, Allison Woodruff, and Jenn Yablonski (see also Appendixes 1 and 4).

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Sri Wening Handayani managed the preparation of the publication with the assistance of Jill Gale de Villa. Joe Mark Ganaban typeset the manuscript and assisted with layout and cover design. Robert Davis and the team at the Publications Unit of the Department of External Relations and Anna Juico and Greg Garcia and staff at the Printing Unit of the Office of Administrative Services facilitated printing.

Abbreviations and Acronyms

4Ps	—	Pantawid Pamilyang Pilipino Program (Bridge for the Filipino Family Program)
ADB	—	Asian Development Bank
AGSindh	—	Office of the Accountant General Sindh
AKAP	—	Ang Inyong Kalusugan Ay Pangangalagaan (Your Healthcare Should be Managed)
ALMAO	—	All Lanka Mutual Assurance Organization
AusAID	—	Australian Agency for International Development
BOAT	—	Build, Operate, and Transfer
BOS	—	Bantuan Operasional Sekolah (School Operations Assistance)
BPJS	—	social security administrators in Indonesia: Asabri, Askes, Jamsostek, and Taspen
BPS	—	Baden Pusat Statistik (Central Bureau of Statistics Indonesia)
CaMIA	—	CARD MRI Insurance Agency
CARD	—	Center for Agriculture and Rural Development (Philippines) Council for Agricultural and Rural Development (Cambodia)
CARD MBA	—	CARD Mutual Benefit Association
CARD MRI	—	Center for Agriculture and Rural Development Mutually Reinforcing Institutions
CBHI	—	community-based health insurance
CBO	—	community-based organization
CCT	—	conditional cash transfer
CHIC	—	Centre of Health Insurance Competence
CMTU	—	Confederation of Mongolian Trade Unions
CRC	—	Convention on the Rights of the Child
DepEd	—	Department of Education (Philippines)
DJSN	—	Dewan Jaminan Social Nasional (National Social Security Council)
DMC	—	developing member country (of ADB)
DSS	—	Department of Social Services (Bangladesh)

DSWD	—	Department of Social Welfare and Development (Philippines)
EAPRO	—	East Asia and Pacific Regional Office
EPRI	—	Economic Policy Research Institute
ESCAP	—	United Nations Economic and Social Commission for Asia and the Pacific
ESSPROS	—	European System of Integrated Social Protection Statistics
FAC	—	Family Access Card
FIES	—	family income and expenditure survey
FIVIMS	—	Food Insecurity and Vulnerability Information Mapping System
FSP	—	Food for School Program
FY	—	fiscal year
GDP	—	gross domestic product
GFS	—	Government Finance Statistics
GPF	—	general provident fund
GRDP	—	gross regional domestic product
GSIS	—	Government Service Insurance System
HCFP	—	Health Care for the Poor
HDI	—	Human Development Index
HEF	—	health equity fund
HF	—	health financing agency or scheme
HIES	—	household income and expenditure survey
HNBA	—	HNB Assurance PLC
HUEM	—	household unincorporated enterprise model
ICT	—	information and communications technology
IDPoor	—	Identification of Poor Households
ILO	—	International Labour Organization
IMF	—	International Monetary Fund
IPSAS	—	International Public Sector Accounting Standard
ISSA	—	International Social Security Association
JFPR	—	Japan Fund for Poverty Reduction
JICA	—	Japan International Cooperation Agency
kg	—	kilogram
Lao PDR	—	Lao People's Democratic Republic
LFS	—	labor force survey
LGU	—	local government unit
MBA	—	mutual benefit association
MDG	—	Millennium Development Goal

MFI	—	microfinance institution
MGNREGA	—	Mahatma Gandhi National Rural Employment Guarantee Act
MIS	—	management information system
MOCA	—	Ministry of Civil Affairs (PRC)
MOH	—	Ministry of Health (Mongolia)
MOHRSS	—	Ministry of Human Resources and Social Security (PRC)
MOLSS	—	Ministry of Labor and Social Security (PRC)
MONEF	—	Mongolian Employers Federation
MOSWL	—	Ministry of Social Welfare and Labor (Mongolia)
MSW	—	Ministry of Social Welfare
NCR	—	National Capital Region
NEDA	—	National Economic and Development Authority
NFA	—	National Food Authority
NGO	—	nongovernment organization
NRCMC	—	new rural cooperative medical care
NSPS	—	National Social Protection Strategy
NSSF	—	National Social Security Fund
OECD	—	Organisation for Economic Co-operation and Development
OOP	—	out-of-pocket
OYSTER	—	Out-of-School Youth Serving towards Economic Recovery
PAYGO	—	pay as you go
PDMC	—	Pacific developing member country
PhilHealth	—	Philippine Health Insurance Corporation
PKH	—	Program Keluarga Harapan (Family Hope Program)
PNG	—	Papua New Guinea
PNPM	—	Program Nasional Pemberdayaan Masyarakat (National Community Empowerment Program)
PPC	—	Pay and Pension Commission
PSI	—	Public Services International
PRC	—	People’s Republic of China
PTR	—	poverty targeting ratio
RGC	—	Royal Government of Cambodia
ROI	—	return on investment
RSBY	—	Rashtriya Swasthya Bima Yojana (Providing Health Insurance Cover)
RSDD	—	Regional and Sustainable Development Department

SAG	—	Society at a Glance
SDC	—	Social Development Committee (NEDA, Philippines)
SEEDS	—	Sarvodaya Economic Enterprises Development Services
SGPIF	—	Sindh General Provident Investment Fund
SHA	—	System of Health Accounts
SHI	—	social health insurance
SJSN	—	Sistem Jaminan Sosial Nasional (National Social Security System)
SLPSM	—	Samastha Lanka Praja Sanwardena Mandalaya
SMEs	—	small and medium-sized enterprises
SOCX	—	Social Expenditure database (OECD)
SOE	—	state-owned enterprise
SP	—	social protection
SPCOV	—	social protection coverage indicator
SPDIST	—	social protection distribution indicator
SPEXP	—	social protection expenditure indicator
SPF	—	Sindh Pension Fund
	—	social protection floor
SPI	—	Social Protection Index
SPIMP	—	social protection impact indicator
SPPER	—	social protection poverty expenditure ratio
SPSI	—	social protection summary indicator
SSI	—	Social Security Inquiry
SSS	—	Social Security System
SY	—	school year
TNP	—	Tindahan Natin Program (Our Store Program)
TUPAD	—	Tulong Panghanapbuhay Para sa Ating Disadvantaged Workers (Livelihood Help for our Disadvantaged Workers)
TVE	—	township and village enterprise
UN	—	United Nations
UNESCO	—	United Nations Educational, Cultural, and Social Organization
UNICEF	—	United Nations Children's Fund
USSO	—	upazilla social services officers
USW	—	union social workers
WHO	—	World Health Organization

Conference Highlights and Executive Summary

Sri Wening Handayani

The Asian Development Bank (ADB) held the Regional Conference on Enhancing Social Protection in Asia and Pacific, on 21–22 April 2010. Participants came from ADB's developing member countries (DMCs), academic and research institutions, civil society organizations, the private sector, bilateral and multilateral organizations, and ADB. The 175 participants in the conference discussed common issues affecting the social protection agenda in the region. The conference served as a venue for sharing ideas about, benefits of, challenges in, and experience with developing and expanding social protection in Asia and the Pacific.

Discussions and papers presented at the conference enhance the understanding of social protection schemes, particularly social assistance, pension reform, microinsurance, social health insurance, child-sensitive social protection and measuring and monitoring social protection programs in the region. Such an improved understanding is especially important for policy makers, government agencies, civil society organizations, donor agencies, academe, and other interest groups. The Conference Highlights and Executive Summary contains the most salient points of discussions and presentations during the Regional Conference, and brief descriptions of the papers that follow in the Proceedings, many of which are from abstracts provided by the authors.[1] Appendix 1 provides background information on the contributors to this book.

Opening Session

Opening Remarks—Haruhiko Kuroda

ADB President Haruhiko Kuroda opened the conference and welcomed participants and resource persons. He stressed the importance of social protection and inclusive growth

[1] To avoid repetition, some points that were included in the discussions and the papers are included only in the summary of the relevant paper.

in Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank. Strategy 2020 recognizes inclusive economic growth as essential to (1) providing all people with a chance to benefit from economic growth, and (2) reducing human vulnerability to falling into or remaining in poverty. Social protection contributes to inclusive growth by providing access to income security and services to individuals with limited assets, capabilities, and opportunities.

Mr. Kuroda noted the great need for substantially improved social protection systems in developing Asia and the Pacific. The global economic and financial crisis made us acutely aware of the extreme vulnerability of individuals to several risks. The crisis demonstrated how shocks can profoundly damage people's well-being, especially health and education outcomes. He noted that coordinated efforts and strategic partnerships between DMCs and development agencies are essential to meet the needs of the region's people. This is particularly important given the increasingly globalized world, more frequent natural disasters, and aging populations. He hoped that the 2-day conference would allow participants to share first-hand experience with, innovative ideas on, and analysis of social protection in Asia and the Pacific.

Keynote Speech: Securing the Millennium Development Goals through Stronger Social Protection—Noleen Heyzer

The Executive Secretary of the United Nation Economic and Social Commission for Asia and the Pacific (ESCAP), Dr. Noeleen Heyzer, noted that the vast diversity of Asia and the Pacific is mirrored in the Millennium Development Goal (MDG) indicators on poverty, hunger, health, and education. The indicators show the "development divide" between the wealthy countries and the poor ones in the region. In addition, countries in Asia and the Pacific have diverse political and governance trajectories. Thus, the region's lack of a shared agenda for and understanding of approaches to social protection is not surprising.

The recent economic and financial crisis has once again placed social protection at the center of policy agendas and debates. Dr. Heyzer argued that the challenges of the crisis present an opportunity to design more resilient and inclusive social protection systems in Asia and the Pacific. The inclusive social protection agenda must have at least four elements: poverty and risk reduction, social inclusion for inclusive growth and political stability, human security as a basic right, and contribution to achieving the MDGs.

She stressed that social protection should be a key component of broader economic and social development policies. For this to happen, she argued that the way social protection strategies are formulated and implemented needs to be changed. Three major changes are proposed. First, social protection programs must be transformed from welfare strategies to investment strategies. Second, a new approach is needed that builds on the synergies between social protection schemes and between social protection and other social and economic policies. Third, it is important to create a supportive environment for social protection.

Dr. Heyzer pointed out that to enhance the outcomes of social protection (1) legal empowerment must be strengthened; (2) laws should be adjusted to ensure that they are "just" and do not exclude some groups of people; (3) the record of protecting the rights of individuals, particularly those most vulnerable to poverty, must be improved; and (4) the implementation of human rights instruments and international conventions should be enhanced. In conclusion, she noted that stronger social protection can be a powerful tool for achieving the MDGs, bridging the development divide, and ensuring sustainable and inclusive development.

Social Protection Challenges and Needs in Asia and The Pacific

The discussants—David Bloom, Harvard School of Public Health; Rosario Manasan, Philippine Institute for Development Studies; Isabel Ortiz, United Nations Children's Fund (UNICEF); and Valerie Schmitt-Diabate, International Labour Organization (ILO)—provided an overview of social protection needs in the region, identified the main policy challenges, discussed the Social Protection Floor Initiative, and provided insights into the analysis of current social protection in Indonesia and the Philippines and the need to strengthen social protection schemes.

Overview of Social Protection in Asia and the Pacific. ADB's social protection strategy consists of policies and programs designed to reduce poverty and people's vulnerability to it. The policies and programs do so by promoting efficient labor markets, diminishing people's exposure to risks associated with poverty, and enhancing their capacity to protect themselves against such risks and interruptions or loss of income. In other words, social protection provides a set of instruments to bridge the gap between the non-poor and groups that are poor and vulnerable to poverty. The most salient words here are "poverty" and "vulnerability," which are multidimensional phenomena that result not just from economic deprivation but also from deficits in health, education, and social standing, and/or from lack of employment.[2]

[2] Vulnerability refers to "the probability of a significant reduction in standard of living [resulting] from events such as unexpected death, old age, illness, unemployment, harvest failure, and flood" (Hennig, p. 376 of this book).

A quick survey reveals growing demand for social protection in ADB's DMCs. But DMCs face several challenges to implementing social protection strategies. First is the multiplicity of challenges, ranging from achieving MDGs to combating climate change, providing disaster relief, ensuring economic growth and macro stability, dealing with food and fuel crises, and handling many other issues. Social protection has direct relevance to all of these challenges. Second, there are many unresolved questions about the level of financial obligations implied in social protection, the mechanisms for financing different social protection measures, and the distribution of costs among schemes. Third, social protection is a broad concept that includes all economic security; social insurance; the labor market; social welfare assistance; and protection for children, women, and workers.

Resources for Social Protection. The discussants highlighted the role of social protection in supporting the poor in light of the current global economic and financial crisis. Despite much progress in recent decades, far too many of the region's people remain poor and without access to essential public services and economic opportunities. ADB estimates that more than 70 million people in the region would have escaped the $2-a-day poverty threshold in 2009 if growth rates had stayed at 2007 levels. The crisis has had negative impacts at both the macro and micro economic levels. In particular, macro events can have devastating short-term and long-lasting impacts on poor families and those who have been pushed into poverty. In recognition of the threats posed by such macro events, there have been high-level calls for social protection as a response to crises.

Social protection is necessary in any society because the benefits of growth do not reach all people and all people do not have the same capacity to overcome shocks. There are several arguments in favor of devoting resources to social protection.

- Social protection is a basic human right and a social necessity to combat poverty and inequality.
- Social protection provides important benefits. It promotes human well-being, inclusive growth, political stability, and social cohesion. Social protection can reduce inequality, including that between the sexes.
- The economic crisis created possibilities for designing improved social protection systems in the region. The crisis revealed new vulnerabilities and the inability of states, communities, and households to absorb livelihood and other shocks, and to reduce vulnerability to future shocks. Existing social protection frameworks rarely include social exclusion as a source of such vulnerability.
- Well-designed and cost-effective social protection is critical for achieving the MDGs. Social protection instruments should enable poor and marginalized groups to access education, health, and other services that will pave the way to achieving the MDGs. More effective social protection can also help bridge

the development divide, and ensure sustainable and inclusive development.

- Social protection is a key pillar of inclusive growth. Social protection can provide access to income security, basic services, and economic opportunities to individuals with limited assets, capabilities, and life chances.
- Social protection is affordable. Many people have expressed concern about the affordability of social protection. However, ILO studies show that that a basic social protection framework is indeed affordable even for poorer countries.
- Social protection is an investment that helps to lift and keep people out of poverty.
- Social protection contributes to gender equity. When designed with explicit coverage of women, social pensions and health protection help to address gender-specific vulnerabilities that result from longevity and reproductive health risks and burdens. Extending social protection coverage beyond the formal sector enhances gender equity, as the majority of workers in informal and rural labor markets are females.

Four papers from the session on social protection are included in the Proceedings.

Investing in People: Social Protection for All—Isabel Ortiz and Jennifer Yablonski. The paper examines the main options for social protection programs, particularly in the context of crisis recovery. The paper describes how social protection reduces poverty substantially; contributes to human development; promotes economic growth and political stability; and is a human right, although 80% of the world's population remains without coverage.

The paper also reviews selected policy issues to ensure social protection for all, including (1) the importance of expanding pension coverage, (2) social protection for children, (3) unconditional and conditional cash transfers, and (4) universal or targeted policies. The paper concludes by discussing the affordability of social protection and the high costs of keeping people excluded. It stresses that, given the urgent need for eradicating poverty and achieving the MDGs, social protection is and must remain at the forefront of the development agenda.

Social Protection Floor for All: A UN Joint Crisis Initiative—Aidi Hu. The Social Protection Floor (SPF) Initiative is a joint response of several United Nations agencies to human needs and rights. The objective of the SPF is to facilitate and accelerate the introduction or strengthening of social protection systems to provide essential services and cash transfers to people who need them. The SPF can be the first tier of a multitier social protection system. It is developed on the basis of international experience from countries such the People's Republic of China (PRC), India, and Thailand. The key challenge for implementing an SPF is affordability. An SPF is normally financed from the government budget. In response to the concern about "fiscal space" (i.e., the affordability of social protection within budgetary limitations), the paper on the SPF shows that "policy space" for financial maneuver may be wider than is often assumed.

Social Protection Policy in Indonesia—Muhammad Chatib Basri and Gustav Papanek. The paper discusses social protection programs in Indonesia, their effectiveness, and recommendations for improving them. Indonesia's well-known ongoing programs include the national community empowerment program, conditional cash transfer to communities, direct cash assistance, community health guarantee, and Family Hope Program.

Indonesia's social protection programs are highly fragmented and do not reach all people who need them. While the National Social Protection System (NSPS) Law provides an ambitious vision of a future NSPS, many questions remain regarding the level of benefits it will provide, scope of coverage, affordability, and fiscal sustainability. And institutional reforms are required to ensure services and benefits are delivered to the targeted people. Important measures needed include integrating several social protection schemes; creating a unified database system to support the implementation, monitoring, and evaluation of the programs; and carrying out the NSPS in stages, taking into consideration the financial and administrative capacities of the implementing agencies.

Social Protection Policy and Programs in the Philippines: In Times of Crisis and Beyond—Rosario G. Manasan. The paper assesses the major non-contributory social protection programs that form part of the Philippine government's portfolio of social protection interventions, such as the rice price subsidy, in-kind transfers, and cash transfers including conditional cash transfers. The assessment focuses on three aspects: program coverage, size of the benefits and transfers, and cost effectiveness and efficiency. The paper argues that effective and well-targeted social protection programs are critical to help the poor cope and to mitigate adverse impacts of the global economic crisis.

The major findings include that (1) the bulk of national government spending on social safety nets and social welfare programs went to the rice price subsidy, a program proven to be the least effective in reaching the poor; (2) the objectives and intended beneficiaries of a number of programs overlap, suggesting the need to consolidate some of them; (3) the new conditional cash transfer or "4Ps" appears better than its predecessor at addressing the needs of the chronic poor and is worth expanding and implementing on a sustained basis; (4) the social security system, the social health insurance scheme, and many of the non-contributory social protection programs provide poor coverage of the informal sector, which includes the transient poor and the near poor; (5) hastily designed programs launched in response to crisis situations are usually not effective in reaching the poor and vulnerable; (6) a public workfare program appears to be the most appropriate intervention to address the needs of the informal sector in an economy-wide crisis; (7) a centrally managed targeting system anchored on a proxy means test will be cost effective if used for major targeted programs; and (8) although national government spending on social protection has increased in response to the global financial crisis, it is lower than that of other countries in comparable situations.

Pension Reform

The discussants—Mukul Asher, Lee Kuan Yew School of Public Policy and Governance, Singapore; Fazal Karim Khatri, Economic Reform Unit, Finance Department, Government of Sindh, Pakistan; Hyung Ju Lee, ADB; Dongyun Park, ADB; and Isa Rachmatarwata, Bureau of Insurance, Ministry of Finance, Indonesia—presented an overview of pension reform in the region. The overview included the current state of the pension systems of the PRC, Indonesia, the Republic of Korea, Malaysia, Pakistan, the Philippines, Singapore, Thailand, and Viet Nam.

Support for the Elderly: One of Asia'a Biggest Challenges. The discussants argued that pension reform is urgently needed in Asia. One of the largest social and economic challenges facing Asia in the 21st century is old age income support. The challenge arises from population aging, urbanization, globalization of the labor market, and sociocultural change. The global crisis provides both an opportunity for and a challenge to the strengthening of social protection in the region. Because of the demographic trends in Asia, the social and political constraints to sustaining high growth may eventually become overwhelming in the absence of well-functioning pension systems. Asian pension systems are failing due to high transaction costs, lack of strong governance, poor design, low coverage, insufficient coverage of informally employed workers, low contribution rates, and low replacement rates.

A brief survey of Asian pension systems indicates a great deal of heterogeneity in their design and structure. The five core functions any pension system must perform are (1) reliable collection of contributions, taxes, and other receipts; (2) payment of benefits in a timely and correct way; (3) secure financial management and productive investment of pension assets; (4) an effective communication network; and (5) production of financial statements and reports that promote good governance, fiduciary responsibility, transparency, and accountability.

Most Asian pension systems need strengthened institutional and administrative capacity, improved governance and regulation, expanded coverage, enhanced financial sustainability, and safety nets for the elderly poor. A well-designed pension system should adequately cover the populace and the risks it faces. It should also be affordable from individual, business, fiscal, and macroeconomic perspectives; financially sound and sustainable; able to withstand macroeconomic and other shocks; and able to provide a reasonable level of post-retirement income with a safety net for the elderly poor. The discussants argued that pension reform is needed to deliver economic security for the elderly.

The goal of pension reform should be to construct a multitiered system involving a mixture of schemes to which employers, employees, and (in selected cases) governments contribute; non-contributory schemes; schemes by the voluntary not-for-profit sector (domestic and international); family and community support; and labor market flexibility and tax regulation.

Five papers on pension reform are included in the Proceedings.

East and Southeast Asia's Pension Systems: Overview and Reform Directions—Donghyun Park. Due to population aging, social changes, urbanization, industrialization, and other factors, old age income support is becoming an issue of growing importance throughout Asia. This is especially true in East Asia and Southeast Asia, where the demographic transition is already well under way and the demographic dividend associated with a youthful population is giving way to an older population that poses a wide range of social and economic challenges. In particular, the rapid erosion of traditional family-based old age income support makes the establishment of sound and efficient formal pension systems of paramount importance throughout the region.

The paper provides a broad overview of the current state of the pension systems in the PRC, Indonesia, the Republic of Korea, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam; diagnoses the pension systems; and identifies their major structural weaknesses. Key systemic failures of the pension systems noted are low coverage, inadequate benefits, lack of financial sustainability, and insufficient support for the elderly poor. The paper concludes with recommendations for specific policy directions for pension reform, aimed at strengthening the capacity of Asian pension systems to deliver economic security for the large and growing elderly populations in the region.

Pension Reform in the People's Republic of China—Hyung Ju Lee. The paper presents the history and current status of the urban and rural pension systems. While the PRC has improved its pension system significantly, further reforms are needed. Issues include low coverage and a huge implicit pension debt. The PRC has achieved its greatest progress in the urban pension system; the rural pension system is only recently being reformed. Two main issues are (1) the demographic transformation to an aging society, and (2) the urban–rural divide and labor migration. The broad challenges to the pension system include the needs to contain the public burden of the pension system to a financially viable extent; provide incentives so that workers participate in the pension system; and resolve inequality in the pension systems, especially between urban and rural areas.

Common reforms needed include (1) improving consistency among regions, (2) centralizing the pension management, (3) strengthening the administrative capacity of the implementing bodies, (4) enhancing the transferability of the pension entitlement, (5) increasing the return on the investment, and (6) implementing parametric changes. Issues pertaining to reforming the urban pension system include the needs to deal with the legacy costs, expand coverage, and encourage the establishment of annuity funds among multiple enterprises. The rural pension systems need increased government subsidies, a rebalancing of burdens between central and local governments, and methods to manage diverse groups of rural workers.

Reform of Retirement Schemes in Sindh, Pakistan—Fazal Karim Khatri and Michiel Van der Auwera. In the Government of Sindh, concern is growing about the affordability and sustainability of its pension and general provident fund (GPF) schemes, as the benefit costs have been increasing rapidly over the years. In an initial response to the growing cost, the Government of Sindh established the Sindh Pension Fund and the Sindh General Provident Investment Fund to partly prefinance the future liabilities. As these investment funds are growing in importance, the establishment of a proper governance structure is essential to support the long-term performance of their investments in a transparent, accountable, and independent way. At the same time, the quality of the payroll, pension, and GPF data has to be improved. No pension scheme can operate effectively without an adequate, reliable, and current database.

While the partial prefinancing is one initiative to address the sustainability of the pension and GPF schemes, the ultimate driver of the cost is the design of both schemes. The design of the schemes, however, is a federal matter, although the provinces are participating in the reform debate. Through the Sindh Growth and Rural Revitalization Program, supported by ADB, the Government of Sindh is working on improving the financing of the pension and GPF liabilities, improving the administration and service delivery, and reformulating policy. The cluster modality of the program allows for a long-term partnership to support the reforms in a gradual, sequenced manner.

Social Security Reform in Indonesia—Isa Rachmatarwata. The current social security and social assistance programs in Indonesia are inadequate to protect most of the population against macroeconomic shocks or catastrophic events. The programs are fragmented and cover only a small portion of the population. With the exception of civil servants and military personnel, most Indonesians must rely on family and community for social support.

The government recognizes that its social protection strategy needs fundamental change, and this is the purpose of Law No. 40 of 2004—the National Social Security System (SJSN) Law. The new SJSN programs are intended to be consolidated into a single rational system of social protection covering all Indonesians. The paper underscores the need for strong leadership to implement and manage the SJSN programs. Leadership and support at the highest level of government are needed to assure that introducing the SJSN programs results in a consolidated and rational system of social protection rather than creating yet one more layer of overlapping and duplicative programs.

Social Security Reform in Southeast Asia—Mukul G. Asher. The need for social security reform has once again acquired great urgency, as Southeast Asian countries structure policy responses to address three challenges: (1) aging of their populations, (2) labor market trends signifying slow growth in formal employment, and (3) diminished prospects for medium-term growth due to the 2008 global crisis.

Strengthening social security systems, including pension systems, in Southeast Asia will require a much more professional orientation and sustained efforts over time than has been the case so far. Current social security programs aimed at formal sector workers need to be reformed and innovative measures and schemes will be needed to cover the significant share of people who are not formally employed.

In particular, the Southeast Asian countries will need to demonstrate greater capacity and willingness to design and implement retirement income transfer programs to reach the elderly poor. The paper outlines four broad avenues that each Southeast Asian country can adapt to suit its own policy objectives and contexts to help broaden coverage of social security systems and strengthen their financial, fiscal, and economic sustainability. The paper urges the ASEAN Social Security Association to play a more active role in developing indigenous research capabilities, underpinned by robust databases.

Health Insurance Initiatives

The discussants—Dorjuren Bayarsikhan, World Health Organization (WHO) Southeast Asia Regional Office; Claude Bodart, ADB; Odbayar Dorj, Member of Parliament, Mongolia; Tsolmongerel Tsilaajav, GTZ Expert Group on Social Health Insurance, Mongolia; Ajay Mahal, Harvard School of Public Health; and Axel Weber, Health Systems and Social Protection Expert—stressed the prime importance of health insurance to combat the serious issues of financial risk. The discussion commenced by defining social health protection, describing how some countries across Asia and the Pacific performed in this sector, and analyzing the development of social health insurance (SHI) in terms of social health protection and universal coverage in developing countries.

The Need for Social Health Insurance. The level of out-of-pocket payments for financing health costs is high in many Asian and Pacific countries. Individual households often face catastrophic health payments associated with healthcare services. The issue is most critical for low-income people. Protecting individuals and households against financial risk due to illness through SHI is considered a high priority in the region.

SHI is defined as an instrument for sharing the catastrophic costs of healthcare, which is essential for the most vulnerable populations. Financing for SHI should include individual contributions. Well-designed and well-managed SHI schemes can effectively translate direct out-of-pocket payments into prepayments in the form of health contributions. The target of SHI is to cover all individuals with different health risks and levels of income. To expand health insurance for all requires mandatory enrollment of people who are formally employed, subsidies for the poor, and partial subsidies for informal workers and the self-employed.

Policy Issues and Challenges. The major challenges of financing health insurance in the region include adequate financial support, cost containment, and administrative efficiency. The poor can generally not afford to pay even the lowest premium and commercial insurance products are not affordable for the majority of the populations in the region. The development of SHI is affected by many factors, including income levels, structure of the economy, distribution of the population, and the administrative and institutional capacity of the implementing government. For health insurance to cover everyone, people working in the formal sector must be required to be enrolled in SHI, participation by the poorest groups must be fully subsidized, and that of workers in the informal sector and the self-employed must be partly subsidized.

Three papers on social health insurance are included in the Proceedings.

Social Health Insurance in Asia and the Pacific—Dorjsuren Bayarsaikhan. The paper discusses social health protection and universal coverage in developing countries. It notes some of the challenges to and strategies for increasing the populations' coverage, providing health insurance benefits, and pooling functions to minimize healthcare costs to be covered by individuals. The paper examines the important role of government and donors in progress toward universal coverage. The role includes reviewing, updating, and implementing well-coordinated health financing policy to increase coverage, access, social health protection, and safety nets.

The paper concludes that recent focuses on social health protection and universal coverage provide new opportunities to discuss and broaden national and international efforts to improve coverage to, access to, equity of, and financial protection for healthcare. Developing nationally agreed policies, strategies, plans, and action frameworks to provide adequate healthcare coverage and effective access to all people is essential to advancing SHI and safety nets in the Asia and Pacific region. This is especially crucial for people who are poor or vulnerable to falling into poverty.

Social Dialogue and Consensus Building to Strengthen Health Insurance in Mongolia—Tsolmongerel Tsilaajav, Claude Bodart, and Odbayar Dorj. Mongolia has been widely successful at introducing SHI since 1993, reaching a near universal coverage rate (90%). The success is due to government commitment and a high level of subsidies for people who are vulnerable to poverty. However, 15 years after introducing SHI, the social health protection system faces challenges, including decreasing coverage and increasing out-of-pocket payments by the population.

Government institutions have attempted myriad reforms and consecutive law amendments have been enacted to confront the challenges, but these have not delivered the desired changes. Stakeholders in the SHI process believe that successful reform requires effective social dialogue leading to broad consensus, participation, and involvement of affected parties, as shown in many such endeavors around the world. Such parties include the insured, trade unions, employers, healthcare providers, government, and civil society.

The paper notes that despite challenges such as weak capacity and poor leadership, several important steps have been implemented: the parties have committed to participation and involvement in policy making, the capacity of nongovernment stakeholders to participate has been increased, and support has been given to institutionalize the social dialogue process within the SHI system. Under the leadership of the Mongolian Parliament, a multiparty working group has started to develop the SHI policy directions for the next 10 years.

Financing Health Insurance: Challenges and Opportunities—Axel Weber. The paper discusses the financing of SHI, which is a complex and challenging task. The main challenges are financial sustainability, universal coverage, and cost containment. The paper describes instruments SHI can use to share the financial burden of healthcare risks, e.g., co-payment, risk sharing, and cost containment.

The paper notes that, in many low-income countries, much effort is needed to achieve universal coverage and acceptable benefits. Challenges include covering the informal sector and balancing costs to the insurer and the insured, given restrictions of affordability. The paper concludes that in many countries, SHI schemes need a lot of support to overcome sometimes conflicting interests in order to provide affordable healthcare to all. SHI provides a major opportunity to help people cope with one of the major life risks.

Innovations in Social Assistance

The presenters—Alicia Bala, Department of Social Welfare and Development, Philippines; Ngy Chanpal, Ministry of Interior, Cambodia; Amita Sharma, Ministry of Rural Development, India; Joseph Patrick Sevilla, Harvard School of Public Health; and Allison Woodruff, ADB—reported on innovations in social protection by referring to country strategies and types of social assistance programs, including the employment guarantee scheme in India, the social protection strategy for the poor and vulnerable in Cambodia, conditional cash transfers (CCTs) in the Philippines, and social protection for vulnerable people in the Pacific islands. They discussed gaps in program design, coverage, targeting, and monitoring and drew implications for the populations excluded from social protection.

Lessons Learned. Social assistance is considered important by many governments in the region. It has been made part of national development strategies in Bangladesh, Cambodia, India, Mongolia, the Philippines, and other countries. Social assistance in the region includes a variety of program types, such as CCTs, unconditional cash transfers, public works, disaster transfers, price subsidies, and fee waivers. Social assistance can be a tool for poverty relief and a way to build people's capacities to stay out of poverty. In particular, the social protection strategy in Cambodia sees social assistance transfers as a way of reducing vulnerability to poverty. CCTs can provide an important instrument for enhancing people's well-being and investing in their development, as highlighted in the presentation on the Philippines. In the Pacific, given the strong community and family networks and limited government capacity, community-based approaches to social protection may be effective.

Budget commitments to social protection are necessary, but not sufficient. The issues of citizens' rights and accountability are integral to designing social protection programs. The Indian experience shows that integrating well-designed legal provisions and accountability mechanisms into such programs can help increase their effectiveness.

Policy Issues and Challenges. A key question is how to finance social assistance. As DMCs have limited resources, they need to improve targeting of the poor and to spend resources efficiently. The capacity of government institutions should be enhanced so they can effectively design, implement, and evaluate social assistance.

Four papers on social assistance and CCTs are included in the Proceedings.

Rights-Based Legal Guarantee as a Social Protection Framework: The Mahatma Gandhi National Rural Employment Guarantee Act—Amita Sharma. The paper discusses the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) as a rights-based legal framework for guaranteeing basic livelihood security to rural households. The act was introduced to improve the purchasing power of rural people by providing primarily semi- or un-skilled work to people, whether or not they are below the poverty line. The paper examines MGNREGA's legal design and policy innovations and the extent to which they facilitate the fulfillment of the MGNREGA's objectives. The issues discussed may be pertinent to policy formulation in other development contexts.

Backed by political will and adequate budget resources from the Government of India, the MGNREGA has yielded encouraging results, despite uneven performance across the country. Initial studies indicate the MGNREGA has augmented employment; increased wage earnings; stemmed migration forced by the need for income, by providing employment near participants' homes; enhanced productivity; and promoted equity, especially gender equity. The MGNREGA is bringing access to information and communications technology and to financing to rural communities. The MGNREGA, designed primarily as a social safety net, could transform rural India into a more productive, more equitable, and better connected society.

Cambodia's Social Protection Strategy for the Poor and Vulnerable—Ngy Chanphal. After experiencing the negative impacts of the food price and financial crisis in 2008, the Royal Government of Cambodia has been striving to develop its National Social Protection Strategy (NSPS) as a fundamental framework of social protection interventions in Cambodia. The NSPS aims to protect people from poverty and from unpredictable shocks such as commodity price inflation, natural disasters, diseases, and injuries. The NSPS comprises a mix of programs and is constructed to integrate a set of objectives with different time frames into a single strategy. Implementing the NSPS requires substantial development of human capacity at national and decentralized levels of government. Setting up mechanisms for effective coordination and for transparent and accountable implementation, and developing effective monitoring and evaluation systems are critical for the success of the NSPS. The NSPS sets the framework for a sustainable and comprehensive social protection system for all citizens over the long term. For the near and medium terms, the NSPS gives high priority to developing effective and affordable social safety nets targeted to the poor and vulnerable, with complementary social welfare services for special vulnerable groups.

The transparent and participatory process of preparing the NSPS has proven very effective. A challenging task will be to ensure effective coordination, monitoring, and evaluation during implementation, and to streamline and harmonize existing programs and the NSPS activities.

The Social Welfare and Development Reform Agenda of the Philippines and Conditional Cash Transfers—Alicia Bala. In implementing a social protection policy for the poor, the Philippines' Department of Social Welfare and Development (DSWD) employed various means to evaluate the lessons from and limits of previous endeavors in delivering social protection. The goal is to better address the needs of the poor and the vulnerable and to break the intergenerational cycle of poverty. Among the major changes being adopted is the implementation of the Social Welfare and Development Reform Program. The program includes adopting the CCT model for the Pantawid Pamilyang Pilipino Program (4Ps) and establishing a mechanism to ensure greater impact and a targeting system to address leakage and exclusion.

By introducing a gender perspective and a rights-based approach in fulfilling its mission and vision, the DSWD has taken a bold and necessary step toward empowering poor and marginalized people. Thus, the DSWD continues to take the lead in social protection by formulating a framework and strategy that will eventually mainstream social protection in the overall Philippine development plan.

Social Protection of the Vulnerable in the Pacific—Allison Woodruff. The Pacific region is highly prone to natural disasters; economic shocks; and household-level risks such as illness, injury, and unemployment. Traditionally, during times of stress, households in the Pacific have coped with hardship by relying on a system of informal transfers through extended family and community networks. However, these systems are coming under increased strain with rising urbanization and households' need for more cash income to meet basic requisites. In addition, informal social safety nets are generally not effective in coping with successive shocks and with risks that affect the entire community.

Formal social protection systems in most Pacific island countries remain underdeveloped and government capacity to identify and effectively provide support to vulnerable groups is weak. People's social protection needs have traditionally been met through community support. Thus, community-based approaches for delivering social protection support to vulnerable households are appropriate in the Pacific. Such approaches could entail establishing formal partnerships between governments and nongovernment and community organizations, and channeling public resources through community-based mechanisms. Pilot testing community-based social protection mechanisms in selected Pacific island countries may offer important lessons on where such approaches can work best, and provide a viable means of filling gaps in coverage by formal government-administered social welfare programs.

Child-Sensitive Social Protection

Presenters—Bert Verhey, UNICEF Nepal; Hana Brixi, UNICEF PRC; Niloufar Pourzand, UNICEF Indonesia; Rose-Anne Papavero, UNICEF Bangladesh; and Ketan Chitnis, UNICEF Thailand—discussed the state of child-sensitive social protection in Asia and the Pacific. They examined social protection programs for children as well as gaps in program design, targeting, and monitoring.

Children comprise the largest segment of the world's population, and investments are needed for children to become adults capable of having productive lives. Social protection through cash transfers and other schemes has considerably improved children's nutrition, use of preventive healthcare, and attendance at schools.

Lessons Learned. Some developing countries (including Mongolia and Nepal) have introduced universal social protection schemes, such as cash transfers for all children. The PRC has introduced social protection schemes to promote the rights and well-being of children. Bangladesh has adopted a social protection model for children. It is important to deal not only with the material well-being of children, but also such issues as abuse, neglect, exploitation, and violence that pertain to their physical and emotional well-being. Thus, social protection for children includes social welfare services that can, for example, support youth employment, provide alternative care, and help children to access basic services.

Policy Issues and Challenges. Poverty among children is persistent and pervasive in most DMCs. Funding of most social assistance programs for children is insufficient and benefits remain low. Social protection schemes remain fragmented geographically and by population groups. Legal and policy frameworks are not always adequate to ensure children are protected. Challenges include finding ways to include children in social protection, to provide sufficient capacity at the local level for children's inclusion, and for donors to effectively engage in building the capacity of governments to tackle poverty among children.

Three papers on child-sensitive social protection are included in the Proceedings.

Social Protection in Nepal: Introducing a Child Benefit—Beth Verhey. In July 2009, the Government of Nepal introduced a child grant following policy analysis, advocacy, and growing interest in social protection. Nepal has a strong history and building blocks on which to expand social protection in efforts to address poverty, vulnerability, and social cohesion, in particular a universal old age allowance.

Poverty is pervasive in Nepal and disproportionately affects children—the Bristol multidimensional poverty measure indicates 69% of children in Nepal suffer severe deprivation—and analysis showed a child grant would be especially effective in reaching the poor. The paper summarizes UNICEF's policy analysis supporting advocacy for a child benefit, the parameters and complementary program initiatives for introducing the grant, and highlights of policy work in Nepal to develop a social protection framework.

Social Protection to Benefit Children in the People's Republic of China: Progress in and Challenges on the Way Forward—Hana Brixi. Progress in social protection in the PRC has been particularly rapid since 2002 and has comprised a large series of programs. The programs include a wide net of local schemes of social assistance, social insurance, and fee waivers. Special social protection initiatives have also been launched in response to global economic and financial crises and the massive earthquake in 2008. Progress in social protection helped improve child nutrition, achieve nearly universal access to the compulsory 9-year education, and expand access to basic public health and reproductive health services.

The agenda ahead, however, is still enormous. Funding for social protection schemes is still insufficient and social protection benefit levels are still extremely low. The wide fragmentation of social protection schemes geographically and by population groups has compromised the contribution of the social protection system to ameliorating the trend of widening disparities in the PRC. Due to weaknesses in the social protection system, use of essential services differs across income groups. Additional challenges, especially from the perspective of children, include the lack of social workers and insufficient attention to the rights of the child. Strategically, stakeholders are working together to develop a comprehensive social protection system and outline proper funding and implementation mechanisms to address the gaps and inequities.

Community-Based Social Protection for Orphan and Vulnerable Children in Bangladesh—Rose-Anne Papavero and Md. Ehsan Ul Islam Chowdhury. In 2007, Cyclone Sidr devastated the densely populated coastal areas of Bangladesh, leaving many children orphaned and/or vulnerable to poverty, and living under the care of their surviving parents, extended family members, or older siblings. UNICEF Bangladesh and the Ministry of Social Welfare tested an innovative initiative whereby families caring for such children received conditional cash transfers. Program participants were determined by criteria-based selection, verification, and approval processes involving local social workers, local administrative authorities, and Ministry of Social Welfare representatives. Social workers received training for child protection using tools such as case management and regular follow-up visits.

The pilot project suggests that properly trained social workers can be effective in child-sensitive social protection and that cash transfers are an effective tool for empowering families and encouraging family- and community-based care solutions that benefit the children. A study found that all of the beneficiaries' families had made direct expenditure on the children, used the cash support for income generating activities, and saved money toward ensuring the future financial security of the children.

Microinsurance for the Informal Sector

The discussants—Jennifer Hennig, GTZ; Jaime Aristotle B. Alip, Center for Agriculture and Rural Development (CARD), Philippines; Emil Anthony, Sarvodaya Economic Enterprises Development Services (SEEDS), Sri Lanka; and Mayumi Ozaki, ADB—argued that there is a strong need to find ways to extend social protection to the informal sector. Microinsurance schemes are systems of social protection based on the principle of risk-pooling. The "micro" does not refer to the size of the scheme, but to the size of the premiums that meet low-income households' limited ability to pay premiums.

Lessons Learned. Microinsurance is a powerful tool for lifting people from poverty. It can serve as a safety net for poor people as it provides mechanisms to cope with and reduce vulnerabilities to shocks. For the poor, microinsurance can protect against potential risks and serve to build resources for life cycle events such as marriages and funerals, which often entail lump-sum expenses that destabilize the economies of many poor households. Microinsurance can serve as an alternative and supplement to informal, traditional support mechanisms. Microinsurance can only work effectively when combined with other, complementary social protection instruments and should be embedded in a broader social protection framework.

Policy Issues and Challenges. The majority of people in developing countries work in the informal sector and are not covered by the formal social protection system, leaving a large gap. Challenges to putting in place a system to fill the gap exist at all levels. At the micro level, one major challenge is a lack of information on social protection products and lack of capacity of the providers during start-up.

There is a need to create awareness of microinsurance and its benefits among low-income groups. Micro insurance products should be appropriately designed to meet the low capacity of the poor to pay premiums. Microinsurance providers do not have enough initial capital and capacity to set up an insurance company, and they have to perform in the informal and unregulated sector, which is risky. From the social protection perspective, microinsurance can only work effectively when combined with a complementary social protection framework.

Four papers on social protection for the informal sector are included in the Proceedings.

Microinsurance: Challenges and the Role of Development Cooperation—Jennifer Hennig. The paper describes the needs for microinsurance and some of the challenges faced in providing it. In many developing countries the outreach of state- or government-run social protection programs is limited and people working in the informal sector are often excluded from them. Traditional mutual support groups such as extended families or village communities often no longer provide sufficient protection. And a majority of people are unable to afford commercial insurance. Microinsurance may provide a way to extend the coverage of social protection to the informal sector.

However, for microfinance to function as a social protection instrument, numerous challenges must be overcome. At the macro level, the major challenges are lack of information among all stakeholders and lack of capacity among providers. At the meso level, barriers include lack of a permanent support structure for providers, and of reinsurance facilities. At the micro level, needs include the integration of microinsurance with other social protection programs and development of a legal and regulatory framework that supports and is conducive for microinsurance. The paper describes some of the experience that GTZ has had in microinsurance at all three levels

Microinsurance in the Philippines: The CARD MRI Experience—Jaime Aristotle B. Alip. The Center for Agriculture and Rural Development Mutually Reinforcing Institutions (CARD MRI) in the Philippines, composed of seven institutions, provides innovative products and services to assist socially and economically challenged families by empowering women. Because most people employed in the informal sector are unable to access insurance programs, CARD MRI expanded its services to microinsurance through a members' mutual fund that was started in 1996. In

September 1999, the fund's ownership and management was formally turned over to the members of CARD and became the CARD Mutual Benefit Association (CARD MBA). It is the Philippines' first grassroots-based microinsurance organization to be licensed by the Insurance Commission.

As of February 2010, CARD MBA insured more than 5 million individuals and offered financial and non-financial services to CARD clients. Because many more people in the informal sector remain unreached, the CARD MBA Build, Operate, and Transfer Program was devised to assist informal in-house microinsurance schemes to implement their own mutual benefit associations. As of April 2010, CARD MBA has 12 partners under its program and offers a healthcare program.

Microinsurance in Sri Lanka: The Role of NGOs as Service Providers—Emil Anthony. Unlike microcredit and savings, microinsurance and remittances are still not widely used in Sri Lanka. Insurance in Sri Lanka comes under the Regulation of Insurance Industry Act of 2000, but Sri Lanka has no specific regulations for microinsurance. Thus, nongovernment organizations (NGOs) and microfinance institutions (MFIs) that have not obtained a license from the Insurance Board of Sri Lanka cannot legally provide microinsurance.

Life and general insurance are provided by regulated insurance companies. MFIs and NGOs are unable to enter the formal insurance market due to the high initial capital required to register as an insurance business, which is SLRs100 million (about $870,000 at SLRs115/$1) for life insurance and the same amount again for general insurance purposes.

Microinsurance is provided by some licensed insurance companies; MFIs; and the Yasiru Mutual Provident Society, a local NGO serving the grassroots level in the informal sector. As of December 2009, Yasiru had an outreach of more than 90,000 clients, and is a classic example of microinsurance initiated by an NGO in Sri Lanka's informal sector.

Microinsurance in South Asia—Mayumi Ozaki. In South Asia, over 90% of the population is currently excluded from formal insurance services. The development of the insurance industry in South Asia is currently at a rudimentary stage and thus has significant potential for growth. One factor limiting the access of the poor to insurance services is scanty understanding of the poor's risk profile. Proper understanding of the poor's risk profile and their perception of insurance is crucial to developing appropriate microinsurance products.

While the fundamentals of microinsurance are the same as those for regular insurance, microinsurance has distinctive characteristics pertaining to inclusiveness; affordability for the poor; and participation by non-formal insurance providers such as MFIs, NGOs, credit cooperatives, mutual support funds, and government programs. Because most MFI service providers do not come under the purview of insurance regulatory authorities, such providers are unable to receive adequate supervision and guidance. Policy makers and regulators are therefore encouraged to develop regulatory frameworks that are appropriate for microinsurance.

Measuring and Monitoring Social Protection

The discussants—Florence Bonnet, ILO; Willem Adema, Organisation for Economic Co-operation and Development (OECD); Dalisay Maligalig, ADB; Jonathan Wood, Halcrow Group Ltd; and Babken Babajanian, ADB—presented the differences and commonalities of indicators and methodologies for measuring and monitoring social protection.

Most ADB DMCs do not monitor their social protection programs comprehensively. Information is dispersed and fragmented at subnational and national levels. Little information has been assembled on the quantitative aspects of social protection in Asia, and is needed to assess the effectiveness of existing programs, to monitor change in the extent of social protection activities, or to enable cross-country comparison. Agencies such as ADB, ILO, and OECD have attempted to monitor social protection programs in developed and developing countries. A new initiative calls for developing internationally comparable data for social protection. Participants in this session proposed establishing joint ADB–ILO–OECD data collection on social protection programs in the Asia and Pacific region.

Key Challenges and Policy Issues. Only a few ADB DMCs are OECD members and produce high-quality statistics in their areas of inquiry, including social security. In the majority of DMCs, social security systems are not well developed, statistics on expenditure and coverage are not produced at the national level, and information is dispersed and available only at the level of individual social security schemes. Household surveys, if done on a regular basis, usually do not look deeply into the situations of people covered by social security schemes. Some methodological refinements are necessary, notably regarding the original sources of data used. Indicators of the ADB Social Protection Index (SPI) differ from the OECD's social expenditure indicators. Therefore, developing internationally comparable data is needed and calls for the ADB, ILO, and OECD social protection statistics systems to become compatible in key dimensions.

Four papers on measuring and monitoring social protection are included in the Proceedings.

The ILO Social Security Inquiry—Building a Statistical Knowledge Base on Social Security: Principles and Selected Results—Florence Bonnet. The paper provides a general description of the ILO Social Security Inquiry (SSI): the objectives, rationale, methodology, structure, social security data collected, and related indicators. One objective is to highlight the similarities with and differences between the process adopted by ADB to calculate the SPI and to assess the feasibility of using the SSI as a tool to collect the information required for the SPI.

To stress the potentialities and to highlight the extent of the information collected, the paper presents a selection of results extracted from the first edition of the *World Social Security Report 2010/11*. These results are largely based on information and statistics collected through the SSI. The chief aim of the first *World Social Security Report* is to present the results of regular statistical monitoring of the state and developments of social security in the world, looking at (1) the scope, extent, levels, and quality of coverage by types of social security; (2) the scale of countries' investments in social security measured by the size and structure of social security expenditure and sources of its financing; and (3) the effectiveness and efficiency of social security systems in reaching national social policy objectives, as well as other impacts of the policies that may be of special interest.

The OECD Approach to Measuring Social and Health Expenditure—Willem Adema. The social indicators the OECD uses to assess public social effort and policy effects on poverty, including public social expenditure and relative income poverty, differ from those used by ADB and the ILO. However, there is sufficient common ground for the three organizations to collaborate in collecting data on social expenditure and other pertinent social indicators for Asia.

The paper provides a concise overview of OECD work on social spending and poverty for OECD countries. It also describes the social indicator framework, which includes a broad set of indicators that aim to illustrate the social situation in countries. The paper then focuses on social and health expenditures with an eye on comparative ADB and ILO indicators, and touches on methodological choices and data issues. The paper ends with a call to include all public expenditure on health, on the basis of the joint OECD–Eurostat–WHO System of Health Accounts methodology, which is also endorsed by the World Bank. The methodology is a framework for compiling comprehensive, consistent, and comparable health accounts, and is increasingly used in OECD member countries and in Asian countries.

Expanding the Labor Force Survey to Capture the Extent of Social Protection Mechanisms—Dalisay Maligalig and Sining Cuevas. Although it is important to understand the issues that affect workers in informal employment, very few countries in Asia include informal employment in their official set of labor and employment statistics. The paper presents evidence that including questions in the labor force surveys regularly conducted by many national statistics offices could allow statisticians to determine whether workers are employed informally, whether they have benefits, and where they work; thus, informal employment statistics could be derived and more in-depth analysis of social protection issues could be performed. The additional questions do not significantly lengthen the interview time for gathering information, but are instrumental in directly measuring informal employment and analyzing social protection issues, some of which are also discussed in the paper.

Social Protection Index for Asia—Jonathan Wood. The Social Protection Index for Committed Poverty Reduction was a pioneering ADB study to improve the availability of quantitative information on social protection in Asia and the Pacific. The study involved preparing inventories of social protection programs in over 30 countries; calculating four social protection summary indicators (social protection expenditure, coverage, distribution [poverty targeting], and impact on incomes); and then combining them into ADB's single SPI.

The paper (1) briefly describes the definition of social protection used in the study, the formulation of the social protection summary indicators, and the SPI; (2) presents some of the key findings; (3) provides examples of ways in which the information (including the database of over 800 social protection programs) can be used by international and national agencies; (4) highlights some strengths and weaknesses of the methodology; and (5) discusses ways the SPI could be updated and strengthened. The principal conclusion is that the methodology is essentially sound and relatively easy to compute and interpret and that the priority is to develop a system so that the SPI can be updated periodically.

Concluding Session and Linking with Recent Experience

The discussants—Mukul Asher, National University of Singapore; David Bloom, Harvard School of Public Health; Ngy Chanphal, Ministry of Interior, Cambodia; and Isabel Ortiz, UNICEF—reiterated the large and growing need for social protection throughout the Asia and Pacific region. They noted that the global financial crisis provided an opportunity to develop and scale up social protection in Asia and the Pacific.

They pointed out that there are no "best" solutions to develop social protection policies and programs, and no "one-size-fits-all" answers. Many instruments are available for social protection and each country will choose a different set of them according to its social needs and fiscal capacity. Social protection is not just a matter of channeling resources to people who need it now, but is an investment in a country's most important resource—human capital. Social protection can take various forms, such as protection for children, the elderly, people who are at physical and financial risk of ill health, and the poor. A major concern is the affordability of social protection, but discussions showed that most countries can provide some basic protection to their needy populations for a small percent of their gross domestic product.

The discussants highlighted some of the newer points raised at the Regional Conference. First, social protection can not be effective as an isolated program. It should be accompanied by adequate human and physical resources such as health workers, teachers, schools, and hospitals, as well as good institutional and administrative capacity among the many actors. Second, social protection is a mosaic of well-defined and well-established sectors such as labor, education, health, finance, social welfare, and environment. This means a corresponding mosaic of counterparts and their advisers. Third, a fair degree of unanimity has been achieved on the need for expanding social protection programs and policies in Asia and the Pacific as a means to reduce poverty and vulnerability. Finally, social dialogue is absolutely critical—all sectors of society and all stakeholders need to be involved in the discussion of how to strengthen social protection needs.

Closing Remarks—Ursula Schaefer-Preuss

The 2-day Regional Conference was closed by Dr. Ursula Schaefer-Preuss, Vice President, Knowledge Management and Sustainable Development, ADB. She highlighted the discussions and recommended the next steps. She reiterated that social protection is part of the development agenda in Asia and the Pacific. She underlined the keynote speaker's message that the prevailing inequalities in Asia and the Pacific are the result of social, economic, cultural, and political structures that place populations at risk of poverty. She fully shared the view that stronger social protection can be a powerful tool for achieving the MDGs and bridging "the development divide" between rich and poor countries as well as ensuring sustainable and inclusive development. She noted the recent economic crisis has presented opportunities to enhance social protection.

The conference brought into focus the substantial need of many DMCs for advice on how to construct and improve social protection programs. Coordinated efforts and strategic partnerships between DMCs, development agencies, the private sector, and civil society organizations are important to meet the needs of the people in the region. To support the goals of social protection, DMCs need to create an environment that is conducive for social protection. Development partners need to assist in evolving a more systematic and comprehensive agenda for social protection in Asia and the Pacific. Dr. Schaefer-Preuss emphasized, however, that social protection needs to be developed on a country-specific basis.

Linking with Recent Developments in Social Protection

Social Protection in Asia: the Latest Thinking and Policy Contours—Babken V. Babajanian. The final paper in this volume caps the main part of the book by providing an overview of social protection in Asia in the last decade or so. The paper recalls the presentations at the Regional Conference and links the practices of and thoughts on social development in the region with the wider literature in the field of social protection. It stresses that coordinated efforts and strategic partnerships among the many actors, including development agencies, developing countries, the private sector, and civil society, are essential if the needs of the region's many poor people are to be met.

About the Proceedings

The Conference Highlights and Executive Summary is followed by eight sections that mirror the topics as taken up during the Regional Conference:

- Opening Session
- Social Protection Challenges and Needs in Asia and The Pacific
- Pension Reform
- Health Insurance Initiatives
- Innovations in Social Protection—Social Assistance
- Child-Sensitive Social Protection
- Microinsurance for the Informal Sector
- Measuring and Monitoring Social Protection
- Concluding Session and Linking with Recent Developments in Social Protection

The four appendixes provide (1) background information about the contributors, (2) summaries of presentations and papers not provided in the main text, (3) the conference agenda, and (4) a list of resource persons and participants.

PART I

Social Protection in Asia and the Pacific

A. Opening Address

Haruhiko Kuroda
President, Asian Development Bank

Distinguished guests, ladies and gentlemen, good morning:

We are honored by the presence of Dr. Heyzer, Executive Secretary of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), and I sincerely thank her for joining us here in Manila again. I also wish to extend a special welcome to those who have traveled far, from more than a dozen countries and who represent government, civil society organizations, intergovernmental organizations, and academia.

Please allow me to briefly share some thoughts on the importance of social protection in the Asia and Pacific region, and its relevance to the inclusive growth agenda of the Asian Development Bank (ADB).

Social Protection and the Inclusive Growth Agenda. The global economic and financial crisis made us acutely aware of the extreme vulnerability of individuals to various sources of risk. These include economic shocks, loss of employment, disability and illness, natural disasters, conflict, and environmental degradation. Based on our current projections, as many as about 54 million additional people in the region have remained in the ranks of the extreme poor (living on less than a $1.25 a day) who would otherwise have been lifted out of poverty had the crisis not occurred. The crisis showed that exposure to these risks can leave a profound damaging impact not only on economic well-being, but also on human development outcomes, such as health and education achievements, thus slowing the pace toward achieving the Millennium Development Goals. The crisis also made us acutely aware of the need to strengthen institutional structures that can help reduce vulnerability and respond effectively to future crises.

ADB's long–term strategic framework, Strategy 2020, recognizes inclusive economic growth as essential to providing all with the chance to benefit from the fruits of prosperity and reduce human vulnerability. Indeed, Strategy 2020 recognizes that more attention, planning, and financing are required to broaden access to the opportunities to benefit from—and contribute to—economic growth.

Social protection contributes to the achievement of inclusive growth by providing access to income security, services, and opportunities to individuals with limited assets, capabilities, and life chances. Social protection is not only about supporting those in poverty. It should also serve as a tool for protecting living standards of individuals who are not poor but remain vulnerable to the impact of economic, social, and natural hazards.

Social protection can help protect the immediate consumption needs of poor and vulnerable individuals. It can also improve human well-being in the long run by investing in human capital, increasing productivity, improving gender equity, and ultimately reducing vulnerability to social risk. Further, social protection stimulates domestic consumption, thereby playing a helpful role in the rebalancing of Asian economies away from excessive dependence on export-led growth.

ADB Action. ADB's support for social protection dates back to 1985 and it has intensified since the Asian financial crisis of 1997–1998. Through loans, technical assistance, and dialogue, we are helping ADB developing member countries to design, deliver, and evaluate social protection programs and policies. Examples of our recent initiatives include the emergency food assistance to Cambodia's most vulnerable, the support for public sector pension reform in Pakistan, the rural pension reform in the People's Republic of China, and the conditional cash transfers for primary school girls in Bangladesh.

However, our contributions can only represent at most a very small part of the great need for substantially improved social protection systems in developing Asia. Coordinated efforts and strategic partnerships between developing member countries and development agencies are important to meet the needs of the region's people, particularly in the face of an increasingly globalized world, more frequent natural disasters, the risk of pandemics, and aging populations.

Conclusions. In closing, I would like to express my appreciation to all of those who contributed to this conference. I am confident that over the next 2 days we will learn much through the exchange of first-hand experience, innovative ideas, and analyses.

Thank you for your time and attention this morning. I wish you a truly stimulating and learning program that provides further impetus for developing improved mechanisms to address vulnerability, risk, and chronic poverty in Asia and the Pacific.

B. Keynote Speech

Noeleen Heyzer
Executive Secretary, United Nations Economic and Social Commission for Asia and the Pacific

President Kuroda, Vice-President Schaefer-Preuss, Distinguished Participants, Ladies and Gentlemen:

It is a pleasure for me to join all of you at this Regional Conference on Enhancing Social Protection Strategy in Asia and the Pacific. I would like to congratulate the Asian Development Bank (ADB) for its initiative in convening this conference on a topic that is so vital in our efforts to build a stronger social foundation for inclusive and sustainable development. I would like to focus my speech on what a social protection agenda in the Asia and Pacific region could look like.

The Millennium Development Goals and Social Protection. Asia and the Pacific is a diverse region with some of the richest and poorest countries in our world. This variation is mirrored in the Millennium Development Goal (MDG) indicators on poverty, hunger, health, and education, capturing the development divide in our region.

Rapid economic growth from the "miracle economies,"—in the context of globalization—side-by-side with rising inequalities, chronic poverty, and exclusion are all part of the Asia–Pacific experience. With this development landscape, together with different political and governance trajectories, from stable to fragile states, it is not surprising that there is no shared understanding on approaches to social protection, much less an agenda for social protection in the region.

Despite these challenges, the recent financial crisis and the widespread economic and social distress it created through massive job losses, declining income security, and increasing poverty, has once again placed social protection at the center of policy agendas and debates. The financial–economic crisis, on top of the food and fuel volatility and climate change disasters, revealed new vulnerabilities and the inability of states, communities, or households to absorb livelihood and other shocks and to reduce risks to future vulnerabilities.

These crises opened the possibility of designing more resilient and inclusive social protection systems in Asia and the Pacific. I argue that this type of agenda on social protection must include four elements: poverty and risk reduction, social inclusion for inclusive growth and political stability, human security as a basic right, and contribution to the achievement of the MDGs.

In this context, I have been invited by the organizers to address the subject of "securing the MDGs through stronger social protection." With only 5 years until the 2015 deadline, the road to MDG achievement in the Asia and Pacific region presents a mixed and challenging picture.

The crises that have confronted the region, particularly the economic crisis, have forced many countries to discuss the need to develop a more systematic approach to social protection. Currently, attention is focused mainly on mitigating the impacts of shocks and assisting people most affected by those crises. More attention needs to be paid, in the current development discourse, to the potential contribution of social protection as an investment in reducing risks and vulnerability and facilitating economic recovery itself, thereby facilitating the path to MDG achievement.

There is certainly evidence to support the view that well-designed and cost-effective social protection is indeed critical for the achievement of the MDGs. We know that the poor and other marginalized groups are in need of social protection instruments to enable them to meaningfully access education, health, and other services that will pave the way to MDG achievement.

There are lessons from the work of the United Nations (UN) and the development banks that show that:

- Social funds are effective in empowering the poor and help to build social infrastructure.
- Social transfers targeted to children and youth help to reduce current as well as intergenerational transmission of poverty.
- Policies against discrimination ensure that women, ethnic minorities, and people with disabilities have equal access to employment.
- Social protection programs help to get and keep children in schools and clinics.
- Social protection interventions, including cash transfers into the hands of women, lead to benefits in terms of health and nutrition for the households.
- Social protection and broader social risk management are effective measures to integrate jobless youth into the labor market at an early stage.

I have touched upon only part of the range of social protection policies and programs that support the MDGs. On the basis of these experiences, and as we approach the forthcoming UN MDG Summit in September this year, I am pleased to inform you that the UN Secretary-General's MDG Action Agenda for 2011–2015 addresses the critical link between social protection and the MDGs.

To support the Secretary-General's initiatives, the UN Economic and Social Commission for Asia and the Pacific (ESCAP) is working with its member states in advocating the crucial role that social protection policies and programs play in supporting the achievement of the MDGs, and the need for such policy interventions to be highlighted in the regional report and roadmap leading up to 2015 which we are working on with the ADB and United Nations Development Programme, as well as with the UN Regional Coordinating Mechanism.

We are committed to the following policy aims as part of our regional contribution to the Secretary-General's MDG Action Agenda:

(1) strengthening and extending social protection systems in Asia and the Pacific;
(2) expanding affordable access to essential services such as health, education, water, and sanitation, especially for the poor; and
(3) increasing investments in basic social services.

Social Protection, Inclusive Growth, and the "Development Divide." The first part of my statement has covered the subject of MDGs and social protection. I would like to devote the rest of my statement to the role of social protection in inclusive growth of the Asia and Pacific region, especially by addressing the development divide.

We are aware that, despite progress in meeting some MDGs, the Asia and Pacific region continues to be plagued by persistent issues of chronic poverty, social exclusion, and inequality, which not only generate vulnerabilities but also amplify the impact of crises. In fact, many countries are off track in their achievement of the MDGs.

Social protection can, and should be, a key component of broader economic and social development policies. But for this to happen, we must change the way we formulate and implement social protection strategies. I believe three major changes are required.

First, the goal and structure of social protection programs and interventions must be transformed from solely a welfare to an investment strategy. In addition to targeting risks and vulnerabilities associated with crises and upheavals, the enhancing of social protection must be mindful of the structural elements that place social groups in a situation of vulnerability in the first place. What are some examples of these elements?

- spatial, such as remote locations, isolated rural areas, and slums: these need to be connected to development services;

- economic and financial, such as limited access to employment opportunities and productive assets;
- sociocultural, such as identity-based forms of exclusion—ethnicity, religion, gender, age, and physical ability; and
- legal, such as complicated registration systems for birth certificate and home registration, leading to statelessness or "people without papers."

Existing social protection frameworks rarely include social exclusion as a source of vulnerability. When we refer to social exclusion, we are talking of a complex set of social, economic, and cultural practices by which certain groups of people, such as ethnic minorities, persons with disabilities, or people living with HIV/AIDS, are excluded from the benefits of social and economic development. These challenges need to be addressed by appropriate social protection investments if we are to have inclusive societies.

It is also important to acknowledge that risks and vulnerabilities are not static but dynamic processes. At the level of the individual, they are the result of changes over the life course of a person further affected by events such as changes in location (rural–urban) and household composition. Conditions are dynamic also at the level of communities and nations, namely demographic and economic shifts. Some of the changes that social protection strategies need to address are (1) urbanization and migration, (2) aging populations, and (3) the breakdown of informal support structures based on the extended family.

This leads to my second point, namely that we need an approach that builds on the synergies between various social protection schemes, and between social protection and other social and economic policies. To give you an example, conditional cash transfers for children to go to school will not be effective if schools are not properly staffed or the quality of the teaching is poor.

Labor market interventions already feature in many social protection interventions to promote employment and income opportunities. However, an integrated approach needs also to align social protection with economic development policies. People with social security have more consumer power and can participate actively in the market, creating higher demand and larger domestic and regional markets.

However, securing the intended effect of social protection strategies requires careful attention to potential impacts on the economy. Social protection must not simply be seen as a handout. It is an investment in inclusive growth. It is an investment in human capabilities to get people out of exclusion and poverty and to build resilience to risks and vulnerabilities.

I move to my third point, namely that we need to create a supportive environment for social protection. Such an environment must include policies leading to legal empowerment and access to justice, protection of rights, and citizenship as means for promoting social inclusion and social cohesion. To support the goals of stronger social protection, legal empowerment has to go beyond formality into the informal sector, from the urban to the rural. It needs to bring about a change in the relationship of the poor and the excluded with the law. The rule of law may not mean much to the excluded if they perceive existing laws as being part of the cause of their exclusion. We need to examine our laws to ensure that they are "just" and do not generate "exclusion by design." Only then will we be in a position to advocate for the rule of law.

Similarly, we need to improve our record in protecting the rights of individuals, particularly the most vulnerable, if social protection is to have a long-term impact in the development of this region. Many countries in Asia and the Pacific are signatories of various human rights instruments as well as international conventions. Yet, there is still a gap in the harmonization of national laws with the international obligations under these treaties. While some countries have made progress, by and large, the political will is still generally lacking to implement these obligations.

The prevailing inequalities are the result of social, economic, cultural, and political structures which place populations at risk, creating a development divide. Stronger social protection has the potential to be a powerful tool for achieving not only the MDGs, but also for bridging the divide and ensuring sustainable and inclusive development. It is my hope that you will address these challenges as you discuss the future direction of social protection in our region, and in so doing, assist in developing a more systematic and comprehensive agenda for social protection in Asia and the Pacific.

I thank you.

PART II

Social Protection Challenges and Needs

A. Investing in People Social Protection for All

Isabel Ortiz and Jennifer Yablonski*

1. Social Protection and Crisis

The Social Protection Strategy of the Asian Development Bank (ADB), approved by all ADB member countries in 2001, defines social protection as the set of policies and programs designed to reduce poverty and vulnerability by promoting employment and efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption or loss of income. Social protection consists of five major elements: (1) labor markets, (2) social insurance, (3) social assistance, (4) micro and area-based schemes to protect communities, and (5) child protection. When implemented properly, these policies and programs can make a major contribution to the overarching goal of reducing poverty (Ortiz 2001).

ADB's Social Protection Strategy was developed as a result of the Asian Financial Crisis. Recent years have shown increasing financial volatility. The 2008 financial crisis and consequent global recession, the preceding food price spikes, and the ongoing impacts of climate change have all increased uncertainty at macro and micro levels. For poor families and those that have been pushed into poverty or more precarious situations, these macro events can cause devastating short-term and longer lasting impacts. In recognition of these threats, there have been high-level calls for social protection as a response to these crises. This international commitment is reflected in the Communiqué of the London G-20 Summit in 2009, the Comprehensive Framework for Action in response to global food insecurity, the United Nations (UN) Chief Executive Board Crisis Initiative on the Social Protection Floor, and the call of the UN Secretary General and the United Nations Children's Fund (UNICEF) for a Recovery for All.

* Presented by Isabel Ortiz. The authors thank Louise Moreira-Daniels, United Nations Children's Fund (UNICEF), for support provided.

Social protection has been a major component of fiscal stimulus plans in the current crisis, as an average of 25% of fiscal stimulus was invested in social protection measures in high- and middle-income economies (Zhang, Thelen, and Rao 2010; Ortiz 2009).

2. Social Protection, Poverty Reduction, and Human Development

The importance of social protection is now widely accepted, and the debate on social protection has changed significantly in recent years. During 1980–1990, social protection was missing from the development agenda. Because of the strong redistributive character of most social protection policies, they were not favored by orthodox approaches (except pension reform projects): in Bolivia, which provides an extreme example, the Ministry of Social Security was closed.

Social protection is necessary in any society because the benefits of growth do not reach all, because people do not have the same capacity to overcome shocks, and because all people are vulnerable at different points in their lifecycle. Given the urgent need to eradicate poverty and achieve the Millennium Development Goals (MDGs), social protection is currently at the forefront of the social development agenda and is considered an investment in human development with long-term economic and social returns.

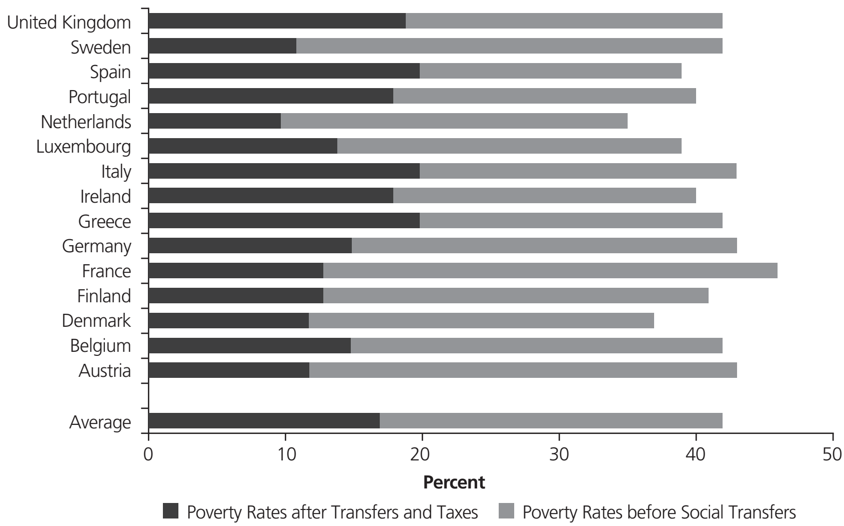
Social protection is a powerful tool to alleviate poverty and inequality, i.e., it reduced poverty in many higher income countries by more than 50% up to 2009 (Figure 1).

Thus, social protection enhances the achievement of MDG 1—to eradicate extreme poverty and hunger. There are good and successful examples regarding the role of social transfers in combating poverty in Africa, Asia, and Latin America, delivering much faster results than the ones expected from a trickle-down effect from economic policies. For a low-income country, a basic social security system can make the difference between whether or not it achieves MDG 1's goal of halving poverty by 2015.

- For example, the Oportunidades program reduced the poverty headcount ratio in Mexico by 10%, the poverty gap by 30%, and the poverty severity index by 45% (Skoufias 2001).
- In Brazil, the combination of the Continuous Cash Benefit—a means-tested pension and disability grant—and the Bolsa Familia contributed an estimated 28% of the fall in the Gini coefficient between 1995 and 2004 (Soares et al. 2006).
- Social pensions and transfers have reduced South Africa's poverty gap by 47%. In countries such as Senegal and Tanzania, the International Labour

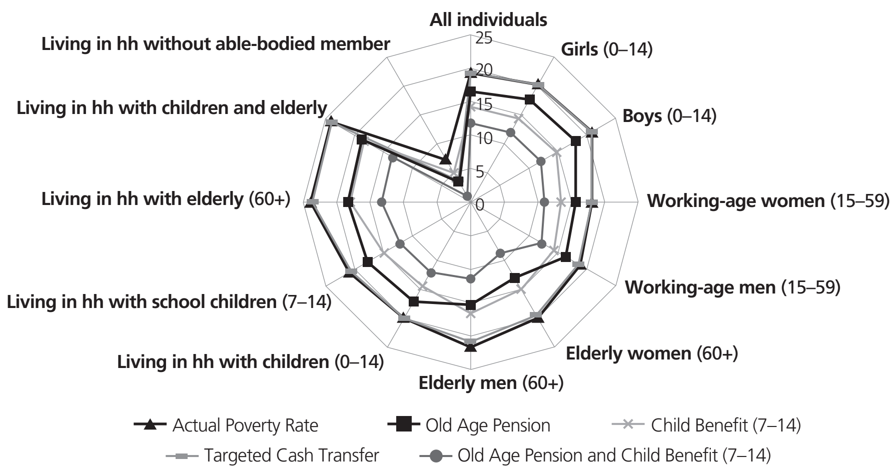
Organization (ILO) estimates that poverty could be reduced by 35%–40%. See, for example, Figure 2, which simulates poverty reduction rates among groups of different transfer options in Senegal.

Figure 1. Poverty Reduction Impacts of Social Protection in the European Union, 2007



Sources: Caminada and Goudswaard (2009), EUROSTAT data.

Figure 2. Senegal—Simulated Poverty Reduction Rates of Different Cash Transfers



hh = household.
Source: Gassmann and Behrendt (2006).

If well designed, social protection has proven results.

- Social protection reduces poverty, improves nutrition, and improves family income stability (MDGs 1, 4, and 6).
    - The Red de Protección cash transfer program in Nicaragua reduced stunting among children 6–59 months by 5.3 percentage points, with greater impacts among poorer families (Maluccio and Flores 2004). Programs in Colombia, Malawi, Mexico, and South Africa all demonstrate reductions in stunting (Yablonski and O'Donnell 2009).
    - Children in South African households receiving a pension have on average 5 centimeters greater growth than those in households without a pension—this is the equivalent of approximately half a year's growth for some groups of children (Case 2001).
    - Strong evidence across programs in Africa, Asia, and Latin America shows that cash transfers improve the quantity and diversity of food consumption, and protect food consumption during shocks or lean periods.
- Social protection improves preventive healthcare (MDGs 4 and 5).
    - In cash transfer programs for which there are data (except for the PATH program in Jamaica), the incidence of illness has decreased among children, particularly younger children (Yablonski and O'Donnell 2009).
    - In Mexico, Oportunidades led to a 17% decline in rural infant mortality: 8 percentage points on average (Barham 2010).
    - In Malawi, 80% of households participating in the Mchinji reported that their children received enough healthcare when they were ill, compared to 20% of other households.
    - In Kenya, cash transfers were used to increase antiretroviral treatment for children and adults (Adato and Bassett 2008).
    - After public health services were made free in Uganda in 2001, the use of immunization services doubled.
- Higher school enrollment rates and reduced school drop-out (MDGs 2 and 3) have resulted from social protection programs.
    - During 2002–2005, the gross enrollment rate in Kenya increased from 88% to 112% due to the abolition of school fees (World Bank and UNICEF 2009).
    - Transfer programs in Brazil, Cambodia, Ecuador, Ethiopia, Malawi, Mexico, Nicaragua, Pakistan, South Africa, and Turkey have all demonstrated significant percentage point increases in enrollment and/or attendance. Design features (such as conditionality and gender-specific objectives), size of transfer, and previous levels of attendance all appear to effect the size of changes among different ages and between girls and boys (Adato and Bassett 2008).

- Social protection decreases child labor (MDGs 2 and 8). In Brazil, the Programa de Erradicaçao do Trabalho Infantil reduced both the probability of children working and their likelihood to be engaged in higher risk activities (Yap, Sedlacek, and Orazem 2002).

3. Social Protection, Economic Growth, and Political Stability

Social transfers can serve as cash injections to local economies, providing a positive impact on their development. Raising the incomes of the poor increases domestic demand and, in turn, encourages growth by expanding domestic markets. Social transfers have been found to support productive investment and to lead to multiplier effects. In Malawi, for example, a cash transfer program was found to create a multiplier effect of 2.02–2.79—i.e., for each dollar invested, another two were generated (Yap, Sedlacek, and Orazem 2002; Davies and Davey 2008).

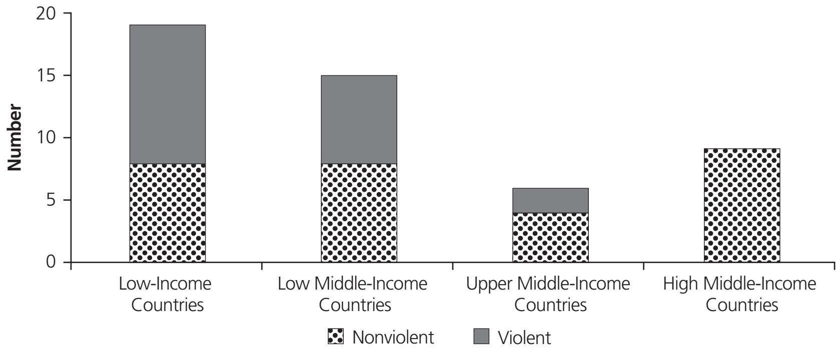
This includes important counter-cyclical effects—by smoothing consumption during difficult periods, social transfers can prevent people from falling into poverty traps and help to maintain the volume of transactions in local markets (Yablonski and O'Donnell 2009).

Contrary to common assumptions, social transfers have also been shown to encourage labor market participation in low- and middle-income countries, by 13%–17% compared to similar nonrecipient households in South Africa, for example, through the transfers' impact on covering the costs of job seeking and supporting family childcare responsibilities. These labor market effects have been particularly strong for women (Barrientos 2008; EPRI 2004; Medeiros, Britto, and Soares 2008).

Additionally, social protection promotes peace and stability through social justice. Poverty and gross inequities, and their associated intense social tensions, increase the likelihood of violent conflict, which ultimately destabilizes governments and regions, causes waves of irregular migration, and may increase people's susceptibility to terrorist appeals and acts and other forms of criminality. A known example is the number of violent food protests in 2008 (Figure 3), mostly in countries with underdeveloped social protection systems (Von Braun 2008).

Social protection is also important to secure political stability in terms of electoral support. Programs like Fome Zero (Zero Hunger) in Brazil have been essential for rapid poverty reduction and to securing support for President Lula da Silva's government, enabling it to establish longer term structural policies.

Figure 3. Food Protests in 2008



Source: Von Braun (2008).

4. Social Security: A Human Right

Article 22 of the Universal Declaration of Human Rights states:

> Everyone, as a member of society, has the right to social security

and Article 25 states:

> Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection (UN 1948).

More than 60 years after their adoption, Articles 22 and 25 remain a dream for the 80% of the world population that is still without access to social protection. To many people, a basic set of benefits could make the difference between a livable and a miserable life, and often between continued life and premature death. Millions of children under 5 die every year because they have no access to adequate healthcare and there is no income to secure their food.

5. Social Protection Policies and Instruments: Selected Critical Policy Issues

Social protection programs include

- **social insurance** to cushion the risks associated with unemployment, poor health, disability, work injury, and old age;
- **social assistance**, for groups with no other means of adequate support, such as
  - social services, institutionalized or community-based, to vulnerable sections of the population, such as the severely disabled, orphans, street children, battered women, substance abusers, migrant workers, and refugees;
  - conditional or unconditional transfers of cash or goods; and
  - temporary subsidies, such as energy life-line tariffs, housing subsidies, or price support mechanisms (e.g., supporting the price of staple food); and
- **other schemes** to assist communities and the informal sector, including food security programs, social funds, and disaster prevention and management.

Child protection is an added pillar of ADB's Social Protection Strategy, given the vast number of children in Asia and the Pacific.

The adequate mix of social protection policies will vary by country, depending on the specific risks and vulnerabilities identified in a country diagnosis, as well as the government capacity and commitment to invest in social protection. This section concentrates on selected policy priorities to ensure social protection for all.

5.1. Expanding Pension Coverage

In the 1990s, many pension reform programs were fostered in developing countries, particularly in Eastern Europe and Latin America. The idea was to avert an old age crisis in which social expenditures would swamp government spending, to promote individual contributions to ease workers' mobility, to avoid government mismanagement of pension funds, and to have positive externalities for the financial sector as people's savings are invested in capital markets.

The general model used for reforms is a multipillar system. Pillar I involves contributory and noncontributory pensions, normally with a defined benefit, funded through a pay-as-you-go (PAYGO) public system (with the current working generation paying retirees through tax contributions), the most common pension scheme worldwide. Pillar II consists of defined contributions (instead of a secure defined benefit) invested in financial instruments normally through private insurance and/or pension funds. Pillar III consists of voluntary additional pensions for upper income groups. Most radical reforms involved a complete abandonment of PAYGO (pillar I) to develop fully-funded (pillar II) pension systems.

Social insurance is important because it allows for equitable cross-subsidization—e.g., in health insurance, the healthy pay for the sick; in publicly provided pensions, the younger generation is custodian for the older generation. This equitable intergenerational social contract was broken in many countries when privately funded systems were introduced; however, the critical need to reduce poverty and achieve the MDGs has led to questioning of this approach in developing countries (Ortiz 2008, Holzmann and Hinz 2005, Van Ginneken 2003, Mesa-Lago 2002, UNRISD 2001). The arguments are as follows:

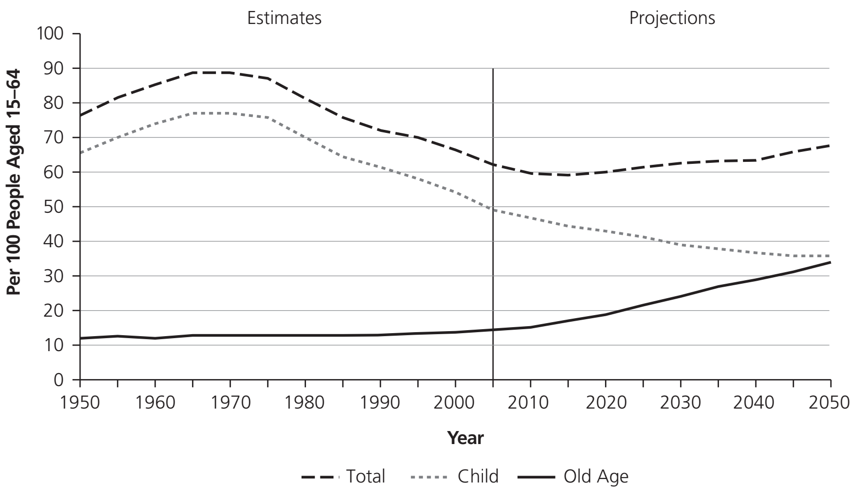
- Reforms did not have any impact on improving coverage given that the poor do not have any capacity to contribute to expensive private insurance systems, nor do private pension fund companies have an interest in serving the poor.
- The transition from a public system to a funded private system is costly and difficult for most countries to afford, as the current generation has to pay for the retirees under the old system (through taxation) and pay their own private contributions. Many developing countries, starved of resources for basic social investments, reformed their pension systems and now are paying the high fiscal costs of transition.
- The administrative costs of insurance and pension fund companies tend to be very high, making returns lower.
- The risk of financial market fluctuations is borne by pensioners, who could lose their life savings if financial markets collapse. In many cases, the state (the taxpayer) acts as a guarantor of last resort, having to bail out private companies and provide safety nets for citizens in case of financial downturns (Riesco 2010).
- Funded private systems did have a generally positive effect on capital markets, making them more liquid and mature; however, the objective of a pension system is not to develop capital markets, but to provide effective income support.
- Additionally, investing savings in financial instruments other than national bonds meant a loss of resources for governments, as pension savings have been crucial in financing public investments in many of the "late industrializers"—e.g., electrification in Finland, housing in Singapore, etc. (Mkandawire 2006, Kangas 2006).

There are a variety of options when reforming a pension system, and they should be carefully evaluated, avoiding pressures from insurance companies and other vested interests. Recent experience shows that public pension systems (PAYGO, pillar I) under good governance remain best from an equity point of view in developing countries; these may be accompanied by private pension schemes for upper income groups.

Countries such as Argentina, Bolivia, Brazil, Namibia, and South Africa have introduced universal non-contributory pension schemes as an instrument to fight poverty. This has taken a variety of forms, from the universal Bono Solidario in Bolivia (providing $225 provided per year to any person 65 or greater), to Brazil's pensions for rural men 60 or over and women 55 or over with a monthly benefit equivalent to the national minimum wage (approximately $87 per month). While benefits provided are modest, the impacts on poverty reduction have been large.

Last, but not least, recent studies question whether there is really an old age crisis (e.g., UN 2007). Looking at the big picture, aggregate population numbers, what the world is experiencing is a change in dependency ratios: currently, a very high child dependency ratio and a low (but rising) old age dependency ratio. Using UN population data (medium variant projections), these dependency ratios meet in 2050—currently the working age population is heavily supporting children; in the future, this will be more balanced with supporting older people (Figure 4).

Figure 4. Trends in Dependency Ratios, 1950–2050, Developing Countries

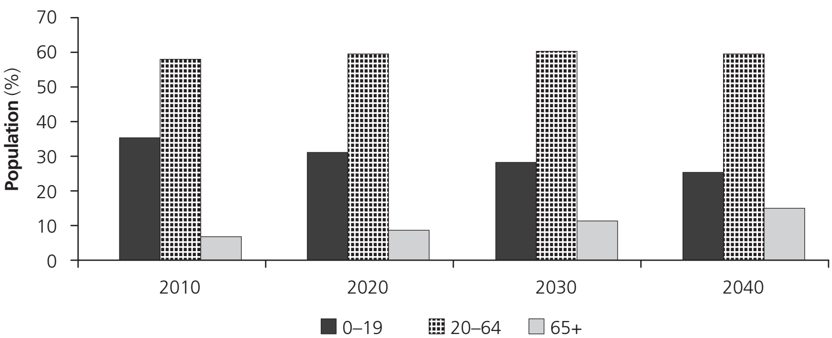


Source: United Nation (2007).

5.2. Social Protection for Children

Perhaps the most noticeable omission in social protection is ignoring the large number of children and youths (Figure 5). Children and youths constitute about half of the world's population. Asia is home to approximately 1.4 billion children (0–18), which comprise over one third of the population. Although the aging population is increasing, children still constitute a substantial population in terms of absolute numbers and percentages. In fact, children 0–18 represent over 38% of the total population in 18 countries in the region, including Bangladesh, Pakistan, and India—which has the largest number of poor children of any country. This percentage is even higher for some countries in the region, exceeding 50% in Timor-Leste and Afghanistan.

Figure 5. Demographic Trends in Asia for Age Groups 0–9, 20–64, and 65+ (% of total population)

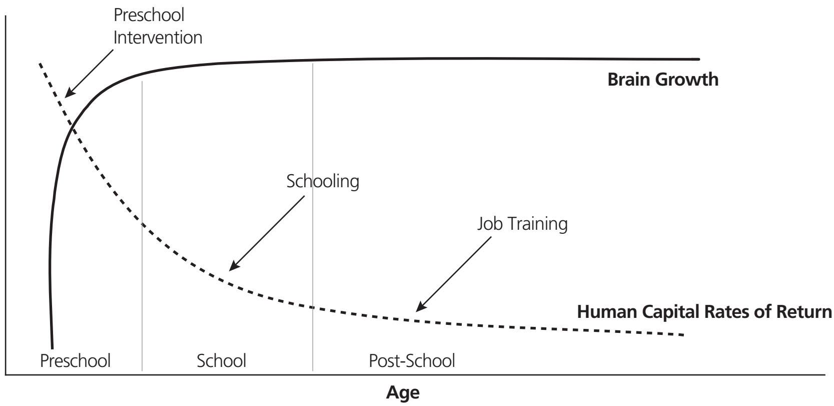


Source: United Nation (2007).

However, it is not simply the numbers of children that makes them an important population for social protection policy. It is also their age-specific vulnerability and the critical need to protecting children at a young age. Childhood is perhaps the most important period in the development of human beings because it is a period of intense physical, cognitive, psychological, and emotional growth, when major aspects of an individual's life chances are determined. Increasing social research and neurological evidence indicate the impact of adequate early healthcare and learning on the brain. Because these first years are so crucial, malnutrition and lack of early stimulation will cause irreversible damage to individuals and their capabilities, and therefore their human capital, leading to substantial long-term costs for society and for economic expansion.

Investment in this specific age group is urgently needed because investments in education, skills training, and health benefit any group in society (Figure 6). The issue is that it is more cost effective to invest in "an upstream solution than to remediate a downstream problem….Research data clearly shows that investment in early childhood development for disadvantaged children provides an 8% to 10% annual rate of return through better education, health, and social outcomes" (Heckman 2009).

Figure 6. Early Childhood Development—Rates of Return on Investment in Human Capital



Source: Samson (2008).

The foregoing discussion underscores the importance of not thinking of children as an afterthought in social protection policy, and the potential of missed opportunities if children are not reached at an early age. The long-term human costs of malnutrition and losses in education and health are also substantial.

- The effects of malnutrition on physical and cognitive development have been found to negatively impact adult productivity and adult earnings (Grantham-McGregor et al. 2007, Strauss and Thomas 1998, Victoria et al. 2008). For example, the World Bank estimates that "malnutrition in preschool children leads to a loss of lifetime earnings of approximately 12%" (World Bank 2009).
- Similarly, missed years in school alter children's earning potential during adulthood, with school dropouts earning less as adults (Ravaillon 2008). In Guyana, school dropouts lose hundreds of thousands of dollars in net earnings over their lifetimes, which ultimately costs the state thousands of dollars in foregone income (World Bank 2006).

The aggregate implications should not be underestimated; in India for example, the losses of foregone wage employment due to child malnutrition alone are estimated to be $2.3 billion, or 0.4% of gross domestic product (GDP) annually (World Bank 2006). Countries that are poor in human capital, that is, those with mostly unhealthy and uneducated populations—where investment in the social sector is low—cannot introduce new knowledge and technological progress into their productive processes, handicapping overall productivity (Sen 1999, UNICEF TACRO 2005). Viewed from a more positive angle, social protection policies can have positive impacts on economic productivity; the Child Support Grant in South Africa, for example, is estimated to translate into gains in monthly wages throughout adulthood of 5%–7% due to improvements in nutrition (Aguero, Carter, and Woolard 2007).

Additionally, as agreed in the UN Convention on the Rights of the Child, children should be protected from all forms of abuse and exploitation, such as child labor, child prostitution, or the adversities faced by the girl child. Early childhood development, nutrition, and school feeding programs; child allowances; initiatives to help street children; and programs to empower the young to avoid marginalization, criminality, sexually transmitted diseases, early pregnancies, and drug addiction, are some important social protection instruments.

Investing in child welfare thus makes sense. The provision of quality education, health, and protection services—in other words, the fulfillment of children's rights—allows for the development of stronger, smarter children and subsequently more healthy and productive adults and workers.

5.3. Unconditional or Conditional Cash Transfers?

Although cash transfers in various forms—e.g., pensions, means-tested income transfers, and education grants—have existed for a long time, their role in middle- and low-income countries has received substantial attention in the last decade. A growing number of countries have been implementing cash transfer programs on a large scale, following the success and profile of conditional cash transfer programs in Brazil and Mexico and an increasing use of unconditional transfers in Africa as a more systematic policy response to predictable economic and social insecurity. As pointed out above, emerging from this experience is a growing body of evidence on the impact of cash transfers on human development outcomes.

While most evidence from conditional programs comes from Latin America, with a long history of implementing these programs and substantial investment in evaluation, emerging evidence from unconditional transfers such as the Child Support Grant or old age pension in South Africa or the Malawi Social Cash Transfer Programme demonstrates similar positive effects on human development indicators. Conditionality remains a hotly debated issue. While both unconditional and conditional transfers can achieve positive outcomes, the extent of the impact of the conditionality remains unclear (Baird, McIntosh, and Ozler 2010; de Brauw and Hoddinott 2008). A few experimental studies of the issue are ongoing, but their findings are not yet available. People who favor conditionality argue that conditions provide positive behavioral incentives and help to maximize links with services. However, there are serious reasons to question the value added by conditions.

- Additional costs of ensuring compliance and the administrative burden of implementing them can be high, particularly in contexts of limited administrative capacity and financial resources.
- Where service supply is weak or unequally distributed, conditionality may in fact impose large costs on beneficiaries and unintentionally exclude those most in need.[1]
- From a human rights perspective, is conditionality consistent with principles of empowering people to make their own choices, or does it betray attitudes that the poor cannot be trusted to wisely make choices?

In terms of human development outcomes, options other than conditionality may be available for reinforcing positive outcomes:

- taking advantage of cash transfer programs' design to provide services and educational programs (Handa and Davis 2006)—for example, providing immunization services or nutrition classes at registration for the program, or arranging the cash delivery point at local clinics;
- building on some Latin American examples, concentrate improvements in the supply of health and education services in areas where cash transfers are being implemented; and
- where investing in children requires broader changes in social attitudes or relations, working with children and adults to strengthen their understanding of their rights may result in more sustainable and transformative outcomes.

5.4. Universal or Targeted Social Protection?

The debate over universal versus targeted policies is not new. Most developing countries initiated universal social policies from the outset. The late industrializers, in their goal to foster domestic development, nation building, and social standards, realized that targeting was unnecessary and administratively costly: universal policies achieved social objectives faster, and provided buy-in and political support for government policies (Esping-Andersen 1990, Mkandawire 2005).

However, the experience was not as positive in most developing countries, where universal services did not accomplish their purpose: coverage was low, often serving

[1] For a useful discussion of the advantages and disadvantages of conditionality, see Shubert and Slater (2006), Adato and Basset (2008), Blank and Handa (2008).

a portion of the formal sector and the wealthiest segments of society who captured benefits, while the poor and excluded groups remained unserved.

In the 1990s, with the renewed attention to poverty reduction, most development agencies strongly recommended targeting services to the poor. This experience was not extremely positive either. Since targeting came after the 1980s ideological shift in which the welfare state was attacked and privatization and user fees for social services were introduced, many developing countries were left with a segmented system—a public system for the poor and a private system for the upper and middle classes. Targeting comes from an old logic, as a way to reconcile poverty reduction with fiscal austerity (Ravaillon 1999). However, targeting to the poorest may mean excluding a significant proportion of vulnerable households in much need of support.

Major problems associated with targeting include the following:

- It is expensive: means testing absorbs an average 15% of total program costs.
- It is administratively complex, requiring significant civil service capacity and leading to large undercoverage (people not being served) making targeted programs ineffective; the world's most successful targeted programs have large undercoverage rates (e.g., in Brazil's Bolsa Escola, 73% of the poor are not reached; with United States Food Stamps, 50% of the poor are not reached).
- It generates incentive distortions and moral hazard.
- It creates two-tier services, one for upper-income groups and another for low-income groups and services for the poor tend to be poor services.
- In some countries, targeting has dismantled provision for the middle classes and weakened the politics of solidarity, contributing to a residual welfare approach. Targeting can backfire politically as middle-income groups may not wish to see their taxes go to the poor while they have to pay for expensive private services.
- Targeting can be effective if the poor are a small percentage of the population. When poverty is widespread, the administrative cost and problems associated with identification, monitoring, and delivery of programs tend to outweigh benefits.
- Targeting may be socially divisive particularly in contexts of high poverty, where people perceive themselves to be just as poor as their neighbor and that even low levels of benefits can lead to escaping poverty.

There is a strong rationale for adopting universal policies in developing countries, particularly those with a large number of poor and excluded groups. A number of development organizations are currently recommending universal public provisioning.

Nevertheless, targeting can be useful to complement universal policies

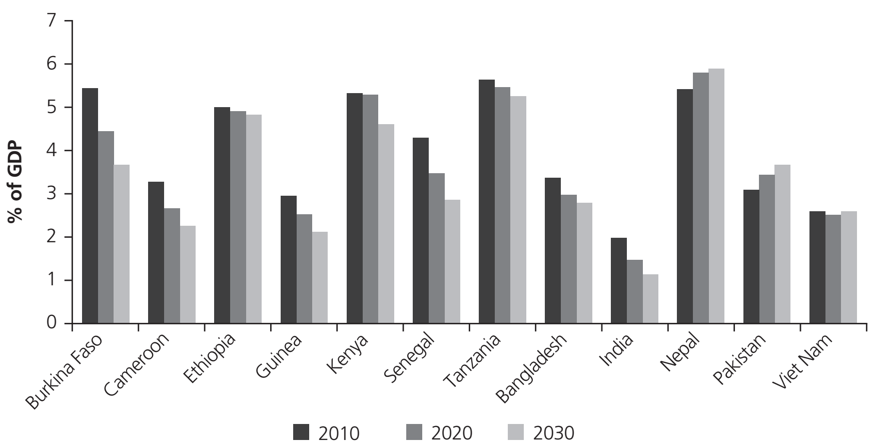
- to ensure quick expansion of coverage (e.g., establishing noncontributory targeted benefits or services for poor and excluded groups, fast-tracking universal coverage); and
- to address the special needs of minorities and specific population groups (e.g., people with disabilities).

6. Affordability

Expanding and improving social protection coverage inevitably lead to questions about affordability, particularly in contexts where government revenues are low or unpredictable. However, the costs of basic universal social protection are not beyond the reach of most developing countries. This is proven by various cost estimate studies and by the increasing number of countries planning and forecasting for large-scale programs.

- According to the United Nations Department of Economic and Social Affairs, the cost of a universal social pension scheme designed to keep older people out of poverty ($1 a day) is less than 0.5% of GDP in most countries (UN 2007).
- ILO calculations in 12 low-income developing countries also show that some form of basic social security can be afforded by virtually all countries. ILO estimates that a basic social protection floor, consisting of child benefits, a universal pension, and social assistance, would average 2%–5% of GDP in developing countries (Figure 7).

Figure 7. Estimated Cost of a Package of Basic Transfers



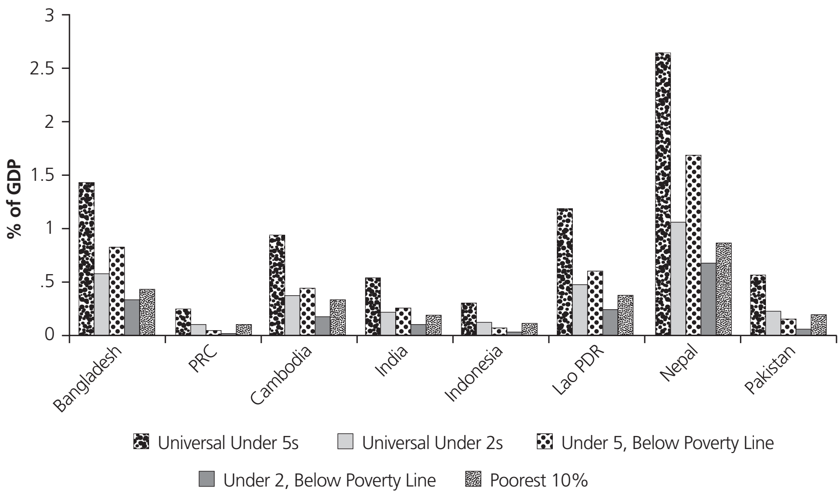
GDP = gross domestic product.

Note: The package includes old age pension, child benefits, a social assistance/employment scheme, and administrative costs.

Source: ILO (2008).

- Recent calculations by Save the Children UK suggest that the cost of a universal benefit for all children under 5 would be less than 1.5% of GDP for most poor and middle-income Asian countries, and much less many cases (Figure 8).

Figure 8. Cost of Benefits for Young Children: Selected Asian Economies



Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.
Source: Yablonski and O'Donnell (2009).

Many people argue that social protection is not affordable in developing countries because (1) of a loss in potential investment and/or GDP due to a supposed equity–efficiency trade-off, and (2) large social needs will likely create unmanageable fiscal deficits. Part of this rationale is a result of the "second-class" stigma that social development suffers—often governments prioritize high-cost and low-social-impact investments, not realizing that social development is also an important investment (Cichon, Hagemejer, and Woodal 2006). The net costs of investments in a basic set of social security benefits becomes zero or negative, because the fiscal costs are normally offset by positive economic returns and the enhanced productivity of a well-educated, healthy, and well-nourished workforce.

As shown in Figure 9, even with the same size government budgets, countries spend very different proportions on social expenditure. This suggests that the "fiscal space"[2] for social protection may be more elastic than at first glance. Choices are available in both the financing and cost sides. Increasing financing options include making existing social protection more effective or integrating existing programs, reallocating

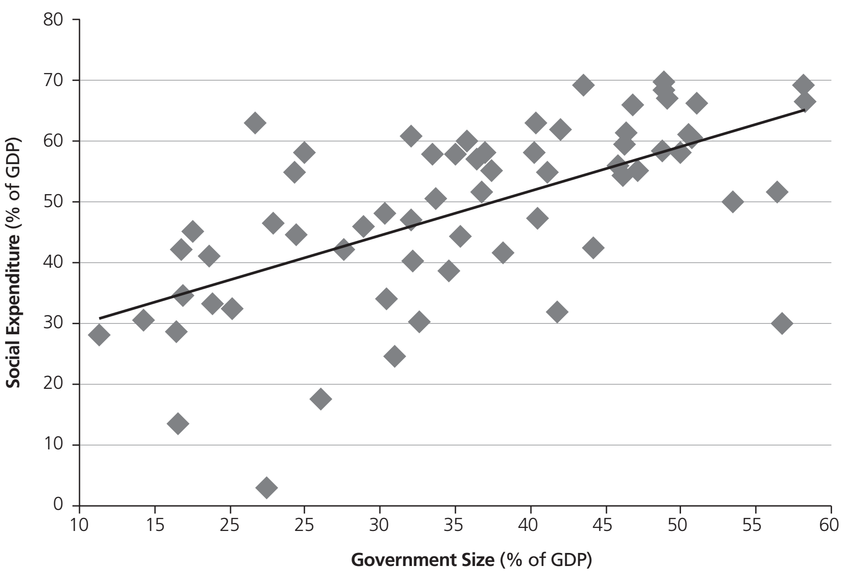
2 "Fiscal space" in this context is flexibility within a budget.

from other budget expenditures, and improving tax collection or introducing a new tax. On the cost side, policy options include expanding coverage over time by age or geography, and phasing programs to match projects with revenue growth.

In the end, affordability depends on a society's willingness to finance social policies through taxes and contributions. Affordability is at the core of the social contract between governments and citizens: how much a society is willing to redistribute, and how. Countries at the same level of economic development differ significantly in their social spending.

Ultimately, the counterargument needs to be made: the costs of keeping people excluded are high. Maintaining 80% of the world population without basic social protection translates in continuing poverty, increasing inequality, and the likelihood of conflicts. This is not an option if countries aim to achieve the MDGs and development for all.

Figure 9. Fiscal versus Policy Space



Source: Cichon, Hagemejer, and Woodal (2006, based on the IMF Government Finance Statistics Database).

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B. A Social Protection Floor for All: A UN Joint Crisis Initiative

Aidi Hu*

1. The Need, Economic Crisis, and Coverage Gap

Every human being needs protection from contingencies related to social and economic risks and the resulting insecurities. When this need is not met, either wholly or partially, the adverse effects are many and various, such as reduced well-being, increased exposure to poverty, higher exclusion from access to health and education, low access to productive activities, and increased prevalence of child labor.

Naturally, risks affect the poor first and more frequently and deeply. But risks can also plunge the non-poor into poverty. The World Health Organization estimates that each year 100 million people fall into poverty as a result of the financial burden of health-related risks or the need to pay for healthcare services (CEB 2009). The overall share of these two groups—the poor and those who are vulnerable to becoming poor—are significant in many developing countries (Table 1).

The current economic and financial crisis has resulted in rising unemployment, loss of or reduced income, and impoverishment. The International Labour Organization (ILO) estimates that the global number of unemployed people could have reached 239 million at the end of 2009, which would be 59 million more than in 2007 (ILO 2009b). At the same time, workers worldwide have been affected by declines in income through unpaid leave, working hour shortages, and other loss of income opportunities. Equally, working poverty—which had decreased steadily during the last decade—is now predicted to take a steep rise. The number of people working and living in extreme poverty at less than $1.25 a day may have risen from 624 million in 2007 to more than 850 million in 2009, and the vulnerable living on $2 may have reached 43% of the global workforce

* Presented by Valerie Schmitt-Diabate.

or 1.4 billion workers (ILO 2009b). The crisis has erased some of the achievements made in a number of countries over the last decades.

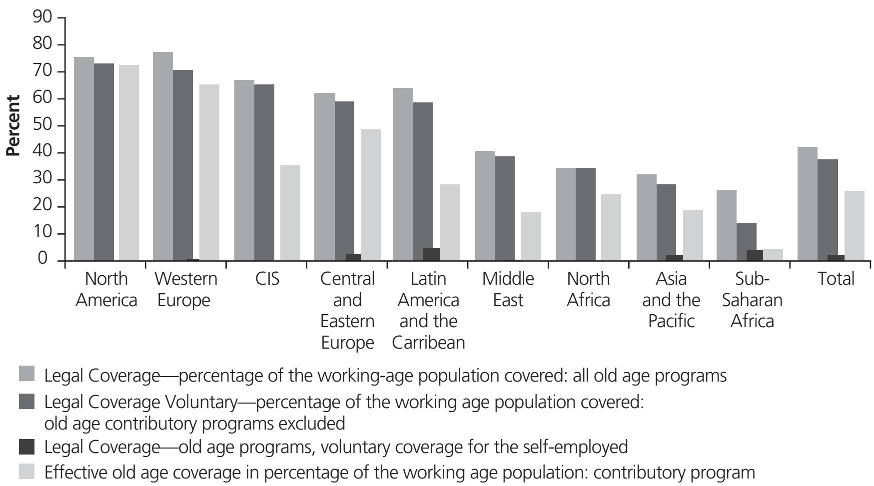
However, 75%–80% of the global population does not have adequate social security coverage, and about 50% has no social protection at all (ILO 2001). Figures 1 and 2 provide some detailed perspectives in terms of income protection coverage for the aged. Without social protection, people have to cope individually with hardships, and often find themselves dragged down into poverty.

Table 1. Poverty Status of Households (%)

		Always Poor	Sometimes Poor	Never Poor
China, People's Rep. of	1985–1990	6.2	47.8	46.0
Cote d'Ivoire	1987–1988	25.0	22.0	53.0
Ethiopia	1994–1997	24.8	30.1	45.1
India	1976/77–1983/84	21.9	65.9	12.4
Indonesia	1997–1998	8.6	19.8	71.6
Pakistan	1986–1991	3.0	55.3	41.7
Russian Federation	1992–1993	12.6	30.2	57.2
South Africa	1993–1998	22.7	31.5	45.8
Viet Nam	1992/93–1997/98	28.7	32.1	39.2
Zimbabwe	1992/93–1995/96	10.6	59.6	29.8

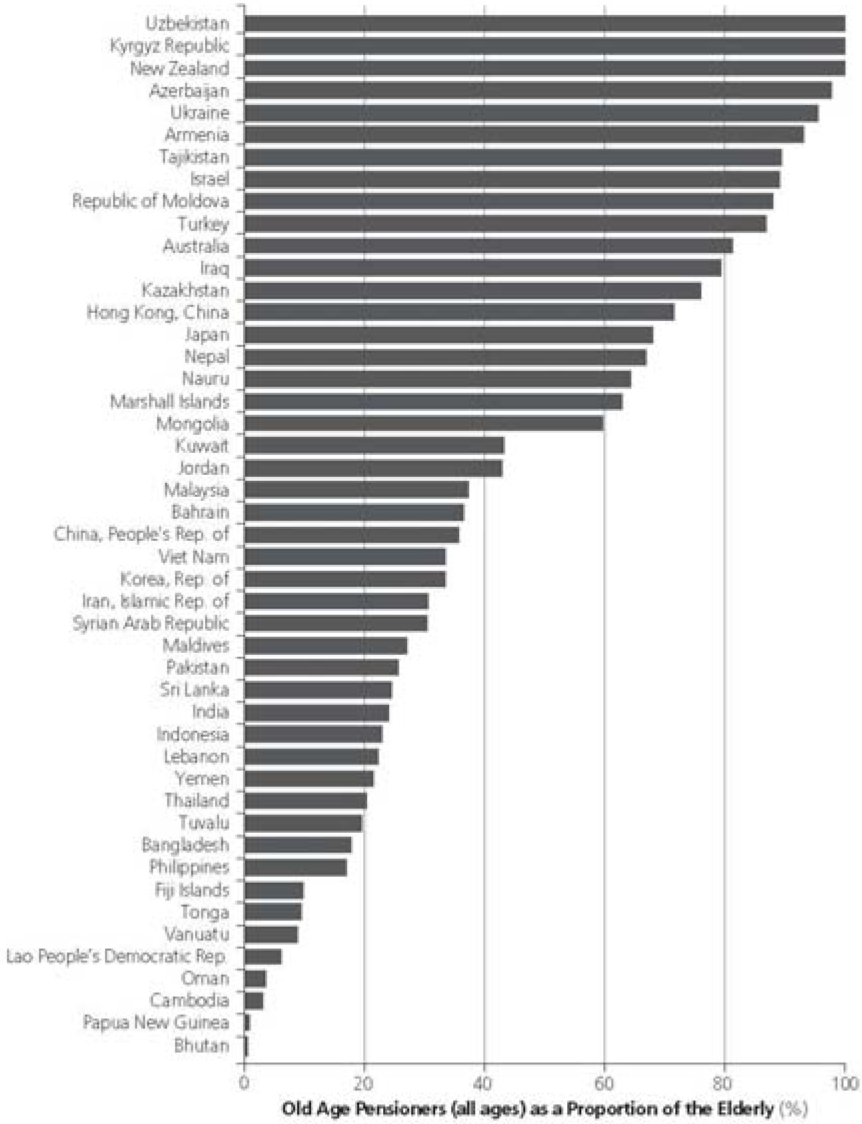
Source: Cited by Kalanidhi Subbarao, (2002).

Figure 1. Old Age Pensions: Legal Coverage and Contributors
(by region, 2008–2009, %)



CIS = Commonwealth of Independent States.
Source: ILO (2010b).

Figure 2. Asia and the Middle East: Old Age Pensioners
(all ages, % of the elderly population, 2008)



Source: ILO (2010b).

2. Definition and Objective of a Social Protection Floor

To effectively address the crisis, accelerate recovery, and pave the way for a better future, the United Nations System Chief Executives Board for Coordination endorsed nine joint initiatives in April 2009:

- additional financing for the most vulnerable people;
- food security;
- trade;
- the Green Economy Initiative;
- the Global Jobs Pact;
- the Social Protection Floor Initiative;
- humanitarian, security, and social stability;
- technology and innovation; and
- monitoring and analysis.

The Social Protection Floor (SPF) Initiative includes two facets:

- a basic set of essential social rights and transfers, in cash and in kind, to provide a minimum income and livelihood security for poor and vulnerable populations and to facilitate their access to essential services, such as healthcare; and
- geographic and financial access to essential services, such as water and sanitation, adequate nutrition, health and education, and housing.

The two facets represent two sides of the SPF—services, the "supply side;" and transfer, the "demand side"—as described in Table 2. The central objective is to facilitate and accelerate, as part of national social protection policies, the introduction or strengthening of sustainable social protection systems to provide essential services and cash transfers to all in need. SPF policies will build on, enhance, and strengthen national social security and social protection schemes that are already in place.

Table 2. Social Protection Floor: Supply- and Demand-Side Means to Secure Effective Access to Essential Goods and Services

Means to Ensure the Supply of An Essential Level of / Rights and Transfers to Ensure Effective Demand from	Health Services	Water, Sanitation, and Housing	Education	Food	Other Social Services (as defined by national priorities including life and asset saving
Children					
People in Active Groups with Insufficients Income from Work					
Older Persons					

Source: ILO and WHO (2009).

3. Rationale

The rationale for the SPF is grounded in needs noted in section 1. The concept of the SPF is also rooted in the Universal Declaration of Human Rights, ILO conventions on social security, the Convention on the Rights of the Child, and other human rights instruments.

In the Universal Declaration of Human Rights, Article 22, states that "Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality."

Article 25 further prescribes that "(1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. (2) Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection."

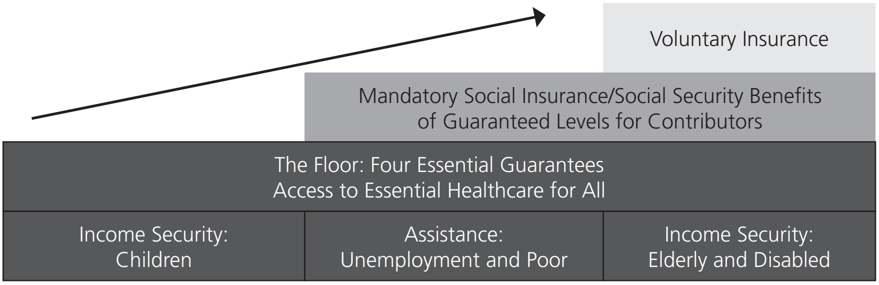
The SPF can contribute to the realization of the human right to social security and essential services as defined in Articles 22, 25, and 26 of the Universal Declaration of Human Rights (1948) as well as encouraging the observance of ILO Convention No. 102 on Social Security (Minimum Standards).

In addition to being a basic human right and a social necessity to combat poverty, insecurity, and inequality, social security is proved to be an economic necessity: the latest Chinese research confirms that social services and transfers are an economic necessity to unblock the full economic potential of a country; only people who are healthy, well educated, and well nourished can be productive and have the capacity to consume.

3.1. Social Protection Floor: An Essential Part of Social Security Strategy

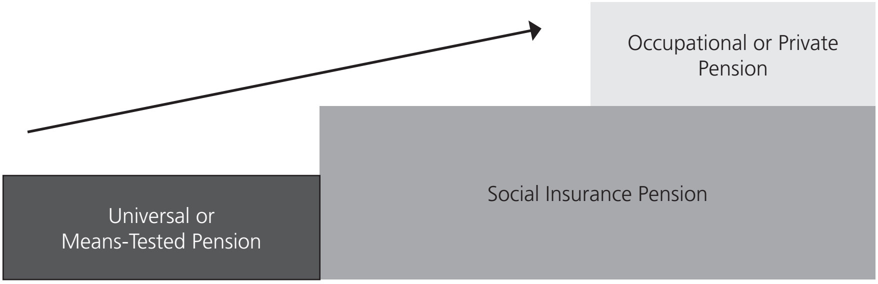
The origin of the SPF concept comes from the "social security staircase" policy paradigm that the ILO has developed since 2001 as a conceptual strategy for the campaign to extend social security coverage (Figure 3). The multitier structure may also be reillustrated (Figure 4) for old age pension to reflect more closely the real situation in countries such as the People's Republic of China (PRC), Maldives, and Thailand.

Figure 3. The Social Security Staircase



Source: Cattaert and Chichon (2009).

Figure 4. The Social Security Staircase: Old Age Insurance



Source: Author.

The floor level comprises a set of basic guarantees for all. For people who are able to pay taxes or contribute to insurance, a second level of benefits as a right (defined and protected regarding the minimum levels by law) can be introduced. Finally, for those who need or wish for high levels of protection, a "top floor" of voluntary private insurance arrangements can be organized (but should be subject to regulation and public supervision in the same way as all private insurance schemes). This multitier structure is appropriate to countries at all stages of development—the number of people whose only protection consists of basic social guarantees is naturally larger in countries at lower levels of economic development than in wealthier countries.

The minimum set of social security guarantees, part of an SPF, consists of four essential social security guarantees.

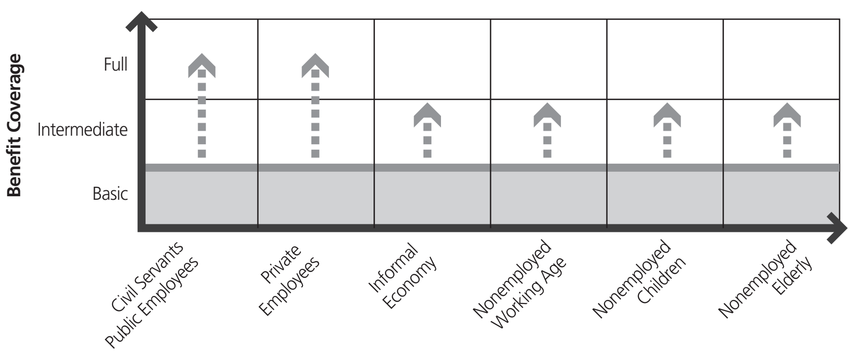
- All residents have access to a nationally defined set of essential healthcare services.
- All children have income security, at least at the level of the nationally defined poverty line, through family and/or child benefits aimed at facilitating access to nutrition, education, and care.

- All people in working age groups who are unable to earn sufficient income on the labor markets should enjoy a minimum income security through social assistance.
- All residents who are old or with disabilities should have income security at least at the level of the nationally defined poverty line, through pensions for old age and disability.

What constitutes a reasonable level of basic income security and of essential healthcare is an open question. In general, the level of benefits and scope of population covered for each guarantee should be defined in light of national conditions, such as national priorities, long-term fiscal capacity to finance the benefits, and national and institutional capacity for effectively and efficiently delivering these social security benefits to the targeted population. But in no circumstance should the level of benefits fall below the minimum that is needed to ensure access to a basic basket of food and other essential goods and services. And the SPF should not be only an anticrisis measure but an essential part of the general national strategy for social security.

Clearly, this conceptual strategy for the extension of social security coverage to all has two dimensions: horizontal and vertical. The horizontal aspect comprises the extension of some income security and access to healthcare, even if at a modest basic level, to the whole population. The aim is to extend a basic level of core benefits rapidly to as many population groups as possible The vertical dimension aims to provide higher levels of income security and access to higher quality healthcare at a level that protects the standard of living of people even when faced with fundamental life contingencies such as unemployment, ill health, invalidity, loss of breadwinner, and old age. Therefore the vertical extension aims to increase the scope of the coverage, i.e., the range and level of benefits, to a level that is described in Convention No. 102 and preferably to a higher level as defined in other up-to-date ILO conventions (Figure 5).

Figure 5. The Scope for Increasing Coverage to Population Groups



Source: ILO (2010a).

This two-dimensional strategy for the extension of social security coverage clearly reflects a core set of essential principles, which are distilled from the ILO's mandate, constitution, and legal instruments, as well as the Universal Declaration of Human Rights and other international legal documents, as follows:

- **Universality.** Access for all to effective social protection through social security is the most fundamental principle. However, it does not imply that all individual schemes must be universal in application. But universal coverage should be a strategic goal of an integrated national social security system. In countries that have not yet been able to develop extensive schemes of formal social security, the development of an SPF package of benefits may be a pragmatic approach for moving toward universal coverage.
- **Progressiveness.** Clearly, the development of each national multitier social security system should not stop at the ground floor. The implementation of the SPF represents only the first step of an upward staircase. Indeed, societies at relatively low levels of economic development cannot achieve the same levels of social protection as those at higher levels of development. But, as and when the continuing development of the national economy permits, societies are expected to seek to provide higher levels of security to as many people as possible,
- **Pluralism.** Worldwide experience and evidence show that there is no single "right" model for providing social security and health protection, nor a single pathway toward achieving universal coverage. Some countries will seek to extend social insurance and combine it with social assistance, some will facilitate access to social insurance coverage for the poor through subsidies, and others may put in place tax-financed universal schemes. A huge range of choices exists in terms of financing, benefit packages, administrative arrangements, etc. Each approach has advantages and disadvantages, as determined by national values and priorities. But the parameters applied to schemes can have a major impact on the effectiveness of the scheme and the efficiency of its administration.
- **Outcome focus.** It is the outcomes, not the ways and means, of national social security strategies that matter. Policymakers spend too much time on the detailed mechanisms of scheme design rather than on the ultimate objectives—the actual payment and sufficiency of benefits paid to those having a right to or need of them. Sufficient attention is needed to the optimal social outcomes, rather than engaging too deeply in academic debates on the processes and methods for achieving the outcomes.

5. Selected Good Practice from Asia

The SPF Initiative was developed in light of international experiences. Good policies and initiatives from the Asian region are numerous. This section will highlight some good national practices for providing basic social protection to all.

5.1. The People's Republic of China

In addition to rural pension policy, the PRC has initiated a number of other social security programs that contribute significantly to the extension of social security coverage to socially and economically disadvantaged groups of the population.

Health Insurance for the Rural Population. Despite the rapid process of urbanization during the last 3 decades, 54.3% of the PRC's 1.3 billion people still live in rural areas (NBS 2009). But after the collapse of the rural cooperative medical care in the early 1980s, the vast rural population had virtually no health insurance coverage.

In 2002, the Central Committee of the Party and the State Council jointly issued a circular on improving the health of the rural population (No. 13 of 2002), calling for setting up a "new rural cooperative for medical care" (NRCMC). In line with that decision, the NRCMC was launched in 2003, aiming to cover all rural counties and populations by 2010.

The new type of rural cooperative medical scheme is a medical system for farmers with the government providing guidance and support; farmers participating voluntarily; and funds raised jointly by individuals, collectives, and government to be used for major diseases. Funds are collected through subsidies financed through the central and local governments. These are supported by collective organizations and contributions paid by farmers, which are mainly used for the costs of farmers' admission to hospitals and serious diseases.

At the end of 2008, the NRCMC was operating in all rural counties—a total of 2,729 counties and equivalent districts (Zhang 2008).[1] A total of 830 million rural people were participating in this scheme on a family basis at the end of 2009 (Wen 2010). The total rural population varies, but under the PRC's registration system (*hukou*), it is estimated at 900 million. This would decrease to about 720 million if people's actual place of residence and work are considered, because an estimated 200 million

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1 2003–2007 data from MOHRSS; 2008 data from NBS (2009).

rural workers and their families now spend most of their time in cities, and some of them decided to participate in the NRCMC managed by their native counties.

Participation in the NRCMC is high despite its voluntary nature. One of the main reasons for the high participation is the substantial government subsidy. The contributions of insured member versus that of the government increased from CNY10:CNY20 ($1.21:$2.41) in 2003 and CNY20:CNY80 ($2.92:$11.69) in 2009 to CNY30:CNY120 ($4.39:$17.55) in 2010.[2] Another reason is that the government financial support and the benefit package, which varies across the rural counties, have been improving, although the average rate of out-of-package payment for the rural population is estimated to still exceed 50% of health-related expenditures.

Health Insurance for Urban Uninsured Residents. After the introduction of the NRCMC, urban uninsured residents, mainly consisting of the elderly, children, and students and totaling about 100 million to 200 million people, were the last major group left without health insurance coverage. To provide them with access to basic healthcare financing, the State Council issued the circular, Guidelines on Piloting a Health Insurance Scheme for Urban Economically Inactive Residents (No. 20 of 2007).

In accordance with the circular, the scheme, Health Insurance for Urban Uninsured Residents, has been pilot tested since 2007, with a view to covering all targeted people by 2010. Participation is voluntary and significantly subsidized by the government, with the elderly paying about 36% of the cost and children paying about 56% in 2008 (SSA and ISSA 2008). The average subsidy per insured person will be increased to CNY120 ($17.55) for 2010—about 50% higher than in the previous year (Wen 2010).

The successful implementation of these two new schemes, together with the existing health insurance for the urban working population, established in the 1950s, has enabled the PRC to provide access to basic health financing to 1.23 billion people, more than 90% of the national population (Wen 2010). The government plans to achieve universal coverage with health insurance by the end of 2010.

Minimum Living Standard Guarantee Program. Social assistance in the PRC consists of a number of subprograms, but the most important is the Minimum Living Standard Guarantee Program. Like all other social assistance programs, it is budget-funded and means-tested, providing minimum income security to all households, urban and rural, whose per capita income has fallen below a prescribed level. Initially, the program was pilot tested in Shanghai in 1993 and then progressively extended to all parts of the mainland PRC. It has achieved its goal of universal coverage since 2007.

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2 Wen (2010) and his previous years' reports to the Parliament.

In 2008, the scheme provided cash benefits to 66 million people, nearly 5% of the national population. The cost was CNY62 billion ($9.1 billion), equivalent to 1.0% of the annual government revenue or 0.2% of gross domestic product (GDP).[3]

The PRC experience shows that without firm commitment and direct financial support by the government, pro-poor and pro-vulnerable social security initiatives can not be implemented on a large scale and within a short period. From 2003 to 2007, the annual increase in the government expenditure on social security averaged 19.4% (Wang 2008). No doubt, social security benefited, in general, from the PRC's high annual GDP growth and a higher annual rise in government revenues: 9.8% and 14.0%, respectively, during the last three decades (Wang 2008). Without political willingness, such extensive social policies and programs could not be implemented.

5.2. Universal Coverage of Health Insurance in Thailand

Since 2002, Thailand's health insurance has comprised three schemes: the Civil Servant Medical Benefit Scheme, Social Security Scheme, and Universal Coverage Scheme. Together the schemes provide health protection to almost all of the population. Table 3 outlines the schemes' main characteristics.

Table 3. Main Features of Health Insurance Schemes in Thailand

	Civil Servant Medical Benefit Scheme	Social Security Scheme	Universal Coverage
Year of Implementation	1960s	1990s	2002
Targeted Groups	Government employees and dependents, retirees	Private sector workers	People not covered by the existing schemes
People Covered (as % of population)	7	13	80
Source of Financing	Government budget	Tripartite contributions	Government budget
Expenditure (as % of gross domestic product, 2007)	0.5	0.2	1.1
Expenditure (as % of government budget, 2007)	2.9	1.1	5.8
Provider Payment	Fee for services for outpatients and diagnosis-related groups (DRGs) for inpatients	Capitation (use DRG in risk adjusted part)	Capitation + DRG

Source: Chantana (2009).

[3] Author's calculation based on NBS (2009).

Before the introduction of Universal Coverage, the coverage gap in health insurance was as large as 80% of population, and many people in the informal sector with irregular and low income. The gap was closed by the government-financed Universal Coverage policy, and the goal of universal healthcare coverage was realized. The comprehensive benefit package provided under Universal Coverage is basically identical to that provided under the Social Security Scheme, except that no co-payment is required from the Universal Coverage beneficiaries.

5.3. Rashtriya Swasthya Bima Yojana: Health Insurance for the Poor in India

For people living below the poverty line, an illness is a permanent threat to their income earning capacity and often can result in their families falling into a debt trap. Poor families often ignore their needs for medical treatment because they lack resources or fear wage loss, or wait until the medical condition is severe. The cost of healthcare may consume poor people's savings, force them to sell assets, cause them to decrease important spending such as on children's education, and/or force them into debt.

Such dire outcomes can be avoided through government-subsidized health insurance mechanisms such as India's Rashtriya Swasthya Bima Yojana (RSBY). The government of India launched the RSBY in April 2008. The objective is to protect households below the poverty line from financial liabilities arising out of hospitalization. Beneficiaries under the RSBY are entitled to hospital coverage for most diseases that require hospitalization. Pre-existing conditions are covered from admission, and there is no age limit. For each household, five members are covered, including the head, spouse, and up to three dependents.

The RSBY is almost entirely financed by the government budget on the basis of Rs30,000 ($660) per family below the poverty line per year, of which 75% is funded by the central and 25% by state governments. In addition, the administrative cost is financed by the state government, and the cost of a smart card is financed by the central government (Rs60 [$1.30] per beneficiary). Beneficiaries only pay Rs30 ($0.65) per year as registration fee (Chaturvedi 2009). The premium is paid to the insurers selected by the state government on the basis of competitive bidding. Because the amount of premium paid to each insurer is determined by the number of households below the poverty line enrolled with it for the RSBY, the insurer is motivated to enroll as many households as possible from the list of targeted households. This will result in good coverage of targeted beneficiaries.

As healthcare providers are paid by the insurers on the basis of the number of below-the-poverty-line beneficiaries treated, they also have an incentive to provide treatment to a large number of beneficiaries. Even public hospitals have an incentive to treat beneficiaries under the RSBY, as the money from the insurer will flow directly to the public hospitals, which can use it for their own purposes. Insurers monitor participating hospitals to prevent unnecessary procedures or fraud resulting in excessive claims.

Another success that the RSBY has achieved is high effective coverage through portability. A beneficiary who has been enrolled in one particular district is allowed to use the smart card in any RSBY-empanelled hospital in India. This benefits poor families that migrate. Cards can also be split within the household for migrant workers to carry a share of the coverage with them separately. Within the benefit package, a transport allowance of Rs100 ($2.2) is paid per visit, up to a ceiling of Rs1,000 (Chaturvedi 2009).

6. Impacts and Affordability

6.1. Social impacts

The ILO study, "Compendium of Cash Transfer Programs in Developing Countries," was based on 80 studies in 28 countries during 1999 and 2008, including 8 in Africa, 9 in Asia, and 11 in Latin America. The study's preliminary results show that several countries are already providing basic guarantees. The social impacts are summarized in Table 4.

Table 4. Social Impact: Preliminary Results

	Number of Studies Finding		
Criteria	**Positive Effects**	**Small or Neutral Effects**	**Negative Effects**
Poverty and Vulnerability	46	9	0
Health/Nutrition	25	1	0
Education Enrollment	30	0	0
Labor Market	9	5	3
Child Labor	12	3	0
Productive Investments	40	5	0
Social Status/Bonds	23	1	2
Gender	13	4	0

Source: Chichon and Obermeyer (2009).

Evidence from other countries also suggests that social protection can contribute to economic growth by raising labor productivity and enhancing social stability: social transfer schemes have positive impacts on poverty; health and nutrition; social status of recipients, notably women; economic activity and entrepreneurial small-scale investments, notably in agriculture; and creation of access to labor markets for the poor. For example, the combination of a modest cash benefit for children and a modest pension, which could be an "entry level" of the SPF for poorer countries, could reduce the poverty head count by about 40%, as documented by some studies (ILO and WHO 2009). This would be a major contribution to achieving Millennium Development Goal 1. In Latin America the cost of a modest package of conditional child cash transfers, universal pensions, and basic healthcare can be kept under 5% of GDP, while the poverty headcount effects can achieve a reduction of more than 50% (Chichon 2009).

Social security has the longest history in the European Union and Organisation for Economic Co-operation and Development (OECD) countries. Their experience has also proved that social security is effective in narrowing income inequality and reducing poverty. Broadly, the higher social expenditure is, the lower the poverty rate is. Income inequality in the Scandinavian European Union countries and the Netherlands (with high social expenditure and Gini coefficients ranging between 0.225 and 0.261) is much lower than in countries with lower levels of social expenditure, notably Ireland, the United Kingdom, and the United States (where Gini coefficients are well above 0.3). All these countries have high labor force participation rates; thus, the differences do not originate from the proportion of economically active people. The proportion of children who grow up in poor households is about 3% in the Nordic countries, compared with 16% in Ireland and the United Kingdom and 22% in the United States. The proportion of the elderly living below the poverty line in the Netherlands is 1.6% while in Ireland it is 35.5% (OECD SOCX database). Comparing these figures with the resources that these countries spend on social transfers—24% on average in the Scandinavian countries and the Netherlands, against 17% on average in Ireland, the United Kingdom, and the United States (ILO 2009c: 6), indicates that social protection, if sufficiently endowed with resources, is effective in its main objective of reducing income inequality and poverty. (The results are valid even though outcomes in general are not uniform across countries compared.) OECD research has shown, in fact, that the relationship between non-elderly poverty rates and the share of (cash) social transfer expenditure in GDP is statistically significant.

Taking a historical and worldwide perspective, the countries that have been most successful in achieving long-term sustainable growth and poverty reduction have all put in place extensive systems of social security. While strong evidence may be lacking to demonstrate a direct link between social security and positive economic performance, the two certainly coexist in all successful countries, and OECD countries. OECD countries have invested heavily in social security—generally more than 20% of GDP—as part of their long-term growth and poverty reduction strategies. And, perhaps more important, they started to do so when they were poor.

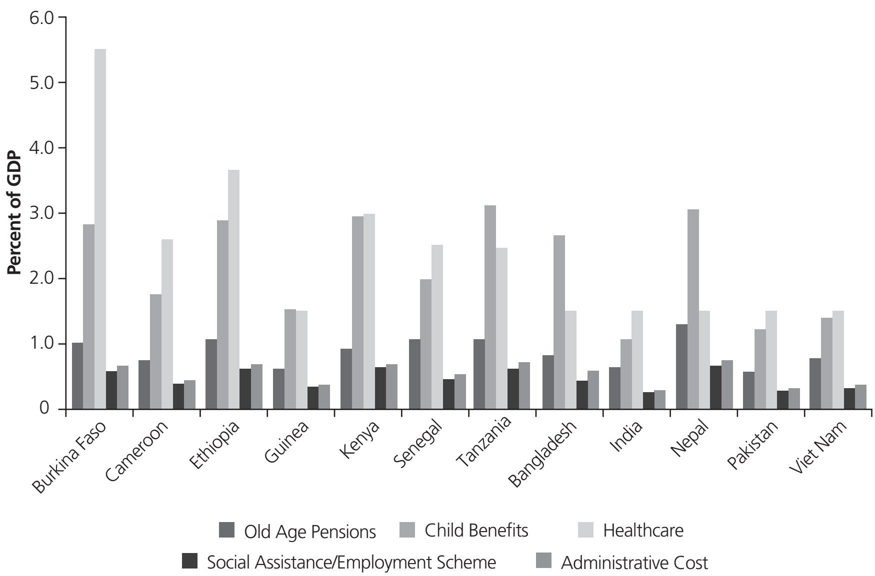
6.2. Affordability

Is an SPF affordable? The ILO has recently undertaken two studies, one in Africa and the other in Asia, that provide a first estimate of the costs of a hypothetical basic social protection package in low-income countries. The estimate was projected on the following assumptions:

- essential healthcare based on a health system staffing ratio of 300 medical professionals per 100,000 population, and an overhead with 67% of staff cost;
- child benefits equal to 15% of per capita GDP capped at $0.50 (purchasing power parity), for a maximum of two children age 0–14;
- basic social assistance for the unemployed equal to 100 days of guaranteed employment, paid at 30% of per capita daily GDP to 10% of the population;
- basic old age and invalidity pensions equal to 30% of per capita GDP, capped at $1 (purchasing power parity) per day; and
- administration cost equal to 15% of cash benefit expenditure.

The studies show that the initial gross annual cost of the overall basic social protection package (excluding access to basic healthcare that to some extent is financed already) is estimated at 5%–10% of GDP in 2010 (Figure 6).

Figure 6. Costs of Components of a Basic Social Protection Package
(% of GDP, selected countries in Africa and Asia, 2010)



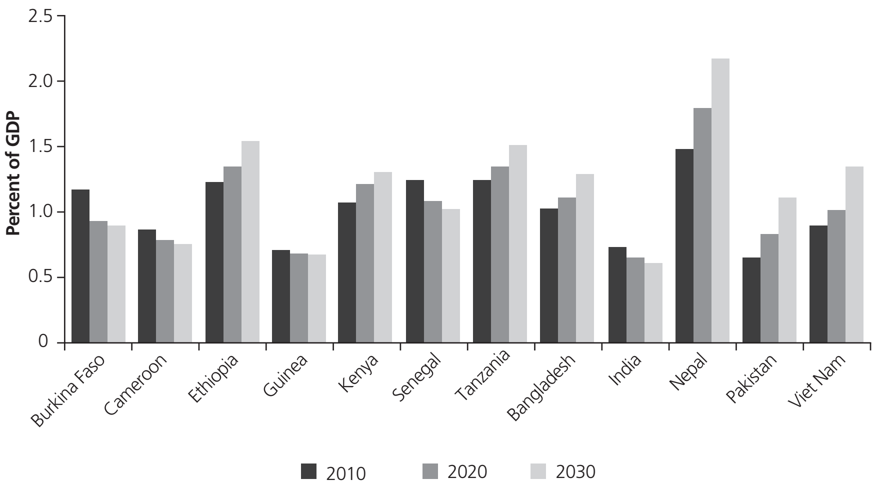
GDP = gross domestic product.
Source: ILO (2009a: 29).

Among the four provisions, the pension is the most expensive in the majority of studied countries (Figure 7). The annual cost of providing universal basic old age and disability pension is estimated in 2010 at 0.6%–1.5% of annual GDP in the countries considered. The cost would increase only moderately by the year 2030, despite the aging process.

The global picture on social protection expenditure by region (Table 5) provides another perspective for assessing the issue of affordability.

On average, 18.1 % of global GDP is allocated to social security. The share varies by region from 6.4% to nearly 27% of GDP. The difference is much larger among individual countries. As an SPF is normally financed from the government budget, there is a concern about the ability of the government to afford the SPF. Figure 8 shows that "policy space" for financial maneuvering may be wider than is often assumed.

Figure 7. Cost of Basic Universal Old Age and Disability Pensions
(% of GDP, selected countries in Africa and Asia)



GDP = gross domestic product.
Source: ILO (2009a: 30).

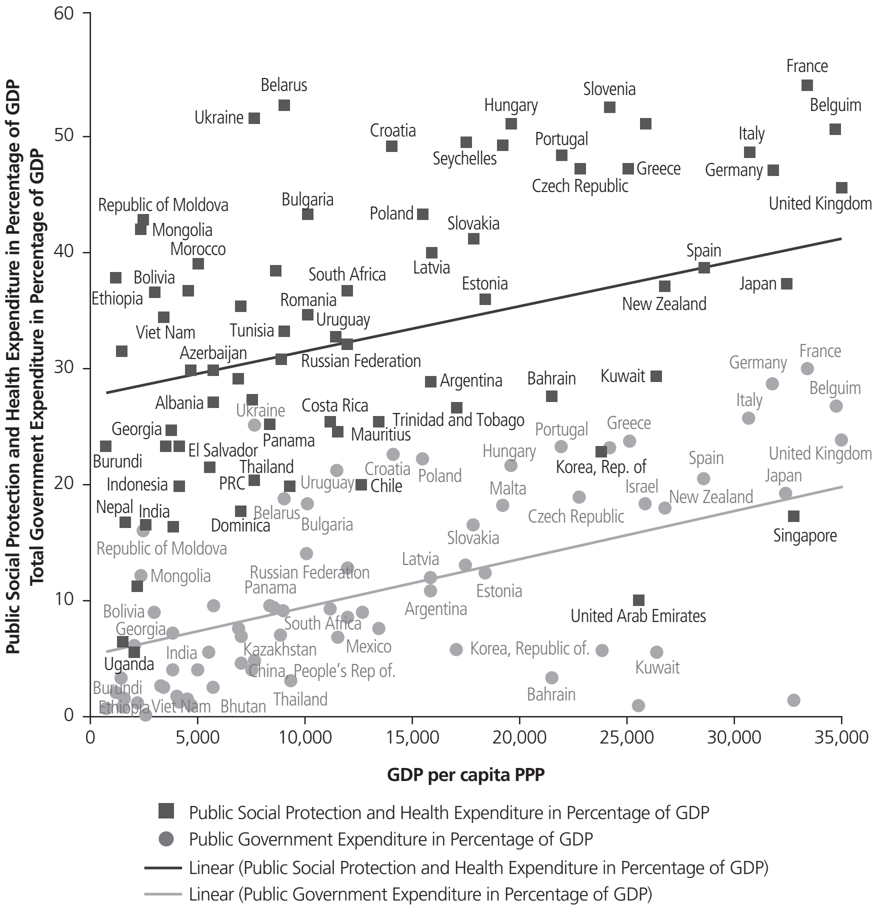
Table 5. Social Security Expenditure by Region and Globally
(latest available year, % of GDP)

	Social Security Expenditure (excluding health)			Public Health Expenditure as a Percentage of GDP			Total Social Security Expenditure as a Percentage of GDP		
	GDP Weighted	Simple Average	Population Weighted	GDP Weighted	Simple Average	Population Weighted	GDP Weighted	Simple Average	Population Weighted
Western Europe	17.9	16.7	18.0	7.1	6.4	7.1	**25.0**	**23.2**	**25.1**
Central and Eastern Europe	14.5	13.9	14.1	5.0	5.0	4.8	**19.5**	**18.9**	**18.9**
North America	9.0	9.3	9.0	7.0	6.9	7.0	**19.5**	**18.9**	**18.9**
North Africa	10.5	9.5	11.0	2.5	2.4	2.5	**13.0**	**11.9**	**13.6**
Commonwealth of Independent Staes	9.0	8.2	9.9	3.9	2.7	3.6	**12.9**	**10.9**	**13.5**
Asia and the Pacific	7.9	3.6	3.6	4.2	3.3	1.7	**12.0**	**6.9**	**5.3**
Middle East	8.8	6.6	7.6	2.8	2.8	2.2	**11.6**	**9.4**	**9.8**
Latin America and the Carribean	6.6	4.0	7.1	3.1	3.4	3.1	**9.7**	**7.4**	**10.2**
Sub-Saharan Africa	5.6	2.3	2.8	3.1	2.4	2.5	**8.7**	**4.8**	**5.3**
Total	**11.3**	**7.1**	**5.7**	**5.9**	**3.8**	**2.7**	**17.2**	**10.9**	**8.4**

GDP = gross domestic product.
Source: ILO (2010b: 114).

Figure 8 maps national public expenditure and public expenditure on social protection and health as percentages of GDP against the GDP per capita. The result is two almost parallel regression lines. Clearly, in principle, both types of expenditure increase as GDP per capita increases. More interesting is the cloud of expenditure levels surrounding the regression lines, indicating that, at similar levels of GDP per capita, countries are in a position to exercise a substantial degree of discretion regarding the level of overall public expenditure and, within that envelope, regarding the share of public resources allocated to social expenditure. Therefore, the extent of political willingness to pay for social protection plays a critical role in the level of social protection put in place in a country.

Figure 8. Total Public Expenditure and Social Expenditure vs. GDP Per Capita



GDP = gross domestic product, PPP = purchasing power parity.
Source: ILO (2009a: 34).

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C. Social Protection Policy in Indonesia

Muhammad Chatib Basri and Gustav Papanek

1. Introduction

Prior to the 1997/1998 Asian financial crisis, the Indonesian economy performed admirably. Structural transformation took place in agriculture, manufacturing, utilities, and services. And the period from the mid 1960s to the 1980s was notable in Indonesia's economic history. The economy grew on average by 7.6% from 1967 to 1996. In line with high economic growth and the structural transformation in several sectors, the poverty level declined from about 40% (54.2 million people) in 1976 to 17.5% (34 million people) in 1996. Timmer (forthcoming) pointed to economic growth in Indonesia as the main factor stimulating a continued decline in poverty incidence. The poverty level declined quickly when the economy was stable and income per capita grew by 5%–6% per year.

However, the financial crisis of 1997/1998 had an extremely severe effect on the Indonesian economy, which contracted, registering a –13.7% growth. In 1 year, the rupiah weakened from Rp2,500 against the United States dollar to only Rp10,000 peaking at Rp17,000; and inflation jumped to 70%. As a result of the inflation and increased price of food, poverty increased. The number of people living below the poverty line rose from 15.7% in February 1997 to 27.1% in February 1999 (Sumarto, Suryhadi, and Widyanti 2002). The unemployment rate rose from 4.7% in August 1997 to 5.5% in August 1998, while underemployment increased from 35.8% to 39.1%.

As poor people are extremely susceptible to slow economic growth and shocks in the economy, a program is needed to protect them from such events. This is important because economic crises occur from time to time. For example, the global financial crisis of 2008 reduced Indonesia's economic growth rate from 6.1% in 2008 to 4.5% in 2009, and affected the absorption of labor, which in turn affected poverty.[1]

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[1] For full details, see the study carried out by Papanek, Basri, and Schydlowsky (2010).

Poor groups and people who live near the poverty line (the "near poor") are extremely susceptible to shocks in the economy. Thus, a specially designed policy is needed to help poor people handle the shocks so they do not fall into the poverty trap. Beyond this, in normal situations, poor people need to be provided with better access to the means of improving their standard of living.

For this, social protection is needed. Ideally, poverty reduction control policies will have a final aim of increasing the capacity and capability of poor people so that they can remove themselves from poverty. But poor people who are no longer able to work, such as the aged or those with permanent disabilities, require the government's full social assistance.

To deal with economic crises, the Government of Indonesia has a social safety net program. The program was planned as a result of the 1997/1998 crisis, to protect poor groups and groups that are vulnerable to becoming poor. The program was based on four strategies (Sumarto, Suryhadi, and Widyanti 2002):

- guaranteeing that food is made available at affordable prices;
- safeguarding public purchasing power by creating job opportunities through labor-intensive projects;
- preparing access to basic services, in particular education and health; and
- making credit available for small-scale enterprises.

However, Sumarto, Suryhadi, and Widyanti pointed out that many of these programs did not achieve their goals due to mistargeting and low coverage and that many of the benefits were enjoyed by non-poor groups.

The early social protection programs were planned during a crisis situation, and the planning process was far from perfect. Protecting poor people from economic shocks is in fact not enough. Formal social protection programs are needed within a thorough protective system. It is extremely important for Indonesia to implement such a system as, based on poverty measurements by the Central Bureau of Statistics (BPS), in 2009 Indonesia had about 32.5 million poor people, or 14.2% of the population—even though this was the lowest since the 1997/1998 crisis, when the proportion was 23.4% or about 50 million people.

Bearing in mind the importance of this problem, and remembering that shocks in the economy recur, this paper specifically discusses current social protection programs in Indonesia and the targets for social protection programs in the future.

2. Policy to Improve the Welfare of Poor People in Indonesia[2]

While Indonesia's poverty programs have reduced the country's incidence of poverty, the total number of poor people is still large and they are still vulnerable to economic shocks. Basically, programs to protect the poor in Indonesia can be classified in three groups (Sumarto 2009).

- Programs that focus on handling stuctural poverty problems. One example is the National Community Empowerment Program (Program Nasional Pemberdayaan Masyarakat—PNPM). The PNPM involves local members of the community in determining solutions for local problems.
- Programs aimed at dealing with the poverty trap or the chain of intergenerational poverty. Examples of this type of program are the School Operations Assistance (BOS), Community Health Guarantee (Jamkesmas), and Family Hope Program (Program Keluarga Harapan–PKH). These programs emphasize a long-term human resources investment.
- Programs to overcome shocks. An example is the Direct Cash Assistance (Bantuan Tunai Langsung—BLT).

In addition, the government launched the People's Business Credits Program, which aims to support micro and small-scale enterprise activities. This program does not focus on protection for the poor, but on support for economic activities for the lower middle income and the near poor groups. Table 1 summarizes the programs.

Table 1. Summary of Social Support Programs

Programs	Coverage and Cost	Beneficiaries	Success in Targeting	Other Comments
National Community Empowerment Program (PNPM)	Community-driven, labor-intensive, local infrastructure development and rehabilitation Total 2009 state budget funding for the PNPM program was Rp16.01 trillion ($1.6 billion).	Covered 6,408 subdistricts in 2009, an increase from 2,361 in 2007 and 4,768 in 2008	In 2008, PNPM employed 14.4 million workers directly	

continued on next page

[2] This section is an extension of the Social Protection section in Papanek, Basri, and Schydlowsky (2009).

Table 1. continuation

Programs	Coverage and Cost	Beneficiaries	Success in Targeting	Other Comments
Conditional Cash Transfers to Communities (PNPM Generasi)	Since 2007, has been implemented in 178 subdistricts, in 21 districts, covering 1,610 villages in the first year. Recently expanded in another five provinces. Total 2009 state budget funding for the PNPM Generasi program was Rp321.7 billion ($32 million)	Covers about 3.1 million beneficiaries: 8.4% of the total poor. Focus on: • pregnant women • breastfeeding mothers • women with infants • infants and toddlers • school children from elementary to junior high school	Has been positive especially for junior high school enrollment and attendance, and greater attendance at health facilities for immunizations and for maternal and child healthcare	Focused primarily on health and education services, designed by the community (2-year program)
Rice for Poor Households (RASKIN)	Each poor household to receive 15 kilograms of rice per month at Rp1.600/kg, about one-third of the market price. Total 2009 state budget funding for the RASKIN was Rp12.9 trillion ($1.3 billion)	19.1 million poor households (2008)	Reached 21% of poor households and 22% of near poor households. But benefited also non-poor.	Provides rice for poor households
School Operations Assistance Program (BOS)	Rp254,000 ($25)/pupil/year for elementary school Rp400,000 ($40)/pupil/year for junior high. Assistance for schools so that student fees do not have to be charged. Total 2009 state budget funding for BOS program was Rp19. trillion ($1.9 billion)	42 million pupils from elementary school to junior high school	Reached 17% of poor households, 21% of near poor households	

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Table 1. continuation

Programs	Coverage and Cost	Beneficiaries	Success in Targeting	Other Comments
Community Health Guarantee (Jamkesmas)	Covers (1) inpatients and outpatients at community health centers (puskesmas); (2) inpatients and specialists' outpatients at government hospitals; (3) funds for revitalizing the public health centers, nutrition, puskesmas operations, health services in isolated regions, and medicines and vaccines. Total 2009 state budget funding for the program was Rp4.6 trillion ($460 million)	76.4 million people (2008)	Reached 24% of poor households, 24% of near poor households	Health programs for poor people
Family Hope Program (PKH)	Household conditional cash transfer. Each recipient household receives Rp600,000–2,200,000 per year ($60–$220), conditional on utilization of basic health services and children's school attendance. Total 2009 state budget funding for the PKH program was Rp1.1 trillion= $110 million	Targeted to 720,000 households in 14 provinces in 2007–2009 In stages, 6.5 million extremely poor households are to be covered		Pilot began in 2007; will continue to 2015
Direct Cash Assistance Program (BLT)	Rp100,000/month/ family ($10) to compensate for reduced subsidies for petroleum products. In 2008 the government allocated Rp14.1 trillion ($1.4 billion)	19.1 million households (2005)	(1) Added 19% to income of the poor (2) Reached 26% of poor and 25% of near poor households	Better targeted than other anti-poverty programs
People's Business Credits Program	Rp20 trillion in 2009 ($2 million). Program just started: no results yet analyzed	Providing credit guarantees up to Rp5 million ($500)/ borrower		

Ed: The exchange rate in early 2010 was approximately Rp9,275/$1.
Sources: Indonesia's Ministry of Finance, Ministry of Planning, and Ministry of Welfare.

2.1. Program to Deal with Structural Poverty

The National Community Empowerment Program (Program Nasional Pemberdayaan Masyarakat—PNPM). The PNPM has the largest number of beneficiaries. The PNPM is generally considered one of the most effective poverty-reduction programs, for the following reasons:

- It is self-targeting by setting wages low enough and requiring physical labor so only the poor want to participate.
- It can be efficiently and honestly administered on a wide scale because most decisions are delegated to a local community committee.
- Funds go directly from the Treasury to the local body, eliminating much of the opportunity for delay, leakage of funds, and corruption.
- Efficiency and honesty are promoted by requiring transparency and publicity for plans and funding, and setting up several independent monitoring systems.
- The poor and women are given a large mandated role.

Evidence indicates that, as a result of the foregoing, the program is more cost effective at building local structures than the government's public works program.

Most employment programs help the poor by hiring them. The benefits only last while the program spends money. But because the PNPM builds infrastructure, it increases economic activities. More than half of its benefits derive from the increased economic activities generated by that infrastructure. Over 50% of its funds have gone into rural roads that connect villages to markets and services. The funds enable villages to grow higher value, more labor-intensive crops (which are generally perishable fruits and vegetables) rather than lower value but not perishable staples. Irrigation makes double-cropping possible. With local maintenance, irrigation systems can be permanently improved, increasing income and employment after the subproject has ended.

The nationwide PNPM network could be used to provide temporary safety nets and mitigate the impact of the global financial crisis. This may be done by increasing grants to fund economically productive, labor-intensive public works in rural areas. The PNPM can also be used to mitigate local droughts, floods, or crop failures by increasing the provision for short-term employment. This is especially applicable in countries such as Indonesia with large informal sectors and underdeveloped social safety nets. The key is to set the wage at the prevailing market wage for unskilled, casual workers, to avoid attracting the non-poor, and to discourage the provision of patronage jobs for friends of administrators. For the PNPM to be fully effective as a social safety net, it is important to vary the allocation of funds with changes in the economic situation, preferably automatically: if more people seek PNPM work despite its low wages, then more money is made available.

PNPM Generasi: Conditional Cash Transfers to Communities. The PNPM Generasi, which was started in 2005, is substantially different from the regular PNPM program in one major respect: the PNPM program emphasizes directly productive investment in infrastructure and over half of it has been used for roads and bridges, while the PNPM Generasi is designed to encourage education and preventive health measures. Rahayu et al. (2008) showed that many problems poor people face are access problems—e.g., to reach schools, children have to travel long distances on roads that are of bad quality or difficult to use. Through the PNPM Generasi, a community may build a small health center or renovate a school nearby so the children can more easily access schooling (Royat 2009).

The PNPM Generasi is similar to the regular PNPM program in that both are community driven, with priorities decided by the community. The PNPM Generasi is provided as a conditional cash transfer, made to and managed by the community. Based on proposals by communities, village funds are expected to finance activities such as

- awareness raising;
- supplementary feeding for small children and school-aged children;
- transport subsidies for midwives;
- subsidies for mothers using health services;
- infrastructure and equipment for village health posts (*posyandu*);
- school uniforms, books, and stationery; and
- transport subsidies for junior secondary school students (Royat 2009).

The PNPM Generasi differs from most conditional cash transfers by funding community action rather than family decisions. The PNPM Generasi gives block grants to communities conditional on their meeting health and education requirements. The PNPM Generasi has provided technical assistance and staff to help communities organize to use the grants. In 2007, the PNPM Generasi was implemented in 127 subdistricts and 20 districts. In 2008, it was expanded to 178 subdistricts in 21 districts (Royat 2009). Recently, it expanded to five provinces and covers about 3.1 million beneficiaries, or 8.4% of the total poor in Indonesia. In the first year, the PNPM Generasi identified 450,000 children below the age of five, 750,000 children of school age, and more than 90,000 pregnant mothers as beneficiaries. Royat (2009) indicated that the total disbursements from this program had reached 98% of the program's budget.

The World Bank (2009) stated that the PNPM Generasi has had a positive impact, especially for junior high school enrollment and attendance, and on increased attendance at health facilities for immunizations and for maternal and child healthcare.

Rice Subsidy Program (Raskin). The rice subsidy program was one of the Indonesian government's first poverty programs. It was designed to be a major element in poverty alleviation and social protection. The poor were to receive a basic ration of rice at a fraction of the market price. In various periods, the ration was to be 10, 15, or 20 kilograms (kg) per month at one-fourth to one-third of the market price—a huge subsidy. The program aimed to help supply food to poor households and to reduce their financial burden. This program was a continuation of the Special Market Operation that began in 1998. SMERU (2008) showed that poor households obtained direct benefits from the program. But the program had serious weaknesses:

- First, targeting was poor. A World Bank (2008) study concluded that only 21% of the poor benefited (Table 2).
- Second, most of the beneficiaries received only a fraction of the allotment that they were supposed to receive. Indeed, in East Indonesia, where subsidized rice rations were distributed equally to all in villages or subdistricts, the average amount of subsidized rice received by the poor was about 4 kg rather than 10 kg.
- Third, SMERU (2008) pointed out that one of the main problems with the Raskin was that the process of spreading information about it ("socialization") was weak. The socialization that took place relied on a bureaucratic approach, there was no special planning, and the socialization program was not planned on a formal basis.
- Fourth, the use of data to determine beneficiaries was inconsistent. In 2005, for example, the data used were from the National Family Planning Board; however, in 2006 data from the Central Bureau of Statistics were used.
- Finally, on average, the poor paid 25% more per kilogram than they were supposed to (SMERU 2008).

Table 2. Targeting of Five Indonesian Poverty Alleviation Programs

Program	Poor Households (%)	Near Poor Households (%)	Non-Poor Households (%)	Total (%)
Askeskin	24.41	24.03	51.56	100
BLT	26.02	24.07	49.91	100
BOS	16.65	20.81	62.54	100
Kartu Sehat	21.62	21.22	57.16	100
Raskin	21.02	22.28	56.70	100

Askeskin is health insurance for the poor, a government program.
BLT = Direct Cash Assistance, BOS = School Operations Assistance.
Source: World Bank (2008).

As a result, the implicit subsidy was equivalent to less than 4% of the income of a poor household if the rice was received every other month[3]—too low to make much difference. Different studies gave varying estimates, but all concluded that the targeting was poor, undermining the program's effectiveness.

2.2. Breaking the Intergenerational Poverty Chain

Programs emphasizing long-term human resource investment include the School Operations Assistance (BOS) program, the Community Health Guarantee (Jamkesmas) program, and the Family Hope Program (Program Keluarga Harapan—PKH), in addition to the PNPM Generasi.

School Operations Assistance (BOS). Access to education is one of the most important elements in overcoming poverty problems. According to UNDP–BAPPENAS (2007), Indonesia has succeeded in improving its net enrollment rates toward achieving universal basic education, gross enrollment rates, and literacy rates. But Rahayu et al. (2008) show that the net and gross enrollment rates are for junior high schools, and children aged 13–15 often do not continue their education. In addition, the proportion of students who completed their education did not improve much. Taking into account all these factors, access to education still needs improvement.

The government initiated the BOS to provide assistance for schools so that student fees can be eliminated while the quality of education is maintained. However, the BOS is not enough, because the main problem of Indonesia's schools is damaged classrooms. In addition, both funding and human resources are insufficient. Due to unsatisfactory physical buildings, schools have to accept more students than their capacity, causing a decline in the quality of education (Rahayu et al. 2008). Rahayu et al. also show that schools with few students have difficulty paying for educational facilities. Currently, such schools depend on the government through the BOS to meet their school infrastructure needs.

The World Bank (2008) concluded that the BOS targeting is less effective than direct cash transfers. While the largest group of beneficiaries (38%) were poor or near poor households, over 60% of the beneficiaries were non-poor. The program staff is trying to improve both the benefits to the individual and the way in which the BOS is carried out. Rahayu et al. (2008) also showed that schools with few students only obtain a small amount of BOS funding, so they can not pay for teaching activities. Another

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3 The poor actually paid Rp1,200 per kg on average, versus the market price of Rp5,000, so each kilogram involved a subsidy of about Rp3,800. If beneficiaries received 7 kg, that would equal a subsidy of nearly Rp15,000 a month ($1.50 per family or about $0.30 per person).

problem is that the BOS does not entice parents to send their children to school, especially junior high school, because they can not afford uniforms, transport, and pocket money. In addition, because of the BOS, the general public no longer feels a need to help pay for schooling, and thus public participation in supporting school facilities has declined. Other reasons why parents do not send their children to school include access problems such as the distance to school, bad roads, and a need to scale hills and cross rivers where there are no bridges (Rahayu et al. 2008). As a result, even though school costs are borne by the government, some parents are still not sending their children to school.

Community Health Guarantee (Jamkesmas). The Jamkesmas is targeted at 76.4 million people, including very poor and poor people as well as those approaching poverty. The World Bank (2008) showed that the Jamkesmas reached 48% of poor households. Health programs for poor and susceptible residents cover inpatient and outpatient services at community health centers *(puskesmas)* and at government hospitals, support funds such as for revitalizing public health centers *(posyandu)*, and nutrition improvements. ADB (2006) pointed out that one of the main problems in Jamkesmas was inconsistency of data. Health centers claimed more than 90% utilization rates by poor families, whereas ADB (2006) showed that, based on an independent survey, only 55% of clients were poor and near poor. This raises a question about the effectiveness of the Jamkesmas program.

A World Bank (2006) assessment showed that the program had (and still has) many problems to address:

- the targeting mechanism is problematic;
- there are no incentives for community health centers to improve the quality of their service for the poor, because they are not compensated on a fee-per-service basis;
- the program does not enable the poor to use nongovernment providers—this has serious consequences for reducing the access the poor have to local health services; and
- the program has no role for local government in planning, implementation, and monitoring, thus decreasing the Jamkesmas' effectiveness.

As a result, a potentially important program is of limited effectiveness.

The Family Hope Program (Program Keluarga Harapan—PKH). In 2007, the government began implementing the PKH on a pilot basis. The PKH is a conditional cash assistance program. Recipients—extremely poor households—are required to send their children to school, at least until they graduate from junior high school (about age 15); ensure that their children and babies have regular health and nutrition checks; and ensure that pregnant women have regular check-ups. Royat (2009: 10–11) pointed out that the objectives of the PKH are to reduce maternal mortality, reduce child mortality, ensure universal coverage of basic education, and reduce child labor and encourage children to go to school.

The poor households targeted for the PKH include a pregnant mother and/or children aged 0–17 years. The incentives are given to households to meet 12 indicators. Cash is given every 3 months to the mother in the household. If the educational indicators, including school enrollment and attendance are meet, then the PKH will increase school participation among poor groups by identifying poor families more accurately and sending working children back to school.

The PKH was first implemented in seven provinces as pilot areas, covering more than 388,000 targeted households. In 2008, the PKH was expanded to include seven more provinces and 237,000 additional targeted households, and a further 95,000 were added in 2009. During 2007–2009, the PKH covered 720,000 targeted households.

The PKH is a promising program for assisting households in need and can be scaled up when the implementation challenges are addressed. Unlike the PNPM, which assists and deals with whole communities, the PKH assists and deals with families. The government plans to continue the PKH until 2015, when it will reach 6.5 million extremely poor households across 70 districts and cities in 13 provinces. To ensure that beneficiaries receive their entitlements, the government has recruited over 3,000 social workers as facilitators, each covering about 250 households. For 2008, the PKH required about Rp1.3 trillion ($130 million), a relatively small amount.

In general, the PKH helps recipient households meet the needs of children's education and the health and nutritional needs of babies and pregant mothers. However, the PKH's monitoring and evaluation systems are not yet operating. Because many government agencies involved do not properly understand their roles and responsibilities in carrying out the PKH, the program is not yet running at full speed.

2.3. Dealing with Shocks

The Direct Cash Assistance (BLT) Program. The sharp increase in the price of oil in 2005 forced the government to increase fuel prices. The BLT was introduced when fuel subsidies were sharply reduced. The BLT aimed to ensure that the poverty rate did not increase and to compensate the poor for any increase in their costs due to the removal of the subsidy. The decision to remove the fuel subsidy had three positive aspects.

- First, the reduction in fuel subsidies would provide "fiscal space," so that the government could safeguard fiscal sustainability and macroeconomic stability.
- Second, with the removal of the subsidy, funds could be allocated to poor people through the BLT program, helping to improve the distribution of income. Data from the National Economic Survey (SUSENAS) showed that 70% of fuel subsidies were enjoyed by the wealthier 40% of Indonesians.
- Third, the efficiency of fossil fuel consumption was improved, thus decreasing Indonesia's contribution toward climate change.

The BLT program had major policy implications. The increase in fuel prices would certainly burden poor residents, but the BLT compensation would help reduce the burden. The World Bank (2008) pointed out that the BLT was fully capable of compensating poor residents for the effect of the fuel price increase.

The BLT was given to the households that were categorized as the poorest, poor, and near poor. The households that had the right to receive BLT support were identified based on a survey by the Central Bureau of Statistics (BPS). Every poor household received Rp100,000 per month paid every quarter for a period of 1 year. The cash was paid through the post offices throughout Indonesia. Poor residents identified by the BPS were given BLT cards, which were then exchanged for cash at post offices and post office branches.

The BLT was an unconditional cash transfer program that reached approximately 19.1 million households in 2005. That is 35% of Indonesia's 55 million households—an extremely high rate. The BLT programs carried out in 2005 and 2008 were the largest cash transfer programs in developing countries (World Bank 2008).

The BLT payment was large enough to help the poor, but small enough not to reduce the incentive to work or to reduce the working hours of the poor. World Bank (2008) data show no significant difference in working hours between the BLT beneficiaries (averaging 37.7 working hours weekly) and non-beneficiaries (39.8 hours) in 2007.

The BLT was relatively successful at helping poor residents deal with shocks to the economy (World Bank 2008). The World Bank calculations also showed that the BLT was a pro-poor policy, even though it still needed improved coverage and targeting of the poor. BLT targeting was considered to be better than that of several other poverty alleviation programs (Table 1). Nevertheless, targeting problems are still extremely prevalent.

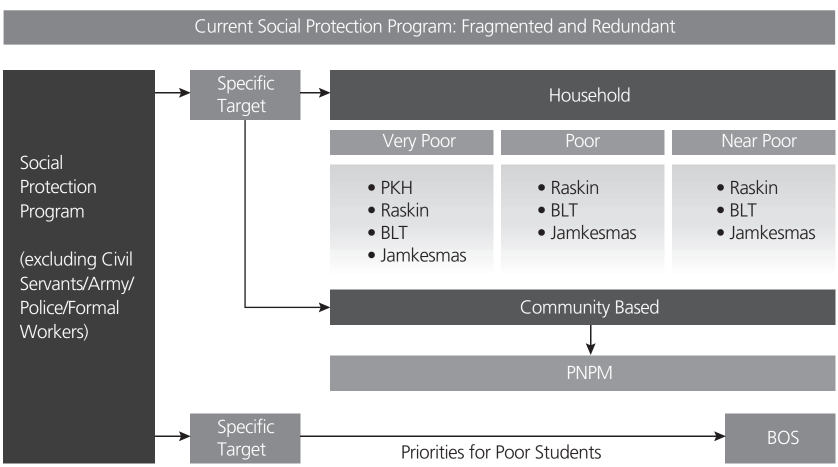
The People's Business Credits Program. This program (Program Kredit Usaha Rakyat) aims to support small-scale enterprises (the maximum credit is about $500).

It was launched too recently to be evaluated for its effectiveness. But, based on experience in Indonesia (e.g., Kredit Usaha Tani, the Credit Program for the Farmers, in 1999–2000), the program is unlikely to make a big difference. Guaranteeing small amounts of credit poses a dilemma: if the agency guarantees any loan presented, losses are highly likely because incentives are perverse. Neither the bank nor the borrower has a strong incentive to collect on or repay the debt, as a government agency is assuming the risk. But if the agency investigates every borrower and supervises repayment, the administrative costs, which are high for small-scale and micro credit, are nearly doubled. Moreover, government credit programs, in Indonesia as elsewhere, have a poor collection record: borrowers do not expect to pay and believe that the government will not foreclose on their assets.

3. What Needs to be Done in Future?

The government's social protection programs have aimed to help reduce the number of poor residents. The main deficiency is that programs are fragmented and redundant (Figure 1). ADB (2006) pointed out that, despite progress in Indonesia's social protection programs, there are still problems related to insufficient direction for using the funds and a lack of transparency and accountability.

Figure 1. Current Social Protection Program



BLT = Direct Cash Assistance, BOS = School Operations Program, PKH = Family Hope Program, PNPM = National Community Empowerment Program.
Source: Transition Team (2009).

Coordination between government institutions is the biggest problem. Greater integration results in greater efficiency. An example is database problems, such as BLT using a database from BPS, while Jamkesmas used a database from the Department of Health, and there is no consistency between the two databases. This hampers the allocation and targeting of poor residents. What is needed is one social protection system (to be discussed later in more detail). In addition, in the short term, several programs need to be improved.

3.1. The PNPM

The World Bank (2009) pointed out that the PNPM succeeded in accelerating the process of reducing poverty, especially in remote areas, rural areas, and areas that need work-intensive programs and productive infrastructure. As the PNPM was relatively successful at reducing the number of poor people, it is necessary to consider expanding this program.

The success of the rural PNPM has shown the potential for this community-driven, labor-intensive infrastructure program to achieve many of Indonesia's development objectives. Indonesia has in the PNPM program a powerful tool to increase growth, reduce poverty and underemployment, and solve part of the problem of inadequate infrastructure. But the potential of the rural PNPM is far from being realized. The PNPM's potential and major obstacles that should be removed are as follows, and employment and costs are in given in Table 3.

- If the subdistrict (*kecamatan*) grants were double those in 2009, as decided in 2002, then in 2011 the PNPM could provide productive employment for an average of 60 days to nearly 30 million families, assuring income in the off-season to virtually every family that is poor enough to work for the PNPM wage and has able-bodied adults. But because the 2008 budget was only one-third of this amount, most participants had far fewer days of work from the PNPM (10 or less). In poor areas, even 60 days may not be enough to lift poor families from poverty. The ultimate goal could be to provide up to 100 days of work for families that need it.
- For an additional Rp500 billion ($55 million), the PNPM could increase the income of the poorest 20% of families by an estimated 11% in 2010, helping an additional 14%–18% of the poor cross the poverty line and escape poverty or not fall into poverty. The PNPM is a highly effective program for social protection by keeping the near poor from falling into poverty during the off-season.
- Compared to standard contracting using machines, the PNPM can build the needed rural infrastructure (local roads, irrigation channels, drinking water facilities, and latrines) at lower cost, more quickly, and with less imported material but of comparable quality.

- In addition to providing work and income during the off-season, the PNPM can provide social protection to most of the poor. The PNPM can be Indonesia's answer to unemployment insurance in rich countries, automatically expanding to provide income when natural or economic catastrophes strike. While other social protection programs have to be expanded gradually, the PNPM can provide protection to 85% of the poor within a few months.
- The PNPM can increase the rate of economic growth by nearly 0.5% every year.

Table 3. Calculations of the Employment Impact of the PNPM
(Rp billion)

Description	2007	2008	2009	2010	2011
1. Number of Subdistricts (kecamatan)	5,400		6,400		
2. Grant Needed per Kecamatan to Employ 24 Million People for 60 Days (Rp billion)	3				
3. Total Grant Needed (1x2 assuming no inflation)	16,200	16,200	16,200	16,200	16,200
4. Total Grant Needed after Adjusting for Inflation (2007–2008: 15%; 2007–2009: 20%; 2007–2010: 25%)	16,200	17,496	19,440	20,250	21,060
5. Grant Needed per Kecamatan (6,400 kecamatan)	2.5	2.7	3.0	3.2	3.3
6. Actual Budget for Grants	1,735	6,974	10,290	14,729	21,060
7. Actual Grant per Kecamatan (5,400 kecamatan)	0.3	1.3	1.9	2.7	3.9
8. Grant per Kecamatan (divided into 6,400 kecamatan; actual for 2007–2009, proposed for 2010–2011)	0.3	1.1	1.6	2.3	3.3
9. Estimated People Employed for 60 Days (million)	2	9	13	18	24
10. People Employed for 60 Days with 20% Contribution by Local Governments (million)	3	10	15	22	29

PNPM = National Community Empowerment Program.
Notes: Papanek (2007) calculated employment, which includes (1) workers directly hired by PNPM, (2) estimated number of workers to produce and handle supplies used by PNPM, and (3) workers hired as the result of increased economic activity produced by PNPM-built infrastructure. No additional information is available for improving the estimates.
Inflation rates used are not for the consumer price index (CPI), which is for urban consumers, but the rural CPI, from Farmers' Terms of Trade (from Indikator Ekonomi, various months); 2010–2011 are estimates.
In 2007, Indonesia had about 5,400 kecamatan. There are now about 6,400 covering the same area and population. The average kecamatan therefore is smaller and has fewer people; thus, a smaller average grant will achieve the same results.
The contribution by local governments is probably closer to 25% than 20%. To be conservative, 20% is used. Villages contribute another 17%–20%, often in the form of voluntary labor. Volunteer labor does not add to labor demand or workers' income and is therefore ignored.
*"Actual" grant in 2011 is the desirable minimum grant—not the amount budgeted.
Sources: Papanek (2007, 2010).

In short, the PNPM can be a critical element in a strategy to tackle a central problem facing the government: to provide productive employment to an additional 16 million workers who have been added to the labor force since 1997/98 but have been unable to find productive work (Papanek, Basri, and Schydlowsky 2010).

The evidence on the results of the rural PNPM program is compelling and should put to rest most questions about the effectiveness of expanding the program.

- Kecamatan whose block grant was doubled (e.g., in Aceh) used the additional funds effectively; lower increases in the rest of the program were also effectively used.
- The economic internal rate of return of 50%–70% was a multiple of that of most projects.
- Construction costs were lower for PNPM projects than for the usual public works projects.
- Corruption was very low—lower than in comparable projects in other programs.

Rationale for Funding the PNPM

The PNPM deserves priority in funding because it is both a development program and an employment and social protection program, and can provide immediate help while other programs are gradually expanded.

(1) **The PNPM is self-targeting.** Other programs have targeting issues. Whereas 70% of the people employed under the PNPM are poor, only 29% of the subsidized rice program's recipients are poor and another 23% are near poor. Employment programs had equal difficulty with targeting: only half the benefits reached the poorest 40%; nearly half went to the wealthier 60%.[4] If the PNPM is of an adequate size, it can help most of Indonesia's poor at a reasonable cost.

(2) **The rural PNPM generates permanent income and jobs, and additional government revenue, and is therefore self-financing.** With a rate of return of 50%–70%, the program quickly pays for itself. Some other social protection programs can contribute to growth in the long term (e.g., conditional cash transfers increase education and improve health) but only the PNPM does so quickly and reliably.

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[4] "Employment" includes that under labor-intensive, food for work, and local empowerment progams to overcome economic crisis, as well as village grants. Source: Calculated from Daly and Fane (2002) and Sumarto, Suryahadi, and Widyanti (2002).

(3) **By building rural infrastructure at low cost and with high quality, the PNPM helps solve a high priority need.** The consensus is that improving the infrastructure has high priority in development. The PNPM can build village roads, irrigation, and water supply more cheaply and quickly than any alternative.

(4) **The Rural PNPM can quickly provide social protection to the great majority of the rural poor and near poor.** The PNPM can be effective as other programs (the PKH and Jamkesmas) are gradually expanded. The PNPM increases the chances that microcredit will be successful by improving the infrastructure that can help make local business successful. By providing work and income in the off-season, when incomes otherwise fall sharply, the PNPM provides social protection by keeping large numbers of people from falling into poverty. If the PNPM is at full size in 2011, providing an average of 60 days of work, some families will be able to have 100 days of work as others want only 30 days. Families with 100 days of work will earn Rp3.1 million ($326).[5] That is, the PNPM can deliver a one-third increase in income, above the all-Indonesia rural poverty line, lifting most of the poor out of poverty.

Reforms Needed in the PNPM

To achieve the foregoing objectives will require some significant reforms in the program. Implementing them will involve overcoming resistance in part of the bureaucracy. While the PNPM is very popular with local governments, it is quite unpopular in some government agencies because it disburses large sums of money that are not under the control of ministries or their field staffs. It is also substantially funded by foreign loans and some officials are opposed to noncommercial borrowing that comes with conditions.

(1) **The decision made 2 years ago to increase grants to an average of Rp3 billion ($323,000) per kecamatan should be implemented.** This would require doubling the budget for rural grants during 2009 to 2011. In 2009, the actual budget is for less than Rp1.6 billion ($173,000) per kecamatan (Table 3),[6] reducing employment correspondingly. To reach the

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5 According to a PNPM survey of labor cost (unpublished), the unweighted average PNPM wage in Java was roughly Rp31,000 ($3.34)/day in 2009. The rural poverty line in 2009 for all Indonesia is Rp180,000 ($19.4) per month, or Rp2.2 million ($237) a year, times 4.3 members per family this is Rp9.3 million ($1,000). The additional Rp 3.1 million ($334) provided by 100 days of work for the PNPM is a 33% increase in the average income of a poor family. Because the Java poverty line is lower than that for all of Indonesia, the increased income in Java will be more than 33%.

6 Because inflation has reduced the value of the rupiah, more is required to reach the same goal. However, the number of kecamatan has been increased from 5,400 to 6,400, so the average kecamatan is smaller, requiring less money. These two effects are assumed to roughly offset each other.

original targets will require budgeting Rp20.4 trillion (about $2.1 billion) in 2011, roughly double the budget in 2009. Since the rural PNPM has a rate of return of 50%–70%,[7] giving a high priority to such expansion is fully justified on development grounds. Government revenue will quickly increase as some of the increased income is paid in taxes, helping to finance the program.[8]

(2) **The effectiveness of the PNPM is decreased because funds become available only at the end of the year.** Although work should be concentrated in the off-season when workers have little else to do, funds are often not available then. Consequently, the PNPM funds are substantially unspent at the end of the year (e.g., as of August 2009, 7 months into the year, less than 2% of grant funds for the PNPM had been spent). The PNPM is allowed to carry over unspent funds to the next year, but they can be used only when they have again been appropriated by the Ministry of Finance. If the Ministry of Finance can eliminate the requirement that funds carried over be reappropriated, then unspent 2009 funds would be available on the first day of 2010, projects could be executed in the off-season, and, at no extra cost, the program would be more effective. If carrying over of funds were permitted and the funds remain with local treasury offices, projects could proceed with minimal delay.

(3) **To become a central part of a social protection program, the PNPM should be part of the government budget every year and be able to respond quickly and semiautomatically to needed changes.**

(a) **A portfolio of projects and predictability of funding.** For the PNPM to expand block grants quickly in times of economic distress, a small portfolio of projects needs to be ready for implementation in all villages. Facilitators and village committees will have an incentive to prepare enough additional projects (3–5) for implementation if there is some assurance that the PNPM will continue for several years, and projects not funded this year will be reconsidered in future years and all good projects have an excellent chance of being funded eventually.

(b) **Reserve funds that can increase block grants semiautomatically.** In 2010, all kecamatan will be in the program and will receive a base

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7 The "official" rate of return, reported in government and World Bank documents, is 50%. That rate is calculated if all returns of 100% or above are ignored as "implausible." But a rate of return of 100% or more is entirely feasible; e.g., an irrigation project that leads to double cropping will have a return of over 100% and with triple cropping it can approach 200%. A road connecting villages to markets and leading to growing higher value crops can also have a return above 100%. With these projects included, the average economic internal rate of return is 73% (Papanek 2007).

8 Expanding the grant funding does not require a proportionate increase in technical assistance and other staff. It does require some increase in the number of facilitators and engineers. Recruitment and training can be done in a few months, probably funded by donor agencies.

allocation. The budget includes a significant amount of funds to be spent at the discretion of the Ministry of Finance for unexpected needs. The PNPM can serve as an automatic safety net if some of its funds are available quickly to expand block grants to areas hit by floods, drought, earthquakes, or other natural catastrophes or by economic shocks, such as a decline in demand for palm oil because of environmental concerns or a fall in textile prices because a competitor has a temporary subsidy.

(c) **Use demand for work as an indicator of the need to expand the program.** PNPM wages are supposed to be below prevailing wages in the area. A sudden increase in the demand for PNPM would be one indication of economic distress in an area. An unusual change in demand for PNPM work should be seen as an indicator of the economic situation and should trigger an adjustment in the size of grants to the region.[9]

(4) **Assure that wages are below prevailing agricultural wages in the region.** In 2008 and 2009, PNPM daily wages ranged from Rp25,000 ($2.7) in parts of Central and East Java, Lampung, Nusa Tenggara Timur, and Nusa Tengara Barat to Rp45,000–Rp55,000 ($4.85–$5.93) in parts of Central Kalimantan and Riau. This is actually higher than the agricultural wage in Java.[10] PNPM wages are supposed to be kept low by competition for funding: low wages in proposed projects improve the chances of selection for funding. However, this pressure does not seem to be fully effective and if the block grants are increased it will be even less effective. But a low wage is crucial for success because it assures that only the poor apply and benefit, and keeps costs down and reduces the drain on the budget.

Three simple steps can be taken to strengthen the wage policy. (a) Every quarter, distribute to all provinces and districts (*kabupaten*) data on agricultural wages as collected by BPS, with a reminder that PNPM wages should be lower. (b) Whenever a region applies for funds, require a report of the wage rate paid under all PNPM projects that year and penalize regions that pay above the agricultural wage. (c) Specify in the Operations Manual for the rural PNPM that keeping the wage below the agricultural wage in the area is a key criterion for selection of projects in the intervillage meeting.

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9 The levels of funding have been so low that jobs were rationed. With full funding, when 29 million families can have an average of 60 days of work, the program should be able to accommodate all normal demand for such work in the rural areas.

10 A weighted average wage for 14 provinces, with over 50% assigned to Java, was estimated at Rp21,000 ($2.26) in 2009.

(5) **Review the urban program; strengthen aspects to raise income and employment over the long term, from one-shot employment to development.** The urban PNPM is obviously important. There were 13 million poor people in cities in 2008. A large proportion of the unemployed and underemployed, people unable to find regular productive jobs, are also in cities. Historically, during the off-season in agriculture, farm workers go to cities for temporary work in construction, as bicycle rickshaw drivers, and in other casual occupations. But in the last 10 years, construction employment has been virtually stagnant and rickshaws have been banned in Jakarta and other large cities, so underemployment is widespread. And lack of jobs in the cities is considered a more pressing political problem than that in the countryside.

Almost one-fourth of PNPM funds have been spent on the urban program. But a recent draft evaluation report concludes that there is no evidence that the program has made any difference in the welfare of the beneficiaries. Issues are as follows:

(a) **Revolving credit that does not revolve.** Clearly, community-driven programs are excellent for building infrastructure. Most community groups are poor at managing credit. Banks, including Bank Rakyat Indonesia, can run successful microcredit programs with repayment rates of 98%. But governments and community groups have problems collecting debts—people do not expect to have to pay them back. About 20% of the urban PNPM has been spent on microcredit, but the repayment rate is reportedly only 62%, so it is not a sustainable program. After two rounds, 60% of the money is gone with little evidence that it produces lasting benefits.[11]

(b) **Social support.** About 15% of the urban PNPM is for social support projects that benefit groups of the poor while they receive funds, but has little or no impact on employment or income over the longer term.

(c) **Infrastructure is the biggest item.** About 60% of the urban PNPM was spent on infrastructure, but no significant benefits were found. An independent commission sponsored up by the government could provide a basis for improvements that would make the urban PNPM more effective in creating long-term jobs and income. Given the PNPM's importance, both urban and rural programs should be subject to periodic evaluation by outsiders, not by those responsible for executing the program.

[11] Some specially designed programs limited to women have had better repayment rates, but in general microcredit is better provided through bank-like institutions.

(6) **A strengthened institutional mechanism is needed to carry out reforms, due to strong opposition in the bureaucracy.** The rural PNPM does not have the support of any strong executing or line ministry. Bureaucratic obstacles will have to be overcome to achieve the needed reforms. A strengthened oversight committee at a senior level and chaired by someone who sees its potential may provide a mechanism to overcome these obstacles.

3.2. The Direct Cash Assistance (BLT) Program

The BLT program was relatively effective in dealing with shocks to the economy. However, the program has several weaknesses (Royat 2009).

(1) Targeting. Determining which targets should receive BLT is difficult. In addition, renewal and updating of the data must continue.
(2) Delays. Delays in disbursing BLT funds create a serious problem for poor residents.
(3) Duration. The BLT is a short-term program, focused on helping poor residents if there is a shock to the economy. This will not lift people out of poverty, so the BLT has to be combined with other programs.
(4) "Socialization." Due to lack of understanding about the program, protests occurred during implementation and there still is a minimum understanding about the BLT distribution mechanism.
(5) Coordination. Cooperation needs improving between the National Development Planning Board (BAPPENAS), which designed the program; BPS, which carried out surveys for data on poor residents; the Department of Social Affairs, which distributed the funds; and the Ministry of Finance, which allocated the funds. The institutional arrangements also need consideration: What should be the role of BPS, the local community, and local governments?
(6) Corruption and leakages. Corruption and leakages have to be minimized, for example through "socialization," which helps beneficiaries to understand their rights and thus reduces the potential for corruption (World Bank 2008).

When these improvements have been made, the BLT program can be used effectively for short-term relief when there are shocks to the economy.

4. An Integrated Social Protection System

Indonesia's many antipoverty policies are not fully effective at dealing with poverty and protecting poor residents living slightly above the poverty line (near poor) from economic shocks. One reason is that programs are carried out separately by several ministries and agencies. The Integrated Social Assistance Formulating Team indicated that there were at least two main weaknesses (TPBST 2009). First, because different methods were used to identify poor residents, there are different definitions of poor families among agencies and government institutions. This makes it difficult to run an integrated program and for the poor to receive assistance. Second, programs are managed by different institutions that do not coordinate well with each other. Thus, in future, one integrated social protection program is needed, using a consistent database, to solve the fragmentation and redundancy issues.

While several of the programs described so far could deal with wide-ranging poverty problems, none alone suffices to meet the challenge. Thus, the question arises as to what sort of conditional cash transfer program can be carried out. One option is the PKH.

Currently, the government of Indonesia is preparing the Family-Centered Integrated Social Assistance Program. This program will cover three facets (TPBST 2009).

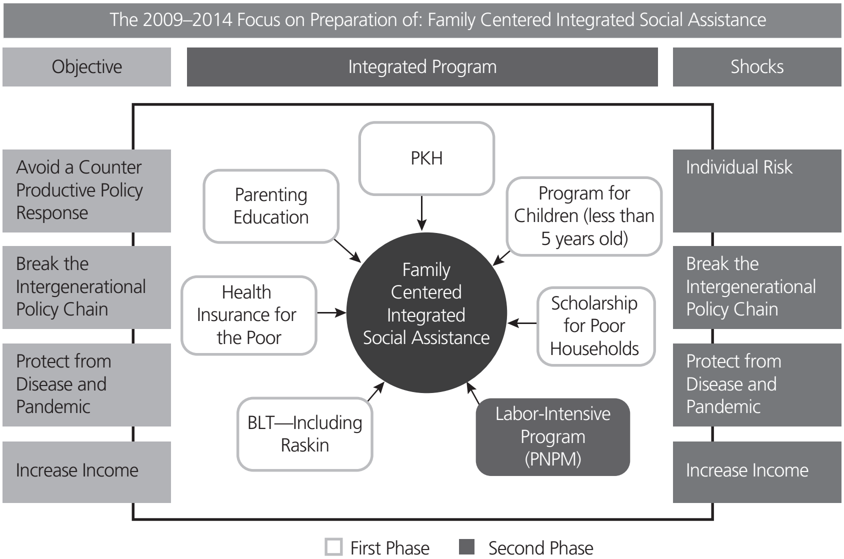
(1) direct assistance for targeted families, including conditional cash transfers (as in the PKH program), unconditional cash transfers (as in the BLT), and direct assistance in kind (e.g., Raskin);
(2) educational assistance for scholarships; and
(3) health assistance, including education for parents about health and nutrition.

Figure 2 shows the objectives and flow of an integrated poverty program. The family-centered poverty programs are aimed at avoiding the formation of new policies that are not pro-poor, cutting the intergenerational poverty chain, protecting people from diseases, and increasing people's incomes. To achieve all this, several poverty programs, including the PKH and BLT, have to be integrated into the Family-Centered Integrated Social Assistance Program.

This integrated program covers poor and near poor families. Their eligibility to enter the program is based on BPS' determination of poor households, which has been adjudged sufficiently accurate (TBPST 2009). However, the methodology must continue to be improved. An internal evaluation is needed to ascertain how accurate the determination of poor households is.

Direct Assistance. Direct assistance programs have to anticipate several factors. First, the form of direct assistance in PKH is complicated because data have to be verified. For example, there should be an indicator or measurement that shows whether children from poor families go to school and are treated at health stations before cash funds are given to the beneficiary. In addition, the amount of cash is not the same for each family because it depends on the total number of qualifying family members (Table 4).

Figure 2. Integrated Poverty Program



BLT = Direct Cash Assistance, PKH = Family Hope Program, PNPM = National Community Empowerment Program.
Source: Transition Team (2009).

Table 4. Direct Assistance, Family Hope Program (PKH) per Year

Scenario	Assistance per Poor Household per Year (Rp)
Base Assistance	200,000
Assistance for Targeted Poor Household with	
Babies	800,000
Pregnant/breastfeeding mothers	800,000
Children in primary school	400,000
Children in junior high school	800,000
Assistance Level per Household	
Average	1,390,000
Minimum	600,000
Maximum	2,200,000

Ed: The exchange rate in early 2010 was approximately Rp9,275/$1.
Source: TPBST (2009).

Table 4 shows that assistance per household was limited to Rp2.2 million ($237). In addition, a total of three children may be supported. Thus, the PKH's targeting is more accurate than that of other programs. However, data verification is extremely complicated. Therefore, the PKH was started as a pilot project and expanded in stages. The PKH also faces supply availability, such as issues of access to education and health services. In such cases, PKH funding needs to be combined with funding from the PNPM Generasi. As noted previously, the BLT and Raskin programs could be more effective. Direct assistance programs need a consistent database so that the method of identifying poor residents is accurate, socialization problems can be addressed, and measures to run the program from the supply side are improved.

Education Assistance. The education assistance covers scholarships for primary and junior high school attendance. The recipient students must come from poor families. Plans for the future include scholarships for senior high and university student with additional criteria, such as performance at school (TBPST 2009). Currently, the individual school committees decide the poverty criteria. In the future, these criteria will have to be consistent with those of the BPS. TBPST (2009) also showed that the funds received by students are not scholarships in the true sense but cash assistance for students to continue schooling. Because the state guarantees payments for primary and junior high school students, the payments are categorized as a scholarships; however, a better formula is needed for supporting senior high school students by incorporating performance criteria.

Health Assistance. Family-centered health assistance in future will be based on the managed healthcare concept with an insurance base (TBPST 2009). Eligibility for membership will be based on poverty criteria as determined by the BPS. All costs for the family-centered health program for the poor will be borne by the state. The government plans to establish the Guaranteed Health Management Board (BPJK), tasked with gathering funds; the program will be fully guaranteed by the government. The BPJK will also be tasked with procuring health services and will formulate several benefit packages. The BPJK will make contracts with providers such as community health centers, clinics, hospitals, and doctors.

The BPJK's role will be very large and extremely difficult. Thus, it would be best if the BPJK program were to start as a pilot project. Then its effectiveness could be evaluated before it is implemented nationally. In addition, the implementation process will take time and should be carried out gradually.

One of the most important issues in discussing an integrated social protection system is that of institutionalization. The main weakness in several current poverty programs is coordination, resulting in inconsistency in data, methods, and targeting. This results in duplication of programs, leading to inefficiencies and confusion for the managing agency and the benefit recipients.

Therefore, we suggest that an agency or committee be set up to be responsible for coordinating the social assistance. The committee would have to be sectoral in nature and would require full political support. Because the poverty issue is any extremely crucial matter, it would be best for this committee to be directly under the President, with its daily activities carried out by the Vice President. The Vice President has already been given the special task of managing the poverty eradication committee. This way, social protection programs may become more effective and better coordinated, so that Indonesia will have a true integrated social protection system

5. Summing Up: Social Protection

The current social protection system is highly fragmented and does not reach all people who need assistance. Programs are implemented by different agencies in the absence of a structured and coherent system. Coverage of workers in the formal sector is low given low participation rates in contributory schemes.

At the same time, the present system excludes the majority of informal sector workers. As a result, protection of the poor and vulnerable remains inadequate for the needs of an emerging middle-income country. While the National Social Security System (SJSN) Law provides an ambitious vision of a future national social security system, many questions remain regarding the level of benefits provided, scope of coverage, affordability, fiscal sustainability, and institutional reforms needed to ensure delivery of services and benefits (World Bank 2009).

Several important measures are needed:

- creation of a unified database system;
- integration of the PNPM into the Family-Centered Integrated Social Assistance Program;
- creation of a work-intensive program in the PNPM;
- creation of a scholarship system that guarantees that poor students will be able to continue their education to a higher level;
- improvement of shortages in the current PKH program and in the supply side through PNPM Generasi;
- a full review of the Raskin system and reduction of the existing shortcomings;
- additional funds for the PNPM program, especially in regions with many poor residents;
- implementation of a fully coordinated social protection system;
- creation of a more comprehensive social protection system, to replace fragmented and ad hoc social programs;
- creation of a continuing national social guarantee system;
- an initial program as the first stage of a continuing health insurance program;

- government coverage of all payments of a health system for poor families;
- phase out Jamkesmas to be replaced with the SJSN; and
- increased health insurance coverage, in stages:

The SJSN state degree should be phased in, taking into consideration the capabilities of the state budget and the financial capabilities of companies. To implement the SJSN for the informal sector will require design and a special approach. Sources of payment should be diversified by involving local governments and the private sector. A health insurance agency will have to be set up and regulated so that it is accountable and efficient. The availability and quality of healthcare service providers will have to be guaranteed. And an information system is needed to support the implementation, monitoring, and evaluation of programs under the Family-Centered Integrated Social Assistance Program.

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D. Social Protection Policy and Programs in the Philippines: In Times of Crisis and Beyond

Rosario G. Manasan

1. Introduction

The country's economic growth was adversely affected by the global financial and economic crisis that started with the implosion of the United States housing market and the ensuing recession in key developed economies in the latter half of 2008. Thus, Philippine exports registered negative growth of 1.9% for the full year of 2008 and 14.2% for the full year of 2009 (Table 1). The growth in capital formation initially decelerated from 12.4% in 2007 to 1.7% in 2008 before contracting by 9.9% in 2009. Thus, gross domestic product (GDP) growth slipped from a high of 7.1% in 2007 to 3.8% in 2008 and 0.9% in 2009. However, the deceleration in the growth of gross national product was more moderate—from a high of 7.5% in 2007 to 6.2% in 2008 and 3.3% in 2009. This was because remittances from overseas Filipino workers, the main driver of net factor income from abroad, grew at unprecedented levels in 2008 (30.8%) and 2009 (23.3%), contrary to initial expectations.

At the same time, the employment picture was not rosy. Unemployment increased 6.3% in October 2007 to 7.1% in October 2008. And while the unemployment rate initially dipped from 19.1% in 2007 to 17.5% in 2008, it shot up to 19.4% in 2009. Also, visible underemployment rose from 35.1% in 2007 to 35.4% in 2008 and 36.3% in 2009.

Even before being buffeted by external shocks in 2008 and 2009, poverty had worsened. The overall poverty incidence rose from 24.4% in 2003 to 26.9% in 2007 after declining continuously for the most part between 1991 and 2003. And inflation surged to 9.3% in 2008 from 2.8% in 2007 largely due to the rapid rise in the price of food and fuel products starting in the second quarter of 2008 (Table 1).

The change in food prices slowed in the third quarter of 2009 and remained moderate in the fourth quarter of 2009 and first quarter of 2010. However, while the consumer price index for fuel, light, and water was fairly stable for most of 2009, it started to rise in November of that year. In the first quarter of 2010, the inflation in the price of fuel, light, and water averaged 11.2%.

Table 1. Growth Rate of GDP and its Components, 2004–2009

	Growth Rate									UnE	UnderE
	GNP	GDP	PCE	GC	CF	X	M	NFIA	Inflation*	Rate	Rate
2004	**6.9**	**6.4**	**5.9**	**1.4**	**7.2**	**15.0**	**5.8**	**13.5**	6.0	10.9	16.9
2005	**5.4**	**5.0**	**4.8**	**2.3**	**–8.8**	**4.8**	**2.4**	**10.7**	7.6	7.4	21.2
2006	**5.4**	**5.3**	**5.5**	**10.4**	**5.1**	**13.4**	**1.8**	**6.1**	6.2	7.3	20.4
2007	**7.5**	**7.1**	**5.8**	**6.6**	**12.4**	**5.4**	**–4.1**	**12.1**	2.8	6.3	19.1
Q1	6.4	6.9	5.9	12.1	18.1	10.5	–1.8	1.4	2.2		
Q2	9.1	8.3	5.6	8.9	17.4	4.2	–10.2	20.1	2.3		
Q3	8.6	6.8	5.7	–2.6	5.3	3.3	–4.7	29.5	2.7		
Q4	5.8	6.3	6.2	8.0	7.1	4.5	0.7	–0.2	3.9		
2008	**6.2**	**3.8**	**4.7**	**3.2**	**1.7**	**–1.9**	**2.4**	**30.8**	9.3	6.8	17.5
Q1	6.4	3.9	5.1	–0.3	–1.7	–7.7	–2.6	36.2	6.4		
Q2	5.6	4.2	4.1	0.0	13.6	6.1	0.0	15.8	11.4		
Q3	6.2	4.6	4.4	11.8	9.4	3.3	6.7	22.6	11.2		
Q4	6.7	2.9	5.0	2.5	–11.7	–11.5	5.0	51.2	8.0		
2009	**3.3**	**0.9**	**3.8**	**8.5**	**–9.9**	**–14.2**	**–5.8**	**23.3**	3.3	7.1	19.4
Q1	4.4	0.4	1.3	4.5	–15.1	–14.7	–20.6	40.8	6.9		
Q2	3.2	0.8	5.4	9.7	–10.3	–18.1	–2.2	23.9	3.2		
Q3	3.1	0.4	3.2	8.1	–12.1	–13.0	0.1	26.1	0.3		
Q4	2.4	1.8	5.1	12.1	–0.8	–10.0	–2.5	7.5	3.0		

CF = capital formation, GC = government consumption, GDP = gross domestic product, GNP = gross national product, M = imports, NFIA = net factor income from abroad, PCE = personal consumption expenditure, UnE = unemployment, UnderE = underemployment, X = exports.
* based on the Consumer Price Index.
Source: Gross national product, GDP, and subaggregates from the National Statistical Coordination Board (NSCB), National Income Accounts of the Philippines, various years; inflation from Bangko Sentral ng Pilipinas (BSP), Selected Economic and Financial Indicators, various years; unemployment and underemployment rates from National Statistics Office, Labor Force Survey, various years.

While the impact of the 2008 global financial crisis in the Philippines appears to be milder than that of the 1997–1998 Asian financial crisis (Yap, Cuenca, and Reyes 2009), even when there is no global or regional crisis, households are subjected to risks and shocks. For example, 54% of households reported being made worse off because of the higher price of food, 19% because of reduced income, 8% because of job loss, and 3% because of natural disasters in 2004, a non-crisis year (Table 2). Moreover, the poorer households appear to have been most vulnerable to risks and shocks. Thus, there is an urgent need for effective and well-targeted social protection programs.

The Social Development Committee (SDC) of the National Economic and Development Authority (NEDA) defines social protection as "policies and programs that seek to reduce poverty and vulnerability to risks and enhance the social status and rights of the marginalized by promoting and protecting livelihood and employment, protecting against hazards and sudden loss of income, and improving people's capacity to manage risks" (NEDA–SDC 2007). This definition of social protection is consistent with the standard definition in the international literature. For example, the World Bank (2001b) defines social protection as interventions that are aimed at (1) assisting individuals, households, and communities to manage risks and shocks better; and (2) providing support to the critically poor.

Table 2. Distribution of Households Reporting Being Worse Off as to the Source of Vulnerability, 2004 APIS (percent)

Income Decile	Reason for Being Worse Off								Total HHs
	Lost Job/ Work	Natural Disaster	Increased Food Price	Poor Health	Reduced Income	No Savings	Loss of Gov't Assistance	Others	
Across Deciles									
1 (poorest)	10.3	28.5	10.7	8.4	16.2	12.8	8.0	10.0	12.2
2	10.5	15.4	10.3	10.8	14.8	12.3	5.9	9.9	11.4
3	10.5	12.6	10.6	12.2	12.4	13.5	11.5	8.9	11.1
4	10.4	8.7	10.6	11.5	11.1	9.1	2.9	9.8	10.5
5	13.6	10.1	10.4	12.9	10.0	10.6	13.5	8.4	10.6
6	12.0	7.3	10.0	10.2	8.9	9.0	12.6	9.6	9.8
7	12.0	4.9	10.4	8.2	8.2	11.7	9.3	10.3	9.8
8	8.9	4.7	10.0	9.3	8.0	8.6	11.7	11.6	9.4
9	7.2	5.3	9.3	9.6	6.0	7.3	12.6	10.9	8.4
10 (richest)	4.5	2.6	7.8	6.9	4.4	5.1	11.9	10.4	6.8
All Deciles	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Across Reasons for Being Worse Off:									
All Deciles	8.2	3.0	53.9	5.8	19.2	3.8	0.4	5.4	100.0

APIS = Annual Poverty Indicators Survey, HH = household.
Source: Basic data from the 2004 Annual Poverty Indicators Survey, National Statistics Office.

Social protection programs may be classified under three main categories: (1) contributory social insurance programs, (2) non-contributory social welfare programs and social safety net programs, and (3) active labor market programs. "Social insurance programs" refers to contributory programs that help households insure themselves against sudden reductions in income. They mitigate income risks by pooling resources and spreading risks across time and groups of individuals. They include publicly provided or mandated insurance against old age (pensions), disability, death of the main provider, and sickness. "Social welfare programs" and "social safety nets" refer to non-contributory social transfer programs that are targeted at the poor or people vulnerable to poverty and shocks.[1] They include school feeding programs, conditional cash transfers, provision of jobs in labor-intensive public works schemes (also called "workfare" programs), microfinance programs, livelihood and self-employment programs, social funds, and social assistance to specific vulnerable groups.

NEDA–SDC Resolution No. 1 of 2007 defines social welfare programs as preventive and developmental interventions that are intended to support the minimum requirements of the poor, particular the poorest of the poor. These programs usually consist of direct assistance as cash or in-kind transfers to the poorest and marginalized groups, as well as social services including family and community support, alternative care, and referral services. The resolution defines social safety nets as stopgap measures or urgent mechanisms designed to address the effects of economic shocks, disasters, and calamities on specific vulnerable sectors. These measures specifically target affected groups to provide relief and transition out of poverty and destitution. Finally, active labor market programs are programs aimed at increasing the skills, employment, and long-run earning potential of beneficiaries through activities such as training, apprenticeships, job search assistance, and subsidized job placements.

Objectives. This paper reviews and assesses major non-contributory social protection programs that are currently part of the Philippine government's portfolio of social protection interventions. In particular, the paper attempts to answer the following policy question: Are the social protection programs appropriate, adequate, cost-effective?

These attributes are succinctly defined by Grosh et al. (2008: 2):

- **Appropriate.** "The programs used and the balance between them and with the other elements of public policy should respond to the particular need of the country."
- **Adequate.** The programs "should provide full coverage and meaningful benefits to whichever subset of the population they are meant to assist."
- **Cost effective.** "Cost-effective programs channel most program resources to their intended target group. They also economize the administrative resources required to implement the program."

This paper focuses on non-contributory social assistance programs because the coverage of social insurance programs in the Philippines is fairly limited. In particular, in 2007, the Government Service Insurance System (GSIS) had 1.4 million members

[1] NEDA–SDC Resolution No. 1 of 2007 differentiates between social welfare programs and social safety nets. Such a distinction is typically not made in the international literature.

while the Social Security System (SSS) had 8 million contributing members,[2] accounting for 92% of the civilian public sector employees and 29% of the people employed outside of the public sector. Together, the GSIS and SSS covered 28% of the employed population and 22% of people who were at least 65 years old. Thus, the coverage of the social security system in Philippines (i.e., GSIS plus SSS) is one of the lowest in the region: lower than in Malaysia, the Republic of Korea, Singapore, and Thailand, but higher than in Indonesia (Table 3).

The coverage of the social health insurance program is also fairly low. In 2008, the contributory programs of the PhilHealth (the government health insurance scheme) covered 12.8 million principal members (Table 4). The number of principal members covered under the Individually Paying Program and the Overseas Workers Program combined represented 25% of the informal sector workers in 2008.[3] In contrast, the coverage rate of the Private Employed Sector Program was 48% in 2008. Thus, the overall coverage rate of the contributory program of PhilHealth, when reckoned relative to the total employed population, reached 38% in 2008. However, when reckoned in terms of the ratio of total beneficiaries (i.e., principal members and dependents) to the total non-poor population, the overall coverage rate of the contributory programs of PhilHealth is higher, at 79%. But the coverage of the Sponsored Program or the Indigent Program (when reckoned relative to the estimated number of poor households) was 67% in 2008. Thus, the contributory and non-contributory programs of PhilHealth taken together covered 68.7 million beneficiaries or 76% of the total population in that year.

Table 3. Coverage Ratios of Social Security Schemes

	Active Members ('000)	Members as % of Eligible Pop.	Members as % of Labor Force	Members as % Pop. Aged 15+
Philippines	9,356	32.1	25.8	16.6
Indonesia	14,000	42.7	14.0	6.6
Korea, Rep. of	17,070	…	73.0	37.1
Malaysia	5,070	…	45.5	19.8
Thailand	10,351	72.0	29.0	16.8
Hong Kong, China	2,832	95.5	79.4	41.2
Singapore	1,324	77.0	56.6	31.2

… = not available.
Sources: Data for the Republic of Korea are from the National Pension Scheme only; for Malaysia, for the Employees' Provident Fund only; for the Philippines, from the Social Security System and the Government Social Insurance System and the Labor Force Survey of the National Statistics Office for April 2007; for all other countries, data are from Ghosh (2006).

2 The SSS had 27.2 million members in 2007, but less than 30% (or 8 million) were contributing members.

3 For this paper's purposes, "informal sector workers" includes the own-account workers, unpaid family workers, wage workers in private households, and wage workers in family-owned business.

Table 4. Coverage of PhilHealth Programs, 2008

	Members (million)	Coverage Rate (% of eligible members)	Beneficiaries[a] (million)
Government Employees	1.9	100.0	7.7
Private Employees	6.4	48.2	23.2
Sponsored Indigents	3.3	67.0 [b]	16.5
Overseas Worker Program	1.8		8.1
Individually Paying Members	2.7	24.8 [c]	12.5
Non-Paying Members	0.4		0.7
Total	**16.5**	**38.2** [d]	**68.7**

a beneficiaries refer to principal members and dependents.
b as % of poor households.
c combined overseas Filipino workers and individually paying members.
d refers to contributory program only, estimated relative to total number of employed people.
Source: PhilHealth (2008).

Organization of the Paper. Section 2 assesses selected social welfare programs and social safety nets in the Philippines. Section 3 presents data on national government spending on the social protection programs. It then draws the policy implications and lessons that emerge from the assessment of the social assistance programs.

2. Assessment of Social Welfare and Social Safety Net Programs

This section assesses social welfare and social safety net programs and cash transfers. The assessment includes a description of each program, intended or targeted beneficiaries and actual coverage, estimated leakage, exclusion errors, and size of the benefits.

2.1. Rice Subsidy Program

The rice price subsidy administered by the National Food Authority (NFA) has been a mainstay in the government's portfolio of interventions since 1972. The NFA is mandated to stabilize unhulled rice (*palay*) and rice prices by setting a floor price for palay to protect farmers' income, setting a ceiling price for rice to protect consumers' welfare, and maintaining a buffer stock. The floor and ceiling prices for palay and rice, respectively, are defended by NFA's procurement of palay stocks and disbursement of rice stocks at the officially determined prices. Thus, NFA rice is sold by registered retailers to consumers at a price lower than other rice. The NFA's monopoly on rice imports also helps it support the ceiling price of rice. For example, the government's response to the Asian financial crisis in 1998 focused primarily on ensuring an adequate supply of rice (World Bank 2001b). Thus, the NFA increased imports of rice to about

2 million tons in 1998. As a result, NFA rice releases in that year exceeded 20% of total consumption, more than double the 1997 level of 8%.

Targeting and Leakage

The NFA's rice price intervention is a universal consumer price subsidy and, as such, benefits even the non-poor. It is essentially an untargeted program but the extent of program leakage is influenced by the distribution of NFA rice releases across geographic locations, which in turn impacts the poor's access to NFA accredited stores. Given the actual distribution of NFA rice across provinces in 2006, the leakage rate from the NFA rice intervention is estimated to be 71% based on the province-level estimates of poverty incidence from the 2006 Family Income and Expenditure Survey (FIES) and 87% based on the province-level estimates of subsistence incidence from the 2006 FIES.[4]

The 71% leakage estimate based on estimates of province-level poverty incidence for 2006 is even slightly higher than the 67% that is derived if one assumes that NFA rice is randomly distributed all over the country. This result is consistent with the fact that the geographic distribution of NFA rice is not sensitive to poverty incidence.[5] For example, in 2006, the share of NFA rice in total rice consumption in the Western Visayas, the Autonomous Region of Muslim Mindanao (ARMM), and Central Mindanao was 5.9%, 7.1%, and 11.0%, respectively, (well below the national average of 20.4%) although the incidence of poverty in those regions was 38.6%, 61.8%, and 40.0%, respectively (higher than the national average of 32.9%). In contrast, NFA rice accounted for 40.5% of total rice consumption in the National Capital Region (NCR), where the poverty incidence is the lowest, at 10.4% (Table 5).

Over the years, there have been attempts to reduce leakage by introducing mechanisms that will better target poor households, but without much success. One such attempt is the Tindahan Natin Program (TNP) that was launched in 2005. It has two components: rice distribution and support for small-scale retailers. Individuals with a retail business in strategically located sites that are accessible to intended beneficiaries of the TNP may

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4 The estimate of the leakage rate assumes that the beneficiaries of the NFA rice distribution program are randomly distributed within each province. One could argue, however, that NFA rice, being an inferior good, introduces a self-targeting element into the program that will somehow mitigate the leakage problem. Still another aspect of self-targeting stems from the fact that consumers have to wait in line for extended periods when NFA rice is in short supply, e.g., during the "rice crisis" of 2008. It is argued that the poor are more willing to queue for NFA rice because the opportunity cost of their time is much lower than that of the non-poor. These two arguments tend to suggest that the leakage estimates of 71% and 87% may overstate the true leakage rate.

5 Moreover, a negative but statistically insignificant relationship between the distribution of NFA rice across provinces and poverty incidence is found for 2006.

apply for a loan from the Department of Social Welfare and Development (DSWD). Thus, the program provides credit for livelihood for the store owner. However, the location of TNP stores is identified based on geographic targeting using the Food Insecurity and Vulnerability Information Mapping System (FIVIMS).

Table 5. NFA Rice Distribution and Poverty Incidence, 2006

	NFA Rice Releases (as % of total consumption)	Poverty Incidence
Philippines	**20.4**	**32.9**
National Capital Region	40.5	10.4
Ilocos Region	13.1	32.7
Cagayan Valley	9.9	25.5
Central Luzon	20.4	20.7
Southern Tagalog	12.0	36.8
Bicol Region	24.5	51.1
Western Visayas	5.9	38.6
Central Visayas	29.5	35.4
Eastern Visayas	19.6	48.5
Western Mindanao	30.3	45.3
Northern Mindanao	26.5	43.1
Caraga Region	20.0	52.6
Southern Mindanao	27.4	36.6
Central Mindanao	11.0	40.8
Autonomous Region of Muslim Mindanao	7.1	61.8
Cordillera Autonomous Region	24.3	34.5

Sources: National Food Authority and NSO FIES for 2006.

As originally designed, only eligible household beneficiaries may purchase food items at the NFA's prescribed selling price from a TNP store. Eligible beneficiaries could only purchase 14 kilograms (kg) of rice per week.[6] A family passbook is issued by the provincial, city, and municipal social welfare and development officers to the beneficiaries for identification and monitoring purposes. The beneficiary presents the passbook when purchasing the rice allocation at the TNP stores. The selection of TNP household beneficiaries is the responsibility of the DSWD in coordination with the social welfare development officers and the *barangay*[7] councils. In principle, the target beneficiaries of the TNP are families with total income below the food threshold (P5,000 [about $110] per month). However, how and on what basis the individual household assessments are made is unclear. In the end, no restrictions

6 The weekly allocation per family is based on the average per capita rice consumption of 115 kg per year.

7 The *barangay* is the lowest level of government, a division of a municipality or city.

were actually placed on who may buy the subsidized rice and other food items from the TNP stores. Thus, all households within the catchment area of a TNP store are allowed to purchase subsidized food items. Given the geographic distribution of the TNP stores across the country and the number of beneficiaries they serve, the leakage rate of the TNP is estimated at 66% for the entire program and 59% if NCR stores are excluded (Manasan and Cuenca 2007).[8] This implies that 66% of the program benefits accrue to non-poor households and only 34% are received by poor households. In effect, the TNP is able to improve the targeting of the NFA subsidy only very slightly.

In 2008, there was another attempt to improve the targeting of the rice subsidy program. The Philippine President directed the NFA to withdraw the highly subsidized rice from the public markets in Metro Manila and instead to focus on distributing it to the poorest families by issuing Family Access Cards (FACs) to them.[9] The target beneficiaries of the program are families with total income below the P5,000 per month food threshold. The task of identifying the beneficiaries is shared jointly by the DSWD, the local government units (LGUs), and the Roman Catholic Church. The DSWD then issues the FACs, which entitle the holders to buy 2 kg of the highly subsidized NFA rice a day, which will only be sold in TNP and church outlets.

The targeting approach of issuing the FACs for subsidized rice is by unverified means test and is implemented by the LGUs. The program targets 700,030 family-beneficiaries in the NCR.[10] But, of the 538,458 families identified by LGUs, only 387,693 were found to be qualified by the DSWD–NCR—28% of beneficiaries identified by the LGUs failed to qualify. Comparing the number of family-beneficiaries found to be qualified by the DSWD (387,693), on the one hand, with the total number of food-poor households (17,214) and the total number of poor households overall (167,316) in the NCR as per the 2006 FIES, on the other, highlights just how egregious the situation is. These numbers indicate leakage rates of 96% relative to the food-poverty incidence and 57% relative to the overall poverty incidence at best. The numbers also underscore how the decentralization of targeting decisions tends to lead to suboptimal results as incentives arising from local rent-seeking behavior tempt local officials to manipulate and exploit local information. It also highlights the dangers of using unverified means tests.

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8 These figures are computed based on the small area estimates of poverty incidence at the municipal level.

9 However, NFA rice will continue to be sold in public markets at the higher (but still subsidized) price of P25 ($0.56)/kg.

10 Newspaper reports (Araneda 2008) quoting Secretary Esperanza Cabral of the DSWD indicate that this number was made based on the representation of LGU officials in the NCR.

Coverage

If the NFA rice intervention program were perfectly targeted, the total amount of rice distributed in 2008 would suffice to satisfy the rice requirements of 55% of the total number of poor households and exceed the rice consumption needs of all food-poor households by 24%. But, because leakage is high, the program is estimated to cover only 16% of the total rice requirements of food-poor households at best.

Size of the Transfer and Benefits

As with other food price subsidy programs, the effective transfer benefit, *b*, to eligible beneficiaries from NFA's subsidized rice program is equal to $q*(pm\text{-}ps)$, where *q* is the quantity beneficiaries are allowed to purchase, *pm* is the market price of the rice, and *ps* is the subsidized price. This translated to P234 per month (or P2,847 per year) in 2007[11] and P477 per month (or P5,803 per year) in 2008,[12] assuming that beneficiaries do purchase 2 kg of rice per day (i.e., the maximum amount that they are allowed to buy in the TNP and FACs program). In 2007, the size of the transfer was equivalent to 5.5% of the food and overall poverty threshold and 3.7% of the overall poverty threshold. Because the implicit subsidy per kilogram of rice more than doubled in 2008, the size of the transfer in relation to the food and overall poverty thresholds went up correspondingly, to 10.5% and 7.0%. Furthermore, the effectiveness of the NFA rice subsidy to mitigate hunger and to reach the poor is limited by the fact that it simply provides a discount on the price of rice. To access the transfer, eligible beneficiaries have to pay cash for the food items, albeit at a subsidized price. This may limit the poor's access to the program.

Budgetary Implications

Because the NFA is engaged in an activity that inherently entails some losses, the government supports the NFA with both equity infusions and operational subsidies through the General Appropriations Act. The national government's direct subsidy to the NFA was P4.8 billion ($93 million) in 2006, P2.1 billion ($45 million) in 2007, and P2.0 billion ($45 million) in 2008. In addition, the national government guarantees all NFA debt. Thus, the cost to the taxpayers of NFA operations includes budget support and the increase in NFA debt as the latter represents an increase in future

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[11] The price of NFA rice was P18.25/kg while the retail price of regular milled rice averaged P22.15/kg in 2007. Thus, the implicit subsidy per kilogram of rice was P3.90 during that year. Ed: The average exchange rate was P46.23/$1 in 2007.

[12] The price of NFA rice averaged P22.75/ kg in 2008 while the retail price of regular milled rice averaged P30.70/kg. Thus, the implicit subsidy per kilogram of rice averaged P7.95 in 2008. Ed: The average exchange rate was P44.56/$1 in 2008.

obligations of the national government. Table 6 shows that the total financial cost of NFA interventions was P5 billion in 2007 (or 0.1% of GDP), down from P15.8 billion in 2006 (or 0.3% of GDP). With the rapid rise in the price of rice in 2008, the total financial cost of NFA interventions is estimated to go up correspondingly to P43.1 billion (or 0.6% of GDP).

Table 6. Fiscal Cost of NFA Operations, 2007–2008 (million pesos)

	2006	2007	2008
Net Loss Before Gov't Subsidy	15,788[a]	5,000[a]	43,095 [b]
Of which: operating expense	3,581[a]	3,717[a]	3,717
Sources of Finance			
Operational subsidies from national government	4,811	2,100	2,000
Other sources	10,977	2,900	41,095
Net Loss before Govt Subsidy as % of GDP	0.26	0.08	0.58

GDP = gross domestic product, NFA = National Food Authority.
a based on the NFA financial statement for 2007.
b based on the difference between cost of rice imports and proceeds of rice sales in local market.
Ed: The exchange rate averaged P51.42 in 2006, P46.23/$1 in 2007, and $44.56/$1 in 2008.
Sources: NFA (2007); Annual Audit Report on National Food Authority, Commission on Audit; cost of rice imports, price of NFA rice and sales of NFA rice in local market from Grains Marketing Operations Division of National Food Authority.

2.2. Food for School Program

The Food for School Program (FSP) was launched in November 2005. It is a conditional in-kind transfer intended to mitigate hunger and improve school attendance. It provides 1 kg of rice to eligible families for every day that their children continue to attend school. In practical terms, the rice ration is provided to each eligible pupil after class.[13] Thus, eligible households are assured of having rice on their tables every day as long as their children attend school or day-care centers. In this sense, the FSP is a conditional in-kind transfer program.

Coverage, Targeting, and Leakage

The FSP combines geographic targeting with institutional targeting at the level of the public school or day-care center. The Department of Education (DepEd) implements the preschool and grade 1 component of the FSP and the DSWD manages the day-care center component. The beneficiaries of the program are households that are in selected geographic areas and have children who are in enrolled in eligible grade levels in public elementary schools or children who attend accredited day-care centers.

13 When two or more siblings are enrolled in the eligible grade levels in public elementary schools or in identified day-care centers, only one child will receive the rice ration.

The selection of beneficiaries and the eligibility rules for the program have been changed twice since the introduction of the FSP: first in school year (SY) 2007/08 and second in SY2008/09. In the first cycle of FSP implementation (SY2005/06 and SY2006/07), the geographic areas covered included the 17 cities and municipalities of the NCR and the 49 provinces identified by the FIVIMS as very, very vulnerable; very vulnerable; or vulnerable.[14] At that time, children eligible for the DepEd component were preschool and grade 1 pupils in public schools in targeted LGUs and those eligible for the DSWD component were enrolled in DSWD-supervised day-care centers in targeted LGUs. Thus, the FSP was targeted to include all preschool and grade 1 pupils in all the public schools and all the children enrolled in all the DSWD-supervised day-care centers in

- all the NCR's municipalities and cities (17);
- all the municipalities (49) of the provinces classified as very, very vulnerable by the FIVIMS;
- all the 5th and 6th class municipalities (283) of the provinces classified as very vulnerable and vulnerable in the FIVIMS;
- all the 4th class municipalities in the very vulnerable and vulnerable provinces where there are no 5th and 6th class municipalities; and
- All the 3rd class municipalities in the very vulnerable and vulnerable municipalities where there are no 4th, 5th, and 6th class municipalities.

Counterfactual simulation indicates that the leakage rate[15] from the FSP could be reduced if the targeting rules were changed. In particular, under "alternative targeting rule 1" the leakage rates of SY2006/07 (62% in the DepEd component and 59% in the DSWD component) could have been brought down to 55% and 53%, respectively, if the program were to target the poorest municipalities (as per the small area estimates of poverty incidence at the municipal level) in each of the very vulnerable and vulnerable provinces under the FIVIMS rather than to the 5th and 6th class municipalities in the same provinces (Manasan and Cuenca 2007). The analysis also suggests that leakage rates could be further reduced to 24% and 44%, respectively under "alternative targeting rule 2," if the FSP were to directly target the poorest municipalities overall (Tables 7 and 8).

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[14] The FIVIMS is designed to identify food insecure and vulnerable provinces in the country. The FIVIMS is anchored on an index that is composed of 12 core indicators: (1) ratio of per capita income to per capita expenditure, (2) poverty incidence, (3) median family income, (4) ratio of food expenditure to total household expenditure, (5) ratio of cereal food expenditure to total food expenditure, (6) unemployment rate, (7) cohort survival rate at the elementary level, (8) percentage of families with working children, (9) percentage of households with safe water, (10) percentage of underweight children, (11) percentage of underweight adults, and (12) percentage of agricultural land under tenancy. The FIVIMS was largely based on data referring to 2000.

[15] The leakage rate and the undercoverage rate are estimated on the basis of the poverty incidence adjusted for the tendency for the share of the poor in public school enrollment to be higher the poverty incidence.

Table 7. Leakage and Undercoverage Rates Under Alternative Targeting Rules for DepEd Component of the FSP, SY2006/07

Targeting Rule	Leakage Rate	Under-Coverage Rate	Share of the Poor in Total Transfers
FIVIMS Priority Provinces and Municipal According to Income Class (existing rule)	62%	80%	38%
FIVIMS Priority Provinces and Municipal According to the SAE (alternative targeting rule 1)	55%	72%	45%
Directly Targets Municipal According to SAE (with same no. of actual beneficiaries as now, alternative targeting rule 2)	24%	53%	76%

DepEd = Department of Education, FIVIMS = Food Insecurity and Vulnerability Information Mapping System, FSP = Food for School Program, SAE = small area estimates, SY = school year.
Source: Manasan and Cuenca (2007).

Table 8. Leakage and Undercoverage Rates Under Alternative Targeting Rules for DSWD Component of the FSP, SY2006/07

Targeting Rule	Leakage Rate	Under-Coverage Rate	Share of the Poor in Total Transfers
FIVIMS Priority Provinces and Municipal According to Income Class (existing rule)	59%	75%	41%
FIVIMS Priority Provinces and Municipal According to the SAE (alternative targeting rule 1)	53%	69%	47%
Directly Targets Municipal According to SAE (with same no. of actual beneficiaries as now, alternative rule targeting 2)	44%	56%	56%

DSWD = Department of Social Welfare and Development, FIVIMS = Food Insecurity and Vulnerability Information Mapping System, FSP = Food for School Program, SAE = small area estimates, SY = school year.
Source: Manasan and Cuenca (2007).

This is not surprising, because analysis of the targeting scheme used for the FSP in SY2005/06 indicates that the ranking of municipalities according to their income class does not correlate well with their ranking according to the small area estimate of poverty incidence at the level of the municipality. This is true whether one is looking at the ranking of municipalities within a province or nationwide. For example, 155 (or 50%) of the 313 municipalities in the very vulnerable and vulnerable provinces are found not to be among the poorest municipalities even within each of these provinces under the FIVIMS (Manasan and Cuenca 2007).

The analysis also reveals that the undercoverage rate could be reduced if the targeting rule were changed. The undercoverage rates could be improved to 72% in the DepEd component and 69% in the DSWD component if the alternative targeting rule 1 were followed and to 53% and 56%, respectively, if alternative 2 were followed.

During the third cycle of FSP implementation (SY2008/09), LGUs were selected on the basis of the province-level poverty incidence estimates derived from the 2006 FIES and the small area estimates of poverty incidence for municipalities. The government decided to limit NCR coverage to 21 barangays identified as "hotspots" by the Department of Interior and Local Government and to include the poorest 100 municipalities (according to the small area estimates) in the list of LGUs targeted for the FSP. The FSP in SY2008/09 targeted all preschool and grade 1–3 pupils in all public elementary schools and all children attending DSWD-supervised day-care centers in

- 21 "hotspots" in the NCR, as identified by the Department of Interior and Local Government for the DepEd component and all cities and municipalities of the NCR for the DSWD component;
- all municipalities in the 20 food-poorest provinces based on the 2006 FIES; and
- the poorest 100 municipalities based on the small area estimates, excluding the municipalities already covered in the 20 food-poorest provinces.

Estimates are that the changes in the targeting rule for the FSP, if implemented when introduced, could have reduced the leakage rate in the DepEd component from 62% in SY2006/07 and 54% in SY2007/08 to 32% in SY2008/09. A similar reduction in the leakage rate in the DSWD component may be expected, but data for recent years were not available.

Size of the Transfer

The FSP provides the beneficiary 1 kg of rice daily 5 days a week, but the transfer may be too small. An informal survey by the DepEd in February-March 2006 found that

- 80% of recipient households reported that 1 kg of rice is not enough to provide their families with three meals a day, and
- only 33% of households reported not having missed a meal in the last 3 months.

These numbers are consistent with the fact that the FSP's rice ration during schooldays is just enough to cover about 45% of the average weekly rice consumption of a family with 5 members.[16] Moreover, if the rice transfer were converted to cash (P675 [$13.13] per month at the average retail price of regular milled rice of P30.70/kg [$0.60/kg] in 2008), the transfer is estimated to be equal to 15% of the food threshold and 10% of the overall poverty threshold. Or, if reckoned at the subsidized price of P18.25/kg ($0.35/kg), the transfer is equal to 9% of the food threshold and 6% of the overall poverty threshold.

Benefits

The FSP has not yet been rigorously assessed. However, the results of DepEd's monitoring of the FSP implementation, which was conducted in 27 February–11 March 2006, appear to validate the experience in other countries, that social transfers can act as effective incentives to increase poor people's demand for services and improve their education outcomes. In fact, transfers do not need to be conditional on school attendance to impact children's education (Chapman 2006). The program has a positive impact on both the school attendance and nutrition status of the pupils who benefited from the FSP (Table 9).[17] In particular, 62% of the respondents said that the number of school days missed declined, 44% of the participating children included in the assessment gained weight, and 20% of the respondents reported that they gained enhanced knowledge on basic nutrition from the program.

Table 9. Perceived Gains from the FSP (DepEd)

	Percent [a b]
1. No Missed Meals in the Last 3 Months	33.7
2. Decreased Number of Schooldays Missed	62.1
3. Increased Weight of Child	44.4
4. Addtional Food for the Family	89.6
5. Enhanced Knowledge of Basic Nutrition	20.1

a Proportion of respondents who report specified gains
b Total is not equal to 100% due to multiple answers.
Source: Manasan and Cuenca (2007).

2.3. Pantawid Pamilyang Pilipino Program

The Pantawid Pamilyang Pilipino Program (4Ps) is a conditional cash transfer program that aims to improve the living conditions of poor households and encourage them

16 This figure is estimated based on a 0.32 kg allocation per member per day which, in turn, is based on the national average rice consumption.

17 Of the 49 provinces included in the program, 17 were visited as part of the monitoring. Fifty-two elementary schools and day-care centers were visited, 401 children were weighed, and 412 parents and caregivers were interviewed.

to increase their investments in the education and health of their children. The 4Ps provides cash grants to poor households conditional on their increasing their investments in their children's human capital. The 4Ps provides education and health grants. The education grant is P300 per child per month during the school year (up to a maximum of 3 children) provided that

- children 3–5 years of age attend day-care or preschool classes at least 85% of the time, and
- children 6–14 years of age enroll in elementary or high school and attend school at least 85% of the time.

The health grant is P500 per month to targeted poor households provided they comply with the following conditions:

- pregnant women avail of pre- and post-natal care and are attended during childbirth by a skilled healthcare professional,
- parents attend responsible parenthood sessions,
- children 0–5 years old receive regular preventive check-ups and vaccines, and
- children 0–5 years old receive deworming twice a year.

The education grant totals P3,000 per year for a household with one child or P9,000 a year for a household with three children and the health grant totals P6,000 per year per household. Thus, a 4Ps household with one eligible child may receive P9,000 per year and one with three eligible children may receive P15,000 in government assistance, provided they comply with the conditions.

Initially, the 4Ps was expected to benefit the poorest 300,000 households in the 20 poorest provinces (with the exception of three Mindanao provinces) and the poorest province in each of the five regions not represented by the 20 poorest provinces.[18] However, the 4Ps is expected to benefit 1 million households by the end of 2010. In each of the poorest provinces, the poorest municipalities are selected based on the small area estimate of poverty incidence and the security situation. A household survey is then administered in the selected municipalities. Subsequently, households are selected on the basis of a proxy means test.

Beneficiaries are then registered and issued identification cards and bank cards. The cash grants to household beneficiaries are paid to the most responsible adult in the household through automated teller machines of the Land Bank of the Philippines. Beneficiaries' compliance with the conditionalities is monitored, and a grievance system is installed to ensure that complaints and grievances about program implementation, noncompliance, and other matters are appropriately acted upon.

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[18] Poverty incidence is based on the NSO FIES for 2006.

Targeting

The proxy means test used to select beneficiaries for the 4Ps appears to have performed well in the pilot areas. In these areas, the reported inclusion error was less than 10% of the selected beneficiaries. The use of the proxy means test reinforces the credibility of the program and reduces the risks associated with political interference in selection of beneficiaries.

Expected Benefits

As with conditional cash transfer programs in other countries, the expected outcomes of the 4Ps include

- a significant increase in the number of children enrolled in day care through secondary school;
- a significant increase in the school attendance of children in elementary and secondary school;
- a significant increase in the number of years of education completed;
- a significant increase in the number of pregnant women having pre- and post-natal care, and whose child birth is in a health facility and attended by health professional;
- a significant increase in the number of children 0–5 years old availing of preventive health services and immunization;
- a significant decrease in stunting among children 0–5 years old;
- a significant decrease in the baseline level of population growth; and
- a significant increase in food consumption.

Potential Impact on School Attendance

The 2004 Annual Poverty Indicator Survey shows that 92.0% of all 6–15 year old children attended school. However, only 85.0% of those in the poorest quintile attended school compared to 98.5% of those in the richest quintile. The survey also showed demand-side constraints (i.e., lack of personal interest and high cost of education) as the two reasons most often cited by children aged 6–15 to explain their not attending school. Both reasons appear to be more important for the poorer than for the richer quintiles.

Nearly a quarter (23.7%) of school leavers aged 6–15 in the poorest quintile attributed their nonattendance in school to the high cost of education versus 9.8% of their counterparts in the richest quintile. Of school leavers aged 6–15 in the poorest quintile, 38.6% claimed they were not in school because of lack of personal interest versus 27.5% of their counterparts in the richest quintile.

The potential impact of the 4Ps on school attendance is simulated using the results of Orbeta (2005) and based on 300,000 beneficiaries. The Orbeta study focuses on the determinants of household decisions to send their children to school. It shows that family income is the predominant variable that explains school attendance. Moreover, school attendance is found to be more responsive to changes in per capita income among the lower income quintiles—a 10% increase in per capita household income is estimated to increase the probability of school attendance of children in the poorest quintile by 1.5%.

Given the Orbeta coefficients, the pure income effect of the education grant (which is estimated to increase the average per capita income of beneficiaries in the 4Ps by 14%) is estimated to increase the school attendance rate among children aged 6–14 in the poorest quintile from 85.0% to 85.2%, and the pure income effect of the total education and health grants (which is estimated to increase the average per capita income of beneficiaries in the 4Ps by 29%) is estimated to increase the attendance rate from 85.0% to 85.4%. But, with the education conditionality under the 4Ps, the school attendance rate is estimated to increase to 86.4% (Table 10).[19]

The estimated overall impact on the school attendance rate shown in Table 10 appears to be low largely because it is based on a coverage of 300,000 households only, (or about 7% of the poor households nationwide or 18% of those in the target provinces). For example, if the beneficiaries of the 4Ps increase from 300,000 households to 1 million, the program is estimated to increase the school attendance rate of the poorest quintile from 85.0% to 89.8%.

Table 10. Probability of Children Aged 6–14 Attending School

Income Quintile	Without 4Ps	With 4Ps: Education Grant Only, Without Conditionality	With 4Ps: Total Grants, Without Conditionality	With 4Ps: Education Grant Only, With Conditionality
1	85.0	85.2	85.4	86.4
2	90.9	90.9	90.9	90.9
3	94.5	94.5	94.5	94.5
4	96.7	96.7	96.7	96.7
5	98.5	98.5	98.5	98.5
Total	**92.0**	**92.1**	**92.1**	**92.4**

Source: Author's computations based on NSO (2004) and coefficients of Orbeta (2005).

[19] These estimates assume that, on the average, households in the poorest quintile have 2 children who are eligible for the education grant.

Potential Impact on Food Intake

The total cash transfers under the 4Ps is estimated to reduce the income gap[20] of the poorest quintile from 45.0% to 43.7% assuming that the cash transfers are spread out to all households in the poorest quintile. Given this, the potential impact of the 4Ps on the food intake of households is estimated using the results of an analysis conducted on data obtained from the World Bank, the 1996 International Comparison Project, which provides consistent consumption expenditures across 114 countries (Seale, Regmi, and Bernstein 2003). The analysis indicates that consumers in low-income countries make greater adjustments in their household spending on food when incomes and/or prices change. In particular, when household incomes increase by 10% a consumer in the Philippines will typically increase food spending by an estimated 6.5%. Based on this, the 29% increase in the average per capita income of the 4Ps beneficiaries will result in a 19% increase in their spending on food. Coupled with the mothers' class, effective parenting counseling sessions, and monitoring of the children's weight the beneficiaries of the 4Ps are expected to be able to translate the increase in their food expenditure into a better nutritional status of their families. The 19% increase in household spending on food is expected to result in a 3.2% increase in household calorie intake.[21]

Appreciating the Potential Impact on Health

Table 11 presents data on selected health indicators from the 2003 National Demographic and Health Survey. It highlights how demand for many basic health services tends to be inversely related with the wealth status of households, providing some indication of the scope for increased demand for healthcare as incomes improve. Thus, it is hoped that the income transfers from the 4Ps will provide incentives for the poor households benefiting from the program to access basic maternal and child health services.

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20 The income gap refers to the average income shortfall (expressed in proportion to the poverty line) of families with income below the poverty threshold.

21 This estimate is based on the results of Bouis and Haddad (1990), which show that a 10% increase in household spending on food in the Philippines will result in a 1.7% increase in household calorie intake.

Table 11. Selected Health Indicators by Wealth Quintiles, 2003 NDHS

Wealth Quintile	Fully Immunized Children %	% of Facility-Based Child Birth	% of Child Delivery Assisted by Health Professional	% of Children Given Micro Nutrient Supplement	% of Under-5 Children Given Iron
Poorest	55.5	10.4	25.1	64.4	47.3
Lower Middle	69.3	24.8	51.4	73.3	58.5
Middle	77.8	43.3	72.4	79.5	68.3
Upper Middle	72.4	59.8	84.4	83.7	74.8
Richest	83.0	77.0	76.2	87.3	80.1
All	**69.8**	**37.9**	**59.8**	**76.0**	**63.3**

Source: Based on data from NSCB (2003).

2.4. Pantawid Kuryente Project

The Pantawid Kuryente Project was initiated in June 2008 to soften the impact of the rising cost of electricity on poor households. It consists of a one-time cash grant of P500 ($11.25) to lifeline electricity consumers. The program has nationwide coverage and is estimated to benefit about 6.8 million households.[22] To be eligible for the grant, households should have a legal electricity connection and their electricity consumption should not have been greater than 100 kilowatt hours in May 2008.

Targeting and Leakage

The Pantawid Kuryente Program is essentially a self-targeted program. Beneficiaries are identified based on the amount of electricity they consume. However, the lifeline power consumption level does not appear to be effective in distinguishing poor households from non-poor households. The distribution of households with electricity expenditures lower than the lifeline level based on the 2006 FIES is shown in Table 12. It indicates a leakage rate of 72%. The exclusion rate is also high (43%).

Size of the Transfer

The size of the transfer (P500 per household) is equivalent to 1% of the average annual income of poor households or 0.7% of the poverty threshold.

[22] The number of lifeline electricity consumers was provided by MERALCO, 119 electric cooperatives under the auspices of the National Electrification Administration, and the Private Electric Power Operators Association, which comprises 17 private investor-owned electric utilities.

Table 12. Percent Distribution of Lifeline Power Consumers

Decile	Percent
First	8.0
Second	11.2
Third	13.0
Fourth	13.4
Fifth	13.4
Sixth	12.4
Seventh	10.4
Eight	8.4
Ninth	6.1
Tenth	3.7
All	**100.0**
Leakage Rate	71.8
Undercoverage Rate	43.3

Source: Basic data are from NSO FIES for 2006.

Program Cost

Based on initial presentations, the target number of beneficiaries of the Pantawid Kuryente Program was only 4 million with a corresponding budgetary requirement of P2 billion ($45 million). As the implementation of the program progressed, the target number of beneficiaries was raised to 6.8 million households (70% higher than the original estimate), with a corresponding budgetary requirement of P3.4 billion, or about $76 million (which has already been released and used). This highlights how weak information systems tend to increase the fiscal costs of a program.

2.5. Tulong Para Kay Lolo at Lola Project

The Tulong Para Kay Lolo at Lola Project was launched in July 2008. It provides a one-time cash subsidy of P500 ($11.25) to qualified senior citizens to help support their special needs. To qualify for the cash grant, senior citizens should be 70 years old or more. In addition, they should not be covered by the SSS, GSIS, or a government retirement benefit and they should not have any regular income.

Targeting and Leakage

The program uses categorical targeting in which all individuals in a specified category automatically become eligible to receive a program benefit. In this case, eligibility is based on age, which is easy to identify. However, the other eligibility criteria (not receiving a pension or regular income) may not be as easy to verify given the state of automation in government pension systems. Because of this, the leakage rate may even be higher than what is indicated below.

The distribution of senior citizens aged 70 and above who do not receive pensions across per capita income deciles based on the 2006 FIES is shown in Table 13. It indicates a leakage rate of 61%. However, the exclusion rate is fairly low (5%).

Table 13. Distribution of Senior Citizens 70 Years and Above Who Do Not Receive Pension or Retirement Benefit

Decile	Percent
First	9.3
Second	10.5
Third	10.8
Fourth	12.1
Fifth	11.7
Sixth	10.3
Seventh	10.0
Eight	9.6
Ninth	7.9
Tenth	7.8
All	**100.0**
Leakage Rate	60.8
Undercoverage Rate	5.4

Source: Basic data are from the NSO FIES of 2006.

Program Cost

The total number of qualified beneficiaries was estimated at 1 million senior citizens; thus, P500 million ($11.2 million) was released to the DSWD in 2008 for this program. Data from the 2006 FIES, however, suggest that about 1.96 million senior citizens aged 70 years and older are not receiving a pension or retirement benefit. This implies that the budgetary requirement is almost double that of budgeted if all the target beneficiaries are reached.

3. Summary and Recommendations

Table 14 summarizes national government spending on key non-contributory social protection programs. Total national government spending on social protection was P17 billion ($368 million), or 0.3% of GDP in 2007. In response to the rapid rise in food and fuel prices in the first half of 2008, government spending on social protection rose more than 3.5 times, to P62 billion ($1.391 billion), or 0.8% of GDP in 2008.

Despite this, the Philippine national government spending on social welfare programs, social safety nets, and active labor market programs compares unfavorably with that of other countries. National government spending on social protection, including active labor market programs and community-driven development projects, in 2008 was less than half the mean spending on social safety nets (1.9% of GDP) in 1996–2006 in a group of 87 countries surveyed by Grosh et al. (2008). It was also lower than the median spending on social safety nets (1.4% of GDP) of the same group of countries.

The bulk of national government spending on social safety nets went to a program proven to be the least effective in reaching the poor. Moreover, it appears that the NFA rice price subsidy is the government's program of choice in responding to major crisis situations. At the height of the Asian financial crisis in 1998, the government responded by increasing the allocation for the NFA rice subsidy by more than

Table 14. Government Spending (Allotments) on Social Protection

	2007			2008		
	P million	% of GDP	% distn	P million	% of GDP	% distn
Price and Income Shocks						
NFA rice price subsidy (net of tax expd)	5,000	0.075	29.4	43,095	0.581	69.4
Food for School Program	3,750	0.056	22.0	3,266	0.044	5.3
DepEd	3,000	0.045	17.6	2,500	0.034	4.0
DSWD	750	0.011	4.4	1,266	0.017	2.0
School-based feeding	348	0.005	2.0	581	0.008	0.9
DepEd	79	0.001	0.5	581	0.008	0.9
DSWD	270	0.004	1.6		0.000	0.0
Pantawid Pamilyang Pilipino Program	50	0.001	0.3	1,297	0.017	2.1
Pantawid Kuryente			0.0	4,400	0.059	7.1
KALAHI-CIDSS	1,481	0.022	8.7	1,629	0.022	2.6
Tindahan Natin	188	0.003	1.1	160	0.002	0.3
SEA-K and livelihood assistance	63	0.001	0.4			
Natural Disasters	1,265	0.019	7.4	986	0.013	1.6
Disaster relief	263	0.004	1.5	326	0.004	0.5
Disaster rehabilitation (CARE, GK, Guimaras)	1,002	0.015	5.9	660	0.009	1.1
Crisis Situations						
Assistance to individuals and HHs in crisis situations, incl PDAF	1,037	0.016	6.1	889	0.012	1.4
Disability, Old Age, and Special Vulnerabilities						
Assistance to disabled persons, senior citizens, and children in conflict w/ law	61	0.001	0.4	11	0.000	0.0
Center-based community-based assistance	481	0.007	2.8	719	0.010	1.2
Tulong Para Kay Lolo at Lola				500	0.007	0.8
Health Shocks						
PhilHealth—National govt. share only	2,100	0.032	12.3	2,200	0.030	3.5
PhilHealth—National govt. and local govt. share	3,300	0.050		3,500	0.047	5.6
Labor Market Shocks						
TESDA scholarship	510	0.008	3.0	1,350	0.018	2.2
DOLE programs	678	0.010	4.0	1,051	0.014	1.7
CB for students, youths, and disabled workers	149	0.002	0.9	416	0.006	0.7
CB for rural workers	65	0.001	0.4	69	0.001	0.1
Emergency employment for displaced workers	18	0.000	0.1	41	0.001	0.1
Local employment facilitation	56	0.001	0.3	56	0.001	0.1
Protection welfare services and reintegration program for Overseas Filipino Workers	388	0.006	2.3	469	0.006	0.8
Total w/ PhilHealth—national govt. share only	17,014	0.256	100.0	62,134	0.837	100.0
Total w/ PhilHealth—national govt. share	18,214	0.274		63,434	0.855	

CB = capacity building; DepEd = Department of Education; distn = distribution; DOLE = Department of Labor and Employment; DSWD = Department of Social Welfare and Development; GDP = gross domestic product; KALAHI–CIDSS = Kapit Bisig Laban sa Kahirapan–Comprehensive and Integrated Delivery of Social Services, a community-driven DSWD development program; NFA = National Food Authority; PDAF = Priority Development Assistance Fund, allocation in General Appropriations Act that is used to fund programs and projects of senators and congressmen; SEA–K = Self-employed Assistance–Kaunlaran, a DSWD microfinance livelihood program; TESDA = Technical Education and Skills Development Authority.

Sources: Government spending data from Statement of Appropriations, Allotments, Obligations and Balances (SAAB) of concerned agencies for 2007 and 2008; GDP from National Income Accounts of National Statistical Coordination Board.

50% above its 1997 level (Manasan 2000). Then again in 2008, when the country was hit by a food and fuel price shock, the government increased its allocation for the NFA rice price subsidy by almost three-fold relative to the 2006 level and by more than eight-fold relative to the 2007 level (Table 14). Thus, the NFA rice price subsidy accounted for 29% of total national government spending (or 0.08% of GDP) in 2007 and 69% of total national government spending (or 0.58% of GDP) in 2008. If government spending on the NFA rice subsidy were not included, the total national government spending on non-contributory social protection programs would drop from 0.26% to 0.18% of GDP in 2007 and from 0.84% to 0.26% of GDP in 2008.

As with generalized food subsidies in other countries, the NFA's rice price intervention has a high leakage rate (71%)—it is an untargeted program that benefits all households, poor and non-poor alike. Attempts to improve the targeting of the NFA rice subsidy, such as introducing the TNP and FACs, have not been successful. This situation appears similar to the experience in other countries (Grosh et al. 2008). Moreover, such programs are vulnerable to fraud, as evidenced by the development of a black market for the subsidized commodity.

The objectives and intended beneficiaries of programs overlap. For example, both the FSP and the 4Ps aim to improve the immediate living conditions of poor households (through rice rations in the FSP and through cash transfers in the 4Ps) while providing the households some incentive to increase their investment in the education and health of their children. Not only are the objectives of the two programs very similar, they also operate in the same geographical areas.

National government spending on the two programs combined was equal to 0.06% of GDP in 2007–2008, with the bulk of the spending going to the FSP because the 4Ps was still at its nascent stage. As the 4Ps entered its first year of full implementation in 2009, the full year budget requirement of the program was estimated to equal P5 billion ($105 million), or 0.07% of GDP.[23] With the expansion of the 4Ps coverage to 1 million households, the budget requirement rises to P14.3 billion ($322 million) in 2010, or 0.17% of GDP.

Addressing the Needs of the Chronic Poor

The coverage of programs such as the 4Ps that address the needs of chronically poor households needs to be expanded. The studies of Reyes (2003) and Albert, Elloso, and Ramos (2007) suggest that 22%–25% of all households are chronically poor. With chronic poverty at such high levels, there is clearly a need for a social

[23] This estimate assumes that there will be 363,388 participants in the 4Ps.

protection program that will provide transfers to address the immediate needs of the chronically poor and adequate incentive for them to invest in the education and health of their children, because that is the only way they will be able to escape the poverty trap. As indicated above, the 4Ps and the FSP share these characteristics. The duplication inherent in the current implementation of the two programs should be addressed soon.

The assessment of the 4Ps and the FSP suggests that the 4Ps is more effective in identifying the intended beneficiaries. The leakage from the FSP is larger than that from the 4Ps because of the need to shield FSP participants from stigma that may result if the rice ration is given to some pupils but not to others. Thus, a higher benefit level is possible under the 4Ps than with the FSP, assuming the same budget and number of participants and other things being equal.

Monitoring and enforcing the conditionalities on school attendance is more stringent under the 4Ps than under the FSP, thereby enhancing the positive impact on school attendance. Households participating in the 4Ps will not receive the school grant if their children are absent more than 15% of the time. In contrast, under the FSP pupils receive a rice ration each day they go to school. Thus, a pupil who goes to school for 15 of the 22 school days in a month will receive 15 kg of rice during that month even if attendance is less than 70% of school days. A DepEd official also notes that the impact of the FSP on school attendance is not as large as would be expected a priori because the program is not in place throughout the year due to the stop-go nature of government funding for the FSP.

Thus, it makes sense to consolidate the funding for the FSP into the 4Ps. In 2009, P5 billion (or 0.07% of GDP) is required to implement the 4Ps with a coverage of 363,388 households (representing 9% of the chronically poor households). As the 4Ps expands to include 1 million households (or 24% of the estimated number of chronic poor households) in 2010, the budget required rises to P14.3 billion (0.17% of GDP). If the 0.58% of GDP that was spent on NFA subsidies in 2008 were to be allocated to the 4Ps, it would cover 79% of the chronic poor.

Sustained funding for the 4Ps is critical if its long-term gains in terms of increased investments in human capital are to be realized. Stop-go implementation will negate the benefits anticipated from the program. International experience suggests the need to communicate constantly to the broader public why the 4Ps is good not only for the beneficiaries but also for the entire country, in order to ensure public support for the program. At the same time, there is need to strengthen verification mechanisms and monitoring and evaluation components of the program to ensure that it is implemented in a cost-effective manner.

Transient Poor and Near Poor

The capacity of the transient poor and the near poor, many of whom belong to the informal sector, to cope with loss of employment or reduction in earnings that are typically associated with a macroeconomic crisis is limited. Such people have little or no assets to tide them over during difficult times. And the coverage of the informal sector in the social security system (SSS and GSIS), the social health insurance scheme (PhilHealth), and many of the noncontributory social protection programs is severely inadequate. At the same time, a program such as the 4Ps, which is appropriate for the chronic poor, is not suitable for addressing the needs of the transient poor and the near poor.

Hastily designed programs launched in response to crisis situations, such as the Tulong Para Kay Lolo at Lola Project (assistance for the aged) and the Pantawid Kuryente Program (assistance to cope with rising electricity prices), are usually not very effective in reaching the poor and the vulnerable. This is especially true if a credible targeting system covering the entire country is not in place. The Philippines needs to put in place a program or programs that can be scaled up rapidly in times of crisis to provide protection to the informal sector, the transient poor, and the near poor. The experience of other countries suggests that a public workfare program is one such program, primarily because it can have a built-in self-targeting mechanism if designed properly.

The newly minted Out-of-School Youth Serving towards Economic Recovery (OYSTER), Tulong Panghanapbuhay Para sa Ating Disadvantaged Workers (Livelihood Assistance for our Disadvantaged Workers—TUPAD), and Cash-for-Work Project under the Comprehensive Livelihood and Emergency Employment Program have some characteristics of a public workfare program.

OYSTER, implemented by the Department of Public Works and Highways, aims to generate employment for out-of-school and out-of-work youth in maintaining roadsides and carriageways of national roads, highways, and bridges. The work includes street sweeping; repair and repainting of sidewalks; asphalt patching; de-clogging of canals; and beautification projects such as planting of trees, shrubs, and flowers; weeding; and repair of manhole covers and inlets. TUPAD is aimed at helping displaced workers in the informal economy and the unemployed poor in all provinces.

TUPAD will provide short-term employment (1 month) in community works projects of LGUs such as repair of health facilities and flood control. The Department of Labor and Employment shoulders the wages and prepares the recruitment and selection guidelines while LGUs pay 50% of the PhilHealth premium for 1 year and 100% of the SSS premium for (1 month). TUPAD, through the Technical Education and Skills Development Authority (TESDA) also provides employment enhancement training (skills upgrading, retooling) or entrepreneurship development, to be undertaken during weekends within the 1 month employment period.

The Cash-for-Work Project is a short-term intervention by the DSWD. It provides distressed and displaced people with temporary employment and income augmentation in the construction and repair of small infrastructure facilities supportive of livelihood projects; reconstruction and rehabilitation of new shelter units and social services infrastructure such as day-care centers; dredging and cleaning of rivers, canals, and drainage systems; tree planting and reforestation; communal farm preparation and planting; and construction and repair of post harvest facilities.

In implementing the OYSTER and TUPAD, the Philippines' earlier experience with the use of public workfare programs as a countercyclical intervention should be recalled. During the 1986 crisis, the government implemented a food-for-work program in Negros Occidental and five other sugar producing provinces to mitigate the impact of the sharp decline in world sugar prices at that time. The program included activities involving land development (small irrigation projects and agro-forestry work in the uplands); physical infrastructure development (constructing and rehabilitating roads and bridges, and public markets); and social infrastructure development (day-care centers, health and training facilities). The number of individuals employed by the program was sizable, fluctuating between 179,000 and 883,000 from 1986 to 1991. Participating workers received both cash and in-kind (rice) payments. In the land development projects, farmers were given rice to help tide them over until they could harvest their own crops and to encourage them to practice agroforestry in the uplands. The value of the food given to the farmers was less than the market wage rate, because farm output accrues to the farmers themselves. In the case of the infrastructure development projects, workers were paid the local market wage rate, partly in cash and partly in rice. Because the actual price of rice was higher than the price used by the program in its computations, workers were effectively paid P104–P108, close to 20% more than the market wage rate.

Subbarao, Ahmed, and Teklu (1996) reported that discussions with the project managers revealed that many laborers were willing to work for as little as P60 per day, or about two-thirds of the market wage rate. Thus, the non-poor were also attracted to the program. In other words, the wage-setting procedure used negated the potential of the program to be self-targeting.

Related to this, two points are critical to the success of public workfare programs: (1) setting the wage rate at the appropriate level, and (2) selecting projects that enhance productivity and are pro-poor. Setting the wage rate for the workfare program below the prevailing market wage rate will ensure that only those who truly have difficulty finding work will participate in the program and that they will voluntarily drop out of the program when the labor market improves and better paying jobs become available. In this way, the workfare program is self-targeting. The DSWD's Cash-for-Work Program provides that the wage rate should be 75% of the prevailing minimum wage rate set by the National Wages and Productivity Board. While the wage rate for OYSTER and TUPAD has not been made explicit, there are anecdotal reports that these programs pay wages that are lower than the market rate.

The cost-effectiveness of the workfare program has been found to vary with the quality of the assets created—whether they enhance the productivity of the local community in the future and the extent to which the poor actually benefit from them. Although the list of eligible projects under OYSTER and TUPAD include productive infrastructure projects, the list also includes not-so-productive projects such as beautification and street sweeping. Clearly, the lists of eligible projects under OYSTER and TUPAD need reviewing. At the same time, the experience with implementing a program similar to OYSTER and TUPAD in 2004 indicates that less-productive activities tend to capture a bigger share of the budgetary resources. Implementers of OYSTER and TUPAD are advised to guard against this downside risk.

Expanding the coverage of the Sponsored Program of PhilHealth and improving the selection of beneficiaries are critical. First, PhilHealth provides the poor financial protection against illness. Second, achieving universal coverage of PhilHealth supports the health sector reform agenda and makes the health system, in general, and the public hospital system, in particular, more sustainable. At present, at least 33% of the poor households are not covered under the Sponsored Program. Moreover, some of the so-called poor households who are currently enrolled in the program are not poor, bringing the undercoverage rate up to 50% or more. As a result, poor households that are not covered under the Sponsored Program have no recourse but to go to the no-pay wards of government hospitals and/or line up for emergency assistance at the DSWD and LGUs.

If the national government enrolls all poor households,[24] PhilHealth coverage will increase from the current 76% to 85% of the population. However, if LGUs continue to allocate the P1.4 billion ($31 million) they are currently setting aside for the premium contributions of indigents, but use the amount instead to subsidize the

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[24] The cost to the national government of doing this is P6 billion, P1 billion more than the allocation for the subsidy of premium contributions to the PhilHealth Sponsored Program in the 2009 General Appropriations Act.

contributions of informal sector members (say, on a 50–50 basis), then the number of beneficiaries could increase by another 12%, bringing total coverage of the PhilHealth to 97%.

A good centrally designed and managed targeting system is needed. A common theme that emerges from the assessment of the different social safety net programs is the importance of a good targeting system in enhancing program effectiveness. On the one hand, programs like the TNP and the FACs highlight the suboptimal outcomes from local rent-seeking and local capture that arise from a greater LGU role in targeting. On the other hand, the pilot testing of the proxy means test under the 4Ps provides a measure of the efficiency gains from a centrally designed and managed system. Admittedly, the institutionalization of the proxy means test does not come cheaply. However, if the same proxy means test is used in selecting the beneficiaries not just of the 4Ps but also of other programs such as the PhilHealth Sponsored Program, then the investment in the targeting system could be cost-effective. For example, the Sponsored Program needs a budget of P6 billion ($135 million) a year to provide full coverage. At present, the leakage rate is estimated to be 24% at best. This means that at least P1.4 billion ($31 million) of the P6 billion needed to subsidize the Sponsored Program will likely be benefiting non-poor households, implying that the initial investment of P1.7 billion ($38 million) for setting up the national household targeting system will be recouped in just 2 years.

The government is in the process of installing a national household targeting system. The system is anchored on the proxy means test used in the 4Ps. The P1 billion appropriated for the system is expected to be sufficient to survey and assess about 2.6 million households in the 20 poorest provinces and poorest municipalities. Another P0.7 billion will be needed to complete the identification of all 4.6 million poor households in the country by 2010.

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PART III

Assessment of Pension Reform in Asia and the Pacific

A. East and Southeast Asia's Pension Systems: Overview and Reform Directions

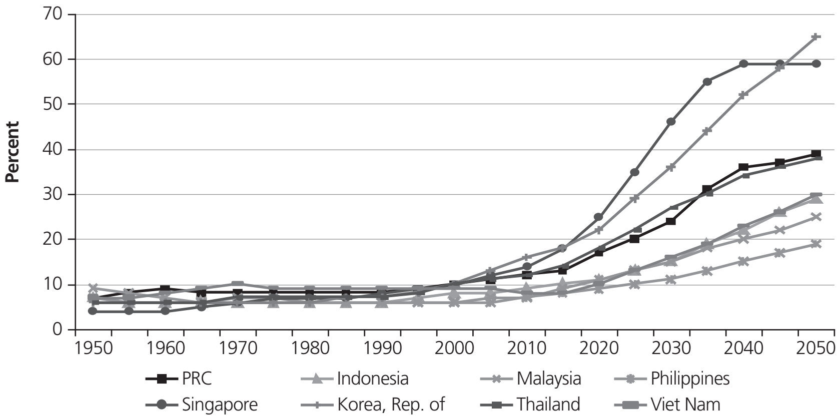
Donghyun Park

1. Introduction

Old age income support will be one of the biggest social and economic challenges facing developing Asia and the Pacific (henceforth, "Asia") in the 21st century. The growing spotlight on old age income support is largely due to a seismic demographic transition that is fundamentally reshaping Asia's demographic profile. A young continent reaping the demographic dividend of a large youthful workforce is giving way to a graying continent where the ratio of retirees to workers is on the rise. In contrast to industrialized countries, most Asian countries do not yet have mature, well-functioning pension systems. As a result, they are ill prepared to provide economic security for the large number of retirees that looms on the horizon. This paper looks at pension systems in eight economies in East and Southeast Asia—the People's Republic of China (PRC), Indonesia, the Republic of Korea, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam—which encompass a wide range of income and development levels. The demographic transition toward older populations is much more advanced in these two subregions than in South Asia.

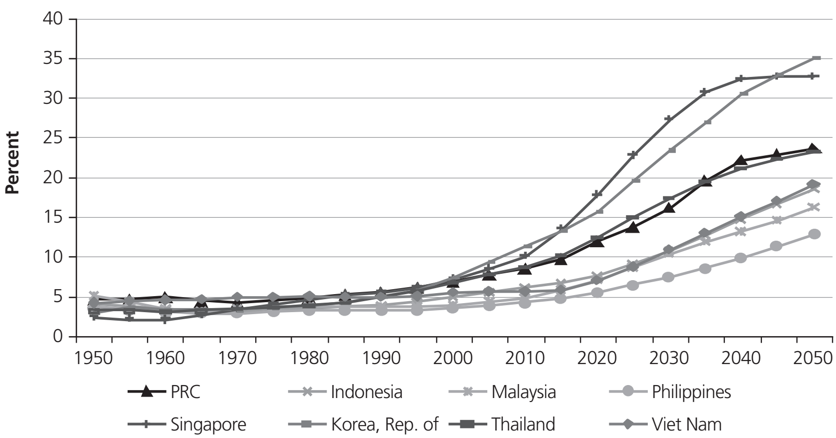
The demographic trends of the eight economies as a whole resoundingly confirm that Asia is aging rapidly. All eight economies are experiencing a secular increase in the proportion of the elderly relative to the working age population (Figure 1) and the total population (Figure 2). It is evident that the entire region will have a drastically different, much greyer demographic profile by 2050. As in the industrialized countries, Asia's demographic transition is driven by falling fertility and rising life expectancy. A constellation of economic and social factors, such as improved education of females and better medical care is inducing Asians to have fewer children and enabling them to live longer. Other demographic indicators also point unequivocally toward a graying continent (Table 1). The median age of all eight economies except the Philippines will exceed the world average by 2050. Furthermore, life expectancy at 60 is already fairly high and by 2050 fertility rates will fall below levels required for a stable population.

Figure 1. Ratio of Population Aged ≥65 to Population Aged 15–64, 1950–2050



PRC = People's Republic of China.
Source: UN Secretariat (2005, 2006).

Figure 2. Ratio of Population Aged ≥65 to Total Population, 1950–2050



PRC = People's Republic of China.
Source: UN Secretariat (2005, 2006).

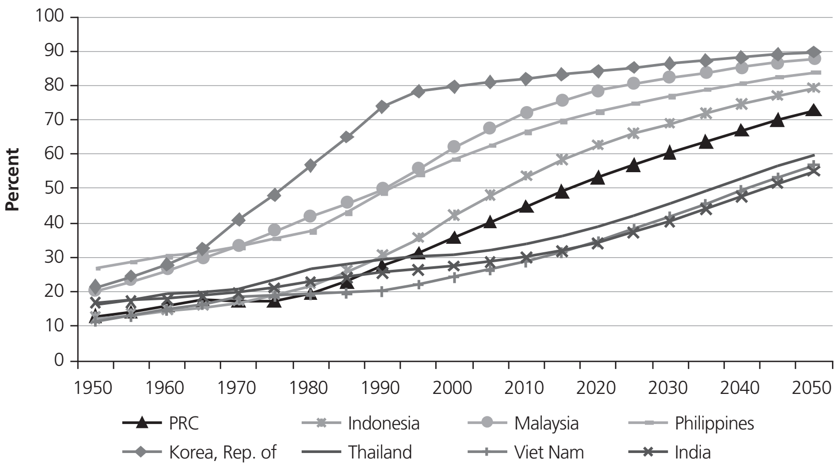
Table 1. Demographic Indicators of Selected Asian Economies

Economy	Total Population (million)		Average Annual Rate of Change of Population		Total Fertility Rate		Median Age	
Year	2007	2050	2005–2010	2045–2050	2005–2010	2045–2050	2005	2050
World	6,671.2	9,191.3	1.17	0.36	2.6	2.0	28.0	38.1
PRC	1,328.6	1,408.8	0.58	(0.32)	1.7	1.8	32.5	45.0
Indonesia	231.6	296.9	1.16	0.10	2.2	1.8	26.5	41.1
Korea, Rep. of	48.2	42.3	0.33	(0.89)	1.2	1.5	35.0	54.9
Malaysia	26.6	39.6	1.69	0.41	2.6	1.8	24.7	39.3
Philippines	87.9	140.5	1.90	0.50	3.2	1.8	21.8	36.3
Singapore	4.4	5.0	1.19	(0.38)	1.2	1.6	37.5	53.7
Thailand	63.9	67.4	0.66	(0.27)	1.8	1.8	32.6	44.3
Viet Nam	87.4	120.0	1.32	0.21	2.1	1.8	24.9	41.6
Economy	**Life Expectancy at Birth**		**Life Expectancy at 60, 2000–2005**		**Population 60 and Above (%)**		**Population 60 and Above (million)**	
Year	**2005–2010**	**2045–2050**	**Men**	**Women**	**2005**	**2050**	**2005**	**2050**
World	67.2	75.4	...	...	10.3	21.8	672.8	2,005.7
PRC	73.0	79.3	20	17	11.0	31.1	144.0	437.9
Indonesia	70.7	78.6	18	16	8.3	24.8	18.9	73.6
Korea, Rep. of	78.6	83.5	23	18	13.7	42.2	6.6	17.8
Malaysia	74.2	80.1	19	17	6.7	22.2	1.7	8.8
Philippines	71.7	78.7	19	17	6.0	18.2	5.1	25.5
Singapore	80.0	84.6	23	20	12.3	39.8	0.5	2.0
Thailand	70.6	78.1	20	17	11.3	29.8	7.1	20.1
Viet Nam	74.2	80.3	20	18	7.6	26.1	6.5	31.3

… = not available, PRC = People's Republic of China.
Source: UN Secretariat (2005, 2006).

Factors other than population aging also point to an urgent need to strengthen old age support in Asia. In particular, the weakening of informal family-based old age support mechanisms suggests a greater role is needed for formal pension systems throughout the region. Asians have traditionally relied on their children to take care of their material needs in their old age. The family network was in effect Asia's pension system, especially in rural environments where extended families of three generations often lived together under one roof and younger family members supported older family members. However, the far-reaching social changes that accompanied the region's economic progress have given rise to smaller nuclear families, which are less conducive to intrafamily support. Such changes include rapid urbanization (Figure 3) and declining relative importance of agriculture in the economy. In short, urbanization, industrialization, and sociocultural changes are creating a vacuum in Asia's old age support, a vacuum that must be filled by formal pension systems.

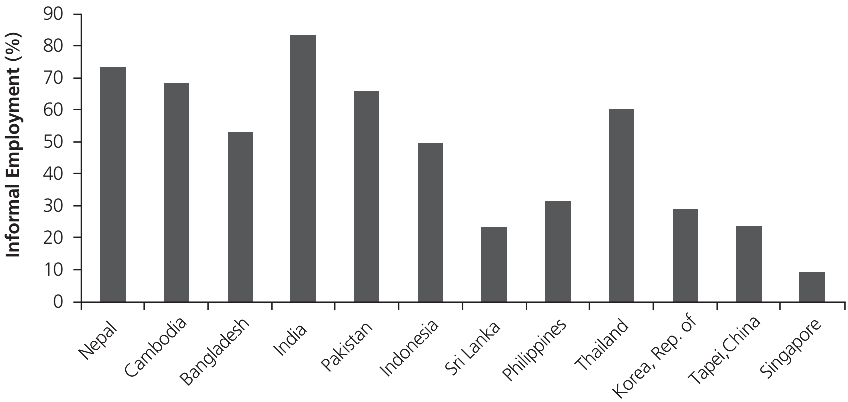
Figure 3. Urban Population as Share of Total Population, 1950–2030



PRC = People's Republic of China.
Source: UN Secretariat (2005, 2006).

Globalization and related labor market developments provide further rationale for strengthening Asia's pension systems. While Asia has reaped enormous benefits from globalization, Asia is not immune from the structural dislocations wreaked. Globalization produces both winners and losers, and increases the sense of economic and social insecurity. Well-functioning social protection systems, including pension systems, can ease such insecurity and thereby promote public support for globalization. The competitive pressures unleashed by globalization are forcing firms to reduce labor costs. As a result, workers are more likely to lose their jobs and move from one job to another. In Asia, workers' loss of job security due to globalization is compounded by large numbers of workers in the informal sector (Figure 4). Such workers are usually unprotected by labor regulations and lack access to pensions and other benefits. Asia's growing labor mobility and prevalence of informal employment calls for improving pension coverage and portability in the region.

Figure 4. Share of Informal Sector Employment in Urban Employment



Source: ADB (2005).

This paper is organized as follows. Section 2, ABCs of Pension Systems, reviews the universal core functions and objectives of pension systems. Section 3, Overview of Asian Pension Systems, looks at the broad anatomy of the pension systems in the eight economies. Section 4, Diagnosis of Asian Pension Systems, seeks to identify the main shortcomings of Asia's existing pension systems. Section 5, Way Forward for Asian Pension Systems, looks at the main directions for pension reform that emerge from the diagnosis of this chapter.

2. ABCs of Pension Systems

A pension is an annuity or lump sum of cash received by individuals on their retirement. In light of population aging and other trends outlined in the foregoing, building well-functioning pension systems capable of protecting older Asians from poverty is no longer a luxury but an absolute necessity. Broadly speaking, an optimal pension system is one that covers as much of the society as possible, delivers adequate yet affordable retirement benefits for its members, and does both on a financially sound basis. For individuals, society, and the government, the main objectives of any pension system are to (1) smooth consumption over the lifetime; (2) provide insurance against longevity, inflation, and other risks; (3) redistribute income; and (4) alleviate poverty. However, these have to be traded off against economic growth; labor market efficiency and flexibility; and other needs such as health, education, and infrastructure. Individual, fiscal, and societal affordability should be kept in mind in designing pension systems. Benefits must thus evolve over time as affordability grows.

The five core functions that any pension system must perform are (1) reliable collection of contributions, taxes, and other receipts, including any loan payments (in many pension schemes, a member is permitted to borrow for housing, education, or other purposes but the loan needs to be repaid); (2) payment of each scheme's benefits in a timely and correct way; (3) securing of financial management and productive investment of pension assets; (4) maintenance of an effective communication network, including development of accurate data and record keeping mechanisms to support collection, payment, and financial activities; and (5) production of financial statements and reports that promote better governance, fiduciary responsibility, transparency, and accountability (Ross 2004). In developing countries, organizational reform that enables pension systems to perform the five tasks more professionally and effectively is a prerequisite for broader systemic reform.

At the systemic level, a well-designed pension system should be

- broad based, i.e., adequate in terms of both coverage and range of risks covered;
- affordable from individual, business, fiscal, and macroeconomic perspectives;
- actuarially and hence financially sound and sustainable over time;
- robust so as to withstand macroeconomic and other shocks; and
- able to provide reasonable levels of post retirement income coupled with a safety net for the elderly poor.

The foregoing implies a fairly complex objective function for a pension system. The society needs to decide through policy makers on the relative weights given to adequacy, affordability, sustainability, robustness, and the level of safety nets. Different societies will make different trade-offs according to their circumstances, and the same society may opt for different trade-offs at different stages of its economic development and demographic transition.

More generally, although all pension systems share universal core functions and objectives, there are different kinds of pension systems. Societies will therefore have to decide which kind of pension system best meets their needs. The big strategic choice confronting Asian countries in the context of pension system design is the choice between individual risk bearing and social risk pooling. A good example of individual risk bearing is defined contribution pension plans that make the individuals responsible for their own investment and longevity risks. In contrast, under social risk pooling, society pools together the risks of all individual members and bears the risks on their behalf. For example, in government-mandated national defined benefit pension plans, society as a whole shares investment and longevity risks. Related to the dichotomy between defined benefit and defined contribution pension schemes is the dichotomy between pay-as-you-go and fully funded pension schemes.

In the real world, pension systems rarely rely exclusively on individual risk bearing or social risk pooling. Instead, pension systems typically incorporate elements of both but differ with respect to the relative importance of each. In fact, the World Bank's multipillar model (Box 1) recommends combining five pillars of old age income support with varying degrees of social risk pooling. One of the five pillars consists of defined benefit pay-as-you-go pension schemes while another pillar consists of mandatory defined contribution pension schemes. The multipillar model has greatly influenced current thinking on pension design and reform among policy makers around the world. This has led to a consensus that effective old age income support requires a healthy mix of individual risk bearing and social risk pooling. The multipillar model thus provides a useful conceptual framework for thinking about pension design and reform. However, the real challenge for each Asian country is to develop a multipillar system that best suits its own needs, preferences, and capabilities.

Box 1. The World Bank's Multipillar Model of Old Age Income Support

Despite considerable debate and experience in the design and reform of pension systems, no single idea, system, or model has emerged among Asian countries. However, from a practical policy point of view, there is a growing recognition in Asia and elsewhere that a multi-pillar system is better able to address the various risks associated with population aging than reliance on a single-pillar system. The World Bank's seminal 1994 report, *Averting the Old Age Crisis,* laid out a three-pillar model for pension systems. The model has become a common point of reference for thinking about pension system design and reform.

The first pillar comprised pay-as-you-go, defined benefit pension schemes that were publicly managed and financed by either social security contributions or general taxes. These were the traditional pension schemes based on social insurance principles. The second pillar comprised mandatory defined contribution pension schemes that were funded, privately managed, and based on individual accounts. The second pillar was emphasized by the 1994 report, which was pessimistic about the future of the first pillar even in member countries of the Organisation for Economic Co-operation and Development (OECD). The third pillar, of privately managed, voluntary savings, was to support and complement the second pillar in providing economic security.

continued on next page

Box 1. continuation

In its 2005 report, *Old Age Income Support in the 21st Century,* the World Bank added more nuance to its basic three-pillar model. The resulting five-pillar model adds a zero pillar that provides a minimum level of protection and a fourth pillar that includes family support. The fourth pillar is of particular importance in Asia, where parents were traditionally supported by their children in their old age. The zero pillar reflects an emerging consensus that the lifetime poor require basic pension or social assistance financed from general budgetary revenues. The lifetime poor may be as much as 30% of the total labor force in some developing Asian countries. The World Bank's multipillar model provides the intellectual underpinnings of the now widely accepted notion that a mixture of defined benefit and defined contribution schemes, with varying degrees of social risk pooling, is required for a well-functioning pension system.

Sources: World Bank (1994, 2005).

3. Overview of Asian Pension Systems

Identifying the directions for pension reform in Asia requires an understanding of the current shortcomings of Asian pension systems. Understanding the shortcomings of Asian pension systems, in turn, requires a basic understanding of Asian pension systems themselves. One key characteristic of a pension system is the pension age, or the age at which retirees begin to receive their benefits. This ranges from 55 in Indonesia, Malaysia, and Thailand to 65 in the Republic of Korea and the Philippines (Table 2). Pension age is lower for women than men in the PRC and Viet Nam. The difference between life expectancy and pension age is the number of years that a retiree has to depend on pension benefit for old age support. Other things equal, the larger this difference, the larger the liabilities of the pension system. The life expectancy–pension age gap ranges from 6.7 years in the Philippines to 19.2 years in Malaysia and for women in Viet Nam. The pension age is expected to rise throughout Asia in response to rising life expectancy.

In some economies (including Australia; Chile; and Hong Kong, China) the pension systems have been set up by the government but they are run by the private sector. Individual pension members can choose from different private sector pension fund managers. In contrast, the pension systems of all eight economies analyzed in this paper are managed by the government. However, the basic structure of the pension systems for formal sector workers is far from uniform in the eight economies. The pension systems of the PRC, Indonesia, Malaysia, and Singapore are defined contribution or notional defined contribution schemes, while those of the Republic of Korea, the Philippines, Thailand, and Viet Nam are defined benefit plans. Defined contribution systems are generally prefunded while defined benefit systems are not.

Table 2. Pension Age and Basic Structure of Pension Systems, 2007

Economy	Pension Age (years)	Difference Between Life Expectancy and Pension Age (years)	Defined Benefit or Defined Contribution	Element of Income Redistribution
China, People's Rep. of	60 (55)	13 (18)	Defined benefit, Defined contribution, and notional defined contribution	Yes
Indonesia	55	15.7	Defined contribution	No
Korea, Rep. of	65	13.6	Defined benefit	Yes
Malaysia	55	19.2	Defined contribution	No
Philippines	65	6.7	Defined benefit	Yes
Singapore	62	18	Defined contribution	No
Thailand	55	15.6	Defined benefit	No
Viet Nam	60 (55)	14.2 (19.2)	Defined benefit	No

Note: The pension age in parentheses refers to the pension age for women, where different from men. Life expectancy refers to life expectancy at birth.
Sources: Compiled by the author from national sources.

The structure of the PRC's pension system combines a defined benefit pillar with another pillar consisting of defined contribution and notional defined contribution schemes. Among the eight economies, ignoring the broader social safety nets, only the pension systems of three economies explicitly redistribute income. The Philippines has a minimum pension that pays higher benefits to poor retirees. In the PRC, the redistributive element takes the form of a defined benefit basic pension. In both the PRC and the Republic of Korea, pension benefits depend partly on average earnings.

The formula for computing pension benefits varies widely across the five economies with defined benefit pension systems—the PRC, the Republic of Korea, the Philippines, Thailand, and Viet Nam (Box 2). Areas of difference include the earnings measure used to compute benefits, indexation of benefits to wages and prices, and qualifying conditions for pension eligibility. For an individual who enters the labor market at 20, the defined benefit replaces 85% of income in Viet Nam, 80% in the Philippines, 50% in the Republic of Korea, 35% in Thailand, and 40% for the PRC's redistributive basic pension. Under the defined contribution and notional defined contribution pension systems of the PRC, Indonesia, Malaysia, and Singapore, the worker receives a lump sum consisting of accumulated contributions and interest income upon retirement. The contribution rate for employees and employers differs substantially across economies (Figure 5). The employee contribution rate ranges from 2% of wages in Indonesia to 20% to in Singapore. Workers also make contributions under defined benefit systems. Total contribution rates are highest in Malaysia and Singapore and lowest in Indonesia and Thailand.

Box 2. Benefit Rules of Asian Pension Systems

The People's Republic of China. Both the defined contribution and notional defined contribution pension pay a lump sum consisting of accumulated contributions and interest income upon retirement. The redistributive basic pension is a defined benefit pension, and pays 1% of the average of citywide average earnings and individual earnings for each year of coverage, subject to a minimum of 15 years of service. The earnings basis for benefits is city-wide because pension systems are organized on a municipal basis. The basic pension is indexed to a mix of wages and prices.

Indonesia. The defined contribution pension pays a lump sum consisting of accumulated contributions and interest income upon retirement.

The Republic of Korea. For an individual with 40 years of contributions, pension benefits were designed to replace 60% of earnings until 2007. Due to pension reform, the replacement was reduced to 50% in 2008 and since then will be reduced 0.5% every year until reaching 40% from 2009 to 2028. The earnings measure used for computing benefits is a weighted average of individual lifetime earnings, adjusted for wage growth, and economywide earnings over the previous 3 years, adjusted for price inflation. Pension benefits are indexed to price inflation.

Malaysia. The defined contribution pension pays a lump sum consisting of accumulated contributions and interest income upon retirement.

Philippines. The monthly basic pension, which is independent of earnings, is P300 (about $7). Earnings-related monthly pension is the greater of (1) 20% of the worker's average monthly earnings plus 2% of average monthly earnings for each year of service exceeding 10 years, or (2) 40% of the worker's average monthly earnings. The earnings basis is the greater of (1) average earnings over 5 years prior to pension claim, or (2) average earnings for the period in which contributions were made. Benefits are adjusted periodically for price inflation and wage growth on an ad hoc basis.

Singapore. The defined contribution pension pays a lump sum consisting of accumulated contributions and interest income upon retirement.

Thailand. Workers accrue 1% of their earnings each year up to a maximum of 35 years. The base wage used to compute benefits is the average wage over the 5 years prior to retirement. For example, an individual who worked for 20 years would be entitled to 20% of the base wage. Rules for indexing benefits to wage growth and price inflation are discretionary.

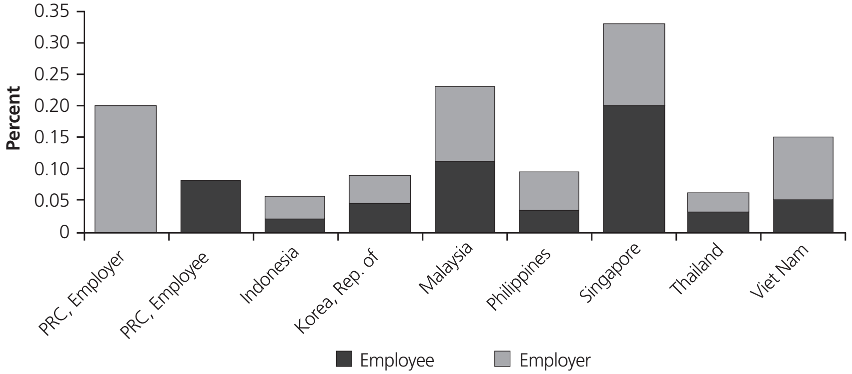
continued on next page

Box 2. continuation

Viet Nam. The monthly pension is the sum of three components: (1) 45% of career average earnings for employees with at least 15 years of service, (2) 2% of the average of earnings in the 5 years prior to retirement for each year of credited service beyond 15 years, and (3) a lump sum equal to 50% of the 5-year average monthly earnings prior to retirement for those with more than 30 years of contribution. Pension benefits are indexed to changes in the minimum wage.

Source: Compiled by the author from national sources.

Figure 5. Employee, Employer, and Total Contribution Rates of Pension Systems, 2007



PRC = People's Republic of China.
Source: ADB (2008).

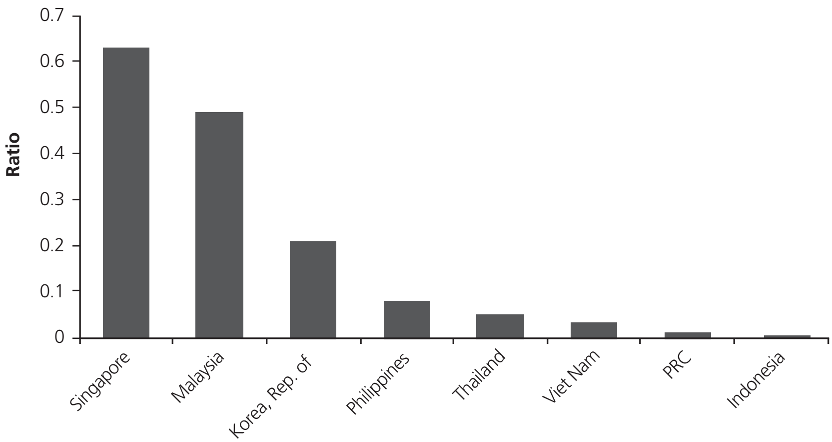
As previously noted, Asian countries face a strategic choice between social risk pooling and individual risk taking in pension system design. The pension systems of Malaysia and Singapore are unique in the region for their heavy tilt toward individual risk taking and relative absence of social risk pooling. Unlike the other countries of the region, Malaysia and Singapore explicitly reject the social insurance principle in old age income support. Both countries have national provident funds, which are essentially mandatory savings schemes. Singapore set up its Central Provident Fund in 1955 and Malaysia established its Employees Provident Fund in 1951. Employers and employees are required to make contributions to the funds, which are managed by government organizations on behalf of employees, each of whom has an individual account. Although the primary purpose of the two funds is to encourage saving for retirement, both the Central Provident Fund and Employees Provident Fund allow their members to use their balances for a variety of purposes. These include housing, preretirement investments, and tertiary education. Furthermore, members can use part of the balances only for health expenditures. The mandatory savings nature of the funds has contributed to high national savings rates.

Relative to Malaysia and Singapore, social risk pooling plays a greater role in the pension systems of the other economies. However, the six economies diverge widely in terms of the economic, institutional, and technological capacity needed to apply the social insurance principle on the ground. For example, the Republic of Korea's pension system is a comprehensive social security system comparable to those found in welfare states. At the other end, Indonesia is just beginning to lay the foundations of a new social security system based on social insurance. The main pension systems of the Republic of Korea, the Philippines, Thailand, and Viet Nam are all defined benefit systems that protect individual members from investment and longevity risks. In the PRC, the redistributive basic pension is a defined benefit scheme. The only country with a defined contribution system—Indonesia—is moving toward a more mixed system with greater social assistance. In addition to the predominance of defined benefit plans, the pension systems of the six economies are largely pay-as-you-go. Only the Republic of Korea's defined benefit system involves a significant amount of prefunding. The benefit payments of the other defined benefit systems depend almost exclusively on the contributions of current workers.

Another noteworthy characteristic of many Asian pension systems is that they are relatively new and very much in a state of flux. The oldest systems are those of Malaysia, the Philippines, and Singapore but even those are constantly evolving. The Republic of Korea's relatively advanced system was created only in 1988 and is still undergoing reforms. Indonesia enacted a law designed to establish a comprehensive social security system in 2004, although it has yet to be fully implemented. Likewise, Thailand and Viet Nam are in the process of revamping their pension systems to extend coverage and improve benefits. The ongoing evolution of the PRC's pension system reflects the extensive structural transformation of its economy and society. A milestone 1997 decree provides the basic structure of the new two-pillar pension system: (1) a pay-as-you-go defined benefit basic pension, and (2) funded defined contribution and notional defined contribution pensions. The PRC is in the middle of a systemic consolidation from a highly fragmented system to the two-pillar system.

The total size of pension assets in a country is relevant from a macroeconomic viewpoint. For example, the assets of the provident funds of Malaysia and Singapore represent a large part of national savings. Total pension assets also influence the impact that liberalizing pension asset investment has on financial markets. Countries such as the Republic of Korea, Malaysia, and Singapore have set up public funds to manage the contributions of funded or partly funded pension systems. The public funds of the Philippines and Thailand manage the contributions of pension schemes for civil servants. The PRC established a dedicated reserve fund—the National Social Security Fund—in 2000 to help cover future pension liabilities arising from demographic trends. The assets controlled by Asia's public pension and reserve funds are quite sizable but vary widely across countries. Total pension assets in 2006 ranged from less than $1 billion in Indonesia to more than $180 billion in the Republic of Korea. The ratio of pension assets to gross domestic product is highest in the Republic of Korea, Malaysia, and Singapore (Figure 6). The overall trend in the investment portfolios of Asia's pension funds is toward greater diversification in terms of both asset classes and rising share of overseas investments.

Figure 6. The Ratio of Total Pension Assets to Gross Domestic Product, 2006



PRC = People's Republic of China.
Note: The assets of the PRC refer to those of the National Social Security Fund. The assets of Philippines and Thailand refer to those of the pension systems for government workers.
Sources: Compiled by the author from national sources.

4. Diagnosis of Asian Pension Systems

The brief survey of Asian pension systems indicates a great deal of heterogeneity in their design and structure. Pension reform requires a diagnosis of the main weaknesses of the pension systems. Those weaknesses impede the ability of pension systems to fulfill their basic objectives such as enabling consumption smoothing and relieving poverty. A diagnosis is essential for identifying the main areas of pension systems that need to be improved and strengthened, and hence for mapping out the strategic directions of reform. Broadly speaking, Asian pension systems suffer from failures in (1) performing the five core functions of pension systems; and (2) fulfilling the ideal properties of pension systems, such as adequate coverage. Such failures suggest that Asian pension systems still have some way to go if they are to achieve their main objectives.

4.1. Performance of Five Core Functions

There is a fundamental difference between developing and developed countries in the context of pension reform. The institutional capacity of developing countries lags considerably behind that of developed countries. It is thus unproductive to frame pension design and reform issues in Asia in the same terms as in developed countries with more well-established pension systems. Except for the Republic of Korea and Singapore, there is significant scope for reducing administrative and other transaction costs. The prevalence of such costs constrains the amount of resources that can be made available to pensioners.

More importantly, high administrative and transaction costs impede the ability of pension systems to perform the five core functions to varying degrees in the PRC, Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam. For example, administrative inefficiency interferes with the collection of contributions from and payment of benefits to hard-to-reach groups such as rural and informal sector workers. That many Asian pension systems are in a state of flux adds to their high administrative and transaction costs.

Compliance cost is a specific transaction cost that adversely affects the pension systems of many Asian countries. Compliance cost refers to the cost to the employers and the employees of complying with the provisions of pension systems. For example, employers have to collect contributions from employees and remit them to relevant authorities, in addition to contributing their share. Compliance costs are high when the pensioner does not get benefits on time, and has to make several trips to ensure that benefits are paid.

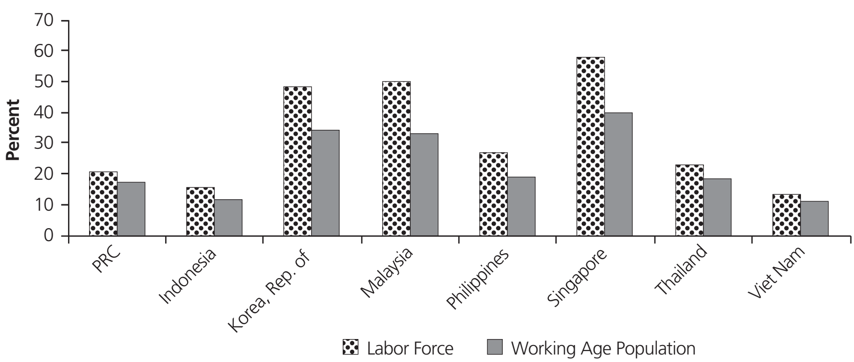
Furthermore, in some countries, the employees have to pay bribes to receive statutory benefits that are their right. If compliance costs are too high, employers and employees may choose not to participate in the pension system. Furthermore, if the government has only limited capacity to enforce compliance, employers may evade rather than contribute. Even in countries with superficially comprehensive pension systems, such as the Philippines, widespread noncompliance means a wide gulf between nominal and effective old age income support.

The lack of institutional capacity can be attributed in large part to the generally weak governance and regulation of Asian pension systems. Effective performance of the five core functions of pension systems requires efficient governance, management, and regulation. In prefunded pension systems, governance and regulation are especially important for the sound financial management and productive investment of pension assets. In well-developed financial markets, such as the United Kingdom and the United States, pension funds are subject to explicit regulatory structures and laws. In contrast, in Asia, banks and insurance companies are regulated but there has been a glaring absence of regulatory bodies for pension funds. Lack of strong governance and regulation also breeds lack of public confidence in pension systems, which in turn discourages compliance and participation. Political support for pension systems will remain fragile unless the general public is confident that the government will honor its future promises.

4.2. Issues in Pension System Design

At one level, Asian pension systems are failing because they fail to effectively perform the five core functions of pension systems due to high transaction costs and lack of strong governance. At another level, they are failing because, to varying degrees, pension systems are not well designed (i.e., not adequate, affordable, robust, sustainable, and equitable). At this level, the biggest failure of Asian pension systems is that they cover only a limited part of the total population. The percentage of population covered by the pension system differs from country to country, but no country has managed to achieve anywhere near universal coverage. The share of the labor force covered by pension systems ranges from 13.2% to 58.0% (Figure 7). The coverage rate for the working age population ranges from 10.8% to 40.0%. By comparison, in developed countries such as Germany, Japan, and the United States, pension systems typically cover about 90% of the labor force and 60%–75% of the working age population. Therefore, even in high-income Asian countries such as the Republic of Korea, coverage falls well short of developed country levels.

Figure 7. Share of Labor Force and Share of Population Aged 15–64 Covered by Pension Systems, 2007



PRC = People's Republic of China.
Sources: OECD and World Bank (2008); Asian Development Bank staff estimates for Malaysia and Singapore.

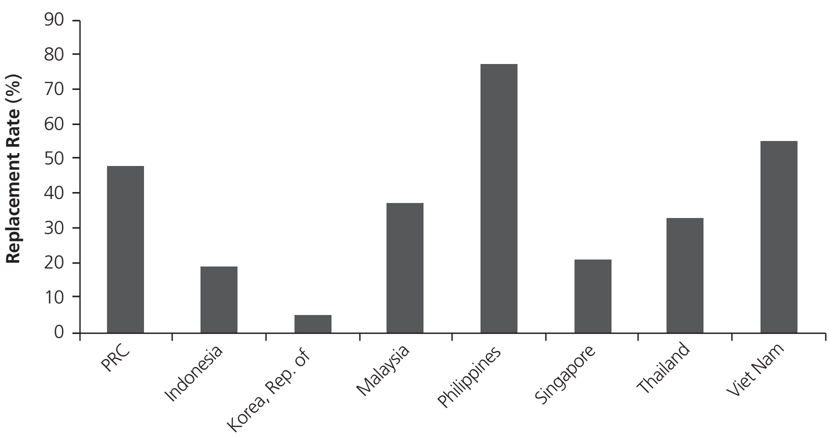
The coverage of Asian pension systems tends to be skewed toward urban areas and the formal sector. For example, in the PRC, it is estimated that less than 10% of rural workers have pension coverage. Low rural coverage, in combination with the large number of rural workers, helps to account for the PRC's low overall coverage rate of 20.5% of the labor force and 17.2% of the working age population. Massive rural-to-urban migration is adding to the pool of informal sector workers in the PRC, Viet Nam, and other economies. The limited coverage of rural and informal sector workers reflects the high administrative costs of reaching them and the limited institutional capacity of Asian pension systems. Pension coverage is also higher for government workers than private sector workers throughout the region. In fact, in many Asian countries, including the Republic of Korea and Viet Nam, pension systems initially covered only government workers. Government workers' better access to pension systems is part and parcel of the privileged position and stronger rights they enjoy relative to private sector workers. A general lack of portability in Asian pension systems also contributes to the low coverage. For example, migrating workers in the PRC cannot take their rural pension rights to urban areas.

Another key performance indicator where Asian countries rank poorly is the replacement rate, or the ratio of retirement income to preretirement income. The replacement rate is a widely used measure of the adequacy of pension benefit as a source of post-retirement income. A higher replacement rate enables the pensioner to achieve a higher standard of living. Pension experts generally recommend a replacement rate of 66%–75%, adjusted for both longevity and inflation risks. A pension modeling study completed in 2008 by the Asian Development Bank (ADB) computes the replacement rate for Asian pension systems. According to the ADB study, the replacement rate ranges from 19% in Indonesia to 77% in the Philippines (Figure 8). The computed replacement rates are higher in the PRC, the Republic of Korea, the Philippines, and Viet Nam than in Indonesia, Malaysia, Singapore, and Thailand. Among the eight economies, only the Philippines has replacement rates within the recommended range. This implies that, by and large, Asian pension systems are not providing an adequate retirement income for retirees.

The PRC's relatively high replacement rate is deceptive in light of its low coverage. If pension benefits are high but only a small share of the population receives them, it is unclear whether the pension system is adequate. A useful index that gives a more accurate picture of the adequacy of a country's pension system is the product of multiplying the coverage rate and replacement rate. The proposed index thus incorporates both replacement rate and coverage. For the PRC, the proposed adequacy index adjusts the high replacement rate for the low coverage. Conversely, for economies with high coverage but low replacement rate, the index adjusts the high coverage for the low replacement rate. The adequacy index is computed on the basis of coverage of the labor force. For the ADB study's replacement rates, the index ranges from 3% in Indonesia to 24% in the Republic of Korea (Figure 9). For both sets of replacement rates, the most adequate pension systems seem to be those of the Republic of Korea, Malaysia, and the Philippines while the least adequate ones seem to be those of Indonesia, Thailand, and Viet Nam.

The apparent adequacy of the Philippine pension system brings the issues of sustainability and affordability to the fore. Sizable benefits for a high share of the population are not sustainable in the long run if the country cannot afford such a generous pension system. In such a case, the adequacy of the pension system is more apparent than real. A widely used index of sustainability is implicit pension debt, which can be broadly defined as the present value of future pension promises. As noted earlier, in Asian countries with defined benefit pension systems, pension promises are unfunded or only partly funded. Studies by the World Bank found the implicit pension debt of the PRC, the Republic of Korea, and the Philippines to be substantially larger than their public debt. Therefore, relatively healthy fiscal positions should not be allowed to obscure the fiscal risks due to large future pension liabilities. Furthermore, in all three economies the relative size of the implicit pension debt is large enough to raise concerns about the pension system's ability to honor its future promises. In the Republic of Korea, such concerns have spurred a reduction of benefits beginning in 2008. The implicit pension debt is much higher in the PRC and the Philippines than in the Republic of Korea, which suggests that the need for sustainability-enhancing reform is even stronger in those economies.

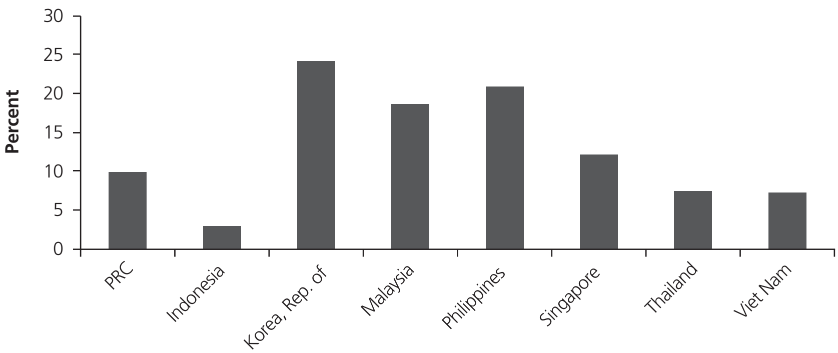
Figure 8. Replacement Rate—Ratio of Retirement Income to Preretirement Income, 2007



PRC = People's Republic of China.
Source: ADB's Pension Modeling Study (2008).

Asian pension contribution rates are generally quite low and hence seemingly affordable for both employers and employees. However, widespread noncompliance in many lower income Asian countries suggests that the true pension costs are higher and hence less affordable for individuals. On the other hand, pension costs do not seem to significantly distort the incentives of employees to work and employers to hire, even in countries with the highest contribution rates. Given that many Asian pension systems are still evolving and consolidating, it is too early to tell whether they are robust to macroeconomic and other shocks. However, the more established pension systems of the region have come through the Asian financial crisis unscathed. Finally, only the pension systems of the PRC, the Republic of Korea, and the Philippines have safety nets designed to protect the elderly poor. However, those safety nets fail to provide enough income for even a minimum standard of living. For example, the basic monthly pension in the Philippines is only P300 pesos (about $7), and a recently introduced means-tested benefit for the Korean elderly is only about 5% of the average wage. The replacement rate for low-income workers substantially exceeds that of average-income workers in the PRC, the Republic of Korea, and the Philippines but not in the other economies.

Figure 9. Adequacy Index of Pension Systems, 2007



PRC = People's Republic of China.
Note: The coverage rate used in the calculation is the coverage rate of the labor force.
Sources: ADB (2008), OECD and World Bank (2008), ADB staff estimates for the coverage rates of Malaysia and Singapore.

5. Way Forward for Asian Pension Systems

The diagnosis of the current state of Asian pension systems should make the urgency of the case for pension reform throughout the region abundantly clear. There is substantial scope for improving the effectiveness of the pension system in performing its five core functions in many Asian countries. Asian countries are also still a long way from having well-designed pension systems that satisfy ideal systemic properties such as adequacy and sustainability. Because failures in both function performance and system design stand in the way of good performance, addressing both types of failure is essential for pension reform. Asian countries vary greatly in terms of their pension-related needs and capacities. There are thus no one-size-fits-all solutions when it comes to pension reform in Asia. However, a number of common regionwide themes emerge from the diagnosis of Asian pension systems. Those themes will help to set the directions for pension reform throughout the region.

Institutional and Administrative Capacity. One common area of reform is to strengthen the institutional and administrative capacity of Asian pension systems to perform the five core functions of a pension system. Strengthening institutional capacity is the point of departure for pension reform in Asia because building a well-functioning pension system is simply not possible without adequate institutional capacity. The lack of capacity is more pronounced in poorer economies such as the PRC, Indonesia, and Viet Nam but affects the other economies as well. The mundane nature of core functions such as developing accurate data and record keeping systems should not detract from their significance for Asian pension reform. In the sequencing of pension reform, the nitty-gritty homework of capacity-enhancing organizational reform should be completed before broader systemic reform.

Governance and Regulation. A second common area of reform, related to the first, is the need to improve the governance and regulation of Asian pension systems. Strong governance and regulation are essential for the operational efficiency and transparency of any pension system. They are also essential for building the institutional capacity to perform the five core functions. Examples of specific measures to promote governance include better accounting, more rigorous financial controls, human resource development, computerization, and greater disclosure to stakeholders. Current regulatory structures for pensions are weak in Asia. There is thus a strong case for a dedicated regulator to ensure professionalism in performing core functions, to develop the pension fund industry, to promote financial education, and to help to bring about a systematic perspective that integrates the different components of the pension system.

Expanded Coverage. In light of low pension coverage throughout the region, a third area of reform is expanding coverage. Even in richer economies such as the Republic of Korea and Malaysia, coverage is far from universal and substantial scope remains for widening their coverage. Administrative inefficiency hampers the ability of Asian pension systems to cover more than a limited segment of the population. Coverage expansion should first target the formal sector and only later extend into the informal sector. Due to the growing mobility of Asian workers, lack of pension portability is becoming a major deterrent to expanding coverage. One solution is to offer fiscal incentives for defined contribution occupation pension plans based on individual accounts. A major benefit of such plans is their portability. In economies with fragmented pension systems, such as that of the PRC, which is organized on the basis of cities, better coordination and possibly consolidation will also enhance portability.

Enhanced Financial Sustainability. There is a real danger that Asia's pension systems, if left unreformed, will be unable to honor their future pension promises. Therefore, enhancing financial sustainability is another area of pension reform, especially in countries with defined benefit pension systems. Painful but necessary reforms that adjust the parameters of the pension system—i.e., retirement age, contribution rate, and benefits—are required to promote sustainability. Asia's population aging favors a larger role for fully funded defined contribution pension systems, which are less vulnerable to demographic pressures. More generally, prefunding, which can also occur under defined benefit systems through accumulation of reserves, renders the payment of benefits less dependent on the willingness and ability of future workers to support the elderly.

Improved Reforms. At least some prefunding is desirable in light of Asia's rapid population aging, and Asian economies are already beginning to move in that direction. A prominent example is the PRC's establishment of the National Social Security Fund. With more assets to manage, it is imperative for Asian pension funds to improve the returns from the assets they manage. The experience of the highly regarded Chilean pension system clearly illustrates that this is possible even for developing countries. In the past, government interference has channeled much of the funds into low-return domestic assets, often for policy-based investments. However, Asian governments have now begun to deregulate and liberalize pension fund management. For example, the share of foreign assets is growing in the pension funds of the Republic of Korea, Malaysia, the Philippines, and Thailand. Maximizing the returns from pension funds requires the deepening and broadening of domestic financial and capital markets. In this sense, financial development is as much a precondition as a hoped-for by-product of pension reform. Higher returns from better asset management allow for more adequate benefits and strengthen financial sustainability.

Protection for the Elderly Poor. Given their general failure to provide safety nets, Asian pension systems must strive to do a much better job of protecting the elderly poor. Old age poverty is especially relevant in Asia, where large numbers of the lifetime poor will never participate in formal pension systems. Indeed, the lifetime poor may constitute as much as 30% of the labor force in some Asian countries. The best way to provide old age income support for the elderly poor is to establish a universal social pension system that pays a small amount for basic sustenance to the entire population. An alternative to universal coverage is to limit the beneficiaries through means testing. Either way, the basic social pension will be financed from general budgetary revenues rather than contributions. Setting up a separate social pension system with the explicit objective of poverty relief also helps prevent ad hoc uses of the main pension system's funds.

Thinking "Outside the Box." There is also a case for Asian policy makers to think outside the box. There is no reason for the parameters facing the pension system to necessarily remain constant. For example, government policies may help reverse or slow the fall in fertility and encourage longer working lives, which would change the demographic and financial equations facing Asian pension systems. Better health enables people to work longer, and government policy can encourage firms to hire older workers. The Republic of Korea, which has tried to limit population growth for decades, has reversed course and is now offering a wide range of fiscal incentives to encourage larger families. Policy makers may also provide tax breaks for children who support their parents. Filial piety cannot be legislated but it could be influenced by financial incentives. Changing policies entail fiscal costs of their own so these will have to be weighed against their benefits.

After decades of growth-oriented policies and rapid economic growth, Asia is finally paying more attention to social protection. This shift is not merely because Asian countries have become richer and can thus afford to devote more resources to protecting their citizens from various risks; it also reflects a growing recognition that the traditional narrow definition of growth is harmful for inclusive growth. In light of Asia's rapid population aging, a particularly important component of social protection is to protect elderly people from not having adequate income to meet their needs. Economic growth in a society where a large and growing segment of the population is poor and marginalized cannot possibly be inclusive. More fundamentally, Asia's demographic trends mean that the social and political constraints to sustaining high growth may eventually become overwhelming in the absence of well-functioning pension systems. Therefore, the urgency of the case for pension reform in Asia is as much economic as social.

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B. Pension Reforms in the People's Republic of China

Hyung Ju Lee

1. Introduction

Pension reform in the People's Republic of China (PRC) is urgently needed. With the rapidly aging population and increasing labor mobility, the PRC has faced the difficult task of tackling such problems as the growing public burden of supporting the elderly and low pension coverage. Although many other countries are experiencing similar difficulties, the PRC is in a unique situation because it is facing the problem at a much earlier stage of economic development. For example, Jackson, Nakashima, and Howe (2008) note that the PRC's per capita gross domestic product (GDP) was $4,088 when the median age of its population reached 33 years. At the same median age, GDP per capita in Japan was $14,900; in the Republic of Korea, $16,256; and in the United States, $15,538.

In principle, the pension system needs to strike a balance between two conflicting goals: (1) providing sufficient benefits to prevent its elderly population from being poor, and (2) containing the financial burden within the financing capacity of individuals and the society.[1] Although both issues should be taken into account at every stage of pension development, the first issue is more challenging for developing countries, where the population is younger and the coverage of the pension system is low, while the second is more challenging for developed countries. However, it is relatively hard to judge where the PRC stands now. Unlike many developed countries, the PRC does not face a huge pension debt now, but it will face that problem soon unless it reforms its pension system immediately.

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[1] World Bank (2008) defined those two concepts as "adequacy" and "affordability." The World Bank originally suggested six criteria for evaluating the pension system, the two just noted plus sustainability, equitability, predictability, and robustness.

A significant amount of research has been accomplished, and produced advice for policy measures to relieve the current problems. The measures include changing parameters, centralizing the management system, separating the funded individual accounts from the pay-as-you-go based basic pension, and improving the returns on the pension fund investments. The government has adopted some of the measures recommended.

Most of the progress has been made in the urban pension system. Until recently, not much attention was paid to the rural pension system. This left a large portion of the older population living in rural areas with poor income security. It also hindered achieving a "harmonious society," which is the main goal of the PRC government as described in the 11th Five Year Plan (2006–2011).

Against this backdrop, the PRC government has started to improve its rural pension system by launching a pilot program and plans to cover all rural areas by 2020. However, if the system is not designed properly, extending pension coverage to rural areas could have a disastrous impact on the PRC economy.

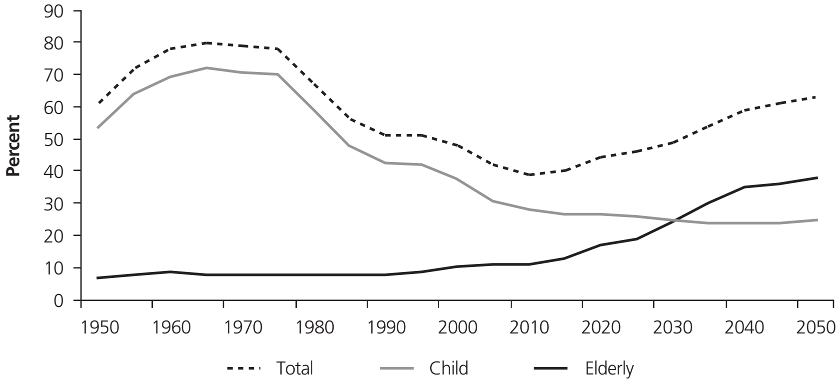
This paper aims to analyze important issues related to the current pension system in the PRC and to draw some policy implications from the analysis. The next section describes the general conditions leading to the PRC pension reform. The third section explains the historical development of the PRC's urban pension system and the challenges it faces. The fourth section analyzes the development of and detailed policy issues concerning the rural pension system. The last section presents matters for further consideration for the future development of the PRC pension system, and related efforts by the Asian Development Bank (ADB).

2. Background of Pension Reform in the PRC

Demographic Transformation. The PRC is in the process of a rapid demographic transformation to an aging society—a phenomenon that is also faced by many other countries. However, the PRC stands out in terms of both the magnitude of the transformation and the driving factor.

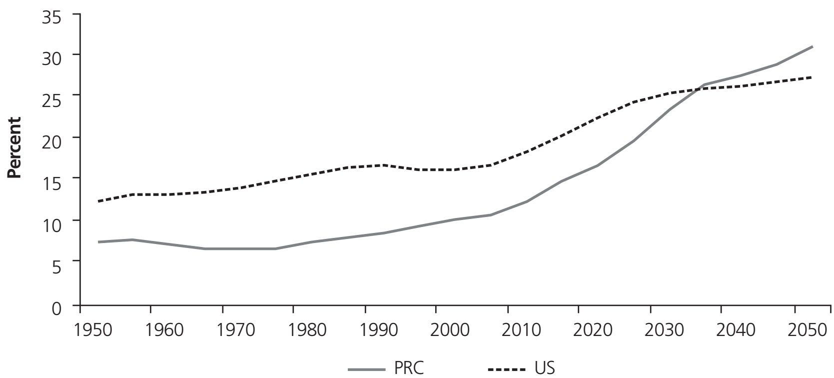
The magnitude of transformation is demonstrated by the trend of the PRC's elderly dependency ratio. According to the United Nations (2008), in 2005 the PRC had just 11 people aged 65 or more for every 100 working age adults, but by 2025 the number will be 24 and by 2050 it will be 38 (Figure 1). By 2035, the PRC's elderly will form a greater share of its population than will be the case in the United States (Figure 2).

Figure 1. Dependency Ratios in the PRC



Source: UN (2008).

Figure 2. Elderly Share of the Population



PRC = People's Republic of China, US = United States.
Source: UN (2008).

Many critics attribute this drastic demographic transformation to the "one child policy" established in 1979. Although the policy contributed to the PRC's unparalleled economic growth by allowing the country to enjoy a temporary "demographic dividend,"[2] the lower fertility rate induced by the policy as well as the longer life expectancy resulting from improved living standards will eventually impose a greater burden of supporting elders on the working age adults.

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[2] A "demographic dividend" is a period of time when the number of children declines faster than the number of the elderly increases and the share of the population of working age rises. The falling dependency burden, together with rising longevity, tends to boost living standards by raising savings rates, encouraging investment in human capital, and freeing up adult time (Jackson, Nakashima, and Howe 2008)

Government-led family planning and the consequent decline in the fertility rate has occurred in other developing countries as well. However, in the PRC, the policy, combined with the tradition of favoring boys, brought about extreme results. The total fertility rate (the number of children born per woman) in the PRC declined from 4.77 in the early 1970s to 1.77 in 2005, while that of the United States declined from 2.55 to 2.04 during the same period (UN 2008). Furthermore, due to the large imbalance between girls and boys,[3] the aging problem will be worse than the total fertility rate implies.[4]

This demographic transformation may make it difficult to sustain a pay-as-you-go pension system, especially one offering very generous benefits. According to Sin (2005), the PRC's implicit pension debt was 141% of its GDP for 2001—of which, the pay-as-you-go portion accounted for 111% of GDP.

Urban–Rural Divide and Labor Migration. Another socioeconomic factor affecting the PRC pension system is labor migration from rural to urban areas. Because economic growth has been much faster in urban areas, mainly located in the east coast, than in rural areas, the income gap between the two areas has widened significantly, as is shown in Figure 3. Therefore, young people registered in rural areas under the hukou[5] system are migrating to urban areas, looking for more lucrative jobs. The National Bureau of Statistics of China (2010) recorded 115 million migrant workers as of the end of 2008. The International Labour Organization projected the number will increase to 300 million by 2030 (ILO 2006).

Labor migration has several implications for the PRC pension system. First, because the PRC has different pension systems for urban and rural areas, the government needs to decide which pension system to apply to migrant workers. One argument is that they should be covered by the rural pension system because they are registered in the rural area. However, because their income structures and pension contribution mechanisms are more similar to those of urban workers, another argument is that they should be covered by the urban pension system. The problem is complicated because most migrant workers will eventually retire to their rural home towns, so the place where they contribute to the pension system will be different from the place where they receive their pension benefits.

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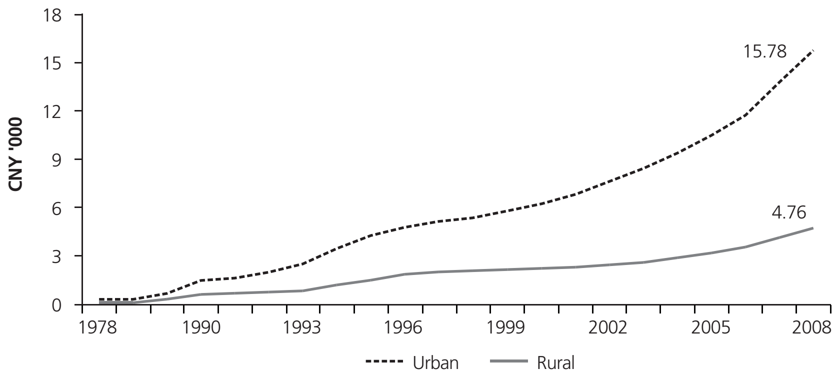
3 The gender ratio at birth (the number of male births per female birth) was 1.21 in 2005 (UN 2008).

4 The aging problem will be worse in the future because women will bear less children (i.e., declining fertility rate) and there will be less women who can bear children.

5 The *hukou* is the PRC's household registration system. It was established in cities in 1951 and then extended to rural areas in 1955. Originally, the system was designed to prevent and control rural–urban migration, but after several reforms, such as the Certificate of Temporary Residence and the Blue Stamp hukou, restrictions on movement have been relaxed significantly.

Figure 3. Households' Per Capita Disposable Income



Source: NBSC (2010).

Second, with the PRC's fragmented pension system, migrant workers cannot transfer their pension claims when they move to other regions. In the PRC, the central government only decides the general principles of the pension system and leaves the specifics to the discretion of local authorities. As a result, even though the central government encourages the pension system to be integrated to the provincial level, the details of the pension system vary across provinces and even municipalities. Such a division hampers the transferability of pension claims and thus discourages migrant workers from participating in the pension system.

Recently, the government recognized the urgency of handling this issue in order to achieve a "harmonious society" and has given a high priority to rural pension reform. However, because the socioeconomic situation of people in rural areas is different from that of their urban counterparts, a careful approach needs to be taken to the rural pension reform.

3. Development of the Urban Pension System in the PRC

History of the PRC's Urban Pension System. The pension reform in the PRC was originally initiated to relieve social unrest in urban areas caused by the market reform and the restructuring of state-owned enterprises (SOEs). Historically, the SOE workers had enjoyed "cradle-to-grave" social protection through lifetime employment, pension, healthcare, and housing, all of which were guaranteed by the SOEs. However, under the government-driven reforms to a more market-oriented economy in the 1970s and 1980s, many unprofitable SOEs were restructured and their workers and retirees were put in jeopardy of an impoverished old age. To alleviate this problem, the government started the pension reform process in the late 1980s and early 1990s.

In 1986, the government established a pension pool across SOEs at the municipal level. Pooling facilitated the SOE restructuring by separating pension contributions from SOEs and protecting employees' pension benefits. In the late 1980s, pooling was extended to the collective enterprises in many cities. In addition, the reform in 1986 introduced the concept of individual contributions into the pension system (Salditt, Whiteford, and Adema 2007). In 1991, the reform was taken further, with the government calling for the establishment of a multipillar pension system that consists of a mandatory defined benefit pillar financed by pooled funds, a mandatory defined contribution pillar funded by individual workers, and voluntary individual savings to supplement the mandatory pillars. In 1995, reform objectives[6] and key operational details such as benefits and eligibility criteria were more clearly specified and several pilot programs were started based on that.

In 1997, with State Council Document No. 26, and based on its experience from pilot programs, the government set out the revised pension plan that became the landmark for the future reforms. The new system aimed at expanding the coverage from SOE workers to the entire urban workforce, including the self-employed. It was also based on the multipillar structure, as encouraged in 1991, with more detailed guidelines on parameters such as contributions and benefits. The "social pools" were intended to be funded by an employer's contribution of 13% of wages and to provide eligible retirees who reach the retirement age (60 for men and 55 for women) and have contributed to the scheme for at least 15 years, with benefits equal to 20% of average local wages. The "individual accounts" were intended to be funded by both the employer, contributing 7% of wages, and employee, contributing 4%, and to provide a monthly annuity equal to 1/120th of the account balance at the retirement.[7]

Although the prototype was set by the reform in 1997, the government continued efforts to refine its pension system. In 2000, the National Social Security Fund (NSSF) was established as a reserve fund. The NSSF, which is planned to be funded by a combination of government subsidies, revenue from the sales of shares in SOEs, and profits from the national lottery, is supposed to act as a fund of last resort. In addition, several limitations of the 1997 system were tackled based on the experience of the

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6 State Council Document No. 6 stated the objectives of the reform as expanded coverage, establishment of a multipillar system, and strengthening of the pension administration.

7 According to the scheme, the employer contribution rate was planned to gradually increase to 17% for the basic pension and decrease to 3% for the individual accounts. But the employee contribution rate to individual accounts was planned to increase to 8%.

Liaoning project (2001–2004).[8] First, the government introduced some changes to the system in order to relieve the deficit in the social pools:[9] (1) the contribution rate for the social pools was raised from 13% to 20%, and that for the individual accounts was lowered to 8% and entirely paid by employees; and (2) the government increased its subsidies to cover the remaining deficit. Second, the firewall between the social pools and the individual accounts was strengthened to prevent the individual account balance from being diverted to cover the social pool deficits. Third, to enhance the collection of contributions, the responsibility for it was transferred from the local social security bureaus to tax bureaus. Fourth, workers now have more incentive to contribute for longer periods because they earn pension benefits in proportion to their contribution periods.[10] Last, the annuity factor for calculating benefits from the individual accounts was changed from the fixed number of 1/120th to flexible ones reflecting life expectancy at retirement.[11]

In addition to reforming the mandatory pillars of the pension system (Table 1), the government also strengthened efforts to develop the voluntary pillars, with the long-term goal of creating more private, voluntary occupational pension schemes. The enterprise annuity pillar was introduced in 2004 to provide supplementary retirement income to workers with wages higher than the mandatory pension system's contribution ceiling (300% of the local average wage).

The government continues to introduce supplementary measures for people who are not fully covered by the main system. As is shown in Figure 4, the coverage of the urban pension system has been very uneven: it is highest for SOE workers, modest for workers in other enterprises, and almost nothing for the self-employed. And migrant workers are in a much worse situation (Figure 5). Therefore, the government introduced supplementary schemes for the self-employed, informal workers, and migrant workers.

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8 The State Council issued Document No. 42 (2000) and 38 (2005) to revise its decision in 1997 based on the Liaoning pilot project.

9 Due to the pension obligation to the workers who were already covered by the old generous pension scheme when the new pension system was introduced, the social pools could not meet their payment obligation by using the current contribution. Therefore, the local governments used the individual account balance to fill the gap. This discouraged workers from participating in the pension system.

10 According to the State Council Document No. 38 (2005) , pension benefits are calculated by multiplying the number of qualified contribution years by 1% of the average of the individual indexed wage and local average wage.

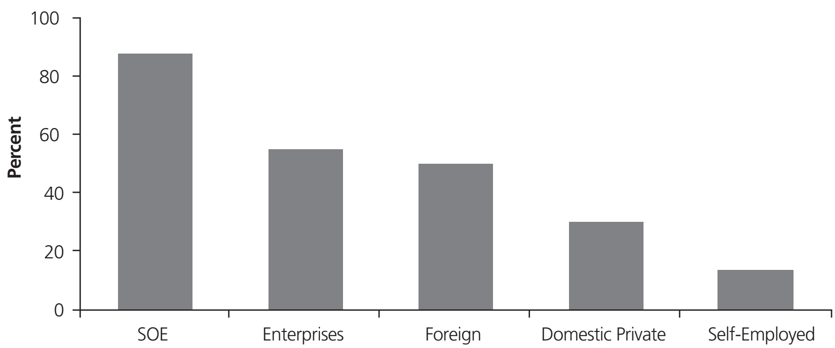
11 The factors are as follows: at retirement age 40, the benefit is 1/233; at 45, 1/216; at 50, 1/195; at 55, 1/170; at 60, 1/139, at 65, 1/101, and at 70, 1/56.

Table 1. Multipillar Structure of the PRC Pension System

Pillar	Features	Contributions	Benefits
1a Social Pools	Mandatory Defined benefit Pay-as-you-go	Employer contribution 20% of employees' wage (max of 300% and min of 60% of local average wages)	Targeted replacement rate of 35% with 35 years of contribution Adjusted to an index combining inflation and local wage increase
1b Individual Accounts	Mandatory Defined contribution Funded	Employee contribution 8% of employees' wage	Monthly benefit of 1/139th of accumulated contribution and accrued interests with retirement at 60 Targeted replacement rate of 24.2% with 35 years of contribution
2 Enterprise Annuity	Voluntary Defined contribution Funded	Annual contribution split evenly between employers and employees Capped at one-sixth of the previous year's wages Limited tax deductibility (4~12.5% of total payroll)	Lump sum or annuity at retirement
3 Private Insurance	Voluntary Insurance based	Discretionary amount	Lump sum or annuity at retirement

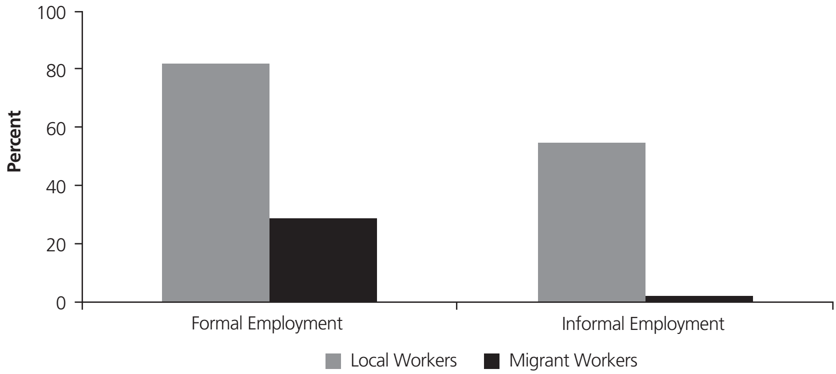
Source: Author.

Figure 4. Coverage by Registration Status



SOE = state-owned enterprise.
Source: NBSC (2005).

Figure 5. Pension Coverage of Workers



Source: Cai, Du, and Wang (2009).

In 2005, the State Council issued a decision to improve the coverage of the self-employed and workers in flexible forms of employment with no labor contract. Accordingly, a number of local governments implemented new schemes that require this group of workers to contribute 20% of the local average wage, of which 8 percentage points are placed in the individual accounts. This is intended to induce more of them to participate in the pension system by lowering their contribution burdens.[12] In addition, the Ministry of Human Resources and Social Security (MOHRSS) has proposed creating a separate pension scheme for migrant rural workers in urban areas. According to the scheme, the contribution rate of employers (12%) and employees (4%–8%) is lower than that of the regular employees and all contributions are deposited in the individual accounts that can be easily transferred to other areas. If the migrant workers retire in urban areas, their entire contribution history at different localities will be recognized when their pension benefits are calculated. However, if they move to rural areas, they can be provided with lump sum benefits if they do not join the rural pension system, or their accumulated pension can be transferred to the local insurance bureau if they join the rural pension system.

In 2010, the MOHRSS implemented a new regulation to improve the transferability of the pension entitlement. Previously, workers who moved could only transfer their individual accounts but not their entitlement to the social pooling pension, due to the fragmented pension system. This lack of transferability has often been mentioned as a major obstacle to expanding the coverage of the urban pension system. However,

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[12] Although the nominal contribution rate is lower than for regular employees, the effective contribution rate might be higher because self-employed and "flexible" workers usually earn less income than regular employees.

given the new regulation that took effect from 1 January 2010, if an urban worker moves to different provinces, 60% of the social pooling account balance and 100% of the individual account balance can be transferred with the worker. After retirement, the worker can receive pension benefits according to the income standard in the new region. This reform is expected to encourage more workers to participate in the pension system and eventually boost the economy by enhancing labor mobility.

Assessment. There is a general agreement that the PRC took the right direction in its pension reform but significant challenges remain. Many detailed issues have been raised by researchers, and can be classified into three broad categories: (1) restricting the public burden from the pension system to a financially viable level; (2) giving workers incentives to participate in the pension system; and (3) resolving the inequality, especially between urban and rural areas.

Indicators for measuring the public burden from the pension system include implicit pension debt, financing gap, and required contribution rate.[13] By any measure, the PRC is facing a significant public burden unless it adopts proper reform measures. Sin (2005) estimated that the PRC's implicit pension debt and financing gap were 141% and 95% of the GDP for 2001, respectively. Those numbers are significantly high for a country at the development stage of the PRC. By comparison, the implicit pension debt of the United States was estimated at 110%–150% of its GDP (Wang, Xu, and Zhai 2000; Hinz 2003). In addition, the Organisation for Economic Co-operation and Development (OECD) estimated the required contribution rate for the PRC was nearly 50% compared to about 15% of for Japan, the Republic of Korea, and the United States (OECD and World Bank 2009).

To keep the public burden under control, the pension system requires significant reform. Possible reform measures are (1) changing parameters (contribution rate, replacement rate, retirement age, annuity factor, etc.) in financially viable ways;[14]

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13 Implicit public debt refers to the benefit promises a pension scheme makes to workers and pensioners and is measured by adding the present value of benefits that have to be paid to current pensioners plus the present value of pension rights that current workers have already earned and would have to be paid if the system were terminated today. Financing gap refers to a measure calculated by summing the net present value of the current balance, i.e., revenues less expenditures, throughout the projection period. Required contribution rate is the contribution rate that will allow the system to manage on a cash flow basis whereby expenditure can be met solely through revenues.

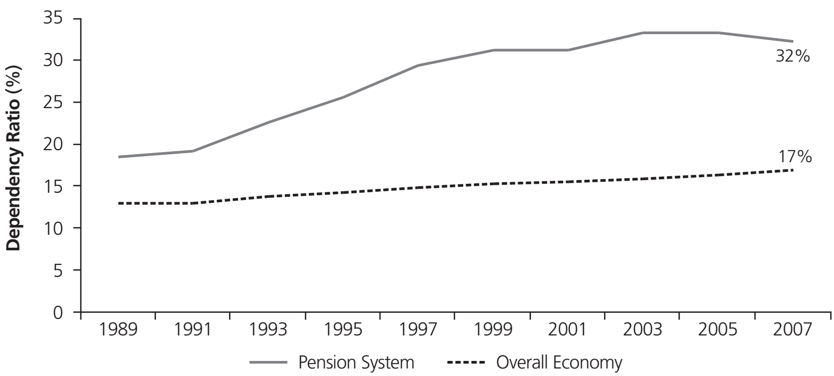
14 Many researchers propose that the retirement age should be raised (Sin 2005; DB Research 2006; ILO 2006; Dunaway and Arora 2007; Salditt, Whiteford, and Adema 2007; and Herd, Hu, and Koen 2010) and the annuity factor of individual accounts should be increased to reflect the actual life expectancy at retirement (Sin 2005; ILO 2006; Dunaway and Arora 2007; and Salditt, Whiteford, and Adema 2007). However, there is no explicit proposal for how to revise the contribution rate and the replacement rate, although the contribution rate is high compared to other countries. Related to this, DB Research (2006) and Salditt, Whiteford, and Adema (2007) pointed out that either lowering the replacement rate or increasing the contribution rate may have the negative impact of increasing incentives for evasion.

(2) expanding the pension coverage to include more contributors to support increasing pensioners; (3) introducing or increasing the funded portion of the pension system; and (4) improving the fund management, aiming at higher return on investment (ROI).

However, successful pension reforms cannot be achieved just by mechanically applying some of the measures. Some measures, such as changing parameters, could cause political hardship while others, such as expanding the coverage, could have a negative impact on the system's long-term fiscal soundness unless implemented with great caution. Therefore, comprehensive and coordinated approaches are needed for pension reform.

As shown in Figure 6, the dependency ratio of the pension system is much higher than that of the overall economy. This means that working age adults and/or their employers are reluctant to participate in the current pension system. Many issues discourage workers and their employers from participating in the current pension system.

Figure 6. Dependency Ratios of the Pension System and the Overall Economy



Source: Jackson, Nakashima, and Howe (2008).

Due to the huge legacy costs, current workers worry about whether the government can fulfill its pension promises in the future in return for currently relatively high contributions. Some private enterprises feel that their contributions are only used to pay the unfunded liabilities of the SOEs (DB Research 2006), and other enterprises with a young workforce may feel that their contributions are being used to subsidize the older enterprises (Ebbers, Hagendijk, and Smorenberg 2008).

Another disincentive to participation is the unattractive ROI on the individual accounts. Because assets in the individual accounts can be invested only in bank deposits and government bonds, the ROI is as low as 3%, which is much less than the increase in wages. As is shown in Table 2, with such a low ROI, it is hard to meet the target replacement rate.

Table 2. Individual Accounts Replacement Rate at Retirement under Different Wage Increases and Returns on Investment

Return on Investment (%)	Wage Increase (%) 3.0	4.0	5.0	6.0	7.0	8.0	9.0
1.0	14.80	11.44	8.95	7.08	5.67	4.60	3.79
2.0	20.76	16.05	12.54	9.92	7.95	6.45	5.31
3.0	29.03*	22.43	17.53	13.86	11.10	9.01	7.41
4.0	40.46*	31.26*	24.42*	19.30	15.45	12.54	10.31
5.0	56.22*	43.41*	33.90*	26.79*	21.45	17.39	14.31

Assumptions: contribution years (35), retirement age (60), annuity factor (139).
* Higher than the target replacement rate of 24.2%
Source: Author's estimates.

Limited transferability of pension accounts was also a critical reason for the current workers' poor participation in the pension system. However, because the PRC government has enhanced the transferability of pension contributions, this problem is expected to be resolved soon.

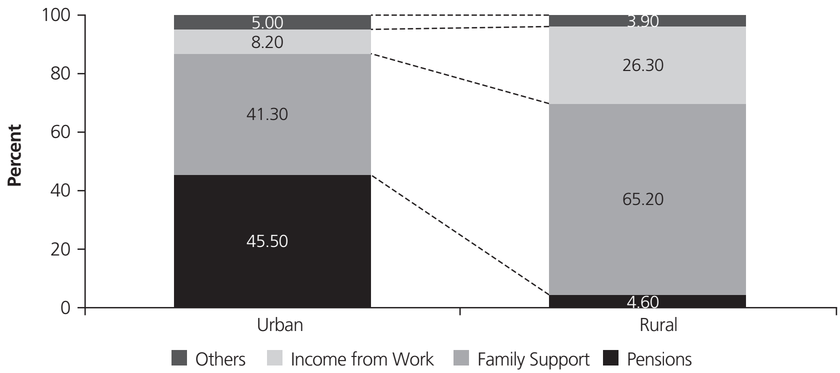
The two problems—restricting the public burden and providing incentives for participation—are serious but relatively well recognized by the government. Relevant policy measures have been taken to enhance the fiscal sustainability (e.g., instituting parametric reforms and establishing the NSSF), to relieve the current contributors from the legacy costs (e.g., increasing government subsidies); to enhance the ROI (e.g., relaxing investment restrictions for the NSSF and developing capital markets); and to improve transferability (e.g., developing new schemes for enhancing the transferability of the pension). Although additional reforms are needed, they can be implemented in parallel with the development of the overall economy.

However, the PRC has a long way to go to resolve the pension system's inequality. Because the pension system was initiated for SOE workers and expanded only to other urban workers, most rural workers are still excluded from coverage. Rural people suffer not only from lower income than their urban counterparts during their working years but also from a less secure old age due to the weak and marginalized rural pension system. The urban–rural divide is a major obstacle to a harmonized society and needs to be tackled urgently. This issue is investigated in more detail in the following section.

4. The Rural Pension System in the PRC

History of the PRC Rural Pension System. As was well described by Leisering, Sen, and Hussain (2002), the PRC's pension system was originally designed for urban workers, not for rural farmers.[15] The elderly rural population was historically protected by social security measures such as land, support from the family and collective economy, and the "five guarantees."[16] NBSC (2005) notes that the elderly rural population depends more on family support and income from work than does the elderly urban population (Figure 7).

Figure 7. Major Sources of Living for the Elderly Urban and Rural Populations



Source: NBSC (2005).

However, dramatic socioeconomic changes caused by the market-oriented reform in the 1970s have posed significant challenges to the traditional support systems. Major changes were (1) declining income, and thereby less security, from farmlands; (2) shifting household structures from extended to nuclear families; (3) liberalizing of the household registration (*hukou*) system and increasing migration of young workers to urban areas; (4) the loosening social security network in rural communities; and (5) changing social values toward individualism. Under such circumstances, the increasing number of old people can not rely on support from a declining number of young people who may work and live far from their parents and are increasingly exposed to market risks with little insurance.

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[15] The PRC government introduced the pension system to compensate the urban workers with pension benefits, as they were disadvantaged compared to the rural farmers who owned their own lands.

[16] Since 1950, the elderly who are unable to work, have no source of income, and have no family to support them can enjoy the "five guarantees"—include food, clothing, medical care, housing, and burial expenses—supported by the government.

Facing such problems, the government introduced a rural pension system in 1991 to strengthen the protection of the elderly in rural areas. The Ministry of Civil Affairs (MOCA) was in charge of implementing the system and promulgated the Basic Program for Rural Social Security Insurance at the County Level in 1992. The MOCA had established the rural pension system in more than 57% of townships, almost all counties, a little less than 75% of prefectures, and 87% of provinces by the end of 1997. The original design of and subsequent changes to the system are described in Table 3.

However, several problems were revealed during the implementation (Leisering, Son, and Hussein 2002). According to the Rectification Group,[17] major risks involved in the rural pension system were (1) financial risks from too generous benefits,[18] (2) operational risks from weak administrative capacity,[19] (3) misleading information given to the farmers,[20] and (4) social instability caused by the mismanagement of local governments.[21]

As a result, in July 1999, the government decided to rectify the rural pension system, declaring that conditions in rural areas were insufficient to carry out an extensive pension scheme. The government also decided that the pension schemes in areas with suitable conditions could be transformed into commercial insurance. In addition, authority for the rural pension system was transferred from the MOCA to the Ministry of Labor and Social Security (MOLSS) that has been reorganized into the MOHRSS.

Since the State Council's decision, the PRC's rural pension system has not been developed or completely replaced with commercial insurance as intended. The system had been virtually neglected by the central government before the State Council promulgated, in 2009, the Guiding Principles on the Development of the New Rural Pension Pilot. In the meantime, a number of pilot schemes continued to be implemented by local governments. Those pilot schemes varied between localities according to their financial capacities and policy purposes. In some areas, the schemes were similar to the existing system, comprising only individual accounts without government subsidies (the "Old

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[17] The Rectification Group on the Insurance Industry was set up in late 1997 to review the validity of the commercial insurance products, the MOCA pension schemes, and the All China Federation of Trade Unions (ACFTU) cooperative schemes for urban employees.

[18] The account paid 8.8% interest compared to an inflation rate of 6.6% in 1992 and the funds set aside for meeting accrued liabilities were insufficient.

[19] For example, administrative costs were 29% of contributions, against a legal limit of 3% and contributions were frequently used to finance local economic development.

[20] Many localities exaggerated the level of benefits and claimed the benefits were guaranteed by the central government while convincing the central government that their schemes were self-sufficient.

[21] Despite the original design of the voluntary contribution scheme, some localities operated their systems as a compulsory participation scheme or a voluntary participation scheme under guidance, which created discontent among farmers.

Yantai Model"[22]). However, in most areas, the schemes were based on a combination of individual contributions and a basic pension funded by collective subsidies and government support (Baoji, Beijing, Suzhou, and the "New Yantai Model"). With regard to the schemes' coverage, a majority of the target groups were the farmers who lost their land. In other words, most of the local governments still considered the social security as an exchange for land (NSSI 2007). In comparison, areas such as Chengdu, Shanghai,[23] and Shenzhen introduced the rural pension scheme for migrant workers as well.

Table 3. Original Design of and Changes to the Rural Pension System

	Original Design in 1991	Subsequent Changes
Participation (Contributors)	Voluntary Rural residents, aged 20 and above, with agricultural hukou	No change Rural residents aged 18 and above Expanded coverage to township and village enterprise workers, private enterprise employees, and the self-employed
Contribution	Individual contribution (subsidies from employers or local communities possible) Flexible contribution rate according to their own economic conditions Tax exemption	No change
Fund Investment	Bank deposits and special government bonds May invest in local projects Return on investment fixed at 8.8% per year	Bank deposits and central government bonds The interest rate is the same as for the current deposits in banks
Eligible Age	60	No change
Benefits	Monthly payment of 1/120th of the account balance At the pensioner's death, the outstanding balance can be inherited Even after the balance is used up, same amount continues to be given until death	No change
Administration	Ministry of Civil Affairs: policy and supervision Provincial or city/county social insurance agencies Administration fee: 3% of annual contributions	Ministry of Human Resources and Social Security Departments of human resources and social security of local governments

Sources: The original design is from Leisering, Son, and Hussein (2002); the changes are from ILO (2006).

22 The Yantai government reformed its rural pension scheme in 2006 to a new one, combining individual contribution and collective and government subsidies (Birmingham and Cui 2006).

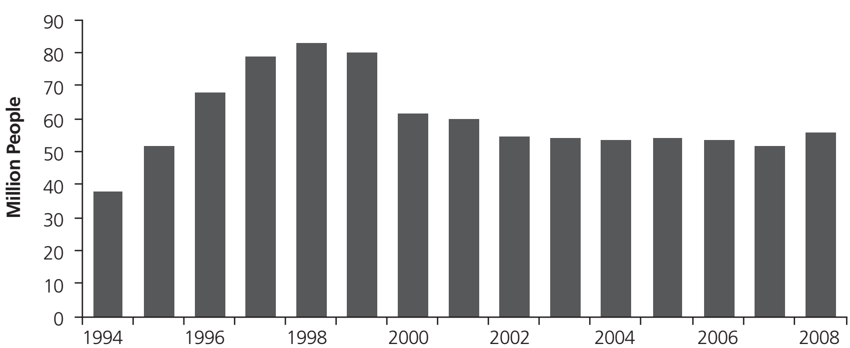
23 Shanghai was the first locality to launch comprehensive insurance for migrant workers, in 2002.

The pilot schemes were not very successful. They were, by design, imposing a considerable fiscal burden on the local governments (Herd, Hu, and Koen 2010) and the benefits were much lower than those for urban retirees. Lack of transferability and insufficient government subsidies were also major obstacles. Due to lack of transferability, migrant workers usually withdraw their individual accounts and give up their vested entitlement in a basic pension when they move to other areas not only for changing jobs, but also for holidays in their hometowns.[24] Due to insufficient government subsidies, the pensioners cannot be fully protected in old age and the pension scheme just becomes another means of saving.

Therefore, the participation of rural workers in the pension system was disappointing. The number of participants (contributors and pensioners) peaked at 82 million in 1998 and dropped dramatically to 56 million in 2008 (Figure 8). In terms of the coverage ratio (the ratio of contributors to workers), just 11% of rural workers were covered by the pension system as of 2008, while 55% of urban workers were covered (Figure 9). Because almost two-thirds of total workers live in rural areas, such a low coverage for rural workers means that most workers in the PRC, especially the most vulnerable ones, do not have proper income security in their old age.

Recent Approach to the Rural Pension System. Ten years after the State Council decided to rectify the rural pension system, the government resumed its efforts to introduce the new pension system to rural areas. In 2009, the government launched pilot rural pension programs in 200 counties across the nation, with a plan to expand the program to all rural areas by 2020.

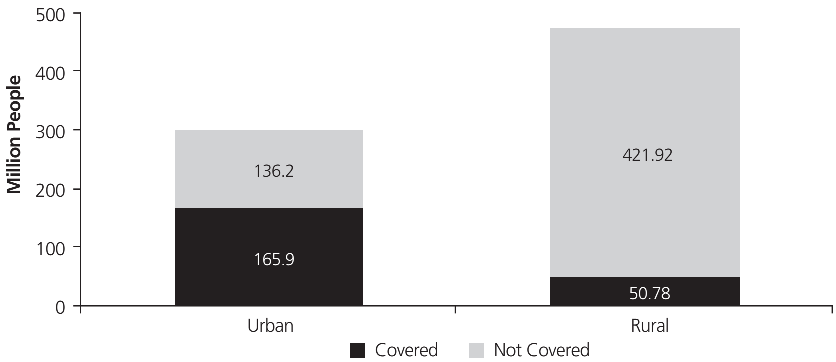
Figure 8. Rural Pension Participants



Sources: NBSC, MOHRSS.

[24] For example, in Shenzhen, more than 40% of workers give up their membership (Birmingham and Cui 2006)

Figure 9. Pension Coverage (2008)



Source: NBSC.

Unlike the previous system, which was funded by individual contributions, the new rural pension system consists of individual accounts and the basic pension[25] that is funded by the government (Table 4). The goal of the plan is to provide participants a pension equivalent to 25% of the average local per capita household income through a flat rate noncontributory pension, plus a pension amounting to 10% of the average local per capita household income financed by individual contributors (Herd, Hu, and Koen 2010). The MOHRSS is in charge of implementing and supervising the new system in addition to its responsibilities for the urban pension system.

Assessment. The new system is a big step forward in enhancing the old age income security in rural areas and, eventually, integrating the urban and the rural pension systems. The new system contains several features that were proven to be effective by pilot schemes. The pension payment to the parents of current contributors, adopted from the Baoji model, can induce higher participation in the new system.[26] In addition, the basic pension, which was also a part of various pilot schemes, can lead to higher participation by increasing retirement benefits and by facilitating integration with the urban system.

[25] Because rural residents generally have no employers and their low incomes make them less able to pay contributions to a social pool, the social pool has been replaced by the basic pension supported by the government.

[26] The Shanxi pilot test based on this measure generated almost complete coverage of people over 45, even though the county is extremely poor and contributions are high (Herd, Hu, and Koen 2010).

Table 4. Design of the 2009 Rural Pension System

	Basic Pension	Individual Accounts
Participation (Contributors)	Voluntary Rural residents aged 16 and above, who are neither students nor currently participating in the urban pension system	Same
Funding	The central and local governments share the responsibility for the payment (50% for each); The central government takes the full responsibilities for poor local governments	Individual contribution: participants can choose annual contribution levels between CNY100 ($14.64) and CNY500 ($73.21) in steps of CNY100 Local government subsidies: at least CNY30 ($4.39) per account annually (for the severely disabled, the local government also assumes their individual contributions) Collective subsidies possible
Fund Investment	Not applicable	The balance of account will be invested in bank deposits
Eligibility for Benefits	Age 60 for males and females Contribute to individual accounts for more than 15 years (people who are over 45 at the inception of the program can make extra contribution at 60 to get the basic pension) People over 60 at the inception of the program can get the basic pension if their adult children join the plan	Age 60 for males and females
Benefits	Flat rate pension of CNY55 ($8.05) per month	Less than 15 years of contribution: lump sum payment of the account balance More than 15 years of contribution: monthly payment of 1/139th of the account balance

Ed: The exchange rate in 2009 was CNY6.83/$1.
Source: Author.

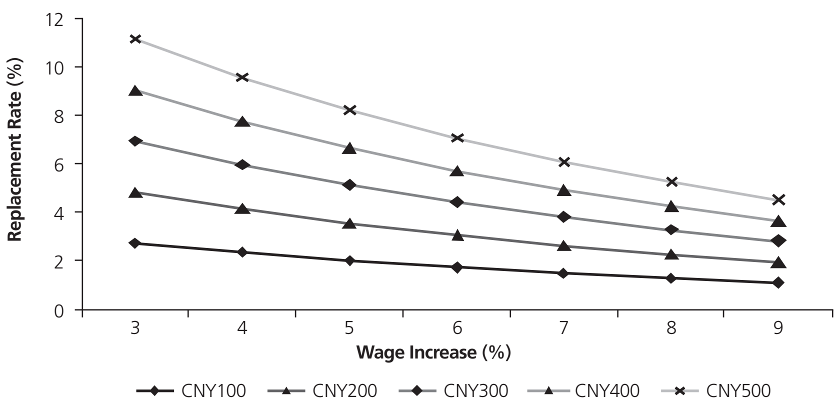
However, the new system needs further improvement. First, with the current level of benefits, it will be difficult to achieve the targeted replacement rate. As the per capita disposable income of the rural household was CNY4,760 (about $697) in 2008, the current basic pension benefit of CNY660 (about $97) per annum is only 14% of average local household income—that is much lower than the targeted 25%.[27] In addition, because the current system does not link the benefit level to the change

[27] Nevertheless, such a replacement rate may also be considered not too low. Because people in rural areas who are eligible or soon will be eligible for pension usually earn income below the local average, the actual replacement rate is probably higher than 14%. In addition, even under the social pool pillar of the urban pension system, the replacement rate with 15 years of contribution would be about 15% of contributors' income.

in household income, the replacement rate would be even lower given the future increase of household income.[28] The individual accounts whose target replacement rate is 10% have the same problem. As shown in Figure 10, the replacement rate at retirement with 15 years of the annual contribution of CNY400 (about $59 in 2009), which is approximately 8% of the average local household income, would be in the range of 4%–9%, depending on the wage increase. In addition, the replacement rate is still overstated by comparing the pension benefit to average per capita household income, not to the average income of the working members of the household (Herd, Hu, and Koen 2010). The latter is, on average, 40% higher than the former, so the actual replacement rate would be even lower than the above calculation.

Another drawback of the system is the unfair allocation of financial burdens between the central and the local government. As is shown in Figure 11, to provide pension benefits for a person who contributes to the rural pension, the local government needs to assume about 30% of the cost, compared to the central government's share of about 15%. The local governments' share would be even larger if costs for the parent's pensions are taken into account (Herd, Hu, and Koen 2010).[29] Considering that the local governments usually have fewer financial resources than the central government, the greater burden on the local governments could make the rural pension system financially unsustainable in the long term.

Figure 10. Individual Account Replacement Rate at Retirement with Different Contributions



Assumptions: Bank deposit rate = 3%; contribution periods = 15 years.
Source: Author's estimates.

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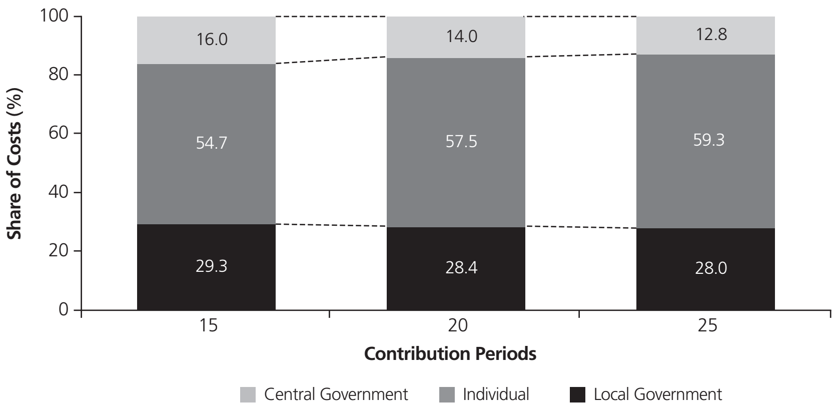
[28] In contrast, the urban pension system indexed the benefit to the average local wages, so it can keep its replacement rate relatively stable with the rise of local wages.

[29] The OECD estimated the local governments' share would be about 50% of the total pension costs when the parents' pension is taken into account.

Figure 11. Share of Costs of the Rural Pension (present value)



Assumptions: Discount rate = 5%; return on investment of the individual accounts = 3%; costs for parents' pension are not included.
Source: Author's estimates.

The low ROI on the individual accounts is also problematic. Restricting the investment of the individual accounts to bank deposits will result in only a 2%–3% ROI. Such a low ROI has a negative impact on the pension system in two ways. First, it might discourage people from participating in the pension. If people think that benefits from the pension are insufficient, they may prefer to spend their money or look for alternative investments.[30] Although the new system adopted several complementary measures (such as the parents' pension and matching subsidies of CNY30—about $4.4) to encourage people to participate, the merits of those measures diminish rapidly as the gap between the ROIs from individual accounts and other private investments widens. Figure 12 shows that people can enhance their retirement wealth by reducing pension contributions and increasing alternative investments as the gap in ROI rises. Second, the low level of ROI also increases the government burden. According to the new pension system, the government should continue to pay the same annual benefits even after the accounts are used up. Therefore, the lower the ROI is, the earlier the accounts will be depleted and the greater the government burden will be (Figure 13).

Last but not least, the new system still has the problem of fragmented administration. Because there are neither unified administration procedures nor the mechanisms for transferring data and funds among local governments, the transferability of workers' pension entitlements among localities might not be assured. Lack of transferability would be the most serious problem for migrant workers, most of whom may return to their hometowns in rural areas after retirement.

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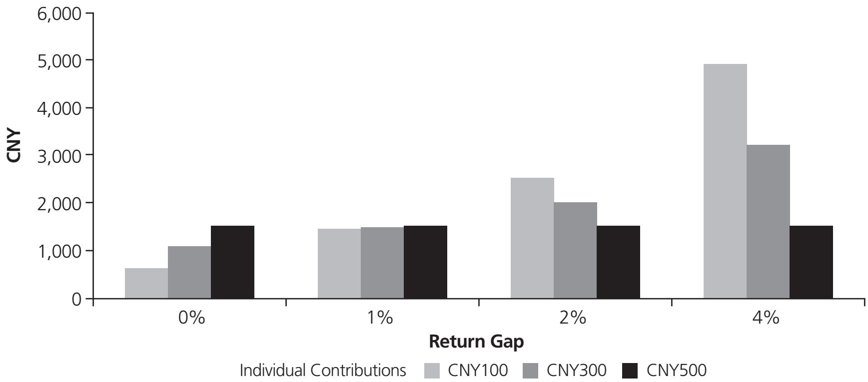
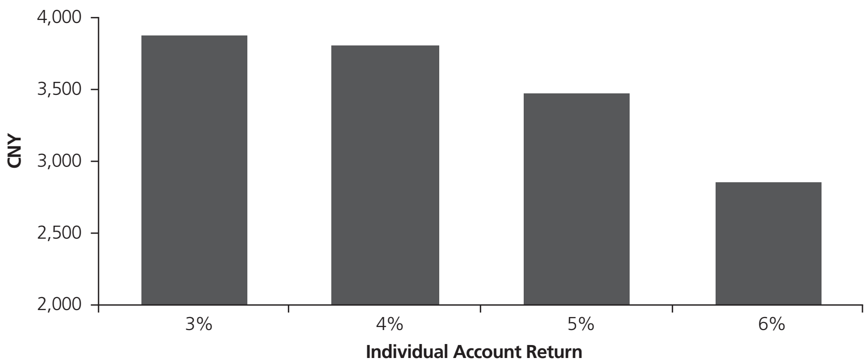
30 However, given the current stage of financial market development in the PRC, it would not be easy for the individual worker to find alternative investments in the short term.

Figure 12. Retirement Wealth under Different Return Gaps and Pension Contributions (per pensioner, net present value)



Assumptions: Discount rate = 5%; return on investment of the individual accounts = 3%; contribution periods = 25 years; individuals decide to allocate CNY500 between the pension contribution and private investment.
Source: Author's estimates.

Figure 13. Government Burdens under Different Investment Returns (per pensioner, present value)



Assumptions: Discount rate = 5%; contribution periods = 25 years; life expectancy at 60 = 19 years.
Source: Author's estimates.

5. Conclusion: Further Reforms and ADB's Assistance

Need for Further Reforms. As discussed earlier, the PRC has made significant efforts to improve its pension system and most of the efforts are on the right track. However, the PRC's pension system is still far from being able to achieve a harmonious society and many issues demand further reforms. The reform issues can be classified as

(1) common to both pension systems, (2) pertinent to urban pension, and (3) pertinent to rural pension.

5.1. Common Reform Issues

Improving Consistency among Regions. The design of the pension system should be consistent across regions. Because the central government leaves the detailed design of the pension system up to the local government, the specific features of the pension system (e.g., contribution rate, replacement rate, etc.) differ among regions. Such discrepancies discourage workers, especially migrant workers, from participating in the pension system. Therefore, the central government should establish a nationally consistent pension system as soon as possible. For this purpose, the government needs to expedite its efforts to enact a new national social insurance law and enforce it nationwide.[31] In the medium term, the law can provide different design frameworks for urban and rural areas due to different conditions for implementation, such as the fiscal capacity and the job profiles of the residents. However, in the long term, both systems need to converge into a single system.

Centralizing Pension Management. The pension management system, both for the pension administration and for the fund management, needs to be integrated and centralized. Although the central government requested the local governments to manage their pension schemes at the provincial levels, the ultimate goal should be integrating the systems at the national level. Considering the difference between the urban and rural pension systems, two separate systems could be set up even at the national level in the medium term. As both systems converge into a single system, the management system can also be integrated in the long term. The more centralized system can provide not only more efficient management but also more equitable outcomes. For example, with a centralized system, the government can achieve a greater redistribution effect by calculating local average wages based on broader areas.

Strengthening Administrative Capacity. Strong administrative capacity is as important to the successful implementation of the pension system as good institutional design. Given the PRC's vast territory and highly mobile population, the effective administration of procedures such as collection of contributions, transferring of accounts, verification of entitlements, and disbursement of benefits is a serious challenge to the government. To strengthen its capacity for disbursing benefits, the

[31] In December 2008, the standing committee of the National People's Congress released a draft of a national social insurance law. This draft also calls for pooling pillar 1 at the national level by 2012, which will help to centralize the pension management.

government needs to increase efforts such as recruiting and training staff, standardizing procedures, and developing information technology infrastructure.

Enhancing Transferability. Although the government implemented the new scheme for transferring the pension across regions, some issues remain. Most important is that the new scheme implemented by the MOHRSS conflicts with the draft new national social insurance law. The draft law, unlike the MOHRSS regulation, protects the continuity of the worker's entitlement to the social pool pension without transferring the actual balance. The law stipulates that the social pool benefits accrued in each region will be added no matter where the worker works.[32] The scheme intended by the draft law is better in terms of the fairness and equity but the MOHRSS scheme is much easier to implement. Therefore, the government needs to review both systems further and improve the system accordingly.

Increasing the Return on Investment. Increasing the ROI is important both for offering larger benefits to pensioners and for containing fiscal burdens. The government needs to relieve the investment restriction on the pension funds so that they can diversify their investment beyond bank deposits and government bonds. However, several scandals related to the pension investment have decreased public confidence in the pension system, and lower restrictions on investment should be accompanied by stronger prudential regulation. The best option might be letting the National Social Security Fund (NSSF) manage the pool of funds. If the government takes this option, it can improve the ROI by using the expertise of the NSSF and monitoring the fund investment more efficiently by focusing on one centrally pooled fund rather than numerous small ones scattered around the nation.

Revising Parameters. Some parametric changes are needed to enhance the financial sustainability of the pension system. First, the annuity factor of the individual accounts needs to be revised to reflect the actual life expectancy at retirement. Given a 3% ROI, the current factor of 1/139th implies a life expectance of about 14 years beyond retirement.[33] Because the current life expectancy at 60 is 18 years for men and 21 years for women in the PRC (UN 2008), the government would assume an additional 4–7 years of pension payment. If the actual life expectancy is reflected, the annuity

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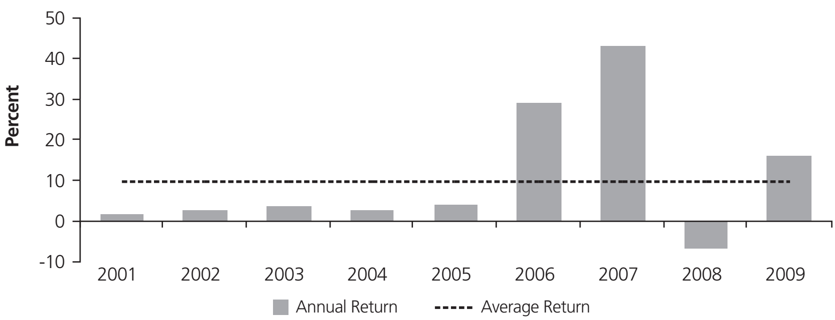
[32] For example, if a worker contributed for 7 years in province A and for 8 years in the province B, her or his basic pension benefit will be (7/15 times the minimum replacement rate times the average local wage in province A) plus (8/15 times the minimum replacement rate times the average local wage in province B). The first part of the benefit should be paid by provincial government A and the second part by provincial government B. Even in this case, the worker should meet the minimum required contribution period, or 15 years, by adding the contribution periods in each province.

[33] $B*(1.03)n = \sum(B/139)*12*(1.03)n$, where B = starting balance of the individual account, n = number of annual payments.

factor should be around 1/180th. However, changing the annuity factor might cause discontent among current contributors and affect their willingness to participate in the pension system. Therefore, changing the annuity factor should not be done alone, but together with improving the ROI of the individual accounts.[34] If the pension fund can earn a 6% ROI, which is 3% higher than the current bank deposit rate but still lower than average ROI of the NSSF (9.75% up to 2009, Figure 14), the current level of the annuity factor can be kept without imposing additional burden on the government. Second, the retirement age could be raised, for example from 60 to 65. However, there are conflicting views on this. Some experts (DB Research 2006) express concern that delayed retirement would have a negative impact on the labor market,[35] but others (Sin 2005) argued that there is no empirical evidence for such an adverse impact. Considering such arguments, the government can take a gradual approach, starting by equalizing the retirement age of men and women and then raising it steadily according to the condition of the labor market.

Figure 14. National Social Security Fund Investment Return



Source: National Social Security Fund.

5.2. Urban Pension Reform Issues

Dealing with the Legacy Costs. If the legacy costs remain in the pension system, workers may not wish to participate in it. The current workers are very likely to be concerned that their pension benefits might not be guaranteed at their retirement, as their contributions are used up for supporting the older generation. The government recognized this problem and has introduced several measures to relieve such worries:

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34 The current level of the annuity factor might be due to the PRC government's intention to provide bigger benefits for pensioners. However, it is not fiscally sustainable in the long term without improving the ROI.

35 According to DB Research (2006), unemployment in urban areas is already high because of the downsizing of the state sector, a large number of new entrants into the labor market (10 million every year), and rural surplus labor (150 million), and will rise further if the elderly workers remain on the job.

pledging government subsidies for assuming the legacy costs as public debts and establishing the NSSF as a prefunding mechanism. However, those measures are insufficient to fully protect the current workers from the legacy costs. The government provides subsidies only when the pension funds face a deficit, so it does not fully separate the legacy costs from the current pension fund. In addition, although the NSSF has achieved very successful ROIs, the assets of the NSSF are still less than 2% of GDP, much smaller than its implicit debt. Therefore, the government should continue its efforts to convert the legacy costs into public debt[36] and raise sufficient funds for the NSSF.

Expanding Coverage. The coverage of the urban pension system needs to be expanded to include more workers from non SOE sectors. As discussed earlier, the government introduced several supplementary schemes to encourage such workers to participate in the pension system. However, the participation rate is still low, so the government needs to make additional effort to bring participants into the scheme. First and foremost, the government should strengthen the monitoring of compliance and the collection of contributions.

Encouraging the Establishment of Enterprise Annuities. The PRC market for enterprise annuities has grown rapidly and is expected to grow much faster in the future (Figure 15). However, the enterprise annuity market is currently dominated by large companies and most small and medium-sized enterprises (SMEs) do not participate in the scheme yet. To stimulate the participation of SMEs, several policy measures are needed: (1) unifying the tax treatment for enterprise annuities,[37] (2) increasing tax benefits for enterprise annuities,[38] and (3) allowing the pooling of SME enterprise annuities into a "master trust."[39]

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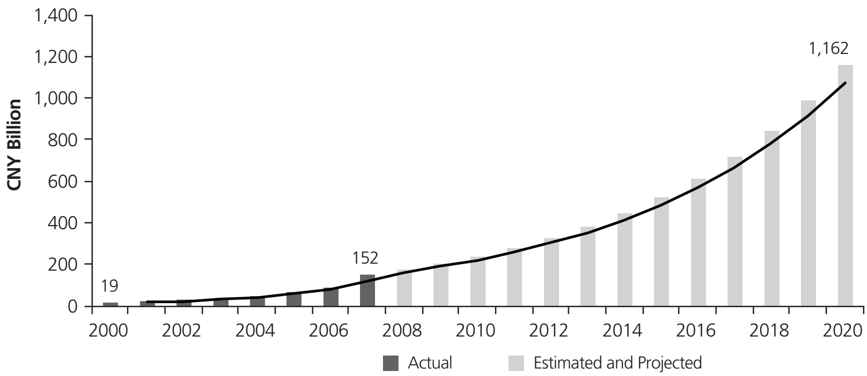
[36] Related to this, Ebbers, Hagendijk, and Smorenberg (2008) proposed that the government should convert the legacy costs into explicit public debts, for example, through issuing government bonds. According to them, this is economically logical because the benefits of this transition will be shared by many future generations.

[37] The PRC does not have a full and clear national tax policy for enterprise annuities. Local governments apply different tax deductibility to the enterprise annuities, varying from 4% to 12.5% of the total payroll (Zhu 2009).

[38] Although the MOHRSS allows employers and employees to contribute as much as 8.3%, in total 16.6%, of the payroll to enterprise annuities, the Ministry of Finance stipulates only 4% of the payroll can be tax deductible for employers' enterprise annuities contribution and no tax deduction is allowed for the employee's contribution to the enterprise annuities.

[39] By regulation, enterprise annuities should be designed as trusts with four kinds of providers: trustee, administrator, investment manager, and custodian. SMEs are reluctant to participate in enterprise annuities due to the high cost of setting them up. Therefore, the availability of a "master trust," a pool of SME enterprise annuities, could encourage SMEs to participate in enterprise annuities by lowering the cost of their participation.

Figure 15. Asset Size of Enterprise Annuities



Source: Zhu (2009).

5.3. Rural Pension Reform Issues

Increasing Government Subsidies. Because the replacement rate of the rural pension system is expected to be significantly lower than its target, the government needs to increase the flat rate benefit from the basic pension and raise government subsidies and the ROI for the individual accounts. The basic pension needs to be increased to about CNY1,000 (about $146 in 2009) to achieve 25% of the replacement rate and be indexed to the combination of the inflation and local wage increase rates, as is done for the urban pension system to prevent the replacement rate from deteriorating in the future. For the individual accounts, both the government subsidies and the ROI need to be raised significantly to meet the targeted replacement rate of 10% during the retirement periods.[40]

Rebalancing Burdens between the Central and Local Governments. The central government needs to shoulder a greater portion of financial burdens to support the rural pension system. Because the local governments have lower fiscal capacity than the central government, it would be unfair to impose on local governments a greater burden of supporting the rural pension system. The central government can increase its portion by paying higher benefits for the basic pension or sharing the subsidies for the individual accounts with the local governments.

[40] Because the contribution to the individual accounts in the rural pension system is fixed regardless of the income level, the replacement rate will decrease as the local income increases with time. Therefore, to achieve 10% of the replacement rate on average during retirement, the targeted replacement rate at retirement should be much higher than 10%. Assuming 25 years of contribution and 6% wage increase, the government subsidies and the investment return need to be raised to CNY250 (about $37 in 2009) and 6% respectively, which result in 16.4% of the replacement rate at retirement.

Dealing with Different Groups of Rural Workers. Farmers, migrant workers, township and village enterprise (TVE) workers, and farmers losing their lands have the rural hukou and theoretically need to be covered by the rural pension system. However, each group has distinct characteristics, so the same pension plan cannot be applied to all. The newly designed rural pension system is best fit for traditional farmers. For migrant workers, the MOHRSS has proposed a separate system but they can be covered by the urban pension system as the transferability is enhanced. TVE workers can be covered by a system similar to the urban pension rather than by the current rural pension system. In fact, many local governments have introduced the pilot system for TVE workers. The design of the system was very similar to that of the urban pension system (Herd, Hu, and Koen 2010). While farmers who lose their lands to urbanization can be compensated through the payment of social security pensions, it would be better for them to be compensated separately for the loss of land and to be covered by the pension system, depending on the subsequent jobs and their residence. Eventually, when the urban and rural pension systems are integrated, separate subsystems need to be developed according to each group's needs rather than locations.

5.4. ADB's Assistance for the PRC Pension Reform

Since the 1990s, ADB has been a key partner of the PRC government in supporting social security reform and building a policy and regulatory environment to enable the reform. ADB has worked with government ministries, social security administrations at central and local government levels, financial market regulators, legislators, and social security funds on a wide array of issues concerning urban and rural pension and medical insurance reform.

One of the key thrusts of ADB assistance is to support inclusive growth and balanced development, as the 2008 country partnership strategy indicated, by focusing operations on poorer provinces and promoting integrated rural and urban development. The corresponding financial sector operations under this thrust entail building an inclusive, market-oriented rural finance system and supporting social safety nets and pension systems in response to the demographic shift in the PRC.

In 2009, ADB approved technical assistance to the PRC titled Rural Pension Reform and Development. The project is primarily aimed at establishing an effective rural pension system to provide basic income protection for the elderly rural population. The expected outcome will be an improved policy and regulatory framework and strengthened financing mechanisms for the rural pension system. Key activities include supporting the implementation of the 200 county pilot projects by providing guidance at the policy, operational, management, and technical levels; extracting lessons in policy reform; and formulating operational procedures and technical parameters.

ADB also intends to assist with developing the capacity of relevant parties, including the ministries of the central government, local governments, and rural residents. The additional assistance is based on the belief that the stakeholders' capacity is critical to the successful implementation of the pension reform. All the issues mentioned in this paper will be carefully reviewed and analyzed during the technical assistance processes. Based on the analyses, relevant policy measures will be developed for the PRC government's consideration.

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C. Reform of Retirement Schemes in Sindh, Pakistan

Fazal Karim Khatri and Michiel Van der Auwera

1. Background

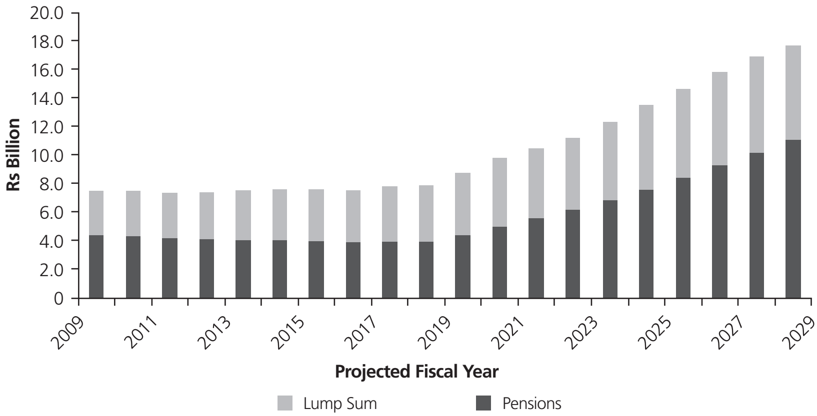
The Government of Sindh, with 480,000 employees, is the province's largest employer and it pays monthly pensions to an estimated 110,000 retirees and surviving dependents. Sindh provides a two-layered old age protection system to its civil servants, consisting of a pension scheme and a general provident fund (GPF) scheme. The pension scheme is an unfunded defined benefit scheme that pays 2.33% of the monthly final basic wage for each year of service, providing up to 70% of final basic wage replacement. Benefits can be collected after 25 years of service and upon attainment of age 60. Pensions are paid from the government's budget. The GPF is a defined contribution scheme. Monthly contributions from the workers' salaries are retained at source and an interest rate is credited annually to workers' accounts.

Mandated contributions range from 3% of wages of employees at the lower end of the compensation scale to 8% of wages for workers with high salaries. The full amount of a worker's account balance (contributions plus annually credited earnings minus loans outstanding) can be withdrawn at retirement in a lump sum. Instead of keeping the contributions in a separate account, the government is currently using the proceeds as budgetary support.

Concern in the Government of Sindh is increasing regarding the adequacy, affordability, and sustainability of the pension and GPF schemes provided to its employees. The government recognizes that this rising expenditure has important implications for the provincial budget and that reforms are urgently needed to assure the financial affordability of the employee benefit system and to make financing available for priority development expenditures. The annual cost of benefit payments, which has been rising in recent years, is expected to continue to grow. In fact, the rate of growth is projected to increase rapidly during 2020–2030. The growth is illustrated in

Figure 1 in real terms, using fiscal year 2008/09 (FY2009) as the base year. The figure shows that pension expenditure remains relatively stable for the next decade, but then increases rapidly, mainly due to the growing dependency ratio, with the number of pensioners growing faster than the number of active civil servants.

Figure 1. Annual Pension Costs (in Fiscal Year 2008/2009, real terms)



Source: Whaind (2010).

In 2001, the Government of Sindh decided to initiate the capitalization of pension and GPF schemes to reduce future expenditure obligations on a sustainable basis. In August 2002, the government established the Sindh Pension Fund (SPF) through a legal enactment, the Sindh Pension Ordinance, with seed money of PRs1.2 billion ($20 million)[1] supplemented by an annual government allocation of PRs3 billion. The current value of the SPF is PRs20.646 billion ($240 million). In May 2007, the Government of Sindh approved the creation of the Sindh General Provident Investment Fund (SGPIF) and transferred seed money of PRs2 billion ($33 million) from the FY2008 budget. The current value of the SGPIF is PRs4.413 billion ($52 million). The SGPIF will be supplemented annually by a budget transfer of PRs2 billion and the net receipts of the GPF contributions of the civil servants. The Government of Sindh's intention is to continue budget transfers to overcome GPF liabilities in the next 10–15 years.

The management of the funds and the investment decisions are taken by the board of directors, which is composed of senior government officials, including the chief

[1] The dollar amounts are calculated based on the exchange rates for the following dates: August 2002, PRs60.15=$1; May 2007, PRs60.53=$1; and August 2010, PRs85.76=$1

secretary, secretary general of administration, and secretary of finance. The private sector has just one representative in the board. Currently, all investment income is reinvested, while current benefit payments are made from the budget.

2. Key Interventions

With Asian Development Bank funding, the Government of Sindh is implementing the Sindh Growth and Rural Revitalization Program. The aim of the cluster program, comprising multiple-tranche subprograms, is to support the provincial government's reforms. The program focuses on strengthening the government's public financial management while providing an environment to enable private sector development, with a particular focus on rural growth. The pension and GPF component is part of public financial management, aiming for improved management of the benefits to provide adequate income security for the civil servants, to reduce future obligations on a sustainable basis, and to create much needed "fiscal space" in the longer run.[2] These available budgetary resources can in the future be spent on priority areas, such as infrastructure and the social sector. Specific measures are listed below.

2.1. Improve Financing of Pension and General Pension Fund Liabilities

The governance structure of the SPF and SGPIF is still weak. The allocation of budget transfers to the investment funds is not based on a specific financing strategy, but on the availability of resources with the government. The current team in the investment unit is only responsible for the operating and settlement activities of the funds. The investment decisions are taken by the boards of directors of the investment funds. The funds are lacking a defined investment policy, investment objective, and investment restrictions, for determining the risk and return objectives.

The establishment of a proper governance structure is essential to support long-term investment performance. To avoid mismanagement of the funds, regulatory and institutional safeguards are required, and an organizational structure providing the necessary checks and balances. Pension plans that have the best governance generally earn the highest rate of return on investments. The Government of Sindh is committed to improving the governance structure of its investment funds, and, to do so, determined to create the Sindh Fund Management House, a single entity to

[2] "Fiscal space refers to the amount of freedom governments have to control both their revenues and their expenditures" and "the room in a government's budget that allows it to provide resources for a desired purpose without damaging the sustainability of its financial position or the sustainability of the economy" (IMF 2008).

manage the investment functions of various investment funds. The goal is to unify the investment functions to improve the overall investment process. In December 2009, the chief minister approved the strategic plan to establish the Sindh Fund Management House. The investment funds to be included under the Sindh Fund Management House are listed in Table 1. When the Sindh Fund Management House is established, it will be the single biggest investment fund in Pakistan. Only one private investment company in Pakistan has equal assets under management—the National Investment Trust, Pakistan's oldest Asset Management Company.

Table 1. Government of Sindh Investment Funds

Fund	Inception Date (FY)	Value as of FY2010 (Rs million)
Sindh Bank	2009	2,017.534
People's Housing Cell Fund	2009	1,993.650
Provincial Disaster Management Fund	2009	200.000
Sindh General Provident Investment Fund	2008	4,413.375
Sindh Pension Fund	2003	20,646.261
Sindh Social Relief Fund	2006	11,302.241
Sindh Viability Gap Fund	2009	3,097.063
Total		**43,794.461**

FY = fiscal year. The year given is the ending year.
Source: Government of Sindh, Finance Department (2010).

Legislation. The Sindh Fund Management House will be created through an act, to be passed by the Sindh Assembly. The act will include the following:

(1) a description of the Sindh Fund Management House;
(2) creation of the Sindh Fund Management House's board of management;
(3) authority for the Sindh Fund Management House's board of management to develop and approve the investment policy and change the investment strategy and policy as economic conditions change;
(4) authority for the Sindh Fund Management House to create an investment unit with its own annual budget; to appoint the managing director and the compliance manager to provide technical investment services, guidance, and advice to the Sindh Fund Management House's board of management; and to implement the budget by hiring officers and staff members; and
(5) authority for the Sindh Fund Management House to ensure that the investment policy is followed.

Appropriate fund legislation provides for a governance structure that increases system transparency, assures accountability, and ensures independence. Such legislation separates the responsibilities of the board of management to set overall goals and objectives and ultimately to be responsible for all aspects of fund performance, from the investment unit responsible for the daily management and the oversight body (legislature, financial regulator, or government ministry) responsible for reviewing the performance of the board of directors.

Board of Management. The design of the board of management should ensure that the investment selection process is free from outside or political interference. International best practices encourage the full membership of the investment board to comprise investment professionals who have met a fit and proper test[3] and who commit to adhere to specific conflict-of-interest rules to avoid compromising the integrity of the committee, as committees comprising only noninvestment professionals are proven to perform poorly (Iglesias and Palacios 2000, 2002; Impavido 2002).

The formation of the Sindh board of management proposed in the strategic plan endorsed by the chief minister does not bring the expected improvement in governance. The proposed board still predominantly comprises ex-officio members, with no previous investment experience and without independence from the Government of Sindh. The board comprises the chief executive secretary as chairman; the members are the additional chief secretary (planning and development), finance secretary, director of the securities and exchange commission (mutual fund wing), and a representative of the Institute of Chartered Accountants Pakistan. In addition, the chief investment specialist of the investment unit is included.

Investment Unit. A critical role for the board of management is to protect the investment unit from any outside or political interference. The management of the investment unit should make investment decisions consistent with the investment policy. The general manager and other senior staff members are normally appointed by the board of management. The management implements the board's strategy and directives. In the case of good governance, the general manager and other senior staff members will not be members of the board of management. Governance and management should be separate activities.

The investment unit is currently understaffed and lacks essential investment skills. The current team comprises 5 staff members, managing investment funds worth almost PRs50 billion ($583 million). A similar fund size in a private investment

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3 A fit and proper test of people to be licensed is often conducted by financial regulators. The person's integrity is assessed and a determination is made whether he or she has been convicted of criminal offense, has been the subject of adverse findings in civil proceedings or of disciplinary proceedings, has violated standards of the regulatory system, and/or has had a license or registration revoked.

company would have a team of 75–100 professionals to manage the funds, all with appropriate experience in the field of their responsibility (Narejo 2010). The Finance Department has taken the first step in establishing a full-fledged investment house by initiating recruitment for the three key positions in the investment unit: a chief investment specialist, an investment research analyst, and an investment accounting and settlement analyst.

Oversight. The purpose of oversight is to ensure that the board of management is accountable for its actions. In the private sector, investment funds are subject to the Securities and Exchange Commission of Pakistan, the financial regulator of the nonbank financing companies. Public sector pension funds with strong governance are often subject to the same regulatory framework as private pension sector plans to prevent or minimize potential conflict of interest

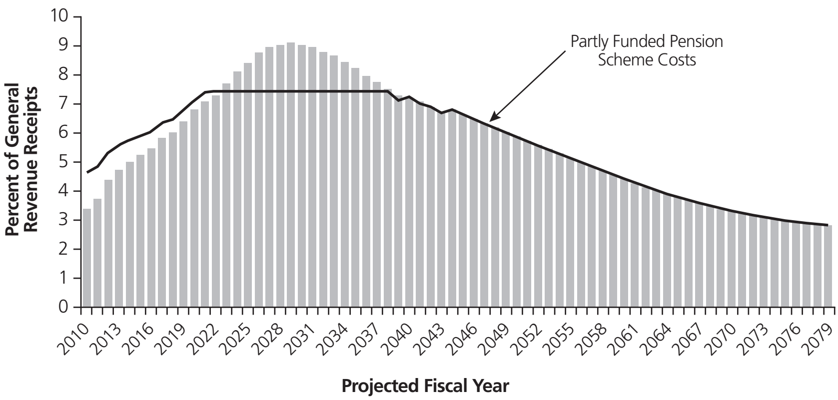
Investment Policy. Each investment fund needs an investment policy that determines its risk and return objective. The investment policy guides the investment unit as to which investments it may make to achieve maximum returns consistent with the determined level of risk. Overall goals and objectives, permitted asset classes, the percentage range for each asset class, risk parameters, methods for selecting investment managers and investments, benchmarks, and methods of performance review and standards for replacing managers should all be clearly stated in a written investment policy statement.

Financing Strategy. The Government of Sindh's current procedure of making benefit payments from current budget resources and contributing an additional amount into the SPF and SGPIF can be categorized as a partly funded approach. However, a financing strategy is required to specify when the accumulations will be used to meet benefit payments. Based on actuarial projections, the Government of Sindh is determining a financing strategy for its pension and GPF schemes that is affordable within the current budget and that provides clear directions to develop an appropriate and effective investment policy for the SPF and SGPIF. Possible options that the Government of Sindh is contemplating are discussed in the following paragraphs.

The pension scheme is financed completely by government contributions and, therefore, will always place demands on the budget of the Government of Sindh. It can never be an off-budget item. The actuarial analyses of the pension scheme clearly indicate that the annual benefit bill under the scheme will grow faster than the wage bill for the next 25 years. After this period, the wage bill is expected to increase at a greater rate than the pension benefit bill. The financing strategy will be targeted to flatten the peak of expenditure between FY2026 and FY2043.

The current policy is to contribute PRs3 billion per year to the SPF. If this policy is continued, the Government of Sindh could discontinue contributions to the SPF from FY2026, and in the following year start paying the excess of 93% of pensionable wage from the fund. This policy could be followed until the SPF is exhausted in FY2043. After this period, the pension benefits are expected to begin declining to levels well below 93% of the pensionable wage. Figure 2 compares the cost of the pension scheme when this partly funded approach is followed with the pay-as-you-go costs. Depending on the amount laid out before FY2026, a smaller or larger part of pensionable wage would be covered until the fund is exhausted in FY2043.

Figure 2. Financing Option for the Pension Scheme



Source: Whaind (2010).

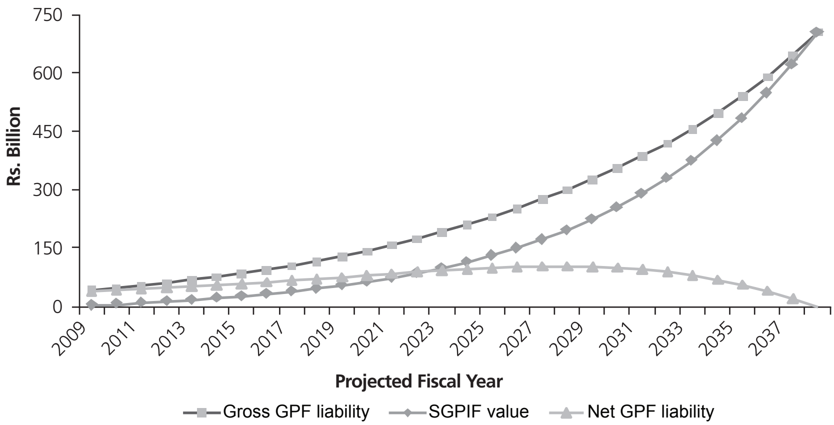
The GPF scheme is financed by employee contributions only, plus the accrued interest. It should not have any financial implications for the budget of the Government of Sindh. Indeed, the government has been borrowing from the GPF scheme, including the employee contributions in government receipts. It is in the Government of Sindh's interest to make the GPF scheme off-budget as early as possible, in line with the original design of the GPF scheme.

In the current policy, as illustrated in Figure 3, the Government of Sindh contributes PRs2 billion annually to the SGPIF, in addition to paying the annual benefits, which consist of partial withdrawals and final lump sum payments. The projections indicate that, as long as the Government of Sindh takes fresh loans from the GPF scheme, the government's net liability will continue to grow and is projected to be PRs103.63 billion by FY2028, from the current level of PRs38.57 billion (about $472 million).[4]

[4] Ed: Except as noted elsewhere, the conversion rate used in this paper is the average exchange rate for 2009 of PRs81.71/$1.

After FY2028, the net liability begins to decline and becomes nil in FY2036, when the GPF balance equals the SGPIF assets. At that time, the GPF scheme becomes off-budget. The process can be accelerated by choosing a modified policy, for example, to increase the investments into the SGPIF from FY2011 on, so that they equal the GPF employee contributions. Under this approach, the net liability would begin to decline in FY2011 and would become nil by FY2020.

Figure 3. Financing Option for the GPF Scheme



GPF = general provident fund, SGPIF = Sindh General Provident Investment Fund.
Source: Whaind (2010).

2.2. Improve Record Keeping, Administration, and Service Delivery of Pension and GPF Benefits

A reliable record keeping system is required for the government to manage its pension and GPF costs and liabilities and to provide accurate and timely benefit payments to the beneficiaries. The information currently available is of insufficient quality as a basis for adequate management decision making. A relational database is required to consolidate the information and make it accessible. The current state of affairs of the payroll and pension databases indicates that management has not paid enough attention to the critical importance of data. This has serious consequences, some of the most important being

- available data are insufficient for reliable analysis of current and future costs;
- reporting is inaccurate and misleading;
- long-term projections needed for cost control and monitoring and actuarial results, including costs, liabilities, and projections, are subject to a considerable degree of uncertainty;

- planning and management decisions are based on inaccurate, incomplete, or inadequate information;
- emerging upward or suspicious costs or utilization trends cannot be identified and acted on promptly and a system of early warnings cannot be implemented; and
- administrative expenses, a part of the pension cost, are ignored.

The Office of the Accountant General Sindh (AG Sindh) is responsible for administering the payroll, pension, and GPF benefits. The functions of AG Sindh comprise (1) administering the government payroll, including registration of and record keeping for the civil servants; (2) determining the benefits of the pension scheme, payment of annuity benefits, and partial commutations; and (3) keeping the GPF records and paying lump sum distributions.

Accuracy and Completeness of Employee Records. The process of record keeping, benefit calculation, and benefit payments, which is still largely manual and paper based, is gradually being replaced by an automated system under the Project to Implement Financial Reporting and Accounting,[5] using SAP/R3 software that registers payroll, pension, and GPF data needed for determining eligibility and benefit amounts. The main challenge for AG Sindh was to transfer the paper-based wage and employment histories into the new system. Until this time-consuming and onerous exercise is completed, the database cannot be fully utilized.

Furthermore, monthly pensions paid from the budget are exposed to problems of "ghost" pensioners—recipients who have passed away or otherwise are not entitled to receive monthly payments but whose records remain in the paper-based system. The conversion from manual, paper-based records to the computerized system is expected to reduce the number of fraudulent pension claims by allowing 100% audit and/or implementation of a pension payroll. In 2008, AG Sindh initiated a pilot test in Karachi to gather, verify, and enter employee and pensioners' data, and developed a training module for the data gathering and entry process. Based on this experience, the data gathering, verification, and entry has been rolled out to the entire province. The uploading of the available records is near completion.

When the data are in the system, the next challenge is to ensure accessibility to all users and improve the accuracy of the data. In addition, the procedures and business processes will need to be changed in line with the requirements of the new automated environment.

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5 The multiyear, multiphase project, funded by the World Bank, is designed to automate, standardize, link, and improve all aspects of financial reporting and analysis related to all agencies of the national and provincial governments.

Service Delivery. In July 2009, the Accountant General shared his pension vision, which aims for an automated and integrated pension cycle, where pensioners can receive hassle-free pension payments within easy reach of their place of residence. The vision includes initiatives such as the physical cleaning ("defumigation") of the pension files, the establishment of a one-window pension facilitation cell, the scanning of the pension claim documents, the on-line access of individual pension entitlements for pensioners, and the introduction of an electronic pension card replacing the pension booklet. In the meantime, AG Sindh has completed the cleaning and organization of pension files, making them readily retrievable for consultation. A one-window pension facilitation cell has been created in Karachi, where pensioners can process their pension entitlement within the same day; this is being rolled out to all districts. In addition, a feasibility study on the automation of pension payments was prepared, aiming to provide the pensioner with a hassle-free pension payment system that has in-built audit and reconciliation capability. These initiatives are unique among the provincial auditor general offices.

2.3. Improve Pension and GPF Policy

A major concern for the Government of Sindh is the growing cost of pensions and the GPF. The cost of the benefits is driven by the design of both schemes as well as the demographic profile of the active employees and pensioners. The benefits and their indexation, however, are ultimately decided at the federal level. The federal level has the habit of indexing pensions on an ad hoc basis. The latest most recent 15% pension increase dates from 13 July 2009; earlier, an increase of 10% was provided in 2005, and 15% in 2006. These decisions are taken without prior estimates of the impact on the budget. In Sindh Province, the decision increased the pension liability, overnight, by approximately PRs90 billion ($1.1 billion)—much more than the PRs20.6 billion ($252 million) that the Government of Sindh has been transferring to the SPF since FY2003. A better appreciation on the part of the Government of Sindh of the impact of changes on the design of the pension scheme or its indexation is required to keep pensions affordable and sustainable.

Reporting on Accrued Pension Costs. While the focus of government decision makers is often short term and concentrated on trends of benefit payments, the focus should instead be on the value of the benefits that are accruing from year to year. The accumulated information allows decision makers to have a better understanding of the accrued pension liability and the annual pension costs, and to improve their planning accordingly.

The accounting for and financing of defined pension schemes are two different processes, requiring different policy decisions. Financing refers to the contributions that should be remitted periodically to ensure there is enough money to pay for benefits as they fall due. Accounting refers to the pension costs incurred by the sponsor of a scheme during a given period, which should be reported in the financial statements as an expense for that period.

Unfortunately, the distinction between these two basic concepts is not always well understood. This often leads to confusion and ill-advised policies that undermine the long-term sustainability of pension programs while increasing costs and risks for the sponsor. The International Standards Board has selected a particular actuarial method, known as the Projected Unit Credit method, as the standard for pension accounting purposes. The private sector is commonly using the International Accounting Standard 19 to report on accrued pension liabilities. An equivalent accounting standard has been issued for the public sector, the International Public Sector Accounting Standard (IPSAS) 25, which is increasingly being used by governments to report on accrued pension liabilities.

Currently, the amount reported as pension expenses is only about one-fifth of what would be reported on an accrual basis, in line with IPSAS 25. The Government of Sindh had its first actuarial valuation report under IPSAS 25 prepared as of 30 June 2009, and intends to repeat this annually. In addition, the Government of Sindh has recruited an actuarial support staff member for the investment unit of the Sindh Fund Management House, who will be working with an actuary to prepare the annual accounting report.

Policy Reform. In the first half of 2009, the federal government formed the Pay and Pension Commission (PPC) to devise recommendations for reform of the remuneration and benefits of civil servants. The provinces are the main stakeholders, employing 80% of all civil servants, and are represented in the PPC. Enhanced understanding among the provincial participants of the financial impact of policy decisions will hopefully contribute to a better documented debate and balanced decisions by the PPC. The Government of Sindh commissioned an actuarial report outlining the expected financial impact on pension scheme costs arising from parametric and systemic reforms currently under consideration. The Government of Sindh has shared the findings of the report with other provinces, the federal Ministry of Finance, and the PPC. The report is a first step in enhancing the Government of Sindh's understanding of the design of the pension scheme and the options for reform.

Reforms in civil servants' pension schemes have been under discussion for almost 10 years. Consensus has evolved on two policy goals during this period:

(1) new recruits into the civil service should be under a new pension system based on defined contribution principles, and

(2) the current pension system should be continued for existing employees with some parametric reforms to enhance equity and sustainability.

Parametric Changes. Table 2 lists the parameters identified in the actuarial analysis of the pension scheme carried out as of 30 June 2008 and those identified by the federal Ministry of Finance.

Table 2. Parametric Changes under Consideration

Parametric Changes Identified by the Actuary	Parametric Changes Identified by the Ministry of Finance
Reduce commutation percentage	
Index pensions automatically	Pension indexation linked to inflation
Early retirements be subject to reductions or deferred pensions	Introduce early retirement reduction factors to bring the scheme into actuarial neutrality
Introduce benefit for those leaving with 5–25 years of service	Introduce a lump sum benefit for employees leaving between 10–25 years of service
Pension formula to be based on wages averaged over 3–5 years	Change the last drawn pay scheme by using 1 year's average
Revise accrual rate in pension formula	Change pension accrual rate
Remove arbitrary service cap of 30 years in pension formula	
Increase retirement age from 60 to 65	
	Revise the commutation table on an actuarial basis

Note: "Actuarial neutrality... requires that the present value of accrued pension benefits for working an additional year is the same as in the year before (meaning that benefits increase only by the additional entitlement earned in that year)." OECD (2006).
Source: Whaind (2010).

The report examined the parametric changes reflected in Table 2 in detail and concluded with the following:

(1) **Perpetual pension increases.** The practice of providing pension increases on what appears to be a perpetual basis must be addressed or such increases (currently comprising 10% for 2005, 15% for 2006, and 15% for 2009, totaling 40%) could continue to grow and bring the whole system into question due to burgeoning regular monthly pension bills. This action is required whether any other reform takes place or not.

(2) **Parametric reforms of the current scheme.** Several parameters should be considered for amendments to enhance the equity among employees having different lengths of service, to remove practices that do not conform

to best practice, to remove opportunities for "gaming the system" (using the system for the benefit of individual officers), and to improve overall financial sustainability. These are the first six items in the first column of Table 2.

The following parameters should not be revised unless the current defined benefit scheme is to be continued for future new hires:

- changing the pension formula basis to wages averaged over the working lifetime,
- changing the accrual rate in the pension formula, and
- removing the arbitrary service cap of 30 years in the pension formula.

If the current scheme is to be continued, and a defined contribution scheme will not be introduced for new hires, then these parameters should also be reviewed and revised.

The superannuation age should be increased gradually over the next 15–20 years from the current age of 60 to 65 by adding 3–4 months in each financial year. The driving force behind this change is not the financial impact it will have, which will be positive but very gradual, but the fact that its fits into the overall human resource policy of the Government of Sindh.

(3) **Policy decision on commutation.** The policy on commutation should be reviewed keeping in mind the intent of the current pension scheme and the changing dynamics of financial management of the current scheme.

Reducing the percentage of commutation transfers short-term pension costs into the future. Commutation increases the overall cost of the scheme because the regular payments have a greater present value than the commutation factors currently in use. However, it achieves better income support for employees in their old age.

Increasing the commutation percentage helps to reduce the strain on future budgets. Even though the current commutation factors favor the employer, employees continue to be focused on lump sum amounts, to their detriment.

If the government wishes to increase lump sum payments to reduce future strain, it may be practical to allow current pensioners to commute part of their pensions and receive lump sum amounts (especially for those commuted only 35% or 40% of their pensions).

Defined Contribution Scheme for New Hires. The Government of Pakistan is planning to introduce a new defined contribution pension system in place of the current pension and GPF schemes. Thus, the current pension scheme has a limited lifetime even though current active employees who are members of the scheme have many years remaining to retirement and even longer later periods during which they will receive benefits.

If the decision to implement a defined contribution scheme is irreversible then the groundwork required to launch such a scheme should be completed as soon as possible so that a practical implementation schedule is developed and enforced. For this, a group comprising suitably experienced experts from a number of disciplines must be established and assigned the task.

Pay Increase and Restructuring. The list of reform parameters discussed has not included enhancements to or restructuring of pay. This parameter has the largest impact on pension liabilities. Thus, the financial impact of any increase or pay restructuring should be assessed before being implemented, to assure that it is financially viable and sustainable.

Financing of the Current Pension Scheme. No matter which policy option is selected regarding new hires or parametric reforms of the current system, the pension expenditures will grow until they peak in 20–25 years and before they begin to decline to their long-term level.

Some prefunding appears to be unavoidable to keep the projected expenditures from outstripping future budget capacity. The Government of Sindh has in place an ad hoc strategy to contribute PRs3.0 billion ($37 million) annually to the SPF in addition to meeting ongoing pension expenditures as they arise. A structured financing strategy is required for financing of future pension scheme payments. The financing strategy may require revision, depending on the parametric changes made to the current scheme and the decision on the structure and timing of the defined contribution system for the new hires.

3. Conclusions

The Government of Sindh is committed to provide adequate, affordable, and sustainable retirement benefits to its employees. The provincial government, at best, has only partial control over its own retirement schemes. As already noted, the federal government decides on the design of the schemes and the size of their benefits and costs. The provincial government is responsible for financing the benefits. The creation and funding of the SPF and SGPIF are steps toward making the cost of the schemes sustainable in the longer run.

Indirectly, the province has an impact on the design of the schemes through the PPC that meets every 4–5 years to discuss pay and pension reforms. The provinces have representatives participating in this commission. The Government of Sindh has used this opportunity to share the actuarial estimates of its pension and GPF schemes with the other participants. It also commissioned an actuarial estimate of the costs of the proposed reforms by the PPC. By sharing the findings of these studies, the Government of Sindh wants to help the other governments understand the need to prepare the costing of proposed changes before deciding on them.

The Government of Sindh is also committed to improve service delivery for its civil servants. Here, too, the province has only partial control, as the data management and processing of the benefit payments is under the AG Sindh, a federal body that is not directly accountable to the Government of Sindh. The Government of Sindh and the AG Sindh have been working jointly toward improving the data and service delivery.

The Asian Development Bank-funded cluster program is a useful instrument to assist the reform of the pension and GPF schemes. It allows for a longer term support, spread over 5 or more years, during which reforms steps can be gradually introduced, supported by technical assistance. Key reforms can be introduced during the processing of each subprogram.

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D. Social Security Reform in Indonesia

Isa Rachmatarwata

1. Current Situation

Coverage. The current social security and social assistance programs in Indonesia are inadequate to protect most of the population against macroeconomic shocks or catastrophic events. The programs are fragmented and cover only a small portion of the population. There are four different administrators, each providing different benefits to different segments of the workforce. Only 15% of the people have any retirement benefit and fewer than 50% have some type of health insurance.

Consequently, with the exception of civil servants and the military, most Indonesians must rely on family and community for social support. Children care for their parents when they are old, and in times of crisis, extended family and the community take care of each other.

Benefit Providers. Four organizations provide social protection benefits in Indonesia:

- Taspen provides pension and endowment benefits to about 13 million civil servants, including dependents.
- Askes provides health insurance to civil servants and retired military and police. The total coverage is about 14 million workers, including dependents.
- Asabri provides pension and death benefits to about 1.5 million military and police personnel.
- Jamsostek provides old age savings, worker's compensation, health, and death benefits to formal sector workers. However, only about 25% of the formal sector employees actually participate—about 8 million workers are regular contributors, but the actual total should be closer to 30 million.

The Ministry of Health also directly sponsors the Community Health Guarantee (Jamkesmas) program. It provides health benefits to the poorest Indonesians and currently covers 72 million members (including dependents). This program does not require contributions from members and is tax-financed, so it is technically not "social insurance".

Each of the four social security administrators are *perseros*—for-profit, state-owned enterprises. The Ministry of State-Owned Enterprises supervises these institutions on behalf of the government and appoints and removes their board members. Management has a fiduciary obligation to the government and not to members. The social security administrators must pay corporate taxes and dividends to the government, though some of the perseros have recently been exempted from one or the other of these obligations by regulation.

Responsibility for collecting contributions and for regulation, supervision, and control of the administrators' activities is also fragmented. Each administrator collects its own contributions but none of the administrators has enforcement authority. This power rests with labor inspectors, who have not chosen to make social insurance contribution collection a priority.

This is not a serious problem for Asabri, Askes, and Taspen, as they are essentially managing occupational programs that provide benefits only to government workers. However, it is a major problem for Jamsostek, which must collect from thousands of employers and has no way to compel compliance.

Supervision and control of the administrators is scattered among multiple ministries; the assignment of responsibilities is not as clear as it should be and overall coordination is poor. The government owns 100% of the shares in each persero and the Ministry of State-Owned Enterprises is the government's representative. Other ministries with a role in supervision include, for Taspen, the Ministry of Finance; for Asabri, the Ministry of Defense and the Ministry of Finance; for Askes, the Ministry of Health and the Ministry of Finance; and for Jamsostek, the Ministry of Finance and the Ministry of Labor and Transmigration.

2. Rationale for Change

The family- and community-based system of social protection has never been fully adequate to meet the social protection needs of the population. In the past, when Indonesia was largely a poor and agrarian society, it was the only affordable system. Over time, however, the family-based social protection system has been breaking down due to the convergence of several major trends. The Indonesian population is aging rapidly due to declining birth rates and increasing life expectancy. Birth rates have dropped from about 6 children per mother in the 1960s to about 2.2 today. Meanwhile, life expectancy has increased to about 71 years.

At the same time, Indonesians have been moving to major population centers from rural areas in search of work and a better life. As a result, the size of the agricultural workforce has declined and Indonesia has become increasingly urbanized. Today, children often do not remain in the village where they were born, there are fewer children per family, and elderly parents are living longer than ever before. Consequently, children either can not afford or choose not to support parents to the extent they did in the past.

At the same time, Indonesia has become much wealthier during the last 10 years. Since 2000, the gross domestic product has increased rapidly. Despite the global financial crisis, Indonesia is expected to continue its excellent economic growth, along with the People's Republic of China, India, and the rest of Southeast Asia.

These macroeconomic, demographic, and cultural changes require that the state assume a larger role in the social protection system than it has taken in the past. Certainly, the family and community system needs to continue playing an important role, but it is also critical to have a more formal social protection system to allow the economy to continue to grow as the population ages and to lessen the impact of macroeconomic shocks.

The poor and elderly need protection against a variety of adverse events that are difficult for them to finance on their own and that cannot easily be provided by family and community. The health of the primary breadwinner is the key factor for most families. It is important for everyone to have easy and affordable access to preventative and curative healthcare. The poor are especially subject to loss of income due to droughts, floods, and other natural catastrophes. They are also likely to bear the brunt of changes due to global warming. The elderly normally have no independent source of income after leaving the labor force. Without family support, they must often work as long as health permits or until death. Families need life insurance to protect against loss of income and to cover immediate expenses resulting from the death of the primary wage earner. Even funeral expenses can be an unaffordable financial burden for many families.

One key component of a strong social protection system is social insurance programs. They are based on the concept of risk pooling and they allow workers to prefund protection against many catastrophic events that could adversely affect their ability to earn an income. These systems require workers to make contributions from earnings, generally as a percent of salary or income, throughout their working career. Those who contribute are then entitled to statutory benefits for health, retirement income, and life insurance if specified eligibility conditions are met.

3. The National Social Security System Law

In response to the 1997 financial crisis, Indonesia amended its Constitution to require the institution of a system of social protection covering all Indonesians. The government then enacted Law No. 40 of 2004 (the National Social Security System [SJSN] Law) in October 2004. The purpose of this law is to create a comprehensive system of social protection for all Indonesians based on the concept of social insurance.

The SJSN Law is a framework law. It outlines the basic structure of the reformed social security system, but does not specify details. Major strategic policy options, the system's governance structure, the amount of benefits, and contribution rates still need to be determined by other laws and by government and Presidential regulations.

The SJSN law provides for coverage of the entire Indonesian population with five separate programs:

- **Pensions.** This is a defined benefit program providing monthly income from retirement until death. It assures workers will have income for their entire lives.
- **Old age savings.** A lump-sum benefit at retirement gives workers some liquidity following retirement and cash needed to manage financial changes in their lives at the time of retirement.
- **Health insurance.** Basic preventative and curative care is provided to workers and their dependents through health insurance. This is essential to allow them to live healthy and productive lives and protect them against the catastrophic costs of medical care for serious illness.
- **Worker's compensation.** Income, medical, and rehabilitative assistance is provided to workers who are injured on the job.
- **Death benefits.** Immediate income is provided to the beneficiaries of deceased workers to help pay for funeral expenses, costs associated with settling the deceased's estate, and immediate cash needs.

These programs are to be financed by workers' contributions. The contribution structures will be different for formal and informal sector workers. Formal sector workers will make contributions as a percent of wages, with contributions shared between employers and workers. Contributions for informal sector workers will be a nominal amount. Finally, the government will be required to make contributions for the poor.

According to the SJSN Law, the health program should be implemented first, but it does not specify the order in which the remaining programs should be implemented. However, it does state that programs should be phased in so that they are affordable for the state budget. While not explicitly mentioned in the SJSN Law, its implementation also must be affordable for workers and employers and not have a negative impact on Indonesia's labor market and macroeconomic development.

All the programs are to be administered by four social security institutions—Asabri, Askes, Jamsostek, and Taspen—which are referred to in the law as BPJS (social security administrators). The SJSN law does not specify which social insurance programs will be administered by which BPJS. The BPJS will operate on a not-for-profit basis and manage social insurance funds that are trusts. The transformation of the legal structure was supposed to take place by October 2009, but this deadline was missed. As a result, the legal status of the BPJS is subject to debate.

The SJSN law also provides for the creation of the National Social Security Council (DJSN), which is appointed by and reports to the President. The DJSN is composed of government, employer, and labor representatives as well as outside experts and is led by a chairperson. The chairperson must be one of the government representatives on the DJSN. According to the SJSN Law, the DJSN is responsible for formulating general policy, synchronizing administration of the SJSN system, conducting review and research on subjects related to social security, proposing investment policy for the social security funds, proposing the government budget for operations and contributions to assist the poor, and monitoring and evaluating the BPJS.

The elucidation of the SJSN Law further clarifies that the duties of the DJSN include determining contribution and benefit levels, the rate of program expansion, BPJS' responsibilities, and the methods to fulfill the participants' rights.

The Council Secretariat assists the DJSN in its duties. It is lead by a secretary who is appointed and dismissed by the DJSN's chairperson. A Presidential regulation further clarifies the DJSN's organizational structure and mode of operation.

As of April 2010, the SJSN programs had not started and are not expected to begin for 2–3 years because the normative acts, institutions, and systems needed to support the new system are not yet in place. The major implementation activities that have taken place so far include

- appointing the members of the DJSN and enacting a Presidential regulation regarding its operations;
- drafting a law on BPJS, which is currently being debated in government and Parliament;
- drafting a regulation on contributions to assist the poor;
- drafting government regulations regarding contributions and benefits for the pension, old age savings, and death benefit programs;
- drafting a Presidential regulation on health insurance; and

- drafting a paper regarding the strategy, governance, design, and implementation issues for the pension, old age savings, and death benefit programs.

4. Short- and Medium-Term Social Protection Strategy (2010–2014)

The government recognizes that fundamental change in its social protection strategy is needed, and this is the purpose of the SJSN Law. The new SJSN programs are not intended to be additions to the long list of existing programs, but to consolidate them into a single rational system of social protection covering all Indonesians.

Unfortunately, this goal cannot be realized solely by issuing the requisite laws and regulations. While these are necessary to make the SJSN programs a reality, they cannot modify or abolish the existing programs under Asabri, Askes, Jamkesmas, Jamsostek, and Taspen. Consequently, a coordinated package of laws and regulations is needed to assure that the SJSN goals and objectives are met.

In addition to consolidating benefit programs, social security program administration, governance, supervision, and control must also be consolidated. The following also require consolidation and rationalization to achieve the desired objectives:

- The collection of contributions for all social insurance programs must be consolidated in one organization that has the ability to collect personal data and contributions and maintain historical personal records and has the power to enforce the payment of contributions.
- Supervision and control should be consolidated under one organization that has the budget, authority, staffing, and expertise to assure compliance with the SJSN Law and its implementing regulations. This organization must be able to pay competitive salaries to attract people with the required expertise in insurance, pensions, and investments to properly supervise the BPJS.
- An actuary office is required to assure the fiscal sustainability of the SJSN social insurance programs and to help set up the initial and ongoing contribution requirements for the programs. The SJSN programs require the government to make contributions for the poor. The government will have a large contingent liability for the SJSN programs if social insurance revenues are not sufficient to finance promised benefits. Consequently, the government has a vested interest in proper risk management of these programs. This will require complex computer models supported by extensive data, assumptions, and analysis.

The Government of Indonesia has prepared two documents that contain its plans for the SJSN implementation for 2010–2014: (1) the Strategic Plan of the National Social

Security Council (DJSN) of the Republic of Indonesia (2010–2014); and (2) Book II Medium-Term Development Plan (2010–2014), Priority Development in the Economic Sector, 10th Priority, Development of the Social Security System. The DJSN Strategic Plan was published in late 2009 and outlines the DJSN's visions, goals, and objectives for 2010–2014. The document notes that there are now many separate, non-integrated social insurance programs but no national system, and that most Indonesians are not covered by any system. It also notes that Article 28H(3) and Article 34 of the Constitution mandate the government to establish a national social security system.

According to the Strategic Plan, current issues to be considered in preparing the strategic plan for introducing the SJSN include changing demographic patterns and increasing life expectancy leading to greater dependence of the elderly on the younger population; low social security coverage, which excludes informal sector workers, who comprise the majority of the working population; lack of synergy among social security administering bodies; and lack of public awareness (especially among the poor) regarding social security.

The DJSN's vision is the realization of social security for all Indonesians. The DJSN's mission is thus to synergize the administration of the various social security programs and formulate general policy for their administration. The DJSN's strategic objectives for the SJSN include implementing laws and regulations, heath insurance for the entire population, gradual expansion of coverage, sustainable social security funds, good governance, and a strong and sustainable DJSN institution.

The Medium-Term Development Plan for 2010 to 2014 outlines the government's priorities for developing the SJSN during the next 5 years. This includes both social insurance and social assistance programs.

To overcome the problems with the current social insurance system, the Medium-Term Development Plan identifies required activities:

- issuing single identification numbers;
- promulgating laws and regulations required to establish the foundation for the SJSN system;
- providing procedures for identifying people who are entitled to government subsidy;
- completing studies and research in social insurance to strengthen the foundation of the SJSN;
- synchronizing regulations and programs in social insurance;
- establishing universal coverage for SJSN health insurance; and
- completing an effective and efficient system, procedure, and organizational structure for the social security administrators (BPJS).

The report lists four priorities for implementing social insurance during 2010–2014: (1) organizing, publishing, and arranging rules and regulations establishing the legal basis for the SJSN; (2) structuring the BPJS; (3) enhancing the role of SJSN's stakeholders; and (4) providing a prudent and sustainable scheme of management for social insurance implementation that is based on proper actuarial analysis and financial management.

Considerable debate continues on many of the core activities identified in the government and DJSN medium-term plans. The SJSN programs are supposed to provide "floor" protection for all Indonesians, but opinions regarding what this means vary widely. Benefits must be meaningful, but at the same time they must be fiscally sustainable, consistent with Indonesian culture, and not have a negative impact on Indonesia's macroeconomic development. Finding the right balance will require more discussion among all stakeholders.

Another important issue is the integration of benefits for civil servants, military, and police; severance pay benefits provided to formal sector workers under labor law; and tax-financed social assistance benefits. Clearly, the SJSN benefits will not be as rich as the benefits civil servants, military, and police receive today. Consequently, supplemental benefits will almost certainly be needed for the general population. At the same time, the fiscal sustainability of the current civil servant pension and endowment benefits needs to be reviewed. The pension program has accumulated substantial unfunded liabilities and the endowment program is clearly not fiscally sustainable in its current form.

Similarly, the severance pay benefits under Labor Law No. 13 of 2003 are some of the highest in the region. While they provide substantial protection against layoffs to formal sector workers, they also discourage hiring of new workers, limit the ability of businesses to cope with macroeconomic shocks, and negatively impact the regional and international competitiveness of Indonesian businesses. Because benefits are not funded, they are also often not paid when businesses go bankrupt and laid-off workers need them the most. The introduction of the SJSN social insurance programs provides an opportunity to adjust severance benefits to better balance the needs of Indonesian employers and workers.

Indonesia is also comprehensively reviewing its financial sector, including regulation and supervision. Today, regulation of insurance, pensions, and capital markets is consolidated in a single organization, Bappepam LK, the Indonesian Capital Market and Financial Institution Supervisory Agency. However, the bureaus of insurance and pension do not yet have full independence from the Ministry of Finance and the advantages of consolidation have not been fully achieved. And discussion regarding the possible integration of banking and non-banking supervision is ongoing.

This discussion underscores the need for strong leadership for both the implementation and ongoing management of the SJSN programs. The reform effort involves multiple ministries and could impact the lives of all Indonesians. Consequently, leadership and support at the highest level of government are needed to assure that introducing the SJSN programs results in a consolidated and rational system of social protection rather than creating yet one more layer of overlapping and duplicative programs.

E. Social Security Reform in Southeast Asia

Mukul G. Asher

1. Introduction

The need for more robust social security and social safety nets has been apparent in Southeast Asia since the 1998 Asian financial crisis. However, due to the rapid recovery and subsequent robust growth, the crisis did not lead to sustained efforts to integrate social protection into economic growth strategies. The current global crisis once again provides both an opportunity for, and a challenge to, strengthening of social protection in Asia. The term "social protection" is used in this context to denote major branches of social security such as pension, healthcare, work injury, and social assistance.

While demographic, institutional, and fiscal challenges are many, the crisis underscores the political necessity of sustaining the process of expanding social protection. The global economic crisis is expected to reduce the medium-term growth rate. The trend in the rate of economic growth is regarded as a singularly important macroeconomic variable that affects the economic security of the young and the old. The global economic slowdown may also impact the pace and quality of job and livelihood creation in Asian countries, raise the cost of debt refinancing (particularly for highly leveraged economies), lower remittance flows, and lower the medium-term real investment return on pension assets.

Many Asian countries have pursued aggressive fiscal stimulation packages in which social protection has been an integral component. There are, however, concerns that overly aggressive fiscal stimulus packages, if not reversed skillfully as economies recover, could lead to higher inflation and reduce the real incomes of the poor. Higher inflation and nominal rates could also increase the cost of servicing the internal debts of several Asian countries, such as India, Indonesia, and the Philippines.

This paper provides an overview of pension reform in Southeast Asia. The sheer diversity and complexity of the social security systems in these countries precludes a country-by-country summary. Therefore, the paper discusses broad common characteristics and reform themes.

Section 2 provides a brief overview of demographic and labor market trends in Southeast Asia. These set the context in which social protection policies will need to be designed and implemented. An overview of the social security systems in Southeast Asia is provided in section 3. Section 4 discusses broad avenues through which social protection systems could be strengthened. The final section suggests directions for future research.

2. Demographic and Labor Market Trends

Demographic trends for Southeast Asian countries are summarized in Table 1. The trends portend rapid population aging, signified by increasing old age dependency ratios and life expectancies at age 60. In the countries with large populations—Indonesia and the Philippines—the number of elderly projected for 2050 will be 76 million and 35 million, respectively. These are very large numbers for which there is no precedent of providing adequate retirement income. By 2050, Asia will account for about half of the global population above 60. This suggests that the extent of Asia's success in addressing social protection issues will have significant impact on how these issues are addressed globally.

This rapid population aging suggests a need to allocate greater economic resources for the elderly. Such allocation will need to be reconciled with macroeconomic stability; fiscal sustainability; and other priorities of the economies such as health, education, and infrastructure.

The demographic trends suggest that a little more than three-fifths of the new livelihoods to be created globally between 2005 and 2020 will be in Asia (UNDESA 2008). As the share of the formal sector in total employment is relatively low in many Asian countries, much of the anticipated livelihood generation will need to be in the informal sector, which constitutes 40%–80% of the total workforce. As social protection systems have traditionally been based on employer–employee relationships, extending the coverage to the informal sector requires innovative approaches.

Table 1. Demographic Trends in Southeast Asia

a. Total Population, Rate of Change, Fertility Rate, Median Age, and Life Expectancy

Area	Total Population (million)		Average Annual Rate of Change in Population		Total Fertility Rate		Median Age		Life Expectancy at Birth	
	2007	2050	2005–2010	2045–2050	2005–2010	2045–2050	2005–2010	2045–2050	2005–2010	2045–2050
World	**6,671.2**	**9,191.3**	**1.17**	**0.36**	**2.6**	**2.0**	**28.0**	**38.1**	**67.2**	**75.4**
High-Income Country										
Singapore	4.4	5.0	1.19	–0.38	1.2	1.6	37.5	53.7	80.0	84.6
Brunei	0.4	0.7	1.90	0.76	2.1	1.9	27.3	37.3	77.1	81.1
Middle-Income Country										
Indonesia	231.6	296.9	1.16	0.10	2.2	1.8	26.5	41.1	70.7	78.6
Malaysia	26.6	39.6	1.69	0.41	2.6	1.8	24.7	39.3	74.2	80.1
Philippines	87.9	140.5	1.90	0.50	3.2	1.8	21.8	36.3	71.7	78.7
Thailand	63.9	67.4	0.66	–0.27	1.8	1.8	32.6	44.3	70.6	78.1
Viet Nam	87.4	120.0	1.32	0.21	2.1	1.8	24.9	41.6	74.2	80.3
Low-Income Country										
Cambodia	13.9	23.8	1.64	0.68	3.0	1.9	21.3	33.8	60.9	74.4
Lao PDR	5.9	10.7	1.81	0.78	3.5	2.0	19.9	31.8	64.8	75.8

b. Population 60 and Over

Country	Life Expectancy at Age 60 2000–2005		Total Population Aged 60 and Above (%)		Population Aged 60 and Above (million)		Old Age Dependency Ratio	
	Male	Female	2005	2050	2005	2050	2005	2050
World	**…**	**…**	**10.3**	**21.8**	**672.8**	**2,005.7**	**11**	**25**
High-Income Country								
Singapore	17	21	12.3	39.8	0.5	2.0	12	59
Brunei	18	22	4.7	20.8	0.0	0.1	5	23
Middle-Income Country								
Indonesia	17	19	8.3	24.8	18.9	73.6	8	29
Malaysia	18	20	6.7	22.2	1.7	8.8	7	25
Philippines	17	19	6.0	18.2	5.1	25.5	6	19
Thailand	17	22	11.3	29.8	7.1	20.1	11	38
Viet Nam	19	21	7.6	26.1	6.5	31.3	9	30
Low-Income Country								
Cambodia	14	16	5.2	16.2	0.7	3.9	5	15
Lao PDR	15	17	5.4	14.4	0.3	1.5	6	14

… = not available Lao PDR = Lao People's Democratic Republic.
Notes: Classification of countries is based on the World Bank Country Classification in 2009 using the Atlas Method. Low Income: per capita income less than $975 per year; Middle Income: per capita income less than $11,905 per year; and High Income: per capital income $11,906 and above.
Source: UNDESA (2008).

There is a considerable flow of workers across borders within Asia. In general, flows are from developing Asia (such as the Philippines) to developed Asia (such as Japan, the Republic of Korea, and Singapore). The People's Republic of China and India are major providers, as well as absorbers, of foreign workers. Provision of social security and improved labor and work conditions for these workers should therefore be an important part of the social protection agenda in Asia. Formal "totalization" agreements (pertaining to social security across jurisdictions)[1] and bilateral agreements on the working and living conditions of foreign workers between recipient and sending countries within Asia, merit serious consideration. Recent agreements by Indonesia and the Philippines for special arrangements for their workers to be employed in Japan on a temporary basis are examples of advantage being taken of demographic complementarities, and the arrangements draw attention to the social security needs of foreign workers.

3. Current Social Security Systems and their Coverage

Southeast Asian countries have a long tradition of providing benefits under different branches (types) of social security (Table 2). Country studies presented at this conference show that mere establishment of a benefit under a social security branch does not necessarily imply that (1) the coverage in terms if labor force and potential beneficiaries is adequate, (2) all contingencies or risks are covered, (3) the programs are managed with requisite professional competence, and (4) benefits provided are sufficient and sustainable. Moreover, the country studies suggest that the coverage of the pension branch of social security is relatively low in Asia. This is consistent with the low share of formal sector employment in Asia, as the coverage is primarily confined to formal sector employees.

Table 3 provides contribution rates for pensions and for all social security programs in Southeast Asia. These rates are applied to a wage base that differs among countries. Thus, Singapore's rate of 34.5 percent% is applicable only up to a wage ceiling of S$4,500 a month; while Malaysia's rate of 24% for the national provident fund does not have a wage ceiling. The rates therefore should be interpreted cautiously.

Nevertheless, total contribution rates for all programs vary significantly among the Southeast Asian countries. The rates range from about 10% in Brunei Darussalam, Indonesia, the Lao People's Democratic Republic, and Thailand, to 25% or more for

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1 The totalization agreements in the social security sector perform a role similar to the double-taxation treaties in governing income tax arrangements internationally. Such agreements must ensure that individuals and employers do not end up paying social security taxes or contributions in more than one jurisdiction, or alternatively avoid paying them in any jurisdiction.

Table 2. Availability of Programs under Different Branches of Social Security in Southeast Asia

Country	Old Age, Disability, and Survivors	Sickness and Maternity: Cash Benefits for Both	Sickness and Maternity: Cash Benefits plus Medical Care (a)	Work Injury	Unemployment	Family Allowances
Brunei Darussalam	✓	b	d	✓	b	b
Indonesia	✓	b	d	✓	b	b
Lao PDR	✓	✓	✓	✓	b	b
Malaysia	✓	b	d	✓	b	b
Philippines	✓	✓	✓	✓	b	b
Singapore	✓	✓	✓	✓	b	b
Thailand	✓	✓	✓	✓	✓	✓
Viet Nam	✓	✓	✓	✓	✓	b

Lao PDR = Lao People's Democratic Republic.
[a] Includes Old Age, Disability, and Survivors; Sickness and Maternity; Work Injury; Unemployment; and Family Allowances. In some countries, the rate may not cover all of these programs. In some cases, only certain groups, such as wage earners, are represented. When the contribution rate varies, either the average or the lowest rate in the range is used.
[b] Includes the contribution rates for other programs.
[d] Contributions are submitted to a ceiling on some benefits.
✓ program available.
Source: Social Security Administration (2008).

Malaysia, Singapore, and Viet Nam. As contributions are statutory requirements, they impact the cost of labor and help determine the extent of benefits that can be provided.

In most developing Asian countries, the coverage of pension systems varies between 10% and 35% of the labor force. The higher income Asian countries have, consistent with international evidence, higher coverage. Even in these counties, an increasing proportion of the workforce (about 25%) does not enjoy the kind of long-term employer–employee relationships that provide pension, healthcare, and other benefits.

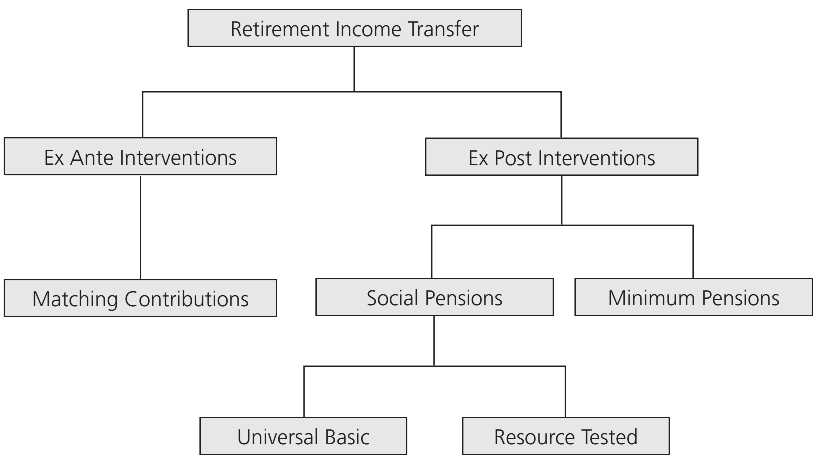
In Southeast Asia, there has been increasing interest in retirement income transfer programs, which do not necessarily depend on formal sector employment and/or contributions to the pension fund. The figure provides a taxonomy of such income transfers. The relative roles of "social pensions" (universal or resource-tested), matching contributions, and social assistance are now extensively debated in policy circles and these mechanisms are increasingly being adopted in many Southeast Asian countries. Their effectiveness and sustainability will, however, depend on strengthening fiscal positions to finance them and improving government service delivery mechanisms to ensure that they are well targeted.

Table 3. Contribution Rates for Social Security Programs in Selected Southeast Asian Countries, 2008 (%)

Country	Old Age, Disability, and Survivors			All Social Security Programs [a]		
	Insured Person	Employer	Total	Insured Person	Employer	Total
Brunei Darussalam	5.0	5.0	10.0 [h]	5.0	5.0 [f]	10.0
Indonesia	2.0	4.0	6.0	2.0	7.0 [f]	9.0
Lao PDR [d]	4.5 [b]	5.0 [b]	9.5 [b]	4.5	5.0	9.5
Malaysia [d]	11.5 [b]	12.5 [b]	24.0 [b]	11.5	13.8	25.3
Philippines [d]	3.3 [b]	7.1 [b]	10.4 [b]	4.6	8.3 [f]	12.9
Singapore [d]	20.0 [b]	14.5 [b]	34.5 [b]	20.0	14.5 [f]	34.5
Thailand [d]	3.4 [b]	3.4 [b]	6.9 [b]	5.0	5.2	10.2
Viet Nam [d]	5.0	11.0	16.0	7.0	18.0	25.0

Lao PDR = Lao People's Democratic Republic.
Rates are percentages of wages.
a Includes Old Age, Disability, and Survivors; Sickness and Maternity; Work Injury; Unemployment; and Family Allowances. In some countries, the rate may not cover all of these programs. In some cases, only certain groups, such as wage earners, are represented. When the contribution rate varies, either the average or the lowest rate in the range is used.
b Includes the contribution rates for other programs.
c Government pays the total or most of the cost of family allowances.
d Contributions are submitted to a ceiling on some benefits.
e Government pays the total cost of most programs from general revenues.
f Employers pay the total or most of the cost of work injury benefits.
Source: Social Security Administration (2008).

Taxonomy of Retirement Income Transfers



Source: Roballino and Holzmann (2009).

4. Strengthening Social Protection Systems

The potential for strengthening social protection systems in Southeast Asia is considerable. The goal should be to construct a multitiered system, involving (1) a mixture of contribution by employers, employees, and (in selected cases) the government; (2) noncontributory schemes; (3) schemes by the voluntary not-for-profit sector, both domestic and international; (4) family and community support; and (5) labor market flexibility and tax regulations that permit elderly people to meet a small but not insignificant proportion of their retirement needs through paid economic activity (including household production). The relative weight of each tier will depend on the specific context, capabilities, and objectives of the country.

Among the key challenges, the most significant are extending the coverage of social protection programs and improving program benefits in a manner that is sustainable over the long term. The following avenues could strengthen social protection systems in Southeast Asia. The importance of each avenue will differ from country to country, but all countries will need to combine these avenues in accordance with their priorities and capabilities. The task of strengthening social protection systems should be approached from a medium-term perspective as short-term fixes and ad hoc measures are likely to be counterproductive. A well-considered strategy with appropriate planning and implementation focus will be needed.

Avenue 1: Modernizing and Professionalizing Formal Social Security Organizations in Performing Core Functions

Each provident and pension fund must perform five core functions with a reasonable degree of competence and efficiency (Ross 2004): (1) reliable collection of contributions, taxes, and other receipts (including any loan payments in the security systems); (2) payment of benefits from each scheme in a timely and correct way; (3) ensuring of good financial management and productive investment of provident and pension fund assets; (4) maintenance of an effective communication network, including development of accurate data and record keeping mechanisms to support collection, payment, and financial activities; and (5) production of financial statements and reports that are tied to providing effective and reliable governance, fiduciary responsibility, transparency, and accountability.

Social security organizations of several Asian countries, such as Malaysia, the Philippines, and Singapore, have been making increasingly sophisticated use of information technology to improve administration and compliance efficiency and to generate management information systems that are conducive to better decision making.

Countries such as the People's Republic of China, Malaysia, and Thailand have become more aggressive and professional in investing social security funds. There is also greater willingness to diversify investment risks geographically, e.g., through investment internationally. Some countries, such as Malaysia and Thailand, are diversifying their investments among asset classes. These initiatives could lead to higher returns, though risks are also increased.

For the low-income countries—Cambodia and the Lao People's Democratic Republic—the priority should be to build capacities of their provident and pension fund organizations to undertake the core functions just noted more efficiently. Realizing the limitations of their financial and capital markets, relatively conservative investment policies are warranted. Greater emphasis on record keeping functions and on reducing administrative and compliance costs merit serious consideration.

Avenue 2: Parametric and/or Systemic Reforms of Some Components of Systems (such as civil service pensions)

Many of the provident and pension fund programs in Southeast Asia were established in pre-globalization and pre-cold war times. The designs of these programs do not reflect the current tendency toward reduced fertility and longer life expectancy. They also do not fully reflect developments in financial and capital markets, and changing labor market dynamics.

In pension economics, there is a "tyranny of small numbers" where a seemingly minor change, such as in life expectancy of the beneficiaries of a provident or pension scheme or in the real rate of return credited to members' accounts, could have a disproportionately large impact on retirement income security.

The foregoing observations are particularly relevant for the civil service pension schemes in Southeast Asia. With few exceptions, the detailed provisions of these schemes have not been rationalized to reflect the new environment. For example, longer life expectancy suggests that the age at which the members should become eligible for full pensions should be increased. However, in many countries, such as Indonesia and Malaysia, the retirement age for civil servants remains between 55 and 65 years, with lower retirement age for women (for example, in Viet Nam) even thought their life expectancy, on average, is higher.

There are also examples of parametric reforms in other countries in the region. Singapore has introduced a deferred annuity scheme called CPF Life to help address the longevity risk. Several countries, such as Japan, Malaysia, and Singapore, are encouraging retired individuals to be at least partly active in the labor market through a variety of measures. Many countries, such as India and the Philippines, are tightening up on preretirement withdrawals from their provident and pension schemes. This will ensure that the power of compound interest is harnessed for a longer period.

India, the Republic of Korea,[2] and Singapore are experimenting with converting housing equity into retirement income streams. The impact so far has been limited.

Avenue 3: Using Different Types of Retirement Income Transfers, Which do not Entirely Depend on Formal Labor Market Relationships

These include social pensions and co-contributions by the state. For poverty alleviation, social assistance targeted at poor people in all age groups may be needed. The country papers presented at this Regional Conference provide several examples.

Thailand's 30-Baht Scheme for healthcare (introduced in 2001) has been continued and expanded with greater state support (Damrongplasit and Melnick 2009). The stimulus packages of several countries in Asia include a significant social assistance and retirement income transfer component (UNDP 2010).

Singapore has implemented one-off cash payments to citizens' provident fund accounts. The Community Development Councils provide some social protection to the indigent people, however this is means tested. The Philippines, too, has implemented cash transfer programs for the poor.

Other Avenues

Countries such as Malaysia, the Philippines, and Thailand are encouraging occupational private pension plans and/or individual retirement accounts to broaden the sources of retirement financing and risk sharing.

Indonesia is encouraging the linking of pension with microfinance. Policy makers hope that this will also help enhance financial inclusion and strengthen social cohesion. In some countries, such as Japan and Singapore, there is recognition that human

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2 The Financial Services Commission in the Republic of Korea has recently announced intentions to ease conditions for the reverse mortgage subscription scheme. Currently, people age 65 or older, with only one home worth W900 million or less, can provide their home as collateral to the Korean Housing Finance Corporation or local banks in return for lifetime monthly payments. The Financial Services Commission is considering expanding the program to people aged 60 or 55.

capital has similarities with a financial instrument, such as a bond, which could enable members to earn part of their retirement needs by participating in paid economic activity even during retirement. There is a strong case for other countries, particularly the middle-income countries, to consider innovation along this avenue.

5. Directions for Future Research

Civil Service Reform. In some countries, particularly countries that are not in the high-income category, reforms of their civil service pension schemes have received relatively little attention. A disproportionate share of the formal sector labor force is in the civil service in these countries, and their pension costs in relation to gross domestic product are relatively large when compared with their share in the labor force. Thus, undertaking parametric and systemic reforms in the civil service pension schemes merits serious consideration in these countries.

Structuring the Payout Phase. Most countries in the region have defined contribution schemes for retirement income provision. Some of the schemes are mandatory, such as in Indonesia, Malaysia, Singapore, and Thailand, while some of the schemes are voluntary, for example in Brunei Darussalam and Cambodia. The expectation is that the share of provision by individuals in their total retirement income will increase. The emphasis in design has been on the accumulation phase, when the members are working and contributing to their retirement income. However, the design of the payout phase has not received due attention. Thus, in Indonesia and Malaysia, the national provident fund members are permitted to withdraw their accumulated balances as a lump sum.

Delivery Mechanisms for Retirement Income Transfers. In designing and implementing retirement income transfers from the budget, it is essential that "Type 1 and 2" errors are minimized.[3] In some countries, such as Indonesia, the static nature of the definition of the eligible low-income households exacerbates the severity of the two types of errors. There are strong indications that poor health and associated costs could lead to considerable changes in the distribution of households according to income. In particular, severe illness of the main income earner could push even middle-income households below the poverty line if there is inadequate health insurance coverage.

[3] When a hypothesis is inappropriately rejected it is called Type 1 error, or when one inappropriately fails to reject the hypothesis, this is called a Type 2 error.

In several countries, for example Indonesia and Viet Nam, constructing more efficient delivery mechanisms for retirement income transfers remains a challenge. Such cases may lend themselves to more decentralized experimentation with mechanisms that may deliver retirement income transfers with greater effectiveness. A comparative study of the innovations in this area should have a high priority. It would also be useful to analyze the implications of different designs of retirement income transfers (including those involving "co-contributory" schemes being implemented in Thailand) have for the incentives to participate in the schemes.

Financing Healthcare. As many of the countries in the region will experience rapidly aging populations and relatively low incomes, financing health expenditure for an increasingly aged population will be a major public policy challenge. The role of the state in delivering healthcare services, provider payment reform, and an appropriate financing mix that reflects the priorities and fiscal capacities of each country needs to be examined with greater attention. There is increasing recognition of the role of community-based health insurance schemes in Indonesia and Viet Nam. However, scalability and universality of these community-based schemes is a challenge. As in pensions, healthcare economics and finance are subject to the tyranny of small numbers where a seemingly small change, such as in life expectancy, can cause a disproportionate impact on a government's health budget.

Developing Databases and Research Capabilities. The absence of robust databases for actuarially fair pricing of health insurance and retirement products is a limiting factor in many Asian countries. The availability and quality of civil records regarding births, deaths, and other matters are essential for effective social pension programs. Many provident and pension fund organizations have not coordinated with other government and nongovernment third parties to keep track of potential new members, for example when a new enterprise is registered. This must be addressed, particularly in countries with large and heterogeneous populations with significantly differing morbidity and mortality patterns, such as Indonesia and Viet Nam. Measures to enhance indigenous research capacity in social security are also urgently needed.[4]

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4 The Philippines, through its Social Security System (SSS) database, SSSNet services provides a good example of how information systems can be used for better coverage of the workers, including overseas workers. A total of 779 large employers with over 420,000 employees are registered users of the SSSNet. Payments remitted through the SSSNet comprise almost 11% of the SSS's monthly bank collections. Prior to the use of the SSSNet, it took an average of 3–6 months to post the monthly contributions to members' individual accounts. The process has now been sped up to just 2–3 days. This, in turn, has resulted in a shorter processing time for benefit and loan applications, as well as fewer claims rejected due to insufficient contributions having been recorded.

Summary. There is a strong case for the ASEAN Social Security Association to be a forum for comparative research based on empirical evidence. The region needs a disaggregated and robust mortality and morbidity database, enhanced professionalism in carrying out the core functions of provident and pension fund organizations, and strengthened indigenous research capabilities of member countries.

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PART IV

Health Insurance Initiative

A. Social Health Insurance in Asia and the Pacific

Dorjsuren Bayarsaikhan

1. Introduction

Several countries in the Asia and Pacific region developed social health insurance (SHI) while adapting the principles of "social solidarity" and mandatory insurance to their country-specific socioeconomic environment. (Social solidarity is the integration of a society or group of people, considering their social values and the consequences of integration.) Japan and the Republic of Korea have been developing SHI for many years. In the 1970s, Australia and Indonesia introduced compulsory health insurance—known as Medibank and Askes, respectively (WHO 2005b). India and Thailand also started medical benefit schemes for civil servants and formal sector workers. Since the 1990s, the People's Republic of China (PRC), Mongolia, the Philippines, and Viet Nam have introduced SHI as part of their health financing reform. SHI is in the early stages of discussion and development in Cambodia, the Lao People's Democratic Republic (Lao PDR), the Federated States of Micronesia, and Samoa. Recently, the Fiji Islands and Malaysia began to explore an SHI to supplement their tax-based financing systems.

SHI can play an important role in financing health systems through equitable contributions, providing financial protection by pooling risks and funds, and thus contributing to national health. This paper discusses the development of SHI in terms of social health protection and universal coverage in developing countries. It addresses some of the challenges to and strategies for increasing population coverage, health insurance benefits, and pooling to minimize healthcare costs to individuals. The paper discusses the need to integrate and merge fragmented social health protection schemes where necessary to increase national coverage, access, social health protection, and the effectiveness of aid. This often requires strong government leadership.

2. Current Situation

All social insurance schemes have legal obligations to provide defined health services to their contributing members, whose health risks and contributions are pooled under a single or multiple funds. The role of SHI in health system financing varies from one country to another. National health accounts data for 2007 show that the share of SHI as percentage of total health expenditure in the World Health Organization (WHO) Western Pacific Region ranges from 8% in the Philippines to 64% in Japan (WHO 2009b).

The history of the development of SHI in the Asia and Pacific region suggests that a mixture of economic, social, and political agendas motivated the introduction of SHI at different times. Primarily, SHI schemes were designed to protect industrial workers from sickness-related risks, as in Japan and the Republic of Korea. SHI coverage and medical care benefits were then expanded to other population categories such as government employees and civil servants. Indonesia, the Philippines, and Thailand developed and managed separate insurance schemes for private employees, workers, government employees, and civil servants. The Federated States of Micronesia introduced compulsory health insurance for public servants, which is open for others to join. Governments considered SHI to be an alternative financing option to mobilize additional revenues for health systems from government and other sources, as a mechanism to increase people's participation in financing healthcare. This was the major motive for introducing SHI in transition economy countries such as Mongolia and Viet Nam (Bayarsaikhan 2007).

Under a centralized economic management system, governments were responsible for financing and delivering healthcare. However, macroeconomic imbalances and high inflation during economic transition reform periods resulted in sharp economic declines and large budget deficits that created difficulties for maintaining free healthcare. Hence, SHI was an attractive option for policy makers in most transition economy countries. Some governments introduced user fee policies in public health facilities and encouraged the private sector to increase market elements in financing and delivering healthcare. However, poorly regulated user fees and private practices not only limit healthcare coverage, access, and equity, they also undermine government efforts to improve the population's health, due to the impact of excessive health payments on poverty. Country-specific studies show that many low-income families in Asia have been pushed into poverty because of catastrophic health payments (Bonu et al. 2009). This was another motive for considering SHI as a social health protection mechanism.

The national social health protection frameworks in Cambodia and the Lao PDR include mandatory SHI for the formal sector, community-based health insurance for the rural and self-employed populations, and social safety nets in the form of health equity funds for the poor and vulnerable. Some Pacific island countries, such as the Fiji Islands and Samoa, provide healthcare benefits in addition to the pensions provided through their contributory national provident funds. This new demand-driven initiative is complementary to national efforts to improve their population's health with increased and effective public financing inclusive of taxation, SHI, and external support. Many countries support social protection to increase and expand population coverage and access to necessary social services, including healthcare, especially among the poor and disadvantaged.

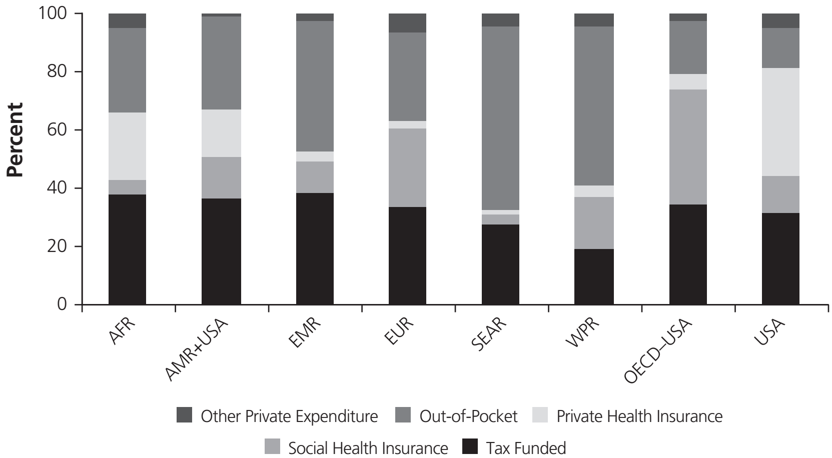
3. Social Health Protection

The International Labour Organization (ILO) estimates that 80% of the world's people do not enjoy a set of social guarantees that allows them to deal with life's risks (ILO Social Protection website). In 2009, the United Nations launched the Social Protection Floor Initiative based on evidence that social protection contributes to economic growth by raising labor productivity and enhancing social stability (UN 2009). Social protection, which is an investment in social and economic development, focuses on ensuring access to essential social services such as health and education. Access to such services may be facilitated in many ways with contributory and non-contributory funding arrangements, such as social transfers in cash and in kind to support minimum incomes and livelihoods for poor and vulnerable populations.

Social health protection is a key focus in the Social Protection Floor Initiative. Social health protection aims to increase coverage so that all populations have access to health services and to provide financial protection against health-related impoverishment. Financial protection through SHI can help individual households avoid burdens of excessive direct out-of-pocket (OOP) payments that often have catastrophic outcomes in low-income developing countries. As shown in Figures 1 and 2, the level of OOP health spending in Asia and the Pacific is high compared with that in other WHO regions—it is over 40% of total health expenditure in the Western Pacific Region and over 60% in the South-East Asia Region.

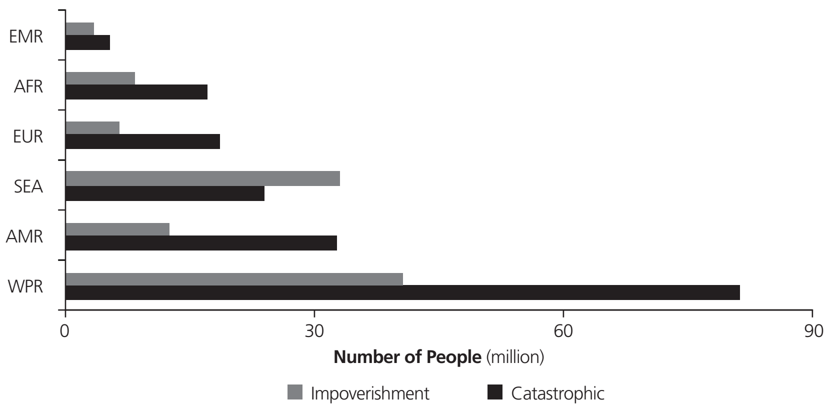
WHO estimates suggest that, in 2005, in the WHO Western Pacific region about 80 million people faced catastrophic health expenses and about 50 million people were impoverished because of OOP associated with poor health (Xu et al. 2007). The recent financial crisis increased the vulnerability because of very fragile household income bases in the Asia and Pacific region. Although millions of people have been lifted out of poverty, as many as 900 million people still subsist on less than $2 per day (ADB 2009).

Figure 1. Financing Health Expenditure



AFR = African Region, AMR = Americas Region, EAR =East Asia Region, EMR = East Mediterranean Region, EUR = European Region (includes OECD countries), OECD = Organisation for Economic Co-operation and Development, SEAR = South-East Asia Region, USA = United States, WPR = Western Pacific Region.
Sources: National Health Accounts Unit, WHO; WHO (2009a).

Figure 2. Impact of Health Expenditure



AFR = African Region, AMR = Americas Region, EMR = East Mediterranean Region, EUR = European Region, SEA = Southeast Asia, WPR = Western Pacific Region.
Sources: National Health Accounts Unit, WHO; WHO (2009a).

Social health protection is part of the solution to improve coverage and access to essential health services. Universal coverage is attainable by providing effective coverage and protection to the poor and disadvantaged. Without universal coverage, large numbers of households will be pushed further into poverty because of poor health and catastrophic health payments. Adequate policy guidance and support for strengthening prepayment and risk pooling financing mechanisms through taxation, social and community health insurance, other social assistance, and safety net programs are needed to attain universal coverage. This is a relatively new but essential task for all governments committed to universal healthcare coverage.

4. Universal Coverage

Universal coverage of healthcare aims to assure that everyone has access to appropriate promotive, preventive, curative, and rehabilitative healthcare when they need it, and at an affordable cost (WHO 2005a). Thus, universal coverage implies equity of access and financial risk protection. The move toward universal coverage will require that a major source of health financing comes from prepaid and pooled contributions rather than from user fees and other direct payments. The two main options for prepayment financing are general taxation and SHI.

Many Asian and Pacific countries can support universal health coverage by using prepayment and pooled financing options for healthcare. Many governments spend an unacceptably low amount on health relative to their income. Consequently, many health systems rely heavily on OOP as their main source of income. Most developing countries lack adequate financial protection and safety nets for health. As a result, increasing numbers of low-income households are pushed into poverty by health payments.

In September 2009, all member states of the WHO Western Pacific region endorsed the Health Financing Strategy for the Asia Pacific Region (2010–2015), which focuses on universal coverage and access to quality health services to achieve better health outcomes. A novel component of the strategy is its inclusion of four interrelated target indicators to support universal coverage. Together, the indicators encourage governments to set their own targets to move toward, monitor, and evaluate their transition to universal coverage. The targets include reducing OOP payment below 30%–40% of total health expenditure, ensuring total health spending is at least 4%–5% of gross domestic product, covering over 90% of the population by prepayment and risk pooling schemes, and attaining nearly 100% coverage of the poor and vulnerable population with social assistance and safety net programs (WHO 2009a).

There is increasing evidence that population health status improves with a strong government commitment and role in regulating, providing, and financing health services that ensure near universal coverage (World Bank 2006). In many European countries, universal coverage is attained through a combination of tax-based financing and SHI, which accounts for more than 5% of gross domestic product (Mossialos et al. 2002). For various reasons, health financing systems require individuals to contribute to their healthcare, but the payments should be small compared to total health expenditure. Experience in member countries of the Organisation for Economic Co-operation and Development (OECD) suggests that universal coverage is attainable with OOP below 20% of total health expenditure (Docteur and Oxley 2003).

5. Attaining Universal Coverage under Social Health Insurance

Attaining universal coverage under SHI is an important policy objective for countries that accepted the principle of risk sharing and fund pooling. The target for SHI is to cover the entire population's health risks. However, some population groups or health services need to be funded by other sources, including general taxes, external grants, and individual households. It is important to ensure that all financing arrangements support national health policy and targets such as the attainment of universal coverage.

In the Asia and Pacific region, OOP must be reduced to move toward universal coverage, and SHI is an option to achieve this. Introducing contributory national health insurance can fundamentally change the financing and service delivery practices of a country's health system. Well-designed and well-managed insurance schemes can effectively translate direct OOP payments into prepayments through health insurance contributions. SHI separates the provision and financing functions and plays an important role in the purchasing of health services for contributing members. The purchasing power of SHI is essential to improve the quality and delivery of health service.

Several factors affect the development of health insurance, including the level of income, the population's willingness to accept SHI, the structure of the economy, the distribution of the population, and the government's administrative and stewardship capacity (Carrin and James 2004). The contributory nature of SHI often excludes the coverage of the poor and vulnerable, although they have the greatest need for health services. Therefore, the contribution of health insurance to achieving the objectives of equity and universal access to healthcare must be backed by adequate public funding and strong government stewardship (Oxfam 2008). This raises the question as to whether SHI is a feasible option for low-income developing countries with limited income and employment in the formal salaried sector. In addition, such countries may have underdeveloped health sector infrastructure and limited management and administrative capacities.

Experience in Asia and the Pacific is that SHI is a feasible option for low-income developing countries. However, developing SHI and attaining adequate insurance coverage requires country-specific policy and strategies based on careful assessment of how to achieve it. Mongolia introduced SHI in 1994. Strong government commitment and targeted contribution subsidies for low-income and vulnerable populations ensured near universal coverage within a short period of time. Currently, almost 80% of the population is covered by SHI and all are protected from high financial burdens related to medical care costs, including catastrophic illnesses, although challenges remain (Bayarsaikhan, Kwon, and Ron 2004). Similarly, strong political commitment and government financial support for the poor has substantially increased health insurance coverage in the PRC, the Philippines, and Viet Nam in recent years.

Extending SHI coverage to informal economy workers is an important step. There is increasing consensus that, for expanding health insurance coverage to workers in the informal economy, mandatory enrollment is more effective than voluntary enrollment. Two interrelated strategic approaches may be helpful in the drive to attain universal coverage. First, the population groups subject to mandatory enrollment—that is, all formally employed people—must be expanded. Second, the population groups whose enrollment needs to be supported should be encouraged through some form of subsidy (PhilHealth et al. 2006). Evidence suggests that a full subsidy for the poor and a partial subsidy for workers and self-employed people engaged in the informal economy are necessary to increase health insurance coverage.

Political commitment and government support for extending health insurance coverage to the informal sector is increasing in countries such as the PRC. The transformation of the economy from a centrally planned economy to a market economy resulted in a sharp decline in rural health coverage, from 85% in the 1970s to 10% in the mid 1990s. Since 2003, the government has revamped and expanded its new rural cooperative medical scheme and initiated a medical assistance program for the poor with combined subsidies from central and provincial governments. Now, the government-sponsored scheme covers 842 million rural residents—almost 95% of the PRC's rural population (ADB 2002). The national target is that by 2010, every citizen in the PRC will be covered by medical insurance and a basic health system will be established to provide quality health services for all by 2020.

In Thailand, the road to universal coverage started in 1997 by referring to the Constitutional right of Thai citizens to equal access to healthcare and defining the role of public and private sectors in providing health services. Three main factors led to universal coverage reform. Providing access with the "30-baht scheme" was a political agenda and it was supported by civic movements, health policy makers, and researchers who studied the feasibility and design of universal coverage (Damrongplasit and Melnick 2009). Following this reform, Thailand adopted the 30-baht scheme—an SHI scheme—covering both the formal salaried and informal sectors. The 30-baht scheme reduced the number of uninsured people from 16.5 million, or 26.6% of the population in 2001, to 2.9 million, or 4.4% of the population in 2005. Preliminary evaluation suggests that the program succeeded in making the coverage universal and improving access to healthcare. Such country experiences suggest that only strong government support and high levels of subsidization increase coverage, especially among workers in the informal economy.

Some countries pilot tested voluntary health insurance schemes for specific population groups, such as school children (in Viet Nam) and community-based health insurance (CBHI) for urban and rural self-employed people (in Cambodia, the Lao PDR, and in some provinces of the Philippines) to complement nationwide healthcare coverage. The interest in CBHI is growing as a strategy to improve people's access to healthcare under certain circumstances (Carrin, Waelkins, and Criel 2005). The CBHI schemes in the region are recently introduced and their performance is modest. However, they have some important design features. These include target population, affordable contribution, family coverage, risk pooling, and ambulatory and in-patient care with no or minimal co-payments.

Population coverage is an important indicator to measure and assess the move toward universal coverage. Greater population coverage is attainable with affordable contributions. The highest possible coverage, especially full inclusion of the high-income population group in the common pool, is desirable for effective risk sharing and pooling of funds. Highly paid and more educated members in a pool also increase the pressure on health insurance management to improve the quality of health services and increase the transparency of their management. However, population coverage alone does not guarantee universal coverage. Healthcare coverage can be limited even for the insured if the insurance scheme requires high co-payments. Therefore, effective access and potential use of health service benefits by all contributing members must be considered.

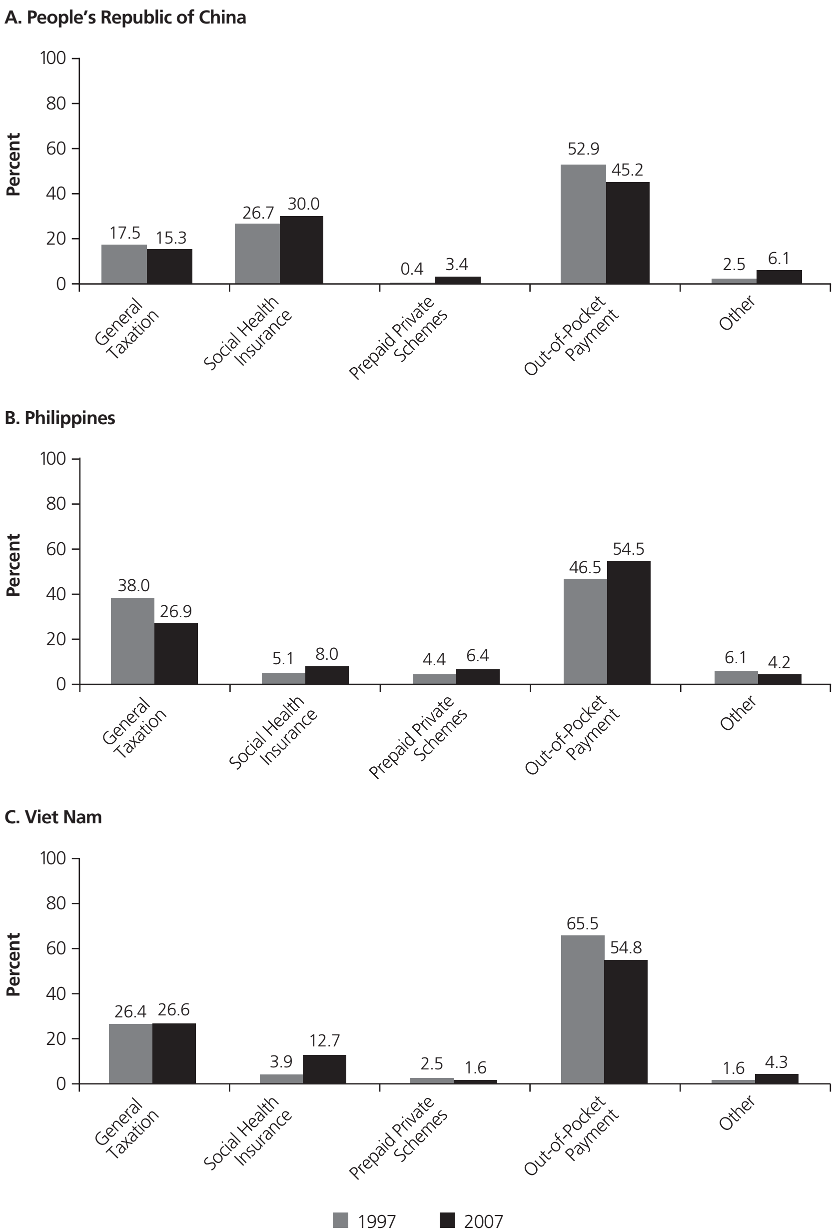
Technically, population coverage is described and discussed as "breadth of coverage" (WHO 2008). Health insurance coverage has increased significantly in a number of countries. In the PRC, it increased from 23% in 2005 to 80% in 2007; in the Philippines, from 55% to 77%; and in Viet Nam, from 34% to 42%. Mongolia has achieved almost 80% coverage and the government is exerting efforts to reach the remaining 20% of the population that is not registered for the premium subsidy.

Other important dimensions of coverage include the benefits provided, known as "depth of coverage," and the types of healthcare costs covered by health insurance, known as "height of coverage." Health insurance benefits should offer both ambulatory and in-patient healthcare services to meet local needs. Countries select from various options when revenues are limited. Country experiences suggest that health insurance benefits focused only on ambulatory care are inadequate to cover healthcare costs. If benefits are limited to in-patient care, this inhibits opportunities to manage health problems earlier and with low-cost interventions. Therefore, ensuring an appropriate mix of healthcare benefits is important in designing and implementing health insurance schemes. Some countries have started health insurance with balanced but narrow benefits accessible by a large share of the population. Then the coverage may be gradually expanded to offer a reasonably comprehensive benefit package as health insurance revenues increase.

SHI expenditure as a percentage of total health expenditure and health insurance benefit spending per contributing member are indicators for assessing the scope of health service benefits provided through SHI ("depth of coverage"). Figure 3 shows trends in major health financing mechanisms, including general taxation, SHI, and OOP financing in the PRC, the Philippines, and Viet Nam during 1997–2007. The figure shows that the role of SHI in total healthcare financing is increasing in all three countries because of extended population coverage. The increase was almost 4% in the PRC, 3% in the Philippines, and 9% in Viet Nam. OOP has decreased except in the Philippines. OOP expenditure in the PRC is 45% and in the other two countries it is about 55% of total health expenditure. Now, all countries aim to extend the coverage of their populations and expand health insurance benefits, but they also aim to cover substantial costs of healthcare by pooling risks and sharing funds. For many low-income developing countries to reach the regional health financing targets in the near future, they need to reduce the level of OOP in their total healthcare expenditure.

The new initiative on social protection with a focus on universal coverage widens the opportunity to increase SHI and safety net coverage among the poor and disadvantaged. Viet Nam adopted the National Health Insurance Law in November 2008, which came into effect on 1 July 2009. Nationwide implementation of this law will result in extending health insurance coverage to 17 million poor people, whose contribution is expected to be fully subsidized by the government. This policy decision did not come overnight—it was the result of a long journey. Like other low-income developing countries, Viet Nam faced a shortage of funding for its healthcare system in the late 1980s.

Figure 3. Trends in Social Health Insurance Benefit Spending in the People's Republic of China, the Philippines, and Viet Nam



Note: Percentage of total expenditure on health by main contribution mechanism.
Source: WHO Western Pacific Region (2010).

Starting in 1989, the government introduced user fees at public healthcare facilities. However, the fees made healthcare unaffordable for the poor and vulnerable. In the mid 1990s, the government introduced several policies, including fee exemptions for the poor, to mitigate the negative impacts of the user fee policy. However, the effectiveness and the coverage of the exemption policy was limited. In 2002, the Prime Minister issued a decree that entitled the poor to free healthcare at public facilities. This was linked financially to another social health protection program, the Health Care Fund for the Poor, which was established in every province and city with support from the state budget and other sources, including donors. The pro-poor initiative was deepened and in 2005 the government issued another decree to include the poor in the national health insurance program. During 2006–2009, some provinces made arrangements with SHI to cover the poor while others still used the Health Care Fund for the Poor to provide direct reimbursement to providers. Thus, both coverage and benefits have varied across provinces (MOHVN 2008). Following a series of workshops and debates, the government made a bold decision to develop a national health insurance law to make the coverage compulsory for the poor. With this policy, all the poor can have free and equal benefits when they seek needed care in public health facilities.

In Cambodia, protecting the poor and vulnerable is an important policy focus. Currently, two-thirds of total health expenditure consists of OOP at the time of illness. A large share of the OOP goes toward self-medication and private services. In 2000, Cambodia introduced health equity funds (HEFs) to fund fee exemptions for the poor and provide access to healthcare. Now the HEFs operate in more than half of all health districts in Cambodia. A recent study shows that, when the HEFs' purchasing function is fully and effectively managed, they contribute to reducing inequity, increasing access for the poor, and building a system of social protection. Where communities are actively engaged in policy dialogue and managing the HEF, its impact is high (Bigdeli and Annear 2009). Discussion in Cambodia is ongoing regarding integrating the HEF initiative with the CBHI and other SHI schemes to move toward universal coverage by developing a single national social health protection policy framework.

Health insurance through prepayment and risk pooling is recognized as a poverty preventing intervention in the Lao PDR for two reasons. One is to reduce and avoid catastrophic household expenditure on health and the second is to encourage access to and the use of medical servcies that can improve health and therefore improve economic productivity. In this context, the Lao PDR introduced parallel health insurance schemes for civil servants, private sector workers, the self-employed, and a social safety net known as HEFs for poor people living below the national poverty line. The four schemes are briefly described in the table.

Status of Social Health Insurance and Protection in the Lao People's Democratic Republic, 2008

	State Authority for Social Security (SASS)	**Social Security Office** (SSO)	**Community-Based Health Insurance** (CBHI)	**Health Equity Fund** (HEF)
Target Population	Civil servants and dependents	Private sector workers and dependents	Self-employed and informal sector people	Families below the poverty line
Ministerial Authority	Ministry of Labour and Social Welfare	Ministry of Labour and Social Welfare	Ministry of Health	Ministry of Health
Contribution	4% of salary shared by employer and worker	2.2% of salary shared by employer and worker	Flat contribution by family size and place	No contribution
Coverage, Share of Target Population	23%	21%	1.5%	2%

Source: Ministry of Health, Lao People's Democratic Republic.

The table shows that the highest coverage is achieved in the formal sector schemes, and others still have limited coverage. The low coverage under the CBHI and HEF is mainly because no direct government subsidies have been provided to support enrollment in these schemes. In the past, external donors provided funding to improve social health protection. Now, the government is revising its policy and is committed to increase coverage of its healthcare. One option under discussion is to merge the four schemes by setting up a national social health protection fund responsible for all population sectors. The government also realizes that a merger will be feasible with an increased government role and increased spending on health and targeted public subsidies for the people who need them. Nationally agreed policy consensus, strategy, and plans are expected to attract donor support and activity to build capacities in collaboration with national and international partners, thus improving aid effectiveness, as guided by the Paris Declaration and International Health Partnership work.[1]

Like many other mechanisms, SHI is evolving in the rapidly changing socioeconomic environment (Hsiao 2006). SHI is now recognized more as social health protection than as a health financing mechanism. Access to SHI is feasible not only for the

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1 "The International Health Partnership and related initiatives (IHP+) seek to achieve better health results by mobilizing donor countries and other development partners around a single country-led national health strategy, guided by the principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. The IHP+ was launched in September 2007 and aims to better harmonize donor funding commitments, and improve the way international agencies, donors, and developing countries work together to develop and implement national health plans" (IHP+ International Health Partnership and Related Initiatives website).

formal sector or developed countries, but also for developing countries and the informal sector. SHI does not focus only on curing diseases, but also on promoting health among it's members. Recent focuses on social health protection and universal coverage add value to the development of SHI by using integrated contributory and non-contributory mechanisms to attain better health outcomes.

6. Conclusion

No country relies on a single financing mechanism to deliver healthcare services for its entire population. Health insurance is a contributory health financing mechanism that is evolving under a rapidly changing socioeconomic environment. Country experiences suggest that developing countries can extend health insurance coverage through well-integrated mandatory, voluntary, and CBHI schemes. Recent focuses on social health protection and universal coverage provide new opportunities to discuss and broaden national and international efforts and effective collaboration to improve healthcare coverage, access, equity, and financial protection. Population coverage is essential but effective access to health service benefits and pooling of healthcare costs are needed to move toward universal coverage.

To achieve universal coverage requires integrated and coordinated effort to support national health policies and strategies to improve the health of populations. Developing nationally agreed policies, strategies, plans, and action frameworks to provide adequate healthcare coverage for all and ensure effective access to those who are in need, especially the poor and vulnerable, is essential for advancing SHI and safety nets in the Asia and Pacific region. Government commitment is critically important to support and subsidize the poor, low-income, and vulnerable populations, especially people who are engaged in the informal sector. Challenges exist, but they are solvable if all efforts aim to increase social health protection and universal coverage through innovative approaches suited to rapidly changing socioeconomic environments.

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B. Social Dialogue and Consensus Building to Strengthen Social Health Insurance in Mongolia

Tsolmongerel Tsilaajav, Claude Bodart, and Odbayar Dorj*

1. Achievements of and Challenges for Social Health Insurance in Mongolia

Mongolia has been widely successful with introducing social health insurance (SHI) since 1993. Compared to other countries with a similar level of economic development, Mongolia did significantly better at reducing infant and child mortality, reducing of out-of-pocket expenses, and increasing the use of health services. Within 3 years, 90% of the population was covered by SHI. Among other things, this success story results from a continuing government commitment to healthcare, high level of subsidies to the vulnerable population, and political will to introduce a comprehensive SHI scheme in turbulent social and political circumstances during the transitional period.

However, 15 years after introducing SHI, it now faces challenges. The insured are increasingly dissatisfied with SHI due to their unmet needs and expectations regarding the quality of health services provided and benefits covered. The percentage of out-of-pocket expenses has increased considerably (amounting to 30% of total health expenditure), increasing the financial barriers to seeking care and to financial risk. Consequently, the population coverage rate fell from near universal coverage in the 1990s to 77.4% in 2007.

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* Presented by Claude Bodart.

Some important factors led to the current issues. Most important, perhaps, the institutional management of SHI suffers from notable inefficiencies, overlaps, and poor coordination among the actors in charge. For example, the roles and responsibilities of the stakeholders and policy committees involved (the Ministry of Health [MOH], Ministry of Social Welfare and Labor [MOSWL], State Social Insurance General Office, Social Insurance National Council, and Social Health Insurance Council) are not well defined and there are no clear mechanisms for monitoring the SHI or for sharing information and data. Moreover, the current State Social Insurance General Office is weak in terms of human resources and fails in its outreach to provide services to insurers, for example in monitoring the quality of services offered by providers.

2. Past Efforts to Reform and Causes of Failure

The government attempted myriad reforms, partly supported by international donors, to confront SHI issues. Between 1996 and 2006, the Citizen's Health Insurance Law was amended six times. These efforts were supported through technical assistance provided by international agencies such as the Asian Development Bank (ADB) and World Health Organization (WHO). For example, in 2001, the MOH organized a consensus meeting with WHO support to separate the SHI from the overall social insurance system. In 2005, at the national conference, through papers on health sector finance policy and strategy for developing social health insurance, proposals on the purchasing system to adopt in the Mongolian health financing system were discussed. Currently, the two principal purchasers of healthcare in the public health system are (1) the MOH, which has traditionally provided to hospitals direct budgetary support that is not directly linked to output; and (2) the health insurance funds, which reimburse most hospitals on the basis of case payments. However, because most hospitals are public, even if there is only one purchaser of their services, achieving effective purchasing (aimed at efficiency and accountability of the public health system) would remain difficult. While participants agreed that these issues needed immediate solution, no specific decisions and policy documents came out of the conferences and meetings. The lack of success with reforms was not predominantly the result of lacking technical expertise—Mongolia is well equipped with expertise in SHI, partly as result of many years of donor-funded technical inputs.

SHI reforms need to be facilitated by social dialogue and leadership. An analysis of the SHI situation in Mongolia showed that a crucial shortcoming is the absence of a well-defined policy making process (ILO et al. 2008). Reform initiatives, such as the currently proposed amendment to the health insurance law, appear ad hoc, fragmented, and without multistakeholder consultation. One of the most important factors in the lack of successful reform was unstable leadership in the reform process due to frequent changes in the government. In addition, the power struggle and poor coordination between the MOSWL (which favors an institutional arrangement whereby SHI remains part of social insurance) and the MOH (which favors separating SHI from social insurance and putting SHI under its umbrella) has been a major obstacle over the years. These vested interests created a situation where stakeholders, especially government authorities, became reluctant to formally commit to an effective social dialogue. Last but not least, the social dialogue among stakeholders lacked an effective mechanism and resources to support and sustain the process.

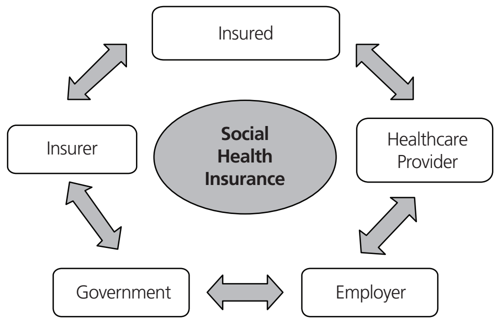
3. Why Use Social Dialogue and Consensus Building?

3.1. What is Social Dialogue?

Collaboration and dialogue have become important in international development cooperation, political economy, and state–business relationships in recent years. Partnerships involving public institutions and private commercial and civil society organizations underpin a growing number of initiatives addressing issues as diverse as HIV/AIDS, labor standards, obesity, corruption, and the delivery of public services (from health and education to traffic systems). An effective dialogue between state, civil society, and the private sector is an imperative that has increasingly replaced other forms of governance of public goods, such as centralized planning and regulation. The concept of social dialogue takes as its starting point the conviction that public policy problems cannot be easily addressed by a single organization or the public sector alone. In contrast, new and accelerating challenges for the public sector can only be solved in a partnership with civil society and the private sector (ADB 2009).

Social dialogue can be described as all types of negotiation, consultation, and exchange of information by seeking consensus among social partners such as representatives of governments, employers, workers, providers, insurers, and the insured on issues of common interest relating to economic and social policy. Successful social dialogue can be centralized at the national level or decentralized at the sectoral, regional, enterprise, or bargaining unit level. In the context of Mongolian SHI, social dialogue needs to be implemented among the MOH, MOSWL, Ministry of Finance, Confederation of Mongolian Trade Unions (CMTU), Mongolian Employers Federation (MONEF), healthcare providers, and other concerned parties (Figure 1).

Figure 1. Stakeholders in Social Health Insurance



Source: GTZ (2009).

3.2. International Best Practices

For the last two decades, social dialogue has played an important role in democratization and improvement of social and economic policies worldwide. In South Africa, tripartite social dialogue played a crucial role in ensuring a relatively smooth political and economic transition from apartheid to democracy and achieved notable results, particularly on labor market issues such as job creation. Social dialogue is enshrined in the treaty establishing the European Community and is promoted by the European Commission as an instrument for better governance and promotion of social and economic reforms. Social partners have been involved in the European Community's political processes as members of the Tripartite Social Summit for Growth and Employment. In Brazil in 2002, newly elected President Lula da Silva brought social dialogue back to the center of the political arena by introducing dialogue institutions, such as the Council of Social and Economic Development. The Council included a wide spectrum of representatives from civil society and employer and worker organizations and engaged heavily in the reform of the social security system. More recently, in the United States, President Obama places social dialogue at the heart of his "change agenda," trying to bridge the partisan divides in seeking bipartisan consensus and common ground on issues such as healthcare, energy, and education.

3.3. Why is Social Dialogue Important for the Reform of SHI?

Complex issues such as health insurance reform can no longer be covered by sectoral responsibilities or a single stakeholder. Reform decisions in health insurance are inherently complex and cumbersome. SHI policies affect every citizen as potentially everyone may fall ill. SHI reform processes are therefore followed closely by the general public and involve a large variety of actors and interest groups, the trade union federations (representing the insured population), the employers' federation (representing service providers), and government institutions. This complexity not only results in different views and interests, but also a very fragmented institutional landscape. Currently, SHI management lies in the hands of a multitude of government institutions (the MOH, MOSWL, and State Social Insurance General Office), and tripartite committees. The Social Insurance National Council and Social Health Insurance Council deal with a long list of technical issues that are highly specific, conflicting, and debatable.

Reform will only be successful if it is carried forward by a broad consensus of involved stakeholders. A comprehensive reform initiative needs to take the interests and perspectives of all stakeholders into account in order to create enough ownership and commitment for the initiative to be implemented successfully. This is particularly crucial for SHI, as it relies heavily on the confidence and awareness of the public as stakeholders. Therefore, SHI reform in Mongolia will only be successful if it is carried forward by a consensus among the insured, trade unions, employers, healthcare providers, government, and civil society.

Social dialogue can contribute to improved decision-making on health insurance. Social dialogue does not intend to replace government or take over its legislation powers. Instead it tries to give stakeholders a role in contributing to better decisions. Social dialogue can therefore stand at the forefront of whole-government transformation, as in the case of Brazil or President Obama's initiative to tackle the health insurance challenge in the United States.

3.4. Current Social Dialogue Opportunities in Mongolia

Stakeholders agree to social dialogue as the key instrument to jointly develop and implement SHI reform successfully. Dwelling on experience, stakeholders have been implicitly showing a common consensus to be involved in the social dialogue process in SHI reform. This was recognized and endorsed by participants at the meeting in Ulaanbaatar, which was held under the theme, "Strengthening the Capacity and Multi-Sector Collaboration to Improve Social Health Insurance in Mongolia." The meeting was organized under the initiative of the GTZ, International Labour Organization (ILO), WHO, and ADB consortium in April 2008. At that meeting, participants agreed that a sustainable social dialogue mechanism should be established to support the reform process.

Trade unions and employers associations have shown sincere enthusiasm and willingness to participate in the social dialogue approach. In Mongolia, the important social partners for SHI, such as the CMTU and MONEF, have been particularly supportive of social dialogue and consensus building in general and of health insurance specifically. They are active members of the three-party council on health insurance, the Social Health Insurance Council, which is the joint structure comprising government, employers, and the insured. The council functions as an oversight body on Mongolia's social health insurance system. Within the council, both the CMTU and MONEF have been calling for dialogue, discussions, and negotiations with government at various levels on many SHI issues.

Donors support the social dialogue process for SHI reform and have a common vision. To support the social dialogue process, the GTZ has initiated an independent expert group to facilitate and provide technical assistance to consensus building efforts for SHI in Mongolia. Since July 2008, the expert group has been providing technical support to various stakeholders, sustaining the social dialogue process. ADB, as the main partner for health in Mongolia, promotes the social dialogue process on SHI as well. ADB's support is directed at the Mongolian Parliament Social Policy Standing Committee, and technical assistance of the GTZ expert group focuses on high-level decision makers.

3.5. Successful Social Dialogue Needs Four Ingredients

To initiate and make social dialogue successful, it must be nourished, framed, and structured with four ingredients. To guarantee that social dialogue can start and work efficiently, international experience shows that having an official mandate and ownership, an organizational structure, a process, and incentives are most crucial (Figure 2).

Figure 2. Four Ingredients of Social Dialogue

Source: ADB (2009).

Social dialogue should be initiated by a clear official mandate. This is important to legitimize the dialogue, create a common understanding of SHI issues, and lay a common ground for all stakeholders involved to effectively engage in the reform process. The official mandate, which can be created either by law or by formal arrangements, should confirm the commitment of the stakeholders to actively contribute to the dialogue and seek consensus. To create an impact on decision making and ensure political support for the dialogue, the mandate should be endorsed and signed by all relevant stakeholders. In December 2009, the CMTU and MONEF jointly organized a stakeholders' meeting, inviting the government to formally commit to a social dialogue approach to further SHI reform issues and decision making.

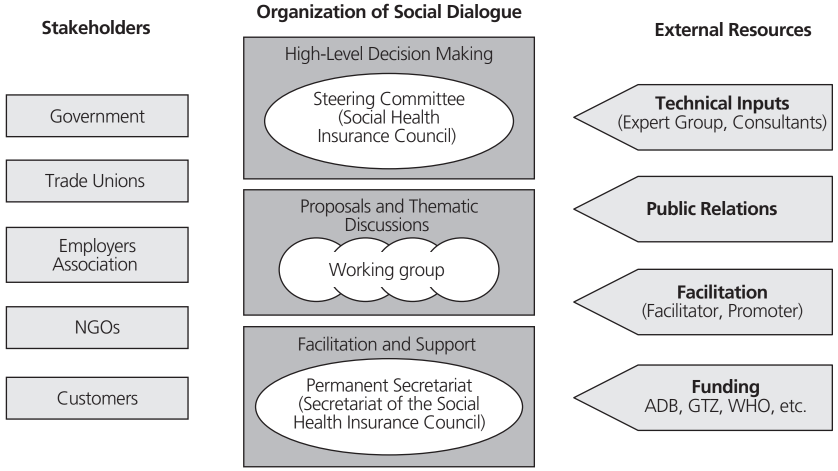
A functioning organizational structure, including equal representation of all stakeholders and clear distribution of tasks and responsibilities, is the key to the success of a social dialogue. A stable organization structure is important to provide regular communication and a continuing progress and follow-up on decisions and tasks. Ideally, four dialogue levels should be created:

- the steering level (responsible for verification and decision-making),
- the working level (responsible for technical discussions),
- the support level (concerned with preparatory and administrative work as well as facilitation of workshops), and
- the participation and awareness level (providing a forum for open public participation).
- In Mongolia, as shown in Figure 3, the main steering body and lead agency of the dialogue is the Social Health Insurance Council. At the working level, a multisector working group has been established under the Mongolian Parliament Social Policy Standing Committee. This group has worked with financial and technical support provided by ADB and GTZ.

A clear and sustainable process is necessary to maintain effective social dialogue. There should be a well-defined process plan for SHI reform through social dialogue, with a clear start and end and concrete objectives. Figure 4 shows the stakeholder plan for social dialogue to achieve the SHI reform policy and subsequent law amendments acceptable by the main governmental and social partners.

Every social dialogue needs sufficient incentives for all participants to actively and continuously engage in it. Incentives can include improved cross-sectoral knowledge; improved reputation and increased visibility within institutions; creation of new networks; and additional resources, such as money. For example, Mongolian stakeholders enhanced their cross-sectoral knowledge and reputation within their home institutions through workshops and recent study tours supported by ADB and GTZ.

Figure 3. Structure of the Social Dialogue Mechanism



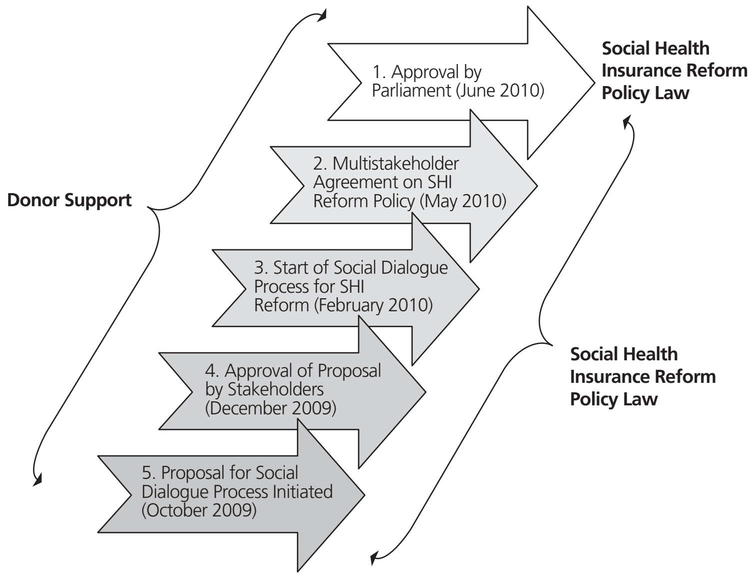
ADB = Asian Development Bank, NGO = nongovernment organization, SHI = social health insurance, WHO = World Health Organization.
Source: ADB (2009).

4. Recent Developments in the Sustainable Social Dialogue Process for SHI Reform in Mongolia

Social dialogue has become an important endeavor in SHI policy and decision making. For Mongolian stakeholders, social dialogue and consensus building has been important for the reform of SHI. Stakeholders have taken a serious approach and implemented several important steps in attempts to establish an effective social dialogue mechanism. The steps include creating formal commitment to and "ownership" of participation and involvement for policy making, capacity building of nongovernment stakeholders, and support provided to institutionalize the social dialogue process. As shown in Figure 4, the plan of action for SHI reform through the social dialogue process has been agreed among stakeholders.

Stakeholders are committing to participation and involvement in the SHI reform process. In October 2008, the National Tripartite Committee for Labor and Social Consensus was established among the government, CMTU, and MONEF as the formal consultation body and mechanism for social welfare and labor issues. To achieve a formal commitment among the main stakeholders for future policy and decision making on SHI, a memorandum of understanding was signed between CMTU and MONEF in December 2009.

Figure 4. Plan for Social Dialogue for Social Health Insurance Reform in Mongolia



SHI = social health insurance.
Source: Author.

Capacity building activities have been organized for nongovernment stakeholders. Sound technical knowledge is essential for an effective dialogue and discussion on complex SHI issues. Therefore, based on stakeholder analysis, the GTZ expert group, with ADB support, has been organizing a series of trainings and meetings on technical issues pertaining to health insurance and social dialogue for CMTU, MONEF, and other stakeholders, including representatives from healthcare providers.

The social dialogue organizational mechanism is being strengthened within the SHI system. To strengthen the capacity of the Social Health Insurance Council to steer and manage the health insurance reforms and decision making through the social dialogue process, ADB and GTZ are providing financial and technical support.

Action has been taken to raise public awareness of the urgency of SHI reform. Mongolian Parliament Social Policy Standing Committee members gave interviews and provided articles to inform the general public about pressing issues of the current SHI system. Televised talk shows were broadcast with the participation of stakeholders to bring the issues to the attention of decision makers.

The Mongolian Parliament has undertaken the responsibility to provide leadership to and oversight of SHI reform efforts through the social consensus approach. Multisector, high-level, and technical working groups have been established under the Parliament Social Policy Standing Committee on education, culture, and the sciences. The working groups consist of representatives from all major stakeholders, including the MOH, MOSWL, Ministry of Finance, CMTU, MONEF, healthcare providers, Mongolian Chamber of Commerce, Financial Regulatory Commission, and experts. The technical working group has evolved an SHI development policy agenda for the next 15 years.

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C. Financing Social Health Insurance: Challenges and Opportunities

Axel Weber

1. Introduction

Many countries in the developing world have recently devised reforms of their healthcare financing systems. This has primarily meant a change from state-financed to contribution-financed schemes. Since the Bamako Initiative, which proposed a policy of co-financing to address the financial crisis of publicly financed health systems, health insurance has become increasingly prominent as a financing solution for healthcare systems in developing countries (UNICEF).

Social health insurance (SHI) is defined as an instrument to share risks of healthcare costs, especially those of a catastrophic nature, combined with financing through contributions according to affordability. The objective is to have sufficient redistribution of costs and benefits to achieve universal healthcare coverage, to avoid adverse risk selection (which can leave the people most in need of coverage unable to acquire it), and to achieve basic protection for all.

The topic of financing social health insurance has several aspects:

- the income side—funding and the different sources of financing;
- the expenditure side or fund utilization—which addresses the question of what can be financed;
- equity and accessibility—with a main focus on including the informal sector and the poor; and
- matching of income and expenditure—with a major focus on cost control.

This paper will address all these aspects (see also Weber and Normand 2009).

2. Sources of Financing

2.1. Funding Basic Health Protection

In many developing countries, available health funding is arguably too low to achieve good healthcare for the population. In these instances, SHI can be an opportunity to generate additional funds for health. The ability to raise additional funds is termed "fiscal space" (see also Heller 2005).

Fiscal space is determined by the economic performance of a country. Fiscal space increases as the gross domestic product (GDP) per capita grows. In many developing countries, especially in Asia, GDP growth is strong and sustainable. Such countries could consider better social health protection measures, especially SHI, given the fiscal space created by economic growth. But studies have shown that even low-income countries can afford basic social protection.[1] There is no empirical correlation between the wealth of countries and their ability to protect their citizens.

The basic challenge is to explore fiscal space and to use a country's financial capabilities to raise money from various sources in order to achieve risk sharing and adequate health protection for all citizens. But it also means looking at the consequences of doing so. Receiving donor grants for health spending may create concerns about sustainability and could result in inflation of healthcare prices; increasing taxes may jeopardize economic performance; and people may object to increased insurance contributions. There are thus limits to the fiscal space, which again differ from country to country.

Fiscal space may also be generated through reduction of costs, through synergy effects, and by improved efficiency that increases the cost-effectiveness of care. Increasing cost effectiveness includes measures such as focusing on generic drugs, negotiating prices and quality with providers, using economies of scale, getting discounts for bundling orders, and so on. All this may free fiscal space, which can be used to extend coverage and subsidize people who have very limited financial means.

SHI in a nutshell is a way to "earmark" resources to help finance services that otherwise would not be affordable through general tax revenues alone, because public debt is high, because the public allocation is not effective enough, and/or because the political will to use public funds for healthcare is lacking. The advantage of using SHI as

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1 See Baulch, Wood and, Weber (2006). The Asian Development Bank's social protection index study has shown that there is no empirical correlation between a country's wealth and its ability to create basic social protection measures. The International Labour Organization (ILO) has shown how even low-income countries can afford basic social protection (Pal et al. 2005).

a financing instrument is that the funds collected are earmarked, meaning that people know exactly what kind of benefits they receive in turn for their contributions. Also, SHI is a way to have all people pay according to their abilities. The following sections will outline the different sources of SHI financing.

2.2. Contributions

The main source of funding for SHI is contributions. SHI contributions may be (in increasing order of complexity)

- a universal flat rate;
- different for specific groups (e.g., lower premiums for low-income groups, with or without a means test, or different contributions according to the available infrastructure in a geographic region); and
- wage-related or income-related (scaled, proportionate, progressive or regressive, and with or without a minimum premium or an upper limit).

Any of the contribution methods listed above may include dependents, or may require that dependents pay their own contributions (which may be the same as or lower than those of the employed person).

Contributions that are entirely risk-related, taking into account the member's sex, age, and previous history of disease, are not used in SHI settings because such contributions are not based on ability to pay, but on probability of falling ill. In most cases, the risk-related insurance arrangement benefits wealthy and younger people and is not affordable for poorer and older people.

Contributions may be paid exclusively by insured people, or may be paid in part by the employer or by other institutions such as a pension fund. In the latter case, the contribution is often split 50:50, but in some countries the employer and employee pay different shares.

That SHI usually is not combined with risk-related contributions implies that SHI must use means other than contributions to ensure a balanced risk mix. SHI often must be combined with compulsory membership (or similar safeguards). Compulsory membership may be necessary to avoid negative risk selection. For example, if flat-rate contributions (e.g., $10 per person) are not combined with compulsory membership, many people might register only when their healthcare costs are likely to be higher than the contribution (when they get older, for example). The alternative to compulsory membership is restricted access to SHI, which allows people to join only if they are below a certain age. Some mutual benefit organizations work this way, charging wage-related contributions and at the same time allowing voluntary access up to a specified age only. However, this conflicts with the objective of universal coverage. An additional possibility for avoiding a high-risk mix is to introduce a qualifying period before an individual is allowed access to benefits and to exclude people with existing diseases or chronic illnesses. To achieve universal coverage, any such exclusions require the provision of alternative services for those excluded.

In many countries, contributions—at least in the formal sector—are in some way wage-related. They may be a percentage of the wage, or they may be scaled, which means a fixed amount for people whose wage falls within a certain range (which is easier to administer in countries where there are problems with the exact assessment of wages or incomes). The advantage of wage-related or income-related contributions is that they take into account each individual's ability to pay, so that everybody can afford SHI. This is particularly important in countries with a very unequal distribution of income. Wage-related contributions result in differences in the absolute amount of contributions paid by different individuals for the same benefits. The scale of the differences varies directly with the differences in incomes, and the wealthiest people in a society may end up paying much more than the average value of the health services they use. If this is deemed unfair, an upper limit or ceiling can be applied to contributions. This means that only the wage up to the specified ceiling is taken into account in calculating the contribution, and no contribution is payable on income above the ceiling. Some countries have such ceilings (e.g., Germany and the Philippines), while others do not (e.g., France). However, a contribution ceiling means that contributions are regressive—i.e., people with higher incomes pay a lower proportion of their income in contributions whereas poorer people have to pay a larger share of their earnings, which runs counter to the principle of ability to pay. The option chosen depends on the understanding of fairness within the society to which it is being applied, and may depend on the extent to which the tax system reduces income disparities. There is no inherently right or wrong way.

There is also a rationale for introducing a minimum premium in income-related schemes as it is not very cost-effective to administer very small premiums and almost all people have some kind of income. For people who are really without income or whose income is below subsistence level, means-tested free membership can be considered and/or contributions may be paid from public funds.

The value of the employer's contributions is a policy issue rather than a financial one. Employers normally consider their contributions to be part of the wage bill. The distinction between employer and employee contributions is important in the short term, but in a fairly competitive labor market employers are concerned about the overall cost of employing staff and see the cost of health insurance as being essentially the same as wage costs. To the employee, it may seem as if employers meet some of the cost of health insurance, but it may simply mean that employers are paying lower wages than they would in the absence of shared health insurance contributions. The policy value, and the major advantage, of employer contributions is their important role in cost containment. Employers receive little or no direct benefit from SHI, apart from healthy and productive staff, so it is in their interest to keep contribution rates low and constant. The distinction between employer and employee premiums may cause a problem when assessing contributions for self-employed people. As self-employed people have no employer contribution, the question arises as to whether they should pay both shares (the employee and the employer shares) or only the employee share. This is more a matter of subjective feelings than of distribution.

Part or all of the contribution may be capitalized. Capitalization is normally used for the provision of long-term benefits. The individual pays contributions, which are accumulated in a technical reserve and then paid out after a number of years, together with a guaranteed amount of interest. One typical example is life insurance. Health insurance also provides long-term benefits, given that around 70% of health expenses during an average person's life occur in later years. For this reason, commercial health insurance companies build up technical reserves by charging actuarial premiums that are higher than the age-related costs for younger people and lower than the age-related costs for elderly people. That way, they have sufficient funds left for individuals as they reach an older, and often less healthy, age. In some developing countries there is some kind of capitalization using so-called "health accounts." These are a kind of savings account on which people can draw when they fall ill. This method, however, lacks the risk-sharing element of capitalized health insurance schemes.

Usually, SHI does not link individual contributions to individual benefits. It normally uses the "pay-as-you-go" method. This means that the health fund does not have a technical reserve (except a small reserve to cover unexpected fluctuations in expenditure). All revenue collected from current contributions serves to purchase the health services currently needed by the covered population. Accumulating capital from the contributions lowers the populations' disposable income for no additional benefit and this may be considered an inappropriate use of contributions. If revenues exceed expenses, the SHI must either lower contribution rates or offer better benefits. Conversely, if expenses exceed revenues, additional finance must be found (e.g., increased contributions, new or more effectively enforced co-payments, etc.). The intergenerational solidarity in SHI is achieved through mandatory membership combined with redistribution.

As contributions to SHI are based on ability to pay, a way of determining members' income is needed. This is also necessary if the poorest are offered further benefits such as fee waivers or exemption from paying the contribution altogether (free coverage). Establishing income in the formal sector is fairly straightforward, but becomes much more difficult for the informal sector (including the self-employed, those without any work, and other poor people). Individual means tests are administratively challenging and almost always expensive. As an alternative to traditional means tests, proxy means tests and the involvement of communities have proven to be effective. Proxy means tests use certain indicators instead of assessing the whole income. In the Philippines, for example, the electricity bills of people are taken as an indicator of income. In other places, a person's assets may be used as an approximation of wealth (or lack of it). When people qualifying for exemptions have been targeted, a system of identification is needed so that the benefit can be claimed, or the exemption can be granted at the point of use. In some cases, photo identity cards or computer-readable cards may be used, though any potentially costly investment in advanced computer systems must be weighed carefully against the benefits it provides. Recently, biometric systems of identification have emerged, which are easy to handle, falsification-proof, and effective.

2.3. Co-Payments

Co-payments are a type of user charge that limit risk sharing. Co-payments influence benefits and benefit schemes. They are discussed here as they have an impact on financing of benefits. Co-payments may take various forms, such as

- flat rate (per day, per item, per prescription);
- a percentage (a share of the price or fee);
- excess payment, meaning that the insurance pays up to a limit, and the patient pays any amount charged by the provider in excess of the limit (price or fee) reimbursed by the health insurance; and
- any of the above options subject to a maximum amount per year (stop-loss), beyond which the insurance covers the costs.

A variety of co-payment combinations are possible. Flat rate and percentage co-payments may be combined with an upper limit on the total sum payable during a certain period (normally 1 year). This is called a stop-loss benefit and may be necessary to protect chronically ill people. People in some situations (e.g., students, retired people, and the unemployed), with certain diseases (e.g., tuberculosis or other highly contagious diseases), and in certain circumstances (e.g., maternity leave) may be exempted from co-payment. In addition, some services and goods (e.g., elective cosmetic surgery) may be excluded from coverage.

The impact of co-payments on consumer behavior and on the distribution of healthcare costs is worth considering. Co-payments may have the effect of

- making insured people more aware of the cost of healthcare and containing consumption;
- reinforcing certain types of behavior (especially preventive) and discouraging others (those that negatively affect health); it is also supposed to discourage people from excessive and unnecessary use of services;
- encouraging people to gain access to additional sources of financing; and
- redistributing the cost of healthcare from the healthy to the sick, which may or may not be intended.

Studies of the effects of prices and charges on the utilization of healthcare show that demand for healthcare is generally price-inelastic (i.e., an increase in prices has a less than proportionate effect on demand). However, the evidence also shows that this is not the case for people on low incomes. Co-payments are likely to deter the poor from using health services and may exacerbate inequity. It is therefore important to calculate how the financing rules are likely to affect the amount that different population groups pay for healthcare, and put in place adequate exemption mechanisms. In general, an insurance-funded scheme will be less expensive for the individual at the point of use than one where patients pay fully for services out-of-pocket, because insurance members have already (pre-) paid for their healthcare utilization and costs are pooled. A newly introduced insurance system may thus be expected to lead to higher utilization among poorer groups if they are covered (and can afford any co-payments that they may be charged).

If insurance replaces a tax-funded system in which services were free at the point of contact, co-payments and user charges will clearly lead to a redistribution of health costs, with the sick and the elderly paying more. This is why it is very important to have a system of exemptions from co-payments and user charges. It is also important to take account of such costs when comparing the existing and proposed healthcare systems and when comparing systems in different countries.

In many developing countries, affordable co-payments mean a remarkable improvement of the financing practice from the point of view of the patient. Given that prices in many countries are not transparent and under-the-table payments are very common, transparent and foreseeable co-payments that are combined with transparent pricing improve the people’s situation. In many countries, health insurance would mean major progress only if it leads to transparent pricing, even without taking into account the positive effect of risk sharing.

2.4. Government Subsidies

Experience shows that SHI schemes are rarely, if ever, the sole revenue-raising and revenue-spending entities in a health system. Funds from government budgets almost always play a part. In some cases this takes the form of parallel systems where SHI operates the health spending for one group of the population and the state for another (e.g., in Colombia). In other cases, government funds go directly as subsidies for the poor into the SHI fund, leaving the insurance to cater for all the other population groups (as in the Philippines). As this paper is concerned with SHI as such, and not with systems that may exist in parallel with SHI, this text will deal with government subsidies as additional revenue for SHI.

Government subsidies come from the government budget, which in turn is financed mostly from taxes. The decision to use some of those funds to subsidize health insurance needs to be taken by the political decision makers. The subsidy may simply be an amount out of the general budget as determined by the finance ministry.

This can, however, be refined by linking the tax to how it is spent—i.e., earmarking certain tax income to be spent on health, or more specifically on subsidizing SHI. A popular way of earmarking taxes for health is to use so-called "sin taxes." A variety of consumption behaviors and many kinds of human activities are hazardous to health. Billions of dollars are spent each year on the consequences of tobacco and alcohol consumption, traffic accidents, and hazardous sports. It is frequently suggested that it would be appropriate to make people pay for the consequences of their lifestyle. Some countries have already put this principle into practice (e.g., France, where vehicle insurance premiums are subject to a special tax that is transferred to the health insurance budget). Likewise, the revenue from taxes on tobacco products may be earmarked to go toward health services.

Government subsidies to SHI may take many forms. For example, they may be

- subsidies to cover deficits,
- subsidies to cover contributions (partly or entirely) on behalf of certain groups,
- general subsidies covering a certain percentage or a fixed amount of the overall costs,
- subsidies to cover the cost of certain services provided by SHI, and
- subsidies to cover initial investment or start-up costs of SHI.

Subsidies to cover deficits are intended to limit increases in contributions. Instead of increasing contributions, the state may pay costs that exceed the revenue obtained from contributions. If this practice becomes more than a purely temporary measure and is increasing, a contribution-financed scheme may gradually be transformed into a predominantly state-financed one.

Subsidies to cover the contributions on behalf of certain groups are a way of achieving greater population coverage. This means that people who cannot afford regular contributions because they are poor are nevertheless included in SHI, the costs being covered by the state. There are different ways of managing this. The easiest way is to assess contributions for the people concerned in the usual way and let the state pay them. In the Philippines, the Philippine Health Insurance Corporation (PhilHealth) is doing this. The advantage is that the contributions paid by the state cannot be manipulated because they are defined in advance (however, the state may fail to comply with its predefined obligation, as is happening in the Philippines). If the state undertakes to reimburse treatment costs for these groups without such constraints, there may be room for manipulation, either by the state or by the health fund itself. In any case, a means test is needed if contributions of certain people are covered from the public budget.

The same kind of problem occurs with general subsidies paid by the state. If these are not precisely defined in advance (base, percentage of this base, or an exact amount), there is a great danger that they will fall victim to changes in political priorities.

The state may subsidize certain services purchased by SHI (e.g., immunization and preventive services) that would otherwise be underprovided. Additionally, subsidies may be provided for services that are not really health services, such as maternity grants.

Subsidies for one-off investment costs can be useful to ensure that the contributions paid by members are used solely to purchase health services for them whereas infrastructure or other one-off investments (and the decision whether to make them) are kept with the state. In many countries, large infrastructure investments (e.g., the construction of hospitals) remain as government spending and are not undertaken (or amortized) by health insurance. Given that the start-up investment of SHI is quite high and mostly does not coincide with corresponding revenues, the state can subsidize these costs until the revenue from contributions is sufficient to cover them.

In addition to direct subsidies to the health fund, there are indirect ways of financing SHI out of the state budget. If SHI contributions are paid from pretax income, then the revenue to the insurance will be higher and government tax revenue will be lower. SHI bodies may also be exempted from many kinds of taxes, such as corporation tax, taxes on assets, or value-added tax.

It is also possible that the government will realize the advantages that health insurance and related developments will gain from other sources of government aid. For example, hospitals and other healthcare providers may be eligible for grants and subsidies open to all trading organizations. Nonprofit hospitals may be exempt from corporate taxes, and investment incentives may (unintentionally) apply to health services as well. In many countries, health technology is exempt from import duties, and pharmaceuticals are exempt from value-added tax, which means that increased spending in the health sector can reduce overall tax revenue.

State subsidies have both advantages and disadvantages. One important feature of an SHI fund is a degree of independence. Its budget may be less subject to politically motivated interventions, manipulation, and policy changes than the government budget. In general, this improves acceptability and people's willingness to pay. If a major part of health insurance is financed by state subsidies, health insurance loses some of this advantage unless the state gives unconditional grants. The only way to prevent political interference is to define the amount of subsidy and the modalities of payment clearly and unambiguously.

Concern about equity may arise if health insurance does not cover the whole population but is financed to a significant extent by taxes, which in turn are paid by the whole population.

2.5. Donor Funding

In developing countries, donor funding may play an important role, especially during the period of building SHI. Donors may fund technical assistance, training, equipment, and a start-up fund. During the past decade, the interest of bilateral and multilateral donors in SHI has increased substantially and there are many examples of donor funds helping to set up an SHI scheme (e.g., the Philippines and Viet Nam).

External funding may come as grants and loans. Grants basically are a subsidy, whereas loans have to be paid back. In general, loans are useful if they finance investment such as capacity building, infrastructure, and setting up of an administration, but they are less useful for financing benefits, as this is not sustainable.

External contributions are a source of income not only in developing countries. Almost all countries have foundations and associations that fund health-related activities. In some countries, donors have provided grants in the form of equity funds, which finance healthcare for people who are needy. International funding agencies have shown that support for health systems in developing countries is one of their priorities. Their funds can be paid into SHI in the same way as the government subsidies just described.

However, the precise impact of such funds may be difficult to measure, which may make SHI less attractive for donor subsidies. To increase "measurability," such funds can be linked to specific SHI expenditures that are certain and foreseeable, such as treatment for chronic diseases, or HIV/AIDS, or preventive or maternity services. The caveat for accepting donor funds to subsidize SHI is that they are potentially unsustainable. Most donor funds are time-limited. They also always depend on the willingness of the donor to continue payment, leaving the health of a population potentially dependent on the goodwill of the donor. At the same time, domestic sources may also be volatile, depending on political stability and economic performance.

3. Equity and Affordability—The Informal Sector and the Poor

"Out-of-pocket payments create financial barriers that prevent millions of people each year from seeking and receiving needed health services. In addition, many people who do seek and pay for health services are confronted with financial catastrophe and impoverishment. People who do not use health services at all, or who suffer financial catastrophe, are the extreme. Many others might forego only some services, or suffer less severe financial consequences imposed by user charges, but people everywhere, at all income levels, seek protection from the financial risks associated with ill health" (Carrin et al. 2001).

Therefore, the World Health Organization (WHO) defines universal coverage as one of the main objectives of social health protection. A question facing all countries is how their health financing systems can achieve or maintain universal coverage of health services. Recognizing this, in 2005, the member states of WHO adopted a resolution encouraging countries to develop health financing systems aimed at providing universal coverage. Universal coverage incorporates two complementary dimensions in addition to financial risk protection: the extent of population coverage (i.e., who is covered) and the extent of health service coverage (i.e., what is covered).

The main problem along the way to achieving universal coverage is the informal sector. The formal sector and the informal sector relate to categories of the working population. People in the formal sector have formalized, contractual, salaried working relationships and conditions. Employment in the formal sector means inclusion in tax collection and social security systems (if they exist), coverage by protection standards relating to working conditions, access to healthcare, and access to schemes of income replacement in case of incapacity to work. The typical formal sector worker works in an enterprise or institution with which he or she has a formal contract, subject to certain standards and including certain rights and obligations.

The formal sector also includes self-employed workers as far as they are included in a system of obligations, rights, and standards such as the tax system, protection mechanisms in case of sickness, accident, old age, and so on. For health insurance, it is important to know who the formal-sector employees are, how many there are, and what they earn. For the informal sector, this information is often missing or incomplete. In most developing countries, the majority of the working population is in the informal sector.

The informal sector comprises people who lack all or most of the characteristics of formalization. Most people in the informal sector face large financial risks if they have no affordable access to healthcare. In most countries, people in the formal sector are to some extent covered by work-related protection mechanisms, they have an employer who is to some extent interested in their well-being (if only to keep them productive), and they can at least rely on a regular salary. But for the informal sector, precisely because of the absence of formalized working relationships and environments, it is administratively very difficult to include workers in an SHI system. Possibilities for covering informal sector workers in SHI include

- compulsory membership (which is preferable and possible if there is a link to cooperatives or other communities but which is administratively not easy);
- voluntary membership, combined with awareness campaigns (which is easier but less effective and is faced with problems of adverse risk selection);
- third party or flat-rate contributions and free membership for those who are not able to pay (if there are state or other subsidies, and combined with a means test);
- cooperation with communities and community-based organizations in registration and contribution collection (communities have good access to informal sector workers);
- bundling SHI with other products such as membership in organizations or microfinance; and
- information-sharing across government agencies to improve information about the identities and situations of possible target groups.

There are synergies between formal and informal sector insurance in terms of administration and purchasing of services.

It is a matter of equity and an obligation for the society as a whole to offer affordable healthcare to everybody. If someone is not able to pay, the society should offer free healthcare. Financing mechanisms must be designed accordingly. In most cases this means public subsidies for health insurance combined with a means test.

4. To Finance an Adequate Benefit and Support Value

The second dimension of universal coverage is the extent of health service coverage (e.g., what is covered). A key question in this context is the support value of a social health protection scheme. Support value is defined as the percentage of the health insurance benefit in relation to the total costs of a health incident with which people are faced. There are several reasons why the support value can be less than 100%, meaning that there is a share of out-of-pocket financing despite of the existence of SHI.

- One reason might be that the SHI benefit is limited to a maximum amount per episode. The total costs may exceed this maximum amount. This method is widely used in countries where no effective contracting and provider payment mechanisms are in place, so that a "cap" or maximum payment may be the only way for SHI to control costs.
- Another reason for support values less than 100% may be co-payments. In this case it is politically desired and accepted that the support value is lower than 100%.
- Finally, people may have to pay part of the costs out of pocket if certain benefits and procedures are excluded from SHI. This may have financial reasons and may lead to people facing substantial risks, especially with catastrophic cases. But it may also mean that some benefits are regarded as not being essential or are even a luxury.

From a risk sharing point of view, the main focus of social health protection should be on catastrophic cases. For most citizens, the protection in expensive healthcare cases is much more essential than protection from more frequent but small and less expensive treatments (Xu et al. 2007). Risk from the point of view of the insurance company is defined as follows (Weber 2000).

- Using the probability times the costs per case, the risk equals the expected value of the costs per capita for this kind of benefit in a population of insured people.
- But another aspect, which insurance has to take into account, is the variation of the expected risks and especially it's relation to the total turnover. The probability of an insurance case (or an accumulation of cases, if there is an epidemic) can be very low, but the costs can be very high and the occurrence very irregular. So, mathematically, not only the probability and the amount of the risk but also the confidence interval or the standard error of the expected value of the total damage and its relation to the turnover is important. This is one reason why insurance companies reinsure their portfolios.

From the point of view of the individual household, the following calculation has to be made.

- The first consideration is similar to that of insurance companies for individual cases—probability times cost. However, in individual households, the risk increases with the number of family members, because often it does not necessarily accompany a corresponding increase of revenue.
- The confidence interval or the standard error will be much larger for the household than for the insurance company because the sample is small. This is a common effect if there is no risk sharing. And this effect is also heavier and less predictable the higher the individual damage of each case and the lower the probability. This means that, for households, more frequent but less costly cases are normally much easier to handle than less frequent but more costly cases. It is not sufficient to multiply the potential costs with the probability. Also the variation and the financial impact on the budget have to be taken into account. Mathematically, the risk of illness may be low, but, when illness occurs, the household might not be able to pay the costs. So the risk in any case must be weighted with an indicator expressing the impact on the economic situation of the household, which may be the income of the household, or (in some cultures) the extended family, or even the village.

Other factors aggravate the situation of most individual households.

- If the household has to finance the healthcare costs through credit, the interest has to be added to the costs. This is one reason that, in many poor countries, people lose their property step by step.
- A household has little choice in the case of healthcare. If a bicycle, motorcycle, or car is damaged in an accident, most individuals may try to find, at least temporarily, other solutions. But if a family member falls seriously ill, there is little acceptable alternative to treatment. The alternative of not treating at all actually is not an alternative because it is not a choice but the result of a desperate economic situation.
- In many cases, if the breadwinner(s) of a family fall ill or have an accident, the source of income is cut.

So, apart from the effect of risk sharing, which is the main difference between costs being borne by individual households and insurance, the risks may be very different. The benefits of insurance really come to effect in the case of catastrophe. This is why the support value is especially important in the case of catastrophic cases.

The reality is that support values are low, especially in developing countries and even in those with social health protection schemes. A PhilHealth (2008) study in the Philippines, analyzing the support value of the SHI, concluded that the average support value lies at about 50% of the healthcare costs. In many other developing countries the situation is similar. The reasons are (1) lack of cost containment, effective provider payment mechanisms, and contracting; and (2) under-the-table payments.

5. Cost Containment

Controlling costs is a major challenge in SHI. In nearly all countries with health insurance schemes, per capita healthcare expenditures tend to rise faster than per capita GDP and faster than salaries. This leads to higher contribution rates (in salary-based systems) or to contributions rising faster than GDP (in other systems) or to erosion of support values. The reasons for this include

- lack of effective provider payment mechanisms;
- improvements in medical technology that are both rapid and expensive (which to some extent is related to the improvement in services);[2]
- a relatively stable demand for health services even if the price rises (low price elasticity);
- labor-intensive healthcare with limited possibilities to increase productivity;
- to some extent, providers' ability, to define the demand for their services (and thus their incomes); and
- inflation created simply by the existence of health insurance—in some countries providers ask for higher prices as soon as they know that patients are insured.

There are many possible strategies for containing costs, and a long history of attempts to do so.

On the supply side, costs and their growth depend mainly on the way providers are paid and the incentives that are set. The provider's qualification, experience, motivation, and performance incentives are the driving forces behind the quality and quantity of health services. It is important to make the best use of the skills of providers, using both financial incentives and other motivational factors such as the desire to provide excellent service and generate good outcomes for patients. The best approach must take many factors into account, but must focus strongly on the provider payment system and its effects.

On the demand side, there are many possible measures with the common objective of limiting demand. However, some of them will discourage people from using services

[2] New products also benefit from protection through patents so that competition does not reduce prices. In times when innovation is rapid, this can lead to cost increases. New products and services also often create additional demand.

from which they would derive significant benefits. This can lead to even higher costs, as people will come forward only when an illness has become serious. The main strategies for containing demand are

- careful design of the benefit package (i.e., deciding what should be included and specifying it clearly; the package must be revised from time to time and should contain some flexibility);
- co-payments and user charges;
- incentives to prevent the use of healthcare services (e.g., through bonus schemes);
- incentives to use cheaper products and services (e.g., by reducing co-payments for cheaper solutions such as generic drugs);
- restricted access to providers, sometimes known as "gate keeping" (e.g., not allowing direct access to hospitals, specialists, or drugs, or restricting the frequency with which patients can change their physician), which can be combined with co-payments if patients bypass the gatekeeper;
- refund of part of the contribution at the end of a year if the patient has claimed no benefits;
- restricted choice of providers or products (e.g., a limited list of drugs the health fund will pay for, or reduced co-payments for more cost-effective and less expensive services and drugs); and
- provision of information and education for users of health services.

It is sometimes argued that preventive medicine is a cost-containment strategy. A move from purely curative medicine toward more preventive medicine is very desirable, because most health systems place too much emphasis on treatment and cure at the expense of prevention. However, that prevention can contribute to cost containment has not yet been proven, although it can lead to a healthier life.

6. Conclusion

Financing SHI is a complex and challenging task. The main challenges are financial sustainability, universal coverage, and cost containment. SHI has proven its ability to share the financial burden of healthcare risks that people are facing. But experience in low-income countries shows that there is still some way to go to achieve universal coverage and acceptable support values. A special task is to balance income interests of the health sector and risk exposure and costs that patients have to bear. And in many countries, SHI schemes need a lot of support to face strong interests that sometimes are conflicting with the objective of providing affordable healthcare to all. But SHI provides a major opportunity to help people cope with one of the major life risks.

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PART V

Innovations in Social Assistance

A. Rights-Based Legal Guarantee as a Social Protection Framework: The Mahatma Gandhi National Rural Employment Guarantee Act

Amita Sharma

1. Policy Context

Close to 300 million people in India still live in poverty on less than $1 a day (Ahmed et al. 2007). Rural agricultural laborers in India are out of work for an average of 104 days yearly—76 days for males and 141 days for females (NCEUS 2007). Erosion of natural resources, growing poverty, and unemployment have led to fragmentation of land and an increased number of agriculture laborers, from 27.3 million in 1951 to 103 million in 2001 (Padhi 2007). The policy response to the situation of poverty and inequality has focused on inclusive growth, especially on basic education, health, and food security. Concern about social security measures has also been increasing. There has been a growing policy engagement through the formulation of rights-based laws as policy instruments. (Rights are understood here as obligations of a welfare democratic state to create conditions of work and provide some basic social security.) The Right to Information Act, the Forest Rights Act 2009, the Right to Education Act 2009, and the forthcoming Food Security Bill are examples of the shift from a policy based on the perception of development as a welfare activity of the government to a policy that recognizes basic development needs as rights of the citizens. These require a commitment of resources by the government, challenging some of its existing systems. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) was framed in this context, grounding the government's obligation in the MGNREGA law (Government of India 2005).

2. Objective of the MGNREGA

The MGNREGA was enacted on 7 September 2005 as "An Act to provide for the enhancement of livelihood security of the households in rural areas of the country by providing at least one hundred days of guaranteed wage employment in every financial year to every household" (Government of India 2005: 1) The objectives of the MGNREGA are to

(1) provide wage employment opportunities;
(2) create sustainable rural livelihoods through regeneration of the natural resource base i.e., augmenting productivity and supporting creation of durable assets; and
(3) strengthen rural governance through decentralization and processes of transparency and accountability.

The works permissible under the MGNREGA, in order of priority, include (1) water conservation and harvesting; (2) drought proofing (including afforestation and tree planting); (3) construction and/or maintenance of irrigation canals, including micro and minor irrigation works; (4) provision of irrigation facilities, horticulture plantations, and land development facilities on land owned by households belonging to the scheduled castes and tribes,[1] families below the poverty line, beneficiaries of land reform, beneficiaries under the Indira Awas Yojana rural housing scheme,[2] and small-scale or marginal farmers as defined in the Agriculture Debt Waiver and Debt Relief Scheme, 2008; (5) renovation of traditional water bodies, including desilting of tanks; (6) land development; (7) flood control and protection works, including drainage in waterlogged areas; (8) rural connectivity to provide all-weather access; and (9) any other work approved by the central government in consultation with the state government. Recently, the Ministry of Rural Development has officially notified as permissible work the construction of village and block-level buildings to reinforce the physical infrastructure for implementing the MGNREGA.

The MGNREGA was notified in 200 districts in the first phase on 2 February 2006, followed by another 130 from April 2007, and then the remaining districts with effect from April 2008. The MGNREGA is now effective nationwide, covering 619 districts. The rights-based design of the MGNREGA has evolved from the preceding wage employment programs, especially the Employment Assurance Scheme. The implementation of the scheme put forth challenges, as reported by the Programme Evaluation Organization of the Planning Commission (PEOPC 2002). The challenges

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[1] Scheduled castes and tribes comprise population groupings that are explicitly recognized as such by the Constitution of India.

[2] The Indira Awas Yojana is a scheme of the Government of India, aiming to provide shelter to people who live below the poverty line.

related to planning, record maintenance, monitoring, and fund release and utilization. Some of the limitations were addressed in the MGNREGA; for example, potential wage seekers and users of assets were involved in the planning of projects. Village assemblies (*gram sabhas*)[3] were vested with the task of preparing a portfolio of projects. Social audits, proactive disclosure, and financial obligations of the central and state governments were introduced as legal provisions. The MGNREGA made the demand factor a conscious strategy as a right to obtain employment.

3. Design of the MGNREGA

The most significant features of the MGNREGA are that it creates a rights-based framework and that it is a law. Its main instruments for articulating a rights-based approach are (1) documents such as job cards, which workers may use to assert their rights to work under the MGNREGA; (2) workers' exercise of choice, such as the time of employment; (3) time limits for the government to fulfill guarantees; (4) social audits;[4] and (5) compensation and/or penalties if processes and procedures specified in the MGNREGA are not followed.

The process of applying for work is basic to the assertion of rights to work. Wage seekers have the right to apply through their locally elected village council (*gram panchayat*)[5] to register for employment under the MGNREGA. Registration entitles them to receive job cards. The job card is the basic instrument used to demand work and is the worker's record. To be employed under the MGNREGA, the job card holder has to submit a written application for employment to the village council or to the program officer at the block level, specifying the period for which employment is sought. This right to ask for employment as and when needed is acknowledged through a dated receipt issued by the village council or the program officer. This initiates the guarantee process in response to the demand. The right to receive employment is subject to time lines: employment must be allocated within 15 days of application for work or from the date work is demanded, and payments for work done must be made within 15 days after the work is complete. If work is not allocated within 15 days, the worker is paid an unemployment allowance by the state government. If provisions of the MGNREGA are

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3 The gram sabha is a village assembly that all men and women above the age of 18 years may attend. The gram sabha is the foundation of decentralized governance. Gram sabhas are convened to ensure the development of the people through their participation and mutual cooperation. Most major decisions, issues including the annual budget, and development schemes to be taken up for the village are placed before the gram sabha for consideration and approval.

4 A social audit is a process in which the people work with the government to monitor and evaluate the planning and implementation of a scheme or program.

5 Gram panchayats are local governments at the village or small town level.

violated, the offender is to pay Rs1,000 ($22). Rights under the MGNREGA are further safeguarded though social audits and proactive disclosure.

4. Early Trends and Outcomes

Positive outcomes during the 4 years the MGNREGA has been implemented are evident, although the performance across the country has been unequal. An analysis of outcomes and trends helps to ascertain what factors have been working and what have not. Outcomes need to be viewed as processes set in motion, as the MGNREGA is demand-based and there are no predetermined targets that it can be measured against. Some early trends are discussed in the following subsections.

4.1. Augmenting Employment

Unskilled Labor. The rationale for the MGNREGA is to augment employment more than what was achieved under the earlier wage employment programs. The MGNREGA's predecessor wage employment program, the Sampoorna Grameen Rozgar Yojana (Universal Rural Employment Program), generated approximately 0.82 billion person-days of work nationwide in fiscal year 2005/2006 (FY2006).[6] The employment program and the National Food For Work Programme together generated 1.13 billion person-days of work in FY2006. The MGNREGA, when it covered the entire country in FY2009, generated 2.16 billion person-days of work and in FY2010 generated 2.8 billion person-days of work. The MGNREGA scheme has provided employment to about 50 million households. The Appendix provides an overview of the scheme.

Skilled Labor. The MGNREGA has opened opportunities for employing skilled labor at the block and village levels in rural areas through large-scale deployment of worksite supervisors, that is, "mates" (job applicants given supervisory and administrative tasks at work sites), engineers, village assistants, accountants, and information and communication technology (ICT) personnel. For example, at the village council level, 230,000 dedicated MGNREGA assistants at the village level (*gram rozgar sahayaks*) were appointed; and, at the block level, about 22,000 technical assistants, 5,000 accountants, and 6,000 computer assistants were appointed. Employment opportunities for the educated and skilled are being promoted both directly within the administrative system of the MGNREGA and indirectly in the form of business avenues opened up by the MGNREGA in the postal network and financial and ICT services.

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[6] The fiscal year starts and ends in March.

4.2. Enhancing Income

The minimum wages for agricultural laborers have increased in most states. Wages under the MGNREGA are linked to minimum wages for agricultural laborers. The national government bore the entire cost of the wages. The average wage rate rose from Rs65 ($1.4) per day in 2006 to Rs90 ($2.0) in February 2010.

4.3. Including Disadvantaged Groups

Trends from previous years show that the poorest of the poor and the most vulnerable groups seek employment under the program. The MGNREGA has been designed to allow women equity in both access to work and in the payment of wages. Women's participation in the workforce has surpassed the statutory minimum requirement of 33% and the participation rate of women in FY2010 is 50% at the national level. Independent studies point to the emergence of women's "identity," that is, a greater role for women in decision-making in the household and their growing contribution to their households' livelihood and consumption needs, especially food, children's education, health, and the offsetting of debts.

Women have also started to be more active in the rural public sphere. Among the factors that motivate women to participate in the MGNREGA are the (1) availability of work locally, (2) availability of work on demand, (3) improved working conditions compared with the hazardous conditions of work before the MGNREGA, (4) abolition of contractors' involvement in the MGNREGA, (5) regularity and predictability of working hours, (6) lowered chances of exploitation, (7) availability of socially acceptable and dignified work, (8) provision of the statutory minimum wage, (9) decrease in caste- and community-based issues, (10) easy access to locally available credit, (11) respect for widows, (12) reduced risks associated with migration because migration has decreased with the availability of work under the MGNREGA, and (13) reduced humiliation and embarrassment endured when asking for work. The MGNREGA shows that household earnings coming through the women enhances opportunities for their children and so has positive intergenerational change effects.

Members of scheduled castes and tribes have provided about 49% of the total person-days under the MGNREGA in FY2010. Field studies by professional institutions corroborate that marginalized people have a high participation rate in the MGNREGA works (IIML 2009).

4.4. Stemming Migration

Independent studies indicate that, with the implementation of the MGNREGA, migration from villages that is forced by economic distress has decreased (IIMS 2009).

Further, during the recent economic downturn, the MGNREGA provided a source of employment to the unemployed workers who returned from towns to villages.

4.5. Augmenting Productivity

Employment provides work that helps earn wages and creates durable productive assets. The MGNREGA works have included pond excavation, small bunds, land development, and afforestation. Independent studies validate that MGNREGA works have been useful and have contributed toward natural resource regeneration (ASCI 2009). Increased water availability, increased irrigated area, and improved access to irrigation has allowed crop diversification and switches from monocropping to double- or multicropping.

The MGNREGA has become a very important instrument for maintaining a large number of public assets that were deteriorating due to lack of repair. A recent study by the Indian Institute of Science, Bangalore (IISB 2009) indicated that many of the MGNREGA activities could help conserve and enhance natural resources (soil, water, grasslands, and forests). The MGNREGA thus works toward sustainable economic security and adaptability to climate change by creating "green jobs" (UNEP 2008).

4.6. Expanding Connectivity

The MGNREGA is improving rural connectivity in many ways.

Rural Roads. Roads built under the MGNREGA connect hinterlands that are left out of larger rural network programs such as the Pradhan Mantri Gram Sadak Yojana—the nationwide plan to provide good all-weather roads to villages. These roads have been particularly beneficial for linking scattered tribal hamlets. Convergence of the MGNREGA and the Pradhan Mantri Gram Sadak Yojana is also providing the base for better roads. Under this convergence, the basic earthworks that are labor intensive are taken up under the MGNREGA and the material- and machine-intensive work is taken up under the other program. Village roads and side drains are also being constructed under the MGNREGA. Such roads are part of a critical link with markets, schools, and health services.

Financial Inclusion. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. Providing access to finance is a form of empowerment. Financial inclusion of disadvantaged and low-income groups requires offering them financial services at an affordable cost. The financial services include credit, savings, insurance, and payments and remittance facilities (RBI 2008). The 88 million accounts opened in banks and post offices for MGNREGA workers represents the greatest financial inclusion of the rural poor achieved in India. Wages are disbursed through the accounts, which has encouraged thrift and saving among some of the poorest families.

ICT in Rural Areas. ICT in rural areas has received a boost through the MGNREGA. Plans are to extend ICT facilities to the village council level and to promote workers' access to ICT. Toward this end, the MGNREGA is exploring ICT innovations, including biometrics and low-cost handheld devices, ICT kiosks, and ATMs, all of which improve the delivery of service to the rural poor. Thus, the MGNREGA is helping to connect the rural poor and rural areas with opportunities.

5. Reasons for the MGNREGA's Effectiveness

The critical elements of the MGNREGA's design are the processes through which (1) the workers exercise their rights, and (2) the government facilitates the exercise of workers' rights. The first—the process through which the workers exercise their rights—is fraught with challenges and difficult to enforce, mainly because the instruments of rights are not easily negotiated by the workers due to their limited capabilities (such as illiteracy), their lack of organization, and an unequal relationship between the worker and the institutional system. The processes through which the government facilitates the exercise of workers' rights are discussed here.

5.1. Decentralization

States Decision Making. The design of the MGNREGA law encourages state governments to make schemes under the MGNREGA. Thus, it is a broad, overarching framework that lays down a set of non-negotiable features. The states then formulate schemes that incorporate these features, thereby allowing for the states to claim some "ownership" of the schemes.

Role of Local Bodies. The local bodies, *panchayat raj* institutions,[7] have a principal role in planning, implementing, and monitoring MGNREGA works. This is especially important at the village level, where the village council is the main institutional outreach arm for rural development. At least 80% of the works, by cost, under the MGNREGA should be implemented through the village councils. In most major states, close to

[7] "'Panchayat' literally means assembly (*yat*) of five (*panch*) wise and respected elders chosen and accepted by the village community. Traditionally, these assemblies settled disputes between individuals and villages. Modern Indian government has decentralized several administrative functions to the village level, empowering elected gram panchayats" (Wikipedia, http://en.wikipedia.org/wiki/Panchayati_raj).

80% of the total number of works are being executed by the village councils. Under the MGNREGA, funds, functions, and functionaries have been given to the village councils. In FY2009 the average funds available per village council were Rs1.5 million ($33,000) for MGNREGA works; the average expenditure per village council was Rs1.1 million ($24,000).[8] This was a 90% increase over the amount a village council received in the previous wage employment programs.

5.2. Financial Support

Central Share of Financial Assistance. The central government assistance as laid down in the law, is a major incentive for states to implement the program. The center picks up 90% of the cost and 100% of administrative expenses up to the permissible limit for implementing the MGNREGA.

Demand-Based Financial Assistance. An initial budget provision is made, but the initial budget may be augmented if labor demand arises. A demand-based budget has evolved from budgeting based on fixed allocations. Initial budget provisions are augmented if labor participation is higher than originally estimated. States can negotiate the size of central assistance based on labor demand. Elasticity of the budget supports the implementation of a large-scale program.

Labor Budgets. The state's ability to uphold its guarantee depends on financial support from the center. To ensure smooth fund flow to districts, labor budgets prepared by districts are discussed with a committee, headed by the secretary of rural development (at the central government level) with rural development secretaries (at the state level) as members. The committee assesses funding requirements for the estimated labor demand and the portfolio of projects needed to meet that demand. The labor budget projections are available on the MGNREG website so that all labor and work estimates at the village level can be viewed in the public domain. Proposed works are indicated, by village, with estimated outcomes in terms of person-days and physical benefits and with details of wage and material costs. Thus, village-level planning is sought to be aggregated as the basis of fund demand in a transparent way. The labor budget estimates are tentative estimates for the initial release of central assistance, as up-front funding, for 6 months. They are not fixed limits for budget allocation. As the work season progresses and the actual trends of demand emerge, central government assistance is released based on the trends and those in the previous working seasons. The MGNREGA guidelines provide that a cushion be maintained at the district or village council level by releasing additional funds when 60% of the last release has been spent, so that at least 40% is always available to meet labor demands.

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8 MRD, State-Wise Financial Performance: The Mahatma Gandhi NREGA database.

State Funds. To give greater flexibility for states to respond to the districts' fund requirements, states have been encouraged to set up state funds to be managed by an authorized agency, so that central government assistance can be released to the state funds to then be further released to districts in accordance with their demand. This has the advantage of freeing districts from the need to approach the center for incremental funds; it also gives the state governments a pivotal role in managing the scheme. With decentralization of fund management to the states, financial rules are formulated to balance fiscal prudence with prompt transfers in anticipation of labor demand.

Commitment of Budget Resources. The legal guarantee has compelled the commitment of financial resources to the program. Earlier wage employment programs were constrained by the lack of budget funds. The central government probably gained the confidence to commit funds when the economy's growth rate was high, but even when the economy slowed down as a result of the global economic crisis, the budget support to the MGNREGA did not diminish. The budget support is Rs401 billion ($8.77 billion) for FY2011 and was Rs391 billion ($8.55 billion) in FY2010. This is 139%–156% above the expenditure of previous wage employment programs. The average outflow per district has gone up to Rs8.1 billion ($17.73 million) under the MGNREGA from Rs3.1 billion ($6.79 million) under the former Universal Rural Employment Program and National Food For Work Programme.

Self-Targeting, Demand-Based Strategy. The MGNREGA is applicable to anyone who demands work under it. The only eligibility criterion is local residence under a village council. This reduces the need for lengthy bureaucratic procedures of identification, verification, certification, and selection—much of which can be vulnerable to rent-seeking. The universal guarantee without predetermined quantitative and qualitative targets and with demand-based budget support steers the program benefits away from rationing and from arbitrary cut-offs that tend to exclude some of the most needy people and groups.

5.3. Administrative Support

Because the MGNREGA operates at highly decentralized levels, it requires strong administrative support systems. This has been factored into the MGNREGA law's design in many ways. The central government has the power to determine administrative expenses that it has to fund fully. Currently, the administrative expense permissible for the MGNREGA scheme is fixed at 6% of the total cost. States can incur up to 6% of expenses on their administrative costs. This includes personnel and processes such as monitoring; training; information, education, and communication; social audits; and management information systems (MISs). Using this provision, the center has directed states to augment technical support to the program at all levels.

Dedicated personnel have to be deployed for managing critical program components such as ICT; social audits; works; and grievance redress at the block, district, and state levels. Each village council has to have a dedicated assistant (the gram rozgar sahayak). In addition to personnel down to the village council level, states have been advised to establish technical networks with professional institutions for resource support to their multifarious tasks. The MGNREGA mandates the states to delegate administrative and financial resources to the district program coordinator, who is responsible for ensuring the proper implementation of the MGNREGA. The central government can modify the permissible limits of administrative expenses according to the requirements. This is a very critical component of the legal design as it anticipates a considerable increase in the demands on the administrative system and factors it in as a legal obligation of the government.

5.4. Transparency and Accountability

Transparency has been mandated in the MGNREGA through several documents and processes. Chief among the documents is the job card that is issued to the worker and expected to be in his or her custody as a record of rights. All data on employment demanded and received and wages earned is recorded therein.

In terms of processes, the right to information has been integrated with the MGNREGA in at least three ways. (1) The MGNREGA mandates that all information be proactively placed in the public domain. (2) Any information demanded is to be given, free of cost. (3) Social audits by the village assembly (gram sabha) go beyond the right to information, to fix accountability and seek corrections. The comptroller and auditor general is also responsible for auditing the schemes. A significant measure for infusing transparency in MGNREGA transactions was acquired by amending the MGNREGA schedule to make wage payments through MGNREGA workers' institutional accounts mandatory. About 88 million such accounts have been opened in banks and post offices and each state is making provisions to ensure that all the wages are paid through accounts; however, due to institutional constraints (in some areas, banks and post offices are absent or have limited staff) almost 80% of the wages of the workers are disbursed through their accounts.[9]

The Central Employment Council has been set up as a statutory mechanism for monitoring the law and reviewing critical processes such as social audits and grievance redress. The council is a structure for transparency and public accountability within the Ministry of Rural Development. All measures mandated by the MGNREGA have placed it under constant public scrutiny and at the center of a loud public debate

[9] MRD, All India Monthly Progress Report.

on the MGNREGA, due to the large public investments expected to impact poor rural households.

The MGNREGA motivates workers to participate because

(1) the works are self-targeting, with no specific eligibility criteria;
(2) the program does not require specific skills;
(3) work provisioning responds to labor demand and may be availed of at any time of the year, depending on the worker' needs;
(4) employment is based within 5 kilometers of the worker's place of residence;
(5) working hours are flexible;
(6) wage rates and wage payments are assured;
(7) payment is through institutional accounts;
(8) the job card records the worker's rights and is kept by the worker;
(9) work helps earn wages and creates productive assets; and
(10) the works category permits both individual benefits and public assets.

The design features compelling the government to act are as follows:

(1) it is a law;
(2) budget resources are adequate—the budget support is Rs401 billion for 2010/1011;
(3) the scheme is implemented nationwide;
(4) funding is provided on demand, as national and state budgets have to match the needs of the district labor budgets;
(5) the substantial cost of employment is funded by the national government;
(6) funds, functions, and functionaries are decentralized to local bodies, especially the village councils;
(7) funds are untied so that the districts plan according to their context within overall legal norms;
(8) decentralized operations are supported by additional administrative systems borne on the central government budget; and
(9) the incentive–disincentive structure is effective: central assistance is used for providing employment, but the unemployment allowance is paid by the state.

Thus, the MGNREGA is a powerful policy platform that synergizes multiple inputs and multilayered processes toward achieving basic development goals, including

(1) creating "green jobs" and thus supplementing employment opportunities and enhancing economic ecological security;
(2) enhancing economic security and opportunities;
(3) promoting gender equity;
(4) augmenting water resources and the efficiency with which water is used;

(5) enabling the restoration of ecosystem services;
(6) enabling planned convergence with programs of water resources, afforestation, and agricultural productivity for sustainable development;
(7) strengthening food security;
(8) providing a strategy for adaptation to adverse effects of climate change; and
(9) strengthening democratic processes and grass-roots institutions.

6. Challenges for Implementing a Rights-Based Design for Social Protection

The effectiveness of the MGNREGA depends on people's capacity to demand their rights and the administrative system's capacity to protect and enforce them. Vulnerable households are expected to demand social protection as a right, which is a significant step toward their empowerment. However, the exercise of the workers' right to demand may be inhibited by their inabilities to read, write, negotiate, organize, and manage hierarchical relationships with institutional systems.

There are also conflicting roles within the delivery system. The guaranteeing agency is also the implementing, auditing, and adjudicating agency. As a result, the implementing agency has little incentive to acknowledge demand for unemployment allowance. The agency issuing the guarantee should be separate from the one that has to fulfill it. Because the implementing agency also has authority for grievance redress, penalties are mild, imposing them is procedurally protracted, and just and speedy disposal of grievances is an area of concern.

Conflicting roles and relationships are made conspicuous through social audits. Social audit can be a powerful instrument for transparency and accountability only if the community is powerful enough to compel the local body and/or government to render accounts and to compel action on its findings. Under the MGNREGA, the village assembly is to audit the village council and MGNREGA works, but the village assembly is convened by the village council. External facilitation is needed to mobilize the workers, to activate the village assembly, to interrogate and analyze information, and to evaluate the performance of the scheme and seek redress for grievances.

In terms of internal structural relations, the greatest burden is at the bottom (village council) level and the least is at the top (ministry) level. But control of funds (on which the entire guarantee rests) is inverse to the distribution of functions, resting maximally with the center and the village council has the least control over and access to funds. The intricate network of institutional dependencies often affects timely implementation. Limited capacity of the village-level institutions, especially the village councils, to implement a time-bound legal guarantee is a major concern, as the village council is pivotal to MGNREGA implementation.

7. Resolving Problems through Policy Innovation

Policy innovations have evolved in the effort to make the provisions of the law effective. Where the MGNREGA has been vigorously implemented, this has been the result of innovative methods evolved in response to the challenges.

7.1. State Action as an Employment Trigger

The MGNREGA has been effective because the state administrative arrangements help the workers to understand their rights through awareness-raising programs, and to acquire their rights to work.

7.2. Starting Many Projects Simultaneously

The MGNREGA has been implemented effectively by starting a large number of works so benefits are tangible. However, the wide-scale onset led to complaints that the rights-based approach was missing. But complainants fail to understand the complex relationship between the workers' capacity to access information and formally articulate choices and the state's role as both prime mover of and facilitator for creating opportunities. Wherever the state government has interpreted its role in these terms, it has taken charge of MGNREGA works and planned its implementation through a mix of strategies.

7.3. Focus on Deprived Groups

The MGNREGA is by design open to people who volunteer. This makes it difficult to quantify and target a likely population size that should avail of the MGNREGA's benefits. However, states have evolved ways of estimating basic minimum numbers that would indicate adequate outreach to people in need of work. States have used the lists of families below the poverty line and of families belonging to scheduled castes and tribes when trying to assess whether those likely to seek work under the MGNREGA have been able to do so. This identification and targeting of people below the poverty line and members of scheduled castes and tribes has been encouraged by a specific provision in the MGNREGA permitting work to be taken up on the land of these groups.

7.4. Work Site Innovations

The MGNREGA law indicates briefly how work site management can be done. Schedules of rates for tasks are to be formulated in a way that a person working for the time fixed should be able to earn the required wage rate. However, evolving systems to enable earning of wage rates depends on national guidelines, administrative decisions of different state governments, and local district innovations. A few examples are cited here. The national guidelines advise undertaking time and motion studies on the works to formulate realistic schedules of rates for different tasks suitable to labor-intensive works in different geographical and soil conditions. Various state governments have conducted such studies to revise task rates and the results have tended to augment wage earnings.

Ways to improve work management and thus work earnings have also been attempted by training local people as work site supervisors (“mates”). This has been especially effective where women with basic literacy skills were trained as work site supervisors to measure and calculate work done. Working groups were disaggregated into small teams of four to make individual work transparent and measurable. This led to weeding out of non-workers; more efficient execution of work; transparent measurement of work done; and, consequently, increased wages. The “mate” model was incorporated in the national guidelines and interstate visits were encouraged to disseminate the model in other districts and other states. Some districts have introduced work-site demonstrations to educate the workers on how specific works are to be done and measured and what amount of work output would earn the wage rate. This sets transparent norms and benchmarks so that workers know how much work they have to do to earn the wage rate, and it makes the measurement transparent.

7.5. Strengthening the Natural Resource Base for Livelihood

The MGNREGA envisages strengthening resource livelihoods and creating durable assets. The search for ways of doing this has led to significant policy innovations. To augment agricultural productivity, MGNREGA work may be done on lands of small-scale and marginal farmers and of families with incomes below the poverty line and families of scheduled castes and tribes.

One way in which productive activities have been encouraged has been through the formulation of guidelines for convergence of the MGNREGA with other development programs. The principles of convergence have been shaped within the processes of the MGNREGA law. The key principle is bundling inputs. The MGNREGA is beginning to show multiplier effects in terms of increased consumption expenditure and food and water security and has begun to address issues of energy security. To accelerate this multiplier effect, the MGNREGA works must be converged with activities of other programs.

Initial work on convergence of the MGNREGA with other development programs has started. Guidelines on convergence have been issued as a broad framework building on district innovations and discussions with concerned ministries (especially the Ministry of Environment and Forests, Ministry of Water Resources, Ministry of Agriculture, and Department of Land Resources) and with Pradhan Mantri Grameen Sadak Yojana programs (e.g., for rural roads) that have a close affinity with MGNREGA works. At least half a dozen forms of convergence have been initiated. Primary earthwork under the MGNREGA can be built upon under other programs, such as village roads under the Pradhan Mantri Grameen Sadak Yojana, and for tanks and check bunds under irrigation schemes.

An integrated project approach may be taken wherein activities are undertaken under different programs such as watershed or horticulture programs. Value may be added to primary work under the MGNREGA through coordination with other development programs, such as fisheries in tanks constructed through the MGNREGA and vermicomposting, mushroom cultivation, sericulture and horticulture plantations on land developed and irrigated under the MGNREGA. These activities may be especially appropriate for lands belonging to the scheduled castes and tribes, families below the poverty line, beneficiaries of land reform, beneficiaries under the Indira Awas Yojana (rural housing scheme), and small-scale or marginal farmers. For pilot-testing projects between MGNREGA works and other programs, 150 districts in 23 states have been identified. Professional institutions have been enlisted for monitoring the convergence pilot tests in these districts. Professional agencies, including the National Institute of Rural Development, are involved in concurrently appraising the convergence projects.

7.6. Use of ICT

The MGNREGA prescribes proactive disclosure of information to the public. The most effective measure so far has been the web-enabled MIS, www.nrega.nic.in (adjudged the best government website for the year 2009/2010 [Government of India 2010]). The website places all data in the public domain. ICT has been used as a democratic platform for tracking processes and outcomes. It systematically shows the many functionaries, officials, local bodies, and workers via a coherent centralized workflow MIS spanning the entire country. Tight coupling of inputs eliminates arbitrary entries. The MIS software can work off-line. The software can be customized to local requirements by modifying or adding features to it. It also allows local language options.

The MGNREGA MIS is a household database that records all details of employment demanded, work done, amount earned, and days worked. Funds can be tracked from the point of central approval to village-level expenditure; the amounts held at different levels can be seen; and the outcomes of expenditure as wages, material, and works can be clearly seen. Job cards, muster rolls, and asset registers are on the website. The website architecture is based on the processes of the MGNREGA, so each job card number can be tracked through to wages paid. Because the basic data entries are automatically processed, all the defaults, aberrations, and delays are shown on the website. The list of gaps and breaches of guarantees that it shows includes, for example, names of people in each village who have registered but not received job cards, who have applied for but not received work allocations within 15 days, who have worked but not received payments within 15 days, and whether names of workers are those who have job cards. The web-based MIS has been evolving through user feedback. So that workers can use the system and thus exercise their rights, a kiosk model has been developed, in the local languages.

7.7. Knowledge Resource Centers

Implementation has shown that infrastructure is needed for processes to be transparent. The MGNREGA website is the virtual architecture for transparency. In each village, workers need a place where they can apply for work, records can be maintained, and meetings and consultations can take place. Most village councils lack such a place. Such a place is also needed for transparent transactions. Thus, the construction of knowledge resource centers at the village and block levels is included in the MGNREGA works.

7.8. Financial Services for Rural Areas

Efforts are in progress to expand the business correspondent model to areas without banks and to introduce biometrics through handheld devices. The purpose of the biometrics devices is to provide a complete solution for workers, from their work application through payment. Accounts-based payments have encountered problems mainly due to the inadequate reach of the banking and post office network and insufficient human resources in the rural branches.

7.9. Professional Institutional Network

Because of the large-scale, decentralized nature of program implementation, and its multidisciplinary nature, the strategy for monitoring and evaluating the MGNREGA at the central level has been through creating professional networks. The central government has initiated a professional institutional network comprising top professional institutions such as the Indian institutes of management, Indian institutes of technology, agriculture universities, leading administrative and research institutions, the Administrative Staff College of India, the Indian Institute of Public Administration, the Indian Institute of Forest Management, and the Centre For Development Alternatives. Each professional institution that is affiliated with a state is expected to work as a resource support system with a problem solving approach through a process of field appraisal, diagnosis, and suggested remedial action. This system has the advantage of relating problem analysis with possible solutions, assessing what factors work positively to promote the MGNREGA's objectives, and documenting and sharing insights and practices for sharing learning.

8. The Way Ahead

The way forward needs to address issues related to (1) building the system's capacity to deliver a legal guarantee, (2) developing peoples' capabilities to demand their rights and hold the government accountable for delivering those rights, and (3) reviewing the MGNREGA to make it an instrument for more sustainable development.

8.1. Building System Capacity to Deliver a Legal Guarantee

The rapid expansion of the MGNREGA's outreach has revealed gaps in the system. Some of these need immediate attention.

Building Capacity of the Panchayati Raj and Other Institutions. Foremost is the need to build the capacity of the local-level institutions. The physical infrastructure of the village councils has to be strengthened, including building information and knowledge centers and providing them with ICT facilities and skills. Human resources at the village council level have to be strengthened. With the MGNREGA to enforce, the village council has to become a mini secretariat, with a strong contingent of staff trained in the tasks to be performed. While implementing the MGNREGA is a process of learning and an opportunity for growing, the capacity of the village-level institutions needs to be formally developed both in terms of generic skills and professional resource support. Similarly, other institutional agencies need to be oriented to the administrative requirements of the demand-based MGNREGA law. Professional support at each level has to be strengthened to increase efficiency and dedication to the many issues that arise when implementing the MGNREGA. Numerous training sessions are held, but the process and quality of training needs much improvement.

Financial Services. With the statutory provision of wage payments through bank and post accounts, the banks' and post offices' personnel and ICT need strengthening to accelerate financial inclusion of the poorest people.

Strengthening Capabilities for Planning and Designing Appropriate Works. The abilities and skills to plan and design works appropriate in terms of the seasonality of labor need to be improved. Workers' participation in planning needs to be ensured. Planning abilities and appropriate technologies need to be integrated with community participation. So that public investments are used optimally and the focus can clearly be on development outcomes rather than on just discreet schematic input targets, district plans for programs should converge and financial and technical resources should be pooled.

8.2. Building Workers' Capacity to Articulate and Demand their Rights

The discourse and insistence on "demand" by workers and its acknowledgement through dated receipts has initiated an intense discussion on how this can be made possible, given the limitations of workers' formal skills and informal bargaining capacities. For workers to formally articulate demands and participate, their functional literacy needs to be developed. This will be the first step toward acquiring capabilities to negotiate themselves, rather than depending on external mediation. Instead of the conventional adult education literacy strategies, innovative measures are needed to induce basic literacy skills in the workers so that they can understand and interpret their opportunities and rights. Enhanced risk cover through life and health insurance schemes has been introduced but needs implementation. MGNREGA workers should be given priority under programs for formation into self-help groups, and skills development and placement programs need to be expanded (an example is the self-employment program, Swaranjyanti Gram Swarozgar Yojana[10]).

Creating more Inclusive Forums for Community Participation. The MGNREGA has stimulated serious debate on social audit, which could further reform the vital process of making the government accountable. The MGNREGA specifies that the social audits are to be conducted by the village assembly. The law should be adjusted to allow wider public participation, beyond restrictive definitions of the village assembly.

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[10] Swarnjayanti Gram Swarozgar Yojana aims to bring the assisted poor families above the poverty line by ensuring an appreciable sustained level of income over a period of time. This objective is to be achieved by, among other things, organizing the rural poor into groups through the process of social mobilization, and providing the groups with training, capacity building, and income generating assets.

Establishing an Effective Grievance System. District ombudsmen are being set up as an independent enquiry authority empowered to take direct action for redress and for implementing penalties and securing police reports against defaulters of the MGNREGA provisions. The ombudsman does not have judicial powers. However, it will provide an independent dedicated forum for people to lodge complaints and expect redress, and its functioning will generate greater awareness among people of their rights. It will also help tighten administrative systems to acknowledge rights and ensure time-bound guarantees and record maintenance. Setting up the district ombudsman as an effective mechanism for redressing grievance should be the foremost priority.

9. The MGNREGA: Issues to Consider for Rights-Based Development Programs

Significant lessons emerge from the MGNREGA for rights-based development programs.

(1) Development programs aiming at basic entitlements such as livelihoods acquire force if grounded in the framework of a rights-based law. A law belongs to the people and not to the government. The government is itself subordinate to law. Moving from a program approach to a law helps create a more democratic base for a development process. The government—the custodian of resources and their delivery—by enacting a law of this kind, makes itself accountable for its action to the public. It is this self-subordination to public scrutiny, implied by the promulgation of this law, that propels the delivery system, despite the many procedural lapses. A rights-based law such as the MGNREGA then pushes for change in the way government systems work by reducing dichotomies between demand and supply, signifying the maturing of democracy in which the term “state” does not just mean government, but people and government.

(2) A rights-based framework gains through institutional mechanisms for decentralization, because decentralization facilitates direct accountability for outcomes of decisions taken and widens stakeholder participation. Local conflicts are an index of the growing space for asserting rights. But the structural integration of different institutions clearly needs to be defined, and a single point of overall power and accountability is needed to take overriding decisions to enforce the law. Institutional reform is a precondition for legal reform. This is a major challenge.

(3) Assured budget commitments are important for implementing schemes to ensure rights. However, a large budget commitment is not enough. The

design and process of fund transfer is critical and so is how this seeks to manage a balance between efficiency with accountability, financial support with discipline, and local freedom with central regulation.

(4) Social audit, right to information, and ICT are vehicles for transparency and public accountability.

(5) Legal frameworks should permit operational flexibility. Procedural matters should not be confused with rights or with the substantive content of law. Procedures should be flexible but end goals should not be negotiable. Objectives and norms should be broadly stated but the processes should be allowed to evolve through local contexts. Effective practices should be studied and woven back into law, as far as possible. Solutions emerging in the contested spaces of local action under the MGNREGA are analyzed and included in state and often in national policy. The process of local innovation in policy and law is a unique feature of the MGNREGA. It enables the normative framework to be both regulatory and responsive to the dynamic changing situation on the ground, unlike many laws, which tend to become rigid and so exclude the possibility of dealing with new and unforeseen situations on the ground.

(6) Laws should be seen as opportunities for making administrative systems strong and accountable. Development laws should allow collaborative policy making through multiple stakeholders and procedural flexibility. This is open to conflict, but the conflict becomes the means of forcing issues and creating change. This can transform the state of governance.

(7) Strong and independent grievance redress mechanisms are integral to the design. The question is, what ought to be their nature? Should it be administrative bodies with powers to decide and direct but not really to coerce, and so to really exercise a moral force? Or should the administrative bodies have judicial powers to summon, award judgments, and punish?

(8) A law guaranteeing rights should be grounded firmly in the concept of equality. This makes the quality of opportunity offered a significant issue. Social security schemes and laws cannot be static but must be constantly reviewed so that they move toward increasingly equitable opportunities. There is a case for fewer programs and fewer laws but with more comprehensive scope to cover a sufficient range of related inputs that create conditions that guarantee basic rights. It would be pragmatic to proceed toward a rights-based law through programs focusing on improving governance policies and implementation systems.

Appendix. Performance of the Mahatma Gandhi National Rural Employment Guarantee Act (National Overview)

	FY2007 200 Districts	FY2008 330 Districts	FY2009 615 Districts	FY2010 619 Districts (to February, 2010)
Total Job Cards Issued (million)	37.8	64.8	100.1	112.7
Employment Provided to Households (million households)	21.0	33.9	45.1	49.0
Person-Days (in million) **and Share of Total**	905	1,435.9	2,163.2	2,513.0
Scheduled castes	229.5 (25%)	393.6 (27%)	633.6 (29%)	737.9 (30%)
Scheduled tribes	329.8 (36%)	420.7 (29%)	550.2 (25%)	540.3 (22%)
Women	364.0 (40%)	611.5 (43%)	1035.7 (48%)	1210.5 (48%)
Others	345.6 (38%)	621.6 (43%)	979.5 (45%)	1224.8 (49%)
Person-Days per Household	43	42	48	51
Budget Outlay (Rs billion)	113.00	120.00	300.00	391.00
Central Release (Rs billion)	86.41	126.10	299.40*	335.07
Total Available Funds (including opening balance, Rs billion)	120.74	193.05	373.97	488.03
Expenditure (Rs billion) **and Share of Available Funds**	88.23 (73%)	158.57 (82%)	272.50 (73%)	330.87 (68%)
Expenditure on Wages (Rs billion) **and Share of Total**	58.42 (66%)	107.38 (68%)	182.00 (67%)	225.98 (68%)
Average Wage per Person-Day	65	75	84	90
Number of Total Works (million)	0.84	1.79	2.78	4.10
Number of Works Completed (million)	0.39	0.82	1.21	1.64

continued on next page

Appendix continuation

	FY2007 200 Districts	FY2008 330 Districts	FY2009 615 Districts	FY2010 619 Districts (to February, 2010)
Type of Works (share of total)				
Water conservation	54%	49%	46%	51%
Provision of irrigation on land owned by scheduled castes and tribes, people below the poverty line, and Indira Awas Yojana beneficiaries	10%	15%	20%	16%
Rural connectivity	21%	17 %	18%	17%
Land development	11%	16%	15%	14%
Other	4%	3%	1%	2%

Source: MRD (various years).

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B. Cambodia's Social Protection Strategy for the Poor and Vulnerable

Ngy Chanphal

1. Background and Process

Social protection is a priority of the Royal Government of Cambodia (RGC) as expressed in the Constitution, the Rectangular Strategy, the National Strategic Development Plan (NSDP), national legislation, and international conventions to which Cambodia is signatory. The formulation of the National Social Protection Strategy (NSPS) draws on these commitments.

At the Cambodia Development Cooperation Forum in December 2008, the RGC's commitment to social protection was specifically reaffirmed. Deputy Prime Minister Keat Chhon noted that, while significant progress has been made in reducing overall poverty levels, parts of the population remain vulnerable to economic and social shocks, pushing them into poverty and denying them equal opportunities for participating in economic growth. Improving social protection was selected as a priority intervention for the RGC and development partners in response to the 2007–2008 global financial and economic crisis, and as a long-term goal of enhancing capacities to better withstand the effects of future crisis. The Council for Agricultural and Rural Development (CARD), which chairs the government and donor working group on food security and nutrition, was entrusted to undertake, in close cooperation with relevant ministries, a scoping and mapping exercise to determine the nature of existing social safety nets in Cambodia and to identify policy, institutional, and capacity gaps for developing a more systematic and integrated social safety net system.

CARD established an interim working group on social safety nets, comprising relevant line ministries and development partners. A concept note on social safety nets and an inventory of existing social safety nets was developed in June 2009. These were presented and discussed at the National Forum on Social Safety Nets in July 2009, involving more than 400 participants from government, development partners, and civil society from both national and decentralized levels. Cambodia's Prime Minister Samdech Hun Sen provided the closing address at this important event and mandated CARD to coordinate the development of an integrated national strategy on social protection.

To review policy options against existing vulnerabilities, a series of technical consultation workshops and field visits was organized, involving international resource persons and practitioners from the Cambodian government, development partners, and civil society institutions. The workshops and visits focused on the following social protection interventions:

- cash transfers (especially for addressing child and maternal malnutrition),
- public works programs, and
- education and child labor.

Based on these consultations, policy papers were developed. Further consultations (e.g., on health equity funds) are foreseen in the near future. In early 2010, a background note to the actual strategy summarizing the outcome of the stakeholder discussions was drafted with the title "Cambodia: Towards a Social Protection Strategy for the Poor and Vulnerable," and an outline of the future NSPS was agreed upon. In May 2010, the final draft of the strategy was then formulated and completed for final consultation, prior to submitting it to the RGC for approval.

At the Cambodia Development Cooperation Forum in June 2010, the RGC specifically reaffirmed its commitment to social protection. The outline of the new NSPS was provided, showing how it will contribute to reducing chronic poverty, help the poor cope with shocks, promote human capital, improve productivity, and promote sustainable economic growth. Implementation of the strategy will require scaling up existing interventions, designing institutional arrangements, and introducing new programs to cover gaps. CARD is mandated to establish an interim coordination unit that will examine ways to establish well-resourced institutional capacities and systems. The NSDP's resourcing profile has identified the new strategy as a high priority program of the RGC. During the next 6 months, CARD will produce a costed action plan toward strengthening institutions and capacities and will prepare a costing of the NSPS.

2. Poverty and Vulnerabilities in Cambodia

Cambodia has emerged from 3 decades of instability with an impressive record for sustained economic development and poverty reduction. Cambodia's gross domestic product grew by more than 10% annually for 4 consecutive years ending in 2007.

The country's poverty headcount index decreased from 47% in 1993/94 to 35% in 2004, and to 30% in 2007. However, a third of the population remains in poverty, with the majority (92%) in rural areas. Poverty rates show large regional variations, and economic growth shows a significant rise in the level of inequality, from a Gini-coefficient of 0.39 in 2004 to 0.43 in 2007.

Cambodian households face serious vulnerabilities and are prone to individual-specific and macroeconomic shocks. The majority of the population is engaged in subsistence rice farming and depends on weather conditions; thus, crop failures and resulting food insecurity are major concerns. Illness and related high health expenditures are further key factors driving households into chronic poverty, causing them to take children out of school, sell productive assets, and/or engage in other detrimental coping strategies. High rates of child and maternal malnutrition impact children's cognitive development and educational performance, barring them from full access to livelihood opportunities. For many Cambodians, un- or under-employment is a major risk. Seasonal unemployment is widespread in rural areas and jobs in the export-oriented sectors of the economy (garments, construction, and tourism) remain vulnerable to global economic shocks.

The poverty and vulnerability of many people has recently been exacerbated by soaring food prices and the global financial and economic crisis, which decreased employment and incomes; lowered access to essential services for the entire population; and might have contributed to exacerbating inequality, gaps, and disparities. An estimated 200,000 people may have been pushed into poverty during 2008–2009. A recent survey revealed that the previous trend of rapidly improving child nutrition may have halted as the poor increasingly use adverse coping strategies, such as shifting consumption to lower quality food (NIS 2008). Also, the livelihoods of specifically disadvantaged groups of people (e.g., the disabled, the elderly, orphans, ethnic minorities, female-headed households, people living with HIV/AIDS or tuberculosis, and other risk groups) that are especially vulnerable to household-specific and external shocks may have been affected.

Against the background of Cambodia's vulnerability profile, it is imperative to support the poor and vulnerable while enhancing their human capital. The Appendix summarizes the risks, determinants of vulnerability, and vulnerable groups. Social protection investments must therefore contribute to achieving a double task—sustainable reduction of poverty over time and provision of short-term shock response measures to address the consequences of the series of crises confronting Cambodia and its citizens since 2007.

3. Existing Safety Nets, Gaps, and Challenges

During the last 20 years, Cambodia has implemented many (mainly externally funded) social safety net projects and programs for reintegration, for rehabilitation, to improve food security and the livelihoods of the poor, and to respond to emergency situations. The following have been particularly successful in reaching large numbers of beneficiaries and in effectively enabling access to services, food, and income security:

- food distribution to food-insecure areas, school feeding, take-home rations, and food for work—for addressing food insecurity, chronic poverty, and (to some extent) malnutrition;
- public works programs—for addressing food insecurity and chronic poverty of the working age population;
- health equity funds and community-based health insurance schemes—for addressing basic health protection for the poor;
- scholarships—for addressing the income and poverty situations of school children; and
- social welfare services to special vulnerable groups, including the disabled, the elderly, and orphans.

Yet Cambodia does not have an effective and affordable social safety net in place. Many of the interventions have been patchy and ad hoc, and highly dependent on specific donor funding sources. The coverage of existing social protection programs for the poor and vulnerable is still very limited; the programs do not necessarily focus on the poorest areas and efforts have been largely fragmented, with weak coordination between the many ministries and institutions involved.

Traditional family- and community-based social safety nets in Cambodia that comprise sharing, mutual assistance, assistance from pagodas and extended families, charity, and local self-help initiatives still exist. However, these traditional safety nets were fragmented and weakened during the last several decades, and suffered further from the impact of recent crises.

The gap analysis revealed a number of areas where the pro-poor orientation of investments and coverage remains patchy, particularly with reference to key groups such as children, pregnant women, the working age population, and the elderly (Appendix). Addressing these gaps requires the streamlining of social protection measures and better integration and coordination to ensure that the key instruments of social protection contribute to providing minimum levels of social protection to the poor and vulnerable in a package of benefits and related essential services. The gap analysis highlights the need for some of the current benefit-based schemes and services to be revamped or extended. New schemes are needed to address remaining gaps and vulnerabilities, especially those that have arisen or been exacerbated as a result of the 2007–2009 series of crises.

4. Cambodia's New National Social Protection Strategy—Vision, Goals, and Objectives

Based on the analysis of vulnerabilities, existing social net provision, prevailing gaps, and the outcome of the stakeholder consultations on specific social safety nets in 2009, the NSPS was drafted in early 2010 in a participatory process involving relevant ministries and development partners.[1] The draft NSPS complements other strategies and sector plans adopted by the RGC that pertain directly or indirectly to social protection. It is aligned with and makes operational the high priority actions laid out in the Rectangular Strategy and the updated National Strategic Development Plan (NSDP 2010–2013). The NSPS sets the framework for sustainable and comprehensive social protection for all citizens over the long term. However, for the near future, this strategy focuses on social protection for the poor and vulnerable, and therefore gives priority to the development of effective and affordable social safety nets targeted at the poor and vulnerable, with complementary social welfare services for special vulnerable groups. The Appendix shows the linkages and contributions of social protection to economic and social development.

The long-term vision of the NSPS includes contributory social protection schemes (social insurance) for private sector employees and civil servants and aims to achieve a high level of human development as well as equal choices and opportunities for all Cambodians. The NSPS draft states: "More Cambodians, especially the poor and vulnerable, will benefit from improved social safety nets and social security, as an integral part of a sustainable, affordable and effective national social protection system" (RGC 2010).

An effective social protection strategy for the poor and vulnerable requires a balance between relieving chronic poverty; helping the poor to cope with social, economic, and climatic shocks; and enhancing their human capital to enable them to break the cycle of poverty. The NSPS pursues therefore a threefold approach:

(1) supporting, through social transfers and services, the poorest and most disadvantaged groups that cannot help themselves;

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[1] A final draft of the strategy is to be presented to the high-level government–donor consultations in June 2010. The draft strategy will be submitted to the RGC for final approval. CARD is mandated to establish an interim coordination unit that will examine ways to establish well-resourced institutional capacities and systems. CARD will produce a costed action plan for strengthening institutions and capacities and will prepare a costing of the NSPS.

(2) reducing the impact of risks that could lead to negative coping strategies and further impoverishment; and
(3) supporting the poor to move out of poverty by building human capital and expanding their opportunities.

The strategy's medium-term goal clearly expresses this concept: "Cambodian poor and vulnerable are increasingly protected against chronic poverty and adverse shocks through access to food, income, employment, and social welfare services to protect them against destitution and social exclusion and to enable them to invest in their human capital" (RGC 2010).

Five objectives for prioritized action areas were formulated to reach this goal. As shown in the Table, each objective includes a set of specific interventions required to enable its achievement. Some of the interventions are ongoing but their coverage needs to be expanded or their implementation streamlined to increase impact. Others (e.g., cash transfers) are new for Cambodia but have proven effective and will be developed and introduced during the coming years.

A mix of programs is required to achieve each objective (by expanding current successful schemes and introducing new ones where gaps are identified) to cover both chronic and transient poverty, and help promote human capital. Addressing major (uncovered) sources of vulnerability will take priority, while simultaneously building the milestones of an effective safety net system upon which further developments can build.

Gaps in social protection for the poor and vulnerable will be addressed by new programs that intend to help relieve chronic poverty and promote human capital. Examples are cash transfers, focusing on improving child and maternal nutrition and attendance to education, reducing child labor, and implementing "second-chance" programs that promote skills development for out-of-school youth.

The process for implementing the NSPS will include harmonizing ongoing and new social protection programs supported by development partners, and integrating them into larger scale national programs following the same principles and procedures. The integration will allow the tackling of vulnerabilities in geographic areas in a more coordinated and cost-effective way, and will contribute to reducing transaction costs. Matching main sources of vulnerability and existing programs requires scaling up and harmonizing existing interventions. Health equity funds, school feeding, scholarships, and public works are already addressing major vulnerabilities faced by the poor and proving effective in Cambodia. However, some of these programs, such as public works, are implemented by multiple development partners on an ad hoc basis without much coordination and, because they depend on specific financing sources, their medium-term sustainability is often questionable. In scaling up these interventions it will be of the utmost importance to harmonize processes and ensure more regular financing, so as to guarantee the programs' medium-term sustainability. In addition, the coverage of existing programs will be reassessed and better aligned to poverty levels. Currently, the geographic implementation of safety nets only partly follows the ranking of provinces and districts by poverty and vulnerability dimensions.

Action on the Five Priority Areas

Priority Areas and Related CMDG	Objective	Medium-Term Options for Programmatic Instruments
Addressing the Basic Needs of the Population in Emergency and Crisis Situations (CMDG 1, 9)	The poor and vulnerable receive support to meet their basic needs in times of emergency and crisis	Targeted food distribution Distribution of farming inputs Other emergency support
Reducing the Poverty and Vulnerability of Children and Mothers and Enhancing their Human Development (CMDGs 1, 2, 3, 4, 5)	Poor and vulnerable children and mothers benefit from social safety nets to alleviate poverty and enhance the development of human capital by improving nutrition and maternal and child health, promoting education, and eliminating the worst forms of child labor	Cash and in-kind transfers for children and women toward one integrated program: cash transfers focusing on nutrition and maternal health, cash transfers promoting education and reducing child labor (scholarships) Outreach services and second-chance programs for out-of-school youth, and support for social welfare services School feeding, take-home rations, etc.
Addressing Seasonal Unemployment and Food Insecurity for the Poor and Vulnerable (CMDG 1)	The working age poor and vulnerable benefit from work opportunities to secure income and livelihoods, while contributing to the creation of sustainable physical and social infrastructure assets	Labor-intensive public works programs Food for work and cash for work schemes
Promoting Affordable Healthcare for the Poor and Vulnerable (CMDGs 4, 5, 6)	The poor and vulnerable have effective access to affordable quality healthcare and financial protection in case of illness	Expansion of health equity funds (for the poor) and community-based health insurance (for the near poor), as envisioned in the Master Plan on Social Health Protection
Improving Social Protection for Special Vulnerable Groups (CMDGs 1, 6, 9)	Special vulnerable groups, including orphans, the elderly, single women with children, people living with disabilities, people living with HIV/AIDS, tuberculosis, etc. receive income, in-kind and psycho-social support, and adequate social care	Social welfare services for special vulnerable groups Social transfer and social pensions for the elderly and people with disabilities

CMDG = Cambodian Millennium Development Goal.
Source: Author.

A list of prioritized and costed interventions for each of the NSPS' five objectives, considering limited fiscal space and restricted government implementation capacities, is being developed to enhance the implementation of the strategy in the short term. This includes new programs (such as national cash transfers or public works); ongoing programs that need to be expanded (such as health equity funds); activities to further conceptualize programs; and actions to build capacities for coordinating, monitoring, and evaluating the NSPS at both national and decentralized levels.

5. Implementing the Strategy

Effective and efficient implementation procedures and institutional arrangements for the NSPS are being developed. The NSPS lays out guiding principles and prioritized options, the details of which need to be determined during the first year of implementation.

Social protection for the poor and vulnerable is a crosscutting task and demands effective coordination and collaboration of many sector ministries and government agencies, as well as an active dialogue with supportive development partners and civil society organizations. Most of the programs in the NSPS are by nature intersectoral and there is a deep need to coordinate across ministries to avoid thematic and geographical overlaps, harmonize implementation procedures, and coordinate the use of available funds from national budget and development partners.

To avoid excessive coverage of certain beneficiary categories at the expense of others, it is essential to coordinate efforts across programs of similar type (e.g., public works and cash transfers), as well as across various interventions. CARD will undertake this task in close cooperation with the Supreme National Economic Council and the Ministry of Planning and will establish a secretariat within CARD for this purpose. The RGC will establish the National Social Protection Committee, to be chaired by CARD and comprising the key line ministries. Implementation of specific social protection programs will be entirely the responsibility of sector ministries. For successful implementation, the active involvement of decentralized structures of government (provincial, district, and commune councils) is essential. To this end, the RGC will establish provincial and district committees (with due attention to whether social protection can be linked to existing subcommittees or whether new ones need to be created). The committees will oversee social protection activities at their level and will coordinate with implementing departments of ministries and involved civil society organizations. At the local level, the commune council (including the Consultative Committee on Children and Women) will oversee targeting and implementation of social protection activities.

Information and knowledge management on social protection is central to the support of effective coordination. Capacities for information and knowledge management will be strengthened to ensure the up-to-date collection, generation, and dissemination of information among involved stakeholders. Campaigns will create awareness about social protection and the programs. Information on the outcome of the NSPS and its programs will be shared through national and regional forums and thematic workshops. Discussions on social protection organized at district and commune levels will ensure a feedback mechanism to the province and national policy level. CARD will develop and continue to update a web-based information and knowledge platform on social protection.

Close monitoring and evaluation of the interventions and programs and the strategy as a whole will be crucial for an effective dialogue on social protection in Cambodia. The NSPS as a "living document" must be able to adjust to the changing environment and sources of vulnerability, and needs to take into account in a systematic manner lessons learned during the implementation of programs and interventions. Therefore, a results matrix for the NSPS has been established, outlining key outcome indicators for the five objectives. In addition, a mechanism to monitor the use of available resources will be introduced to ensure cost-efficiency and transparency. Specific interventions and programs will be monitored by the appropriate ministries; however CARD, as the coordinating agency, will oversee and provide technical advice for monitoring and evaluation activities on social protection. CARD will also organize an independent review of the NSPS to support a more informed dialogue on the overall coordination and further development of the strategy.

Capacity building on the design and implementation of specific programs as well as the coordination and monitoring of the entire strategy will be provided for national and decentralized government institutions to ensure they understand the programs and the NSPS and can effectively implement them. A pool of trainers, comprising staff from sector ministries and government agencies, will be established in a cascade system. Focal points at provincial and district levels will be trained to support commune councils in being effectively involved in the implementation.

Appropriate targeting mechanisms are crucial for the effective and cost-efficient implementation of the NSPS. An integrated approach for selecting beneficiaries for the interventions and programs, combining self-targeting, area targeting, and household targeting, will be used to optimize beneficiary selection. A harmonized approach for identifying poor households based on a set of standardized procedures and criteria for all kinds of social transfers and fee exemptions has been developed in Cambodia. The Identification of Poor Households Program (IDPoor) currently covers more than 7,100 villages in 17 provinces and its expansion to all rural villages is planned for 2011.

The approach, developed by the Ministry of Planning in discussions with stakeholders, has proven effective, is largely accepted by communities, and has become increasingly adopted for targeting safety net interventions. A subdecree requesting the use of the IDPoor poverty lists in all programs targeting the poor was therefore issued recently. IDPoor will be the key instrument for household targeting and may be combined with post identification mechanisms to cross-check and fine-tune household targeting for specific interventions. The expansion of IDPoor coverage to all rural villages; regular updates, every 2 years, of the poverty lists; evaluations of the system's accuracy; and setting up of a targeting mechanism for the urban poor will all be part of the NSPS implementation plan.

6. Lessons Learned and Future Challenges

The six main lessons and challenges are as follows:

(1) The transparent and participatory process of drafting the NSPS has proven very effective during the preparation phase, giving government representatives at national and subnational levels, development partners, and civil society representatives the opportunity to explore, in depth, priorities and options for the strategy.

(2) An NSPS for Cambodia must comprise a mix of programs (by expanding current successful schemes and introducing new ones where gaps are identified) that respond to crises, cover both chronic and transient poverty, and help promote human capital to prevent or mitigate the impact of future crises.

(3) It was constructive to integrate a set of objectives having different time frames into a single NSPS, addressing long-, medium-, and short-term horizons.

(4) Harmonization of existing social safety nets and their integration into larger scale national programs as well as the development of standardized procedures (e.g., for targeting and administration) is ambitious and will need time to accomplish, but is expected to result in more efficiency and greater cost-effectiveness.

(5) Setting up principles for effective coordination and monitoring and evaluation mechanisms in the strategy was essential to guide the implementation of the programs and activities of the NSPS. However, putting them into practice in the short term will be very challenging.

(6) Substantial human capacity development at both the national and decentralized levels of government will be required to implement and monitor the NSPS in an effective, accountable, and transparent manner.

APPENDIX: RISKS, VULNERABILITY, AND RESPONSES

Main Risks and Shocks		Determinants of Vulnerability	Outcomes	Most Vulnerable Groups	Progress in Response	Gaps and Challenges in Response
1. Emergency and Crisis Situations	Macro-economic, financial (price rises, economic slowdown)	• Have limited income-generating opportunities • Be concentrated in insecure, unstable employment	• Rise in under- or unemployment • Increase in poorly remunerated, insecure, and risky jobs • Lower remittances	• All poor and near poor	• Public works have been an effective and rapidly expandable safety net instrument during crises and natural disasters	• Limited coverage and coordination of existing public works programs
	Climate, environmental, and natural disasters (floods, droughts)	• Rely on crop farming and livestock rearing for subsistence food production and income provision • Depend on (often degraded, over-exploited, and contested) common natural resources for livelihoods • Live in remote, isolated areas with a low level of community infrastructure • Have a low base of savings and assets to cover emergency needs	• Destruction or degradation of assets and resources • Increase in under- or un-employment • Increase in incidence and severity of food insecurity • Lower incomes	• All poor and near poor		

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Appendix continuation

Main Risks and Shocks		Determinants of Vulnerability	Outcomes	Most Vulnerable Groups	Progress in Response	Gaps and Challenges in Response
2. Human Development Constraints	Poor maternal and child health and nutrition	• Have low income and suffer food insecurity • Have poor access to quality maternal, new-born, and child healthcare	• High maternal mortality rates • High infant mortality rates • Increase in incidence and severity of malnutrition, stunting, and poor cognitive development	• Pregnant women • Early childhood (0–5 years)	• Some maternal and child nutrition programs are in place • Breastfeeding practices are improving	• Supply of maternal and child nutrition services remains limited and of poor quality • Coverage of these services is not universal • Other demand-side factors (eating, feeding, and care practices) are not being adequately addressed
	Poor access to quality education	• Need to undertake domestic activities, help with family business and/or take up external employment, given households' low income and food insecurity • Have poor access to quality education services	• Higher drop-out rates and low-level of skills attained • Increased incidence of child labor • Increase in under- and unemployment • Increase in poorly-remunerated, insecure, and risky jobs	• School age (6–14)	• Scholarships and school feeding programs are improving attendance	• Quality of education remains poor • Coverage of education services is variable • Coverage of scholarships and school feeding programs does not reach all poor areas

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Appendix continuation

Main Risks and Shocks		Determinants of Vulnerability	Outcomes	Most Vulnerable Groups	Progress in Response	Gaps and Challenges in Response
	Poor access to quality second chance programs	• Need to remain in paid employment, however precarious and low paid • Have poor access to quality training services		• Youth (15–24)	• Establishment of vocational training curricula • Some programs in place for second chance education	• Quality of vocational training remains poor • Supply of second chance program is minimal • Poor link between training offered and employers' needs • No certification/ accreditation system in place for private sector
3. Seasonal Unemployment and Food Insecurity	Under- and poor nutrition	• Rely on subsistence farming with low productivity • Do not have sustained employment to supplement incomes from agricultural activities • Rely on (often degraded, over-exploited and contested) common natural resources for livelihoods • Face a greater age dependency • Are more likely to be landless, have low access to land, and have small landholdings	• Higher maternal mortality rates • Increase in incidence and severity of malnutrition, stunting, and poor cognitive development • Increased likelihood of ill health • Decreased capacity to study or work productively	• All poor and near poor • Pregnant women and early childhood (0–5 years) • Families with high age dependency ratio • Landless poor	• Some targeted food distribution • School feeding • Public works programs are providing some assistance during lean season or crises	• Limited coverage and coordination of existing public works programs • Funding and assistance remains volatile

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Appendix continuation

Main Risks and Shocks		Determinants of Vulnerability	Outcomes	Most Vulnerable Groups	Progress in Response	Gaps and Challenges in Response
4. Health Shocks	Injury, illness, death, pandemic	• Have constrained access to clean water and sanitation • Live in poor housing conditions • Have low base of savings and assets to cover out-of-pocket expenditures for healthcare • Have poor access to quality preventive and treatment health services • Work in physical jobs with greater risk of accidents and injuries	• High maternal mortality rates • High infant mortality rates • Increase in incidence and severity of malnutrition, stunting, and poor cognitive development • Loss of assets and increased debt	• All poor and near poor • Pregnant women and early childhood (0–5 years)	• Health equity funds are financing healthcare for the poor in some areas	• Quality of healthcare remains poor • Coverage/access of health equity funds is not universal
5. Special Vulnerable Groups	Inability to work	• Have limited access to income generating activities • Suffer from marginalization in society, constrained access to services, and exclusion from opportunities	• Increased income and food insecurity	• Elderly • Households living with disability and chronic illness • Ethnic minorities	• Pensions for civil servants, National Social Security Fund for private sector employees • Some donor assistance to the disabled • Some assistance to ethnic minorities	• No pensions for the poor • Very limited assistance to people with disabilities • Limited assistance to other special vulnerable groups

Notes: A risk is a source of danger; a possibility of incurring loss or misfortune. When a risk occurs, it becomes a shock. The vulnerability of an individual or household depends on their ability to cope with a shock. This ability depends in turn on the individual or household's exposure to the shock, and sensitivity to it. People living under or near the poverty line tend to be more vulnerable to negative outcomes of shocks. Depending on the vulnerability of the individual and household, there can be a range of outcomes that result from experiencing the shock. While all poor and near poor people are vulnerable to shocks, some groups in the population are especially vulnerable to certain shocks.
Source: Author.

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C. The Social Welfare and Development Reform Agenda of the Philippines and Conditional Cash Transfers

Alicia R. Bala

1. Introduction

Of the Philippines' burgeoning population, 26.9% of families and 32.9% of the population, respectively, are poor.[1] This presents a compelling challenge for the government to implement a social protection policy for the poor and vulnerable. The enormity of the issue of poverty and the increasing inadequacy to address the problems of the poor and vulnerable requires a rethinking of the development approaches. The challenge now is to optimize existing resources and create new ones to produce strategic results.

In its desire to perform better, the Department of Social Welfare and Development (DSWD) embarked on a number of initiatives to assess where it is in the continuing process of becoming a leader in the social welfare and development sector.

2. The Social Welfare and Development Reform Program

The DSWD has taken on the initiative to reform its vision, mission, and goals to become a leader in the social protection sector. One of the key steps that the government has taken to address major deficiencies in its social protection policies is to embark on the Social Welfare and Development Reform Program. The program aims to improve the

1 Data are from the National Statistical Coordination Board, and are for 2006.

outcome of social welfare development services and improve governance of service delivery, making it faster, better, and smarter through effective policies and programs, improved capacity to play a leadership role, and a clear and effective communications and monitoring and evaluation system.

The following principles guided the formulation of the reform agenda:

(1) **Total sector approach through convergence and collaboration.** A total sector approach will be used by engaging partners and intermediaries and ensuring that all contribute to social protection. The reform agenda will provide the DSWD with a roadmap in performing its leadership role in social protection—promoting the interest of the groups and sectors it vowed to protect by engaging government agencies and units at all levels and ensuring that all contribute to social protection. Real leadership means the ability to distinguish when the DSWD needs to steer and when it should row.

(2) **Social inclusion and equity.** The poor, vulnerable, and disadvantaged will have preferential access to social protection. The reform agenda will enable the DSWD to realize its vision, perform its mission, and attain its goal of protecting the poor, vulnerable, and disadvantaged, providing them preferential access (social equity) to social assistance, social protection, and safety nets.

(3) **Appropriateness and empowerment.** The reform agenda will be rooted in the vulnerabilities of the poor and their capacities. The agenda's approach to social protection is both empowering and developmental.

(4) **Efficiency and social accountability.** Realities call for smarter use of resources through fiscal prudence, "subsidiarity" (having some DSWD functions carried out by local governments),[2] and complementation. The reality of limited resources dictates that the DSWD must optimize resources by focusing its efforts and exercising fiscal prudence, cost effectiveness, and efficiency, and maximizing the engagement and involvement of all stakeholders. Thus, the DSWD will be guided by the principles of subsidiarity and complementation. The call is to minimize, if not totally remove, overlapping or duplication of effort, i.e., not to do what other agencies are already doing or are tasked to do.

2 Some DSWD functions can be better, more efficiently, and more cost-effectively carried out by the local government units than if they are done centrally through the DSWD.

(5) **Sustainability.** The reform agenda and processes involved in pursuing it have to be sustainable in terms of material resources (budget and funds); the institution (systems, structures, and technology); human resources (capacities and skills); and public expectations. The agenda has to be financially and politically sustainable. It needs to be able to withstand changes in leadership of the organization. Internal measures have to be put in place to consolidate the gains of the reform process, including core group reform workers who are internal and external to the DSWD.

The four DWSD reform areas are aligned with its intention to improve DSWD's effectiveness in delivering social welfare programs and to put into place the building blocks for developing a more coherent social protection system as it pursues its leadership in the social protection sector. The reform areas are as follows:

Reform Area 1: Leading in Social Protection. This focuses on developing and implementing a social protection framework and on strengthening DSWD's capacity to play a leadership role in social protection. The DSWD Reform Agenda guides the reform processes and thrusts for the social protection sector. The general goal of the sector is to provide social protection to the poor, vulnerable, and disadvantaged.

The development of social protection was taken up in the Sub-Committee on Social Protection under the Millennium Development Goals and Social Progress of the Philippine Development Forum, the members of which include national government agencies and international organizations.

The Cabinet-level National Economic Development Authority (NEDA) Social Development Committee (SDC) issued NEDA–SDC Resolution No. 1, 2007, entitled Adopting a Philippine Definition of Social Protection, which defines social protection as follows:

> Social protection constitutes policies and programs that seek to reduce poverty and vulnerability to risks and enhance the social status and rights of the marginalized by promoting and protecting livelihood and employment, protecting against hazards and sudden loss of income, and improving people's capacity to manage risks.

The DSWD led the formulation of the Social Protection Operational Framework and Strategy Paper, which was officially adopted during the NEDA–SDC Cabinet-level meeting in October 2009. The adoption of the framework and strategy is envisaged to jumpstart activities to implement a mechanism that will help the government's social protection programs converge to achieve greater impact and synergy.

The general thrust laid down by the Philippines' President is to strengthen and coordinate the government's current social protection efforts as supported by Presidential Administrative Orders 232 and 232-A, Strengthening the Clustering of the Social Welfare Reforms into a National Social Welfare Program, issued in July 2009. This led to the National Social Welfare and Development Cluster commissioning a study by the Development Academy of the Philippines to review the government's social protection programs. The objective was to determine how to rationalize the allocation of resources for priority programs that need to be scaled up, merged, harmonized, or realigned, given the government's limited resources.

Central to embarking on social protection programs and initiatives is the development of an objective and transparent targeting system that will aid the government in crafting and implementing social protection for the poor. Thus, DSWD initiated the development of the National Household Targeting System for Poverty Reduction (NHTSPR), a tool for identifying where and who the poor are. The aim is to reduce exclusion of the poor and leakages to people who are not poor. This targeting mechanism was principally used for DSWD's conditional cash transfer (CCT) program, the Pantawid Pamilyang Pilipino Program (4Ps). An advisory group constituted for the NHTSPR involves the national government, academia, the private sector, and national statistical agencies. The aim is to ensure policy and operational coherence.

DSWD's reform agenda policy milestones include (1) the adoption of the Social Protection Operational Framework by the NEDA–SDC; (2) the issuance of National Anti-Poverty Commission Memorandum Circular No. 1, 2009, which directs all government agencies to focus their antipoverty programs and projects on the 1 million poor households; and (3) Executive Order No. 867 of 2010, which provides for adopting the NHTSPR as the mechanism for identifying nationwide the poor households that will be recipients of social protection programs. These milestones are critical for putting in place a mechanism to implement the Philippines' social protection strategy. The strategy is essentially anchored on the mechanism through which the government's social protection programs can be converged.[3] Embedding social protection in the reform agenda is the DSWD's main contribution to the social development spectrum and ensures that there is a coordinated mechanism for social services and programs.

Reform Area 2: Providing Faster and Better Delivery of Social Protection Programs. The second reform area involves improving and developing DSWD's models of service delivery and improving coordination with local governments, stakeholders,

[3] The convergence mechanism allows national government agencies to collaborate in implementing social protection projects to ensure greater impact and outcomes by agreeing on (1) geographical coverage, (2) target beneficiaries, (3) programs and services, and (4) a monitoring and evaluation system.

and partners in planning, budgeting, and implementing programs. The different service models include a family–household model (the 4Ps), a community-based model (Kapit-Bisig Laban sa Kahirapan Comprehensive and Integrated Delivery of Social Services or KALAHI–CIDSS), a center-based model, and a disaster management and risk mitigation model.

The convergence of the 4Ps with other social protection assistance programs (such as the Department of Education's Food for School Program) was framed following an executive directive to address the issues of leakage and the exclusion of poor households. Moreover, the convergence mechanism builds on other reform initiatives of central agencies, such as the Department of Education's Basic Education Sector Reform Agenda and the Department of Health's FOURmula One.

Reform area 2 also empowers local government units through capacity building and technical assistance, by resource augmentation, and by designing of a performance-based incentive system for devolved programs and services. The local government units' participation is particularly critical to ensuring the supply-side requirements of programs such as the 4Ps and KALAHI–CIDSS (i.e., day-care and health centers, schools, and other small-scale infrastructure subprojects) and contributes to improved local community governance.

Following the DSWD's core mandate of improving services through standards and regulations, a harmonized system of registration, licensing, and accreditation and/or certification, was pursued together with the establishment of a database of all partners and nongovernment organizations.

Reform Area 3: Financial Reforms to Sustain the Reform Process. This involves securing more predictable funding for the core DSWD functions and more strategic budget allocation, including augmenting the resources of local government units and other partners.

With the approval of DSWD's Medium-Term Expenditure Program, 2010–2014, by the Development Budget Coordination Committee under the NEDA Board, the financing of the 4Ps for the next 5 years is ensured, therefore, guaranteeing sustained human capital investment to poor households in terms of education and health benefits.

Reform Area 4: Improving Systems for Service Delivery. The fourth area will focus on improving cross-cutting and systemic changes, such as monitoring and evaluation systems and management information systems, maximizing the use of information and communications technology (ICT) and enhancing organizational capacity and technical know-how on issues and innovations related to social protection. The development of the ICT component of the 4Ps was aligned with this reform thrust.

Given the accentuated focus on the 4Ps, monitoring its results and impact on beneficiaries is critical for the program to continue. The 4Ps' monitoring and evaluation system, while programmatic in nature, is aligned with the DSWD's monitoring and evaluation framework and continues to be enhanced for an objective impact evaluation. The effective implementation of the CCT program lends credence to DSWD's leadership in social protection.

3. The CCT Program

The 4Ps serves as the microcosm of DSWD's reform agenda. The 4Ps embraces the reform agenda and is the fruit of all the lessons that the government has learned in the course of providing social assistance to the poor. This is why the 4Ps' program structure emphasizes strengthening the targeting system; partnership with stakeholders; resource management; and monitoring and evaluation to include a compliance verification system, a grievance mechanism as a form of feedback from beneficiaries, and impact evaluation.

The 4Ps is a social assistance and social development program that aims to break the intergenerational cycle of poverty by providing families with means to develop their human capital. This program was adapted from the CCT programs in Latin American and African countries. In principle, the CCT's main strategy is to link cash to behavior by providing money to poor families contingent upon certain verifiable actions, generally minimum investments in children's human capital. The conditionalities that beneficiaries have to comply with to continue their enrolment in the 4Ps are as follows:

- pregnant women must have pre- and post-natal care, and be attended by a skilled, trained health professional during childbirth;
- parents or guardians must attend responsible parenthood sessions, mother's classes, and parent effectiveness seminars;
- children 0–5 years old must receive regular preventive health checkups and vaccines;
- children 3–5 years old must attend daycare or pre-school at least 85% of the time;
- children 6–14 years old must enroll in elementary or high school and attend at least 85% of the time; and
- children 0–14 years old must take deworming pills every 5 months.

All household beneficiaries sign an oath of commitment that binds them to fulfill the conditionalities set by the 4Ps. Poor households with children 0–14 years old and/or pregnant women are eligible for health transfer currently set at P500.00 ($10.42) per household per month. The education transfer is P300 ($6.25) per month, for 10 months per year (P30,000 or $62.50 per year) for up to a maximum of 3 children per family. In its second year of implementation in December 2009, the 4Ps covered 692,798 household beneficiaries with cash grants amounting to P5.96 billion. The program currently covers 664 municipalities, 60 cities, and 80 provinces nationwide.

Support systems have been developed to ensure proper implementation of the 4Ps. The proxy means test targeting model was used to identify program beneficiaries. This model became the basis for creating the NHTSPR, which aims to reduce the leakage rate from pro-poor programs. The compliance verification system is a six-step monitoring system that will assess the compliance of beneficiaries with conditionalities. Impact evaluation measures the current and projected outcomes of the 4Ps as a basis to enhance and replicate the program design. Last, the grievance redress system consists of a monitoring system and a set of guidelines for handling complaints. The DSWD, in coordination with advisory councils composed of the Department of Education, Department of Health, Department of Interior and Local Government, and National Anti-Poverty Commission at the national, regional, and municipal levels will ensure the proper implementation of 4Ps. Stronger partnerships with local government units, in particular, will help augment resources for social welfare development services related to implementating the 4Ps.

4. Lessons

Paramount to the success in implementing any social welfare program is a targeting system that clearly identifies eligible beneficiaries through an objective and transparent system. Moreover, a monitoring and evaluation system should be in place with a compliance verification system, a grievance redress mechanism, and impact evaluation. Active participation of program beneficiaries is also essential and the setting of conditionalities ensures this, whereby rising from poverty is not the sole responsibility of the state but entails also a firm willingness of the poor to better their lives.

The design of the 4Ps program takes into consideration a gender perspective by creating opportunities for women to actively participate by managing the cash transfer. This also raises the level of confidence and improves the level of social inclusion of the recipients as they deal with financial institutions, from which they were previously marginalized for lack of opportunity. Furthermore, parents' and/or guardians' attendance at seminars is creating more empowered and more responsible individuals in coping with family and community responsibilities.

The 4Ps also illustrates that social assistance models, like the field of social development itself, are constantly growing. The models evolve based on lessons learned during program implementation. CCTs are more cost-effective than simply providing financial assistance. More importantly, the 4Ps empowers the poor to demand services from their local governments not as a privilege but as an entitlement or right to access basic services, thus changing the paradigm in the delivery of social services from a needs-based to a rights-based approach. Good governance is crucial in CCT implementation. The creation of the NEDA–SDC Sub-Committee on Social Protection also plays a critical role in ensuring that social protection programs and initiatives are carried out in a sustainable fashion to address the burgeoning problem of poverty even with the change of political leadership. Last, it may be meritorious to step up efforts to complement the 4Ps with other social protection programs.

5. Way Forward

The following are the key imperatives for action:

(1) **Implement the social protection strategy.** The recently created NEDA–SDC Sub-Committee on Social Protection, chaired by the DSWD, is expected to develop and formulate a referral system for the social protection programs, develop a graduation scheme and sustainability plan for social protection beneficiaries, and establish a monitoring and evaluation system to alert the program administrators of any change in the socioeconomic status of its beneficiaries.

(2) **Formulation of a 5-year social protection plan 2011–2016.** The medium-term Social Protection Plan is envisaged to be the blueprint for policy makers, planners, and program implementers. The plan should indicate the specific approaches and strategic social protection interventions best suited to be carried out by responsible agencies and entities to cover specific target groups and vulnerabilities. The plan should indicate the risk–response gap of the present government programs and interventions on social protection and the reforms needed to address these gaps. The DSWD through the NEDA–SDC Sub-Committee on Social Protection will lead the formulation of this medium-term plan after conducting a series of capacity-building workshops on social protection for partner agencies.

(3) **Mainstreaming of social protection in the successor medium-term Philippine development plan.** With the accentuated focus on social protection and providing human security, mainstreaming social protection

concepts, approaches, and strategies in the medium-term plan would lend credence to the continuing efforts to upscale development interventions and key policy reforms along this line. Social protection is broad-based and essentially covers the components on labor market interventions, social welfare, social insurance, and social safety nets.

(4) **Impact evaluation of 4Ps.** The results of implementing the 4Ps should be assessed to determine whether the program design has achieved the objectives of its conditionalities on education, health, and nutrition. As the core social protection program of government, the challenge for the 4Ps is to effectively and efficiently respond to its main objective of breaking the intergenerational cycle of poverty while providing long-term investment in human development.

D. Social Protection of the Vulnerable in the Pacific

Allison Woodruff and Sunhwa Lee*

1. The Role of Informal Social Safety Nets in the Pacific

Risk is an inherent part of life in the Pacific as the small island states are vulnerable to numerous shocks, including frequent natural disasters such as cyclones, flooding, and drought. The islands are also at risk from economic recession and commodity price shocks (e.g., the episode of high food and oil prices in 2008), which are known as "covariate risks," because they tend to affect everyone in a particular community or region. Other household-level shocks, known as "idiosyncratic shocks," including unemployment, sickness, or death of a family member, are also common. Households in the Pacific, as elsewhere, over time have developed informal systems of transferring resources to people in need of support through family and community networks. In the absence of access to formal social security, credit, or insurance markets, households have to some extent been able to smooth their consumption over time even when faced with income shocks.

Redistribution of resources among communities and extended family networks is at the core of most Pacific island cultures. Within a typical traditional village setting, everyone is entitled to land, food, and a share in community assets, and households can expect support from others during difficult times. This is demonstrated by the communal land ownership structures in all Pacific island countries. For example, in most Melanesian countries, this is referred to as the *wantok* system, which literally means "one talk," because it includes providing informal support through extended families and clans

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who share a common language. In Samoa, the sharing of resources among extended family and community networks is viewed as an essential element of *Fa'a Samoa* or the "Samoan way of life." In Kiribati, under the *bubuti* system, if asked, households are required to share with community members in need. These informal safety net mechanisms have largely spared the Pacific islanders from the extreme poverty seen in other parts of the world.

In the context of strong community and kinship ties, the existence of a formal state and its involvement in the management of local affairs is a relatively new phenomenon in the Pacific (Hassall and Tipu 2008). In most countries in the region, formal national administrative structures were created during colonial times. As a result, traditional community leaders and decision-making structures still tend to be regarded as the most legitimate institutions for meeting the needs of community members. For example, in Solomon Islands, which has many ethnic groups and a weak national government, people tend to identify most strongly with their kinship groups. Even in homogenous Polynesian countries with strong national government institutions, traditional community leaders wield significant power, as evidenced by national legislation such as the Village Fono Act in Samoa and the Falekapule Act in Tuvalu, which enshrine traditional village-level decision-making structures (Hassall and Tipu 2008).

However, with the spread of the cash economy, increasing migration to urban areas, and population growth, traditional informal safety net mechanisms are being stretched and have been breaking down in recent times. While better-off households are able to draw on savings and access formal credit and insurance markets, less well-off households are finding difficulties meeting their basic needs during times of stress. For example, as a result of the recent economic crisis, in the absence of adequate coping mechanisms, an estimated additional 50,000 people in the region will be living below the poverty by the end of 2010 (ADB 2009). As people move away from rural subsistence activities to the urban informal sector, cash income is increasingly needed to meet the basic costs of living, including food, shelter, clothing, and school fees. At the same time, urban unemployment rates, especially among the youth, are high in most of the Pacific developing member countries (PDMCs) of the Asian Development Bank (ADB).

Many studies from developing countries have shown that traditional village-level coping mechanisms work best for idiosyncratic shocks when only some households require assistance, such as in cases of sickness or unemployment (Norton, Conway, and Foster 2001; Dercon 2002). However, empirical studies from other regions also find that informal systems are only capable of providing households with partial rather than complete risk sharing arrangements, meaning that household consumption will not be completely smoothed over time in the face of income volatility.[1] Informal social safety nets are generally not effective at insuring against covariate risks, such as floods and drought, which cause widespread hardship in a community, or when there are successive covariate shocks, such as the current episode of high food prices followed by the global financial crisis. There may be exceptions, such as overseas remittances, that act as an important informal social safety net in the region, particularly in countries such as Samoa and Tonga, and to a lesser extent in the Fiji Islands, Kiribati, and Tuvalu.[2] In general, family members working overseas will not be affected by the same shocks faced by households in receiving countries (Gunther and Harttgen 2006). However, this is not always the case—remittances to the region have fallen as a result of the global financial crisis, which has imposed hardship in both remittance sending and receiving countries (ADB 2010). For example, many households in Kiribati and Tuvalu have been negatively impacted by lower demand for seafarers, which has resulted in lower remittance levels.

2. Which Groups in the Pacific Face Hardship?

Generally, PDMC policymakers prefer to use the term "hardship" to describe poverty in the region, given that the nature of poverty in many Pacific countries relates more to a lack of access to quality essential services such as water and sanitation or health and education facilities, and lack of income earning opportunities, than to extreme forms of deprivation such as hunger. ADB conducted several participatory assessments of hardship in PDMCs during 2001–2006. Through this process, a definition of hardship in the Pacific was developed and includes a lack of

- access to basic services such as healthcare, education, and clean water;
- opportunities to participate fully in various social and economic aspects of community life; and
- access to productive resources and income generation support systems (rural credit, capital, markets, and skills) to meet the basic needs of the household, and/or customary obligations to the extended family, village community, and/or the church (Pollard and Abbott 2004).

The quality of poverty statistics for many PDMCs is poor, with data often being out-of-date or unavailable. This makes it difficult to accurately identify and effectively target assistance to the most vulnerable households. The Table presents the most recent estimates on the incidence of poverty in selected PDMCs using the methodology

[1] Dercon (2002) discusses of empirical studies on this topic.

[2] In 2006, the World Bank estimated that remittances accounted for 41.9% of Tonga's gross domestic product (GDP), 26.3% of Samoa's GDP, and 6.7% of Fiji's GDP (World Bank 2006).

developed by the United Nations Development Programme (UNDP) to calculate food and non-food poverty lines for selected countries.[3] However, as improved methods are being developed to estimate national and regional poverty lines, the accuracy of these figures has been questioned. In particular, the findings of recent analyses for selected PDMCs indicating that poverty is worse in urban than in rural areas has been challenged (Narsey 2008, 2009a, 2009b).

Poverty Incidence in Selected Pacific Countries

	Basic Needs Poverty Incidence (%)		
Country	**National**	**Urban**	**Rural**
Cook Islands	28.4	30.5	23.6
Marshall Islands	20.0	…	…
Samoa	20.3	23.3	17.9
Solomon Islands	22.7	32.2	18.8
Tonga	22.3	23.6	22.8

… = data not available.
Note: The "basic needs poverty incidence" refers to the proportion of the population living below the non-food poverty line.
Sources: Cook Islands Statistics Office (2006); Republic of the Marshall Islands, Economic Policy, Planning and Statistics Office (1999); Secretariat of the Pacific Community (2002); SINSO and UNDP (2008); Kingdom of Tonga Statistics Department (2001).

At a broad level, Naidi (2001) identified the following as being vulnerable through a lack of access to economic resources, education and health services, employment and credit, and infrastructure and markets include

(1) rural communities, particularly rural children;
(2) rural women involved in both subsidence and wage activities;
(3) out-of-school and unemployed youth;
(4) landless people—outer island and inland migrants to coastal towns and cities;
(5) low-paid wage workers—the formal and informal sector working poor;
(6) disabled people for whom facilities for education, training, and rehabilitation, including opportunities for employment, are limited;
(7) the destitute, comprising deserted wives, widows, single parents, the chronically ill, the severely disabled, and the aged, who require social safety nets for short-term or long-term needs; and
(8) children of the poor, who require special attention for healthcare and opportunities for education and training if the cycle of poverty is to be broken.

[3] For an outline of the methodology used in PDMC poverty analyses see, for example, SINSO and UNDP (2008).

Furthermore, a recent analysis of vulnerable groups and groups most exposed to the negative impacts of the recent global financial crisis found that the most vulnerable and exposed groups include the "working poor"—people earning wages that are not sufficient to meet their basic needs; people working in industries that contracted during the global crisis, such as construction and tourism; households headed by elderly and single parents with low income; and households that receive remittances (ADB 2010).

In summary, full understanding of the extent and depth of poverty in the region is poor, which poses a challenge to the development and implementation of effective social protection programs. However, in the absence of formal risk coping mechanisms or informal support, during times of hardship, vulnerable groups will increasingly be forced into poverty-entrenching support mechanisms. Anecdotal evidence from the region has already highlighted examples of this. For example, in Samoa, children were being taken out of school either because their parents have been unable to afford to pay school fees or so that children could earn income for their families in the absence of other sources of livelihood (Chhibber 2009). Household coping mechanisms of this type can result in a vicious circle of poverty by raising the likelihood of future as well as current generations in a household living in poverty.

3. Formal Social Protection Coverage

In the context of rising hardship faced by vulnerable groups and declining effectiveness of informal safety nets, pressure for PDMC governments to strengthen formal social security programs has been increasing. However, formal social protection remains relatively limited in the region. Most PDMCs have established provident funds that provide pensions for formal sector workers, particularly retired civil servants, while other countries, including the Cook Islands, Kiribati, and Samoa, have also introduced universal income support payments for the elderly. The comprehensive social welfare system in the Cook Islands is unique in the region, as universal benefits are provided for the elderly and for children. Support targeted to people with disabilities, caregivers, and people facing hardship (known as the "destitute") with no means of support is also provided. In the Fiji Islands, the Family Assistance Program provides limited benefits for those in need, and recently the country has introduced a program that provides transport subsidies for schoolchildren.[4] However, benefits provided under various schemes in Pacific island countries tend to be poorly targeted and/or benefits are not aligned with the actual costs of meeting basic needs.

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4 For more details on programs in the region see UNICEF (2009), Naidu and Moharty (2009), and ILO (2006).

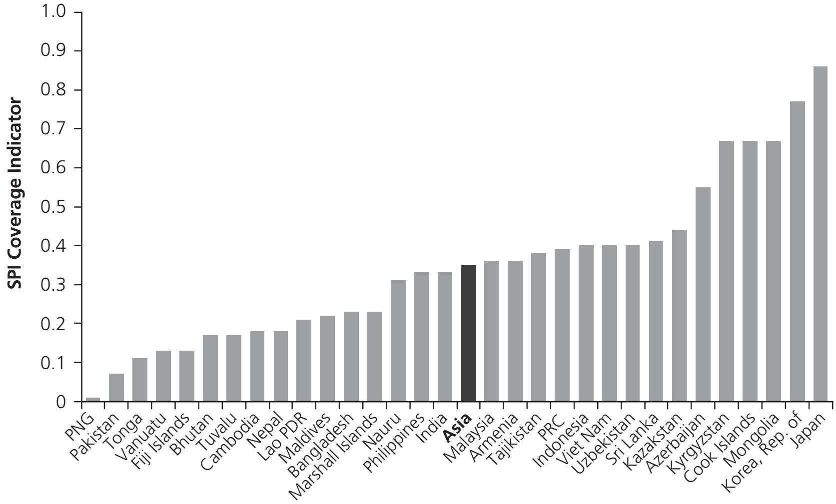
ADB has developed a social protection index that includes four quantitative indicators to measure and compare the adequacy of social protection in its member countries. The indicators include (1) expenditure on social protection (as a percentage of gross domestic product), (2) coverage of social protection programs in terms of the extent to which they reach their target populations, (3) poverty targeting in terms of the proportion of poor who receive social protection transfers, and (4) impact of social protection expenditures measured as the average expenditure on social protection per person living below the poverty line (ADB 2008).

Using this methodology, formal social protection systems were examined in eight PDMCs: the Cook Islands, the Fiji Islands, the Marshall Islands, Nauru, Papua New Guinea (PNG), Tonga, Tuvalu, and Vanuatu. Although some PDMCs ranked above the Asian average in terms of expenditure on social protection programs, the efficiency of spending in some PDMCs is quite low, particularly in countries such as the Marshall Islands and Nauru. For example, the level of per capita social expenditures in the Marshall Islands is among the highest in the Pacific, yet the country has some of the worst human development outcomes in the region. In terms of overall coverage ratios of target groups for social protection, PDMCs rank below the Asian average. Except for the Cook Islands, as the Figure highlights, social protection coverage of PDMCs included in the study ranged from 30% of target groups receiving some form of formal social protection in Nauru to only 1% of target groups in PNG.

To provide access to essential public services among vulnerable groups, many PDMC governments provide free basic education and health services to the general population. Recently, in response to hardships faced by vulnerable groups in Samoa, Solomon Islands, and Vanuatu, “fee-free” primary education schemes have been introduced with substantial support from donors. However, the quality of service remains poor in many countries, and access is generally limited outside of urban areas, particularly in larger, more populous countries such as Solomon Islands.

Government capacity to design, implement, and monitor social protection programs in the region remains limited. Data on vulnerable groups are poor and are not often collected on a regular basis, which makes identifying and monitoring vulnerable groups difficult. This may be a reason why some PDMC governments have opted for universal benefit schemes. However, an approach that also benefits non-poor groups may impose a high financial burden. In addition, in cases such as the Fiji Family Assistance Program, the process under which householders are deemed to be eligible for benefits is far from transparent. According to a recent ADB study, this has allowed the involvement of political patronage, with some ministers favoring applicants from their own constituency. As a result, many people in the Fiji Islands who are eligible for and need assistance do not get it (ADB forthcoming).

Overall Social Protection Index Coverage Indicator for Selected Countries in Asia and the Pacific



Lao PDR = Lao People's Democratic Republic, PNG= Papua New Guinea, PRC = People's Republic of China, SPI= Social Protection Index.
Source: ADB (2008).

4. Moving toward Community-Based Social Protection Approaches

Involving community and nongovernment organizations (NGOs) in the delivery of basic social services, particularly to vulnerable groups, is common across the Pacific. Such groups are normally decentralized and well integrated into existing social structures. In many Pacific countries, governments and community organizations such as churches have established partnerships, particularly in the health and education sectors, where public resources in the form of operating grants and staff salaries are channeled to schools and hospitals that are not operated by the government. In the Solomon Islands, churches are very active in delivering health and primary education services, particularly in rural areas. In Tonga, churches run schools that are largely attended by children from less well-off households. In Samoa, a network of women's committees is heavily involved in managing publicly funded rural health services. In the Cook Islands and Tonga, in the absence of government programs, NGOs provide basic support services to vulnerable groups such as people living with disabilities and women who are the victims of domestic abuse.

Community delivery of basic social services not only builds on the strong tradition of community support networks in the region, but also assists in overcoming capacity and financial resource constraints that limit the government's ability to provide broad basic service coverage to the entire population, particularly in rural areas. Similarly, the existence of informal safety nets and weak government capacity to identify, target, and channel support to vulnerable groups provides the rationale for building on the existing systems to develop semi-formal social safety nets, i.e., channeling public funds through informal networks under a formal government–community partnership agreement. Semi-formal safety nets could take many forms, but, at the broadest level, could include government provision of block grants to be used by communities to support vulnerable groups through existing informal systems.

In Europe, many of the current formal national social security systems evolved from services provided by cooperatives and trade unions. For example, in the United Kingdom, "benefit" or "friendly" societies played a critical role in providing informal social protection to the population, particularly in the transition from a rural, agrarian society to an urban industrial society. Beginning with "coffin clubs" in the mid-18th century, members paid a regular contribution toward a common fund that was used to pay for funerals. Over time, friendly societies began offering members a larger range of services, including unemployment and sickness insurance, and pensions for widows and orphans (Norton, Conway, and Foster 2001). Similarly, community-based targeting mechanisms were used in England under the Poor Laws until 1834 to provide assistance to the poor. Under this system, by the 16th century, an estimated 12,000–15,000 local parishes were responsible for administering and financing support to people in need of assistance. Also, since 1994 in Uzbekistan, the government has used quasi-religious community organizations called *mahallas* to target and deliver child benefits and other forms of assistance to low-income families (Conning and Kevane 2002).

Many advantages are associated with community-administered social protection systems. First, community-based systems have the potential to overcome information asymmetries. Often communities are well placed to identify and monitor the people who are facing hardship and may require additional assistance to meet their basic needs. This is particularly true in many PDMCs, where governments have poor information on vulnerable groups and lack the capacity and resources to design effective social protection programs. As a result, what programs exist in the region often suffer from high levels of benefits "leakage" to non-poor groups or abuse and corruption. Also, given lower information costs, community-based systems may achieve the same objectives as formal systems but at lower cost (Conning and Kevane 2002). Given limited government budgets and high costs of setting up and implementing formal systems, informal systems may be appealing. Transparency and accountability may also be increased because community members are better able to see where resources are being channeled. Community-based social protection systems may also be more flexible for meeting specific community needs and circumstances than formal one-size-fits-all approaches administered at the national level. In addition, semi-formal systems that build on existing informal social safety nets may be less likely to "crowd-out" existing forms of support than might be the case with formal government-operated systems. For example, in the Cook Islands, which has the highest per capita income levels in the South Pacific and where most households receive some form of government income support, informal safety nets such as remittances have largely been eroded. However, no conclusive empirical evidence exists to show that formal social welfare benefits crowd out informal safety nets. In fact, Heemskerk, Norton, and De Dehn (2004) find that access to formal welfare benefits strengthens informal networks by increasing households' ability to self-insure. Also, recent anecdotal evidence indicates that, during the current economic recession, access to social welfare benefits of unemployed Pacific island migrants living in New Zealand has allowed them to continue sending remittances to their home countries.

However, several challenges are associated with community-based approaches to social welfare service delivery. First, semi-formal systems may be subject to rent-seeking behavior or capture by traditional leaders who may not direct support to those who need it most, such as groups that are already marginalized or excluded from community activities. For example, Lundberg, Over, and Mujinja (2000) find that poor households are poor not only in terms of income, savings, and material assets, but also in terms of their social capital. They have smaller networks of friends, neighbors, and relatives on whom they can depend in times of crisis, and are therefore less likely to receive assistance than better-off households.

Second, traditional informal social safety nets, by their very nature, may not benefit the most vulnerable groups. For example, in some communities, poverty has been defined as a lack of social support, so the most vulnerable people in a community may not have access to informal support networks (Foster 2005). As a result, supporting and building on such systems would further marginalize these groups. For example, a study from Uganda finds that informal social safety nets benefit middle-income groups more than lower-income groups (McDonald, Schiller, and Ueda 1999). However, a recent analysis of remittances, which act as an important form of informal social safety net in the Pacific, finds that remittances are also an important source of income for households in the bottom income deciles in Samoa, the Fiji Islands, Tonga, and Tuvalu, and not just better-off households (ADB 2010).

Finally, in some societies, where traditional decision-making structures are patriarchal, the needs of women may not adequately be addressed through informal support networks. For example, women may have limited access to resources such as land, or may not receive community support if their actions are seen to break the strict codes of conduct that exist in many village settings in the region.

The use of community-based systems also assumes that there is sufficient capacity within a community to administer social welfare systems. However, there is much evidence that capacity and levels of social capital vary markedly between communities (e.g., Putnam 1993). Experience with community-based rural electrification projects in the Fiji Islands, which require significant community participation and management, demonstrates that project success is highly correlated with community capacity and cohesiveness.[5] Therefore, while community-based systems may work well in some communities, they may be ineffective in others. Similarly, community-based projects are often proposed as alternatives in cases where national government capacity is weak. A strong government role, however, is still required to administer programs, disburse funds to communities, and monitor implementation to ensure that funds are properly used so that those who require assistance receive it. However, government capacity in some PDMCs with weak institutions may not be sufficient to effectively oversee community-based social protection programs.

A further issue associated with community-based social protection programs in the Pacific is that the region's population is rapidly urbanizing. As a result, urban poverty is becoming a growing problem in many cities in the region with increasing unemployment and increased need for cash to meet basic needs. As households migrate to cities, community ties may weaken; therefore programs that use traditional informal networks may not be appropriate for providing support to vulnerable urban households. For example, Monsell-Davis (1993) finds that in the urban areas of the Fiji Islands, Port Moresby, and Vanuatu, the "urban safety net" was declining in significance as demands on relatives increased. However, Gibson, Boe-Gibson, and Scrimgoer (1998) find in Port Moresby evidence of informal social safety nets working well, with poorer households facing sudden misfortune being able to tap into their community network for assistance. Research from other parts of the world also demonstrates that it is possible to establish community safety nets in urban environments.[6] In addition, in Solomon Islands, urban migrants often live in settlements with other members of the same *wontok*, which serves to maintain community bonds. Urban migrants in the country's capital, Honiara, are also known to maintain strong links with communities in their home provinces, often sending home cash in exchange for agricultural produce from their families.[7]

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5 Author's observations during field visits to Vanua Balavu and Taveuni islands as member of team commissioned by Fiji Department of Energy to carry out impact evaluation of Fiji 's Biofuel Program in 2006.

6 For more discussion on this issue refer to Foster (2005).

7 Authors' discussions with staff of Solomon Islands Development Trust in September 2009.

5. ADB's Approach to Social Protection in the Region: Pilot Testing Semi-Formal Safety Nets

Given strong community involvement in supporting people who face hardship and limited government capacity to deliver basic social protection services to those in need, ADB is pilot testing a new approach to social protection. The pilot test is part of the implementation of ADB's new regional strategy, the Pacific Approach 2010–2014. The aim is to extend targeted social protection to vulnerable groups. The initiative provides for country-led development and implementation of social protection policy. Specific components under this initiative include the following:

- **Strengthening understanding of the nature and extent of vulnerability in the Pacific.** To design effective social protection responses to events such as the current global financial crisis and the recent tsunami, participatory processes will be undertaken to better identify and understand how best to address the needs of vulnerable groups.
- **Pilot testing semi-formal safety net models and social protection programs.** These will build on existing informal community mechanisms for supporting vulnerable groups. The initiative will explore ways to channel public resources through traditional community mechanisms. Leveraging and strengthening existing informal systems can be cost-effective and sustainable.

This initiative will also seek to support selected PDMC governments to develop formal social protection policy. A specific focus will be developing a supporting regulatory framework and strengthening the link between government and community organizations and NGOs. Where community organizations and NGOs are better placed than government to identify and provide support to vulnerable groups, they will be contracted to deliver basic social protection services. In 2010, ADB is hoping to pilot test this approach in the Cook Islands, the Marshall Islands, Samoa, Solomon Islands, and Tonga.

6. Conclusions

In the context of strong informal community and family networks and limited government capacity in the Pacific, there is a strong rationale for developing community-based approaches to the delivery of social services, including social welfare. For several reasons, PDMC governments may wish to explore strengthening community-based social protection systems rather than replacing them with high-cost government-provided services. In addition, rather than replacing informal systems, government-provided services should seek to complement these systems where gaps exist. An example is widespread risks such as natural disasters, where informal forms of support tend to be insufficient. However, in encouraging the development of community-based social protection systems it is important that governments establish appropriate regulatory frameworks that support these systems.

An ADB initiative aims to build on and strengthen informal social safety nets in order to provide targeted support to vulnerable groups facing hardship. Community-based approaches may not be appropriate for all countries or contexts. ADB pilot projects in the region will offer important lessons on where such approaches can work well, and will offer a viable means of filling gaps in coverage by formal government-administered social welfare programs.

Continuing economic development in region, which will see rising incomes and growing urbanization, is likely to result in further erosion of traditional safety net mechanisms. At the same time, economic growth will mean that PDMC governments will be in a better position to invest in the development of more comprehensive formal social welfare systems. However, in the short- to medium-term, community-based approaches may provide an effective means of delivering social protection to vulnerable groups in an effort to reduce poverty in the region.

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PART VI

Child-Sensitive Social Protection

A. Social Protection in Nepal: Introducing a Child Benefit

Beth Verhey*

1. Background

Social protection comprises actions, usually government actions, to address not only income poverty and economic shocks, but also social vulnerability. Such actions include policies, services, and cash or other allowances and transfers. Thus, social protection mitigates growing inequalities in poverty and addresses social exclusion challenges in meeting the Millenium Development Goals (MDGs).

Social protection is also a right. Rights to income and to social protection are enshrined in Articles 22 and 25 of the Universal Declaration of Human Rights; 9 and 11 of the International Covenant on Economic, Social, and Cultural Rights; and 26 and 27 of the Convention on the Rights of the Child. Nepal's Interim Constitution also includes the right of children to social security.

In terms of social protection in Asia, Nepal is rated at 0.19 (the highest is 0.96 and the lowest is 0.01) on the Social Protection Index developed by the Asian Development Bank (Baulch, Wood, and Weber 2006). The Asian Development Bank (2000) noted the failure to recognize the positive economic effects of social protection, the loss of human capital when social protection is inadequately supported, and that children should receive more attention.

The current global economic context and Nepal's ongoing poverty reduction challenges necessitate a strong push for social protection. In Nepal, rising food insecurity and

* This paper combines a concept paper prepared by the author with the transcript of her presentation at the Regional Conference on Social Protection.

price increases have put about 12.5 million people at high risk of food insecurity.[1] An estimated additional 4 million people became food insecure in 2008 (WFP 2008). Global recession is likely to adversely affect Nepal in terms of migration for employment—remittances were 17% of gross domestic product in 2008. While 2.3 million people in Nepal are estimated to be beneficiaries of some form of social assistance in 2008, this constituted only one quarter of the country's total poor population. Highlighting the link to the imperative to invest in children, the World Bank estimated in 2007 that malnutrition in children in Nepal causes a loss of about 3% of gross domestic product (World Bank 2008).

2. Child Poverty in Nepal

Poverty in Nepal is widespread and children are over-represented among the poor. The United Nations Children's Fund (UNICEF) is partnering with the National Planning Commission and a national policy research nongovernment organization, New Era, to prepare a child poverty study based on the UNICEF Global Child Poverty Study template.[2] The data analysis shows that among children, the incidence of poverty, in terms of income and consumption poverty, is 36% whereas the national incidence is 31%. The reduction of poverty among children lags behind the national results—the national poverty incidence improved by 11 points from 1995/96 to 2003/04, but the child poverty incidence only improved by 8.5 points.

Nepal's poverty reduction strategies incorporate "human development" through basic social services and meeting the MDGs (Government of Nepal 2002). A strategic analysis of achieving health-related MDGs 1, 4, 5, 6, and 7 in Nepal indicates that Nepal has made good progress particularly with regard to MDG 4 (child mortality) and is one of seven countries globally that is on track to achieve this MDG (UNICEF 2008). Similarly, Nepal is on track for achieving MDG 2 for universal primary education. Despite this progress, data show that malnutrition remains high in Nepal, with 49% of children under 5 stunted (MOHP, New Era, and Macro 2006).

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1 Action Contre la Faim Survey, nutrition exploratory mission for the United Nations Children's Fund (UNICEF), May 2008.

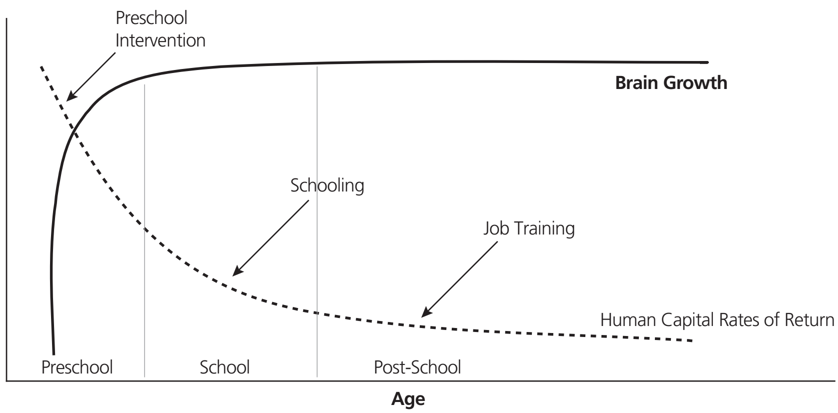
2 The UNICEF Global Child Poverty study applies the Bristol deprivation indicators. The Nepal child poverty study analysis uses data from the 1995/96 and 2003/04 Nepal Living Standards Surveys and 2006 Nepal Demographic Health Survey, from the Government of Nepal's Central Bureau of Statistics. The poverty analysis is based on consumption rather than income. A national poverty line is calculated on the basis of a bundle of food and non-food items considered essential to meet a person's minimum calorie requirements and other basic needs. The national poverty line was NRs5,089 per capita per annum in 1995/96 and NRs7,696 in 2003/04.

The draft child poverty study deepens this MDG tracking of progress (UNICEF, NPC, and New Era 2009). Applying a more multidimensional poverty analysis, we find strikingly that 69% of children in Nepal are severely deprived under at least one of the seven deprivation indicators in the Bristol method (Table 1), and that 38% experience severe deprivation under at least two indicators (Gordon et al. 2003).

Malnutrition is one of the most alarming aspects of child poverty and well-being in Nepal (Table 2). Under the MDG goals, Nepal aims to reduce the prevalence of underweight children less than 5 years to 27%, but the current rate is 44.8%. The rates of stunting in Nepal are even worse, with even the highest income quintiles showing rates over 30%.

In view of the irreparable harm malnutrition does to children, this dimension of poverty reduction needs to be addressed urgently. Global research demonstrates that good health and nutrition in the first years of life are crucial to physical and cognitive development and thus to a child's opportunity to thrive and realize his or her potential, as illustrated in the Figure. This demonstrates the high rates of return that can be realized through social protection investments in early childhood. Thus, Nepal's future human capital for productive lives and growth is severely compromised by the malnutrition among its children.

Impact of Nutrition on Brain Development



Sources: Heckman and Carniero (2003), Handa and Davis (2006).

Table 1. Nepal: Correlates of Severe Child Deprivations

	Indicators of Severe Deprivation	
Characteristics	At Least One	At Least Two
Wealth Quintile		
Poorest	96.6	74.9
Second	88.8	52.1
Third	73.0	33.3
Fourth	51.6	14.6
Richest	25.1	4.8
Region		
Mountain	75.4	43.0
Hill	62.1	33.3
Terai	74.1	41.3
Nepal	**69.3**	**38.2**

Source: Author, based on Gordon et al. (2003).

Table 2. Nutritional Status of Children

Background	Underweight	Stunted
Locale		
Urban	23.1	36.1
Rural	40.7	51.1
Sex		
Male	37.5	49.0
Female	39.7	49.6
Wealth Quintiles:		
Lowest	47.0	61.6
Second	46.0	54.9
Middle	41.7	50.4
Fourth	31.0	39.8
Highest	18.8	30.9

Source: MOHP, New Era, and Macro (2006).

3. Current Social Protection Context and Building Blocks in Nepal

Nepal has good building blocks for social protection, in particular the allowances and pensions for the elderly, widows, and the disabled, and schemes such as scholarships for socially excluded groups. However, at the policy level and in terms of the interministerial architecture for social protection, a more harmonized and strategic framework is needed. Social protection and social assistance schemes are fragmented in Nepal, administered by a large number of agencies. This results in uneven coverage, and shortfalls in delivery mechanisms and monitoring and evaluation.

4. Prioritizing Children in Social Protection

Children should be prioritized within social protection strategies. In Nepal and across the globe, children are over-represented among the poor and exclusion is intensified for children from marginalized communities. By virtue of their age and status, children are less able than adults to claim their rights. Chronic poverty, social exclusion, and shocks to a family and loss of family support can irreversibly affect children's lifetime development, capacities, and opportunities, resulting in intergenerational poverty.

A growing body of evidence shows that social protection policies are effective in addressing poverty and inequality. Prioritizing children within social protection generally should increase parents' access to livelihood and the availability of time and/or money within a household. In turn, this can reduce the need for child labor and related protection and development challenges. Key actions in this regard include providing allowances for widows and households headed by women, providing child-care services and support for family-based child care, ensuring inheritance rights, and expanding local social welfare services to access entitlements and allowances. Within employment schemes, UNICEF encourages innovations prioritizing children and women, for example in building infrastructure relevant to children (such as health posts, schools, and early child development centers) and using employment schemes to create additional staff in health, education, and social welfare services.

As a more specific innovation in social protection for children, UNICEF and other stakeholders have provided analyses showing that a universal child benefit (cash transfer) can be a crucial intervention to tackle child poverty in Nepal.

5. Global Evidence for Child Benefits

Global evidence is growing on cash transfers as a policy choice and their impact on multidimensional child poverty (Kamermann and Gatenio Gabel 2006). Significant cross-country research has been conducted in recent years on conditional cash transfer programs in Latin America, which have been well documented and received a lot of policy attention. The programs have been generally successful, especially their impact on childhood, but their cost-effectiveness and some of their design features are still questioned (e.g., Barrientos and DeJong 2006, Handa and Davis 2006).

In a West Africa regional research project, comprising a simulation on the Republic of Congo, Mali, and Senegal, a universal child benefit resulted in a 40.4% reduction in the aggregate poverty gap for Mali, a 30.0% reduction for Senegal, and a 13.3% reduction for Congo. The reductions in the poverty gap for children were even higher and this is not due to the targeting of children, because the child benefit is simply added to household expenditure and is assumed in the simulation to be distributed equally to all members of the household. The reduction in the child poverty gap in the simulation was 44.0% for Mali, 32.2% for Senegal, and 17.1% for Congo (UNICEF and ODI 2009).

In a global comparison, Barrientos and DeJong (2006) stress the correlation between childhood and poverty and between the number of children in a household and the household's depth of poverty as underpinning the strong effectiveness on poverty reduction of targeting cash transfers to children. This comparison found that child cash transfers are highly effective at poverty reduction regardless of design challenges and debates on targeting and conditionality. They found that the more universal schemes of Central and Eastern Europe had the best coverage in terms of reaching the poor, the conditional transfers of Latin America had the least leakage to the non-poor but high administrative costs and complexities, and the unconditional Child Support Grant of South Africa scored well on both coverage and avoiding leakage. Barrientos and DeJong (2006: 549) note that "conditions may penalize the very households which are most in need of support but which are held back by social constraints or adverse outcomes." In turn, evidence suggests that unconditional cash transfers have lower administrative costs and fewer implementation shortfalls (Kamermann and Gatenio Gabel 2006).

6. Nepal Analysis—Effectiveness of a Child Grant

Building on the global evidence, UNICEF and other stakeholders have been advocating that a child grant would be especially effective for Nepal as it could be implemented using existing mechanisms. In particular, the Department for International Development (DFID) supported the Economic Policy Research Institute to undertake data simulations for Nepal that strikingly demonstrate the efficiency and effectiveness of a child grant. One of the most challenging aspects of any social protection instrument or scheme is the extent to which it reaches all the intended beneficiaries (exclusion error) and the extent to which it includes unintended beneficiaries (inclusion error)—for example, with the old age pension, the extent to which all people over a given age are reached (exclusion error) and the extent to which someone incorrectly receives the old age pension (inclusion error). Table 3 shows low exclusion and inclusion error for a child grant, in fact error rates are considered low globally.

Table 3. Targeting Errors in Benefits for Children and the Elderly

Targeting Criterion	Households Targeted (%)	Poverty Rate of these Households (%)	Inclusion Error (%)	Exclusion Error (%)
Targeting Error in Benefits for Children				
Children < 5 Years in Household	47.53	80.99	19.01	42.51
Children < 10 Years in Household	67.89	76.14	23.16	22.80
Children < 15 Years in Household	81.11	72.84	27.16	11.77
Children < 18 Years in Household	87.14	70.92	29.08	7.71
Targeting Error in Pensions for the Elderly				
Household Member > 55 Years	38.02	65.14	34.86	63.01
Household Member > 60 Years	25.78	65.32	34.68	74.85
Household Member > 65 Years	17.78	64.98	35.02	82.75
Household member > 70 years	10.58	62.54	37.46	90.11

Source: Economic Policy Research Institute (EPRI) data simulations for Nepal.

In addition, the data simulation shows that a child grant covers poor households better than grants for the elderly; for example, among targeted households, 81% of those with children under 5 years are poor, whereas only 65% of those with a member more than 60 years old are poor.

As a policy option, the analysis shows that a child benefit in Nepal would be (1) effective in terms of reaching the poor and reducing poverty because it could build on the mechanism used to implement the social pension; and (2) efficient as it would also contribute to achieving improvements in child well-being from the longer term human capital perspective. In summary, UNICEF advocated that a child grant or benefit in Nepal would

- be rights based, consonant with Nepal's Interim Constitution and international obligations such as the Convention on the Rights of the Child and Universal Declaration of Human Rights;
- contribute to addressing the urgent malnutrition situation in Nepal, given that damage to physical, emotional, cognitive, and psychological development in children under 5 is irreversible;
- address the pervasiveness of poverty in Nepal and the disproportionate share of poverty among children;
- be remedial as well as transformative in addressing poverty and longer term human capital development for growth;
- mitigate economic crisis and food insecurity, as an injection of cash into low-income local economies;
- contribute to social cohesion and inclusion, especially as socially excluded groups have more children than the general population; and
- with further capacity building, build on the established implementation systems, including for birth registration.

7. Introduction of the Child Grant in Nepal

In July 2009, the Government of Nepal announced the introduction of a child grant. The program will start with an NRs200 (about $2.58) grant per month per child, which is less than the current old age allowance. The program is initially targeted geographically to 5 of the country's 75 districts and to "poor dalits" nationwide.[3] The 5 geographic areas are in the far west and were chosen partly because they are the most poor and have some of the highest malnutrition rates in Nepal.

At the time of this conference, the program is at very early stages of being set up and delivered. The introduction followed evidence building the case for the grants, as presented above; advocacy; and political support in a context where political parties want to be seen to propose measures to help reach excluded groups and the poor.

The child grant program uses the same registration and delivery system as Nepal's other targeted cash transfer systems, which include the old age allowance, a disability grant, and a scheme related to widows. UNICEF is assisting the government to start the child grant program with important capacity building and complementary measures to make it effective.

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[3] Dalit communities in Nepal belong to a caste that has long been marginalized, socially excluded, and traditionally treated as "untouchables."

One of the most important complementary measures is birth registration. The registration effort is concentrated on building the registry system for children who are 0–5 and in the five far west districts, so that monitoring and evaluation can be set up. Another measure—the Infant and Young Child Feeding Module—is related to nutrition awareness. The module is being rolled out through a system of community-based workers called "female community health workers."

8. The Policy Context of the Child Grant and Social Protection in Nepal

Many groups are very actively engaged in a lot of dialogue and analysis, and working to build a national policy or framework for social protection in Nepal. A development partner working group, including the Asian Development Bank and UNICEF, is working actively on social protection. In October 2009, the National Planning Commission established the National Steering Committee on Social Protection. Separately, the Ministry of Finance has a special committee looking at social security reform. One proposal is to approve a 1% social security tax, and to use the funds to support other social security and social protection programs.

This process for forming the broader policy framework with the National Steering Committee highlights how a child grant or specific measures may fit. In Nepal, as many as 10 ministries are involved in social protection, with a number of fragmented and overlapping schemes. Under the leadership of the National Planning Commission, Nepal has realized the need to analyze the different measures to more effectively address poverty and vulnerability under a more comprehensive, strategic framework.

Policy dialogue has been looking at social security measures that are delivered as cash transfers, and at social protection measures that cut across other traditional social sectors. Thus, the efforts in Nepal fit very well with the International Labour Organization's Social Protection Floor Initiative (Table 4).

Because the National Steering Committee found the social protection floor concept very useful, the Committee is trying to map out what Nepal already has; see how it matches elements of the Social Protection Floor; and analyze choices to expand or consolidate instruments, particularly around delivery systems. Within the mapping and analysis discussions, there is very broad support for the child grant as it is a particularly effective tool for reaching the poor.

Table 4. The Social Protection Floor Initiative and Nepal

Social Protection Floor	Nepal
Universal Pension Coverage	• Senior citizens' allowance • Single women's allowance • Transfers to vulnerable indigenous people
Universal Child Grant	• Child grant (Karnali; dalits) • Scholarships • Transfers to young vulnerable indigenous people
Disability Grant	• Disability grant • Transfers to disabled vulnerable indigenous people
Unemployment Program	• Rural community infrastructure works program • Karnali employment program • Youth self-employment program

Source: Author.

Finally, two points are highlighted.

(1) Some confusion arises with the word "protection," because it is used variously referring to protection from vulnerability and to more specific issues around violence, exploitation, and abuse. Particular categories of children, such as orphans, whether they are affected by disease or conflict, gender-based violence, or homelessness, are all part of the larger group of vulnerable children. Often, the same systems can be used to reach, support, and protect these children that are needed to implement social protection in general.

(2) Ministries for women, children, and social welfare often play a major role in delivering social protection. To expand social protection, capacities and systems for child protection need to be built. Often the same social workers, at the village level, are increasingly over-burdened and receive very little assistance for expanding their capacities and systems. These workers have a direct impact in how effectively social protection can be delivered.

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B. Social Protection to Benefit Children in the People's Republic of China: Progress in and Challenges on the Way Forward

Hana Brixi, Weilin Shi, Yan Mu, and Jun Huang*

1. Development Challenges

The extent of economic development and poverty reduction in the People's Republic of China (PRC) during the last 30 years has been impressive, but disparities and vulnerability remain problematic. The PRC has maintained its growth rate of real gross domestic product at about 10% annually, raised income per capita from $175 in 1978 to $3,700 in 2009, and eliminated extreme poverty.[1] During this period, the poverty incidence—measured at $1.25 per day consumption (2005 purchasing power parity)—declined from 84% in 1981 to 16% in 2005 (Chen and Ravallion 2008).

Economic development, however, has been lumpy and income disparities have been widening within as well between rural and urban areas in provinces. Widening disparities in human development outcomes have been only partly addressed by vertical programs and earmarked government transfers. About one-third of the population remains vulnerable to poverty due to the risks of income shocks, economic restructuring, user fees for public services, disasters, and adverse living conditions (World Bank 2009).

* Presented by Hana Brixi. The authors thank Yin Yin Nwe, United Nations Children's Fund (UNICEF) Representative in the People's Republic of China, and Kirsten Di Martino for useful insights, and Bai Xiaojing for excellent research assistance.

1 Ed: The exchange rate used in the paper is CNY6.825/$1.

As in most of the East Asia region, the PRC's social protection system has evolved rapidly from a bare structure with a minimal number of programs into fairly comprehensive systems aimed at addressing the widening disparities, promoting national cohesion, and sustaining economic development (Cook and Kwon 2007).

Although the PRC has a long tradition of providing women and children with access to basic public services, the progress on the social protection front until recently suffered from the traditional Confucian reliance on family and land as the main sources of protection and security.[2] Widening disparities, slower than expected improvements in human development outcomes, and emerging exclusion of the poor and migrant populations have revealed the gaps in social protection. In 2004, the PRC set for itself an overarching development objective to create a "harmonious society," which emphasizes sustainability, equity, and citizens' satisfaction. The government has recognized that achieving this objective would be impossible without an effective social protection system.

This paper provides a brief overview of the recent developments and remaining challenges in social protection in the PRC, focusing on schemes that benefit children. Based on the analysis, the paper draws attention to the PRC's social protection agenda ahead.

2. Recent Social Protection Responses

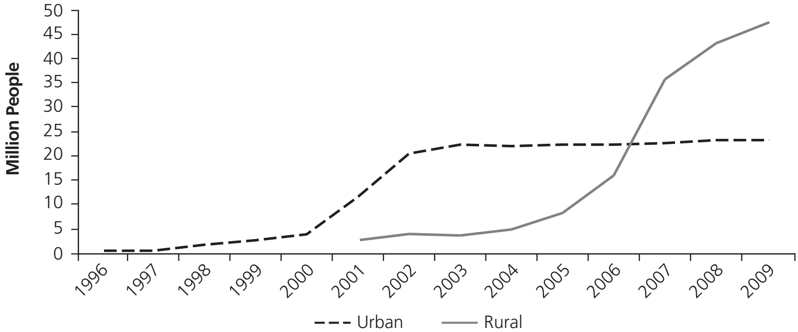
The PRC's progress in social protection has been particularly rapid since 2002 and has included a large series of programs. The programs include a wide net of local schemes of social assistance, social insurance, and fee waivers. Special social protection initiatives have also been launched in response to adverse economic situations, including the increases in the price of food and fuel since 2007, the massive earthquake that affected millions of households in 2008, and the global economic crisis that started in 2008 and the resulting slowdown.

2.1. Social Assistance

Social assistance in the PRC has two main components: the *dibao* cash transfer scheme and the medical assistance scheme. The dibao cash transfer scheme was rolled out—on the basis of earlier pilot tests—in 1999 in urban areas and in 2007 in rural areas. As of February 2010, the scheme covered 72 million recipients—generally the poorest, as surveys confirm (World Bank 2009), of which two-thirds are rural residents and

2 For discussion see, for example, Goodman and Peng (1996) and Cook and Kwon (2007).

Figure 1. Dibao Cash Transfer Recipients

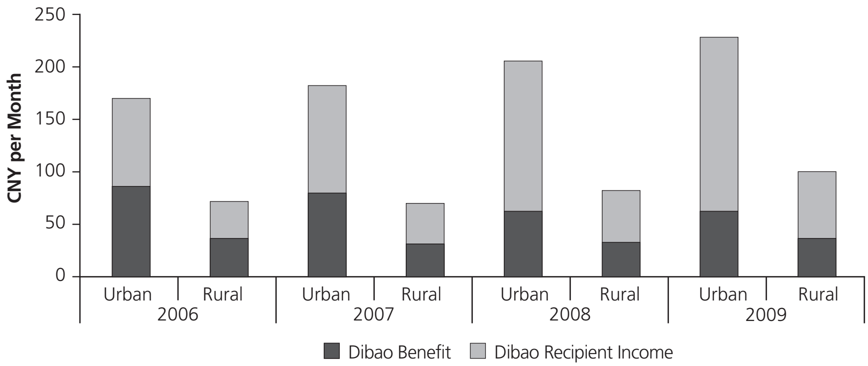


Source: MCA (2009).

one-quarter are children. As Figure 1 shows, the increase in the coverage of rural poor has been impressive. Figure 2 indicates the recent increases in the level of the average dibao cash benefit, which have been particularly rapid in urban areas (partly in response to the rising food and fuel prices and the global economic crisis and slowdown). Furthermore, the dibao cash benefit has been increased for vulnerable groups, such as orphans and the disabled. Surveys indicate that, within households, dibao transfer has been associated with better child nutrition, education, and healthcare utilization (Gao, Zhao, and Garfinkel 2010; Tao 2008).

Assistance to finance medical needs was launched in 2005 to help poor and deserving people cover the health insurance premium and, to a limited extent, co-payment charges. The funding and benefits for the poor have been very limited (e.g., chapter 3 of Wagstaff et al. 2009).

Figure 2. Average Dibao Cash Benefit Per Capita

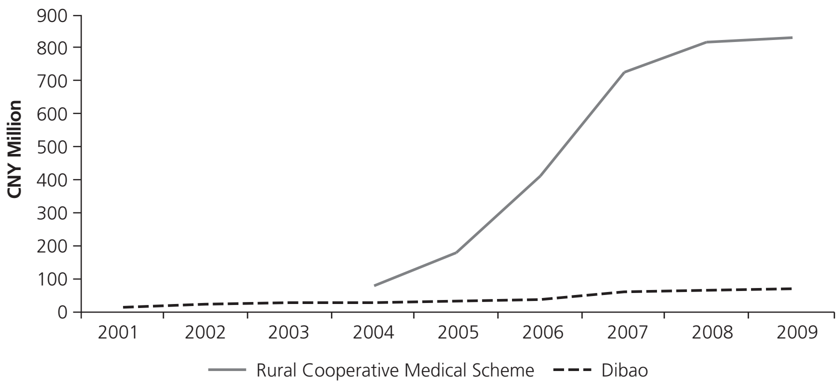


Source: MCA (2009).

2.2. Social Insurance

The largest part of the PRC's social insurance is currently the New Rural Cooperative Medical Scheme—basically health insurance for rural residents. The scheme, which was rolled out in 2004, currently covers more than 90% of the PRC's rural population. Figure 3 captures the massive increase in population coverage.

Figure 3. The New Rural Cooperative Medical Scheme and Dibao Population Coverage



Sources: MOH (2010) for Rural Cooperative Medical Scheme statistics; MCA (2009) for dibao statistics from 2001 to 2008; and MCA (various years) for dibao 2009 figures.

In urban areas, the Urban Residents Basic Medical Insurance Scheme (which was started in 2007) covers the previously uninsured urban population, including children and people outside the formal labor market. The coverage exceeded 200 million by the end of 2008. People employed in the formal labor market benefit from the (relatively more generous) Urban Basic Medical Insurance Scheme, implemented since 1998 and covering about 200 million employees by 2009.[3]

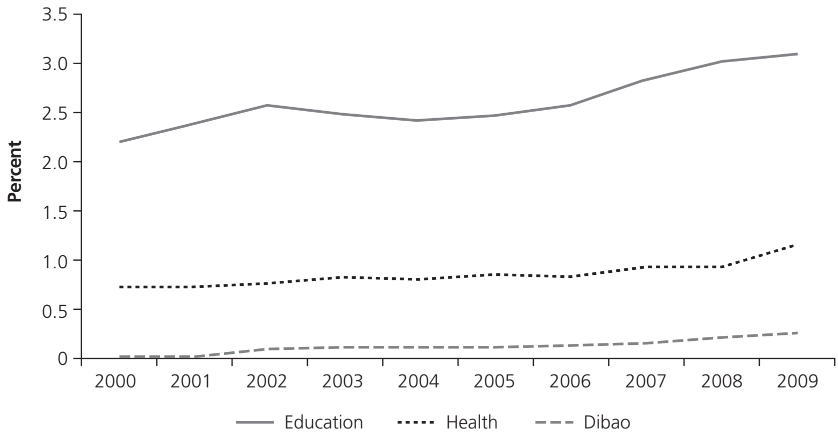
Another recent addition to the social insurance system has been the contributory rural pension scheme for people aged 60 and above in 2009. This scheme is currently being pilot tested in 10% of counties and is to be rolled out nationwide by 2020. The minimum standard pension allowance is currently CNY55 ($8 at current prices) per month per person. The actual allowance varies according to individual contributions and local government subsidies. Moreover, the government is pilot testing a universal non-contributory social pension scheme aimed at supporting all people aged 80 and above.

3 Employees in the public sector and the urban formal sector (who, according to the National Bureau of Statistics, account for about 15% of the PRC's total population) have traditionally enjoyed government-paid healthcare or health insurance, old age pension, work injury insurance, maternal insurance, and unemployment insurance.

So far, rural pension schemes are extremely modest, particularly compared to the formal urban employment-based pension schemes, which have been operating since 1951 and benefit people employed in the urban formal sector. But the rural scheme signifies a critical landmark, as it is the first time in the PRC's history that the government is supporting old age pensions in rural areas.

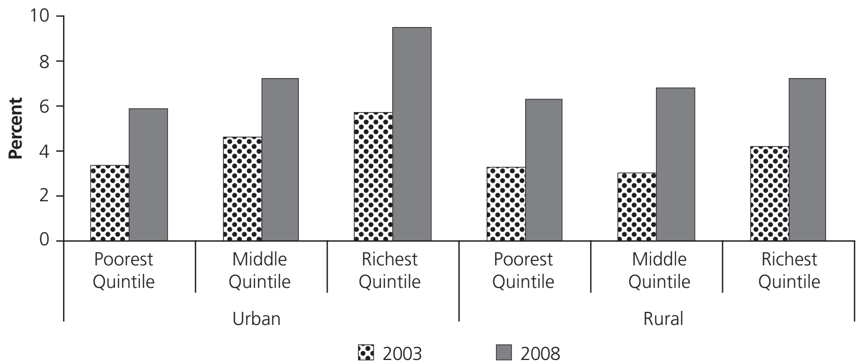
Finally, the PRC introduced a series of fee waivers in recent years, including (1) free compulsory 9-year education, with tuition fee waivers, free textbooks, and boarding subsistence for the poor in rural areas (set in law in 2006); and (2) free public health interventions, including expanded basic immunization (covering 15 diseases); subsidies for rural women to have childbirth in hospitals (CNY300–CNY400, or \$44–\$59 per delivery); and folic acid supplements before and during pregnancy and breast and cervical cancer checkups for rural women. Accordingly, to support access to and use of social services, government spending on education, health, and social protection has been gradually increasing, albeit from very low levels (Figure 4). As a result, in health, for example, hospitalization rates have increased significantly in both rural and urban areas and across income groups (Figure 5) and the rural–urban disparity, particularly in the maternal mortality ratio, has narrowed despite the ever increasing rural–urban income inequality (Figure 6).

Figure 4. Government Spending on Health, Education, and Social Assistance (% of gross domestic product)



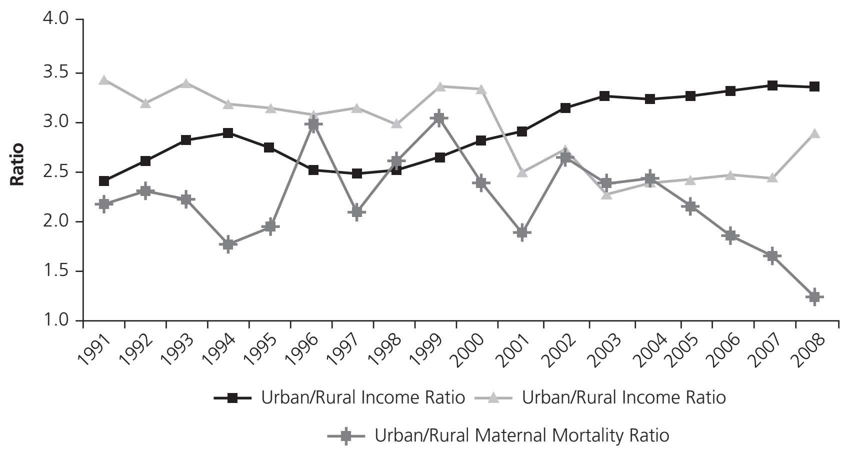
Sources: Calculated from NBS (2009) and MCA (various years, accessed 10 May 2010) for dibao government spending.

Figure 5. Utilization of Inpatient Care (hospitalization ratio)



Sources: MOH (2004, 2008).

Figure 6. Rural–Urban Disparity in Maternal and Child Mortality and in Income (ratio)



Source: NBS (2009).

2.3. Social Protection to Tackle the Impact of Food Price Increases Since 2007

The PRC has combined fiscal and administrative measures to mitigate market developments and alleviate the impact of rising food and fuel prices on the poor. In particular, the government has raised the official national poverty line to CNY1,196 ($175 at current prices) and the level of dibao cash transfers, unemployment benefits, pension benefits, and cost of living grants to poor college students. In addition, the government has implemented ad hoc policy measures to stem food price increases, minimize speculative stockpiling, and prevent temporary shortages in the domestic food market. Subsidies targeted vulnerabilities on the production side and covered, for example, pig vaccines and agricultural insurance. To reduce export of selected food products, the government eliminated tax rebates and levied ad hoc export tariffs and quotas on wheat, corn, soy bean, rice, and other food items. Furthermore, at the subnational levels, the PRC's provinces and cities have established additional mechanisms to complement the national policies. Jinan Province, for example, issued a regulation to increase the assistance to the urban poor by $0.50 per person monthly in each month when food prices increase by more than 3%. Table 1 summarizes the relevant fiscal and administrative measures taken at the national level in the PRC to tackle food prices and their impact since 2007.

Table 1. Fiscal and Administrative Measures to Tackle Food and Fuel Price Increases Since 2007

Fiscal Support: Household Oriented	Fiscal Support: Supply Oriented	Other Measures
Being Implemented	**Being Implemented**	**Being Implemented**
Cash transfers to poor households increased	Subsidies for agricultural production, including subsidies on farm machinery, fuel, fertilizers, and seed	Measures to boost agricultural production
Pension benefits increased	Subsidies to food producers affected by disasters (such as the 2008 snow storm)	Price controls on selected staple food products
School feeding program expanded	Subsidies to the diary and meat industries	Controls in agricultural input and output markets
Coverage of basic medical insurance is rapidly expanding in rural and urban areas		Government authorization required for increasing price of necessities, including grain, edible oil, meat products, eggs, and milk
School fees for 9-year compulsory education are being abolished	**Under Consideration**	Supply of food grain products from government stockpile increased
Funds for disaster preparedness increased	Subsidies for fortification of wheat and rice	Export ban on and quotas for food grains and selected food products introduced
Income tax on personal saving deposits reduced		Export value-added tax rebates on food grains abolished
Official poverty line increased		Export taxes on food grains introduced
Under Consideration		Bilateral agreements concluded to increase food grain imports
National social welfare scheme for children		
Child poverty alleviation program		

Sources: Authors based on government documents issued or to be issued by government agencies, including, e.g., the State Council's Notice on Eliminating Miscellaneous Fees for Students at Compulsory Education Stage in Western Regions and Subsidies for Textbooks and Boarding Fees for Students from Poor Households; State Council's Guidance on Pilot Tests of New Rural Pension Scheme (2009); etc.

2.4. Social Protection after the 2008 Wenchuan Earthquake

Following the massive earthquake in May 2008, the PRC immediately responded with a wide range of social protection initiatives targeting the population in the localities affected by the earthquake. The initiatives included

- a disaster relief cash subsidy of CNY10 ($1.47) per person per day for 3 months;
- in-kind assistance to children and women, including food, clothing, and shelter;
- psychosocial interventions for children and women, including "child-friendly spaces" to address the needs of children affected by the earthquake;[4]
- free maternal and child health services;
- high priority for reconstruction of schools and hospitals;
- assistance for orphans, including a cash subsidy of CNY600 ($88) per orphan per month;
- dibao cash benefits to all rural families that have fallen into poverty;
- a cash subsidy to 1.5 million rural families of CNY20,000 ($2,930) per family;
- free land reassignment for reconstructing housing in rural areas; and
- financial support and capacity building to assist women seeking employment.

As the national post-Wenchuan earthquake reconstruction effort aims to restore all essential services and livelihoods by the end of 2010, these initiatives are all coming to closure. The positive experience in providing good assistance to orphans and capacity building to rural women seeking employment has prompted adjustments in nationwide policies and government spending.

According to the government's post-earthquake reconstruction master plan, the total reconstruction fund is CNY1 trillion ($147 billion), one-third of which comes from the central government budget, to be disbursed within 3 years after the earthquake. Within 6 months following the earthquake, the central government contributed CNY41.8 billion ($6.1 billion) for recovery and social protection in the localities affected by the earthquake.

Similarly, following the Yushu earthquake in April 2010, the PRC immediately responded with a wide range of social protection initiatives targeting the local population. Cash subsidy to orphans, the elderly, and disabled people without

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4 "Child-friendly spaces" comprises a range of activities to address the physical, psychological, social, and protection needs of earthquake-affected children, and to promote their survival, development, protection, and participation in society. Child-friendly spaces also involves delivering a package of community-based services, including psychosocial support, social work, and structured play and recreation activities to support the long-term recovery and well-being of earthquake-affected children.

families (including people without family prior to the earthquake), for example, is currently up to CNY1,000 ($147) per person per month, exceeding the levels introduced following the 2008 Wenchuan earthquake by 67%.

Citing the positive impact of the subsidies targeting orphans following the disasters, the government is currently exploring the possibility of increasing social assistance to orphans nationwide. In April 2010, the government approved CNY2.5 billion ($363 million) with the intention to increase the cash benefit to orphans to CNY1,000 ($147) per month per orphan living in child welfare institutions and CNY600 ($88) per month per orphan with foster families.

2.5. Social Protection Response to the Global Economic Slowdown

In response to the global economic slowdown, from late 2008 to 2010 the PRC implemented a huge fiscal stimulus package (of CNY4 trillion, equal to $586 billion), partly funded from the government budget and partly through central and local government-owned financing institutions (Government of PRC 2008). The stimulus largely supports growth-promoting infrastructure, such as modernizing the transport and utility systems (Table 2). It also aims at strengthening social protection overall and alleviating the negative impact of the slowdown on the most vulnerable population groups (migrant workers and their children, due to the loss of jobs in the export sector, and recent graduates, due to the decline in job creation).

Table 2. Social Protection in the Current Fiscal Stimulus Package

	Amount		
Area	**CNY**	**$**	**Proportion** (%)
Railways, Roads, Airports, and Irrigation	1.5 trillion	219.8 billion	37.50
Reconstruction after the Wenchuan Earthquake	1 trillion	146.5 billion	25.00
Rural Infrastructure (roads, electricity, water, gas, housing renovation, etc.)	370 billion	54.2 billion	9.25
Environment and Ecology	210 billion	30.8 billion	5.25
Housing for the Poor	400 billion	58.6 billion	10.00
Health, Education, and Culture	150 billion	22.0 billion	3.75
Others (including development of high technology and industrial innovation, etc.)	370 billion	54.2 billion	9.25
Total	**4 trillion**	**586.1 billion**	**100.00**

Source: National Development and Reform Commission (2009).

The increases in government social spending, including social protection, have been significant from the perspective of the social sectors, although they are small when compared to the overall size of the stimulus package. Specifically, in 2009, central government spending on healthcare increased by 50%, on education by 24%, on housing for the poor by 203%, and on social protection by 20%. The stimulus has facilitated expanding and strengthening the PRC's social protection schemes and increasing the benefit levels. In addition, the stimulus introduced subsidies on the sales of household appliances in rural areas, increased the minimum grain procurement price to benefit farmers' incomes, and launched training programs for laid-off rural migrant and urban workers.

Overall, the progress on the social protection front has facilitated improvements in child development. In particular, it helped improve child nutrition, achieve nearly universal access to the compulsory 9-year education, and expand access to basic public health and reproductive health services (vertical public health programs).[5]

3. The Unfinished Agenda

The recent progress on social protection in the PRC has been significant but the agenda ahead is still enormous. In particular, funding for social protection schemes is still insufficient and social protection benefit levels are still extremely low. Under the Rural Cooperative Medical Scheme, for example, the total funding per person, although it has more than doubled since 2006 (Table 3), amounts only to about CNY120 ($18 at current prices) annually, of which 80% is from central and local government budgets and 20% from premiums. The average reimbursement rates under this scheme, although increasing (Table 4), were only 41% of eligible medical bills in 2009, less than under the urban basic medical insurance and still exposing the rural population to a significant financial risk related to illness and medical bills. Countrywide, out-of-pocket expenditure on health, although declining, remains significant at above 40% of the total health spending (Figure 7).

Table 3. Funding of the Rural Cooperative Medical Scheme

Funding	2004	2005	2006	2007	2008	2009 (est.)
Total (CNY100 million)	40	75	214	428	785	1,275
Per Capita (CNY)	50	42	52	59	96	120

Source: MOH 2010.

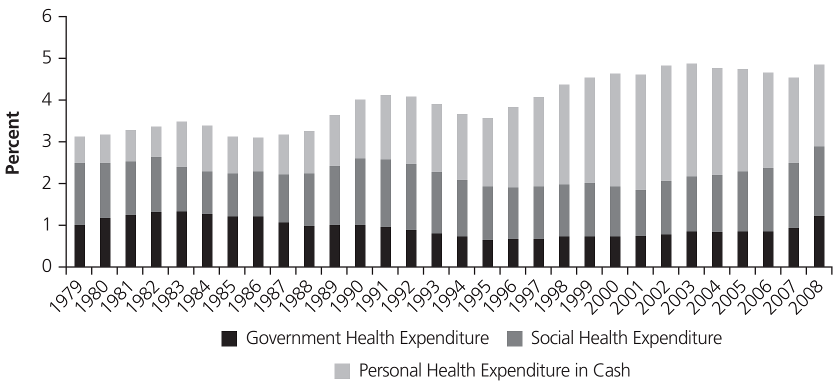
5 The positive impact has been shown in many studies in the PRC supported by the United Nations Children's Fund (UNICEF).

Table 4. Affordability of Co-Payment: Rural Cooperative Medical Scheme Reimbursement Rate (eligible inpatient, % of medical bills)

Region	2005	2006	2007	2008	2009
Eastern	22.5	26.1	29.2	34.1	38.9
Central	24.5	29.5	31.3	40.6	42.0
Western	28.8	31.1	33.8	40.6	44.6
National Average	**23.4**	**27.8**	**30.9**	**38.1**	**41.5**

Source: Ying (2009)

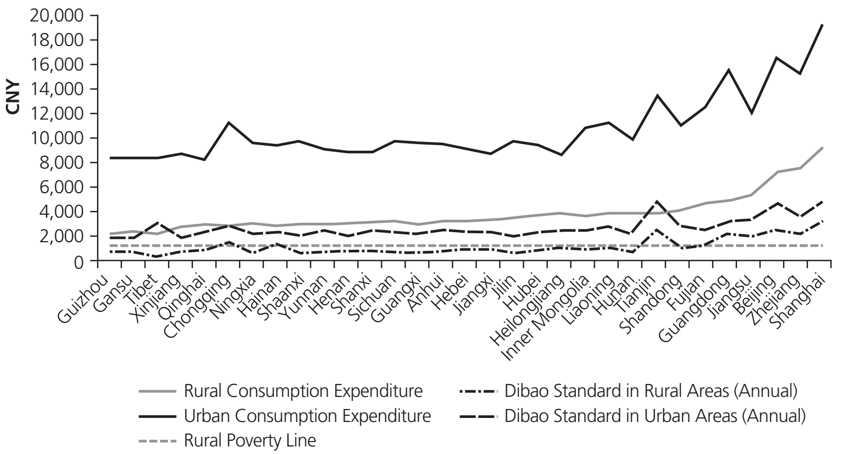
Figure 7. Out-of-Pocket Spending on Health as a Share of the PRC's Total Health Spending



PRC = People's Republic of China.
Source: MOH (2009).

Furthermore, the enormous fragmentation of social protection schemes geographically and by population groups has compromised the contribution of the social protection system to ameliorating the trend of widening disparities in the PRC. As Figure 8 illustrates, disparities are significant even within the social assistance program, with the urban minimum standard (guaranteed by the urban dibao cash transfer) levels approaching or even exceeding the average rural consumption expenditure within the same province, and vastly exceeding the rural minimum living standard guaranteed by the rural dibao cash transfer for rural residents. Moreover, rural migrants in cities, the vast majority of whom are employed in the informal sector, are generally not covered by any social protection scheme and still face enormous difficulties in accessing basic public services, including basic education and healthcare (Brixi 2009).

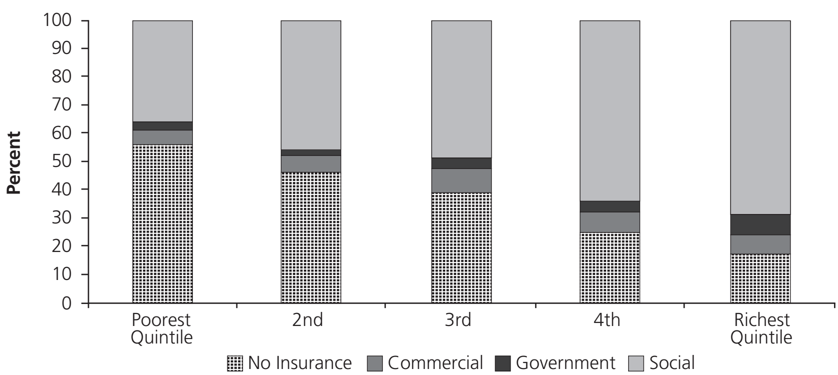
Figure 8. Disparity in Social Assistance Schemes Across and Within Provinces



Sources: MCA (2009) for the urban dibao standard; NBS (2009) for the rural dibao standard, both websites accessed 10 May 2010.

In social health insurance, especially under the New Rural Cooperative Medical Scheme and the newly launched Urban Residents Basic Medical Insurance Scheme, the service benefit package—designed at the county or municipal level—often only focuses on hospitalization and excludes outpatient care.[6] The more comprehensive Urban Residents Basic Medical Insurance Scheme covering people employed in the formal sector is benefiting to a greater extent the richer population groups in cities (Figure 9).

Figure 9. Beneficiaries of Urban Medical Insurance (2006)

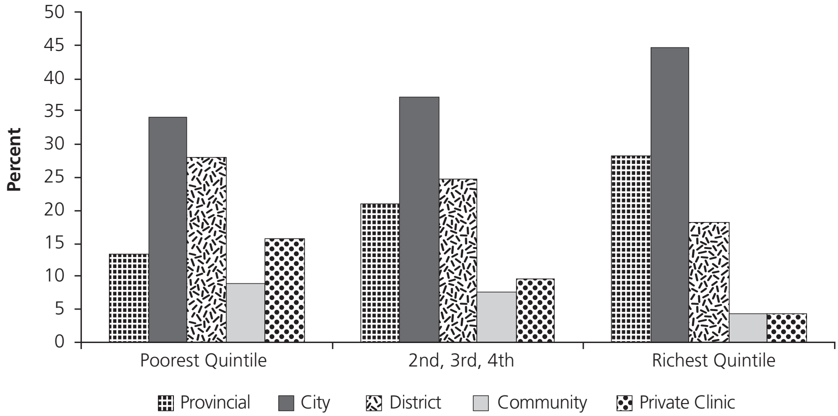


Source: Brixi (2009).

6 As Hu (2009) revealed, only 15% of counties in the PRC cover either general or selected outpatient services in the New Rural Cooperative Medical Scheme service benefit package (with reimbursement rates of 10%–30%).

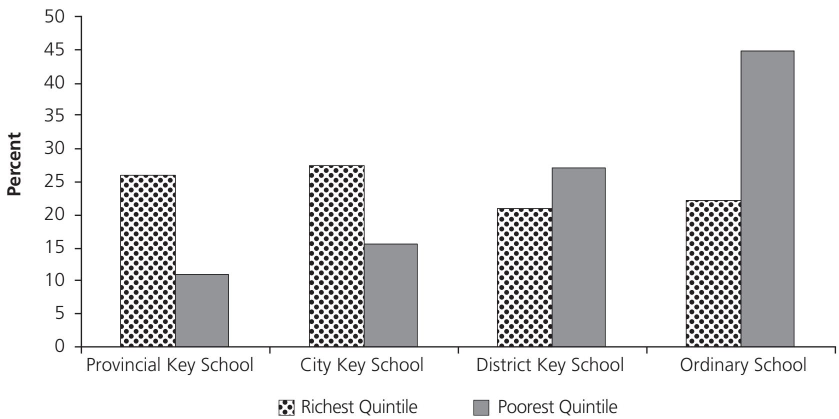
As a result of the weaknesses in the social protection system, utilization of essential services differs, especially in terms of quality, across income groups. The richer population groups are more likely to have access to higher level healthcare facilities (Figure 10) and the key schools that benefit from higher government funding (Figure 11).

Figure 10. Access to Higher-Level Health Facilities
(choice of provider by income group, selected cities, 2006)



Source: Brixi (2009).

Figure 11. Enrollment in Better Schools
(% of children enrolled in each type of school by income group, selected cities, 2006)



Note: Key schools benefit from more government funding than other schools.
Source: Brixi (2009: 24).

Additional challenges in the PRC's social protection system, especially from the perspective of children, include the lack of social workers and insufficient attention to the rights of a child. The profession and role of social workers in social protection is gradually emerging, with faster progress expected during 2010–2020. Similarly, children's needs and rights are expected to be more fully recognized in the new National Plan of Action for Children (2011–2020) and the new 10-year Program for Poverty Alleviation (2011–2020). In addition, the rural and urban dibao cash transfer schemes are expected to introduce more benefits to target children in poor families. The responsible ministries (often in partnership with the United Nations Children's Fund—UNICEF) are pilot testing such new initiatives at the local level.

4. Moving Forward

Strategically, stakeholders (including multiple ministries, the local academic and research community, and external funding agencies) are working together to develop a comprehensive social protection system and outline proper funding and implementation mechanisms to address the gaps and inequities. To ensure that the social protection system appropriately benefits children, stakeholders are developing the national strategic policy frameworks, laws, and plans to (1) establish a comprehensive child poverty reduction program as part of the PRC's poverty reduction strategy; (2) develop a comprehensive social welfare system for children across sectors and beyond the individual vertical programs and schemes; and (3) promote fairness, quality, and cost-effectiveness in the delivery of essential social services.

In the context of the PRC's extensive decentralization of responsibilities for financing and delivering essential public services, stakeholders are also seeking to improve policy implementation mechanisms. Specifically, government financing allocations and mechanisms and the local governance system (including accountability relationships and empowerment of women) require reconsideration to align incentives, responsibilities, and capacities across government levels and agencies with the national priorities, and to ensure proper implementation of child-sensitive social protection and policies at the local level.

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C. Community-Based Social Protection for Orphan and Vulnerable Children in Bangladesh

Rose Anne Papavero and Md. Ehsan Ul Islam Chowdhury*

1. Introduction

Almost half (46%) of the children in Bangladesh live below the national poverty line and the country's propensity for natural disasters leaves them at even greater risk. Child protection mechanisms (initiated by both the Bangladesh government and the private sector) have tended to center around reactive social work, with a strong emphasis on institutions. In response to this, the United Nations Children's Fund (UNICEF) Bangladesh has been working with government ministries, providing technical assistance to establish a child protection system that will establish an effective legislative framework and to promote alternative care arrangements and diversion measures along with a new emphasis on family- and community-based solutions and proactive social work.

In 2007, Cyclone Sidr devastated the densely populated coastal areas of Bangladesh, leaving many children orphaned and/or vulnerable, and living under the care of their surviving parents, extended family members, or older siblings. UNICEF Bangladesh assisted the Ministry of Social Welfare (MSW) [1] to test an innovative initiative whereby families would receive a series of conditional cash transfers in an effort to support alternative approaches to institutional care. This initiative was designed in line with the conceptual framework of transformative social protection and human rights-based programming.

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* Presented by Rose-Anne Papavero.

[1] The MSW is mandated to provide social services to the children of Bangladesh through its Department of Social Services (DSS).

In accordance with implementation guidelines developed by the MSW, the project is being implemented in the seven subdistricts (*upazillas*) that were most severely affected by the cyclone. The project targeted 817 orphan children and 1,283 vulnerable children. Tk1,500 ($22) per month is allotted for each child on the proviso that certain conditions are met, for example, the child must regularly attend school, must not be subject to early marriage, and must not be involved in hazardous forms of child labor.[2] Program participants were determined by criteria-based selection, verification, and approval processes involving local social workers from the Department of Social Services (DSS) in conjunction with local administrative authorities and MSW representatives.

To develop institutional capacity, DSS social workers at different levels have been receiving training that focuses on proactive social work. The goal is to strengthen the role of social workers for child protection using tools such as case management and regular follow-up visits.

The pilot project has provided important learning: it suggests that (1) social workers, when properly trained, are ideal candidates to act in child-sensitive social protection roles; and (2) cash transfers are an effective tool for empowering vulnerable families and encouraging family- and community-based care solutions that provide positive outcomes for children. A study focused on the orphan children targeted by the project found that, irrespective of sex, number, or type of orphan or caregiver, all of the families involved had (1) made direct expenditure on the children, (2) used the cash support for income generating activities, and (3) saved some money toward ensuring the future financial security of the children. Based on the learning from the pilot project, UNICEF will continue to support MSW in coordinating with other stakeholders and the families that are caring for the orphan and vulnerable children supported by the project. The goal is to usher in a broad shift in child protection policy, transiting from reactive to proactive methods of protection to best ensure the well-being of children.

2. Development Issues and Challenges

Bangladesh is densely populated, and children under 18 years of age constitute a large proportion (45%) of the total population. In 2007, Bangladesh had approximately 63 million children, with 73% of them living in rural areas. As a result, child deprivation and vulnerability is a serious concern, and the welfare of children is a crucial ingredient in achieving development goals. An analysis of the state of poverty among children

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2 Ed: The exchange rate of Tk68.45/$1 is used in this paper.

in Bangladesh reveals that 46% live below the national poverty line, 59% live on less than $1.08 (purchasing power parity)[3] a day, and 23% live in persistent poverty.[4] Households with dwellers living below the upper poverty line and with children present have some common characteristics: (1) approximately one in three have an orphan child living in the household, (2) 36% have a high dependency ratio (where many members of the household are financially dependent on a small number of earners), and (3) 35% have at least one elderly person (aged 70+) living in the household.

Bangladesh is also a disaster-prone country, experiencing a natural disaster of some type (heavy flooding, tornado, cyclone, etc.) almost every year. These events often result in deaths and in displacement of millions of people. In such circumstances, weakened familial and societal structures can cause a breakdown in traditional caring arrangements, leaving children more vulnerable to abuse, neglect, and exploitation, including separation from their family, migration, and trafficking.

Although child rights frameworks and child development literature make it clear that institutional care is rarely the most desirable response and should generally be used as a stop-gap rather than a permanent measure, the prevailing approaches by government, civil society, and voluntary organizations to protecting orphan children in Bangladesh have focused heavily on the provision of institutional care. Programs aimed at preventing children from being separated from their families, such as direct family support services, are very limited and alternative family-based care programs are generally lacking. As a result, orphan children face a threat of institutionalization. Institutional care is also expensive, concentrating available funds for the care of orphans and other at-risk children in small clusters.

However, the risk of orphans and other vulnerable children slipping through the safety net of extended family care cannot be underestimated. Such children can find themselves in situations that greatly increase their vulnerability to violence, abuse, and exploitation. The risk is high as, without any additional support and particularly following a disaster situation, household poverty and food insecurity is likely to

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3 Purchasing power parity is a theory that the exchange rate between two countries' currencies equals the ratio of the currencies' purchasing powers, as measured by the price of a typical basket of consumption goods. The purchasing power parity theory predicts that a fall in a country's purchasing power, as reflected in a rise in its price level, will cause a proportional currency depreciation in the foreign exchange market and vice versa.

4 The lower poverty line using the "cost of basic needs" method is considered to be a persistent poverty line. The method stipulates a consumption bundle deemed adequate for basic consumption needs and then estimates its cost. The household expenditure on basic need items considered includes food, clothing, housing, healthcare expenses, and education. An "upper poverty line" and a "lower poverty line" are estimated. People living below these lines are considered poor (Barkat et al. 2009).

increase. When fostering families are forced to share their already limited resources more widely, all the children in the family are left increasingly vulnerable.

Family poverty has a direct effect on children being deprived of their right to protection. The poor have less access to knowledge of, awareness about, and legal and institutional structures for child protection. A lack of sustainable opportunities for families to escape poverty has a direct effect on children's vulnerability to exploitation and separation from their parents. Poverty also contributes to the personal stress and social and family tensions that can lead adults to harm children. In this regard, the recent period of high food prices and the current global financial crisis has created potentially lasting setbacks in the campaign for children's rights.

While the correlation between poverty and the lack of protection for many children is clear, the role of poverty in causality is a complicated issue. Poverty can be both a consequence of failures in child protection and a cause. Children whose right to protection is violated are at risk of experiencing ever deepening poverty in their own lives, and impoverished families are less likely to be able to ensure protection—and freedom from poverty—for their children. At the same time, Bangladesh has shown the world that improvements in health and education can occur despite the persistence of poverty; thus, some opportunities to realize children's right to protection exist regardless of poverty trends.

3. Addressing Gaps, Issues, and Challenges

3.1. Description

In 2009, the government invested significant time and effort revising both the National Policy of 1994 and the Children's Act of 1974 in order to align them with the Convention on the Rights of the Child (CRC). A draft of the revised National Policy, which includes a chapter on adolescents, is currently being evaluated through a public consultation process. A draft of the revised Children's Act is also ready for evaluation through public consultation and subsequent adoption by the Parliament. Once adopted, the National Policy will establish a legislative framework for a wide range of children's rights in Bangladesh. The Children's Act, when passed by the Parliament, will ensure greater protection for children who come into conflict with the law and those who are in need of special care and protection. It will also facilitate the de-institutionalization of children as the proposed drafts provide for alternative care arrangements. In addition, the MSW has begun the process of mapping and assessing the entire child protection system in Bangladesh with a view to developing a comprehensive national child protection policy.

With UNICEF support, the government organized the first national consultative meeting on the concluding observations of the CRC Committee for Bangladesh, issued in 2003 and 2009. Outcomes of the meeting included disseminating the concluding observations nationwide, translating them into Bangla, and developing and prioritizing a time-bound action plan to follow up on CRC Committee recommendations. The government has also begun exploring the possibility of appointing an ombudsperson for children. A high-level policy dialogue was organized by the Ministry of Women's and Children's Affairs to this effect.

Finally, the policy document that guides disaster risk reduction, preparedness, and response in Bangladesh, the Standing Order for Disaster Management, has been revised. While the policy was previously limited to identifying orphans and placing them in institutions, the revision advocates for a broader interpretation of child protection in the context of an emergency, and addresses issues such as prevention of abuse and exploitation, and community-based alternative care. The revision was adopted by the Disaster Management Bureau, the department responsible for the Standing Order for Disaster Management, under the Ministry of Food and Disaster Management.

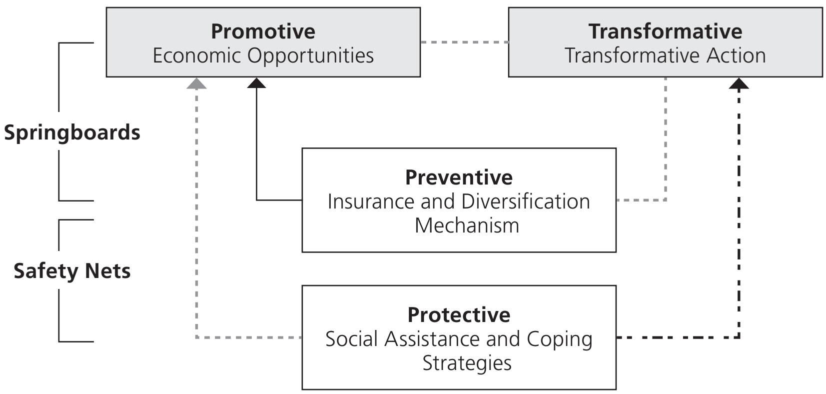
To address concerns regarding the welfare of orphan and vulnerable children in the wake of natural disasters, UNICEF Bangladesh in partnership with the DSS and MSW launched a community-based social protection project for orphan and vulnerable children. The project focuses on supporting the Bangladesh government to reform the current system (centered on institutional care) and place a new emphasis on family- and community-based solutions and proactive social work. This important pilot project is part of the UNICEF Bangladesh Child Protection Programme, and complements UNICEF Bangladesh's work enhancing policy and legislative frameworks concerning child protection.

3.2. Rationale and Design

As an emergency child protection response to Cyclone Sidr, UNICEF provided the financial and technical support needed to establish "child friendly spaces" (day-care centers with leisure activities and psychosocial support) where a significant number of orphan and vulnerable children were identified. It was soon evident that all of the orphan and vulnerable children were being cared for by surviving parents, extended family members, or older siblings. Prior to this disaster, children who were orphaned or left vulnerable following a natural disaster would have been institutionalized; however, UNICEF used the evidence collected in the wake of Cyclone Sidr to lobby for informal care arrangements to be recognized as an established cultural norm and, where possible, preserved. Discussions with the DSS and MSW resulted in the development of a joint initiative to pilot test conditional cash transfers for cyclone-affected orphan and vulnerable children that would strengthen family-based care arrangements and make alternative approaches to institutional care more achievable.

The project has been designed using an "action research" framework that ensures synergies between project objectives and evidence-based advocacy, and has enabled the government to adopt a social protection model for the children of Bangladesh. The conceptual framework (Figure 1) used to design the model incorporates a range of social protection tools, including protective measures as well as preventive, promotional, and transformative ones. The model is focused on targeting orphan and vulnerable children and the primary aim is poverty reduction. Vicious cycles of poverty will be broken by better access to education and income generation activities.

Figure 1. Conceptual Framework for Transformative Social Protection



Source: Devereux and Sabates-Wheeler (2004: 7).

The model is currently in its explorative phase, the objective being to generate learning across the country. The lessons learned during this process will be drawn on when child-sensitive social protection measures are inserted into the child protection policy that will be developed. Research is essential to (1) explore and define a methodical, structured model of community-based social protection for children that is Bangladesh-specific, doable, affordable, and sustainable (Devereux and Sabates-Wheeler 2004); and (2) generate strategic learning as a tool for advocacy so that UNICEF Bangladesh and the DSS and MSW can successfully advocate with the government for adopting and scaling up the community-based program.

The DSS initiated the project design and named the project "Amader Shishu," meaning "Our Children," thus demonstrating DSS' strong ownership of the project at the outset. The project's overall objectives are to

- reduce child labor and other forms of abuse and exploitation;
- develop community-based support and care systems, including referral mechanisms to create opportunities for orphan and vulnerable children to grow up in a family environment familiar to them with proper protection, development, and access to services; and
- promote social and economic development among vulnerable families.

Specific objectives are to
- ensure access to essential services for orphan and vulnerable children living in disaster-prone and/or urban areas by providing cash transfers, case management, and regular follow-up by trained social workers practicing proactive social work;
- enhance the technical and operational capacity of social services officers; and
- strengthen the capacity of families to protect and care for orphan and vulnerable children living in disaster-prone and/or urban areas by promoting income generating activities.

The project was designed according to human rights-based programming where children are rights holders and equal human beings under the care and protection of families. The families have their own beliefs, attitudes, and practices about child development, depending on their individual circumstances. The family-level sociocultural practices are determined by wider societal norms, values, and practices. This conceptual framework was founded on the CRC principle that "institutions should be considered as a last resort for children."

Three major steps were undertaken when designing the project: (1) a technical paper was drafted in May 2008; (2) joint field missions resulted in the development of specific intervention components, strategies, and modalities of implementation; and (3) the DSS developed implementation guidelines in consultation with other ministries, which, following consultations and revisions, were approved by an interministerial committee in March 2009.

3.3. Project Area, Targeted Children, and Conditional Cash Support

The model is being tested in 71 unions across 7 upazillas[5] in the three districts worst affected by Cyclone Sidr. The target for the project is 2,100 beneficiaries (817 orphans and 1,283 vulnerable children). For each beneficiary child, families

[5] Unions are the lowest level of local government, and are divided into wards. Upazillas are the level that administratively supervises and facilitates the unions.

receive Tk1,500[6] monthly in cash support. The following expectations have been clearly outlined to each family: (1) children should attend school on a regular basis and have access to other basic services (healthcare in particular), (2) children should not be married before the age of 18, and (3) children should not be engaged in any of the worst forms of hazardous labor. This said, the cash transfers cannot be considered truly conditional because, even if the conditions are not met, children should not be deprived of their basic rights. Where the conditions are not met, the allowance will continue, but the recipient will be changed. There have yet to be any issues of noncompliance with the conditions.

3.4. Implementation Process, Modalities, and Strategies

The implementation guidelines developed by the DSS are the guiding document for union social workers (USWs), the government-affiliated social workers based in communities, and upazilla social services officers (USSOs). USWs and USSOs are the driving force behind this pilot project. Following the official approval of these guidelines within the DSS and MSW, a cell was formed to oversee the implementation of this pilot initiative.

The implementation guidelines establish the procedures for selecting beneficiary orphan and vulnerable children. Primary selection is done by female union parishad members (locally elected officials). The list is then approved by the union parishad chairperson and is displayed in front of the parishad office for 1 week. This allows an opportunity for community members to object if they find a beneficiary unsuitable. Following this process, final approval is granted by the upazilla committee, and the list is forwarded to the ward committee.

The criteria for selecting orphan and vulnerable children were also defined in the implementing guidelines. The children orphaned by Cyclone Sidr must be less than 14 years old (except for girls at risk of early marriage) who lost or are missing their mother, father, or both parents and whose extended family is poor, with an annual income of less than Tk36,000 (about $525).[7] Provisional selection criteria for children made vulnerable by Cyclone Sidr include that they must be less than 14 years of age (except for girls at risk of early marriage), are involved in hazardous and/or exploitative

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6 This is equivalent to $22 at the United Nations exchange rate of $1 = Tk68.45 as of October 2009, and is equivalent to the cash support the government is currently providing per child on a monthly basis in government-run institutions.

7 According to DSS programs, poor families have been identified for micro credit programs based on this criterion. Families with a yearly income of less than Tk36,000 were considered the poorest.

work, come from landless families with an annual income of less than TK36,000, are separated from their families, have dropped out of school, or have a disability. Children who are indigenous people or members of other minority groups will receive priority.

The monthly allowance is currently fixed at TK1,500 ($22) to be disbursed every 6 months. This is equal to the amount per month per child currently provided by the government to orphanages. This deliberate price-matching should provide evidence that the program is affordable. When compared with standard practice (for example, the stipend for primary school children is Tk100–Tk300 ($1.5–$4.4) per month), this amount is very high and maintaining the level of funding may result in the project facing criticism in the future. But the rationale for the level of financing is clear: the model aims to promote transformative social protection and does not intend to remain at the safety net level, as illustrated in Figure 1.

During the actual selection process, due to political pressure, primary selection by the locally elected representatives was biased and the number of vulnerable children was too high in each upazilla. Therefore, in April 2009, DSS–MSW and UNICEF decided to expedite the processing of children with missing parents, and add them to the list of already identified orphans. By July 2009, the list of 817 orphans was complete and they were confirmed as the beneficiaries of cash support by the 7 upazilla committees and 213 ward committees. From June 2009, money was disbursed to the caregivers of the orphan children in all 7 upazillas. Influential community members such as the local members of Parliament[8] were present to hand the checks to the caregivers.

For selecting the vulnerable children, discussions within the DSS–MSW resulted in the establishment of a quota per upazilla. Primary selection by female union parishad members began in May 2009. The list of vulnerable children was finalized through the following process: (1) The female union parishad members representing local governments (as chairpersons of ward committees at the union level) prepared a primary list of vulnerable children within their communities. (2) The list was then verified by the USWs, who are member secretaries of the ward committees, by visiting the families. (3) The list was further randomly verified by the field supervisors[9] and USSOs. (4) By December 2009, the seven upazilla committees' chairpersons approved a list of 1,264 vulnerable children. Multiple verification measures, including random verification by UNICEF and MSW–DSS staff, were necessitated by the political pressure put on the selection process.

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[8] Members of Parliament represent 2–4 upazillas based on their geographic location.

[9] Field supervisors are DSS employees at the upazilla level under the direct supervision of the USSOs, who represent the DSS at the upazilla level.

3.5. Building Social Workers' Capacity

For this pilot project to be successful, the USWs needed to become effective child-centered social workers. This involved a shift from responsive to proactive child protection practices. Therefore, capacity development activities for the social workers are an integral component of the project. The social workers are benefiting enormously from the child-centered social work training provided by UNICEF in partnership with the DSS–MSW, with each receiving additional training in case management, participatory monitoring and evaluation, supportive supervision, participatory learning and action, and documentation. Following the training, case management processes were adopted for the project, and issue-based learning (on the themes of participatory monitoring and evaluation, participatory learning and action methodology, action research and social action processes, and supportive supervision). Evaluation of that learning remains an ongoing element of the project. The DSS deputy directors at the district level have also been familiarized with the project and the basics of community-based child protection mechanisms through orientation workshops.

3.6. Building Families' Capacity to Play a Protective Role

The caregivers of orphan children who are receiving cash transfers are also involved in the case management processes initiated by the USWs. Case management is an important tool in increasing household resilience and, thus, reducing the vulnerability of children. Participatory tools such as community mapping and "ladder games" are being used, along with parent gatherings at which the USWs educate caregivers about child development and child rights issues. Moreover, the USWs are visiting the families monthly while the field supervisors and USSOs are responsible for supervising the social workers and general follow up.

3.7. Use of Cash Support by Families of Orphan Children

Two focused studies have been conducted (the first, 6 months after cash distribution, and the second, 12 months after) with the primary objective being to monitor the expenditure patterns of the families. A further study will be organized to compare data on the use of cash transfer provisions after 18 months. For these studies, 290 orphan children in 129 families have been randomly selected—25 headed by a widowed father, 82 by a widowed mother, and 22 households with orphans who have lost both parents and are cared for by their extended families.

A brief overview of the findings after 12 months of cash support confirms the following use patterns. Overall, expenditure patterns differed depending on the sex of the orphans, the status of their caregivers, and the number of orphans in the household (families that foster 1–4 orphans receive Tk1,500 ($22) per month per child, for a total of Tk1,500–Tk6,000 ($22–$88) monthly). However, irrespective of these variables, a number of commonalities have been observed.

(1) All the families made direct expenditure on the children, including on food, education, health, and clothing. After 12 months, this percentage decreased while the percentages for income generating activity and savings were increasing.

(2) All the families used some of the cash for income generating activities, mainly for leasing and/or purchasing land for agricultural purposes and/or purchasing household poultry or cattle. Interestingly, not many families bought fishing boats and nets even though, prior to Cyclone Sidr, fishing was considered the main income source for families residing close to the coast. However, given that many children were orphaned when their fathers died or were lost at sea, families may want to invest in income generating activities away from the ocean.

(3) All the families banked a portion of the cash support and, in most cases, the savings were in fixed deposits whereby the cash cannot be withdrawn for a specific time, after which the amount will be doubled. Families are saving the cash with the intention of providing for their children, especially girls, in the future. The expectation is that girls in these families will continue their education and delay marriage and, as a result, a higher dowry may be required by the future grooms' families.[10]

(4) Other expenditure, on things such as funerals, house reconstruction, and loan repayment, remained limited.

In summary, the studies indicate that families are empowered by being able to make decisions about how to use the cash transfers, and have been using them first for basic needs, then for income generation activities, and finally for savings (Figure 2). Additionally, 12 months on, many families had started to use the financial benefits reaped from income generation activities to provide for the basic needs of children in the family, including orphans. The families' intention for their saving activities is to ensure their economic security in the future and, if they have girls, to allow for a delayed marriage by ensuring enough money for a dowry.

[10] Early marriage is an ongoing concern for the Bangladesh government and its development partners, although incidents of early marriage have decreased significantly in recent years. Despite being illegal, dowry has been culturally accepted to a great extent. On both fronts, the government has taken serious action including legislation prohibiting early marriage and dowry. UNICEF Bangladesh has also been working to combat early marriage in 27 districts through an adolescents empowerment project in partnership with the Ministry of Women and Children Affairs. The districts were selected due to their high frequency of early marriage.

Figure 2. Recipient Families' Use of the Cash Transfers

Source: Authors.

3.8. Phasing out the Cash Support

Individual case management will be the major tool for phasing out cash support for specific families and children. Some criteria for phasing out include when

(1) the family's monthly income has increased to more than Tk3,000 ($44);
(2) the child has reached 18 years of age;
(3) the family has adequate land to live on and an increased income;
(4) the family's vulnerability has decreased (according to the criteria established by the initial screening); and
(5) community members have decided the family situation is improved and the case management carried out by social workers supports this decision.

However, in accordance with the intervention plan, other non-monetary support will be continued, including follow-up visits by social workers and referral mechanisms. This will be a continuing process with needs-based adaptations and changes. Payments for at least 50% of the orphan and vulnerable children should be able to cease after 18 months of cash provisions, without affecting their access to basic services and protection against abuse and exploitation.

The Amader Shishu initiative has been undertaken to pilot test a new social protection scheme that could be adopted and extended by the Bangladesh government. The primary aim is that families will achieve socioeconomic empowerment. Therefore, after 18 months of cash transfer, a final round of data collection will determine changes in the families' economic and social status and changes in children's lives.

4. Lessons Learned

Key lessons learned so far are as follows:

- The institutional strengthening processes delayed implementation, but are essential to build "ownership" of and obtain eventual buy-in of the government.
- At the local level, mobilization increased with the first tangible results, but limited interaction with the central level hampered acceptance at the higher levels. At the field level, social workers, district social welfare officials, and others can measure the impact of the project and realize its effectiveness, but government counterparts at the central level did not have this direct experience and it was difficult to convince them to extend the program. However, during 2010, field visits were organized for central-level officials, resulting in their commitment to extend the project.
- Social workers, if properly trained, are ideal actors for social protection that is sensitive to children's needs.
- Cash transfers to vulnerable families proved to be an empowering tool, aiding social and economic development.

5. Recommendations for the Short and Medium Term

Beneficiary-Focused Strategy. Community behavior, practices, and attitudes toward child development must be addressed to protect children from child labor, violence, abuse, and exploitation and to ensure that caregivers and service providers have the increased knowledge, skills, and linkages needed to play a supportive role. These issues must be addressed using appropriate strategies that focus on each beneficiary and are characterized by a synergistic approach. Individual case management should be accompanied by community awareness raising about the need for child development and recognition of children's rights.

Changing Family Attitudes. Where families living below the poverty line lack positive attitudes and/or practices toward children, enhancing households' socioeconomic resilience is an effective way to motivate them to support child development measures, in particular schooling. Progressively, cash transfers should be extended to all families living below the poverty line and fitting targeting criteria.

Upgrading Social Workers' Skills. Although DSS social workers lacked adequate knowledge and skills in social protection for work with children, capacity building could enable them to acquire such skills and work in a manner that is proactive rather than reactive. An appropriate social work training curriculum should be institutionalized in the DSS and made mandatory for all social workers working with and/or for children.

Linking Across Institutions. The Child Protection Programme has developed strategic partnerships with, and actively supported coordination mechanisms between, key ministries (the MSW, Ministry of Law and Parliamentary Affairs, Ministry of Women and Children Affairs, Ministry of Home Affairs, Ministry of Local Government, and Ministry of Budget and Finance) and departments (the DSS and education at central and local levels); international organizations and local nongovernment organizations (e.g., Save the Children Alliance, Action Aid, Concern, Apajero Bangladesh, BRAC, Centre for Mass Education in Science, and Legal and Education Training Institute); and other United Nations agencies (such as the World Food Programme, Food and Agriculture Organization, and United Nations Development Programme). A technical project pro-forma has been signed with each ministry to ensure its active participation and ownership in implementing child protection activities. The MSW should ensure coordination of project activities and should take the lead in developing a child protection policy.

Lead Institution. That the MSW has entirely managed the implementation guidelines and case management and referral mechanisms during this pilot project reflects its commitment to the project. The MSW should be the key player in conducting the child protection reforms, particularly the social protection and cash transfer component of the project.

Replicability. The unique combination of criteria-based selection of orphan and vulnerable children, involving community members and case management by trained social workers and "community duty bearers" (community-level service providers with responsibilities for child development, such as teachers, religious leaders, healthcare workers, and social workers), results in a social cash transfer modality that lends itself to adoption and replication. This method should ensure that orphan and vulnerable children living in rural areas have access to basic services while their families benefit from economic empowerment and become motivated to contribute toward the establishment of family-based protection mechanisms. In urban areas, outreach by trained social workers should ensure access to basic and specialized services, including nonformal education, life skills and vocational training for child laborers and street children, shelter and reintegration for children who are separated from their families, and cash transfers for orphan and vulnerable children living in a family environment. Proactive social work training should enable social workers and community duty bearers to play a protective role in ensuring the well-being of children anywhere in the country; therefore, the model should be replicated in urban areas.

Policy Shift. This scheme is intended to accompany a crucial shift in the child protection policy, from reactive to proactive protection. Thus, the MSW should adopt the Amader Shishu model and redirect funding to institutionalize the cash transfer for orphan and vulnerable children.

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PART VII

Microinsurance for the Informal Sector

A. Microinsurance: Challenges and the Role of Development Cooperation

Jennifer Hennig

1. Introduction

In the United Nations International Covenant on Economic, Social and Cultural Rights, social protection is recognized by the international community as a human right (UNHCR 1976). State- or government-run programs, often referred to as social security programs, are an important pillar of social protection systems. However, in many developing countries, the outreach of social security programs is rather limited and people working in the informal sector are often excluded. Traditional mutually supportive groups such as extended families or village communities are another pillar of social protection systems, but they often now provide insufficient protection due to the erosion of traditional structures of society in many countries. At the same time, commercial insurance products are usually not affordable for the majority of the population. Therefore, there is a strong need to find ways to extend social protection to the informal sector.

Microinsurance, specifically developed to address the needs of low-income groups and people working in the informal sector, has been widely discussed during recent years as a possible way of extending the coverage of social protection. However, microinsurance faces several challenges to functioning as social protection. This paper will focus on some of the experiences and opportunities, and on the role development cooperation can play, in tackling some of the challenges to insurance at the micro, meso, and macro-levels. The last section will provide some practical experience with specific instruments GTZ has applied in the area of microinsurance.

2. Social Protection and the Need for Microinsurance

Households are exposed to several risks. Illness, old age, disability, unemployment, and natural hazards are among the many risks households face. The impact of such events can cause both loss of income and unexpected expenditures, which can have disastrous consequences especially for low-income households. Such households, if unprotected, have to cope by spending their savings, taking out loans, selling valuable productive assets, taking children out of school, and/or reducing the quality or quantity of nutrition. An estimated 20%–50% of low-income households in developing countries have not always been poor, but have fallen into poverty due to such events. Every year, more than 44 million households face financial disaster due to direct healthcare expenditures and 25 million households are pushed into poverty by the need to pay for healthcare services (Carrin et al. 2008).

When households are impoverished, it is very difficult for them to liberate themselves again from poverty without assistance. This is because they will have spent their savings, sold parts or all of their income generating assets, and/or reduced their human capital. Living and working under worsened conditions, they are even more vulnerable to risks and will not have reserves for coping with new events that might occur. Poverty and vulnerability therefore have a causal relation. Furthermore, especially low-income households often tend to avoid investing in productive capital and in education because they need their savings to cope with risk eventualities. By doing so, they might not take advantage of income generating opportunities that could reduce their poverty.

Social protection programs can break the vicious cycle between vulnerability and poverty by providing strategies and mechanisms to manage risks. Social protection can be defined as measures or instruments that support households or individuals to prevent, mitigate, and cope with shocks. Thus, social protection helps to prevent households from losses of income due to unexpected catastrophic expenditures. When low-income households are protected against risks, they are more willing and able to invest in productive capital and in education, which may enable them to liberate themselves from poverty. Therefore, social protection is an important tool for poverty eradication.

Social protection programs can provide protection from a wide range of shocks and encompass a wide range of players. Such programs may include state- or government-run programs, mutually supportive groups, cooperatives, community welfare organizations, nongovernment organizations (NGOs), and commercial insurers.

Microinsurance products specifically developed to address the needs of low-income groups and people working in the informal sector are one way to fill this gap. Microinsurance products aim at complementing other (i.e., informal or public) social protection instruments and have gained increasing importance in developing countries during recent decades. Microinsurance schemes are systems of social protection based on the principle of risk pooling: they protect individuals or households with low incomes against specific risks in exchange for the regular payment of premiums. The "micro" does not refer to the size of the scheme, but to the size of the premiums that meet the requirements of low-income households' ability to pay. Thus, the objective of microinsurance from a social protection perspective is to reduce the vulnerability of people with low or fluctuating income. Vulnerability denotes the probability of a significant reduction in standard of living during the next month, year, or decade as a result of events such as unexpected death, old age, illness, unemployment, harvest failure, and flood.

Forms of microinsurance vary in organizational structure and institutional characteristics. Microinsurance schemes are usually categorized into four models (Loewe 2007: 162ff). (1) In the full service model, one single provider (for example, a microfinance institution or a commercial insurance company) assumes all the tasks associated with a microinsurance policy: design and delivery of the product, sales, services, and claims assessment. (2) In the community-based or mutual insurance model, the members or policyholders of the insurance themselves are in charge of the foregoing tasks. (3) In the provider-driven model, which exists mainly as micro health insurance, the provider of the insured service and the insurer are the same. (4) In the partner–agent model, the functions of an insurer are divided between the agent and a partner. The agent, for example a microfinance institution, is in charge of marketing and selling the product to its clientele. The partner, usually an insurance company, acts as the risk carrier and provides actuarial, financial, and claims-processing expertise. There are also several hybrid models.

Microinsurance has widely been acknowledged by researchers and development practitioners as a promising instrument for promoting risk management, especially for low-income households in the informal sector. However, the effectiveness of microinsurance as a risk mitigation tool has limitations. First, a considerable portion of people in developing countries have no income or have income below the subsistence level. Such households will not be able to pay a microinsurance premium. Second, most households do not have the opportunity to become members of a microinsurance scheme because no such scheme operates in their vicinity. Currently, microinsurance schemes cover only a small portion of the population in most countries. Third, microinsurance is better suited to some risks than others. It theoretically works as a market-based risk mitigation tool if the insurance benefit is, in accordance with the premiums, relatively low. Because the premium income from microinsurance for low-income groups is too low to cover health expenditures, a micro health insurance scheme usually needs to be subsidized or integrated into a wider framework of social health insurance. Thus, microinsurance schemes should be embedded into a broader social protection framework, combined with other measures such as social cash transfers, social health insurance, or other statutory social security schemes, hence allowing access to risk management tools by all parts of the population and for all relevant risks.

3. Microinsurance: Challenges and the Possible Role of Development Cooperation

Microinsurance schemes face several other challenges to functioning as a social protection instrument for low-income informal households. For example, if a product is not developed in accordance with low-income households' needs or if it is not managed in a way that ensures the sustainability of the scheme, then the microinsurance diminishes households' scarce resources rather than helping households mitigate risks.

This paper focuses on the role development cooperation could play in tackling some of the challenges, gives an indication of how development cooperation can help promote microinsurance by involving a wide range of stakeholders, but does not provide an exhaustive list of challenges and ways to overcome them. In this paper, a distinction will be made between the three levels—micro (the client and provider), meso (e.g., support for providers and clients, such as reinsurance) and macro (such as the regulatory framework). In practice, the lines between the levels are not always as sharp as described here and the levels are dynamic and interrelated and should always be seen in connection with each other and in the specific context.

3.1. Micro Level

On this level, one major challenge is a lack of information, most often for all stakeholders involved. Potential providers need to address several questions before entering the insurance market: What are the risks that low-income households face most? Is microinsurance the appropriate instrument to protect people from these risks? What administrative, managerial, and technical requirements are necessary so that organizations can offer microinsurance? Data and information needed to answer questions about the potential of microinsurance in a specific country are often nonexistent.

Potential clients of microinsurance are often unaware of options to manage risk, and even of the concept of insurance. Here, development cooperation can (1) conduct research on the priority needs of low-income households concerning risk protection and the potential of microinsurance in a country; (2) disseminate information on how and where microinsurance works and what it takes to run it; and (3) support insurance literacy campaigns to raise people's awareness of their vulnerability to risks and of risk-management tools—insurance in particular. Furthermore, development cooperation can conduct studies on the social and financial impact of microinsurance on low-income households. Results of these studies may be useful, for example, in the dialogue with policy makers on the macro level.

During the start-up of microinsurance schemes, the providers often lack capacity. Small organizations such as self-help groups, cooperatives, welfare organizations, and microfinance institutions often face problems upgrading their insurance schemes. And professional insurers may face problems downsizing their products to meet the needs of the low-income market. Development cooperation can act as a catalyst during start-up. For example, such cooperation could include assisting small organizations that provide microinsurance with staff and management training; technical equipment, especially information technology; and consultancy for designing benefit packages and insurance contracts, computing contribution levels, organizing payment procedures, filing data, investing reserves, and monitoring progress. Development cooperation can also help commercial insurers downscale by (1) advising on the development of cheaper and new products tailored to the needs of low-income households; (2) identifying new distribution channels and new claims verification techniques; (3) for the new microinsurance products, training specialized agents in the vicinity of the target group; (4) intermediating with NGOs, cooperatives, and self-help groups interested in marketing the microinsurance products; and (5) advising on extending coverage to risks that are often excluded, such as HIV/AIDS.

3.2. Meso Level

A major challenge on the meso level is that a permanent support structure for microinsurance providers is often not in place. In cooperation with line ministries, second-level government authorities, insurance company federations, or alliances of microinsurance providers, development agencies can help build permanent support. For example, this can include (1) a microinsurance staff training center; (2) an arbitration board settling disputes between the parties involved in microinsurance business relations, i.e., by mediating between partners and agents, agents and agents, and agents and clients; (3) a discussion forum to share and disseminate information on experiences, ideas, and innovations in the provision of microinsurance; and (4) a competence center with the expertise needed for running an insurance business.

Also, if an NGO or a self-help group has difficulties finding a partner for the partner–agent model, development cooperation can help build networks and bring together local and international actors.

The availability of reinsurance facilities is important to the sustainability of microinsurance schemes. Because microinsurance, and especially community-based or mutual insurance schemes, usually operate with a small risk pool, they are more prone than larger schemes with larger risk pools to bankruptcy if several risk events occur in a short time period. Reinsurance could be established, for example, through a network of microinsurance schemes, a commercial reinsurer, or a government emergency fund. Reinsurance companies can play an important role by giving microinsurers protection against insolvency and enlarging their risk pool. The insurance industry is often reluctant to be involved with microinsurers because premium income is low, administrative costs are relatively high, and infrastructure for insurance is lacking.

Entering a public–private partnership with development cooperation organizations offers the reinsurer the possibility of gaining expertise on the specific market structures of developing and emerging markets and—perhaps more importantly—on the needs and risk management of low-income groups. If public–private partnership options are not possible in a country or region, development cooperation could act as a lender of last resort, for example by filling the gap where mutual insurance groups or other small microinsurers need but cannot find a reinsurer. In these cases, development cooperation can establish a reinsurance fund, preferably administered by an independent trustee, from which microinsurers can borrow at market conditions when they face a temporary liquidity crisis.

3.3. Macro Level

Important questions that governments have to deal with on the macro level concern microinsurance in the context of other social protection instruments. What are the strengths and weaknesses of microinsurance in comparison with other instruments of social protection? When should microinsurance be promoted rather than other social protection concepts? What is the role and function of microinsurance within the entire complex of social protection schemes and how may these schemes be interrelated? By approaching these questions systemically, development cooperation can advise governments on how microinsurance could be integrated into the set of existing and possible future social protection schemes.

Many emerging or developing countries lack a regulatory and legal framework conducive to microinsurance. New providers are hampered from entering the market and general insurance regulations are often not applicable to small insurance schemes, especially mutual insurance or community-based organizations. Because such organizations are often not considered legal entities, they do not have access to reinsurance, for example. Appropriate regulation can create a framework that is conducive to microinsurance.

In cooperation with actors such as the ministries involved, relevant NGOs and associations could review current and proposed laws to make sure that they are not an obstacle to the provision of microinsurance. Likewise, in cooperation with the ministry of finance or economy (usually), insurance market legislation should be reviewed to make sure that organizations other than just professional insurance agencies are entitled to distribute microinsurance products. At the same time, minimum standards should be set for the provision and sale of microinsurance products to protect consumers by requiring transparent risk and financial management, sufficient benefits for policyholders, and a transparent and easily comprehensible product design. Later, support can also be provided for developing capacities for supervising microinsurance schemes. Supervisory bodies can be supported in learning how to monitor the activities of actors falling under the jurisdiction of different laws and regulations.

4. German Development Cooperation Instruments: Practical Experience

This section discusses instruments and methodologies developed and applied by GTZ. The discussion focuses on the opportunities and challenges presented at the micro, meso, and macro levels, and for the stakeholders.

4.1. Micro Level

Insurance literacy campaigns can help overcome the clients' lack of information and understanding regarding microinsurance. GTZ has supported national stakeholders to develop insurance literacy strategies and instruments (including education material, such as comics on microinsurance, in Cameroon, Indonesia, Tanzania, and other countries). In Indonesia for example, a needs and feasibility assessment regarding low-income households and insurance showed that households generally had a superficial understanding of insurance, were suspicious about insurance products and companies, and often did not acknowledge insurance as a risk management tool. This information was crucial for developing the insurance literacy campaign. A strong focus was put on enhancing the understanding of insurance to foster a more balanced view of it, to promote consumer education about it, and to introduce insurance into the risk management portfolio of low-income households. A training methodology was developed and training was held in several districts at neighborhood community meetings, organized by local neighborhood community leaders. For this, information material that is understandable by population groups with low literacy rates was developed and used during the training to explain the concept of insurance in an illustrative way.

Training on performance-based indicators is a tool for developing the capacity of microinsurance providers. Tools have been developed in collaboration with Appui au Développement Autonome, the Belgian Raiffeisen Foundation, and GTZ for the German Federal Ministry for Economic Cooperation and Development (BMZ) and the Microinsurance Network (Performance Indicator Working Group). The performance-based indicators initiative aims to

- strengthen awareness of analyzing and monitoring performance,
- share information and knowledge necessary to monitor performance,
- increase transparency, and
- develop tools that help providers aim for viability.

Within the initiative, 9 key principles and 10 key indicators for microinsurance, which are valid for all types of microinsurance products and distribution methods, were established and tested. Different modules are available for different kinds of participants, depending on whether they are already involved in microinsurance business, just starting business, or support organizations. In June 2010, the first training of trainers for local microinsurance networks and training institutions to deliver training courses for microinsurance providers was conducted in India.[1]

4.2. Meso Level

The center of health insurance competence (CHIC) approach has been developed to tackle challenges that micro health insurance is facing on the meso level. Micro health insurance schemes are often confronted with managerial, organizational, and administrative problems due to their small size, voluntary character, members' limited financial resources, and lack of experience. A solution is to form a network of such providers that establish their own competence center with the expertise for running a health insurance business: a CHIC. The objectives of such a center are to

- support its members on technical, commercial, and policy matters;
- help to develop insurance products, benefit packages, and quality standards;
- carry out seminars and training courses (for example, the performance-based indicators training);

1 For further information see the Microfact website: http://www.microfact.org/microinsurance-workshops/

- represent the interests of local initiatives on the political level; and
- support and enhance partnerships between the state, business, and civil society.

The CHIC Management Seminar, a training program for managers and key staff of health insurance organizations, is one element in the advisory services GTZ provides to partners for establishing these competence centers. At the end of the seminar, the participants should be able to better understand health financing and health insurance management issues and their practical relevance; to describe the basic principles and processes of social health insurance and understand how and to what extent it could become a useful part of the country's existing healthcare system; and to apply the tools of health financing and health insurance management, understand key aspects of CHIC, and assess its potential for implementation in a national or regional context.

Since 2002, CHIC management seminars have been run in numerous West and East African countries and in India. In Tanzania for example, after a CHIC management seminar was run, the Centre for Health Insurance Competence was established within the Tanzanian Network of Community Health Funds, an NGO operating on different levels. The network's aim is to support the community health funds—health insurance schemes for the informal sector operating at the district level.[2]

4.3. Macro Level

In the Philippines, a national strategy to develop an insurance market for the poor is being formulated. The Microinsurance Innovations Program for Social Security, implemented by GTZ, is advising the government in this task. Consistent with the vision and key strategies espoused in the National Strategy for Microfinance that was issued in 1997, the aim of the National Strategy on Microinsurance is to define the objective, the roles of stakeholders, and key strategies to enhance the poor's access to insurance. To provide poor households and microenterprises with access to microinsurance products and services, the following specific strategies are to be pursued:

(1) A policy and regulatory environment that is conducive to the effective and efficient functioning of the private microinsurance market is to be established. Such an environment is meant to encourage and facilitate private sector participation in the provision of microinsurance products and services.

(2) Informal insurance schemes are schemes developed and implemented by entities that do not have a license from the Insurance Commission or any

[2] For further information, see the CHIC web page on GTZ's website: http://www.gtz.de/en/themen/soziale-entwicklung/soziale-sicherheit/12701.htm

other appropriate regulatory body. To ensure the safe and sound provision of microinsurance products and services, entities engaged in the provision of informal insurance activities are to be required to formalize such activities within a specified period of time.

(3) A national framework on financial literacy for microinsurance will be formulated. The framework will provide the key policies and strategies to be pursued, measures to be adopted, and activities to be implemented to ensure that microinsurance providers and prospective clients understand their roles, rights, and responsibilities and that the investments and rights of latter are given appropriate protection.

Public awareness and education campaigns on the importance of microinsurance will be carried out among key stakeholders to institutionalize financial literacy. The activities will focus on appropriate risk protection, microinsurance policies, and regulations; duties and responsibilities of providers; and rights and benefits of clients.[3]

5. Conclusion and Way Forward

By offering social protection to low-income households, microinsurance schemes make it possible for the most vulnerable people in society to cope with crisis situations without facing a long-term loss of income. Microinsurance schemes can prevent them from adopting coping mechanisms that impair their human capital through, for example, taking children out of school or reducing calorie intake. Furthermore, microinsurance can lead to an improved health status and education level of beneficiaries and thereby increase future employment opportunities for children, enable beneficiaries to invest in higher risk activities with higher returns on investment, and stimulate overall economic activity in the community.

However, microinsurance faces challenges on several levels (micro, meso, macro), and involving a wide range of stakeholders (clients, delivery channels, insurance providers, policy makers, and governments). These challenges need to be addressed so that microinsurance can help the poor manage their risks. Development cooperation can help to overcome these challenges. It is crucial to keep in mind that microinsurance can only work effectively when combined with complementary social protection instruments and thus should always be embedded in a broader social protection framework. Therefore, development cooperation organizations should always work with a holistic approach on all levels and involving all relevant stakeholders.

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[3] Further information is available on the Microinsurance Philippines website, at: http://www.microinsurance.ph

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B. Microinsurance in the Philippines: The CARD MRI Experience

Jaime Aristotle B. Alip

1. Background

Social protection in the Philippines is provided largely by three public organizations: the Social Security System (SSS), which provides protection to private sector employees; the Government Service Insurance System (GSIS), which serves government employees; and the Philippine Health Insurance Corporation (PhilHealth), which provides health insurance to public and private workers.[1]

While the formal sector employees of the Philippine economy, the labor force, and overseas workers have access to social protection programs, informal sector workers, which comprise one-half to three-fourths of the population, do not have such access. Micro and small enterprises are the country's largest employment generators, constituting 90% of all business establishments in the country. Thus, there is a great need for social protection for people who are part of the informal economy (Llanto, Almario, and Llanto-Gamboa 2007: 20).

The Center for Agriculture and Rural Development (CARD) Inc. has had a major part in the development of microinsurance in the Philippines. CARD's aim is to empower socially and economically challenged families through access to microfinance, but CARD realizes that lifting people out of poverty cannot be done by provision of microcredit alone. Thus, CARD established its members' mutual fund, which was registered with the Securities and Exchange Commission in 1999 as the CARD Mutual Benefit Association (CARD MBA). Microinsurance in the Philippines is generally defined as insurance for self- and un-employed people, who traditionally have not had access to formal sector insurance or long-term savings (McCord and Buczkowski 2004: 7).

1 This section draws from Alip, Dimaculangan, and David-Casis (2009: 1–2).

2. Brief History of CARD

CARD was organized as a social development foundation in December 1986 by a group of 15 rural development practitioners. CARD is a concerted response to the growing poverty incidence in depressed communities in the Philippines' Region IV, particularly in the provinces of Laguna, Marinduque, Masbate, Mindoro Occidental, Mindoro Oriental, and Quezon; and in Region V, the Bicol Region (CARD MRI website). CARD's vision is the establishment of a bank created for and owned and managed by landless rural women. With a start-up fund of P20 ($0.97)[2] and an old battered typewriter used for typing grant proposals, CARD commenced its journey in empowering and uplifting the lives of socioeconomically challenged families. CARD spent considerable time refining its methodology to achieve the twin goals of outreach and sustainability. Within 10 years of its start, CARD had successfully formalized its microlending operations by transforming itself into a formal financial institution—a microfinance-oriented rural bank, the CARD Bank Inc. CARD continued to expand and improve products and services for its clients and now has seven institutions—the CARD Mutually Reinforcing Institutions (CARD MRI)—providing a wide range of microfinance services, both financial and non-financial, to different market niches.

CARD MRI comprises

(1) CARD Inc.—the nongovernment organization expansion arm;
(2) CARD Bank Inc.—the formal banking arm regulated by Banko Sentral ng Pilipinas (the central bank);
(3) CARD MRI Development Institute—which provides microfinance training services to internal, local, and international external clients such as non-government organizations, people's organizations, donors, and individuals;
(4) CARD Business Development Services Foundation, Inc. (BDSFI)—the marketing arm, responsible for creating forward and backward linkages for clients in terms of access to more feasible markets and affordable raw materials;
(5) the Rural Bank of Sto. Tomas—a newly acquired rural bank, to allow expansion of banking services;
(6) CARD MBA—the microinsurance arm; and
(7) CARD MRI Insurance Agency (CaMIA)—which provides non-life insurance services to clients.

CARD is now the largest microfinance institution in the Philippines, serving more than 1 million microfinance clients and with total loans outstanding of more than P3.6 billion ($78 million) as of February 2010. CARD has maintained a near perfect

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[2] Ed: On 31 December 1986 the exchange rate was P20.53/$1. For current peso prices, the exchange rate used is P46.17/$1.

repayment rate of more than 99%. Its microinsurance arm has insured more than 5 million individuals, contributing to 19% of the total insured population in the Philippines. CARD MRI has a total staff of 5,344 deployed in its 1,077 offices.

3. CARD Mutual Benefit Association

In April 1994, CARD introduced a member's mutual fund with the primary purpose of providing loan redemption if a member–borrower dies.[3] With a weekly contribution of P2 ($0.04) per member, the loan of a member who dies will be paid off and her family will be given P3,000–P5,000 ($65–$108) burial assistance (the amount depending on the contributor's length of membership). This product was well received by the members, and attracted more poor women to join CARD's credit and savings program.

Poor families in the Philippines lack decent, modest funeral and burial services. With CARD's realization that it is able to provide poor people the death benefits that are one of their most important financial and social needs, CARD extended the burial benefit to include the member's legal spouse and dependents, increasing the premium to P2.50 ($0.05) a week per member. This benefit was appreciated by members and has contributed to increasing the number of new members and decreasing the dropout rate.

In December 1996, CARD introduced a pension plan with the primary objective of providing retirement and medical benefits to members who are 65 and older or disabled due to illness or accident. The weekly contribution of P2.50 per member was increased to P5.00 ($0.11), giving the member a lifetime pension of P300–P600 ($6.50–$13.00) per month depending on the length of membership. However, after 2 years of implementation, the management realized that, given the small premium versus the benefits that had been paid, the operations could not be sustained financially. The plan had been launched without the benefit of an actuarial study to determine the product's viability.

In September 1999, CARD formally turned the ownership and management of the member's mutual fund over to the members to support the goal of members' empowerment. The fund then became the CARD MBA—the Philippines' first grass-roots-based microinsurance organization. In May 2001, the Insurance Commission of the Government of the Philippines issued a license allowing CARD MBA to operate as a legitimate insurance company.

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3 This section draws from Alip and Dimaculangan (2007).

CARD MBA aims to promote the welfare of marginalized women; to extend financial assistance to its members in the form of death benefits, medical subsidy, pensions, and loan redemption packages; and to actively involve the members in the direct management of the association, including formulation and implementation of policies and procedures geared toward sustainability and improved services. The member–borrowers of CARD Inc., CARD Bank, and the Rural Bank of Sto. Tomas are the clients of CARD MBA. The clients are landless poor women with income of not more than P1,500 ($32.50) monthly per family member and total marketable household assets of not more than P150,000 ($3,250). Today, CARD MBA insures over 4.8 million individuals and its assets increased from P6.1 million ($132,000) in 1999 to P1.9 billion ($41.2 million) as of February 2010.

3.1. CARD MBA Products

Membership in CARD MBA commences with the individual's first contribution. CARD MBA provides the following microinsurance products and services to its members:

Life Insurance Program.[4] The member and her legal dependents acquire life insurance coverage upon payment of the first P15.00 ($0.33) weekly contribution. The amount of life insurance depends on the length of membership.

The legal dependents of a legally married member are (1) her legal spouse; (2) all her biological and legally adopted children who are single and between 14 days and 21 years old; (3) all her biological and adopted children who are single, more than 21 years old, and disabled and unable to work; (4) for members who are single and without children, her parents who are at least 60 years old; and (5) for members who are single but with children, her biological and adopted children.

On the death of the member, the designated beneficiary or beneficiaries will be indemnified as shown in Appendix 1. On the death of a member's legal dependent, the member will receive the life insurance benefits.

Total and Permanent Disability Benefit. As a provision of the Life Insurance Program, CARD MBA provides payment in the event of two types of total and permanent disability.

(1) In case of dismemberment due to accident or sickness resulting in loss of sight, both feet, both hands, or one foot and one hand, the benefit will be settled immediately and in a lump sum payment of the life insurance benefit upon submission of complete claims documents. It is understood that the assured cannot engage in gainful employment as a result of the disability.

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[4] This section draws from Alip, Dimaculangan, and Magampon-Manila (2007: 7–9).

(2) A member or legal dependent who becomes bedridden and unable to engage in any gainful employment due to sickness, disease, or accident is considered to be totally and permanently disabled if, after a 6-month observation period, he or she is still bedridden. When the disability is confirmed after the observation period, the assured will receive the monthly benefits as shown in Appendix 2.

Motor Vehicle Accidental Hospitalization Benefits. If an eligible member or her legal spouse is hospitalized due to vehicular accident after the date of membership and this resulted in confinement in a hospital or clinic for at least 24 hours for treatment by a qualified physician, CARD MBA will reimburse actual medical expenses incurred within 6 months from the date of accident, up to a maximum of P10,000 ($217) for the entire membership period of the member or per married couple. P3,000 ($65) is given to individuals if they stayed or were treated for less than 24 hours in a hospital or clinic, or if the driver has no license, or if the member is not qualified for the full benefit as per guidelines. The P3,000 counts as part of the maximum P10,000 benefit for the entire membership period. No benefits are given if the member or the legal spouse was drunk at the time of accident. The benefit ceases after the maximum of P10,000 has been paid.

Retirement Savings Fund. An active member pays P5.00 ($0.11) weekly to the Retirement Savings Fund until she reaches the retirement age of 70. At that age, she receives a lump-sum payment as shown in Appendix 3 (assuming a default-free contribution). If a member resigns from the program before the age of 70, she is entitled to a full refund of all her contributions to the Retirement Savings Fund plus the regular savings interest on the contributions.

Refund of Contributions. A member with at least 3 full years of continuous membership in CARD MBA is entitled to an equity value equivalent to 50% of her total contribution to life insurance. This is payable upon resignation of the member from CARD MBA.

All Loans Insurance Package. This is a modified loan redemption fund to protect member–borrowers and CARD MBA's accredited lending institutions by ensuring 100% collection of loans extended to the members who die prior to paying their loans. This product is intended for members with loans from any CARD MRI or affiliate. The loan redemption fee is 1.5% of the amount of loan per annum.

(1) **Death benefit.** If a member–borrower dies and upon submission of required documents, CARD MBA will pay the outstanding balance of the loan to the lending institution and the paid portion of the loan to the member's beneficiary or beneficiaries.

(2) **Disability benefit.** If a member–borrower becomes totally and permanently disabled, CARD MBA will pay the outstanding balance of the loan to the lending institution. The paid portion will not be given to the beneficiary because she is still alive, but she is entitled to receive the monthly disability benefits under the life insurance program.

Mass Wedding. This service (wherein several couples are wed at the same time, usually in civil ceremonies), is offered to assist CARD MBA members who wish to have their live-in partners become their legal dependents. CARD MBA pays only for the documentary wedding requirements.

CARD MRI Disaster Relief Assistance Program. Without additional contribution, relief goods are given to all members who are victims of natural disasters such as earthquakes, floods, landslides, volcanic eruptions, and fire.

Credit Bureau. CARD MRI established a database of its general membership to track possible double membership within CARD MRI and its affiliates.

Claims Settlement. CARD MBA assures that members are involved in the claims settlement through the Board of Awards and MBA Coordinators. Final approval for claims settlement is by the CARD branch manager or CARD MBA staff member as a check on claims settlement.

3.2. BOAT Program

CARD MBA developed the Build, Operate, and Transfer (BOAT) Program to help expand the outreach of its institutional partners and help transform informal in-house microinsurance schemes into viable MBAs that meet regulatory requirements.[5] The program was implemented through the financial assistance of the Dutch nongovernment organization, Cordaid, starting in April 2006. The general objective of the BOAT program is to increase the number of poor people reached by microinsurance service by transplanting CARD MBA's model to relatively small institutions. The BOAT program aims to build, operate, and transfer an MBA operation to organizations in a period of 3 years. Its specific aims are to (1) develop the capacity of CARD MBA staff to implement the new technology transferred, (2) provide a technology model for the whole microfinance industry by sharing information and experience, and (3) develop a manual of operations specific to the BOAT program. The program is designed for interested institutions that do not have the capacity to develop and implement their own MBAs due to lack of financial and technical capacity to institutionalize a microinsurance scheme. Currently, 12 organized groups are availing of the BOAT program.

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[5] This section draws from Alip, Dimaculangan, and Magampon-Manila (2007: 1–2).

BOAT program partners are members of the CARD MBA. They enjoy the same benefits as other members except that the number of legal dependents covered by the insurance is limited to the first three biological children, 14 days to 21 years old. The number of the member's legal dependents covered may be increased after the transfer phase, when the organizing group is already running its own MBA. It is easier for a member to increase than to decrease the number of legal dependents covered (e.g., if the member cannot sustain the life insurance coverage of all her biological children). During the 3-year program period, the management of CARD MBA provides technical assistance and technology transfer to the BOAT partner. After the 3-year period, the payments of all members who are affiliated with the BOAT partner and are entitled to a refund of their contribution are transferred to the BOAT partner's own MBA. These contributions then become the seed capital of the newly graduated MBA.

3.3. CARD MBA Healthcare

CARD MBA also offers a healthcare program, the AKAP CARD which stands for "Ang Inyong Kalusugan Ay Pangangalagaan ng CARD." This program is for CARD MRI microfinance members and their legal dependents. The P1,800 ($39) annual premium can be paid in cash or as a loan for healthcare, payable in 43 weeks at P50 ($1.10) weekly. However, only members with at least 6 months of membership; 100% repayment rate of loans outstanding from CARD Inc., CARD Bank, and the Rural Bank of Sto. Tomas; and at least a 90% attendance rate in center meetings may use the AKAP CARD.

AKAP CARD holders must be at least 18 years old but not more than 65, able to perform normal daily activities, and not a member of any microfinance institution other than CARD MRI. For the AKAP CARD, dependents of married members include a legitimate spouse not more than 60 years old and all her biological and adopted children who are single, 90 days old but not more than 18 years old, and residing with the member. The AKAP CARD is effective for 1 year and is renewable until age 70. For the first year of coverage, the AKAP CARD can only be used after the member has been contributing for 3 months (Dimaculangan 2010: 48).

4. CARD MRI Insurance Agency

The CARD MRI Insurance Agency (CaMIA) was established in June 2007 with the objectives of (1) conceptualizing microinsurance products (mostly non-life) as needed by the members of CARD MRI and its affiliates, and (2) serving the identified insurance needs of CARD MRI and its affiliates through partnership with various insurance companies. CaMIA offers a 3-in-1 disaster insurance package for a P250 ($5.41) yearly premium. The plan includes financial assistance for personal accident, up to P100,000 ($2,167); repair of a house damaged due to natural calamities, up to P10,000 ($217); and funeral benefits, up to P20,000 (Alip 2009).

5. Impact on Clients

In a 2002 qualitative survey conducted by Freedom From Hunger, 12 of 27 focus groups interviewed named MBA insurance as the most valuable aspect of the CARD product portfolio (McCord and Buczkowski 2004: 42). In a 2003 study (CARD's Experience on Dropouts: Results & Findings of an Exit Survey), CARD members ranked CARD's insurance program second (41.5%) after the loans (46.3%) when asked which CARD products they liked best.

Formal and informal studies continue to reveal that CARD clients rate CARD MBA's products and services highly. CARD MRI's microinsurance services through CARD MBA are proving to be a powerful weapon in lifting many people from poverty. The safety net that the microinsurance provides increases the clients' coping mechanisms and reduces their vulnerabilities to risks.

6. Lessons Learned

Several insights have been gained through the CARD MRI experience in microinsurance.[6] First, an effective collection mechanism and microfinance activities are vital. Without an effective collection mechanism, a microinsurance scheme will not be successful. Second, microinsurance policies should be aligned with microfinance. The advantages of a microinsurance scheme cannot be harnessed to the fullest if its policies are not aligned with the microfinance operation policies. Examples of policies are as follows:

(1) People who are only interested in the benefits of the microinsurance program should not become members as there is a high risk that they or a family member has a preexisting health problem.
(2) No member's contribution for microinsurance will be accepted without payment of loan amortization and accumulation of savings.
(3) From each payment the member makes, P20 ($0.43) must be applied to her microinsurance contribution so that, if she dies, her beneficiaries are entitled to receive life insurance benefits, which can be used for paying her other obligations.

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[6] This section draws from Alip, Dimaculangan, and Magampon-Manila (2007: 12–13.)

(4) Claims payment must be disbursed at the branch level to meet the 24-hour target for claims settlement.
(5) Information dissemination campaigns must include cross-selling of products and services of the microfinance and microinsurance operations.
(6) The members, such as the heads of centers and MBA coordinators, together with CARD MRI staff members, are involved in settling claims to give personalized service to members and their heirs.

Appendix 1. CARD MBA Life Insurance Benefits (P15.00 weekly contributions)

Length of Membership	Cause of Death or Disability	Benefit (P) Member	Benefit (P) Legal Dependent
Less than 1 Year	Pre-existing condition	2,000	Spouse = 2,000, Children = 0, Parent = 0
	Natural causes, sickness	6,000	5,000
	Accident	12,000	
More than 1 Year But Less than 2 Years	Sickness	10,000	5,000
	Accident	20,000	
More than 2 Years but Less than 3 Years	Sickness	30,000	10,000
	Accident	60,000	
3 Years and Over	Sickness	50,000	10,000
	Accident	100,000	

CARD = Center for Agriculture and Rural Development, MBA = Mutual Benefit Association.
Note: Other benefits include the following:
P1,000.00 is provided in case of death of the member's child younger than 14 days old or in case of fetal death; the member's child younger than 1 year old and without birth certificate; the member's live-in partner; a single member's parent younger than 60 years old.
P2,000.00 is provided if a member or member's legal spouse dies due to suicide and the member has less than 2 years membership with CARD MBA.
The exchange rate for January–March 2010 was P46.17/$1.
Source: Dimaculangan (2010: 48).

Appendix 2. Monthly Benefits for Total and Permanent Disability (at P15 weekly contribution effective 1 May 2006)

			Monthly Benefit (P)								
Month	**Item**	**Contribution (P)**	**100,000**	**60,000**	**50,000**	**30,000**	**20,000**	**12,000**	**10,000**	**6,000**	**5,000**
1	Notice of TPD	60	5,556	3,333	2,778	1,667	1,111	667	556	333	278
2–6	Observation Period	300	27,780	16,667	13,890	8,335	5,555	3,335	2,780	1,665	1,390
Total		**360**	33,336	20,000	16,668	10,002	6,666	4,002	3,336	1,998	1,668
Contributions Made in 6 Months (to be refunded only if the member becomes disabled)			**360**	**360**	**360**	**360**	**360**	**360**	**360**	**360**	**none**
Total Benefits for 6 Months			**33,696**	**20,360**	**17,028**	**10,362**	**7,026**	**4,362**	**3,696**	**2,358**	**1,668**
7–17	Monthly Benefit	0	5,556	3,333	2,778	1,667	1,111	667	556	333	278
18	Monthly Benefit	0	5,548	3,337	2,774	1,661	1,113	661	548	339	274
Total Benefit			**100,360**	**60,360**	**50,360**	**30,360**	**20,360**	**12,360**	**10,360**	**6,360**	**5,000**

TPD = total and permanent disability.
The exchange rate for January–March 2010 was P46.17/$1.
Source = Dimaculangan (2010: 48).

Appendix 3. CARD MBA Retirement Benefits (guaranteed amount in Philippine Pesos at 5% compound interest per annum)

Entry Age	Optional Retirement Age					
	65	66	67	68	69	70
18	45,474	48,047	50,752	53,595	56,584	59,726
19	43,026	45,474	48,047	50,752	53,595	56,584
20	40,698	43,026	45,474	48,047	50,752	53,595
21	38,482	40,698	43,026	45,474	48,047	50,752
22	36,375	38,482	40,698	43,026	45,474	48,047
23	34,370	36,375	38,482	40,698	43,026	45,474
24	32,462	34,370	36,375	38,482	40,698	43,026
25	30,648	32,462	34,370	36,375	38,482	40,698
26	28,921	30,648	32,462	34,370	36,375	38,482
27	27,279	28,921	30,648	32,462	34,370	36,375
28	25,717	27,279	28,921	30,648	32,462	34,370
29	24,230	25,717	27,279	28,921	30,648	32,462
30	22,817	24,230	25,717	27,279	28,921	30,648
31	21,471	22,817	24,230	25,717	27,279	28,921
32	20,192	21,471	22,817	24,230	25,717	27,279
33	18,974	20,192	21,471	22,817	24,230	25,717
34	17,816	18,974	20,192	21,471	22,817	24,230
35	16,715	17,816	18,974	20,192	21,471	22,817
36	15,666	16,715	17,816	18,974	20,192	21,471
37	14,669	15,666	16,715	17,816	18,974	20,192
38	13,721	14,669	15,666	16,715	17,816	18,974
39	12,818	13,721	14,669	15,666	16,715	17,816
40	11,960	12,818	13,721	14,669	15,666	16,715
41	11,143	11,960	12,818	13,721	14,669	15,666
42	10,366	11,143	11,960	12,818	13,721	14,669
43	9,627	10,366	11,143	11,960	12,818	13,721
44	8,924	9,627	10,366	11,143	11,960	12,818

continued on next page

Appendix 3. continuation

Entry Age	Optional Retirement Age					
	65	66	67	68	69	70
45	8,255	8,924	9,627	10,366	11,143	11,960
46	7,619	8,255	8,924	9,627	10,366	11,143
47	7,013	7,619	8,255	8,924	9,627	10,366
48	6,437	7,013	7,619	8,255	8,924	9,627
49	5,889	6,437	7,013	7,619	8,255	8,924
50	5,368	5,889	6,437	7,013	7,619	8,255
51	4,872	5,368	5,889	6,437	7,013	7,619
52	4,400	4,872	5,368	5,889	6,437	7,013
53	3,952	4,400	4,872	5,368	5,889	6,437
54	3,525	3,952	4,400	4,872	5,368	5,889
55	3,119	3,525	3,952	4,400	4,872	5,368
56	2,732	3,119	3,525	3,952	4,400	4,872
57	2,365	2,732	3,119	3,525	3,952	4,400.
58	2,015	2,365	2,732	3,119	3,525	3,952
59	1,682	2,015	2,365	2,732	3,119	3,525
60	1,366	1,682	2,015	2,365	2,732	3,119
61		1,366	1,682	2,015	2,365	2,732
62			1,366	1,682	2,015	2,365
63				1,366	1,682	2,015
64					1,366	1,682
65						1,366

The exchange rate for January–March 2010 was P46.17/$1.
Source: Dimaculangan (2010: 48).

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C. Microinsurance in Sri Lanka: The Role of NGOs as Service Providers

Emil Anthony

1. The Need of the Poor for Risk Management Mechanisms

To escape poverty, the poor need to build productive assets and increase their income. This process is not easy, and it is long and risky. Poor households are extremely vulnerable to negative shocks with financial consequences because they have no funds to meet the resulting losses. To cope with such losses, the poor may have to resort to emergency measures such as selling or mortgaging their meager assets; taking loans if possible and available; obtaining financial assistance from friends and relatives, who may be in the same difficult situation; reducing expenditure on food; reducing healthcare and children's education; and resorting to child labor. Lack of risk mitigation facilities makes it very difficult for the poor to escape from indebtedness and poverty.

In Sri Lanka, only a very small minority of poor people are secured by formal insurance schemes. Regular commercially oriented insurance policies are unaffordable to the poor. The Sri Lankan insurance industry covers only about 10% of the total population. The major commercial insurance companies have not made serious efforts to develop the microinsurance sector.

The vast majority of the poor are not covered by a formal insurance system. The quality of life of the poor is threatened by shocks arising from accidents, injury, death of the breadwinner, and permanent disability. Further natural disasters, accidents, and business risks can severely influence the course of their lives. Such issues have immediate impacts on their lives but may also result in loss of future income.

Sri Lanka has a widespread network of "funeral aid societies" that help communities in case of death by providing payments to meet funeral expenses and other urgent incidental expenses. Beneficiaries have to pay monthly or quarterly contributions to be eligible for these benefits. But this is not a long- or medium-term solution to risk of death.

2. The Yasiru Mutual Provident Society

Yasiru is a mutual and self-managed insurance scheme for poor people living in rural Sri Lanka.[1] Like many other microinsurance schemes, Yasiru is not a regulated insurance institution and has no legal mandate from the Insurance Board of Sri Lanka, the regulating authority. Yasiru Mutual Provident Society is a network of local and rural self-help groups and nongovernment organizations (NGOs). The beneficiaries pay a contribution instead of an insurance premium. Its mutual character is enhanced by the redistribution of annual surpluses to the same beneficiaries. Yasiru evolved from the concept of the funeral aid society, reflecting the need for a more broad coverage.

The Yasiru Mutual Provident Society was founded in 2000. This microinsurance project is an initiative of the Sri Lankan NGO Samastha Lanka Praja Sanwardena Mandalaya (SLPSM)—the All Ceylon Community Development Council. Yasiru was established with the support of the Rabobank Foundation of the Netherlands and technical assistance from Interpolis, its subsidiary. Yasiru provides insurance coverage for death, accidents, disability due to accidents, and reimbursements for hospitalization.

The SLPSM was launched in 1987. It is a federation of local community-based organizations (CBOs). Its staff comprises eight members in the office and 15 in the field. The SLPSM covers eight districts mainly in southern Sri Lanka. It works toward poverty reduction by mobilizing rural development societies, rural farmer societies, savings and credit societies, and funeral aid societies.

In 1995, the SLPSM started to offer an insurance package in addition to its funeral donation scheme already operating within the communities. The insurance package includes coverage for death and physical disability due to accidents (e.g., floods, cyclones, landslides, fire, and some other accidents) and for losses due to crop failures. The Sri Lanka Insurance Corporation, the leading state insurance company, provided

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1 Information in this section was provided through personal communication from Sunil Silva, chairman, Yasiru Mutual Provident Society.

re-insurance cover only for death. All other claims have to be paid out of the premium income. Premiums at the inception were SLRs10–SLRs100 ($0.19-$1.88) monthly.[2]

After 1 year of operations, in 1996 the SLPSM realized that claims could not be met with the funds available. Without re-insurance for other products, it was not possible to offer coverage for many risks. Consequently, paid premiums were reimbursed and the scheme was reduced to the risk of death only.

In 1998, the SLPSM requested Rabobank Foundation for assistance to develop a microinsurance scheme. Rabobank Foundation turned to its subsidiary Interpolis, an insurance company of the Rabobank group, for technical assistance. The three parties worked together on establishing sustainable microinsurance for the poor in Sri Lanka. The SLPSM identified the need for a risk management scheme through engaging in microcredit programs and market surveys carried out at the grass-roots level of Sri Lankan communities.

Learning from the experience during 1995–1999, with the help of Rabobank and Interpolis, the SLPSM launched the Yasiru Mutual Provident Society in 2000. From the start, five elements were considered essential for the risk management scheme: (1) a proper institutional structure, (2) a balanced selection of products, (3) a good administration, (4) a re-insurance contract, and (5) technical assistance.

The Yasiru program was set up as a cooperative, a mutual society registered under the Societies Ordinance 1891. A cooperative structure meant that the members (the insured parties) are the ultimate owners. Annual general meetings are held, where the members have the final say in decision making and the right to elect the Board of Directors. The Board of Directors manages and controls the scheme.

The SLPSM's network for microcredit is used for fieldwork for microinsurance. Yasiru hired SLPSM's staff to mobilize clients, collect premiums, and handle claims. Yasiru targets the poorest segments of the population in rural areas. A majority of members are involved in agriculture, estate work, or other casual labor. The product offered covers an insured person for total and partial permanent disability or death due to accident, and death due to natural causes.

On an annual basis, 15% of the premium collected goes to village-level member–collectors as remuneration and incentive and 35% is allocated for the administration and for management of the project. Claims are paid from the remaining 50%.

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2 Ed: The exchange rate of SLRs144.893/$1, as of February 2010, is used except where other dates are given in text.

Yasiru has received regular technical assistance from interpolis, which included the development of a computerized system covering the claims processing function together with a member database. This agreement also led to re-insurance cover, first for the life component, later extending to the health insurance component as well. By the end of 2002, Yasiru had 3,780 members. All were SLSPM members. By the end of 2003, the membership had increased to 8,151 by including other NGOs.

At present, 12 NGOs are functioning as agents for their members in the Yasiru Mutual Provident Society. All partner NGOs are represented in the Central Committee, which is involved in the operational aspects. However, only 5 main partner NGOs are represented in the Board of Directors.

The following features were added to the insurance product:

- a maximum number of two dependents per policy;
- compulsory 2-year membership to be eligible to claim natural death cover;
- funeral assistance coverage was extended from age 65 to 75 (the average life expectancy in Sri Lanka is 74 at present); and
- hospitalization for maternity complications was introduced.

Yasiru is the first example in Sri Lanka of a mutual self-managed insurance scheme without any intervention or assistance from the government authorities. Appendix 1 provides details of the Yasiru Microinsurance Scheme.

3. The Sanasa Insurance Company

Sanasa[3] societies are registered under the Cooperative Societies Ordinance. These mutual societies are regulated by the registrar or commissioner of cooperatives. Sanasa primary societies are village-level organizations catering to the financial needs of low-income people. Sanasa primary societies have invested in their own bank—Sanasa Development Bank—which is regulated under the Banking Act—and their own insurance company—Sanasa Insurance Company.

Sanasa Insurance Company is a service support organization. Its main objective is to provide microinsurance services to Sanasa society members and members of other organizations, to CBOs affiliated to the Sanasa Movement, and to the Sanasa Development Bank. The process of forming the Sanasa Insurance Company was initiated in 1989, when the NGO Forum on Development conducted a survey to identify the popular voluntary organizations in the area of Warakapola in the Kegalle district.

3 "Sanasa" is the Sri Lankan acronym for "thrift and credit cooperative society." Information in this section was obtained from the Sanasa Insurance Company.

The survey found that funeral aid societies were the most popular and most active organizations at the village level, with a high degree of participation due to their need-based approach of providing assistance. When there is a family calamity such as death of the breadwinner, the caretaker of children, or elderly people in the family, funeral aid societies with a strong fund base provide immediate assistance. Having studied the available data, representatives of the funeral aid societies agreed to design and implement an insurance scheme of their own. They named the insurance scheme Ahethuka Wipath Awaranaya (Risk Coverage Against Unfortunate Perils). The scheme was inaugurated in October 1991 with a participatory membership of 182 people and the organization established for implementing it was known as the "All Lanka Mutual Assurance Organization (ALMAO)." After 2 years of operation, ALMAO became a registered society and was declared a "Specially Approved Society" by the Ministry of Trade and Commerce under the Societies Ordinance. Benefits under the scheme included death cover and cover for disability caused by road and some other accidents, occupational hazards, fire, and floods, which were considered common perils faced by low-income families in the informal sector.

In 1996, the micro insurance division of the Federation of Thrift and Credit Societies (Sanasa) was amalgamated with ALMAO; as a result, ALMAO's insurance activities expanded rapidly. Consequently, the management of ALMAO decided to strengthen the structure of the organization and to obtain the legal status of a recognized insurer. As there were no provisions in the insurance law to register a mutual assurance society, arrangements were made to set up a registered company with limited liability to obtain a license to transact the insurance business of the Sanasa movement. The license was granted in 2003 by the Insurance Board of Sri Lanka established under the Regulation of Insurance Industry Act No. 42 of 2000.

Initially, the Sanasa Insurance Company was established to operate only the business of life insurance. In 2005, the company expanded its operations covering general insurance and thus became a composite company. It now provides the following services:

- life insurance: individual policies for members of Sanasa Societies and other CBOs and the general public;
- motor vehicle insurance: for all;
- mortgagee protection insurance: for Sanasa Societies and Sanasa Bank;
- fire and burglary insurance: for all;
- personal accident and health insurance: group policies for Sanasa societies and other CBOs, and individual policies for Sanasa Development Bank borrowers;
- insurance for funeral expenses: group policies for Sanasa Societies and other CBOs; and
- surgical and hospitalization cover.

The Sanasa Insurance Company continues to promote microinsurance services though Sanasa societies and other CBOs for the well-being of low-income earners, while providing a wide range of insurance products to cater to the needs of the general public. The major challenges are

(1) employing a qualified actuary, which will be expensive;
(2) securing actuarial services for product design, which will also be expensive; and
(3) changing the current ownership structure, which might be necessary because all insurance companies have to be listed on the Colombo Security Exchange.

4. Evolution of the Mutual Assistance Activities of Sarvodaya Economic Enterprises Development Services (SEEDS)

4.1. About SEEDS

Sarvodaya Economic Enterprises Development Services (Guarantee) Ltd. (SEEDS) is the economic arm of the Lanka Jathika Sarvodaya Shramadana Movement. SEEDS is one of the leading organizations providing microfinance for low-income people in Sri Lanka. Its main objective is to alleviate poverty by promoting economic empowerment of rural people for sustainable livelihood.[4]

SEEDS established a separate strategic business unit, the Mutual Assurance Unit, under the Micro Finance Division in January 2004 to meet future microinsurance needs of low-income households in remote areas. Since 2004, SEEDS has been managing two types of risk mitigation schemes—the Credit Life Security Fund (Mutual Funds) and the Sathkara Life Insurance scheme, a product of the Asian Development Bank (ADB) Microinsurance Sector Development Project.[5]

4.2. Mutual Fund Management

At its inception, SEEDS introduced a credit life insurance scheme named the Loan Risk Fund. The Loan Risk Fund is built through a one-off premium of 2% of each approved loan. Claims are generally due to death or total permanent disability of the borrower, in which case the outstanding loan is written off by the fund.

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4 Information in this section is drawn from SEEDS (various years).

5 Asian Development Bank. 2006. Technical Assistance to the Democratic Socialist Republic of Sri Lanka: Microinsurance Sector Development. Manila.

The Loan Risk Fund was relaunched with an improved database management system and renamed the Loan Risk Assurance Fund in 2005. The Loan Risk Assurance Fund provides risk cover for SEEDS' borrowers by collecting 2% of the approved loan as premium and will compensate borrowers up to SLRs100,000 ($870).

- If the borrower dies or is permanently disabled, the loan outstanding will be written off and the difference between the original amount borrowed and loan outstanding will be reimbursed to the immediate family member.
- If the borrower is partly disabled, the outstanding loan amount will be written off.
- If there are no claims during the loan period, a 20% discount on the risk cover will be offered for the next loan.

The new Loan Risk Assurance Benefit Fund, which is operating as a mutual security fund, was introduced in November 2008 for the benefit of SEEDS borrowers of SLRs100,000–SLRs1,000,000 ($870–$8,700). The Mutual Assistance Unit manages the new product. The program has been operating successfully in all districts since November 2008.

The premium will be divided into two main units; 75% of the premium will be allocated for the risk fund and this will be the basic risk pool to pay claims. The remaining 25% is allocated for administration. The administration fund is used to cover administration cost and training and marketing expenses of the Mutual Assurance Unit. The Table shows the funds' performance.

Performance as of 31 December 2009 of the Loan Risk Funds

Fund	**Total Claims Paid** (SLRs)	**Total Fund** (SLRs)
Loan Risk Fund (as of 31 December 2008)	1,104,842.50	168,714,196.25
Loan Risk Assurance Fund	6,599,544.00	49,349,498.61
Loan Risk Assurance Benefit Fund (from November 2008)	157,176.00	6,209,938.78

The exchange rate is SLRs114.94/$1.
Source: SEEDS Mutual Assurance Unit.

4.3. The Microinsurance Sector Development Project

Due to ADB's microinsurance sector development project in 2006, Sri Lankan authorities have shown interest in microinsurance. However, progress is very slow. The partner–agent model introduced by the ADB-funded project is being implemented by HNB Assurance Ltd. and SEEDS.

The project comprised technical assistance to the Government of Sri Lanka, aiming to develop the microinsurance subsector by creating a favorable policy environment and providing institutional capacity building. The objectives were to establish a legal framework to promote microinsurance and to make insurance services available to poor and low-income households.

With the support of the ADB-funded project, SEEDS and HNB Assurance PLC (HNBA) have come together to provide microinsurance. HNBA, as the insurance company, and SEEDS, as the intermediary company, signed an agreement and established the first partner–agent model in Sri Lanka to promote microinsurance. HNBA is responsible for developing the insurance product and is the risk bearer. SEEDS is responsible for marketing the products, maintaining documents, and administering implementation, for a commission. Both companies will bear administration cost equally.

SEEDS, in collaboration with HNBA, introduced the microinsurance product, the Sathkara Community Life Insurance Policy, in July 2007. The main purposes of introducing the Sathkara Policy are to ensure that members have sustainable livelihoods, and that their living conditions are improved.

However, the Sathkara policy did not achieve the targets set by the partnership and recorded low sales. The commission of 20% of the premium income is low compared to the administration cost. Thus, the following benefits were added to the Sathkara product (Appendix 2):

(1) for the insured before her or his 65th birthday, life insurance cover of SLRs50,000–SLRs200,000 ($435–$1,740), depending on the age and scheme, but for the same premium; funeral benefits of SLRs15,000 ($131); hospitalization cash benefits of a maximum SLRs2,000 ($17.4) per year; dismemberment benefits equal to 50% of the total assured amount; and total permanent disability equal to 100% of the sum assured;

(2) for the spouse, before her or his 65th birthday, life insurance cover of SLRs25,000–SLRs70,000 ($218–$609), funeral benefits of SLRs15,000 ($131), and hospitalization benefits the same as for the policyholder;

(3) for children before their 18th birthday, funeral and hospitalization benefits the same as the policyholder, plus education benefits up to SLRs10,000 ($87) per child; and

(4) maturity benefit (new): after 5 years, SLRs10,000 per policy.

The Mutual Assurance Unit is facing challenges implementing the new Sathkara product. Revenues are inadequate to cover SEEDS' administrative costs due to slow business at the initial stage. Implementation of the scheme in Batticaloa and Vavuniya (in nothern and eastern parts of Sri Lanka) results in high operating costs and extra risk for SEEDS. The current product does not adequately cover the needs of the poorest or highly vulnerable groups. Field staff have a heavy workload and are more interested in selling microcredit than microinsurance, as the latter has a less attractive incentive.

5. General Issues and Recommendations

The needs for crop insurance and household asset insurance are not covered by existing microinsurance schemes. The sustainability of the microinsurance scheme without donor assistance is questionable. In the absence of regulations, unlicensed informal microinsurance providers enhance their client bases so that the viability of the microinsurance business and protection of low-income insurance policyholders is a serious concern.

The seven major recommendations and notes are as follows:

(1) More emphasis is needed on creating awareness among low-income groups about microinsurance and its benefits. Poor people need to be convinced that microinsurance is an acceptable, affordable, and useful technique for mitigating their risks.

(2) Most low-income people expect the benefit of a savings product from the insurance product, as well as the benefits of risk mitigation.

(3) To deliver and service microinsurance products, microfinance institutions and NGOs could use existing field staff who are engaged in microcredit and savings, but the delivery mechanism should be cost-effective. Having separate field staff for microinsurance is not a viable proposition.

(4) Microinsurance products should be designed appropriately to meet the capacity of the poor to pay premiums.

(5) Access to reinsurance is needed.

(6) Microinsurance providers do not have sufficient initial capital to set up an insurance company, and have to perform in the informal and unregulated sector, which is not legal.

(7) Bringing small microinsurance providers under regulation and developing a cost-effective delivery mechanism are long-term solutions for the expansion and viability of microinsurance business in Sri Lanka.

Appendix 1. Yasiru Microinsurance Scheme

Coverage. Risks covered are

(1) death of the covered persons due to an accident;
(2) permanent (total or partial) disability of the covered persons due to an accident;
(3) death of the covered persons due to natural causes;
(4) hospitalization of the covered persons;
(5) on the death of a member as covered person, the nominees will receive benefits based on the share agreed on;
(6) the agreement ceases when the member completes 75 years of age, at which time the member will be awarded the credit balance in his or her computerized account and the interest thereon; and
(7) if a person is covered by Yasiru agreements from one or more partner agencies, the maximum benefit will be no more than the highest benefit awarded to the highest plan in the program.

An accident is defined as a sudden external occurrence that causes immediate bodily damage whose nature and location can be medically diagnosed, such as fire, lightning, floods, landslides, storms, and electrocution; injury while employed; motor vehicle and/or road accidents; falling from a tree or from a height; inadvertent consumption of poison; and injury from animals and serpents.

Membership and Dependents. The member is the person who has taken the membership in the Yasiru Mutual Provident Society Ltd. (Yasiru Society) and who is responsible for paying the fee periodically. He or she is the beneficiary of all benefits. Membership has to be started before the age of 60 and after the age of 18. Covered persons can be children aged 3 months to 18 years and/or adults 18 to 75 years who are named in the application and in the policy. However, a maximum of three people aged 65–75 years may be entered into the agreement.

Disability. Permanent disability means permanent total or partial loss of function of any part or an organ of the covered person.

Hospitalization. A hospital is an establishment duly registered as a hospital or clinic with at least six beds for the care and treatment of sick and injured persons as paying bed patients, and that (1) has facilities for diagnostic procedures and major surgery; (2) has 24-hour-a-day nursing services by registered trained nurses; (3) is under the supervision of a physician; and (4) is not exclusively a place for alcoholics or drug addicts; a nursing, rest, or convalesce home; a home for the aged or the incapacitated; or a similar establishment.

Hospitalization occurs when the covered person must be confined in a hospital as an inpatient under the care of a legally qualified and registered physician or surgeon for at least 24 hours in duration. A maximum period of 15 days is covered within a consecutive 12-month period.

Conditions for Awarding Benefits. The conditions are as follows:

(1) The member can make claims after 30 days from the date of becoming a registered member of the Yasiru Society, and after receiving a computerized policy number.

(2) Claims for benefits should be made within 45 days after the event.

(3) If the member dies, only nominees mentioned in the application form will be considered when paying benefits. Benefits will be paid according to the proportion provided in the application.

(4) The benefits will be awarded only for the covered persons mentioned in the membership application form.

(5) Membership is given to Sri Lankan citizens.

(6) To amend the names of covered persons and nominees in the agreement, a request should be made in writing with a new application form to the Yasiru Society and acknowledged by those named. The amendments will come into effect only after being registered with the Yasiru Society and the partner organization has been informed regarding the acceptance of the amendments.

(7) The Yasiru Society awards memberships for 1 year with an automatic yearly renewal provided the premium contribution is up-to-date.

(8) A request to increase the current membership fee should be made in writing to the Yasiru Society. Hospitalization benefits are paid only 6 months after the date of the increased membership fee. Hospitalization benefits before 6 months from the date of the increased membership fee will be paid according to the previous membership fee.

(9) A request to reduce the current membership fee should be made in writing to the Yasiru Society. Benefits will be paid according to the reduced membership fee immediately upon its implementation.

(10) If membership fees are not paid for 3 consecutive months, the agreement becomes invalid.

(11) A member who completes the membership or who wishes to cancel the agreement after completing at least 5 years of membership, with regular payment, is entitled to receive the balance amount in the member's account, which is computerized, and the interest thereon.

(12) If a member becomes paralyzed without meeting with an accident, no benefits will be awarded under the accident benefit scheme. However, if the conditions of hospitalization are fulfilled, benefits will be paid.

(13) A person who is already a member of the Yasiru Society and is a blood relation of the member's household can obtain benefits according to the

degree of disability under the Yasiru Welfare Fund, which is a different legal entity from the microinsurance scheme. A medical certificate is required for such claim.

(14) If an agreement ceases (see clause 18), no other person can continue the agreement.

(15) In the event of permanent disability of the covered person due to an accident, a percentage of the benefit for disability, to be determined in accordance with the degree of disability, will be awarded. A certificate from a registered medical practitioner is required.

- In the event of permanent loss of function, benefits will be awarded as shown in the Table A1.
- In cases of permanent disability not noted in Table A1, benefits will be awarded after taking the degree of disability into consideration.
- In the event of one or more accidents, the total amount paid per covered person will never be more than the covered amount for permanent disability.
- If a preexisting permanent disability worsens due to an accident, the benefit will be awarded based on the difference between the degree of permanent disability prior to and after the accident.
- The degree of permanent disability will be determined as soon as the situation can be considered final, in any case within 1 year following the day of the accident. The amount of the benefit will be determined according to the final degree of permanent disability to be expected according to the medical reports.
- If a covered person dies due to accident prior to the determination of the permanent disability, then the society pays only the benefit due for death by accident.
- If a covered person dies prior to the determination of the permanent disability, the amount of the benefit shall be part of the disability entitlement.

(16) A certificate from a recognized registered doctor is essential to receive the benefits. Documents mentioned in clause (19) are also required.

Table A1. Disability Benefits

Body Part	Percent of Total Disability Allowance to be Paid	Body Part	Percent of Total Disability Allowance to be Paid
Arm, Hand	75	One Eye	35
Thumb	25	Hearing, Both Ears	60
Index Finger	15	Hearing, One Ear	25
Other Finger	10	Smell, Taste	10
Leg, Foot	70	Kidney	20
Big Toe	10	Spleen	5
Other Toe	3	Psychological Ability	100
Two Eyes	100		

(17) Benefits will not be paid for the events listed in (18). However the balance in the member's computerized account and the interest therein will be awarded, as mentioned in Clause (11).

(18) (a) Suicide and/or willful attempt to die, (b) accident while hunting, (c) accident while engaged in motor and bicycle races, (d) accident while engaged in a robbery and/or illegal activity, (e) death due to a violation of government rules and regulations, (f) willful or intentional accidents, and (g) contagious disease. The agreement ceases if (a) the member withdraws, (b) the member dies and benefits have been awarded, or (c) the covered member has been paid a 100% benefit award for permanent disability.

(19) Documents required for payment of benefit awards are the originals of the following:
   (a) member's or nominee's request;
   (b) certified copy of the identity card of the claimant;
   (c) Yasiru Marketing Promotion Officer's Certificate;
   (d) certificate from the president and secretary of the community-based or partner organization;
   (e) Grama Nilyari Division (Village Officers' Division) Officers' Certificate;
   (f) for a child, a letter from the principal of the school the child is attending;
   (g) recognized medical certificate from the hospital;
   (h) death certificate;
   (i) coroner's report;
   (j) police report.

(20) The agreement will cease if the information given is false and incorrect.

(21) On the recommendation by the Yasiru Director Board, the general council has the power to include additional or other benefits by making amendments or additions as and when necessary.

(22) However, the decision of the Yasiru Board of Directors on any matter arising out of the conditions mentioned above will be final.

The monthly fees are given in Table A2.

Death. Payments on the death of a covered person after the age of 18 and before reaching the age of 65 due to an accident, depending on the premiums paid are SLRs18,000, SLRs30,000, SLRs60,000, SLRs72,000, or SLRs90,000 ($157, $261, $522, $626, or $783). Benefits or advance payments because of permanent disability (clause 15) due to the same accident will be deducted, up to a maximum of the benefit awards for death.

Permanent Disability of a covered person after 3 months before reaching the age of 65 due to an accident will be compensated at SLRs36,000, SLRs60,000, SLRs120,000, SLRs144,000, or SLRs180,000 ($313, $522, $1,044, $1,253, or $1,566) depending on the premium category (Table A2). If a member is 100% disabled, the agreement ceases with the benefit payment for the member. In case of partial disability the agreement can be continued if the membership fees are paid regularly.

Table A2. Monthly Fees (SLRs)

	I	II	III	IV	V
1. Household without Children	30	50	100	120	150
2. One Parent with Children	30	50	100	120	150
3. Household with Children	45	75	150	180	225
4. Other Person	15	25	50	60	75

Source: Author.

Death Due to Natural Causes. If a covered person dies after the age of 18 and before reaching 65 due to natural causes, the payment will be SLRs9,000, SLRs15,000, SLRs30,000, SLRs36,000, or SLRs45,000 ($78, $131, $260, $313, or $392) depending on the premium category (Table A2). If the membership fees have been paid for 2 or more consecutive years, full payment will be made. If the period is less then 2 years, a proportional amount will be awarded.

Death of a Covered Person under 18. The payment will be SLRs5,000 ($44) for premium levels I–III or SLRs6,000 ($52) for levels IV and V.

Death of a Covered Person Age 65–75. The payment will be SLRs7,500 ($65) for premium category I, SLRs10,000 ($87) for premium categories II and III, or SLRs12,500 ($109) for premium categories IV and V.

Hospitalization. Hospitalization of a covered person is paid at SLRs90, SLRs150, SLRs300, SLRs360, or SLRs450, ($0.62, $1.03, $2.07, $2.48, or $3.11) depending on the premium level. The benefit is awarded once in 12 consecutive months only for one event subject to a maximum delay of 15 days per covered person. Repeat benefit claims for the same illness will be entertained once in 2 years. Hospitalization claims can be made only after completing 6 months of membership.

Ayurveda. Ayurvedic or similar treatments of a covered person are paid, depending on the premium level, at SLRs45, SLRs75, SLRs150, SLRs180, or SLRs225 ($0.31, $0.52, $1.04, $1.24, or $ 1.55). If hospitalization conditions are not met, the benefit is awarded once in 12 consecutive months only for one event subject to a maximum of 10 days per covered person. Repeat benefit claims for the same illness will be entertained once in 2 years. Ayurvedic or similar treatment claims can be made only after completing 6 months of membership.

Appendix 2. Sathkara Insurance Schemes 1 and 2

Sathkara Insurance Scheme 1

Premium payments are SLRs750 ($6.53) quarterly, SLRs1,500 ($13.06) half-yearly, of SLRs3,000 ($26.11) yearly

Scheme Number	1	2		3		4		
1. Life Benefit	Assured only	Assured + Spouse only		Assured + Children		Assured + Spouse + Children		
Starting Age (years)	Assured	Assured	Spouse	Assured	Children	Assured	Spouse	Children
18–29	200,000	140,000	70,000	160,000	0	100,000	50,000	0
30–49	150,000	100,000	50,000	120,000	0	70,000	35,000	0
50–60	100,000	60,000	30,000	80,000	0	50,000	25,000	0
2. Funeral Benefit (for all)	15,000	15,000	15,000	15,000	15,000 for maximum 2 children	15,000	15,000	15,000 for maximum 2 children
3. Hospital Benefit (For all)	For hospitalization for more than 2 days, a transport allowance of SLRs200 and a hospital cash benefit of SLRs200/ day subjected to maximums of SLRs1,000 per hospitalization event SLRs2,000/hospitalization benefit per person per year SLRs4,000/hospitalization benefit per family per year							
4. Dismemberment Benefit (for the assured)	50% of the life benefit							
5. Permanent Disability Benefit (for the assured)	100% of the life benefit							
The policy should be renewed every 5 years								

Ed: Exchange rate = SLRs114.94/$1.
Source: Author.

Sathkara Insurance Scheme 2

Premium payments are SLRs1,200 ($10.44) quarterly, SLRs2,400 ($20.88) every half year, or SLRS4,800 ($41.76) yearly

Scheme Number	5	6		7		8		
1. Life Benefit	Assured	Assured + Spouse		Assured + Children		Assured + Spouse + Children		
Starting Age (year)	Assured	Assured	Spouse	Assured	Children	Assured	Spouse	Children
18–29	200,000	140,000	70,000	160,000	0	100,000	50,000	0
30–49	150,000	100,000	50,000	120,000	0	70,000	35,000	0
50–60	100,000	60,000	30,000	80,000	0	50,000	25,000	0
2. Funeral Benefit (for all)	15,000	15,000	15,000	15,000	15,000 for maximum 2 children	15,000	15,000	15,000 for maximum 2 children
3. Maturity Benefit	SLRs10,000/ policy							
4. Dismemberment Benefit (for the assured)	50% of the life benefit							
5. Permanent Disability Benefit (for the assured)	100% of the life benefit							
6. Education Benefit (for children)	SLRs10,000/= for grade 5 scholarship exam, "A" passes for all subject at G:C:E: (O/L) or "A" passes for all subjects at G:C:E: (A/L) at first attempt							
This policy should be renewed after 5 years period								

Ed: Exchange rate = SLRs114.94/$1.
Source: Author.

D. Microinsurance in South Asia

Mayumi Ozaki

1. The Poor and Microinsurance

For the poor, building productive assets and increasing income are a long and risky way out of poverty. Shocks such as illness, fire, or theft can cause severe setbacks in the process of accumulating assets, and often force the poor deeper into poverty. Shocks that would only mildly affect upper- and middle-income households can dramatically reduce the assets of poorer households, eliminate their income sources, reduce consumption, and thus adversely affect their ability to improve their social and economic welfare. To cushion the shocks, these households borrow from informal sources, withdraw their savings, or sell productive and nonproductive assets. But such mechanisms provide insufficient and unreliable coverage, and, for most poor and lower income households, no alternative formal institutional mechanism of risk mitigation—such as insurance service[1]—is available.

Microinsurance can protect the poor against specific perils in exchange for regular premium payments (Fonteneau and Galland 2006). Microinsurance is essentially the same as regular insurance, except that the prescribed target group is the poor. The definition of "the poor" varies by country. However, typically they belong to the "bottom of the pyramid"[2] of the economic and social strata, depend on marginal or subsistence farming, or are often employed in the informal sector. Currently, the world's bottom-of-the pyramid market consists of 4 billion people who earn less than $2 a day. Such people comprise the largely untapped, potential microinsurance market.

1 There are many types of insurance, but this paper refers mainly to life (simple life, credit-linked life insurance, life insurance with savings component, and disability insurance) and general (fire, marine, motor, and miscellaneous) insurance for individual households. Agricultural, crop, weather, and catastrophic insurance are beyond the scope of this paper.

2 The concept of the "bottom-of-the-pyramid" market is detailed in Prahalad (2006). Prahalad identifies the bottom of the pyramid as a commercially viable potentially significant market if suppliers provide products and services that meet the needs of the poor.

The potential for microinsurance, if expanded to serve the poor, is considered to be immense. For the poor, microinsurance can serve not only as a tool for addressing potential risks, but also life cycle events such as marriages and funerals, which result in destabilizing lump sum expenses for many poor households in developing countries. Microinsurance can serve as an alternative and a supplement to more informal, traditional support mechanisms.[3]

While the fundamentals of microinsurance are the same as for regular insurance, microinsurance has distinctive characteristics in two areas.

- **Inclusiveness.** While insurance companies tend to exclude high-risk people, microinsurance schemes generally strive to be inclusive. In microinsurance, low premium and high volume are key for sustainability and costs of screening out high-risk people may be higher than the costs of including them unless screening is carried out by the community themselves.
- **Affordability.** Premiums of microinsurance have to be affordable to be marketable to the poor. Measures taken to make the premiums affordable include having small benefit packages, spreading premium payments over time to correspond with household cash flow, and supplementing premiums with subsidies from governments and donors.

Another distinctive characteristic of microinsurance is delivery models with participation by nonformal insurance providers such as microfinance institutions (MFIs), nongovernment organizations (NGOs), credit cooperatives, mutual funds, and government programs. Typical microinsurance delivery models include the following.

- **Community-based and mutual insurance models.** This is a voluntary nonprofit system of spreading risk based on mutual assistance and solidarity often organized by mutual benefit societies, community-based organizations, or mutual assistance organizations. The model is based on the premise that the risk is borne by the insured, who are the owners of the scheme, and that profits are in some way retained for the benefit of the insured.[4]
- **Microfinance institution self-insurance model.** Under this model, the insurers (typically MFIs) are normally nonprofit, they carry the insured risks themselves, and they are involved in the whole business process of the

3 Traditional support and coping mechanisms of poor communities in developing countries include mutual savings such as funeral funds, diversification of small income sources, reduced consumption of food and other expenses such as schooling, borrowing from moneylenders and neighbors, and temporary migration.

4 An example of the community-based insurance model is the All Lanka Mutual Assurance Organization (ALMAO) in Sri Lanka, which is licensed as a life insurance company and is based on a network of credit and savings associations of the Sanasa movement.

microinsurance operation. Providers may be MFIs, NGOs, religious associations, or government-supported programs.[5]

- **Full insurance model.** Few formal insurance companies are dedicated to microinsurance; most companies that offer microinsurance do so as part of their community or external social activities.[6]
- **Partner–agent model.** Under the partner–agent model, the relationship between the policyholder and an insurance company ("the partner") is facilitated by an intermediary ("the agent") such as an MFI that has close contact with the target group (the poor). Under this model, the insurance company is responsible for all decisions affecting product manufacturing, sales, servicing, and maintenance of long-term sustainability—i.e., it carries the risk. The agent deals with sales and servicing of the products that the insurance company is allowed to sell, and receives commissions that meet the regulatory limits or are agreed on with the partner (McCord 2006).[7]

2. Microinsurance in South Asia

The insurance industry in South Asia is at a rudimentary stage. "Insurance penetration" is an indicator of the degree that insurance is used in an economy, and is expressed in the total insurance premiums collected by the insurance industry divided by the economy's gross domestic product. Insurance penetration indicates the population's level of risk awareness and the significance of insurance in an economy, and insurance penetration in South Asia is far below the global average of 7.5% (Table). "Insurance density" (which is defined as the total insurance premium per capita and is a measure of the development of the insurance industry in a country compared to that in other countries), averages $20.23 in South Asia, considerably below the world average of $607.7.

Thus, the insurance industry in South Asia has yet to reach the majority of the population and there is significant potential for growth, especially given the untapped

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5 The Bangladesh Rural Advancement Committee (BRAC), a microfinance NGO in Bangladesh, provides health insurance to rural people with a package of primary healthcare, through its partner NGO network.

6 Delta Life, a licensed insurance company in Bangladesh, offers life insurance to high- and middle-income people, but started offering microinsurance products targeted at low-income people in the informal economy in 1988.

7 Tata–AIG Life Insurance Company is organized as a joint venture between a large Indian conglomerate and the American International Group. The company started microinsurance operations in 2001 and now offers three voluntary life insurance and savings products through partner NGOs and micro agents. Tata–AIG had over 13,000 microinsurance policyholders in 2005. Tata–AIG has collaborated with over 50 NGOs and most of the selling and servicing is done through them.

Insurance Penetration and Density in South Asia in 2007[a]

	Insurance Penetration (insurance premium as % of GDP)	**Insurance Density** (per capital premium, $)
Bangladesh	0.70	2.9
India	4.70	46.6
Pakistan	0.70	6.5
Sri Lanka	1.50	24.9
Asia	6.23	211.8
World	7.50	607.7

GDP = gross domestic product.
[a] Total of general and life insurance.
Source: Swiss Re Sigma (2008).

rural population (Socquet 2005). Over 90% of South Asia's population is currently excluded from formal insurance services. Of the region's total population, an estimated 1.2 billion, or approximately 70% of the people, earn less than $2 per day.

Microinsurance in South Asia, in general, was developed as a direct response to address the vulnerabilities of poor people and fill the gap in times of distress between the immediate financial needs and traditional and informal coping mechanisms. The government and public agencies have implemented schemes to mitigate risks of the poor. However, the schemes have had limited outreach or prospects for sustainability. In South Asia, microinsurance was largely developed by MFIs, credit cooperatives, and religious and charity organizations, which have long and direct associations with poor people. Despite the limited outreach, microinsurance products available in South Asia include life with or without endowment, health and/or critical illness, crop and/or weather, property and/or asset, livestock, funeral, and integrated insurance.

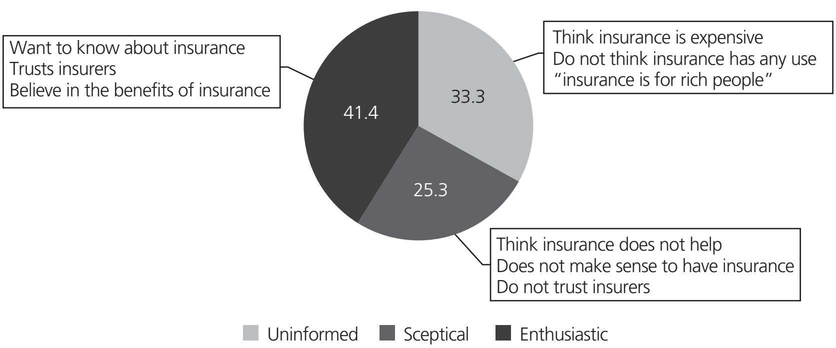
3. Demand for Microinsurance

One of the key reasons for the limited insurance penetration among poor people in South Asia is the sparse understanding of their risk profile, which is distinct from that of the rest of the population. Proper understanding of the poor's risk profile and their perception of insurance is crucial to developing microinsurance products appropriate to them.

Poor People's Perception of Insurance. People's willingness to buy insurance depends on their perception of it. Because few insurance brokers are in rural areas and due to insufficient effort to disseminate information about insurance, the poor generally have limited understanding of insurance. As shown in the Figure, responses to a survey[8] by potential microinsurance clients in Sri Lanka indicated several reasons for not buying insurance, including (1) an inability to afford the premium, (2) lack of trust in insurance companies, (3) unsuitable terms and conditions of products offered, and (4) no time to or interest in considering insurance. Based on the responses, potential microinsurance clients are broadly categorized into three groups: uninformed, skeptical, and enthusiastic. The uninformed group thinks insurance is expensive and not useful. The skeptical group believes insurance does not help and they do not trust insurance companies. The enthusiastic group wants to know more about insurance products. Most potential microinsurance clients (58.6%) belong to the uninformed and skeptical categories, with less than half (41.1%) believing in the benefits of insurance.

Premium Affordability. The insurance industry's limited marketing efforts geared to the poor are partly associated with the industry's perception that the poor cannot afford to pay premiums. Although this belief is partly true, it needs to be reviewed with caution. Without effective risk-pooling mechanisms, the poor tend to save to prepare for emergencies or life cycle events even though their income is low and irregular. The survey found that even the extreme poor save when they have cash income.

Poor People's Perception of Microinsurance (%)



Sources: ADB (2006), Ahmed (2006).

8 A microinsurance market assessment survey conducted under the Asian Development Bank technical assistance project for Microinsurance Sector Development in Sri Lanka in May 2006 (Ahmed 2006, ADB 2006).

4. Way Forward

With the number of poor people who are excluded from formal insurance services, both the need and the potential to extend the frontier of insurance services to the poor are vast. Concerted public and private sector efforts could extend the outreach of reliable and affordable insurance services to the poor.

Recommendation for Policy Makers and Regulators. Microinsurance has usually been initiated by semiformal organizations such as MFIs. Because of long association with the poor population, established networks, and credibility among the poor, such semiformal organizations are indispensable to microinsurance and will continue to be a major player. However, most such organizations operate outside the purview of insurance regulatory authorities and without adequate supervision and guidance. Policy makers and regulators are encouraged to bring the semiformal microinsurance providers under an appropriate regulatory framework either by establishing dedicated microinsurance acts or by amending insurance acts to remove regulatory impediments to microinsurance such as high capital requirements and complex reporting obligations.

At the core of the poor people's limited willingness to purchase insurance is their sparse understanding about insurance. Extensive awareness-creation campaigns about insurance are useful to induce the poor to be receptive to insurance. However, the private insurance industry is unlikely to launch such campaigns on a wide scale because returns from the investment in the campaigns are uncertain. Thus, public sector support is needed for educating the poor about insurance.

Recommendations for the Insurance Industry. Many successful examples of microinsurance operations evolved from effective partnerships between formal insurance companies and MFIs. By forming partnerships with MFIs, an insurance company can acquire an immediate distribution channel (e.g., through a microfinance NGO's extensive membership network). Outsourcing routine fieldwork (e.g., premium collection and marketing) to MFIs provides significant cost savings for insurance companies in the high-volume, low-premium market environment. Microfinance organizations are often not legally enabled to carry out insurance operations and partnership or agent arrangements with formal insurance companies can provide them a channel to legally engage in insurance operations. Also, most MFIs lack the technical know-how to operate insurance businesses properly and partnership with the formal insurance sector can provide the necessary technical backup.

MFIs that are currently involved in microinsurance often have limited administrative capacity and technical experience in insurance, although many have extensive contacts at the grass-roots level. The present role of MFIs in the distribution of and outreach for microinsurance services is too limited considering the potential. Insurance companies can actively involve MFIs in innovations in product design, pricing, and claims settlement, and MFIs can effectively liaise with community groups to address the problems of potential adverse selection and moral hazard.

Insurance companies are encouraged to form active partnerships with MFIs for microinsurance operations to assist the companies to understand the profile of poor and low-income people and to provide training and capacity development support to the MFIs. Insurance companies should form partnership agreements with MFIs in a fair and equitable manner. The agreements should be transparent and in a legal document that is fair to all parties.

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PART VIII

Measuring and Monitoring Social Protection

A. The ILO Social Security Inquiry

Building a Statistical Knowledge Base on Social Security: Principles and Selected Results

Florence Bonnet

1. The Social Security Inquiry: A Quantitative Database on Social Security

1.1. Objective and Rationale of the Social Security Inquiry

The objective of the Social Security Inquiry (SSI) of the International Labour Organization (ILO) is to collect, store, and disseminate comparable statistical data on social security worldwide. This includes expenditure and receipts of social protection schemes as well as data on protected people, recipients of social benefits, and benefit amounts.

The rationale for the SSI is to address the lack of comparable social security statistics outside the member countries of the Organisation for Economic Co-operation and Development (OECD). In this respect, the SSI adopts a systematic approach compatible with existing statistical frameworks such as the European System of Integrated Social Protection Statistics (ESSPROS)[1] and the OECD Social Expenditure Database (SOCX).[2]

The ILO has been collecting social security statistics for almost half a century. The Inquiry into the Cost of Social Security has been a unique source of comparative data

1 ESSPROS is a common framework that enables international comparison of the administrative national data on social protection. It provides a coherent comparison between European countries of social benefits to households and the financing of the benefits.

2 The OECD SOCX has been developed to serve a growing need for indicators of social policy. SOCX includes reliable and internationally comparable statistics on public and private social expenditure at the program level (OECD SOCX website).

for professionals in the field. The ILO has carried out 18 inquiries into the cost of social security since 1949 and has disseminated the results in printed publications and on the ILO website. Data on receipts and expenditures have been collected within the framework of ILO Convention No. 102 (1952) concerning Minimum Standards of Social Security, and the ILO Income Security Recommendation (1944) No. 67 and medical Care Recommendation (1944) No. 69. In 1997, the methodology and framework of the Inquiry into the Cost of Social Security were modified to take into account the wider range of social protection and to expand the coverage of institutions included. The data collected during 1990–1996 can be consulted on the Cost of Social Security website. Due to lack of resources, the Inquiry was suspended in 1999.

In 2003, in a fresh effort to improve the knowledge base pertaining to social security, the ILO launched the SSI. While the SSI draws heavily on the concepts used in the earlier Inquiry into the Cost of Social Security, the SSI takes a more comprehensive approach. While the former Inquiry was limited to social security expenditure and financing, the SSI includes data on the number of beneficiaries and protected people as well as on average benefit levels. This approach was tested in a pilot inquiry in six countries and then extended.

Information collected should

- allow calculation of indicators for specific social security schemes and selected aggregate indicators at the national level for as many countries as possible;
- constitute a basis for analysis within the framework of studies and research work;
- contribute to measuring progress toward "decent work" (explained in section 2 of this paper) with respect to its social security dimension; and
- be accessible to internal and external users, but in a regulated way (with different scopes of access depending on category of users).

Such information provides elements of diagnosis for social policy implementation that have to be complemented by other sources and types of information (e.g., contextual indicators, qualitative information notably on the legislation and programs, and household survey micro data).

1.2. Scope of the Social Security Inquiry: Functions Covered

The information collected and the indicators derived are classified by contingency, risk, or need. The contingencies, risks, and needs covered in the SSI encompass the classification adopted in ILO Convention No. 102 and ILO Recommendations No. 67 and 69: old age; disability; survivors; sickness and health; unemployment; employment injury and occupational disease (referred to as "employment injury" in the rest of this paper); family and children; and maternity. These are supplemented by contingencies encompassed in the wider definition of social protection: housing, basic education, and other income support and assistance not elsewhere covered, and social exclusion.

This classification by contingency differs in certain points from the "policy areas" defined by OECD in SOCX with, however, a simple correspondence between the two classifications. The SSI classification also differs from the classification of target groups and social protection components as defined for the elaboration of the Social Protection Index (SPI) of the Asian Development Bank (ADB),[3] but the correspondence has been established to include both expenditure and beneficiary data into the SSI. To take on board both OECD data on expenditure and ADB data on expenditure and actual coverage, the SSI has been adjusted since 2006–2007 (such as splitting the unemployment function to include an active labor market policy function).

1.3. Scope: Schemes and Programs Covered

The notion of social security adopted here covers all measures providing benefits, whether in cash or in kind, to secure protection from, among other things, (1) lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member; (2) lack of or unaffordable access to healthcare; (3) insufficient family support, particularly for children and adult dependents; and (4) general poverty and social exclusion. Thus, the SSI should cover

- private and public interventions;
- statutory (and, with exceptions, nonstatutory)[4] social protection such as microinsurance schemes;
- social insurance: income replacement;
- income support, minimum income guarantees, and social cash transfers (either conditional or not; universal or targeted);
- transfers in kind: social services such as basic education (under discussion) or healthcare but also employment services and labor market programs;
- transfers in kind: reimbursements (other than the social services just noted); and
- subsidies and tax benefits (exemptions for social reasons).

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[3] The correspondence between the classifications is presented in section 2 of the paper.

[4] In theory, the ILO SSI covers both statutory schemes and some nonstatutory ones such as microinsurance schemes. In reality, only a few countries present data on nonstatutory schemes, mainly because the fragmentation of these schemes and the many actors involved hampers identifying these programs or schemes and finding sound data related to them. Bangladesh is one of the few countries that does present such data.

The main categories of institutions to be covered are

- compulsory and voluntary social insurance schemes,
- universal noncontributory schemes,
- provident funds,
- special schemes for public employees,
- employment injury schemes and employer liability for employment injury,
- family benefit schemes,
- unemployment schemes,
- industrial and occupational schemes or schemes and arrangements established by agreements between employers and workers,
- public social assistance, and
- national health services and health services provided by mutual health organizations.

Categories of institutions not covered are individual private insurance, nonstatutory welfare funds of establishments or occupational organizations, and private assistance and charity institutions.

1.4. Scope: Data Collected through the Social Security Inquiry

The SSI's objective is to collect quantitative data on social security to calculate a set of indicators that are, as far as possible, comparable across countries and over time and available on a regular basis.

Two main categories of quantitative data are collected: expenditure and financing information and who is covered and for which benefit. Under expenditure and financing, the question addressed is: How much is invested in social security and where do the resources come from? To this end, expenditure data are collected at three levels: (1) the national level from aggregated sources of information (International Monetary Fund [IMF], Eurostat, or national aggregated data depending on options adopted at the national level); (2) the scheme level; and (3) the benefit level. Data on revenue are collected at the national and scheme levels.

Coverage indicators are used to determine who is covered and for which benefit. When measuring the effective extent of coverage, a distinction has to be made between coverage measured in terms of protected people (those who have benefits guaranteed but are not necessarily currently recipients of such benefits) and coverage measured in terms of actual beneficiaries. Coverage data are collected by function and disaggregated by sex and age when possible. This is complemented by some qualitative information on the main characteristics of each scheme or benefit (date of creation, responsible agency, target groups, benefit provided, and qualifying conditions) as well as some direct links to the main responsible institution or to key documents and related resources.

The SSI's main sources of data are registers and accounts of the institutions administering the social security schemes and programs. As such, the SSI is based mostly on administrative data with specific advantages (low cost and exhaustive information on the population covered) and limitations (no information on the population not covered and their needs and the structural issue of data availability and quality, especially in the developing world).

Box 1 presents the "classical" process of data collection and the nature of data collected by scheme at the country level.

Box 1. Main Steps of Data Collection and Collected

The four main steps of data collection at the country level are summarized here. (Terms used are defined in the Appendix.)

Step 1: Inventory and Definition. The first step is the inventory of social security schemes and definition of each scheme, including (1) the name of the scheme; (2) whether it is public and/or private, and whether participation is mandatory or voluntary; (3) the type of scheme: defined benefit, defined contribution, provident fund, etc.; and (4) whether it is contributory or not.

Step 2: General Information. The second step commences when all the schemes are identified and defined, and involves gathering general information at the scheme level. General information includes qualitative and quantitative information about target groups (who is covered, who is excluded); sources of funding; qualifying conditions; etc. The main sources of qualitative information for formal social security schemes are the legislation of each scheme and the joint United States Social Security Administration and International Social Security Association publications, *Social Security Programs Throughout the World* (SSA–ISSA 2008a, 2008b, 2009a, 2009b). Information is collected on the following.

- **Target groups:** who is covered (or excluded) by the scheme. The objective is to identify the main group legally covered or actually targeted by the scheme or social security program and to quantify this group. This corresponds to the "legal coverage" of the scheme (see methodological issues on coverage).
- **Protected persons:** number of affiliated members and active contributors (in the case of contributory schemes or programs). This includes their average earnings, disaggregated, if possible, by age range and sex.

continued on next page

Box 1. continuation

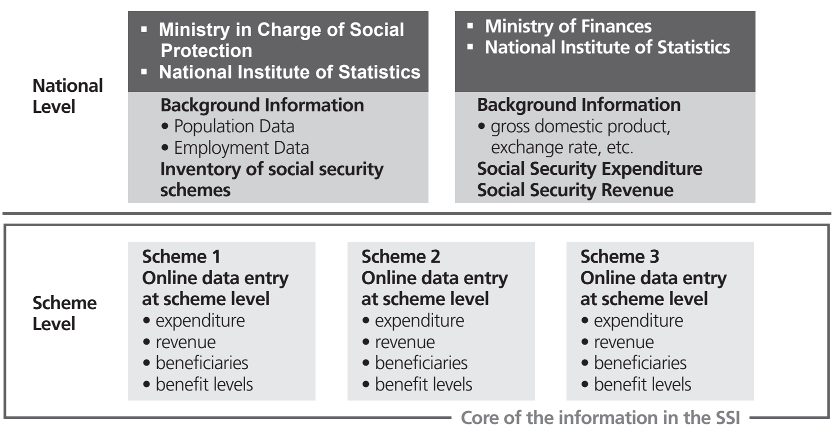
- **Expenditure:** at the scheme level, following the international agreed classifications. This includes benefits expenditure (cash, in kind, or rerouted social contributions); administration cost; transfers to other schemes; and other expenditure.
- **Revenue:** at the scheme level. Such revenue includes social contributions (by employers, by employees and/or protected people, and through rerouted contributions); general government contributions; and transfers from other schemes; and other receipts.

Steps 3 and 4: Benefits Inventory and Data Collection. Step 3 comprises a benefits inventory and definition of benefits. The benefit is defined by the function (main contingency or risk addressed); the type of benefit (in cash or in kind, means tested or not); the target (individuals or households); and the periodicity (periodic benefits such as pensions, ad hoc benefits, or lump sum). In step 4, the data collected at the benefit level are the benefit expenditure and minimum level, if any; beneficiaries by age group and by sex; and level of benefit by age group and by sex.

1.5. STRUCTURE OF THE INQUIRY AND DATA COLLECTED

The ILO SSI aims at two levels: national- and scheme-level data. This dual approach is necessary to access information that is rarely available at the national level. Figure 1 illustrates the structure of the SSI and the nature of the information collected at the two levels.

Figure 1. Structure of the Social Security Inquiry

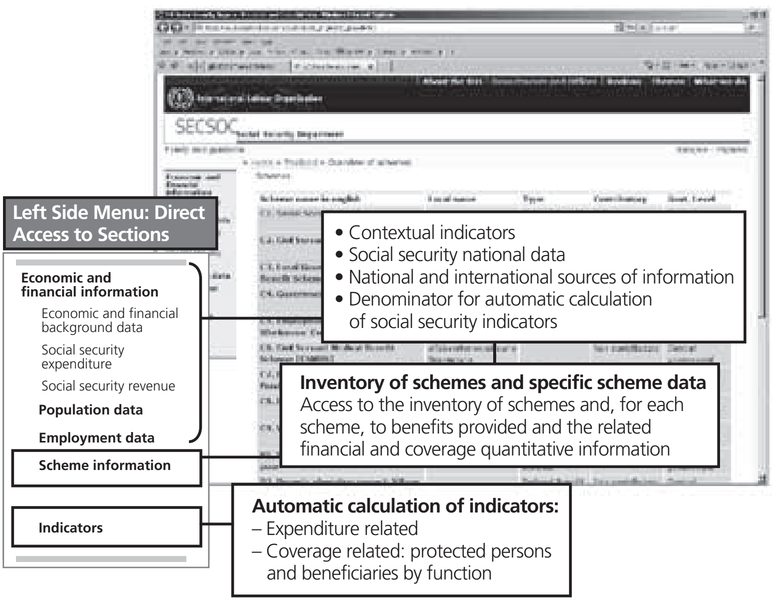


Source: Author.

The core of the information in the ILO SSI database can be found in the "Scheme Information" section (corresponding to the scheme-level data and process presented in Box 1) with a direct access to the inventory of schemes and, for each scheme, data reported for the overall scheme and for each of the benefits provided.

In addition to scheme-level data, two categories of information are collected at the national level. (1) Some general data used as denominators for the automatic calculation of indicators are collected. This covers population, employment, and economic and financial data collected from national statistical offices or from the responsible ministries as well as from existing international sources (by default, national sources are used for calculating the indicators).[5] (2) Social security expenditure and revenue data are available either from national or international sources according to the classification used in the country. Within the European Union, the standard is the ESSPROS system. Comparable data for other parts of the world are available through the IMF's Government Finance Statistics (GFS), either according to the new GFS 2001 standard, or the older GFS 1986 standard. Figure 2 shows the online access to the SSI country-level data.

Figure 2. Country-Level Data: Inventory of Schemes and Access to the Sections of the Social Security Indicators



Source: Author and ILO SSI database.

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5 International databases include the (1) UN World Population Prospects: The 2008 Revision, for population and fertility data; (2) ILO LABORSTA Internet, for employment (total and by status), unemployment, and economically active data; and (3) IMF GFS and the European Commission's Eurostat ESPROSS (Eurostat website), for social security expenditure (and revenue in countries covered by Eurostat).

1.6. Data flows: Data Collection and Dissemination

Channels for Data Collection

The main channel of data collection is similar to the one used during the process of data collection for ADB's SPI, through a national coordinator at the country level. This is the most efficient way to identify schemes (including programs and projects targeting specific groups of the population and not necessarily publicly managed) but also the most costly one. In addition to the issue of resource availability, the regularity and sustainability of the process of data collection is also a limitation of this option.

Derived from this main channel is another one—the "ideal one"—based on a voluntary network of collaborators in the schemes and countries. The SSI has been developed to allow direct data entry online by producers and users of social security data. Ideally, data can be regularly entered and updated directly from individual schemes, if the collaborators find a direct advantage of providing the data.

A second channel is the inclusion of data from available international and national sources and promotion of the use of the SSI methodology and tool by other organizations, including ADB's SPI, the International Social Security Association (ISSA), OECD's SOCX, and national sources.

Data on expenditure and beneficiaries collected for calculating the first two components of the SPI are used as one of the SSI's main sources for 27 Asian countries (other Asian countries were covered using the first channel). This provides a comprehensive overview for 1–2 years. The main issues are to be able to update and complete the picture of social protection activities at the country level (data on targeted population and effective protected people in addition to beneficiaries; data by sex; and detailed information on expenditure including administrative cost, revenue, etc.). This has been done for a few countries on a regular basis.

The ISSA has collected data on expenditure, financing, and coverage for selected countries until 2006–2007 and has stored the data in the ISSA statistical database on social security in developing countries. This includes detailed information on expenditure and revenue for long-term benefits (at least for the main schemes) and in some cases on employment injury. The information is collected through the ISSA network of members and covers 25 countries. It focuses on developing countries mostly from Africa and Asia, and covers only public compulsory statutory schemes. The data were completed with other sources of information when possible. The available information covers mostly formal pension schemes with mainly financial information and no detailed data on coverage.

Data on expenditure from the OECD SOCX are imported automatically into the SSI format. A similar process has been developed in parallel to export expenditure data from the SSI (for all countries, including those outside the OECD) into the SOCX format. The main issue is the absence of data on coverage. Information available from statistical reports and national institutions' websites has been used to complete the overview for a few OECD countries.

National secondary sources are composed of social security institutions' annual and statistical reports, official websites, and information collected in the course of specific ILO technical cooperation projects focusing on one or several social security schemes (including some actuarial reviews). Table 1 provides the main sources of information used by country.

Table 1. The ILO Social Security Inquiry

Source	Countries Covered (No.)
SSI National Coordinator	32
ADB Countries—SPI Data	27
ISSA Pension and Employment Injury Data	25
OECD and Eurostat Countries: Expenditure Only	28
Other Sources, National Reports, Websites	23
Not Covered	80

ADB = Asian Development Bank, ISSA = International Social Security Association, OECD = Organisation for Economic Co-operation and Development, SPI = Social Protection Index , SSI = Social Security Inquiry.
Most countries are covered from several sources, which is probably the best option to achieve a comprehensive overview of social protection provision at the national level.
Source: ILO Social Security Department.

Flexible Options for Data Dissemination

The SSI policy in terms of data access and dissemination is to follow national preferences pertaining to specific schemes. The online utility proposed various modes of consultation depending on users' rights: the consultation mode versus the edit mode, and the public mode versus restricted use through a user name and password. The log in and password determine the list of countries, the list of schemes, the functions, and the type of data accessible.

Data can be disseminated depending on countries' preferences: only national aggregates available from the indicators section, or detailed scheme data from the scheme section. Scheme data are by default visible only in restricted access mode. An exception is countries for which detailed data are already available online from official websites. In the restricted access mode, a set of core indicators and the list and description of schemes are publicly available and with no direct link to individual scheme data.

1.7. Aggregate Indicators and Coverage Measurement Issues

The two main categories of indicators available from the SSI are expenditure and coverage, which correspond to the first two components of the SPI. The development of indicators is an ongoing process depending on data available and the needs expressed by users.

Expenditure Indicators. The 30 expenditure indicators may be grouped in two categories: (1) total social protection expenditure (public or private, mandatory and/or voluntary), with and without health as a percentage of gross domestic product (GDP) or of the total government expenditure; and (2) social benefit expenditure by social security function (termed, by the ILO, "social security branch") as a percentage of total social benefit expenditure.

Coverage Indicators. The coverage indicators are grouped by function. Each function has about 10 indicators. Indicators of coverage are not presented as an aggregate, as is done by the SPI. Indicators refer either to "protected persons" (affiliated or active contributors in the case of contributory schemes) or to actual beneficiaries. For each indicator, various denominators are proposed with, as far as possible, a reference to the target group for a defined contingency. Box 2 summarizes the issues that have to be taken into consideration when measuring coverage.

Depending on data availability and type of indicators, data are available for more than 100 countries for one or several years (from 2000 to 2009). A few examples of results are presented in section 4 of this paper and can be consulted online (ILO 2010).

Box 2. Issues Pertaining to Measuring Coverage

Social security coverage can be directly measured separately for each specific function such as healthcare, old age, or unemployment; or even for a group of specific schemes within each function. Aggregate coverage measures such as the Asian Development Bank Social Protection Index can be built only by aggregating the separate coverage indicators for all social security functions. The International Labour Organization (ILO) policy in this regard is to avoid indexes that lead to an inevitable ranking of countries.

Coverage by social security schemes against specific social risks and contingencies can be understood in two ways: potential coverage, measured by the number of people potentially

continued on next page

Box 2. continuation

protected if a given contingency occurs (for example, people covered by social insurance schemes, or contributors to such schemes) and actual coverage, measured by the number of beneficiaries actually receiving benefits or using services. These two concepts are complementary and should be assessed separately.

Although people may be legally covered by social security, enforcement of the legal provisions may be incomplete, so that effective coverage is usually lower than legal coverage. A population group can be identified as legally covered if there are legal provisions that such a group should be covered by social insurance for a given area of social security, or will be entitled to specified benefits under certain circumstances—for example, entitlement to an old age state pension on reaching age 65, or to income support if income falls below a specified threshold, or to national health services when sick. Effective coverage is measured, for example, by the number of people actually contributing to a specific social insurance function, or the number of pension beneficiaries among all residents over 65 years of age, or the number of beneficiaries of income support among all people who are unemployed or below the poverty line.

In measuring the extent of coverage it is important to choose the right numerator and denominator. Ideally, the absolute number of people covered for a specific risk is divided by the size of the population group that is targeted by the specific policy or benefit. For example, to measure the extent of actual coverage by old age pensions, the number of pensioners should be related to the total number of older people where both numerator and denominator can be restricted to a given age bracket, such as 65+ (or above any other legal retirement age).

There is a trade-off between national circumstances (and relevance of the indicator at the national level regarding, for example, the retirement age) and international comparability.

Both administrative and survey data are necessary for a full assessment of coverage. Administrative data are needed to assess potential and actual effective coverage rates. However, the availability and quality of such data vary across countries, and across schemes within countries. Often, administrative data trace certain administratively registered events (such as payment of contributions or benefits) rather than the people behind such events. This leads to double counting, in particular when aggregating administrative data, as a person can be contributing to the same scheme from more than one job, or contributing to more than one scheme covering the same contingency, or be receiving similar types of benefits from more than one source. Household survey data are particularly important in assessing the level and quality of coverage and its impacts. Also, only household survey data can help to assess the nature of the coverage gap, the characteristics of population groups not covered, and (in particular) the consequences of their lack of coverage and their need for specific types of coverage. Unfortunately, many regular household surveys still either lack information relevant to assessing coverage, or the questions asked do not permit international comparison. Special surveys, too, are rare and not internationally standardized.

Source: ILO (2010).

2. The Social Security Inquiry as a Useful Tool for the Social Protection Index: Potential and Constraints

2.1. The Social Protection Index

Only a few ADB member countries are OECD members and produce high-quality statistics in their areas of inquiry, including social security. In the majority of ADB member countries, social security systems are not well developed and statistics on expenditure and coverage are not produced at the national level: information is dispersed and available only at the level of individual social security schemes. Household surveys, if done on a regular basis, usually do not look deeply into the situations of people covered by social security schemes.

To ameliorate this situation, ADB has, during the last several years, successfully implemented an ambitious project aimed at collecting basic information on aspects of social security coverage in 31 countries of the Asia and Pacific region. The SPI was developed for the project and was pilot tested in six countries of the region. The first report included, in addition to country analyses, a methodological section discussing the SPI concept in detail (ADB 2006). The second volume of the report includes information on social protection in all 31 countries as well as a multicountry analysis using the SPI (ADB 2008).

Unlike the European Union (within a so-called "open method of coordination" on social protection and social inclusion) or the OECD (OECD social indicators are grouped along two dimensions[6]) with their rich sets of indicators, ADB focuses on four indicators (or composite indicators) at the national level:

- social protection expenditure (SPEXP), measured as a percent of GDP, shows total expenditure in all social protection schemes identified in the country;
- social protection coverage (SPCOV), the average number of beneficiaries as a proportion of the number of people in the assumed target population;[7]

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[6] The first dimension considers the nature of these indicators. (1) Social context indicators refer to variables that, while not usually direct policy targets, are crucial for understanding the social policy context (such as demographic indicators). (2) Social status indicators describe the social outcomes that policies try to influence (such as poverty rates, inequality measures, and so on). (3) Societal response indicators provide information about what society is doing to affect social status indicators. Societal responses include indicators of government policy settings.
The second dimension groups indicators according to the broad policy fields that they cover. Four broad objectives of social policy are used to classify indicators of social status and social response: (1) self-sufficiency, (2) equity, (3) health status, and (4) social cohesion.

[7] Beneficiaries for each of the schemes identified are assumed to belong to one of the target groups (poor, unemployed, elderly, disabled, children, etc.). For each target group, a beneficiary coverage ratio is calculated; the average is then calculated for the country level using the size of the target group as weight.

- poverty targeting rate (PTR), the percentage of the poor in the country who are beneficiaries of a social protection scheme; and
- social protection impact (SPIMP), the amount of benefit received on average by a poor beneficiary as a proportion of the poverty line.

These indicators differ from the OECD or European Union approaches in that they are directly related to social security interventions (amount of resources invested, overall beneficiary coverage, coverage of the poor, level of coverage of the poor) rather than to indirect outcomes.

A long-term goal is to update the country information more regularly and discussions are in progress between ADB, ILO, and OECD on joint activity to combine our efforts to improve the knowledge base both in terms of data available and methodologies. In this context, the ILO SSI could be the tool to collect the information necessary for calculating the index. The SSI already provides or is able to collect some of the raw data necessary for calculating two of the four SPI components. The ILO is interested in developing additional modules to collect information on poverty targeting and social protection impact. The objectives and interest common to ADB and the ILO are summarized in the following section.

2.2. Similarities and Differences: How the Social Security Inquiry Could be Used for the Social Protection Index

Table 2 summarizes the main common aspects and differences of the SSI and the SPI initiatives before considering any further changes in the SSI (to be agreed among the three organizations involved) considering the objective, scope, and data.

Objectives. The main objectives of the ADB SPI project were to

- explore variations in perceptions and definitions of social protection between countries;
- describe social protection activities;
- compile statistical information on social protection activities in the countries;
- develop an SPI that is internationally comparable and provides a realistic and acceptable summary of the overall social protection provision at the national level;
- prepare an SPI handbook to be used by the countries; and
- raise awareness on the need for social protection policies and programs.

Table 2. SSI–SPI Correspondences and Differences

Correspondence	Difference
Objective	
Common objectives • Describe social protection activities • Compile statistical information on social protection schemes at the national level • Provide an overview of social programs at the national level and a starting point for policy analysis	Beyond the present scope of the SSI objective • SPI: Ranking countries through an index • SSI: Set of indicators but no index and no ranking of countries
Scope and Components of Social Protection	
Programs and schemes • Cover formal and informal schemes; public and private programs Components • Labor market programs • Social insurance programs • Social assistance and welfare programs • Area- and community-based schemes when a social security component (such as microinsurance) is included • Child protection	Outside the usual scope of SSI Micro and area-based schemes (community-based) component
Social Protection Data and Indicators	
• Social protection expenditure data and related indicators • Social protection coverage data (number of beneficiaries)	SSI: Wider range of data • Information on target groups, protected people, and actual beneficiaries • Data differentiated by sex and age • Health, including healthcare provision SPI: Social protection targeting the poor SSI does not take into account the two last SPI components, which are • poverty targeting • social protection impact

SPI = Social Protection Index, SSI = Social Security Inquiry.
Source: Author.

The SSI methodology and objectives are similar in many respects to the above objectives, with one important exception—the ranking of countries through an index is replaced by a combined analysis using a set of "decent work" indicators (Box 3).

Scope. With the exception of health, the SPI encompasses a wider scope of programs, as it includes some microcredit and microfinance programs not covered by the SSI.

Health. More exploration is probably needed to improve the coverage of health both by the SSI and the SPI. The SSI aims at covering health benefits either in cash or kind—

including public health (apparently outside the scope of the SPI)—but the SSI does so insufficiently at present due to difficulties with covering this dimension properly. Some methodological work is necessary, taking advantage of the methodology in health national accounts and the experience of the OECD and the World Health Organization (WHO) in this area.

Indicators. The SSI collects data for the first two components of the SPI index—social protection expenditure and coverage (disaggregated by function)—but not yet on direct measures that impact the poor. Some methodological refinements seem to be necessary, notably regarding the original sources of data used. Another ILO initiative promotes the use of household surveys to collect data on social security using a special module of questions to be included in regular national household surveys.

For the first two components of the SPI, the SSI in its present stage can already contribute

- to the extension of the social protection index outside Asia and for Asian countries not yet covered (Thailand);
- to the production of an updated version (at least for some countries that were regularly updated) of the previous version of the SPI (e.g., the People's Republic of China or Malaysia); and
- as a useful and operational tool for collecting data and disseminating individual indicators.

Box 3. ILO Decent Work Indicators: A Set of Indicators but No Index

Similar to the approaches of the Organisation for Economic Co-operation and Development (OECD) and European Union, the International Labour Organization (ILO) proposes decent work indicators to be analyzed as a set but not through an index resulting from the combination of several normalized indicators. Some basic principles apply in the ILO regarding the use of indicators in measuring decent work (including social security). First, the ILO work on indicators took a pragmatic approach, which was realistic in terms of data and has the following basic principles for measuring decent work: offering assistance to constituents to assess progress toward decent work and to produce comparable information for analysis and policy development; covering all dimensions of decent work (i.e., going beyond employment to include rights, social protection, and social dialogue); drawing measurements from available statistics; and providing no ranking of countries and no composite index. Second, the decent work indicators are grouped under

continued on next page

Box 3. continuation

10 substantive elements of the decent work agenda and an additional set of contextual indicators. As shown in the Box Table, they refer to the four strategic objectives: rights, employment, social security, and social dialogue.

In the area of social security, the ILO currently uses three main and two additional indicators. The indicators are dependent on data availability. The main indicators are (1) the share of population aged 65 and above benefiting from a pension (disaggregated by sex); public social security expenditure (percent of gross domestic product), distinguishing between health and non-health expenditure; and healthcare expenditure not financed out-of-pocket by private households: this is used as a proxy indicator of the effective level of financial protection provided to the population by social health protection systems expressed as a percentage of total public and private healthcare expenditure in the country not financed by private households through out-of-pocket payments. Data are collected by the World Health Organization (WHO). The two additional indicators are the share of population covered by basic healthcare provision, and of economically active population contributing to a pension scheme (already available for many countries).

Indicators to be included in future are public expenditure on needs-based cash income support (as a percentage of gross domestic product), beneficiaries of cash income support (as a percentage of the poor), and sick leave (to be defined).

Elements of the Decent Work Agenda

Element	Strategic Objective
Employment Opportunities	Rights, employment
Adequate Earnings and Productive Work	Rights, social security
Decent Hours	Rights, social security
Combining Work, Family, and Personal Life	Rights, social security
Work that Should Be Abolished	Rights, social security
Stability and Security at Work	Rights, employment, social security
Equal Opportunity and Treatment in Employment	Rights, employment, social security
Safe Work Environment	Rights, social security
Social Security	Rights, social security
Social Dialogue, Workers' and Employers' Representation	Rights, social dialogue

Source: Author.

3. Selected Results Based on the Social Security Inquiry

The following results are extracted from the *World Social Security Report 2010/11* (ILO 2010). Only a few results are presented but the report and the related data and information can be consulted online.[8]

3.1. Scope of Social Security Coverage Around the World

Contributory social insurance and other statutory schemes in most countries cover only employees (that is, people in formal wage or salary employment) and, sometimes, their dependents. Both legal and effective coverage by these schemes is thus strongly correlated with the percentage of employees among people employed. Globally, slightly over a quarter of the world's adult population (one-third of adult men and one-fifth of adult women) is employed, whether formally or informally, as employees.[9] In developed economies, nearly 85% of all employed people are employees, but the figure is not much more than 20% in South Asia and Sub-Saharan Africa; less then 40% in Southeast Asia and the Pacific; slightly more than 40% in East Asia; and about 60% in North Africa, the Middle East, and Latin America and the Caribbean—but not all employees are in formal employment and thus have access to statutory social security benefits.

Some level of protection by social security exists in nearly all countries, though only a minority of countries provides protection in all functions (types) of social security. No country is without any form of social security, but coverage in many countries is limited to only a few types, and only a minority of the population has—both legally and effectively—access to social security schemes. Every country has forms of social security provision for social health protection, thus facilitating access to at least a limited scope of healthcare services. Included are some public healthcare services accessible at least nominally without fee, and other services through health insurance for at least certain population groups. Most countries have schemes designed to provide contributory old age pensions, although in many, coverage is limited to a small formal economy or only part of it. Many of the schemes are relatively new, so actual coverage measured in terms of the percentage of elderly people receiving any benefit is very low. In most countries, formal economy employees are covered by some form of protection in case of employment injury, although often this coverage

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8 The report and its Statistical Annex are available in spreadsheet format at the ILO Global Extension of Social Security (GESS).

9 Calculations are based on ILO (2008), using 2006 estimates for indicator 3: status of employment and indicator 2: employment to population ratio.

does not meet the requirements of Convention No. 102 with regard to the scope and type of benefits provided. In most countries at least certain groups of employees are entitled, either through the provision of the labor code or of collective agreements, to paid sick leave and paid maternity leave. However, the actual enforcement of these provisions is often low and thus effective coverage is equally low.

Table 3 shows the scope of legal coverage through social security schemes around the world. Especially in Asia, Africa, and some parts of Latin America, there are large gaps in the scope of social security schemes legally available to at least certain groups of workers.

Table 3. Legal Coverage of Types of Social Security

Coverage and Types	No. of Countries
Very Limited: 1–4 Types	30
Limited: 5–6 Types	52
Semi-Comprehensive: 7 Types	24
Comprehensive: 8 Types	59
No Information	33

The eight types are benefits to cover medical care and sickness, maternity, old age, invalidity, survivors, families, employment injury, and unemployment.
Sources: For identification of groups covered: SSA–ISSA (2008a, 2008b, 2009a, 2009b); quantification based on statistical databases: ILO LABORSTA and ILO (2008).

Only one-third of countries globally (inhabited by 28% of the world's population) have comprehensive social protection systems covering all types (functions) of social security as defined in ILO Convention No. 102. However, most of the social security systems cover only people in formal employment as wage or salary workers, who constitute less then half of the economically active population globally, but over 70% of the economically active population in countries with comprehensive social security systems. Taking into account people who are not economically active, only about 20% of the world's working age population (and their families) have effective access to comprehensive social protection systems.

3.2. Resources Allocated to Financing Social Security[10]

How much are countries investing in social security and how is it financed? On average globally,[11] countries invest 17.2% of GDP in social security. However, these expenditures tend to be concentrated in higher income countries, and so this average does not

[10] This section is extracted from chapter 8 of ILO (2010). The chapter examines the levels of resources allocated to investments in social security in different regions of the world, and the patterns of the sources of finance, with a view to evaluating the results of these investments in terms of poverty reduction, reductions in inequality, and other policy objectives. To identify the efficiency of the investments made, it is obviously important to look at the relationship between resources and policy outcomes.

[11] This is calculated by dividing the sum of total social protection expenditure expressed in absolute figures by the sum of GDP in absolute figures for the whole set of countries for which data are available. Numerator and denominator are expressed in United States current dollars.

reflect the situation for the majority of the world's people, who live in lower income countries where much less is invested in social security. An alternative measurement that better reflects the situation is a simple mean of the proportions of GDP allocated to social security in different countries. This reveals that, on average, countries in the world allocate 10.9% of their GDP to social security. The size of populations can also be used as a weight to calculate mean percentages of GDP: in this case the result shows that, for the "average" resident, only 8.4% of a country's GDP is allocated as social security benefits in the form of cash and in-kind transfers (Table 4).

Country figures vary widely among regions and among countries of different national income levels. While European countries invest 20%–30% of GDP in social security, in most African and Asian countries, only 4%–6% of GDP is spent on social security benefits, and primarily on healthcare rather than on cash transfers aimed at providing income security (Figure 3). Further information on healthcare financing is provided in Box 4 and Figure 4.

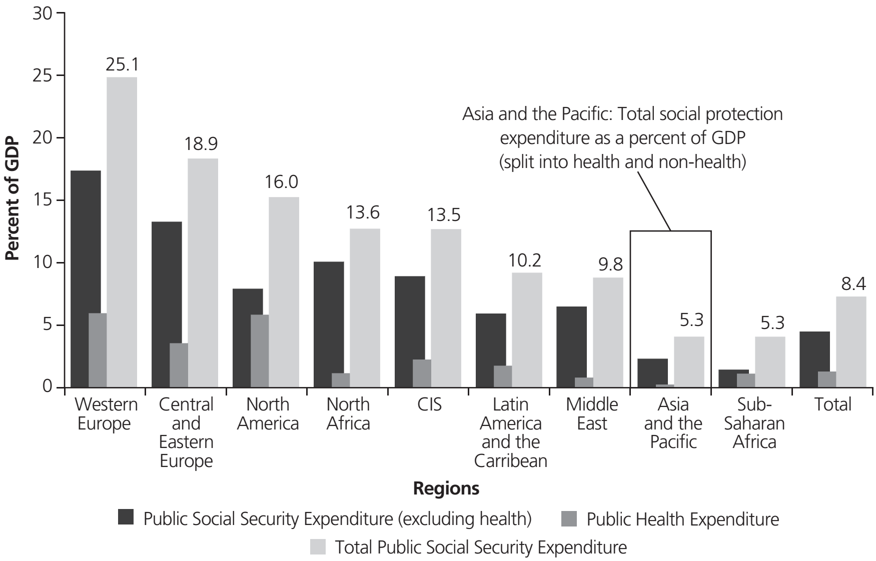
Table 4. Social Security Expenditure by Region and Globally
(latest available year, % of GDP)

	Social Security Expenditure (% of GDP, excluding health)			Public Health Expenditure (% of GDP)			Total Social Security Expenditure (% of GDP)		
Region	GDP Weighted	Simple Average	Population Weighted	GDP Weighted	Simple Average	Population Weighted	GDP Weighted	Simple Average	Population Weighted
Western Europe	17.9	16.7	18.0	7.1	6.4	7.1	25.0	23.2	25.1
Central and Eastern Europe	14.5	13.9	14.1	5.0	5.0	4.8	19.5	18.9	18.9
North America	9.0	9.3	9.0	7.0	6.9	7.0	15.9	16.2	16.0
North Africa	10.5	9.5	11.0	2.5	2.4	2.5	13.0	11.9	13.6
CIS	9.0	8.2	9.9	3.9	2.7	3.6	12.9	10.9	13.5
Asia and the Pacific	7.9	3.6	3.6	4.2	3.3	1.7	12.0	6.9	5.3
Middle East	8.8	6.6	7.6	2.8	2.8	2.2	11.6	9.4	9.8
Latin America and the Caribbean	6.6	4.0	7.1	3.1	3.4	3.1	9.7	7.4	10.2
Sub-Saharan Africa	5.6	2.3	2.8	3.1	2.4	2.5	8.7	4.8	5.3
Total (138)	11.3	7.1	5.7	5.9	3.8	2.7	17.2	10.9	8.4

CIS = Commonwealth of Independent States, GDP = gross domestic product.
Sources: IMF GFS website; OECD SOCX website (accessed January 2010); ILO Social Security Inquiry Database; European Commission, Eurostat website, 2009 (accessed January 2010); WHO WHOSIS database; country data are available in the Statistical Annex, ILO (2009), GESS online.

Figure 3. Social Security Expenditure by Region

(weighted by population, latest available year, % of GDP)



CIS = Commonwealth of Independent States, GDP = gross domestic product.
Sources: IMF GFS website; OECD SOCX website (accessed January 2010); ILO Social Security Inquiry Database; European Commission, Eurostat website, 2009 (accessed January 2010); WHO WHOSIS database; country data are available in the Statistical Annex, ILO (2009), GESS online.

Box 4. Healthcare Financing Data

To finance healthcare, countries tend to draw on different sources simultaneously. Many low-income and vulnerable countries rely heavily on private, unpooled, out-of-pocket payments and user fees to be paid at the point of delivery as a key financing mechanism for healthcare. This deeply inefficient form of healthcare financing severely impacts workers and their families. Also, the use of different financing sources is often uncoordinated, which impacts the effectiveness and efficiency of outcomes. Figure 4 shows that, in 2006, while public sources dominated on average (as a percentage of gross domestic product) in Europe, the Commonwealth of Independent States, the Middle East, and Asian countries, private expenditure dominated healthcare financing in Africa; and in North America, Latin America, and the Caribbean, financing came from private and public sources in more or less equal parts. In Africa, North and Latin America, the Middle East, and the Commonwealth of Independent States, public healthcare financing comes mainly from general taxation, while in Asia and Central and Eastern Europe, social insurance financing dominates. In Western Europe, on average, healthcare financing comes in nearly equal shares from social insurance contributions and general taxation. Private health insurance plays a major role mainly in North America (the United States).

continued on next page

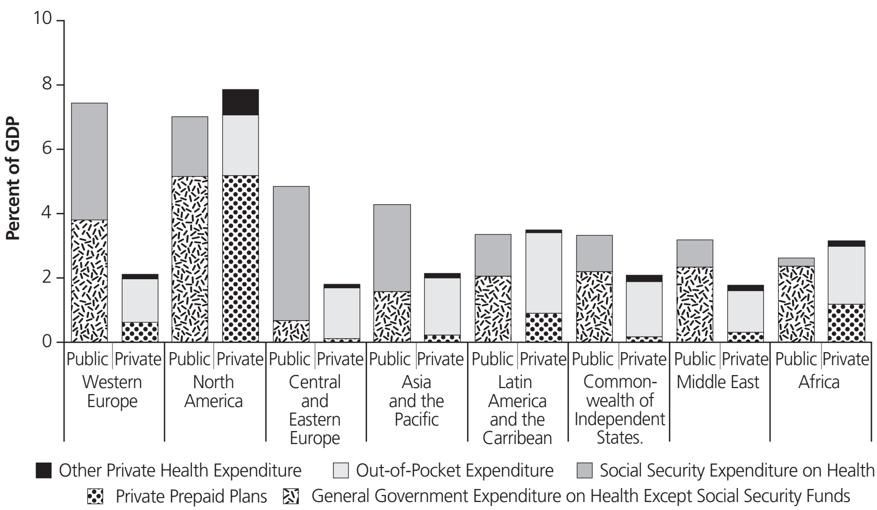
Box 4. continuation

Out-of-pocket spending everywhere is about 1%–2% of gross domestic product; however, in some countries (such as in Europe) it forms only a small portion of overall health spending, but in others (such as the low-income countries) it accounts for more than half or even up to 80% of total health expenditure (ILO 2007). In some low-income countries (especially in Sub-Saharan Africa), scarce domestic fiscal resources are significantly supplemented with foreign aid in order to ensure the availability of essential levels of healthcare.

The level of financial protection provided by social health protection mechanisms refers to the proportion of healthcare costs covered through pooling and prepayment mechanisms either by general government (national health services, social health insurance) or by private health insurance. In other words, it is the proportion of costs not borne out-of-pocket at the point of service delivery. Therefore, gaps in financial protection are reflected by the level of out-of-pocket expenditure borne to cover individuals' health costs. Levels of coverage become lower when out-of-pocket payments increase; high out-of-pocket payment rates thus indicate gaps in financial coverage—insufficient financial protection provided by the social health protection mechanisms. However, the level of financial protection does not indicate other dimensions of coverage—those related to effective access to health services, such as whether the required services are available in terms of quantity and quality.

Source: ILO (2010).

Figure 4. Healthcare Financing Levels and Sources of Funds, 2006 (% of GDP)



GDP = gross domestic product.
Source: ILO calculations based Who WHOSIS database, 2006 data (accessed January 2010).

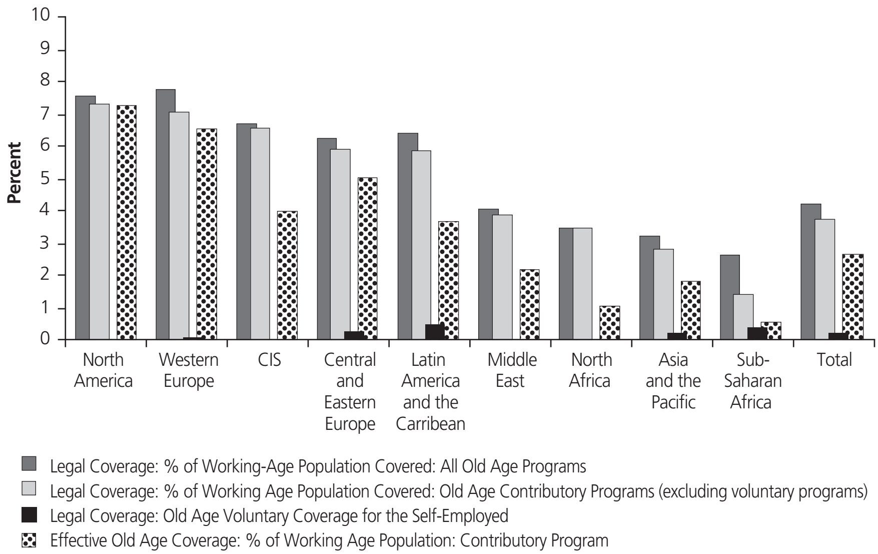
3.3. Coverage by Social Security Pensions: Income Security in Old Age

The main risk in old age is poverty or income insecurity owing to the loss of one's ability to earn income, whether partial or complete. This was the main justification for the first pension schemes, which emerged at first only in the highly developed countries but have since spread across the world.

Coverage by old age pension schemes is concentrated in formal sector employees, mainly in the civil service and large enterprises. Figure 5 shows the distribution of coverage (legal and effective as defined in Box 2) measured in terms of people protected around the world. The highest coverage is in Europe and North America, the lowest is in Africa and Asia. Legislation stating theoretical coverage may differ significantly from effective coverage in terms of actual contributors to pension schemes.

Worldwide, nearly 40% of the working age population is legally covered by contributory old age pension schemes. But the regional situation is very diverse. In Europe and North America, nearly 80% of the working age population is covered, while in Africa, less than one-third is covered even by legislation. The former communist countries,

Figure 5. Old Age Pensions: Legal Coverage and Effective Active Contributors (working age population, by region, 2008–2009, %)



CIS = Commonwealth of Independent States.
Sources: ILO Social Security Department based on SSA–ISSA (2008a, 2008b, 2009a, 2009b); ILO LABORSTA; national legislative texts; national statistical data for estimates of legal coverage; and compilation of national social security schemes data for effective coverage.

including the poorer countries in Central Asia, have inherited comprehensive pension schemes that provide much higher coverage than schemes in other countries of comparable GDP per capita. In all regions, the proportion of voluntary contributory programs hardly reaches 4% of the working age population; this sheds light on the significance of mandatory contributory schemes.

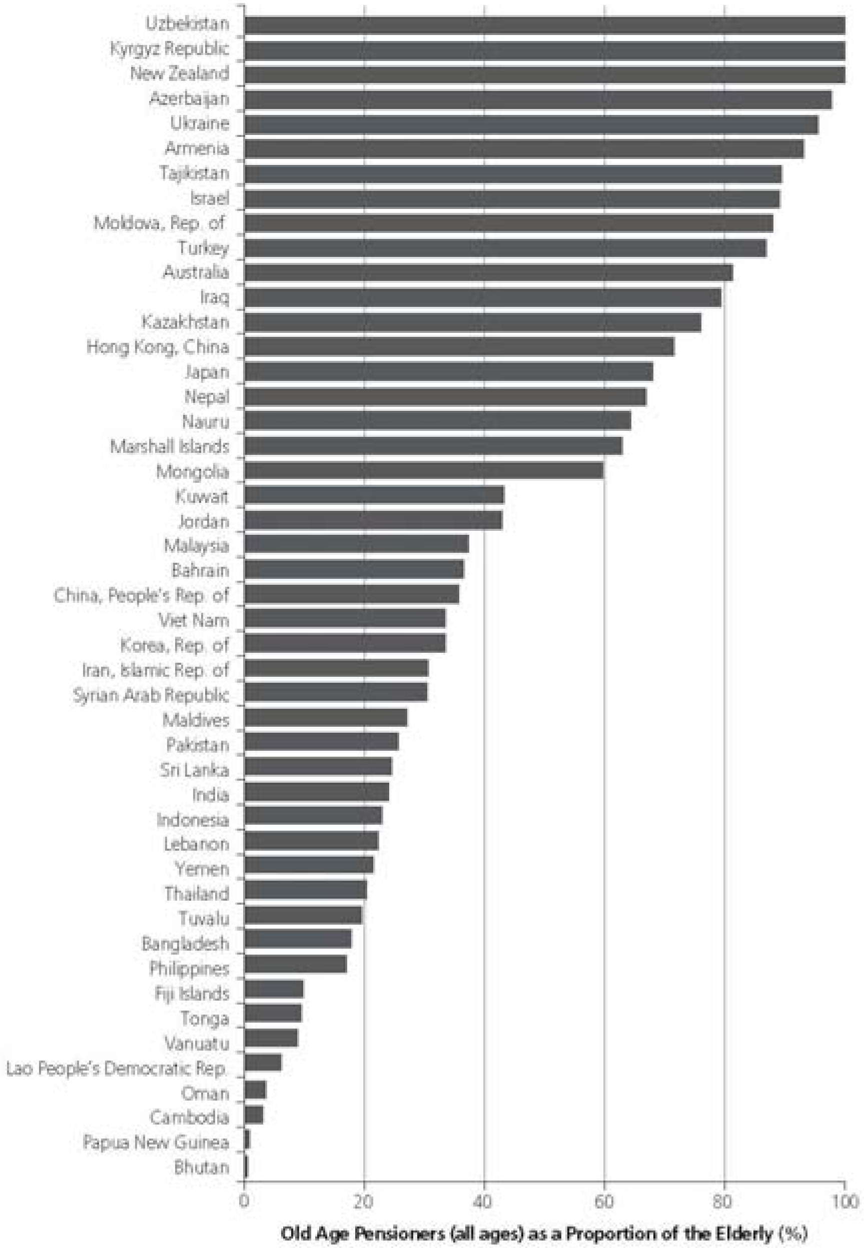
As stated previously, effective coverage is significantly lower than legal coverage. Except in North America and to a lesser extent Western Europe, effective coverage is quite low in all regions, although it is still nearly 50% in Central and Eastern Europe. However, in Sub-Saharan Africa only 5% of the working age population is effectively covered by contributory programs, while this share is about 20% in Asia, the Middle East, and North Africa.

In Asia, some countries have made major efforts to extend coverage beyond the formal sector. Sri Lanka, for example, has a scheme covering farmers and fishers that has achieved substantial coverage rates (57% of the farmers and 42% of the fishers). India, too has made efforts to cover the informal sector through its new pension scheme. But other countries, such as Cambodia and the Lao People's Democratic Republic, have hardly any broad pension schemes. Nepal has introduced a basic noncontributory pension for people aged 75 and above. Thailand implemented a similar allowance for all the elderly as a temporary anticrisis measure, and is now debating whether to replace it by a permanent basic pension scheme.

Some relatively high coverage is enjoyed by the populations of Mongolia and countries of the former Soviet Union, but low social security expenditure in some of these countries as well as other evidence indicates that actual pensions paid are very low and often not sufficient to keep the elderly out of poverty. In Japan, the indicator is below 100% because many Japanese retire much later than 60. For the rest of the Asian population, it seems that a minority still have effective coverage rates of 20%–40%, and less in Southeast Asian countries.

Taking into account the policy reforms under way, improvements may be expected in some countries (such as the current efforts in the People's Republic of China to cover the rural population). However, the majority of countries still face the challenge of how to effectively prevent widespread and deep poverty among rapidly aging populations where a majority work in the informal economy and have no access to any contributory social security scheme (Figure 6). Most older people—particularly in low-income countries—continue working, mainly in the informal economy, because they are not entitled to pensions, or their pensions are too low to support them.

Figure 6. Asia and the Middle East: Old Age Pensioners
(all ages, % of the elderly population, 2008)

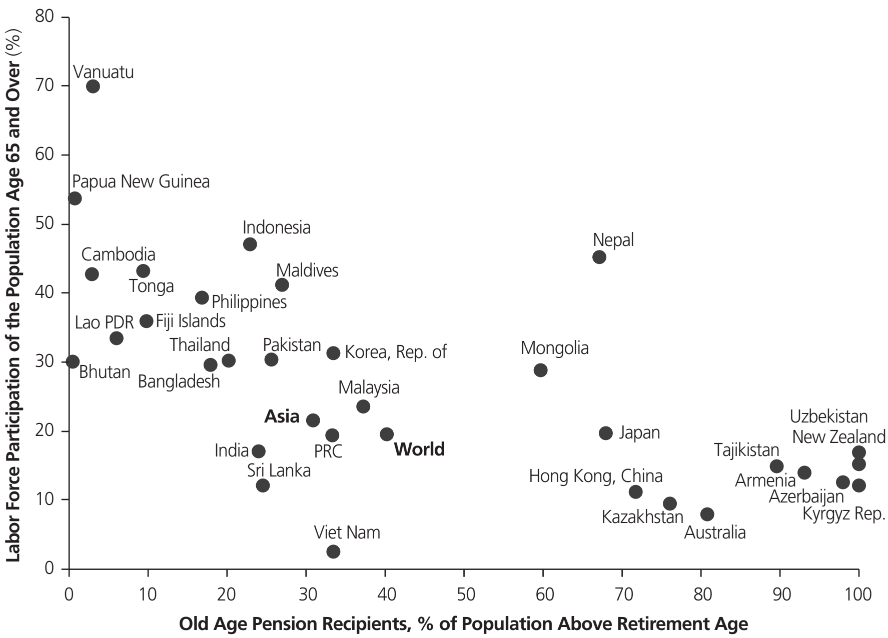


Note: Population aged 60 and over, and in some cases 65 and over, depending on the national legal retirement age.
Sources: ILO Social Security Department, compilation of national available data collected in national pension social security schemes; UN World Population Prospects: The 2008 Revision.

Levels of economic activity among the elderly and the extent of decline in economic activity with advancing age can thus be treated as indicators of how many people are actually retiring—although how many are forced to retire either because they are unable to work or because there is no employment for them is not known. Figure 7 shows a strong link between old age pension coverage and labor force participation in old age. In Mongolia, where a high level of coverage coexists with a high labor force participation rate among those 65 and over, the situation is different. According to the law on pension and benefits provided by the Social Insurance Fund, the minimum pension should be not less than 75% of the minimum wage. In July 2007, the average pension was MNT68,000 ($146) per month. The high labor force participation rate is probably linked to government policies: the Labor Law of Mongolia was revised in 1999 to promote the employment of elderly people and to increase their income; this law enables the elderly to be employed in appropriate jobs. The majority of the employed elderly are self-employed; most of them are men, as women are primarily involved without payment in family businesses.

Figure 7. People above Retirement Age Receiving Pensions, and Labor Force Participation of the Population 65 and Over

(latest available year, percentages, focus on Asia)



Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.
Sources: ILO Social Security Department, compilation of national available data collected in national pension social security schemes; ILO LABORSTA for economically active population aged 65 and over.

Higher beneficiary rates tend to correspond to lower proportions of elderly people still working, and vice versa: in countries with relatively low coverage rates, the share of the elderly still working is comparatively high. Japan, for example, has a coverage rate of about two-thirds of people older than 64, with one-fifth of this age group still working. Thus, the coverage rate in Japan is lower than in other high-income countries.

3.4. Income Support to the Unemployed: Snapshots

The objective of unemployment benefits is to provide at least partial income replacement, enabling the beneficiary to maintain a certain standard of living during the transition period until new employment is available. Measures such as public works or other forms of employment guarantees can also provide paid employment to beneficiaries. Such beneficiaries may still, however, need income transfers in addition to what they earn from this usually very low-paid work; they also need linked benefits (access to other forms of social insurance such as health or pensions) and—because public works are temporary solutions—they need to be assisted with measures that enhance their employability.

Present entitlements to unemployment benefits tend to be restricted to people in formal employment, and mostly in high- and middle-income countries. In a large part of the world where extreme poverty is high, the very concept of "unemployment" seems to be irrelevant, as everybody has to work to survive. The main issues in these countries are underemployment and the often extremely precarious character of employment opportunities for people in poverty. But even in low-income countries, unemployment is a growing challenge, in particular in increasingly populated urban areas. Table 5 provides an overview of the unemployment benefit schemes across the world. Table 6 presents some summarized indicators regarding legal and effective unemployment coverage. Figures 8 and 9 focus on effective coverage (by region and for the few Asian countries where an unemployment scheme exists and data are available).

Table 5. Unemployment Protection Schemes, Worldwide by Type

Type and Level	No. of Countries
No Social Security Provision	93
Social Insurance	64
Social Assistance	8
Mandatory Private Insurance or Provident Fund	5
Mixed Mandatory Private and Social Insurance	1
Severance Payment	13

Sources: ILO Social Security Department, based on SSA–ISSA (2008a, 2008b, 2009a, 2009b); national legislative texts.

Of 184 countries studied, only 78 (42%) have statutory unemployment social security schemes, often covering only a minority of their labor force. A majority of countries (64) have contributory unemployment insurance schemes. Of the 64, 17 have, in addition, employment-related social assistance that steps in when the unemployed are no longer eligible for unemployment insurance; 8 have non-contributory, tax-financed social assistance instead of insurance, as the main or only scheme expected to provide income security to the unemployed; and 6 have only provident-fund-type provisions for the unemployed.

In the other 106 countries studied (58%), even workers in the formal economy have no coverage for unemployment. Some of these countries have limited provisions in labor legislation obliging employers to provide severance payments to workers who are laid off. As shown in Table 6, statutory unemployment protection programs exist in 80% of high-income countries, 54% of upper middle-income countries, 35% of lower middle-income countries, and only 8% of low-income countries.

Globally, less than 30% of the economically active people are covered by law for any form of income support if they become unemployed. Legal coverage is as high as 80% or more in Western Europe, North America, and Central and Eastern Europe and a bit less (70%) in the Commonwealth of Independent States countries, although effective coverage is dramatically lower in the latter group. In the rest of the world, only a small minority of people are legally covered: slightly over 20% in North Africa; less than 20% in Asia, Latin America, and the Middle East; and just a few percent of the economically active in Sub-Saharan Africa.

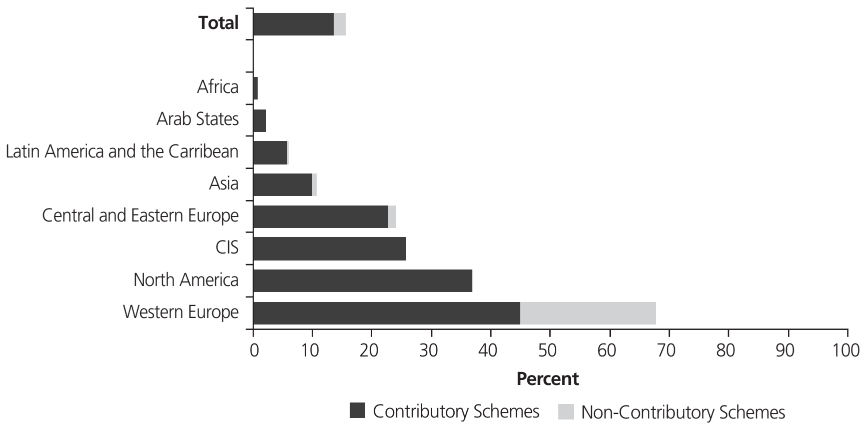
Table 6. Unemployment Protection: Legal and Effective Coverage
(countries grouped by income level, latest available year)

	Low Income	Lower-Middle Income	Upper-Middle Income	High Income	Total
Legal Coverage					
Existence of a Statutory Program (no. of countries, % in parentheses)	5 (8%)	17 (35%)	20 (54%)	36 (80%)	78 (42%)
Contributory and Non-Contributory Schemes (% of EAP)	2.9	18.1	38.4	69.2	30.6
Effective Coverage of Unemployed (% of all unemployed)					
Total Receiving Benefits	1.3	3.6	10.4	38.8	12.9
Not Receiving Unemployment Benefit	98.7	96.3	89.1	60.9	86.9

EAP = economically active population.
Sources: ILO Social Security Department, based on SSA–ISSA, (2008a, 2008b, 2009a, 2009b); national legislative texts; ILO LABORSTA completed with national statistical data for the existence of social security provision in case of unemployment, legal coverage estimates; national social security unemployment schemes data on unemployed receiving unemployment benefits compiled in the ILO Social Security Inquiry database.

Figure 8. Unemployment: Effective Coverage, Regional Estimates of Unemployed People Who Actually Receive Benefits

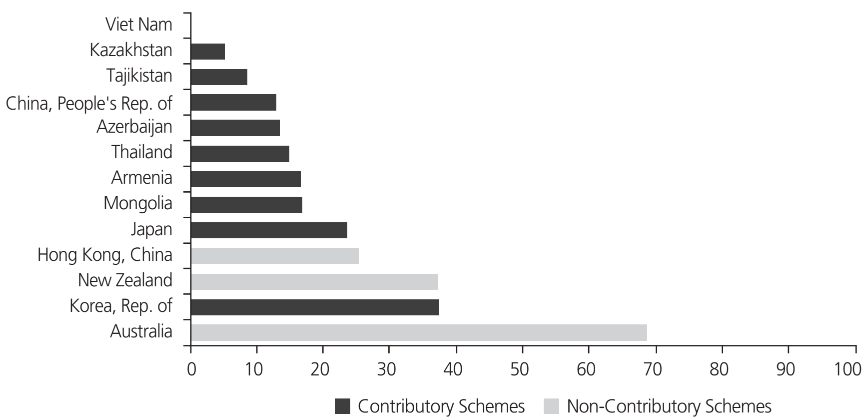
(latest available year, %)



CIS = Commonwealth of Independent States.
Note: Regional estimates weighted by the economically active population.
Sources: ILO SSI database, compiled from data on unemployed people receiving unemployment benefits collected from national social security unemployment schemes; ILO LABORSTA for total unemployed people used as the denominator.

Figure 9. Asia—Unemployed People Receiving Unemployment Benefits, Selected Asian Countries

(latest available year, % of total unemployed people)



Notes: Unemployed beneficiaries of general social assistance schemes are not included due to unavailability of data. Including them would increase coverage rates but only where such schemes exist on a large scale (high-income and some middle-income countries).
Sources: ILO SSI database, compiled from data on unemployed receiving unemployment benefits collected from national social security unemployment schemes; ILO LABORSTA for total unemployed used as the denominator.

Figure 8 shows effective coverage by geographical region, and Figure 9 by country (in Asia) for the latest available year. In Western Europe, nearly 50% of the unemployed receive benefits from contributory schemes, while another 25% benefit from non-contributory schemes. Similarly high coverage is found in Australia—achieved, however, solely by a non-contributory means-tested scheme. On average, the second largest extent of effective coverage is found in North America and in Central and Eastern Europe, where about one-third and one-quarter, respectively, of the unemployed receive payments from contributory schemes. In Latin America this proportion is just below 10%, including the limited coverage in countries that have some unemployment social security protection, such as Argentina and Brazil, and countries that have at present no statutory provision. Coverage rates are lowest in Africa, Asia, and the Middle East, where social security schemes for unemployment are still being debated rather than actually implemented.

This statistical overview of coverage by unemployment benefit schemes shows that, globally, coverage is low and concentrated in higher income countries. Reasons include the prevailing informality of employment in lower income countries, which makes traditional unemployment insurance schemes not a feasible solution there.

4. Conclusion: Current SSI Situation and Steps Forward

The ILO SSI covers over 100 countries, but with an incomplete picture of the overall social protection provision for many countries. Due to priorities fixed in 2008–2009 (in relation to the decent work indicators, the crisis, and specific country projects), some functions or contingencies and some regions are better covered than others. Pensions and unemployment are well covered; health is the area most needing improvement. Depending on countries, data are available for several years, in a few cases until 2008 or even 2009 (especially for unemployment).

The ILO SSI, as any initiative in social security statistics, faces some challenges related to the nature of the information. The challenges can be summarized in three points that are particularly salient in developing countries. (1) Due to the lack or absence of proper, comprehensive, and up-to-date information systems and methods, especially in developing countries, statistical information may be of poor quality or may not be available. (2) Interventions are fragmented, with a limited coverage of the formal social security schemes that cover a small minority of workers in formal employment. Targeting programs (cash transfers, conditional or not; direct provision of goods and services) are implemented by a multiplicity of actors and information on the programs is scarce and fragmented. (3) Linked to the previous point is a deficit of coordination and a lack of an adequate network of social protection providers and social protection statistics providers at the national level and a lack of communication between the actors.

As a consequence, it is difficult to get a global view at the national level of the diversity of social protection provision, expenditure, and (even more) coverage. The strategy adopted is to build on existing data and gradually improve the knowledge base, and to contribute as far as possible to building capacity at the national level by combining efforts. In countries where statistics are available, activities focus on analyzing data to help countries define their social protection policies and improve the effectiveness and extend the scope of their schemes. In developing countries, the priority is to improve the capacity of member states to generate and use data at the scheme level and to generate comprehensive social security data at the national level.

The ILO SSI was developed as a central point for integrating parts of more specialized departmental databases (microinsurance, actuarial activities, textual social security information) and aimed at becoming a common database (not limited to ILO), available for data collection and dissemination through alliances and partnerships with other organizations. The significant recent expansion was possible thanks to joint efforts with the inclusion of ADB, ISSA, and OECD countries and the ILO. Most probably, through joint efforts, a statistical knowledge base on social security will be built and maintained on a regular basis.

Appendix. Glossary

1.	**Scope of Social Protection for Social Security Data and Indicators**	No universally accepted definition of the scope of social protection (including the compilation of statistics). According to a conventional definition (Eurostat), social security encompasses • all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, • interventions to replace lost income and help where there is a lack of income, • interventions that are mostly in the form of transfers with no reciprocity, and • cash payments to protected people but also goods and services directly provided and reimbursements of expenditure made by protected people.
2.	**Main Features of Schemes**	
	Scheme (social security scheme)	A "distinct body of rules, supported by one or more institutional units (schemes are not themselves institutional units, as one institution may administer more than one scheme) governing the provision of social protection benefits and their financing" (ILO GESS website).

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Appendix. continuation

2.1. Public versus Private Schemes (regarding decision making)	
	"Decision making" refers to the unit that takes the most important decisions: the level of benefits, the terms on which they are paid, and the ways in which the scheme is financed. Schemes may be government-controlled ("public") or not ("private").
Public scheme	Consists of social protection schemes controlled by government. "Controlled" implies that the government takes all the principal decisions about the level of benefits, the terms on which they are paid, and the ways in which the scheme is financed. Government-controlled social protection is usually established by law or regulation.
2.2. Contributory Benefit and Non-Contributory Benefit	
Contributory benefit	Entitlement to a benefit is based on contributions from insured people and/or their employers.
Non-contributory benefit	Entitlement to a benefit is not based on the previous payment of contributions but on other criteria. Noncontributory benefits are usually financed out of general taxation.
2.3. Compulsory versus Voluntary Schemes	
Compulsory	Compulsory schemes are social protection schemes where membership is made compulsory by the government.
Non-compulsory	Non-compulsory schemes are all social protection schemes where membership is not made compulsory by government.
2.4. Legal Enforcement	
Legal enforcement	Legal enforcement refers to the rules laid down by legislation concerning the membership of the protected people. Membership in a social protection scheme may or may not be compulsory.
Non-statutory schemes	Not legally recognized, such as some community-based schemes.
2.5. Defined Benefit, Defined Contribution, and Provident Funds	
Defined benefit	Schemes in which the link between individual contributions and benefits is rather weak.
Defined contribution	Schemes in which the benefit is directly linked to the contributions the beneficiary has made.
Provident fund	Regulated social security savings scheme that usually pays out a lump sum rather than a periodic benefit.

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Appendix. continuation

2.6. Basic versus Supplementary Schemes

Basic schemes	Social protection schemes that guarantee a basic level of protection, not related to the level of benefits and not to be understood as a minimum level of benefits.
Supplementary schemes	Social protection schemes that top up cash benefits granted by the basic scheme, extend the coverage of the basic scheme, or replace the basic scheme where conditions for entitlement to the basic scheme are not fulfilled.

3. Main Features of Benefits

Benefit	Transfer (in cash or kind) provided to an individual or household on the basis of an entitlement or need.
3.1. Function	Risk or contingency addressed by a social security benefit such as old age, survivors, disability, employment injury, sickness and health care, maternity, family allowances, unemployment, other income support not classified elsewhere, plus housing and basic education.

3.2. Type of Benefit: Cash and/or In-Kind

Cash benefits	Benefits provided in cash, such as income replacement and income support benefits, lump sum payments from provident funds, allowances, and other cash payments that are not reimbursements—i.e., do not require beneficiaries to show evidence of expenditure.
In-kind benefits	Goods and services provided directly to the recipients.

3.3. Periodic versus Lump Sum or Ad Hoc Benefits

Periodic cash benefits paid on a regular basis	Benefits that are provided during a given time period, recurring at regular intervals (generally weekly, monthly, or quarterly, e.g., old age pensions) and whose main aim is to provide income replacement by restoring, up to a reasonable level, income lost due to inability to work. In contrast, other cash benefits are generally paid at irregular intervals or once for each occurrence (e.g., funeral grant), primarily aiming to provide cash assistance and not replace income.
Lump sums	One-time capital payments to members of a scheme designed to provide only capital sums on the retirement, invalidity, or death of a protected person (i.e., provident funds).

3.4. Means-Tested and Non-Means-Tested Benefits

Means-tested benefits	Benefits that are granted only upon proof of need. Different types of income or assets, such as capital, earnings, benefits, and other payments may be taken into account in the aggregate for determining whether the applicants are eligible and the amount of benefit to be granted.

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Appendix. continuation

	Non-means-tested benefits	Benefits granted on the basis of contributory periods or other rights, etc.; eligibility is not dependent on an assessment of the beneficiary's means (e.g., income, capital earnings).
4.	**Main Social Security Data**	
4.1	**Coverage**	Main data to collect for the numerator of indicators of extent of coverage.
a.	**Protected person**	Person who will be entitled to receive social security benefits when a risk, contingency, or need materializes. Current beneficiaries are a subgroup of protected people. See also affiliated/registered person.
	Active contributor	Insured individual who has made at least one contribution or on whose behalf at least one contribution has been made during the reporting period.
	Affiliated/ registered person	Person who is insured with the scheme. This includes people who are active contributors and those who have not made any contributions or on whose behalf no contributions have been made during the reporting period but are still protected by the scheme and would receive a benefit if a contingency arose.
b.	**Actual recipients**	
	Beneficiary	Individual or household receiving benefits at a specific point in time and/or during a period of time. Most beneficiaries are individuals; some are households.
4.2.	**Expenditure**	
a.	**Total expenditure**	Benefit expenditure + administrative costs + transfers to other schemes + other expenditure
	Benefit	Transfer (in cash or kind) provided to an individual or household on the basis of an entitlement or need. Benefit expenditure = benefit in cash + in kind + rerouted social contributions
	Rerouted social contributions	Rerouted social contributions are payments that a social security scheme makes to another scheme in order to maintain or accrue the rights of its protected people to social security from the recipient scheme. For example, in some countries, unemployment insurance schemes pay contributions to pension insurance schemes on behalf of unemployed beneficiaries in order to avoid breaks in their contribution record. Such rerouted contributions should be treated as a separate benefit.

continued on next page

Appendix. continuation

b.	**Administrative costs**	Any management and administrative expenditure incurred by the scheme directly responsible for the provision of social protection benefits, such as salaries, or the costs of running an office.
c.	**Transfers to other schemes**	Transfers received given to other schemes; e.g., to cater for the acquired rights of protected people who move from one scheme to another.
d.	**Other expenditure**	All other miscellaneous expenditure incurred by social protection schemes, such as interest on loans, taxes on income and wealth, and other miscellaneous expenditure not recorded elsewhere.
4.3	**Revenue**	
a.	**Revenue**	Total revenue = social contributions + general government + transfers from other schemes + other receipts
	Social contributions	Payments made by or on behalf of insured people to social security schemes and/or institutions in order to guarantee coverage against one of the identified risks and contingencies. Social contributions are divided into employer's social contributions, social contributions by protected people, and rerouted social contributions.
	Employers' social contributions	Actual social insurance contributions: cash payments by employers to social security schemes in order to secure entitlement to social benefits for employees, former employees, and their dependents.
	Imputed social insurance contributions	Estimated employer contributions that reflect the value of benefits directly provided to the insured (e.g., in the case of an employer providing benefits directly).
	Social contributions paid by protected persons	Includes contributions by employees, by the self-employed, by pensioners, and by other protected people (voluntary).
b.	**General government contribution**	Includes contributions by government to finance the cost of goods and services provided by government to protected people in the form of means-tested benefits, as well as payments to social security institutions to cover deficits and to support expenditure related to guaranteeing minimum benefit levels. The category of "general government contributions" is divided into "earmarked taxes" and "general revenues."
	Earmarked taxes	Levies and specially designated taxes raised to finance specific social security benefits.
	General revenues	Government financing from sources other than earmarked taxes.

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Appendix. continuation

c.	**Transfers from other schemes**	Transfers received from other schemes, e.g., to cater for the acquired rights of protected people who move from one scheme to another.
d.	**Other receipts**	Miscellaneous receipts of social security schemes: income from investments and property. Includes income derived from investments of the scheme (i.e., interest income on deposit with banks or other financial institutions, income from securities) as well as from property; and other receipts not elsewhere classified, including miscellaneous income, such as fines on late payments, insurance claims, and gifts.

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B. The OECD Approach to Measuring Social and Health Expenditure

Willem Adema and Luca Lorenzoni*

1. Introduction

The recent global financial and economic downturn has increased policy makers' interest in social protection arrangements the world over. Most member countries of the Organisation for Economic Co-operation and Development (OECD) have a tradition to uphold in social welfare policy and the OECD has long been analyzing the trends and composition of public social and health expenditure (OECD 1996). Original work in this area has culminated in the development of the OECD Social Expenditure database (SOCX) and the *OECD Health Data* (OECD 2008d, 2009b). The OECD continues its methodological and data advancement in this area as exemplified by indicators that also aim to capture the effect of tax systems on social support (Adema and Ladaique 2009) and the development of the System of Health Accounts (OECD 2000).

However, public expenditure trends do not show the full picture of social protection, as no single indicator is adequate to capture the diversity of the dimensions of social policy, including family, health, and pension policy. To that end, additional information is needed on, for example, (1) legislation on minimum wages and employment protection, to illustrate the minimum employment conditions in countries; (2) support for parents in employment (OECD 2007a); (3) the duration and level of income support benefits for the working age population, to illustrate the comprehensiveness of support for those who are not working (OECD 2007b); and (4) the parameters of pension systems, to illustrate their scope in terms of coverage and effectiveness in reducing poverty risks among the growing number of elderly people (OECD 2009c).

* Presented by Willem Adema.

Public social and health expenditure and other measures of social and health policy are best considered in view of the social-economic environment in which they play out. Non-employment and poverty are key indicators of societal well-being, but there are many other indicators on, for example, demographic trends, health, and social cohesion, that have a bearing on societal well-being now and in future. The wide range of indicators that try to capture the social and health situations across OECD countries are summarized in OECD frameworks of social and health indicators—the "at-a-glance" series, which, through the work of the OECD–Korea Policy Centre in Seoul, includes a focus on Asia.

The joint OECD–Korea Policy Centre aims to contribute to a greater knowledge base in the areas of competition, taxation, governance, and social and health policy pertaining to countries in Asia and the Pacific. This is increasingly important as the OECD is involved in an enhanced engagement process with some Asian countries, notably the People's Republic of China, India, and Indonesia.

The OECD is thus aiming to strengthen its links with relevant players, and, in the area of social protection statistics, this includes the Asian Development Bank (ADB) and the International Labour Organization (ILO). The OECD and ILO already have a cooperation agreement and, in terms of expenditure statistics, the ILO Social Security Inquiry (SSI) is broadly compatible with the SOCX. In country coverage, the SSI overlaps with ADB's work, which is of increasing interest to the OECD; thus, it makes sense to streamline data efforts in the social policy area more closely. The development of mutually compatible methodologies and data for an area of social protection of common interest—social expenditure statistics—would be a good starting point.

This paper intends to contribute to the common development of indicators. The next section provides a concise overview of OECD work on indicators that illustrate the social and health situation in countries, and includes a discussion of work on income distribution and poverty statistics. Section 3 discusses social expenditures and health spending in greater detail, touching on methodological choices and data issues with an eye on work by the ILO though its SSI and by ADB (2006, 2008) through its Social Protection Index (SPI). The paper concludes by observing that the ADB, ILO, and OECD instruments of measuring social effort are different, but that this should not stand in the way of future cooperation in methodological development, data collection, and analysis.

2. Social and Health Outcomes and Policy Indicators

The spread of social indicators is summarized in *OECD Society at a Glance* (SAG), the summary publication of social indicators that has been appearing regularly since 2001 (e.g., OECD 2009c). The approximately 30 indicators typically included refer to social items grouped in five domains: the socioeconomic context, self-sufficiency, equity, health, and social cohesion. Indicators provide information about either the social outcomes in these domains or the societal responses to the key challenges in each domain, and they combine a mixture of objective, subjective, self-reported, and externally collected measures. For each item, the report provides key definitions; describes the main patterns of levels and changes emerging from the data; and presents indicators (either as tables or figures). While many of the proposed indicators have been covered regularly in past issues of SAG; each report also includes some novel or irregular indicators.

The next edition of SAG will be released in the 2nd quarter of 2011, about the time of the meeting of ministers responsible for social policy in OECD countries in May 2011 (Table 1). The OECD–Korea Policy Centre released an initial edition of SAG Asia in 2009, which is modelled on SAG (OECD 2009e).

The context indicators aim to illustrate some key aspects of economic (wealth), social (e.g., family structure), or demographic aspects of an economy's population.

Table 1. Preliminary Set of Social Indicators for Society at a Glance 2011

Socioeconomic Context	Self-Sufficiency	Equity	Health	Social Cohesion
Median equivalized household income	Employment	Income inequality	Life expectancy	General trust
Fertility rates	Unemployment	Poverty	Perceived health status	Confidence in social institutions
Migration	Student performance	Income difficulties	Life satisfaction	Prosocial behavior
Family structure	Age of labor force exit	Adequacy of last resort benefits	Local environment (air and water quality, noise)	Voting
Age dependency ratio	Spending on education	Public social spending	Health care expenditure	Tolerance of diversity

Source: Authors.

People's self-sufficiency mainly depends on access to jobs and on their skills. The employment and unemployment rates for the working age population give an indication of participation in the formal labor market. Public spending on education gives an indication of public investment in human capital. Preemployment competencies provide an indication of future labor market prospects and life opportunities, and measures of these competencies for 15-year-olds are available through the OECD Programme for International Student Assessment (PISA).

No comprehensive measure exists of people's participation in community life or of their attitudes to others. The social cohesion section therefore includes some indicators on participation (voting, voluntary work), and on trust in institutions and attitudes toward diversity and tolerance.

2.1. Poverty and Social Expenditure

The equity category in SAG summarizes social policy in terms of public social spending and the generosity of social assistance benefits. Key outcome indicators are income inequality and poverty.

For its cross-national analyses of poverty, the OECD uses a relative poverty concept: poverty rates are defined as the share of individuals with equivalized[1] disposable income of less than 50% of the median for the entire population (OECD 2008a). There are some data on relative income poverty for "enhanced engagement" countries, for example, the People's Republic of China and South Africa (Herd 2010, Leibbrandt et al. 2010). But the data refer to per capita incomes, not equivalized incomes, and therefore are not directly comparable with the OECD poverty statistics. In any case, the relative OECD poverty benchmark is not directly comparable with the absolute poverty benchmarks of $1.25 or $2 per day as used in the SPI (and in analyses by the World Bank). Because such poverty data are not available for most OECD countries, the SPI cannot be easily mapped to OECD benchmarks for poverty analysis.

The OECD poverty measure may be different from that used in the SPI, but the underlying question of analysis is the same: to what extent does social support reach the poor and to what extent is public policy effective in reducing poverty among the population in general and specific at-risk population groups in particular (e.g., children, the elderly, sole-parent families, etc.). Figure 1 shows the poverty reducing effect of cash transfers (excluding in-kind services), by plotting social transfers (both public

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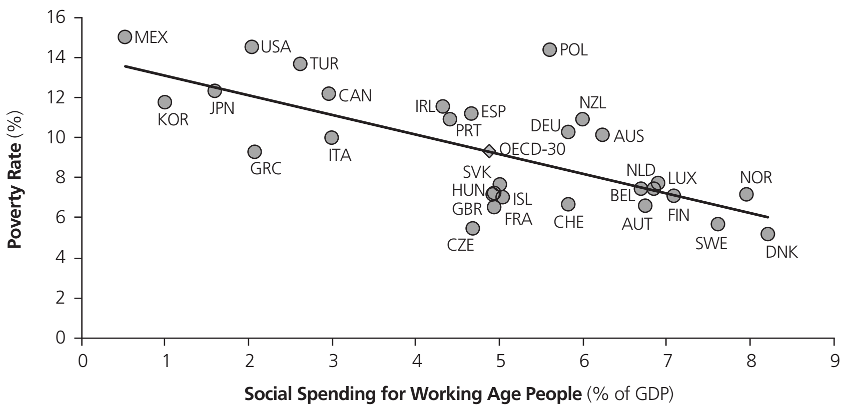
1 To account for economies of scale in consumption, household income is "equivalized" using the square root of household size; for a discussion on the topic and examples of other equivalence scales, see OECD (2008d) and Whiteford and Adema (2007).

Figure 1. Poverty Rates and Social Spending for People of Working Age, Mid-2000s



AUS = Australia, AUT = Austria, BEL = Belgium, CAN = Canada, CHE = Switzerland, CZE = Czeck Republic, DEU = Germany, DNK = Denmark, OECD-30 = 30 Organisation for Economic Co-operation and Development members, ESP = Spain, FIN = Finland, FRA = France, GBR = United Kingdom, GRC = Greece, HUN = Hungary, IRL = Ireland, ISL = Iceland, ITA = Italy, JPN = Japan, KOR = Republic of Korea, LUX = Luxembourg, MEX = Mexico, NLD = the Netherlands, NOR = Norway, NZL = New Zealand, POL = Poland, PRT = Portugal, SVK = Slovakia, SWE = Sweden, TUR = Turkey, USA = United States.
Note: Poverty rates are based on a threshold set at half the median household disposable income. Social spending includes both public and mandatory private spending in cash (i.e., excluding in-kind services). Social spending for people of working age is defined as the sum of outlays for incapacity, family, unemployment, housing, and other (i.e. social assistance) programs.
Source: Computations from the OECD income distribution questionnaire and OECD Social Expenditure database (SOCX).

and mandatory private ones) as a share of gross domestic product (GDP), against the (disposable income) poverty rate, based on a threshold set at half of the median for people of working age. The cross-country differences in the poverty-reducing effects of net public transfers partly reflect the overall size of transfers and targeted nature of programs. The number of working adults in OECD households correlates with family poverty risks (not shown here), but Figure 1 also suggests that countries that generally spend more on social transfers to people of working age also achieve lower poverty rates than other countries.

Reducing the poverty risk among the elderly is a key policy challenge and the design of pension systems is captured in *Pensions at a Glance* (OECD 2009c), upon which *Pensions at a Glance, Asia/Pacific* (OECD 2009d) is modeled. This latter report presents the individual pension systems in the Asia and Pacific region as well as those from the OECD countries within the region and France, Germany, Italy, and the United Kingdom. OECD (2009d) also provides data on dozens of retirement-income systems along with detailed descriptions of the parameters and rules of national pension plans. The report lists four reasons why current pension systems in Asia are unlikely to deliver a secure income in old age:

- the coverage of formal pension systems is relatively low;
- withdrawal of savings before retirement is very common;
- pension savings are often taken as lump sums, with the risk that people outlive their resources; and
- pension payments are not automatically adjusted to reflect changes in the cost of living.

2.2. Health at a Glance

Health indicators are summarized in *Health at a Glance* (OECD 2009a), which helps readers to compare health systems and their performance across a number of key dimensions by using a core set of statistics. This framework highlights that the goal of healthcare systems is to improve (1) the health of the population as affected by gaps in the healthcare systems' coverage, and (2) the socioeconomic and physical environment people live in.

OECD (2009a) compares the following dimensions across OECD countries:

- **Health status** highlights variations in life expectancy, mortality, and other measures of population health status.
- **Nonmedical determinants of health** focuses on selected determinants related to modifiable lifestyles and behaviors.
- **Health workforce** provides information on the supply and remuneration of doctors and nurses, and recent trends on the international migration of doctors in OECD countries.
- **Healthcare activities** examines cross-country variations in the supply and use of medical technologies, and considers variations in the use of high-volume and high-cost procedures.
- **Quality of care** provides comparisons on selected indicators of quality with respect to care for chronic conditions, mental disorders, and other diseases. The measures include indicators of the process of care, and outcome measures such as survival rates from heart attacks, strokes, and cancer.
- **Access to care** compares some indicators related to financial and geographic access.
- **Health expenditure and financing** compares how much OECD countries spend on health (Box 1) and how it is financed.

Box 1. *Health at a Glance*—Special Edition for Asia and the Pacific

The Organisation for Economic Co-operation and Development (OECD) and the OECD–Korea Policy Centre are preparing a first edition of *Health at a Glance* with a focus on the Asia and Pacific region. The report will be published in 2010. It will present contemporary and comparable data on aspects of health and health systems in selected Asian and Pacific economies in a clear and concise manner. The selection of indicators has been driven by data availability. In the medium term, a chapter on quality indicators of health will have to be developed.

The 27 countries and economies included in the report are Australia; Bangladesh; Brunei Darussalam; Cambodia; the People's Republic of China; Fiji Islands; Hong Kong, China; India; Indonesia; Japan; the Democratic People's Republic of Korea; the Republic of Korea; the Lao People's Democratic Republic; Macao, China; Malaysia; Mongolia; Myanmar; Nepal; New Zealand; Pakistan; Papua New Guinea; the Philippines; Singapore; Solomon Islands; Sri Lanka; Thailand; and Viet Nam.

The Table lists the proposed indicators and sources based on a preliminary review of data availability.

Health at a Glance in Asia and the Pacific, Preliminary Listing of Indicators

1 Mortality and Disease	2 Determinants of Health	3 Healthcare Resources and Utilization	4 Health Expenditure and Financing
1.1 Life expectancy at birth	2.1 Reproductive health	3.1 Practicing physicians	4.1 Public and private health expenditure per capita
1.2 Infant mortality	2.2 Low birth weight	3.2 Practicing nurses	4.2 Total health spending as a share of GDP
1.3 Under 5 mortality	2.3 Breastfeeding	3.3 Hospital beds	4.3 Current health expenditure by function
1.4 Mortality from all causes	2.4 Nutrition	3.4 Hospital discharges	4.4 Pharmaceutical expenditure per capita
1.5 Mortality from cardiovascular diseases	2.5 Water and sanitation	3.5 Average length of stay	4.5 Public share of total expenditure on health

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Box 1. continuation

1 Mortality and Disease	2 Determinants of Health	3 Healthcare Resources and Utilization	4 Health Expenditure and Financing
1.6 Mortality from cancer	2.6 Tobacco use	3.6 Outpatient visits to physicians per capita	4.6 Out-of-pocket and private health insurance spending, as a share of private spending
1.7 Mortality from injuries	2.7 Alcohol use	3.7 Doctor visits, by income group	4.7 Health development assistance spending per capita
1.8 Maternal mortality		3.8 Caesarian sections per 100 live births	4.8 Maternal, newborn, and child health spending as share of out-of-pocket health spending
1.9 HIV/AIDS		3.9 Births with skilled health attendance	
1.10 Tuberculosis		3.10 Vaccination rates for DPT and MMR, children aged 1–2	
1.11 Malaria			
1.12 Diabetes			

DPT = diphtheria, pertussis, and tetanus; GDP = gross domestic product; MMR = measles, mumps, and rubella.
Sources: Sections 1, 2, and 3 are largely built on data developed by the United Nations Children's Fund (UNICEF), the World Health Organization (WHO), and the World Bank (Gwatkin et al. 2007; Jeong and Rannan-Elya 2010; UNICEF 2009; ESCAP 2008; WHO 2008, 2009). Section 4 draws heavily on the System of Health Accounts data available through the OECD–Korea Policy Centre.

3. Social Expenditure from the OECD Perspective

SOCX was developed in the 1990s to facilitate social policy analysis (OECD 1996). The detailed information on social expenditure items included in SOCX permits a variety of ways to analyze the effects of social policy. It allows for in-depth study of national and cross-national social protection policy (e.g., as in many OECD economic surveys of individual member countries) and for a grouping of expenditures to match the analytical needs of users (e.g., Castles 2008, Darby and Melitz 2007, Townsend 2007) or by mapping subaggregates in SOCX with concepts of social protection that may differ from that in SOCX to some extent (Box 2).

Box 2. Linkages between ILO and OECD Social Accounting Systems and the Social Protection Index

The International Labour Organization (ILO) Social Security Inquiry (SSI) collects national data and scheme-level administrative data on social security around the world, including expenditure, financing, beneficiaries, benefits, and benefit level (ILO 2005). The main branches or contingencies retained in the SSI are largely compatible with broad social policy areas of the Organisation for Economic Co-operation and Development (OECD). From a statistical perspective, extending the OECD Social Expenditure database (SOCX) to include information on the financing of social programs that is consistent with the OECD Revenue Statistics may be desirable (OECD 2008c). But the resources required for such an exercise are likely to far exceed the gains that could be made in terms of strengthening policy analysis.

In terms of social domain, the OECD has arguably the largest scope as it has developed a methodology that facilitates the comprehensive accounting of fiscal measures that affect social protection. In terms of gross spending items, the SSI has a relatively large scope as it includes spending supporting basic education, e.g., spending on school books. The ILO and OECD both record spending on active labor market policies, with the OECD definitions being the least restrictive as they include government subsidies toward the cost of employing previously unemployed persons. The functional categorizations are slightly different: the SSI identifies 11 functions and SOCX has 9 broad social policy areas at present. Following a March 2007 agreement between the ILO and OECD, both the SSI and SOCX classify social expenditure into "public," "mandatory private," and "voluntary private."

The ILO and OECD aim to collect social expenditure, recipient, and benefit data at the detailed program level. These spending items are broadly compatible, and may be regrouped in different functions (ILO) and social policy areas (OECD) to facilitate broad comparability.

In principle, the country notes to the Social Protection Index (SPI) of the Asian Development Bank (ADB) aim to provide a similar level of detail on spending items as in SOCX and the SSI. This facilitates the use of such data in the SSI and in comparisons with SOCX. Similarly, such program detail would allow for a public and/or private categorization in data collected by ADB.

The SPI includes all insurance-based payments (risks associated with unemployment, sickness, maternity, disability, industrial injury, old age, and health), and the publicly and privately financed delivery of social services, including active labor market policies. It does not, however, include generally financed healthcare services. This broadly overlaps with the scope of SOCX and the SSI, while data on public investment in education could also be

continued on next page

Box 2. continuation

considered in a broader sense of social spending. Differences in the scope of health data used by the ADB SPI are discussed in section 4 of the paper's main text. While dimensions between the SPI and SOCX and the SSI may differ, there is scope for collaboration within dimensions, particularly with respect to measuring social expenditure.

Sources: Authors and OECD (2008c).

Because SOCX is very detailed, it is time-consuming to update; therefore, this is done every 2 years (OECD 2008d). Detailed spending series will be extended to 2007 and become available in the summer of 2007. (For detailed estimates on taxation and social spending to become available takes 2–3 years.) More aggregate numbers will be extended for 2009–2010 (also using budget projections) to capture the effect of the recent economic crisis on social spending and be released about the time of the May 2011 meeting of OECD ministers responsible for social policy.

3.1. The Scope of Social Expenditure

The OECD (2008b: 499) defines social expenditure as

> The provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer.

Spending on social purposes toward circumstances that adversely affect welfare include

- old age—pensions, and home-help and residential services for the elderly;
- survivors—pensions and funeral payments;
- incapacity-related benefits—disability benefits and services, and employee sickness payments;
- health—spending on in- and out-patient care, medical goods, and prevention of illness;
- family—child allowances and credits, childcare support, income support during leave, and sole parent payments;
- active labor market policies—employment services, training, youth measures, subsidized employment, and employment measures for the disabled;
- unemployment—unemployment compensation and early retirement for labor market reasons;
- housing—housing allowances and rent subsidies; and

- other contingencies, other support measures as noncategorized cash benefits to low-income households, and support programs for substance abusers, legal aid, etc.

Table 2 shows the structure of the OECD social expenditure database.

Table 2. Structure of the OECD Social Expenditure Database

1. Old Age
- Cash benefits
  - Pension
  - Early retirement pension
  - Other cash benefits
- Benefits in kind
  - Residential care, home-help services
  - Other benefits in kind

2. Survivors
- Cash benefits
  - Pension
  - Other cash benefits
- Benefits in kind
  - Funeral expenses
  - Other benefits in kind

3. Incapacity-Related Benefits
- Cash benefits
  - Disability pensions
  - Pensions (occupational injury and disease)
  - Paid sick leave (occupational injury and disease)
  - Paid sick leave (other sickness daily allowances)
  - Other cash benefits
- Benefits in kind
  - Residential care, home-help services
  - Rehabilitation services
  - Other benefits in kind

4. Health
- Benefits in kind

5. Family
- Cash benefits
  - Family allowances
  - Maternity and parental leave
  - Other cash benefits
- Benefits in kind
  - Day care, home-help services
  - Other benefits in kind

6. Active Labor Market Policies
  - Employment service and administration
  - Labor market training
  - Youth measures
  - Subsidized employment
  - Employment measures for the disabled

7. Unemployment
- Cash benefits
  - Unemployment compensation, severance pay
  - Early retirement for labor market reasons
- Benefits in kind

8. Housing
- Benefits in kind
  - Housing assistance
  - Other benefits in kind

9. Other Social Policy Areas
- Cash benefits
  - Income maintenance
  - Other cash benefits
- Benefits in kind
  - Social assistance
  - Other benefits in kind

Source: OECD (2008d).

Programs are often grouped by the nature of benefits, e.g., in cash or in kind. Social support provided through the tax system is recorded separately in SOCX. The United Nations Educational, Scientific, and Cultural Organization (UNESCO); OECD; and Eurostat database on education statistics records public spending on education, which can be brought into the analysis if broader concepts of the social domain so require (UOE 2009).[2]

3.2. What is Social?

Expenditure programs are considered "social" if participation is compulsory or if entitlements involve interpersonal redistribution of resources. Public social services, social insurance, and social assistance benefits are either financed through general taxation or social security contributions, and therefore involve the redistribution of resources across the population in general or within population groups (e.g., all members of a health insurance fund). Many private benefits are provided under the influence of government action. Indeed, interpersonal redistribution in private programs is often induced by government legislation (e.g., through forcing insurance companies to have one price for the same policy for both sick and healthy people) or, as in many OECD countries, through favorable tax treatment to stimulate uptake of private pensions. Governments sometimes also influence the collective bargaining process that may lead to employer-provided support for workers during sickness or child-related leave periods or for childcare support (OECD 2007a). Government intervention introduces and/or enhances redistribution among population groups participating in private programs, which leads to a high degree of similarity between legally-stipulated private arrangements and tax-advantaged plans.

Various programs and policies may well perform a social function but are nonetheless not included in comprehensive international comparisons of social effort. For example, life insurance saving and/or general savings are not included, although such programs may be favored by tax advantages and used toward retirement, survivor, and/or accident insurance. However, the extent to which this is the case or whether life insurance policies are merely used in association with home ownership and mortgages is not known.

Also, there is no international agreement on whether marriage support is a social policy objective or not, and fiscal support toward married couples is not included, though such support can be substantial, and some countries view married couples as the appropriate basic economic unit for taxation (OECD 2006).

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2 Such an analysis would have to account for potential double counting of training items under "Active Labour Market Policies" that may also be recorded under "Public Spending on Education."

3.3. Public and Private Social Spending

Social benefits to households and individuals can be publicly or privately provided. They are considered "public" when relevant financial flows are controlled by the general government (i.e., central, state, and local governments, including social security funds). Thus, benefits financed out of social security contributions paid by employers to social security funds are within the public sphere.[3]

All social benefits not provided by general government are considered "private." Private social benefits can be categorized in two broad groups:

(1) **mandatory private social benefits**, including legally stipulated employment-related incapacity-related cash transfers, such as sickness, disability, and occupational injury benefits (Australia, Austria, Denmark, Finland, Germany, Iceland, the Republic of Korea, the Netherlands, Norway, the Slovak Republic, Sweden, the United Kingdom, and some states of the United States); mandatory employer-provided retirement allowances (severance payments toward retirement, e.g., Italy, Japan, and the Republic of Korea, see Box 3); and pensions derived from mandatory (individual and/or employer) contributions (e.g., Switzerland); and

(2) **voluntary private social expenditure**, for example, social services provided by nongovernment organizations, employer-provided income support during child-related leave or sickness, and pensions derived from employer contributions (as in many OECD countries) or fiscally advantaged individual contributions (e.g., Individual Retirement Accounts in the United States).

Individual, often intrafamily, transfers, even when of a social nature, are not included as part of social expenditure.

Box 3. Methodological Choices: SOCX Treatment of Severance Payments in Japan and the Republic of Korea

In the Social Expenditure database (SOCX) of the Organisation for Economic Co-operation and Development (OECD), the treatment of severance payment, which is important in Asian OECD countries, illustrates the balance of methodological choices that sometimes needs to be made. The definition of social spending explicitly rules out remuneration for work, and therefore the database does not cover items such as holiday pay, costs incurred for transport to work, and bonuses. The exclusion of remuneration for current work effort from the

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3 Also in line with the national accounts, SOCX records pensions paid to former civil servants through autonomous funds as a private spending item in Australia (partly), Canada, Denmark, the Netherlands, Sweden, and the United Kingdom.

Box 3. continuation

social spending remit is not contested. However, a substantial part (i.e., that part financed by employer contributions) of the pension payments by public and private pension funds can be argued to concern deferred wages, i.e., remuneration for past work effort. If social expenditure were not to include any such items, then almost all pension payments would be excluded from SOCX and other relevant databases. Instead, by convention, pensions (in general payments of people above retirement age), are considered to be part of social expenditure, including when they are cofinanced by past employer contributions.

Severance payments can also be used for retirement, and if pensions are included in SOCX, it would be consistent to also include severance payments if they are made toward retirement. However, severance payments are not exclusively made for retirement purposes. Severance payments are made when an employment relationship between employer and employee ceases to exist, and can also be provided if an employee quits voluntarily or is dismissed. These latter payments are not considered as social expenditure, except when "redundancy compensation" is made to workers who have been dismissed through no fault of their own by an enterprise that is ceasing or cutting down its activities. This covers a small and specific group of all "severance payments," which are included under unemployment compensation (Table 2). Thus, except for public redundancy compensation, SOCX should include spending on severance payments that is given to people who reach retirement, and should exclude the rest. However, such a level of detail is generally not available, and choices on whether or not to include severance payments had to be made on a case-by-case basis.

The issue is important for both Japan and the Republic of Korea.

(1) Evidence from Japan suggests that voluntary private severance payments amounted to 2.2% of gross domestic product (GDP) in 2005. The Japanese authorities assume that the majority of people who receive severance pay do so on their retirement, even though the statistics do not allow for an exact identification of that percentage.

(2) In the Republic of Korea, total severance payments amount to 2.0% of GDP. The majority of severance payments are being made when workers are laid off or quit voluntarily before compulsory retirement age. Korean policy aims to convert severance payments into a corporate pension saving, leading to the so-called "Retirement Pension Benefits." However, while the government provides tax incentives to stimulate conversion, it is not mandatory, and only about 15% of enterprises participate (Adema and Ladaique 2009). Only a minority of all employer-paid severance payments (about 10%–30%) concerned workers who retired, and therefore SOCX includes 20% (equivalent to 0.4% of GDP) of all spending on severance payments under mandatory private old age expenditure. When in future more detailed information on severance payments made on retirement and the amount of retirement pension benefits becomes available, such spending will be included in SOCX.

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Box 3. continuation

In sum, as most spending on severance payments in Italy and Japan seems to be made on retirement, they are included in SOCX. For the Republic of Korea, it is the other way round as only a minority of spending on severance pay goes to people reaching retirement. The error of including all severance payments under old age spending would be larger than if no such spending were recorded for the Republic of Korea at all. To further reduce the margin of error, SOCX includes 20% of all spending on severance payments until more comprehensive information on the issue becomes available.

Source: Authors.

3.4. Filling Data Gaps: An Ongoing Concern

In recent years, with the increased interest in work–life balance issues in OECD countries, the quality and comparability of spending data on social services such as childcare and early years support has improved notably. However, local governments often have no incentive to report their social effort to central government. Thus, the quality of data on spending by lower tiers of government on social services varies across OECD countries.

Similarly, as nongovernment organizations and employers have limited incentives to report their social support, their outlays will also be underestimated in the statistics. Hence, it is difficult to quantify social spending by the voluntary sector, which is often targeted at the most vulnerable in society.

International comparisons of housing policy are particularly affected by methodological and data issues. Data are available on residential support for the elderly and disabled and on rent subsidies for low-income households, but information on construction subsidies and/or mortgage relief for low-income households, while similar in nature, is not available on a cross-national basis. Definitions of what is social housing and what is not also vary across countries.

During the last decade, the OECD has published cross-national data on trends in benefit recipiency among people of working age for about half of the OECD countries (Carcillo and Grubb 2006; OECD 2003, 2006). However, mapping benefit recipients to social spending is no sinecure, if only because claimants can receive multiple benefits (which often cut across broad social policy areas). Also, cross-national comparisons of people who are receiving a social transfer have to be expressed in full-time equivalents, to account for part-time receipt of benefits (either for a given period in a year, or combined work and benefit receipt for the full measurement period). The OECD has started to expand the dataset on recipiency while mapping it to social expenditure items in SOCX; initial results are expected in 2011.

3.5. An International Comparison

In 2005, gross public social expenditure—the conventional measure of "welfare state effort" in international comparison—averaged 20.5% of GDP across OECD countries (Figure 2). The ratios of public social spending to GDP vary from highs of 29% in France and Sweden to lows of around 7% in the Republic of Korea and Mexico. On average across the OECD, the ratio of public social spending to GDP increased from 16% to just over 20% during 1980 to 2005. The ratios of public social spending to GDP increased most significantly in the early 1980s, early 1990s, and again in the beginning of this millennium. The ratios of public spending to GDP can be expected to have increased again in 2009 following the economic slowdown.

In general, spending on cash benefits (11.6% of GDP) is about 40% higher than spending on health and social services (8.4% of GDP). Public pension transfers to the retired population and survivors average 7.2% of GDP across the OECD, with Austrian, French, and Italian "pensioner states" spending more than 14% of GDP on public pensions. Public spending on healthcare services (6.2% of GDP) is also considerable. Public spending on income transfers to the working age population is on average considerably lower across the OECD, at just over 4.4% of GDP in 2005, of which spending on unemployment benefits was 1% of GDP.

Public social spending in the Russian Federation is about 5 percentage points below the OECD average. Countries such as Chile (at the time of writing not yet an OECD member) and the People's Republic of China, India, and Indonesia spend far less. Public spending on health is at least 2%–3% in all countries, and pensions to civil servants constitute considerable obligations. Public spending on income support to the working age population and on social services not related to health pales in comparison with the OECD average.

The importance of private social protection arrangements varies considerably across countries. At over 10% of GDP, gross private spending was highest in the United States in 2005 (of which about 60% was on voluntary private social health spending) and, at about 7%–8% of GDP, was also high in the Netherlands, Switzerland, and the United Kingdom (largely related to private social pensions). On average across the OECD and the EU-15,[4] the role of private social spending is more restricted, at about 2.75% of GDP, with its role being most limited in Eastern European countries, Mexico, and Turkey (OECD 2008d).

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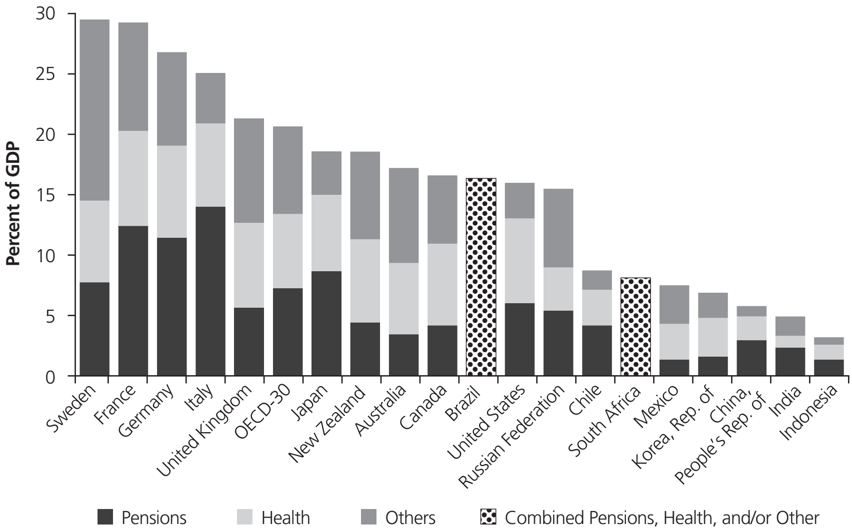
[4] The European Union (EU)-15 countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

Figure 2. Public Social Spending in Major Asian Economies vis-à-vis OECD Countries



GDP = gross domestic product, OECD = Organisation for Economic Co-operation and Development.
In 2005, the OECD included 30 member countries (OECD-30): Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Republic of Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. Chile, Israel, and Slovenia joined the OECD in 2010.
Sources: OECD Social Expenditure database (OECD 2008d) and authors estimates for non-OECD countries.

Box 4. The Effects of the Tax System on Social Expenditure

The tax system plays an important role in social policy. Taxation (including social security contributions) is used to finance social support, and the manner in which this is done affects the redistributive effects of tax–benefit systems. However, tax systems are also used to claw back social support by taxing transfer payments to and consumption by benefit recipients. Furthermore, tax systems are used to deliver social support and entice private agents to provide support or take up social coverage.

The effect of tax systems on social support varies largely across countries (Adema and Ladaique [2009] provide a detailed discussion of methodology, and data issues), but the main effects can be summarized as follows.

- Across the Organisation for Economic Co-operation and Development (OECD) on average, direct taxation of benefit income amounts to 1.2% of gross domestic product (GDP). Direct taxation of benefit income is estimated at 4% of GDP in high-spending welfare states such as Sweden.
- Taxation of consumption out of benefit income is close to 1.7% of GDP across the

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Box 4. continuation

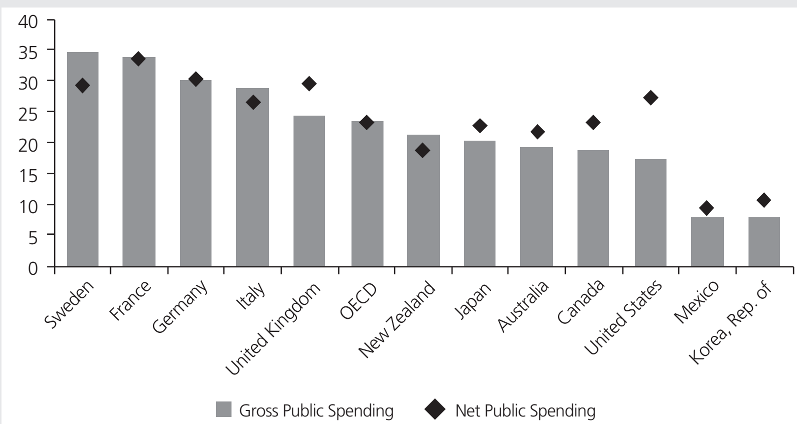
OECD on average. Indirect taxation levied on consumption of benefit income is less than 0.5% of GDP in the Republic of Korea, Mexico, and the United States.

- The value of tax breaks with a social purpose that are either similar to cash benefits or fiscal support toward private social provision amounts to 0.5% of GDP on average across the OECD. In France, Germany, and the United States, fiscal benefits for families amount to about 1% of GDP and fiscal support for private social health plans exceeds 1% of GDP.

In the Republic of Korea, Mexico, and the United States, gross public spending is actually lower than net public spending, because they tax benefit income at very low rates if at all, while the tax system has an important role in delivering social support by directly or indirectly subsidizing private provision. However, in most countries, governments claw back more money through direct and indirect taxation of public transfer income than they award in tax advantages for social purposes (Box Figure).

Net total public and private social expenditure is that proportion of an economy's domestic production to which recipients of social benefits can lay claim. This proportion is highest, at 33% of GDP at factor cost, in France. Recipients of social benefits in Germany, Sweden, the United Kingdom, and the United States all claim about 27%–30% of the economy's domestic production at factor cost. The similarity of net spending levels is driven by including private social spending, particularly in the United States, and the relatively high level of direct and indirect taxation on income transfers in European countries.

Variation in Social Spending Across OECD Countries Decreases when Accounting for Private Social Spending and the Effect of Tax Systems
(public spending, % of GDP at factor cost, 2005)



GDP = gross domestic product, OECD = Organisation for Economic Co-operation and Development.
Source: Adema and Ladaique (2009).

4. A Comprehensive System of Health Accounts

The SPI includes all insurance-based payments (to cover the risks associated with unemployment, sickness, maternity, disability, industrial injury, old age, and health), but "the definition of social protection adopted for the SPI study excludes health services funded directly by government" (ADB 2008: 16). Thus, the SPI does not cover a large part of public spending on health. This facilitates an analysis of health insurance coverage. However, other government-financed healthcare services are often similar to the insurance-funded ones, which questions why the former are excluded from the "social protection domain." Also, including other public health spending may give a better and more comprehensive view of public health and social effort across countries.

Together with Eurostat and the World Health Organization (WHO), the OECD has developed the System of Health Accounts (SHA). This comprehensive methodology (OECD 2000) is increasingly applied across the world. In the Asia and Pacific region, detailed SHA accounts now exist for 11 economies (Australia; Bangladesh; the People's Republic of China; Hong Kong, China; Japan; the Republic of Korea; Malaysia; Mongolia; New Zealand; Sri Lanka; and Thailand), the development of which was facilitated by the OECD–Korea Policy Centre (Jeong and Rannan-Eliya 2010).

Table 3 illustrates how healthcare expenditures can be classified by financing source (although the SHA allows for different classifications [OECD 2000]).[5] The SHA uses the System of National Accounts guidelines to distinguish public and private healthcare expenditures (healthcare financing source [HF].1 and HF.2) and health insurance categories (HF.1.2, HF.2.1, and HF.2.2).

To classify health insurance, there is a primary distinction between health insurance through social security funds (HF.1.2) and other health insurance (HF.2.2), while social health insurance consists of social security funds (HF.1.2) and private social insurance schemes (HF.2.1). The social insurance schemes fall into the public domain because financial flows are controlled by the general government, while private social insurance schemes are often related to employment.

The SPI would include expenditure under HF. 1.2, but not all items recorded under HF. 1.1: all other general government expenditures on health. All spending recorded under HF.1.1 and HF. 1.2 constitutes the scope of public social health expenditure.

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[5] The SHA provides a framework for a family of interrelated tables for standard reporting for expenditure on a tri-axial basis: financing, provision, and consumption.

Table 3. Classification of Healthcare Expenditure by Financing Source

Code	Financing Source
HF.1	General government
HF.1.1	General government (excluding social security funds)
HF.1.2	Social security funds
HF.2	Private sector
HF.2.1	Private social insurance
HF.2.2	Private insurance (other than social insurance)
HF.2.3	Private household out-of-pocket expenditure
HF.2.4	Nonprofit institutions serving households
HF.2.5	Corporations (other than health insurance)
HR.3	Rest of the world

HF = healthcare financing agents or schemes.
Source: OECD (2000).

The nature of health goods and services purchased by government and by health insurance largely overlaps, making a strong case to include both items in any analysis of social healthcare. The current SPI definitions hold that if there is a "subject" (an institutional unit, in the System of National Accounts jargon) to which the government transfers funds to purchase health services (e.g., a social security fund), then those expenditures are recorded under HF.1.2 and are included in the SPI computation. If the government purchases the same services directly, those expenditures are reported under government HF.1.1 and are excluded from the SPI.

To illustrate the potential effect of the different inclusion criteria, Table 4 compares the percentage of total health expenditure and GDP classified as general government expenditure (HF.1) and social security funds (HF.1.2) across the SPI countries (WHO 2010). The table is ordered by descending value of public health spending excluding social security funds (HF.1.1) as a percent of GDP (the last column on the right). This approximates the additional value in the SPI if total general government health spending were to be included in the index, and the differences are largest for the least populated economies. This result exposes the limits of GDP as the denominator in comparing countries that are very different in nature, but does not take away from the value of including more comprehensive measures of public health effort.

Table 4. General Government and Social Security Expenditure as a Percent of Total Health Spending and GDP: SPI Countries, 2008

Country	Total Expenditure on Health (THE) as % of GDP	General Government Expenditure on Health as % of GDP	General Government Expenditure on Health as % of THE	Social Security as % of GDP	Social Security as % of THE	Effect of Including all Public Spending (in GDP points)
Marshall Islands	13.4	13.1	97.2	1.6	11.9	11.5
Nauru	15.2	10.8	71.0	0.0	0.0	10.8
Tuvalu	9.0	9.0	99.8	0.0	0.0	9.0
Maldives	11.2	7.8	69.6	0.3	2.7	7.5
Solomon Islands	5.3	4.9	93.4	0.0	0.0	4.9
Cook Islands	4.3	3.9	91.5	0.0	0.0	3.9
Vanuatu	4.1	3.2	79.2	0.0	0.0	3.2
Bhutan	3.9	3.1	80.3	0.0	0.0	3.1
Tonga	4.0	2.7	68.7	0.0	0.0	2.7
Fiji Islands	3.8	2.6	68.4	0.0	0.0	2.6
PNG	3.2	2.6	80.1	0.0	0.0	2.6
Uzbekistan	5.0	2.5	50.5	0.0	0.0	2.5
Kazakhstan	3.7	2.4	65.7	0.0	0.0	2.4
Mongolia	3.8	3.0	78.7	1.0	26.0	2.0
Nepal	4.9	1.9	39.0	0.0	0.0	1.9
Viet Nam	7.3	2.8	38.5	0.9	12.4	1.9
Malaysia	4.3	1.9	44.1	0.0	0.4	1.9
Sri Lanka	4.0	1.7	42.9	0.0	0.1	1.7
Armenia	3.8	1.6	43.7	0.0	0.0	1.6
Afghanistan	7.3	1.6	21.2	0.0	0.0	1.6
Cambodia	6.6	1.5	23.1	0.0	0.0	1.5
Tajikistan	5.6	1.5	26.2	0.0	0.0	1.5
Japan	8.1	6.5	80.9	5.1	63.7	1.4
Bangladesh	3.5	1.3	35.7	0.0	0.0	1.3
Kyrgyz Republic	6.6	3.2	47.9	1.9	29.5	1.2
Indonesia	2.0	1.1	55.3	0.1	6.9	1.0
Philippines	3.8	1.3	32.9	0.3	7.5	1.0
India	4.0	1.1	28.0	0.2	4.4	1.0
PRC	4.3	2.0	46.7	1.1	25.8	0.9
Azerbaijan	3.6	0.9	24.0	0.0	0.0	0.9
Korea, Rep. of	6.6	3.6	54.9	2.8	42.2	0.8
Pakistan	2.9	0.8	29.7	0.0	1.3	0.8
Lao PDR	4.0	0.7	17.4	0.1	2.1	0.6

GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic, PNG = Papua New Guinea, PRC = People's Republic of China, SPI = Social Protection Index, THE = total health expenditure.
Source: WHO (2010).

5. Conclusions

The recent economic downturn has motivated policy makers across the world to consider the best options for the development of social policy. International comparisons can help, in that good, effective practices in one country often help inspire policy makers elsewhere, and lead to the development of new policies accounting for national contexts.

To facilitate such a process, good internationally comparable data are needed. Therefore, international organizations need to streamline their methodologies and data collection efforts. This does not mean that all aspects of social protection data systems have to be the same. Rather, it calls for the social protection statistics systems of ADB, ILO, and OECD to be different, but comparable in key dimensions. For example, while poverty data gathered in the ADB context may be different from similar OECD data, this does not invalidate common comparisons and analyses of social expenditures.

In the area of health spending, there is a case for aiming to use globally collected data as part of the joint OECD-Eurostat-WHO questionnaire on health expenditure. Such data are becoming increasingly available for countries in the Asia and Pacific region, and give a more comprehensive view of public health efforts than data on health insurance used by the SPI so far. The inclusion of the public health expenditure (instead of only health expenditure through social security funds) will have a significant effect on the reporting of total health spending per country, providing a better reflection of public social and health effort.

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C. Expanding the Labor Force Survey to Capture the Extent of Social Protection Mechanisms

Dalisay S. Maligalig and Sining Cuevas*

1. Introduction

The International Labour Organization's 2009 Global Employment Trends estimated that 633 million workers worldwide are still living on $1.25 a day and 425 million of them live in Asia. Vulnerable employment in Asia in 2008 ranged from 53.2% to 76.9% of total employment and projections indicate the share could have reached 56.4%–78.6% in 2009 (ILO 2010).

Most of the working poor are engaged in informal employment. Workers in the informal and formal sectors of the economy face the same set of risks and/or life events, such as grave illness, disability, maternity, loss of assets, old age, and death. But the working conditions for many informal workers are generally riskier than for those in the formal sector (ILO 2002). The working environments of informal workers are not usually protected by health and safety legislation, and they are not likely to have health and social security insurance, disability allowances, or retirement benefits. Because informal workers receive lower wages in general than formally employed people, they are less likely to have savings for emergencies and to hedge against economic risks.

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How can economic policy help the working poor, especially those in the informal economy? How can they be assisted out of poverty? Efforts to alleviate poverty should be focused on the needs and constraints the working poor face in the informal economy. This requires reorienting economic policies to be worker-centered and needs a clear understanding of the linkages between informal employment, social protection,[1] and poverty.

The term "social protection" has its roots from "social security," which usually refers to formal mechanisms that can help mitigate economic risks such as illness, disability through work, unemployment, maternity, and old age. Usually these mechanisms involve contribution from employers, workers, and government. However, sparse survey data indicate that substantial numbers of people are informally employed and do not have access to these formal mechanisms. Workers in informal employment resort to informal mechanisms such as a community-based system of support, in which case the roles in social protection of employers, employees, and governments cannot easily be distinguished. Therefore, the term "social protection" is now being used, particularly in less developed countries, to capture the more active inclusion of individuals, families, and communities in helping to provide a wider net of protection against risk.

Very few national statistical systems in Asia regularly collect data on informal employment and social protection mechanisms. What is the prevalence of informal employment in a country? Where are these workers? In which industry are the informally employed people mostly prevalent? How many workers are covered by pension funds? How many workers have paid vacation leave, sick leave, maternity leave, and/or severance pay? The answers to these questions would surely inform policy and add to the understanding of informal employment. However, labor force surveys (LFSs) conducted by national statistical systems do not usually include questions on informal employment and social protection mechanisms. Because there are practically no official (government) statistics on these important issues, public awareness of them is marginal and, more importantly, design and monitoring of policies and programs are not well informed.

This paper proposes a set of questions that can be added to an LFS, which is the most frequently conducted survey by national statistical systems that can classify workers

[1] The Asian Development Bank's standard definition of social protection is the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption and/or loss of income. The five major kinds of activities under social protection are (1) labor market policies and programs, (2) social insurance, (3) social assistance, (4) micro and area-based schemes, and (5) child protection.

into formal and/or informal employment and measure the extent of social protection mechanisms. The approach was tested in three countries—Armenia, Bangladesh, and Indonesia—under the Asian Development Bank (ADB) regional technical assistance project, Measuring the Informal Sector. Preliminary results from Indonesia and those from the Philippines, which the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) assisted in a similar project, are also discussed in the paper. Recommendations on how the questions should be added and analyzed are discussed in the last section of the paper.

2. Approach for Expanding the Labor Force Survey

The 17th International Conference of Labour Statisticians stated that "employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to labour legislation, income taxation, social protection, or entitlement to certain employment benefits (advance notice of dismissal, severances of pay, paid annual or sick leave, etc.)" (ILO 2003: 16). This definition is made on the job level and not at the individual level because a person can have two or more jobs simultaneously. Informal employment can be classified into (1) informal self-employment, and (2) informal wage employment. Under informal self-employment are employees in informal enterprises, own-account workers in informal enterprises, unpaid family workers, and members of informal producers' cooperatives (Chen 2004; Chen, Vanek, and Heintz 2006). Informal wage employment includes employees without formal contracts, worker benefits, or social protection who are employed either in formal or informal enterprises. And the 15th International Conference of Labour Statisticians defined informal enterprises as household enterprises that (1) are engaged in the production of goods or services with the primary objective of generating employment and incomes for the people concerned, (2) typically operate at a low level of organization, (3) have little or no division between labor and capital as factors of production, and (4) operate on a small scale.

On the basis of these definitions, wage workers and employees can be classified into informal or formal employment if they are asked about the type of contract that they have with their employers, and employers and the self-employed can be categorized as informal or formal by determining if they maintain a comprehensive record of accounts. Because expenses and assets of informal enterprises cannot be distinguished from the households to which they belong, having a comprehensive record of accounts indicates a formal enterprise. However, very few workers know whether the enterprise that employs them keeps a comprehensive set of accounting records. Therefore, the workers can be asked whether their pay slips list all the transactions regarding their wages and benefits.

A set of questions for determining informal and/or formal employment, formal and/or informal enterprises, and the extent of the social protection mechanism was developed by assessing recent LFSs of Armenia, Bangladesh, Indonesia, and the Philippines. Appendix 1 of this paper summarizes the questions for workers. The assessment found the recent LFSs of Armenia and Bangladesh had questions that can help to determine whether the employment is formal or informal and if some social protection mechanisms are received, but questionnaires for Indonesia and the Philippines did not have an adequate set of questions for this purpose.

In analyzing the 2005 Bangladesh LFS, Maligalig, Cuevas, and Rosario (2009) concluded that, while workers could be classified under formal or informal employment using a questionnaire that was not designed for the purpose, the many unresolved problems in data processing and validation made applying the internationally accepted definition of informal employment difficult. Using a very conservative estimate of informal employment instead, they found that 88% of employed workers were working under an informal arrangement. The largest concentration of informal workers is in the rural areas, at 92%. Informal workers are found to have significantly less benefits than those with formal employment, except for free meals and free lodging. In particular, self-employed and unpaid workers comprise a little over 20 million informal workers in Bangladesh, but less than 2 million of them enjoy benefits.

Cuevas et al. (2009) examined Indonesia's 2007 LFS (termed "Sakernas") and concluded that the survey did not have an adequate set of questions for analyzing whether employment is formal or informal and the extent of social protection mechanisms. They recommended that the list of questions in Appendix 1 be included in the Sakernas so that such analyses can be performed.

The ADB project team for the regional technical assistance also studied the results of the rider survey of the second quarter 2008 LFS that the Philippines' National Statistics Office administered with the assistance of ESCAP. The rider has all the additional questions listed in Appendix 1. The rider survey asked for information on the primary job of the respondents and collected data on the respondents' secondary jobs. The results of this study were instrumental in developing the module for informal employment that was administered in the three countries covered by the ADB regional technical assistance. Some of the results are also presented in the next section of this paper.

The informal employment module consists of the questions listed in the first column of Appendix 1, which includes questions that could identify informal employment, and another set on social protection instruments. This module was presented and discussed with the counterpart country teams in the national statistics offices of Armenia, Bangladesh, and Indonesia. The ADB project team worked closely with the country teams in revising the questions and choice of answers and skipping patterns to ensure that the module could meld well with the current LFS questionnaire and to anticipate any inconsistencies in the expanded LFS (current LFS + informal employment module + the household unincorporated enterprise model [HUEM] module[2]).

Country strategies for incorporating the informal employment questions in the LFS differ depending on (1) the design of the LFS questionnaire; (2) the stage of the country's activities, during the consultations, for preparing the next LFS; and (3) the partners' receptivity to ideas introduced. Because the questionnaire for Armenia's Integrated Living Conditions Survey is composed of multiple modules, enumerators and respondents are accustomed to relatively long interviews and multitopic queries. This paved the way for a smooth incorporation of additional questions in the labor module. Moreover, because most of the essential items needed for informal employment analysis were already available in the Integrated Living Conditions Survey, the people conducting the surveys could readily understand the concepts and ideas behind the modifications in the questionnaire.

In Indonesia, however, designing the expanded LFS questionnaire came at a late stage of LFS preparations. The LFS questionnaires had already been printed and questions could not be added. Thus, for Indonesia, the project adapted the design of the Philippine Informal Sector Survey, by creating a separate module for informal employment. All items related to informal employment are pooled in this module, completely separate from the LFS, but the two are linked through the survey design.

The approach implemented in Bangladesh is a combination of those applied in Armenia and Indonesia. Additional queries were incorporated in the LFS, and a separate Informal Sector Survey was created to include important items that the LFS questionnaire could not accommodate. Thus, while the Informal Sector Survey in Indonesia could stand alone and provide adequate data for a complete informal employment analysis, that in Bangladesh needed the LFS to effectively classify the employed population. This is because the essential items for identifying informal employment are spread in the two questionnaires. This strategy was applied to reconcile the project's objectives with the partner agency's goals.

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2 The HUEM module identifies the unincorporated household enterprises that have at least some market production. This module is used to develop the sampling frame of HUEMs from which a sample can be drawn to collect data on production, revenue, assets, and other aspects needed to calculate the contribution of the informal sector to gross domestic product.

During the pretest of the expanded LFS that included the informal employment and HUEM modules in Indonesia,[3] the interview time ranged from 9 to 31 minutes with an average of 18 minutes per household. The expanded LFS had 35 question items, each requiring an average of 30 seconds to answer.

The household expenditures section could be completed within 30 minutes, on average (times taken for the segment ranged from 23 to 37 minutes). Combining the employment and household expenditures sections, the interview was carried out in less than an hour (50 minutes), on average. The minimum interview period posted was 30 minutes and the maximum was 1 hour and 11 minutes.

3. Results

Analysis of the extent of social protection in the labor markets of Indonesia and the Philippines concentrated on the benefits received by wage workers,[4] defined as employees, both regular and casual, and/or all employment statuses except the self-employed, the employer, and unpaid family workers. The specific classification in Indonesia is that wage workers are employees, casual employees in agriculture, and casual employees in non-agriculture. The Philippines defines wage workers as people who work in private households, work for private establishments, work with pay in family operated business, and/or work for the government. Among these wage workers, people engaged in formal employment were distinguished from the informally employed ones, and their employment benefits were investigated and compared. This analysis was highly dependent on the informal employment decision matrixes that identify formal and informal employment (Appendix 2). The differences in trends in social protection within and between labor markets were also examined. The particular benefits examined were the social security or pension contributions of employers, paid leaves, sick leaves, maternity and paternity leaves, and the compensation received by workers on termination of employment.

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3 The interview duration in Armenia could not be recorded because the Integrated Living Conditions Survey had about seven modules, only two of which were relevant for the study. Recording the interview time for two modules that are not consecutively administered would disrupt the flow of the interview. The results from Bangladesh's pretesting of questionnaires were not yet available.

4 Maligalig, Cuevas, and Rosario (2009) defined wage workers to be paid irregular (i.e., unlawfully employed) workers; day laborers (i.e., workers paid daily, with no guarantee of continued employment); domestic workers; and apprentices. Chen, Jhabvala, and Lund (2001) identified informal wage workers to be employees of informal enterprises, domestic workers, casual workers without a fixed employer, home workers (also called "industrial outworkers"), temporary and part-time workers, and unregistered workers.

Analysis was also conducted per person, including consideration of the number of jobs held simultaneously. The people studied were wage workers. The status of the primary job determines whether the person was formally or informally employed, unless the primary job was unpaid, in which case the status of another job was considered.

Philippines

Among the total 33.5 million employed people in the Philippines in 2008, 18.2 million were identified as wage workers in their primary or second job or in both (Table 1). A large percentage of them—75.2%—worked in private establishments, and 15.5% worked in the government, 8.8% worked in private households, and 0.7% worked with pay in family businesses. This segmentation shows the very significant role that the private sector plays in employing wage workers in the country. Four-fifths of all government employees were formally employed, while two-thirds of the private sector workers were informally employed. Overall, three-fifths of all wage workers' employment was informal.

Informal workers working in informal enterprises comprised almost half of the total wage workers, at 46.4%, followed by formal workers in formal enterprises, at 31.5%, and informal workers in private households, at 8.6%. While some informal workers were employed by formal enterprises and some formal workers worked in informal ones, the shares were relatively small, at 8.1% and 5.2%, respectively. The lowest share of wage workers was formal employees working in private households, at 0.2%. These are typically formally employed domestic workers (Figure 1a).

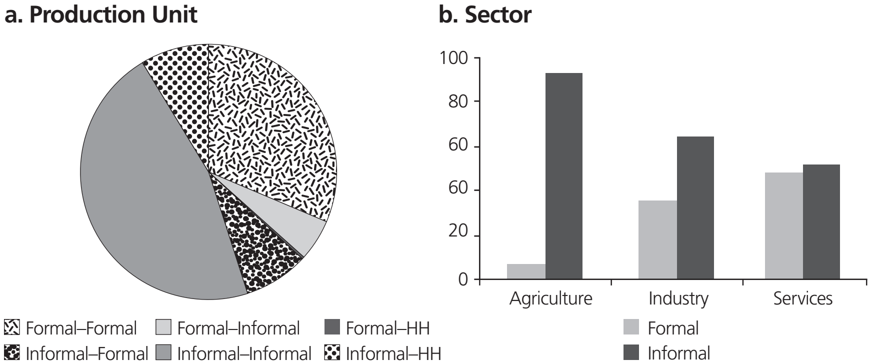
Table 1. Number of Wage Workers in Primary and/or Second Jobs: Philippines, 2008

	Number			Percent		
Wage Workers	**Formal**	**Informal**	**Total**	**Formal**	**Informal**	**Total**
In Private Households	35,974	1,558,297	1,594,271	2.3	97.7	100.0
In Private Establishments	4,442,916	9,216,971	13,659,886	32.5	67.5	100.0
In Government	2,210,757	561,090	2,771,847	79.8	20.2	100.0
With Pay in Family Business	7,131	120,330	127,460	5.6	94.4	100.0
Total	**6,696,777**	**11,456,687**	**18,153,464**	**36.9**	**63.1**	**100.0**

Source: Authors' computations based on the Philippine Informal Sector Survey of 2008 (NSO 2008).

Wage workers were generally employed in the services sector (57.7%), followed by industry (22.3%) and agriculture (20.0%). Employment was predominantly informal in all the sectors, especially in agriculture, at 93.1%. Gaps between formal and informal workers were narrower, with informal employment at 64.6% of employment in industry and 52.1% in services (Figure 1b). The narrow gap observed in services is mainly due practices in public administration, with 1.3 million formal and only 379,000 informal employees. Formal employment was also prevalent in finance, real estate, education, and health. The survey results confirm the notion that employment arrangements in agriculture are typically informal, specifically among wage workers. Therefore, trends in wage employment in agriculture are dictated by the patterns in informal employment.

Figure 1. Formal and Informal Wage Workers by Production Unit and Sector: Philippines, 2008



HH = households.
Source: Authors' computations based on the Philippine Informal Sector Survey of 2008 (NSO 2008).

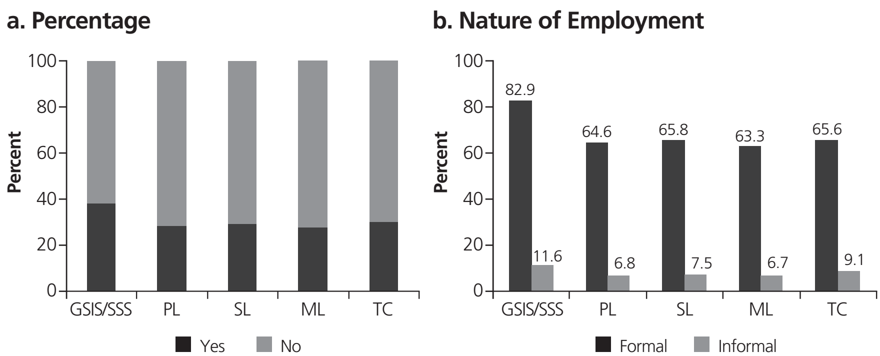
In general, less than half of the wage workers in the Philippines received employment benefits such as social security paid by the employer, paid leave, sick leave, maternity and/or paternity leave, and compensation on termination of employment. While 37.9% of wage workers had social security, only 30.0% had other benefits (Figure 2a). The results indicate that the other benefits, rather than being a norm in employment arrangements, may be considered the privilege of a few.

Figure 2b shows that formal employment provides better chances of having benefits. In 2008, 82.9% of the employers of formal workers contributed to their social security. The likelihood of receiving the other benefits was also higher among the formal workers than among those engaged informally. Although some informally employed workers also had benefits, their number was minimal, averaging 8.3%. Clearly, there was a wide discrepancy between the number of formal and informal workers receiving employment benefits.

The trends of benefits received by wage workers are consistent by type of benefit. Figure 3 shows the advantage of being employed by a formal enterprise, whether the engagement itself was formal or informal—formal enterprises provided more benefits to workers than did informal enterprises or households. Thus, while informal enterprises supplied the most employment of wage workers, at 51.6% (Figure 1), formal enterprises offered the better employment conditions. Among the five types of benefits analyzed, social security contribution, sick leave, and compensation on termination of employment were the types private households provided most often to their employees.

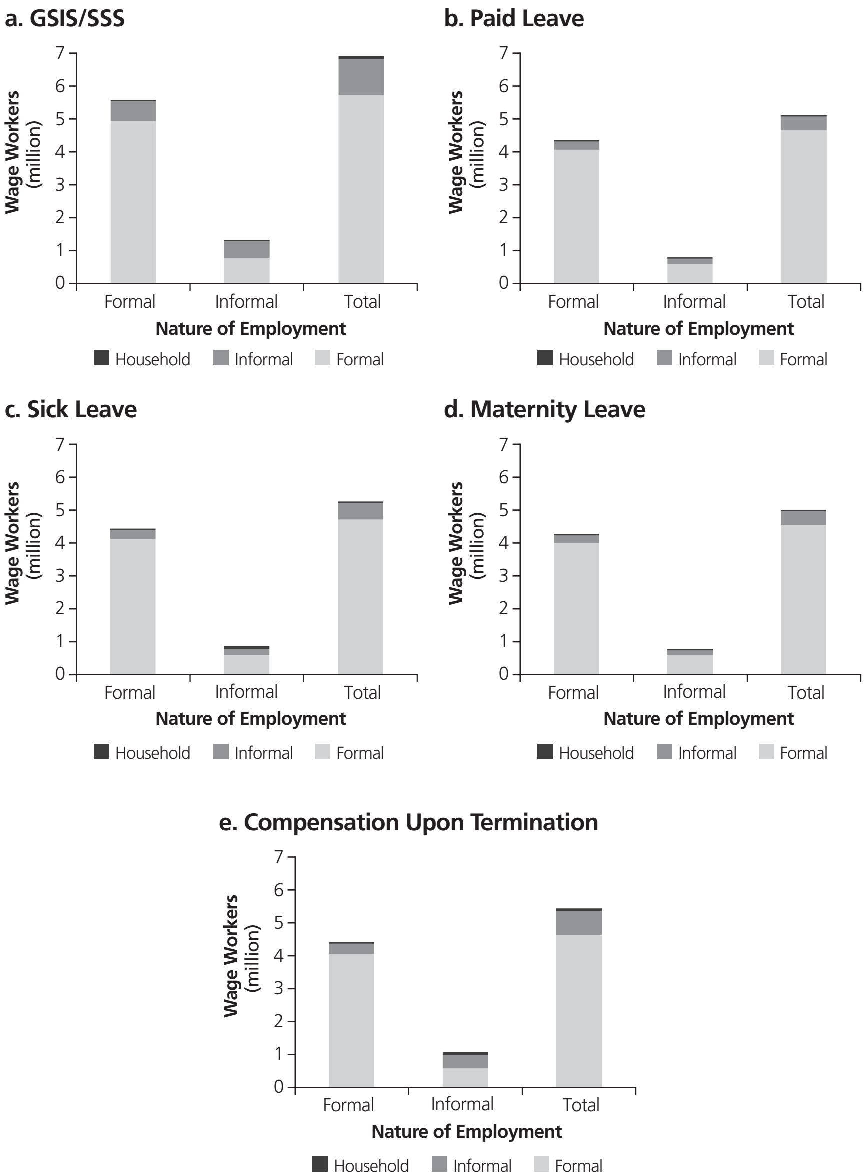
The results of the analysis of the two common replicates of the LFS and the Family Income and Expenditure Survey are presented in Figures 4 and 5. The linked LFS and Family Income and Expenditure Survey indicated that 27% of workers were poor in the first quarter of 2007, compared to the International Labour Organization's indirect estimate of about 21%. Disparities across regions, however, were significant: in the Autonomous Region of Muslim Mindanao, 55% of workers were poor; in the National Capital Region, only 5.6% were poor; and in Calabarzon and Region 3, about 17.5% were poor. Figure 5 shows that the working poor are primarily engaged in agriculture, fishing, and mining. The finance and education sectors have the fewest working poor.

Figure 2. Percentage of Wage Workers Receiving Benefits by Nature of Employment: Philippines, 2008



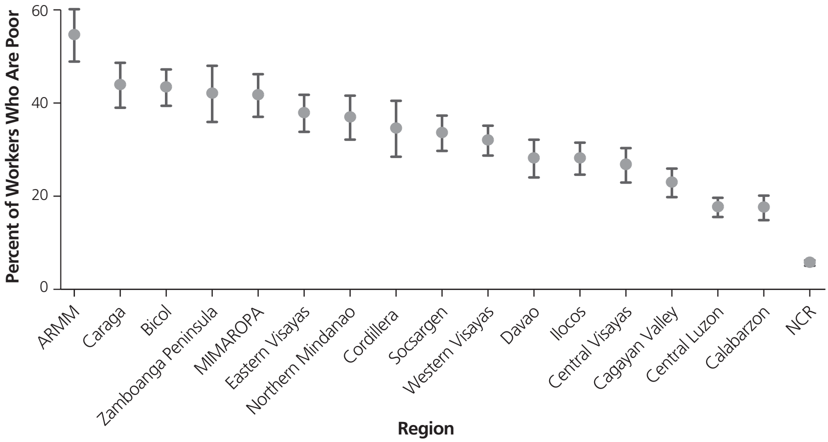
Notes: GSIS = Government Security Insurance Service; PL = paid leave; SL = sick leave; ML = maternity and/or paternity leave; SSS = Social Security Service; TC = compensation upon termination or severance pay.
Source: Authors' computations based on the Philippine Informal Sector Survey of 2008 (NSO 2008).

Figure 3. Distribution of Wage Workers with Benefits by Type of Benefit, Production Unit, and Nature of Employment



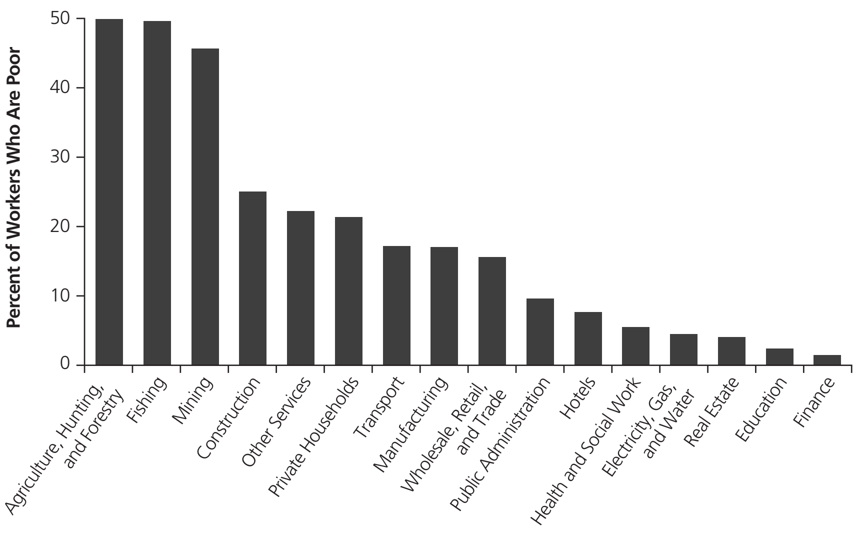
GSIS = Government Service Insurance System, SSS = Social Security System.
Source: Authors' computations based on the Philippine Informal Sector Survey of 2008 (NSO 2009).

Figure 4. Proportion of Working Poor by Region: First Quarter, 2007



ARMM = Autonomous Region of Muslim Mindanao; MIMAROPA = Region IV-B: Marinduque, Mindoro Occidental, Mindoro Oriental, Palawan, and Romblon provinces; NCR = National Capital Region.
Note: Each vertical line represents the 95% confidence interval of the proportion of working poor for a particular region and the dot represents the average.
Source: Authors' computations based on merged 2007 Labor Force Survey and 2006 Family Income and Expenditure Survey (NSO 2006, 2007).

Figure 5. Proportion of Working Poor by Sector: First Quarter, 2007



Source: Authors' computations based on merged 2007 Labor Force Survey and 2006 Family Income and Expenditure Survey (NSO 2006, 2007).

Indonesia

The Informal Sector Survey in Indonesia was conducted in only two provinces: Yogyakarta and Banten. For analytical purposes, the two areas are treated as separate labor markets and therefore are examined individually. Banten had a larger economy and contributed an average of 3.0% to Indonesia's gross domestic product (GDP), during 2004–2009. During the same period, Yogyakarta's share of total GDP was only 0.9%. Agriculture had a greater impact on the economy of Yogyakarta than on that of Banten. In 2009, agriculture's share of Yogyakarta's gross regional domestic product (GRDP) was 15.3%, compared with Banten's 8.4%. Similarly, government services contributed more in Yogyakarta (13.9% of GRDP) than in Banten (3.1%). Manufacturing was the chief industry in Banten, comprising 43.2% of GRDP, but only contributed 13.3% to Yogyakarta's economic output. This variation will have influenced labor demand in the two provinces; it also affected the labor conditions, such as the formality of employment and the extent of social protection.

Given the economic profiles, it is natural for Banten to have more employed people (3.8 million) than Yogyakarta (1.9 million). Of the total, Banten had 2.3 million people who were wage workers in one or more of their jobs, while Yogyakarta had 0.9 million (Table 2). Remarkably, 60.3% of the people employed in Banten were wage workers in one of their jobs, but only 45.0% were wage workers in Yogyakarta. This may have been due to the strong manufacturing sector in Banten, which generally operated with wage workers.

Yogyakarta recorded a higher incidence of informal employment, at 70.1%, than Banten, at 59.3%. The characteristics of informal employment were consistent in both labor markets; for example, casual employment, whether in agriculture or not, was predominantly informal. In addition, the bulk of formal employment was among the employees; hence, the trend in this employment status will dictate the overall pattern of informality among the wage workers.

In Yogyakarta, the services sector employed the highest share of its workers formally, at 55.3%. In Banten this figure was similar, at 46.2%, but industry also employed a high share of its workers formally, at 42.1%. Informal employment distinctly characterized almost all the wage workers in agriculture, at 98.9% in Yogyakarta and 94.7% in Banten (Figure 6a and 6b). The same pattern was observed in the Philippines, strengthening the link between informality of employment arrangements and the agriculture sector. It would be interesting to determine which of the two—the characteristics of the sector or the properties of informal employment—defines the relationship.

Table 2. Number of Wage Workers in Primary and/or Other Jobs: Yogyakarta and Banten, 2009

	Number			Percent		
Wage Workers	**Formal**	**Informal**	**Total**	**Formal**	**Informal**	**Total**
Yogyakarta						
Employee	252,835	393,610	646,445	39.1	60.9	100
Agricultural, Casual	628	48,363	48,991	1.3	98.7	100
Non-Agricultural, Casual	8,048	171,478	179,526	4.5	95.5	100
Total	**261,511**	**613,451**	**874,962**	**29.9**	**70.1**	**100**
Banten						
Employee	910,274	957,282	1,867,556	48.7	51.3	100
Agricultural, Casual	10,593	174,979	185,572	5.7	94.3	100
Non-Agricultural, Casual	6,238	220,574	226,812	2.8	97.2	100
Total	**927,105**	**1,352,835**	**2,279,940**	**40.7**	**59.3**	**100**

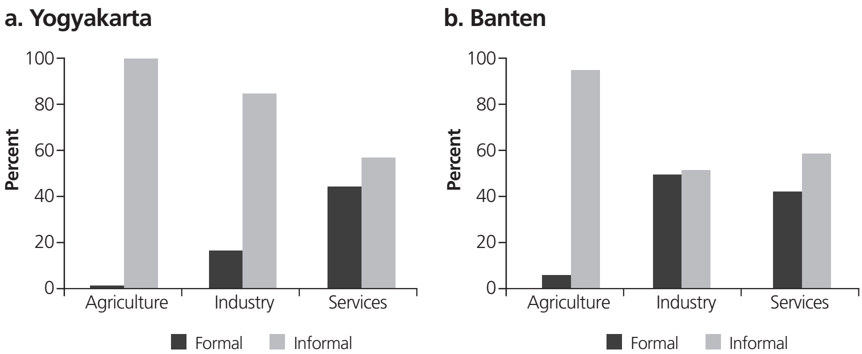
Source: Authors' computations based on the Indonesia Informal Sector Survey of 2009 (BPS 2009).

However, different employment trends in the industry were observed in the two provinces. In Yogyakarta, 83.7% of industry's employment was informal, whereas in Banten, only 50.7% was informal. This was chiefly due to the prevalence of formal workers (58.9%) in Banten's manufacturing, the primary economic contributor to the province's GRDP. Conversely, the incidence of formal employment in manufacturing in Yogyakarta was only 23.5%. Still, informal employment was more common than formal employment in both of the provinces' three main economic sectors, though to varying degrees.

The provinces revealed noteworthy employment trends by sector that merit attention for future analyses. Given the difference in the two provinces' economies, Figures 6a and 6b suggest that the variation influenced the nature of employment of wage workers.

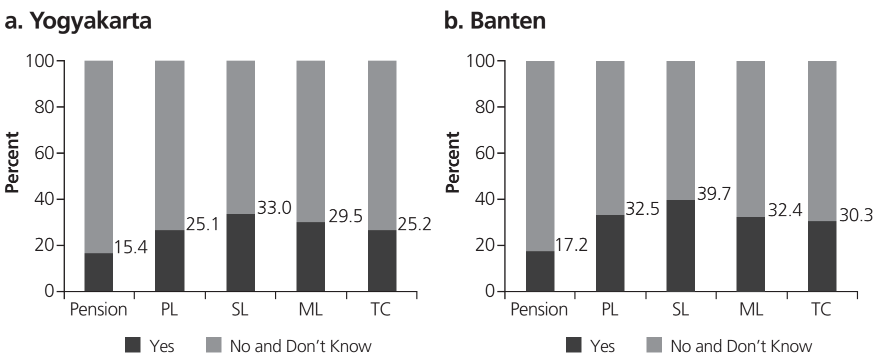
In both provinces, less than half of the wage workers received employment benefits. The highest percentage of workers with benefits, specifically that of sick leave, was recorded at 33.0% for Yogyakarta and 39.7% for Banten. Only 15.4% of wage workers in Yogyakarta received pension contributions from employers, and only 17.2% in Banten. Workers had a greater probability of receiving compensation on termination of employment than of their employer contributing to their pensions. While both provinces displayed the same trend, wage workers in Banten seemed to be better off, as they had a higher chance of receiving benefits than did those in Yogyakarta (Figure 7).

Figure 6. Formal and Informal Wage Workers by Sector: Yogyakarta and Banten, 2009



Source: Authors' computations based on the Indonesia Informal Sector Survey of 2009 (BPS 2009).

Figure 7. Percentage of Wage Workers Receiving Benefits: Yogyakarta and Banten, 2009

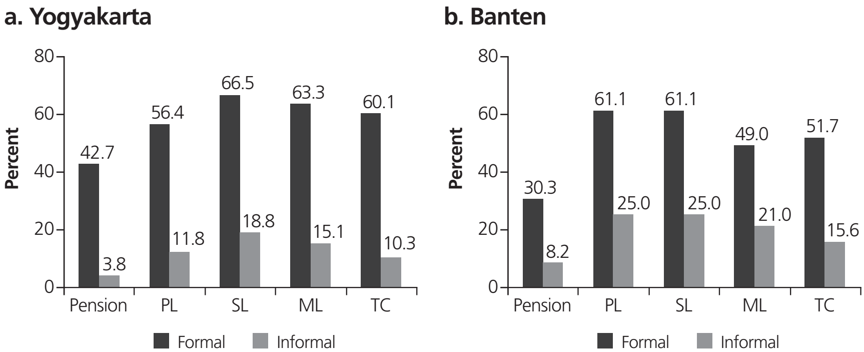


Notes: ML = maternity leave, PL = paid leave, SL = sick leave, TC = termination compensation.
Source: Authors' computations based on the Indonesia Informal Sector Survey of 2009 (BPS 2009).

As expected, the likelihood of a formal worker receiving benefits was greater than that of an informal worker. In general, more than half of the people engaged in formal employment had benefits; and this was true in both provinces (Figure 8). Comparative analysis of Yogyakarta's and Banten's trends introduced interesting ideas to consider. The proportions of formal workers with benefits were higher in Yogyakarta than in Banten, for all types of benefits analyzed, whereas the number of informal workers with benefits was at least 4 percentage points greater in Banten than in Yogyakarta. The widest gap was among the informal wage workers receiving paid leaves. This seems to imply that the larger number of wage workers with benefits in Banten than in Yogyakarta (Figure 9) was influenced by the informal employment conditions in the province.

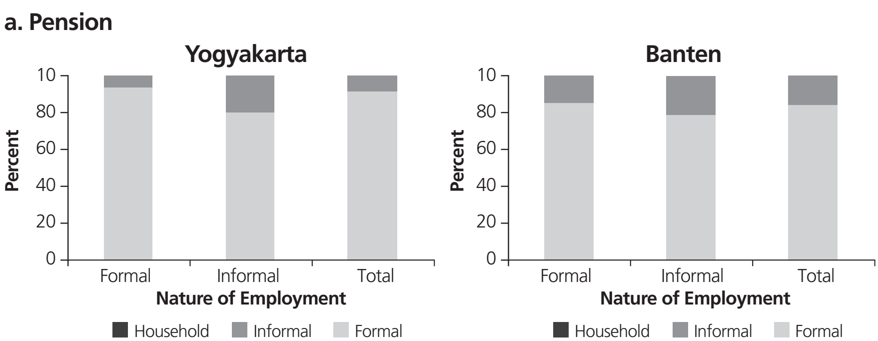
Why were the informal workers in Banten better off than those in Yogyakarta, in terms of benefits received? Figure 9 presents a possible reason. The distribution of formal workers with benefits across the three types of production units was the same in Banten and Yogyakarta. That is, more than 80% of the formal workers were employed by formal enterprises. However, the case was different in terms of informal employment. The informal workers who received benefits in Banten were generally employed by formal enterprises. This suggests an impact of the formal enterprises on the provision of benefits.

Figure 8. Percentage of Wage Workers Receiving Benefits by Nature of Employment: Yogyakarta and Banten, 2009



Notes: ML = maternity leave, PL = paid leave, SL = sick leave, TC = termination compensation.
Source: Authors' computations based on the Indonesia Informal Sector Survey of 2009 (BPS 2009).

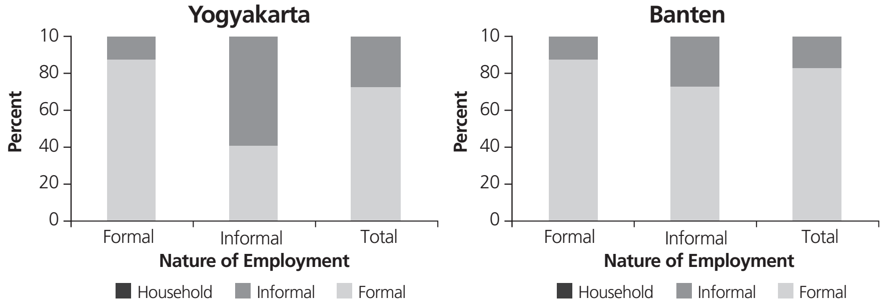
Figure 9. Distribution of Wage Workers with Benefits by Type of Benefit, Production Unit, and Nature of Employment: Yogyakarta and Banten, 2009



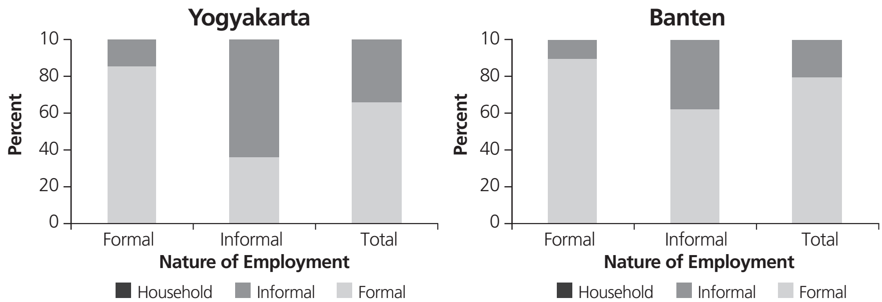
continued on next page

Figure 9. continuation

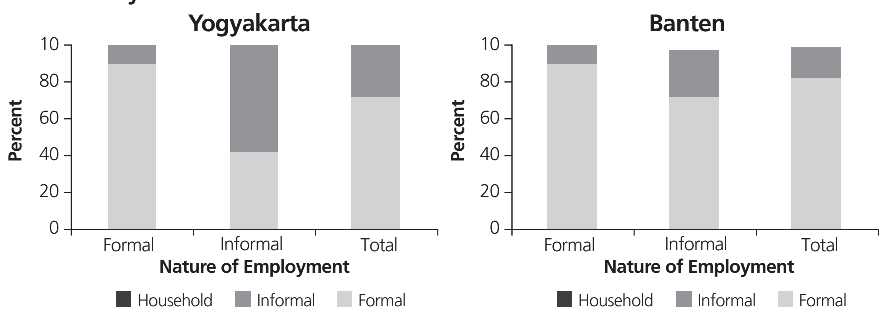
b. Paid Leave



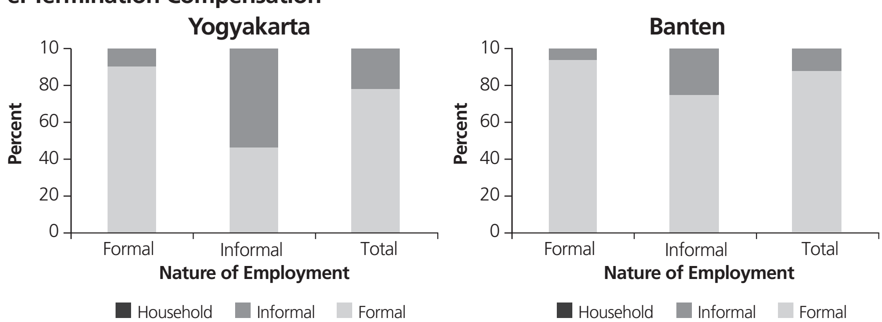
c. Sick Leave



d. Maternity Leave



e. Termination Compensation



Source: Authors' computations based on the Indonesia Informal Sector Survey of 2009 (BPS 2009).

4. Conclusions and Recommendations

When the informal employment module was incorporated into the regular LFS questionnaire, Indonesia and the Philippines were able to derive direct estimates of the prevalence of informal employment and the coverage of social protection mechanisms. Answers to an additional 8–10 questions administered, taking an additional 4–5 minutes on average, provided the information that 80.9% of jobs in the Philippines, 75.9% in Banten, and 89.1% in Yogyakarta were performed under informal arrangements. There is great disparity in the social protection mechanisms for formal and informal workers.

Data suggest linkages between the agriculture sector and informal employment, particularly in terms of wage workers. In the Philippines, 93.1% of total agricultural employment was informal in nature. Similarly, informal employment covered 98.9% of wage workers in agriculture in Yogyakarta and 94.7% in Banten. Moreover, of the total formal wage workers, only a minuscule percentage was in agriculture, compared with the significant representation of informal workers in the same sector. This was true in all three labor markets. These interesting points can be pursued to determine whether the characteristics of the sector or the properties of informal employment define the relationship.

In general, less than half of the wage workers in the Philippines, Yogyakarta, and Banten received employment benefits. Thus, instead of these benefits becoming a norm in employment arrangements, they may be considered a privilege of a few. Analyses showed (1) a wide discrepancy between the number of formal and informal workers receiving employment benefits, and (2) that formal employment provided better chances of receiving such benefits.

Examination by unit of production showed the advantage of being employed by a formal enterprise, regardless of whether the engagement was formal or informal—i.e., formal enterprises provide more benefits to workers than do informal enterprises or households. Thus, while most wage workers were employed in informal enterprises, formal enterprises offered the better employment conditions.

This conclusion is most evident in the comparative analysis of the survey results of Banten and Yogyakarta. While both provinces displayed the same trend, wage workers in Banten seemed to be better off and had a higher chance of receiving benefits than those in Yogyakarta. A likely reason is the higher percentage of formal enterprises in Banten that employed both formal and informal workers, than in Yogyakarta. While the distribution of formal workers with benefits across the three types of production units was the same in the two provinces, the difference was significant among those informally employed. Formal enterprises in Banten engaged more informal workers than was the case in Yogyakarta and this seems to have had an influence on the better social protection in Banten. The hypothesis is that employment of formal enterprises has an impact on the provision of benefits. Therefore, it would be interesting to further examine the relationships between the nature of employment, the type of enterprise, and the provision of benefits, and to determine the extent of their linkages.

The results cited here came from preliminary data analysis of the expanded LFS. More in-depth analysis could include identifying key determinants of informal employment, constructing profiles of the informal and formal workers, and determining who gets formal jobs.

National statistical systems should be convinced to institutionalize the informal employment module in their system of household surveys and should be supported to do so. As of mid-2010, about 19 countries in Asia were conducting regular LFS or household surveys with a labor and employment component. Only 1–2 of the countries had questions that could determine informal employment and the coverage of social protection mechanisms. Hence, a large data gap exists pertaining to determining informal employment and social protection statistics, and can be addressed by expanding the LFS with the informal employment module.

Employment poverty can be analyzed when both the labor and employment and Household Income and Expenditure Survey questionnaires are administered to a common set of sample households. Direct estimates of the working poor as well as their prevalence in sectors and subnational areas can be measured, and can provide solid data support for designing better program interventions and improving policy formulation.

Methodological studies are needed to determine how the informal employment modules can be better incorporated in the LFS and how the analysis of employment poverty can be accomplished with a shorter version of the Household Income and Expenditure Survey questionnaire. This could assist national statistical systems to produce reliable and timely statistics on informal employment and social protection.

Appendix 1. Assessment of Labor Force Surveys: Armenia, Bangladesh, Indonesia, and the Philippines

Proposed Questions	Purpose	Armenia LFS 2007 Questionnaire	Bangladesh LFS 2005–2006 Questionnaire	Indonesia LFS 2007 Questionnaire	Philippine LFS 2008 Questionnaire
Re. Employment Status or Class of Worker		Question 13. What is your employment status?	Question 4.12. What was your status in employment where you worked most of the time during the last week?	Question 10a. Main employment status during the previous week	Question 24. Class of Worker
Terms of Employment: Q: Are the terms of your employment covered by a written contract?	Conditions for identifying formal and informal employment	Question 13 (main job); Question 26 (second job); Question 54 (persons out of work). What is your employment status? (1) employee with a written agreement, (2) employee by oral agreement, (3) employer, (4) self-employed, (5) unpaid family worker, (6) production/consumer cooperative member, (7) others	Question 4.16. Did you receive any employment or contract letter from the employment where you worked or from which you were temporarily absent during the last week?	Not included	Not included
Record of Accounts: Q: How does the enterprise/business maintain its records or accounts?		Not included	4.22. Does the working unit or establishment keep written accounts of their transactions?		
For Employees: Q: Do you get a pay slip?	Condition for identifying formal and informal enterprise	Not included	Not included		

Proposed Questions	Purpose	Armenia LFS 2007 Questionnaire	Bangladesh LFS 2005–2006 Questionnaire	Indonesia LFS 2007 Questionnaire	Philippine LFS 2008 Questionnaire
Q: Does your employer pay contributions to the legalized pension fund for you?		Not included	Not included		
Q: Do you benefit from paid annual leave or holiday leave, or from compensation for it?					
Q: In case of incapacity to work due to health reasons, would you have paid sick leave?	Social Protection Mechanisms	Question 4 (main job). Why did you not work during the surveyed week (although you have a job or business)? (1) Annual or additional leave, (2) sickness, injury or nursing a family member, (3) paid leave on the initiative of administration/employer, (4) unpaid leave on the initiative of administration/employer, (5) maternity leave, (6) child-care leave (up to 3 years), (7) educational or professional training leave.	Question 4.20. What benefits are provided other than wages and salaries by the employer?	Not included	Not included
Q: In case of birth of a child, would you be given the opportunity to benefit from maternity leave?					
Q: Unless there is due cause, could your employment be terminated by your employer without advance notice?		Not included	Not included		

Source: Authors.

Appendix 2. Decision Matrix for Formal and/or Informal Employment

Table A2.1. Philippines: Wage Workers, Employees, and Unpaid Workers

Criterion	Employment Status	Contract
Informal Employment	Employee	Verbal contract
	Casual employee in agriculture	No contract
	Casual employee not in agriculture	
	Unpaid worker	
Formal Employment	Employee	Written contract
	Casual employee in agriculture	
	Casual employee not in agriculture	

Table A2.2. Indonesia: Wage Workers, Employees, and Unpaid Workers

Criterion	Class of Worker	Terms of Employment
Informal Employment	Work for private household	Verbal contract
	Work for private establishment/ corporation	
	Work for govt/govt corporation	No contract
	Work with pay in family-operated farm or business	
	Worked without pay on family-operated farm or business	
Formal Employment	Work for private household	Written contract
	Work for private establishment/ corporation	
	Work for govt/govt corporation	
	Work with pay in family-operated farm or business	

Table A2.3. Philippines: Self-Employed, Employer

Criterion	Class of Worker	Records of Accounts
Informal Employment	Own account worker	No written accounts
		Informal records for personal use
	Employer assisted by temporary workers/unpaid worker	Simplified accounting format for tax purposes
	Employer assisted by permanent workers	Others
Formal Employment	Own account worker	Detailed formal accounts
	Employer assisted by temporary/ unpaid worker	
	Employer assisted by permanent workers	

Table A2.4. Indonesia: Self-Employed, Employer in own Family-Operated Farm or Business

Criterion	Class of Worker	Records of Accounts
Informal Employment	Self-employed without paid employees	No written accounts
		Informal records for personal use
	Employer in own family-operated farm or business	Simplified accounting format for tax purposes
		Others
Formal Employment	Self-employed without paid employees	Detailed formal accounts
	Employer in own family operated farm or business	

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D. The Social Protection Index

Jonathan Wood*

1. Introduction and Context

For over 10 years, funding agencies and governments have been increasing their recognition that social protection is a vital component of national development and poverty reduction policies. This is demonstrated by the inclusion of social protection objectives and policies in many national development strategies and by the multiplicity of social protection programs currently operating in Asia and the Pacific. At the same time, multilateral agencies have adopted social protection strategies (ADB 2001, World Bank 2001) and bilateral agencies have also been active in promoting social protection interventions. Yet little information has been assembled on the quantitative aspects of social protection in Asia, either to assess the effectiveness of current programs, to monitor changes in the extent of social protection activities, or to enable cross-country comparisons.[1]

To address this situation, the Asian Development Bank (ADB) commissioned a pilot study in 2004 (ADB 2006; Baulch, Wood, and Weber 2006) with the following primary objectives:

- to describe social protection activities and compile statistical information on them in six countries: Bangladesh, Indonesia, Mongolia, Nepal, Pakistan, and Viet Nam;
- to derive statistical indicators of the provision of social protection in each country and hence develop a summary social protection index (SPI); and
- to generally raise awareness about the need for social protection policies and programs.

* The data and analysis presented in this paper was possible due to the invaluable contributions to the study provided by R. Baulch and A. Weber. Profound thanks are also due to the diligence and perseverance of national consultants working throughout Asia, without whom there would have been no information to analyze.

1 There are no comparable studies of the quantitative aspects of social protection in Asia. Cook (2009) provides an excellent review of social protection programs in several countries but contains little quantitative data.

Following the successful completion of this study, ADB commissioned a second study (Baulch, Weber, and Wood 2008[2]). Its primary objective was to replicate the previous study's methodology in 25 more Asian and Pacific countries[3] to enable the calculation of SPIs and the creation of a database of social protection programs for the region. As a result of this research, a database of about 860 social protection programs has been created and the SPI has been computed for 31 Asian and Pacific countries.

This paper aims to provide a non-technical summary of the methodology, findings, and potential uses of the SPI. The paper starts with the definition of social protection used in the study and then describes how the SPI is formulated. Next, the paper describes some key results and ways in which this information can be used by national and international policy makers. The paper's concluding section includes the recommendation that, while the SPI methodology could be refined, the emphasis should be on developing a mechanism for periodically updating its constituent data.

2. Defining Social Protection

The definition of social protection adopted for this study was formulated through intensive discussions involving the consultancy team and country workshops attended by the international team, local consultants, and ADB experts. The starting point in the process was ADB's definition of social protection. This definition had to be narrowed so that (1) social protection activities were defined so as to be clearly distinguishable from activities more usually associated with other sectors, such as health, education, and community development; (2) quantifiable data could be collected that could then be transformed into an SPI; (3) national definitions of social welfare and social protection could be reflected in the definition; and (4) the data collection task was feasible within the resources available to the study. Following considerable discussion during the first study, the definition of social protection adopted is

> "the set of policies and programs that enable vulnerable groups to prevent, reduce, and/or cope with risks, and that
>
> - are targeted at the vulnerable groups;
> - involve cash or in-kind transfers; and
> - are not activities that are usually associated with other sectors, such as rural development, basic infrastructure, health, and education."

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2 Detailed discussions and descriptions of the methodology and results can be found in the two cited ADB publications. In addition, the study produced a summary of country reports and a series of 24 country reports (Halcrow 2007a, 2007b).

3 Armenia, Azerbaijan, Bhutan, Cambodia, the People's Republic of China, Cook Islands, Fiji Islands, India, Japan, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Malaysia, Maldives, Marshall Islands, Nauru, Papua New Guinea, the Philippines, the Republic of Korea, Sri Lanka, Tajikistan, Tonga, Tuvalu, Uzbekistan, and Vanuatu.

This definition has the practical advantage of allowing the quantification of the social protection transfers, whether in cash or kind, that accrue to vulnerable groups. The definition also accords with most national perceptions that social protection consists primarily of activities related to labor markets, social insurance, social assistance, and child protection. Broader definitions of social protection exist.[4] It was however essential to draw a clear distinction between social protection and more general growth promotion, poverty reduction, and social development programs such as mainstream vocational training, basic nutrition, health, and educational services; and community development. If this had not been done, the SPI could have been dominated by projects and activities falling outside most current definitions of social protection, thereby making it harder to assess the provision of these "traditional" social protection activities.

Table 1 lists the types of programs that are considered to fall within the study's definition and have therefore been incorporated into the calculations for the SPI. This is a generic list—some programs will not exist in some countries and some countries have qualifying programs not found elsewhere.

Social protection activities whose costs and impacts are not amenable to quantification (e.g., legislation relating to labor standards, women's and children's rights, or consciousness raising and empowerment projects and programs) are excluded for this very reason. Conversely, again following considerable discussion, microcredit and microfinance programs have been included when they are targeted at the poor or are associated with microinsurance schemes. The reasons are (1) their importance in several Asian countries; and (2) it was considered inconsistent to exclude these programs while including loan programs designed to spur job creation by targeting small and medium-sized enterprises—which are explicitly included in ADB's definition of social protection activities.

3. Formulation of the Social Protection Index

3.1. Overall Methodology

This section summarizes the methodology used to construct the ADB SPI. The methodology evolved during the pilot study from substantial discussions between team members (international specialists and national consultants in each country), social protection experts from ADB, and representatives from the International Labour Organization (ILO) and governments.

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4 Baulch, Wood, and Weber (2006) and Devereux and Sabates-Wheeler (2007) discuss other definitions of social protection.

Table 1. Generic Social Protection Programs included in Calculating the Social Protection Index

Social Protection Component and Program	Comments
Labor Market Programs	
Direct Employment Generation through Public Works Programs	Including food for work programs
Direct Employment Generation through Loan-Based Programs	Included if loans are subsidized or job creation is an explicit objective of the program
Labor Exchanges	
Unemployment Benefits	Included if distinct from social insurance and including retrenchment programs
Skills Development and Training	Included if targeted at particular groups, e.g., the unemployed, or disadvantaged children; general vocational training programs are excluded
Social Insurance Programs	
Programs to Cover Risks Associated with Unemployment, Sickness, Maternity, Disability, Industrial Injury, and Old Age	
Social Assistance and Welfare Programs	
Welfare and Social Services Targeted at the Sick, Poor, Orphans, Disabled, and Other Vulnerable Groups	
Subsidized Health Treatment Costs	
Cash and In-Kind Transfers (e.g., food stamps, food aid)	
Targeted Subsidies for Utilities and Staple Food	Included only if imposed in times of crisis and if targeted at particular vulnerable groups; general subsidies are excluded
Fee Exemptions	Included when targeted at the poor and vulnerable, e.g., land tax
Micro and Area-Based Schemes	
Microcredit and/or Microfinance Schemes	Included only if targeted at poor households; mainstream rural credit schemes are excluded
Microinsurance Schemes	Excluding programs that only provide life insurance and savings schemes
Agricultural Insurance	
Child Protection	
Family Allowances (e.g., in-kind or cash transfers to assist families with young children to meet part of their basic needs)	Excluding any transfers through the tax system
Education Assistance (e.g., scholarships, fee waivers)	Including school feeding programs, subsidized/free textbooks, or uniforms
Health Assistance (e.g., reduced fees for vulnerable groups)	Usually included under social assistance unless targeted specifically at children
Street Children Initiatives and Youth Programs	

Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

The SPI is a summary measurement tool that systematically and consistently quantifies national-level social protection activities in Asian and Pacific countries. The SPI is developed from four social protection summary indicators (SPSIs), each representing a different facet of a country's social protection activities—cost, coverage, poverty targeting, and impact on incomes. The SPSIs are then scaled and weighted to produce the SPI. The methodology adopted represents a delicate balancing of theoretical considerations with the desire to produce an index that is based on accessible information, is easy to construct and interpret, and produces results that can be used by policy makers.

3.2. The Social Protection Summary Indicators

The four SPSIs have been designed to summarize very different aspects of social protection—expenditure (SPEXP), coverage (SPCOV), distribution (SPDIST), and impact on expenditures (SPIMP). There is also a symmetry in the selection of these indicators (Table 2). The first two relate to social protection activities in general (SPEXP and SPCOV) while the last two (SPDIST and SPIMP) are designed to capture the inclusion and impact of social protection programs on the poor. Likewise, SPEXP and SPIMP are related to expenditure while SPCOV and SPDIST relate to coverage.

Table 2. The Social Protection Summary Indicators

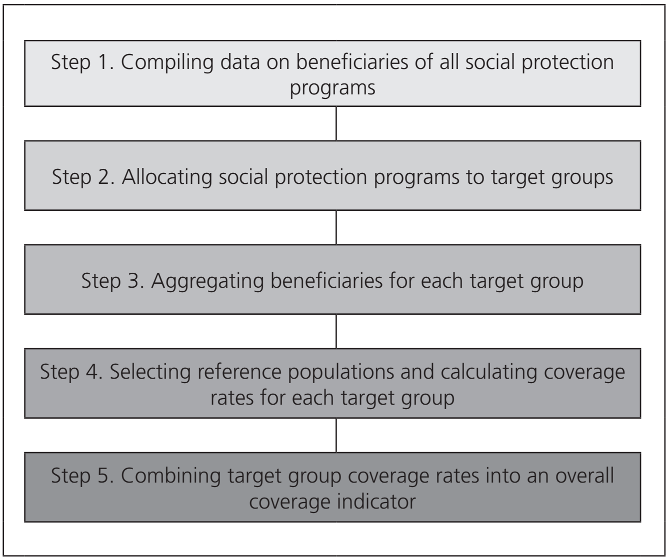
	Variable	
Targeting	**Expenditure**	**Coverage**
General	SPEXP	SPCOV
Pro-Poor	SPIMP	SPDIST

SPCOV = social protection coverage, SPDIST = social protection distribution, SPEXP = social protection expenditure, SPIMP = social protection impact.
Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

Social Protection Expenditure (SPEXP). The expenditure indicator simply shows what percentage of a country's gross domestic product (GDP) is spent on social protection activities, whether implemented by government, quasi-government, or nongovernment organizations, or private sector agencies. Although relatively easy to calculate, SPEXP provides little information on the demand for social protection as it gives no indication of the extent to which key vulnerable groups (e.g., the elderly, the disabled, and the poor) are receiving social protection benefits and the adequacy of these benefits.

Social Protection Coverage (SPCOV). SPCOV shows the extent to which different social protection programs reach their target populations, and is broadly defined as the percentage of the target population that is receiving some social protection. SPCOV is a weighted average of the coverage rates for seven key target groups of social protection programs—the unemployed, the underemployed, the elderly, the sick, the poor, the disabled, and children with special needs. Figure 1 shows the steps needed to derive SPCOV.

Figure 1. Derivation of Social Protection Coverage



Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

The reference populations used to calculate the SPCOV are shown in Table 3. These are designed to approximate as far as possible the target population for each category of social protection program in order to provide coverage ratios that are both comparable across countries and meaningful to national policy makers.

The seven target group coverage ratios were then combined into an overall coverage indicator using a combination of the unweighted and weighted (by the size of the reference population) target group coverage ratios. This is considered reasonable because it reflects the need to take account of the different sizes of the reference populations while also giving an increased weight to programs targeted at the groups with smaller reference populations.

Table 3. SPCOV Reference Populations

Program Category: Target Group	Reference Population
Labor Market Programs	Unemployed + underemployed
Assistance to the Elderly	Population 60+ years
Healthcare Assistance	Total population
The Poor—Social Assistance	Poor population*
The Poor—Microcredit	Poor population
Assistance to the Disabled	The disabled population
Child Protection	Poor children, 5–14 years**

Notes: * The "poor population" is defined according to the official national poverty line. ** Poor children are defined in this age group because the majority of applicable programs involved education assistance, especially for primary and lower secondary schooling.
Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

Social Protection Distribution (SPDIST). The third SPSI measures the distribution effect of a country's social protection programs, in particular the extent to which they reach the poor. SPDIST is defined as the percentage of the poor in each country[5] that receive some social protection transfers or other social protection benefits. It is calculated by estimating poverty targeting rates (PTRs), defined as the percentage of poor to total beneficiaries, for each program. PTRs were obtained from household income and expenditure surveys, program evaluation reports, discussions with program implementers, and professional judgment. The number of poor beneficiaries was then obtained by applying PTRs to the total program beneficiaries.

The main difficulty in calculating SPDIST is the extent to which poor people receive benefits from more than one program (e.g., pension plus health cost exemptions, or free textbooks plus food for work). Where possible, the overlap rates were obtained from household income and expenditure survey information. A procedure was developed assuming that the overlap rate for any social protection program will be equal to the additional percentage of the poor covered by the program plus the cumulative coverage of the poor population by all previously considered programs. This procedure gives an estimate of the number of net poor beneficiaries from each program. These are then summed and divided by the poor population to give a "best" estimate of SPDIST.

5 Assessed based on national poverty lines derived from generally comparable methodologies based on the cost of a minimum needs food basket with an allowance for essential non-food expenditure.

Impact on Expenditures (SPIMP). SPDIST provides an indication of the extent to which social protection programs reach the poor. However it gives little indication of the effectiveness of the interventions, i.e., what impact they have on the income and expenditure of the poor. This is a crucial issue given that the overarching goal of ADB and other multilateral and bilateral funding agencies is poverty reduction. Accordingly, SPIMP, the fourth SPSI, was formulated based on the amount of social protection expenditure going to the poor. This was obtained by applying the PTRs obtained for SPDIST to the total expenditure on each social protection program instead of the number of beneficiaries. The expenditure going to the poor for each program was then summed and divided by the poverty line to obtain SPIMP.

3.3. The Derivation of the Social Protection Index

Having calculated the four summary indicators of social protection for each country, the indicators must be scaled, weighted, and aggregated to produce the overall SPI. Figure 2 provides a diagrammatic overview of the steps involved in constructing the SPI.

Scaling. Scaling is necessary because, although each indicator is expressed in percentages, the indicators' denominators and therefore ranges differ. After considering alternative scaling methods, the maximum value scaling method was adopted as it produces scaled values for the SPSIs that are simple to understand (they always vary between 0 and 1) and provide a direct comparison against the maximum achieved by any country in the data set. In this method, the SPSI value for each country is divided by the maximum value for this indicator across all countries in the data set.[6] As maximum values of 100% were applied to all SPSIs except SPEXP, this was the only SPSI for which the scaled value differed from the calculated value. Minimum values were all set at 0.

Weighting and Aggregation. The four SPSIs then had to be weighted and aggregated to produce the SPI. Carrying out Delphi exercises generated weights that were little different from those that one would get with equal weighting. The overall SPI was therefore obtained by summing the SPSI scaled values and dividing by four. This approach has the advantage of replicating the weighting approach used to calculate Human Development Index (HDI) values.

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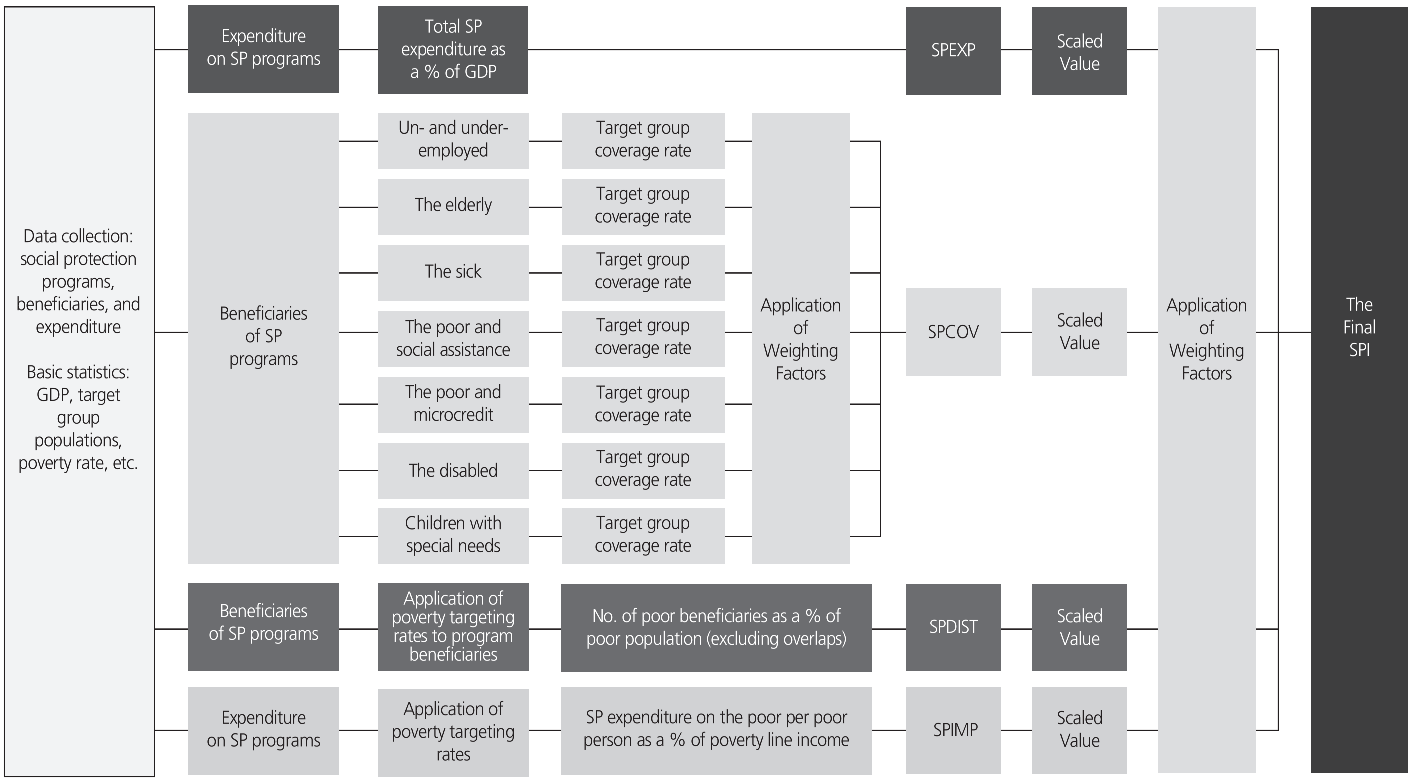
6 This approach to scaling approximates that used for the Human Development Index (HDI) developed by the United Nations.

Figure 2. Derivation of the Social Protection Index



GDP = gross domestic product, SP = social protection, SPCOV = social protection coverage, SPDIST = social protection distribution, SPEXP = social protection expenditure, SPIMP = social protection impact.
Sources: Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

3.4. Data Requirements, Sources, and Compilation

The data requirements for calculating the SPI are summarized in Table 4, which lists the numerators and denominators for the four SPSIs.

Table 4. Data Requirements

SPSI	Numerator	Denominator
SPEXP	Total expenditure on all social protection programs	Nominal gross domestic product
SPCOV	Beneficiaries of social protection programs targeted at key target groups	Reference populations for the 7 categories of social protection programs
SPDIST	Number of social protection beneficiaries who are poor	Poor population
SPIMP	Average social protection expenditure for each poor person	Poverty line

SPCOV = social protection coverage, SPDIST = social protection distribution, SPEXP = social protection expenditure, SPIMP = social protection impact, SPSI = social protection summary indicator.
Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

The denominators are obtainable relatively easily from published sources (e.g., national statistical abstracts, poverty studies, and labor force and other survey data). However, in most countries, information on social protection expenditure and beneficiaries (i.e., the numerators) was not readily available from published sources. Thus, this information had to be obtained from the bottom up by collecting data on the beneficiaries and expenditures for each qualifying social protection program directly from the numerous public, quasi-public, and nongovernment organizations implementing the programs. Pro-formas and checklists were prepared to facilitate the task.

This information was then entered into a series of linked spreadsheets, which automated many of the calculations and facilitated aggregation, double-checking, and sensitivity testing by national and international team members alike, in order to produce the SPSIs and the final SPI.

4. Overview of Social Protection in Asia

Table 5 provides SPSI values for the 31 Asian and Pacific countries. The data presented relate to 2004/05 for all countries except Indonesia for which only 2002/03 information was available, and Azerbaijan, for which 2005/06 data are used.

Table 5. Social Protection Summary Indicator Values by Region and Human Development Index Group

Region	Number of Countries	SPI Indicator	HDI Group***	Number of Countries	SPI Indicator
		SPEXP			**SPEXP**
Central Asia	7	6.8%	High	5 (4)*	6.5% (7.8%)*
South Asia	7	3.1%	High medium	11	4.4%
East Asia	9	4.8%	Low medium	6	6.8%
Pacific	8	4.5%	All Medium	17	5.2%
			Low	9	3.0%
Asia	**31**	**4.8%**	**Asia**	**31**	**4.8%**
		SPCOV			**SPCOV**
Central Asia	7	50%	High	5	55% (66%)*
South Asia	7	23%	High medium**	11	39%
East Asia	9	43%	Low medium**	6	36%
Pacific	8	22%	Low**	9	17%
Asia	**31**	**35%**	**Asia**	**31**	**35%**
		SPDIST			**SPDIST**
Central Asia	7	75%	High	5	73% (89%)*
South Asia	7	55%	High medium	11	66%
East Asia	9	64%	Low medium	6	56%
Pacific	8	35%	Low	9	38%
Asia	**31**	**57%**	**Asia**	**31**	**57%**
		SPIMP			**SPIMP**
Central Asia	7	33%	High	5	46% (57%)*
South Asia	7	15%	High medium	11	23%
East Asia	9	32%	Low medium	6	23%
Pacific	8	11%	Low	9	9%
Asia	**31**	**23%**	**Asia**	**31**	**23%**

HDI = Human Development Index, SPCOV = social protection coverage, SPDIST = social protection distribution, SPEXP = social protection expenditure, SPI = social protection index, SPIMP = social protection impact.
Notes: * Excluding Tonga. ** Excluding Japan and the Republic of Korea. *** No Asian countries are in the United Nation's "Low" HDI development category. Thus, except for countries in the "High" development group, all are "Medium" development nations. Countries identified as "Low" development in the table therefore have the lowest HDI values from the "Medium" development group.
Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

Based on the total the information compiled for this study, several conclusions can be made about the current level of social protection in Asia and the Pacific.

The SPI and GDP. On average, Asian and Pacific countries spend just under 5% of their GDP on social protection and achieve an overall average coverage level of 35% of the seven key target groups. The average proportion of the poor (using national poverty lines) who receive some social protection benefits is 57%, implying that the majority of Asia's poor receive some social protection. Per capita social protection expenditure (SPIMP) on the poor, however, averages less than 25% of the poverty line (the median is substantially lower at 17%). Thus, social protection expenditure brings only limited benefits to most recipients. Exceptions are Japan, the Republic of Korea, and the central Asian countries that have been able to maintain much of the comprehensive social protection systems developed during the Soviet era.

These averages mask substantial variations. Table 6 shows the SPI values obtained when the SPSIs are combined. At the top end of the scale are two distinct groups of countries. First, Japan and the Republic of Korea, by virtue of their status as developed high-income countries, achieve the highest values on most of the SPSIs. Second, the Central Asian countries (including Mongolia) have generally maintained high levels of social protection. Variations between South and East Asian countries (excluding Japan and the Republic of Korea) are, however, less pronounced. The indicators for the Pacific countries are lower than those for the other regions, except for expenditure as a percentage of GDP (which approximates the Asia average). This may be due to the fact that, in several Pacific countries, poverty reduction is not seen as a major government priority. Some of the Pacific island countries do have higher values, e.g., the Cook Islands, Marshall Islands, and Nauru; however, these nations are all highly dependent on aid.

Table 6. Country Social Protection Index Values

Above Average		Average*		Below Average	
Japan	0.96	Nauru	0.42	Philippines	0.20
Korea, Rep. of	0.76	Viet Nam	0.38	Lao PDR	0.19
Kyrgyz Republic	0.62	Malaysia	0.36	Nepal	0.19
Mongolia	0.60	Marshall Islands	0.34	Cambodia	0.19
Uzbekistan	0.57	Armenia	0.34	Bhutan	0.17
Cook Islands	0.55	Bangladesh	0.34	Fiji Islands	0.15
Kazakhstan	0.54	Indonesia	0.33	Tonga	0.08
Azerbaijan	0.53	Tajikistan	0.33	Vanuatu	0.08
Sri Lanka	0.47	Tuvalu	0.30	Pakistan	0.07
India	0.46	Maldives	0.30	Papua New Guinea	0.01
China, People's Rep. of	0.45				

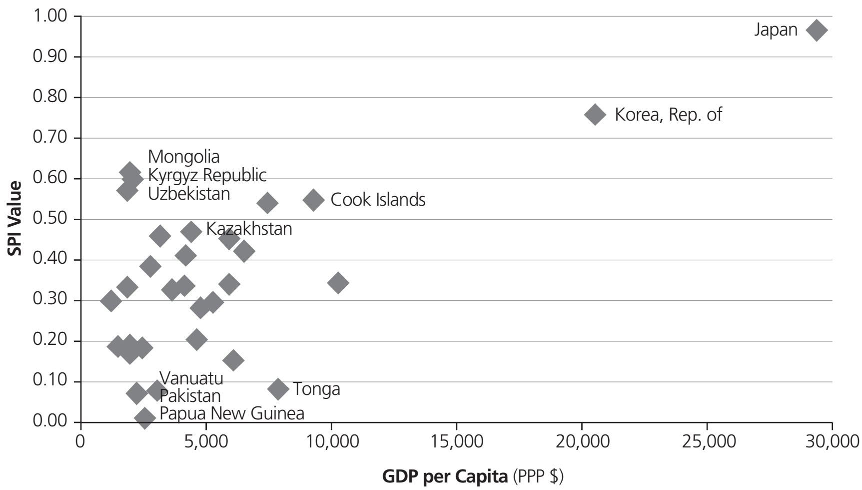
Lao PDR = Lao People's Democratic Republic.
* Within 2 standard errors of the mean.
Dark grey indicates high development, light grey indicates medium development, no shading indicates low development.
Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

Coverage. In most Asian and Pacific countries, the majority of expenditure on social protection is provided through formal social insurance systems. This is just as likely to be the case in rich as in poor countries. It can therefore reflect either a well-developed social insurance system with high coverage (e.g., the Republic of Korea and some Central Asian countries) or countries with social insurance systems that are largely confined to the formal sector (e.g., civil servants and the military) and are of little relevance to the poor (e.g., Pakistan and Papua New Guinea). Countries with below-average proportions of expenditure on social insurance tend to be those with less developed social insurance systems but with substantial other social protection expenditures. Examples are Bangladesh, Bhutan, Cambodia, and the Lao People's Democratic Republic (all of which have substantial microcredit programs); Nauru (redundancy payments for former phosphate workers); and Tajikistan (extensive social assistance programs).

In contrast to social insurance schemes, the programs that provide the greatest coverage of and benefits to the poor are the targeted programs: education assistance, subsidized healthcare, food for work programs, and microcredit and microfinance schemes, which are a very important component of social protection in countries with such diverse characteristics as Bangladesh, the Kyrgyz Republic, the Lao People's Democratic Republic, the Philippines, and Tuvalu. Conversely, formal means-tested social assistance programs involving direct cash handouts are rarely important and are usually targeted only at the poorest and the most vulnerable. Coverage levels for the seven key target groups vary widely both within and between countries, with the highest ratios tending to be for poor children (education assistance programs), social assistance to the poor, and the elderly (pensions and targeted health and social welfare schemes).

Figure 3 shows a positive association between the SPI and GDP per capita (in dollars, purchasing power parity). The general relationship is as one would expect: higher levels of development are associated with increased social protection activities, as (1) higher GDP enables greater expenditure on social protection, and/or (2) better education and health indicators permit governments to devote more attention to social protection issues. Yet in both cases, there is substantial variation in SPIs for countries with similar HDI or GDP per capita values This variation is most marked for countries with per capita incomes of $2,000–$3,000, where SPI values range from less than 0.1 for Pakistan and Papua New Guinea to more than 0.55 for the Kyrgyz Republic and Uzbekistan. This suggests that the individual country level of social protection provision is driven by factors other than just their relative incomes. By extension, the implication is that countries can, irrespective of the level of GDP per capita, provide a degree (and often a significant degree) of social protection to their vulnerable populations.

Figure 3. Country SPI and GDP per Capita (2004 PPP $)



GDP = gross domestic product, PPP = purchasing power parity, SPI = Social Protection Index.
Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

A generally similar pattern is observed when SPI and HDI rankings are compared: 14 countries (almost half) have similar or identical SPI and HDI rankings and 6 have rankings that differ by 4–9 places. Table 7 lists the countries that have large differences between their SPI and HDI rankings and likely reasons for these differences.

Pro-Poor Targeting. The analysis included examining the pro-poor targeting of social protection expenditure: the proportion of total social protection expenditure that goes to the poor expressed as a ratio of the national poverty rate.[7] If this ratio, tentatively named the social protection poverty expenditure ratio (SPPER), is greater than 1, it denotes a degree of pro-poor targeting; if it is less than 1, it means that social protection expenditure is being disproportionately spent on the not poor population. Hence the SPPER has direct policy implications.

The Asia-wide average SPPER value is 1.1, indicating a small overall degree of pro-poor targeting of social protection expenditure. But the range is wide, from 2.7 in the Cook Islands to 0.3 in the Marshall Islands and Tuvalu. Central Asian countries all exhibit high ratios, as they do for all the SPSIs. Cook Islands, Japan, and the Republic of Korea do well because of comprehensive social protection systems, while Bangladesh,

7 This indicator was developed during the second study and thus could not be considered for inclusion in the formulation of the SPI because there was no consultative mechanism to make this possible.

Bhutan, and Cambodia have important microcredit and microfinance programs that reach significant proportions of the poor. Reasons for low SPPER values include the dominance of social protection expenditure by formal social insurance schemes, which do not provide cover for the poor; the absence of major social assistance programs targeted at the poor; and the existence of targeted programs that provide little in the way of benefits.

Also of interest are the very low correlation coefficients between SPPER and the HDI ($r = 0.14$) and GDP per capita ($r = 0.18$). This implies that pro-poor targeting of social protection expenditure can be attained by governments with very different levels of wealth, poverty, and social development and thus corroborates the previous conclusion that even poor countries have substantial potential to improve their levels of social protection and increase their pro-poor targeting.

Table 7. Countries with Divergent SPI and HDI Rankings

Country	SPI Rank	HDI Rank	Diff.	Possible Reason(s)
Countries with Much Higher SPI than HDI Rankings				
Mongolia	4	18	–14	Comprehensive social protection system partly remains from Soviet era
Kyrgyz Republic	3	16	–13	
Nauru	12	25	–13	Impoverished island state highly dependent on international aid, where social protection is a major component of survival
Uzbekistan	5	17	–12	Comprehensive social protection system partly remains from Soviet era
India	10	22	–12	Major targeted social protection programs
Bangladesh	17	29	–12	High level of microcredit provision
Countries with Much Higher HDI than SPI Rankings				
Malaysia	14	4	10	Comprehensive health and education systems; absence of major pro-poor targeted programs; formal social insurance only covers formal and public sectors
Vanuatu	29	19	10	Very low level of social provision
Philippines	22	9	13	Little in the way of major pro-poor targeted programs; social insurance system for formal sector only
Fiji Islands	27	10	17	Very low level of social provision
Tonga	28	3	25	Very low level of social provision. HDI value also seems high

Diff. = difference, HDI = Human Development Index, SPI = Social Protection Index.
Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

5. Uses and Applications of the SPI and the SPSIs

5.1. General

The SPI and the SPSIs provide a valuable and relatively simple tool that can act as the starting point for more detailed diagnostic analysis of national social protection provision. Table 8 summarizes some examples of the potential uses.

Information of value to national and international policy makers is provided by each of the four levels of analysis shown. The analysis should proceed downward through the information provided in this study, i.e., the reverse of the way in which it was compiled. This approach essentially mirrors the use of the HDI or the Millennium Development Goals (MDGs), the examination of which is only a prelude to a more detailed analysis of a country's human development situation.

For international agencies, the prime uses of the SPI and the SPSIs will be first to identify and examine Asia-wide trends in social protection provision and its characteristics, and second to inform policy dialogues with individual countries designed to increase donor assistance for social protection. For national governments, the information in the SPI, SPSI, and associated country reports provides a starting point for more detailed investigations of social protection activities and the design of measures to improve the overall level of provision. Some examples of these potential uses are presented in the following section.

Table 8. Potential Uses of the SPI and its Constituent Information

Level of Analysis	Value to Policy Makers	Possible Uses
SPI	Relative social protection provision; changes over time	Policies to improve SP provision; targeting of countries for assistance; demonstration of effectiveness of new (or extended) SP programs
SPSIs	Aspects of SP that are above and below average	Where to concentrate more detailed investigations
Distribution of SP Expenditure, Target Group Coverage Ratios	Categories of SP where expenditure is lagging; target groups where coverage is particularly low	Increased SP provision to and expenditure on target groups with below average coverage ratios
SP Programs (using information from the country reports)	Targeting of programs; average benefits; extent of coverage, etc.	Reviews of the effectiveness and targeting of existing programs

SP = social protection, SPI = Social Protection Index, SPSI = social protection summary indicator.
Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

5.2. Using the National SPIs

A national SPI can provide an indication of the strategic priorities for social protection. In countries with high SPIs, where by definition social protection provision is relatively good, priorities for assistance could be improving the efficiency, functioning, and targeting of the current social protection system rather than developing new programs. Conversely, in countries with low SPIs, which tend to be the poorest, priorities are more likely to consist of developing new, affordable social protection programs with higher coverage and greater targeting of the poor.

Policy implications can also be generated for countries with substantial differences between SPI and HDI rankings. In countries where SPI values are substantially higher than HDI rankings, resources may be limited so the priority would be to improve the efficiency and targeting of existing social protection programs and assess the sustainability of the current level of social protection. And countries that have a much higher HDI than SPI rank, by virtue of good HDI values, could be receptive to thorough performance reviews of their social protection system, leading to the formulation of new social protection programs or the extension of existing ones.

Monitoring Social Protection Provision over Time. One of the study's objectives was to enable the monitoring of changes in social protection provision over time. A concrete example of this is provided by the changes that have occurred in some of the countries in the 2–3 years after the original study. These changes, summarized in Table 9, show that improvements in social protection provision (i.e., higher SPI and SPSI values) occurred in all five countries but were especially substantial in Bangladesh, Mongolia, and Viet Nam. These increases in social protection have been achieved by a combination of extending the coverage of existing programs, increasing the benefits from the programs, and introducing new ones. The extent of the changes confirms that governments in Asia are increasingly recognizing the importance of social protection.

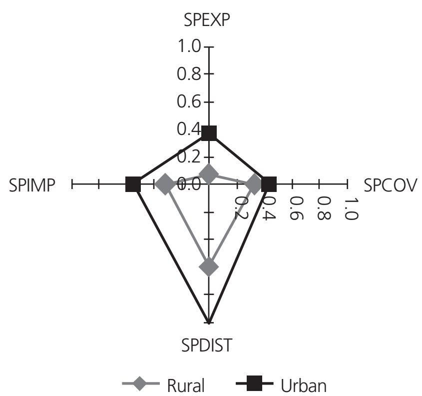
Variations in Subnational Social Protection. Separate calculations were made for urban and rural areas. This is particularly relevant for the People's Republic of China (PRC), given the widespread concern over urban–rural inequalities. The separation proved relatively simple as virtually all the PRC's major social protection programs are focused on either rural or urban areas, not both. The results are presented in Figure 4, which shows significantly better social protection provision in urban than in rural areas in terms of all four SPSIs. The rankings implied by the rural and urban SPSIs indicate the extent of the differences: the urban SPSI would rank the PRC 5th among all Asian countries but the rural ranking would make it 17th, i.e., in the lower half of the distribution.

Table 9. Changes in Social Protection Index and Summary Indicator Values, Selected Countries

	Bangladesh	Mongolia	Nepal	Pakistan	Viet Nam
SPI: 2002/03	0.19	0.49	0.16	0.06	0.28
SPI: 2004/05	0.33	0.60	0.19	0.07	0.38
Change	0.14	0.11	0.03	0.01	0.10
% Change	70%	22%	19%	17%	38%
SP Expenditure	Increased share of MCF	Substantial increase for CWSN	Increase in food for work schemes	Little change	Increased share of MCF
SP Coverage	Substantial increase for most groups	Now, very high coverage of CWSN	Increases in coverage of the poor, children, and unemployed	Little change	Increased coverage of MCF, health insurance, and social assistance schemes for the poor
SP Coverage of the Poor (SPDIST)	Large increase	Substantial increase	Some increase	Small increase	Substantial increase
Impact on Incomes (SPIMP)	Substantial increase	Substantial increase	Little or no increase	Little or no increase	Small increase

CWSN = children with special needs, MCF = microcredit and microfinance, SP = social protection, SPDIST = social protection distribution, SPI = social protection index, SPIMP = social protection impact, SPSI = social protection summary indicator.
Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

Figure 4. The People's Republic of China: Star Charts of Urban and Rural Social Protection Summary Indicators



SPCOV = social protection coverage, SPDIST = social protection distribution, SPEXP = social protection expenditure, SPIMP = social protection impact.
Sources: Derived from Baulch, Wood, and Weber (2006); Baulch, Weber, and Wood (2008).

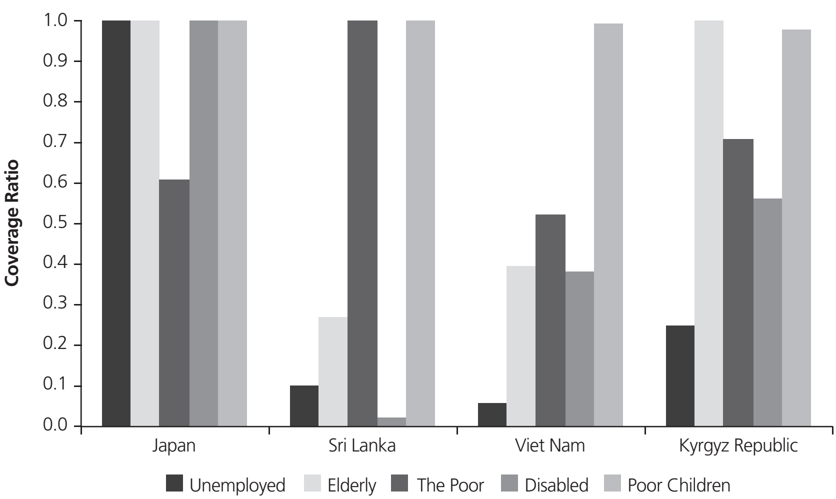
The extension of social protection to rural areas is of relatively recent origin. Schemes are being developed, pilot tested, and extended all the time. All the PRC indicators would have been substantially lower only a few years ago and are probably significantly higher now than when the study was carried out. Again, this demonstrates the value of the methodology for monitoring the impact of changes in the PRC social protection system over time.

Disaggregating the SPSIs. Figure 5 provides an example of how the components of the expenditure and coverage SPSIs (SPEXP and SPCOV) can be analyzed. The figure shows the variation in target group coverage ratios for four countries, and hence the strengths and weaknesses of social protection coverage in each country, thereby providing an indication of where efforts to improve social protection coverage could be focused.

Thus, a potential issue of concern in Japan would be the low coverage ratio for the poor while in Sri Lanka it would be the low coverage for the elderly and the disabled. Concern for the elderly is also likely to be an issue in the Kyrgyz Republic and Viet Nam. In all four countries, coverage of poor children is high, implying that an evaluation of the provision for this group should concentrate on the effectiveness and impact of the assistance provided.

Examining Individual Social Protection Programs for their Poverty Impact. The data in the country reports and in the overall database provide estimates of the extent

Figure 5. Target Group Coverage Ratios for Selected Countries



Sources: Derived from (Baulch, Wood, and Weber 2006; Baulch, Weber, and Wood 2008).

to which each social protection program reaches the poor and the extent of benefits it brings. This information can be used to assess the overall effectiveness of the program and whether emphasis should be given to expanding the program's coverage (if coverage is low), improving its targeting (if there is substantial leakage), or increasing the benefits it provides (if these currently have little impact on incomes).

6. Conclusions

Advantages of the SPI–SPSI Methodology. This paper summarizes the methodology and results of a major study designed to provide an understanding of the social protection systems currently operating in Asia and the Pacific based on quantitative data. The SPI, the SPSIs, and the associated database of social protection programs now cover 31 Asian and Pacific countries and thus provide an important addition to the previously limited statistical information on social protection in the region. Together with the individual country reports, the data have served to raise awareness of the importance of social protection as a crucial component of national poverty reduction strategies and can provide the basis for the further monitoring of the social protection component of these strategies as well as of individual social protection programs. The updating exercise for countries forming part of the original study has also shown how these changes can be monitored over time without excessive expenditure.[8] That such monitoring is important is evidenced by the rapid expansion of social protection activities in countries such as Azerbaijan and the PRC.

The SPI as currently formulated is considered to be generally robust; easy to interpret; and, above all, useful for policy purposes. Thus, the correlations between the SPSIs, and between the SPI and the SPSIs, are all strong but not so high as to render any of the four indicators redundant. These correlations are also comparable to those between the HDI and its component indicators. Allied to the SPI's constituent SPSIs and the social protection program database, the information can be used by international agencies and national governments to enhance their social protection activities. Several examples have been provided to show how this can be done.

For international agencies, the prime uses of the SPI and SPSIs will be to examine international trends in social protection provision, prioritize their social protection activities, and inform policy dialogues with individual countries designed to increase donor assistance on social protection.

[8] National consultants, concentrating on the major social protection programs, were able to produce short updating reports with a total input of no more than 2–3 person-weeks per country.

For national governments, the information in this paper and the country reports that have been prepared will provide a starting point for more detailed investigations of social protection activities and the design of measures to improve the overall level of provision. It can do this by helping to identify the main strengths and weaknesses of the current social protection system, e.g., which vulnerable groups receive the greatest benefit from these programs and which benefit the least, and which programs generate the most social protection expenditure on the poor and which provide the least.

As with any analysis of summary indicators, interpretation issues will arise: countries can have similar SPI values but very different patterns of social protection provision; high coverage indicators can coexist with low levels of benefits provided; low poverty targeting may be due to social assistance programs explicitly targeting the severe or extremely poor rather than all those who live below the poverty line; and identical SPI and SPSI values can reflect very different patterns of social protection. In addition, the overall level of social protection will, to some extent, reflect different national development priorities, e.g., improving physical and social infrastructure to poor rural and urban communities. Where such issues arise, the country reports should have the necessary information to resolve them. In this study, apparent anomalies in the SPSIs were found, on examination, to reflect actual characteristics of social protection in that country rather than vagaries in the calculation methodology.

Arguably, however, the most important findings are the substantial variation in SPI and SPSI values for countries with similar income levels and the lack of correlation between the pro-poor targeting of social protection expenditure and both HDI and GDP per capita. What this means is that even poorer and less-developed countries (e.g., Bangladesh and the Kyrgyz Republic) can provide significant social protection given the political will to do so.

The bottom line is that social protection is likely to become even more firmly established as a component of poverty reduction strategies in the future and that these activities need to be regularly monitored and evaluated. This requires quantitative information that addresses issues of coverage in general and for the poor in particular, as well as the impact of social protection on household incomes. In this context, the SPI–SPSI methodology provides a generally robust and relatively simple basis for evaluating and monitoring individual social protection programs, subsectors of social protection, national social protection provision, or cross-country comparisons, whether as single-year snapshots or over time.

Enhancements. The methodology as formulated could be improved and several issues merit further consideration.

- For health coverage, the SPI methodology expressly excludes basic health expenditure but includes health schemes targeted at vulnerable groups as well as insurance schemes. This creates an inconsistency where countries (e.g., Malaysia) have comprehensive services provided free at point of service, which would obviate the need for additional measures. Yet few of ADB's developing member countries provide such comprehensive services, as is evidenced by the importance, and burden, of out-of-pocket health expenditures (Van Doorslaer et al. 2005). As ADB's initiatives will be focused on its developing member countries, the emphasis should be on programs that seek to improve access to healthcare for the poor.

- The formulation of the coverage indicator (SPCOV), which proved to be the hardest of the indicators to define, needs reviewing.
- The SPPER indicator should be incorporated into the formulation of the SPI.
- Given that financing will be needed to update the information and that this is always likely to be in short supply, the procedure could be simplified by (1) focusing on the major targeted programs that bring direct benefits in cash or kind to the poor and vulnerable; (2) omitting microcredit and microfinance programs that are loan-based, which are sometimes seen as a type of intervention not directly linked to social protection and are subject to intense study in their own right; and/or (3) excluding small business loan programs and employment services not involving transfers in cash or kind.

There is also the issue of aggregation. At a minimum, the performance of individual programs needs to be monitored in terms of expenditure, coverage, distribution (poverty targeting), and impact on incomes. Some aggregation is essential so that an overall picture of a country's social protection activities can be obtained (and in a consistent manner); the SPSIs provide a sound approach in this respect. Comments have been received about whether a composite index should be created or whether the SPSIs should remain uncombined: while the creation of a summary SPI inevitably involves issues of judgment and validity, summary indicators are invaluable for providing cross-country comparisons and monitoring over time (e.g., the HDI). Arguably also, the MDG initiative could be enhanced if a composite MDG indicator were available. The point is that any composite indicator can only provide the starting point for more detailed analysis. And if having a composite indicator raises the profile of social protection, it is surely advantageous.

Updating the SPI. On balance, and over 2 years since the study was completed, with the exception of the SPPER indicator, no need for other major improvements to the SPI methodology has become evident. Nor has the methodology been superseded by more recent work—a recent World Bank study (Weigand and Grosh 2008) only looked at expenditure and one for the Ford Foundation was essentially qualitative (Cook 2009). Instead, the priority should be to establish a process for periodically updating data for the major, targeted social protection programs in each country. While this will require creating an overall coordinating secretariat to prepare consolidated reports and provide guidance to the people charged with updating the data in each country, the actual updating is not a particularly onerous task. Furthermore, the task could be considerably facilitated if basic information on the programs is obtained whenever national household surveys are carried out and program implementers introduce more effective annual reporting systems.

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PART IX

Closing and Linking with Recent Experience

A. Closing Remarks

Vice-President Ursula Schaefer-Preuss
Knowledge Management and Sustainable Development
Asian Development Bank

I would like to thank all of you for your inputs on how to move forward in this very important area of social protection. Let me also thank those who are not here, who have participated and contributed, so to speak, by remote control. We have received very good proposals, ideas, and suggestions regarding how the Asian Development Bank (ADB) should move on.

We have a lot to digest, and we will think about it—not only think about it, but as Isabel Ortiz said, act soon because we all know how urgent it is to initiate concrete steps. Social protection is in fact part of our development agenda.

Let me, at the outset, go back to what Executive Secretary Noleen Heyzer provided in her very inspiring and agenda-setting keynote address yesterday morning. She made reference to the "development divide," and pointed out that the prevailing inequalities in Asia and the Pacific are the result of social, economic, cultural, and political structures that place populations at risk. And in her conclusion, she stated—and I fully share her views—that stronger social protection has the potential to be a powerful tool for achieving not only the Millennium Development Goals, but also for bridging the divide and ensuring sustainable and inclusive development. Let us really build on that.

In the many good papers that have been presented, I have found seven important elements of why social protection matters, and in what Professor Bloom and the team have put together in their presentation. Let me go back to the seven elements: the ethical imperative, the compliance of domestic and international laws, a boost to economic growth, reduction of inequality and increased political stability, widening and deepening of financial markets, automatic stabilization, and gender equity. I think these elements are very important for the social protection agenda.

From the various country presentations, it was quite clear that social protection policies and programs can only function properly when there is "ownership" by all stakeholders involved, and when there is a political will to have these programs not only established, but also funded and implemented. We have heard that from all the participants, in particular the presentations of the honorable representatives from Cambodia, India, Mongolia, and the Philippines in the special session we had this morning.

I think we can all agree that social protection is an urgent agenda. Crisis has been transformed into opportunities, looking back in the last 2 years. But we really need to avoid complacency and quick fixes. Some of the programs have been put together rather fast, and had some positive, short-term impacts—but then the question is how sustainable have they been, or will they be?

I would like to emphasize that it is quite evident that social protection policies need to be developed on a country-specific basis. There is no one solution fit for all; solutions have to be tailored to the particular context. And there is much that we can continue to share across countries. Cooperation, for example, could include developing tools to assess what has worked and not worked in social protection; educating and informing opinion formers on the value of social protection, so that they will give it higher priority; and building government capacities to develop and apply social protection measures.

I can assure you that ADB will continue to work actively in this area, seek partnerships, and continue our partnerships with increasing quality, to capitalize on synergies and to maximize impact. Inclusive growth is a strategic agenda for ADB, and it cannot be achieved without social protection.

In that context I would like to refer to the very interesting three spheres approach presented by Professor Bloom, which really gives a lot of food for thought to combine value, capacity, and support. On such grounds, we really can work.

Let me once again thank all of you for having contributed to this conference, which has been very valuable in informing ADB's work in social protection. Thanks to everybody, individuals, and organizations, with a special word of thanks to the United Nations Children's Fund (UNICEF) for the substantial contribution.

We will follow up on the many important short-term and longer term proposals. Let us continue our dialogue in the very constructive and harmonious spirit with which we have been working together in the last 2 days.

With this, I would like to close the conference, and wish you all a safe journey home. Thank you very much.

B. Social Protection in Asia: The Latest Thinking and Policy Contours

Babken V. Babajanian

The term "social protection" entered the mainstream development agenda in the late 1990s and has become an inseparable part of the global development discourse. Social protection can be broadly defined as a set of policies and programs aimed at reducing poverty and vulnerability. Within the last decade, there have been significant developments in both the thinking and practice of social protection. Some scholars have portrayed the emergence of the social protection agenda as a "quiet revolution" (Barrientos and Hulme 2008). How far-reaching are social protection reforms in Asia? Is there evidence that the region's minimalist and fragmented social protection schemes are expanding? To what extent are the social protection reforms a "panic measure" in response to the Asian financial crisis of 1997–1998 and catastrophic events, rather than endeavors to build sustainable institutional systems? It is important to assess the place and role of the recent developments in social protection in the region's national policy arenas.

An up-to-date, comprehensive picture of social protection in Asia is difficult to draw. First, social protection is hard to capture as it cannot be confined to a single sector, unlike other areas of public policy, such as health or education. In particular, social protection encompasses interventions that provide protection to individuals in various circumstances, such as poverty, unemployment, and ill health as well at various stages of the life cycle, such as childhood, childbearing, and old age. The institutions for designing and delivering these interventions are different and located within various policy subsectors. Thus "social protection" in a country represents a composite of various institutions, policies, programs, and projects, supported by a variety of actors, including governments, nongovernment organizations, and "donor" agencies. Second, there is a great deal of experimentation and innovation across countries and many reforms and small-scale programs may not have been captured by research or received global visibility. Yet these initiatives are instrumental in shaping the direction of national social protection reforms in specific countries as well as in influencing national development agendas supported by funding agencies. Third, the discourse and practice of social protection is constantly evolving as it often follows policy developments and builds on the evidence learned from pilot tests and small-scale, innovative programs. Social protection may not always be represented in a consolidated fashion in policy and programmatic documents.

The papers included in this volume offer up-to-date information on and analysis of social protection in Asia. They contain lessons learned, policy issues, and challenges in the design and delivery of social protection in the region, with particular attention to key policy areas, including social assistance, pensions, social health insurance, and microinsurance. The papers have been written by policy makers, development professionals, and scholars who are immediately involved in social protection in Asia and thus present a valuable insight into the latest policy and conceptual developments.

This article provides an overview of social protection within the last decade in Asia. Drawing on the conference papers and other sources, it depicts the developments in the thinking and practice of social protection in the region and discusses their implications for the development of social protection systems to support the poor and vulnerable.

1. Framework for Analyzing Social Protection

An analytical framework is needed for assessing the level of development of social protection in a country. To be considered effective, social protection interventions must cover most of the poor and vulnerable people, and offer adequate support to help the target populations manage livelihood risks. The Asian Development Bank (ADB) Social Protection Index measures four facets of a country's social protection activities, including expenditure, coverage, poverty targeting, and impact on incomes (see Wood, pp. 505–27). At the same time, the assessment of social protection must not just rely on quantifiable indicators, but must also incorporate institutional analysis. In particular, it is important to assess social protection as a "system"—institutions and policies that are aimed at promoting human well-being (Babajanian 2008). A system of social protection consists of institutions, i.e., administrative structures that design, finance, implement, and monitor activities. It is underpinned by laws and regulations that establish the rights and responsibilities of citizens and the state, and define eligibility for social entitlements. For example, in the countries of Central Asia and the South Caucasus, the institutional foundations for social protection were laid out by the socialist welfare system. Although they have been significantly eroded since the collapse of the socialist economy, they nevertheless provide a solid foundation for subsequent expansion of social protection (Babajanian 2008). Thus, despite their limited expenditures and poverty reduction impact, social protection in these countries is more institutionally advanced than in most countries in Asia.

One can distinguish three stages in the development of social protection systems. The first stage includes recognition of the importance of social protection and emergence of new institutions and policies. This stage includes policy and institutional reforms, introduction of regulatory changes, and establishment of administrative and financing structures and arrangements. Also in the first stage, new programs and initiatives may be introduced to provide support to the population such as, for example, the adoption of cash transfer schemes in the People's Republic of China (PRC), Indonesia, Mongolia, Nepal, Pakistan, and the Philippines, as well as social pensions in Bangladesh, Nepal, Thailand, and Viet Nam.

The second stage involves expansion and enhancement of existing institutions and policies to extend coverage to the majority of the vulnerable populations and provide adequate protection to tackle chronic poverty and vulnerability. This stage involves ensuring fiscal sustainability; increasing expenditures; and improving efficiency, delivery, targeting, and monitoring of the existing programs. For example, many countries in Asia, including the PRC, India, Indonesia, the Philippines, and Viet Nam, have undertaken reforms to extend social insurance coverage to the workers in the informal sector.

The third stage can be defined as consolidation of existing institutions and policies. It includes harmonization of all relevant laws and regulations and coordination of the existing projects and programs to ensure their consistency and complementarity. This process is currently under way in Cambodia, Indonesia, and Nepal.

The three stages may occur simultaneously. For example, Indonesia is currently expanding its social protection programs (e.g., seeking to achieve universal coverage of the Community Health Guarantee [Jamkesmas] program by 2013) as well as consolidating its policies, programs, and structures into a comprehensive system (Bender and Rompel 2010).

Mainstreaming the social protection agenda fundamentally depends on the political economy context. Often reforms are negotiated between a range of actors, including national governments, civil society organizations, community groups, trade unions, and external financiers. Based on his experience with ADB support for pension reforms in Asia, Van der Auwera (2006) identifies three phases for undertaking successful reforms: commitment building, coalition building, and implementation. He maintains that the starting point for a successful reform is a debate that crystallizes the reform concept. The next stage involves building coalitions in support of the reforms. The presence of a "champion" to manage the political process is especially crucial at this stage. This stage completes with dissemination of the concept and development of a special legislative proposal. The stage of implementation starts with the passage of the legislation. A number of contributors to this book maintain that political will and strong government commitment determined the success of introducing social insurance in the PRC, Thailand, and Mongolia (Hu and Schmitt-Diabete; Tsilaajav, Bodart, and Dorj; and Bayarsaikhan). Verhey (pp. 332–42) maintains that pilot testing the child grant in Nepal was a result of discussions between political parties. And of course the success of establishing, expanding, and consolidating social protection is largely determined by the existing institutional capacity to design, finance, implement, and monitor policies and programs.

2. Evolving Concepts and Thinking

In the last decade, there have been considerable developments in the institutional arrangements and policies for social protection in Asia. Many countries in the region undertook reforms with the objective to develop new institutions and policies and strengthen the existing systems of social protection. These structural changes were facilitated and in some cases followed by a change in the way governments and donors conceptualize social protection. In particular, there has been a shift from viewing social protection as a "safety net"[1]—a residual and crisis-driven measure to "counteract policy failures or developmental disasters" (Mkandawire 2001: 1)—to understanding social protection as an investment, an entitlement, and an empowering tool for supporting both the poor and non-poor. Social protection is seen not simply as an ad hoc and temporary remedy, but as a policy instrument with a clear rationale grounded in economic considerations and political, rights-based notions. These policy and conceptual developments present the potential for further enhancement of social protection in Asia.

2.1. Social Protection and the Vulnerability Framework

The "vulnerability framework" has expanded the function of social protection as a proactive, preventive tool. The Asian financial crisis of 1997–1998 contributed to the change in the conceptualization and understanding of social protection in the region because the crisis revealed the need to "put safety nets in place as an ex ante measure before a crisis rather than as an ex post response" (Kabeer 2009a: 3). Most donor definitions of social protection are currently associated with the need to

[1] Many scholars of social policy use "safety nets" as an ideologically charged term to characterize residual state involvement in social protection, which was prescribed by the structural adjustment policies of the 1980s and early 1990s. Many developing countries (for example Bangladesh, Cambodia, and Indonesia) use safety nets as a neutral term to refer to social protection activities aimed at tackling chronic poverty and targeted at the poor.

reduce vulnerability and livelihood risks faced by individuals (Norton, Conway, and Foster 2001). Some of the main causes of risks include crop failure, illness, accidents, job loss, disability, loss of the breadwinner, or simply age and inability to work. The exposure to risk can strain individual and collective economic resources, social capital, and coping strategies and can diminish livelihood security. For example, Ravallion (2009) argues that many of the 1 billion individuals in Asia who joined the middle class during 1990–2005 could easily fall back into poverty under the impact of crises. The World Bank's Social Risk Management Framework was instrumental in offering a conceptual framework for broadening the function of social protection. It defines social protection as actions that seek to prevent and mitigate risk and help people cope with shock (Holzmann, Sherburne-Benz, and Tesliuc 2003). Similarly, ADB's 2001 Social Protection Strategy defines social protection as policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risk, and enhancing their capacity to protect themselves against hazards and interruptions or loss of income (ADB 2003).

The vulnerability concept is being increasingly used in national discourses on poverty. The 2003 Poverty Reduction Strategy Paper of Pakistan was guided by the notion of vulnerability and introduced a greater nuance in the definition of "poverty bands," which include the extremely poor, chronically poor, transitory poor, transitory vulnerable, transitory non-poor, and non-poor (PRSPS 2003). The 2010 National Social Protection Strategy of Cambodia uses the notion of vulnerability to distinguish social protection for the chronically poor from measures required to support individuals who are not poor, but are vulnerable to livelihoods shocks (Chanphal, pp. 291–306). A review of national poverty reduction strategy papers in Asia and Africa found that most of them featured vulnerability in the definitions of poverty and identification of target populations, but recommended more effective integration of the analysis of underlying causes of vulnerability and livelihood contexts (SEI 2008).

The focus on vulnerability in the conceptualization and definitions of social protection has important policy implications. It implies that social protection is now seen as a policy tool not only for poverty relief, but also for poverty prevention. Alcock (2006) differentiates poverty relief and poverty prevention functions of social protection. He identifies poverty relief as a reactive measure that seeks to support individuals to escape poverty or to relieve their experience of poverty. Poverty prevention attributes a more proactive role to social protection. It implies the need to identify circumstances where there is a significant risk of poverty (for example, old age or disability) and to provide support to all individuals in those circumstances.

Of course, one of the core functions of social protection is to provide immediate relief to individuals who live in chronic and extreme poverty. It can help them satisfy their basic livelihood needs and protect themselves against contingencies that push them further into poverty. Despite much progress in recent decades, far too many of the region's people remain poor and without access to essential public services and economic opportunities. Thus, 1.6 billion individuals in Asia live on less than $2 a day and have limited access to improved sanitation, safe water, and schooling (Thant and Bauer 2010: 2). But it is equally crucial to help protect the living standards of individuals who are not poor but remain vulnerable to the impact of economic, social, political, and natural risks. For example, a World Bank study on the PRC found that, due to the lack of social protection, the number of people at risk of falling into poverty in any year is about twice the number of those already in poverty (World Bank 2009). Social protection can reduce the vulnerability of these individuals and prevent them from falling into poverty and/or assist with recovery from shock.

2.2. Social Protection as Part of the Economic Development Agenda

One of the main developments in the latest conceptual thinking about social protection is the recognition of its potential positive impact on broader economic development. The main development paradigm that dominated policy making throughout the 1980s and early 1990s downplayed the role of social protection in contributing to economic and social progress. Critics argued that spending on social protection harmed economic development by diverting public resources away from important "productive" investments and reducing "work incentives" (Hall and Midgley 2004: 249–50). These arguments emphasized the primacy of the market as an institution of resource allocation and the notion of individual responsibility as a means to gaining income security.

That social protection can serve as a means of reaching out and extending the benefits of economic growth to poor and vulnerable individuals is increasingly recognized. ADB President Haruhiko Kuroda, in his opening address to the ADB Regional Social Protection conference on 21–22 April 2010, stressed the importance of social protection for supporting ADB's commitment to "inclusive growth." ADB's *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020* recognizes inclusive economic growth as essential to providing all with a chance to benefit from and participate in economic growth. Social protection is necessary in any society because the benefits of growth do not reach everyone and people do not have the same capacity to overcome risks. As Mr. Kuroda maintained, social protection can contribute to inclusive growth "by providing access to income security, services, and opportunities to individuals with limited assets, capabilities, and life chances." This vision recognizes that individual effort may not suffice and that collective, societal provisions are necessary for meeting the needs of the poor and vulnerable.

In her keynote address, The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) Executive Secretary Noleen Heyzer stressed that social protection should be a key component of broader economic and social development policies. For this to happen, she argued, it is important to change the way social protection strategies are formulated and implemented. First, social protection programs must be conceptualized in terms of investment strategy. Second, a new approach is needed that builds on the synergies between social protection schemes, and between social protection and other social and economic policies. She suggested that stronger social protection can be a powerful tool for achieving the Millennium Development Goals, and for ensuring sustainable and inclusive development.

Social protection can facilitate access to productive resources and economic opportunities and hence enable poor people to take advantage of the benefits of growth. The chronically poor in Asia do not have sufficient resources to invest in productive assets and inputs and tend to use most of their income on consumption needs. Social protection can help the poor to participate more productively in economic activity and improve their livelihood security (Sipahimalani-Rao 2006; Barrientos and Scott 2008). In her scoping study, Kabeer (2009a) identifies positive impacts of social protection on productive investments and local economic development. For example, evidence from Bangladesh shows that social transfers have led to a reduction in extreme poverty among female recipients. They have also increased earnings from productive activities among 90% of targeted households. The involvement of women in economic activities can help strengthen their economic and decision-making positions and reduce their life cycle and gender-related vulnerabilities. Social protection can help individuals accumulate assets, promote a more productive use of resources, and enhance individuals' earning capacity in the long run.

Social protection can also help improve human development outcomes. Vulnerability contributes to household decisions to underinvest in the education of children and underutilize health services (Knowles, Pernia, and Racelis 1999). Supply-side interventions, which aimed at increasing the availability and quality of schooling and health services, may not be sufficient for improving poor people's access to services. Social protection offers income support, which can be used for consumption smoothing, but also for accessing important services, including education, healthcare, and clean water and sanitation. The recent wave of innovative conditional cash transfer (CCT) programs ties income support with education and health condionalities. The evidence shows, for example, that CCTs can improve access to education and health and thus contribute to human capital accumulation and help prevent intergenerational transmission of poverty (Hanlon, Barrientos, and Hulme 2010: 32–34; Ortiz and Yablonski [pp. 36–56]).

2.3. Social Protection as a Basic Right

The economic and social rationale is not the only motivation for enhancing social protection. Social protection can also be viewed as a fundamental human right. The rights-based approach to social protection maintains that the state should provide social protection to its citizens as a matter of rights, and that rights are not driven by charity or morality, but represent binding legal obligations (Munro 2008: 31). This approach represents the official policy of development agencies such as the United Nations Children's Fund (UNICEF) and International Labour Organization (ILO), as well as international nongovernment organizations, including Oxfam, Save the Children, and World Vision. The joint United Nations Social Protection Floor Initiative is an attempt to institutionalize the rights-based approach to social protection. As Hu discusses (pp. 57–76), the social protection floor is grounded in both rights- and needs-based understanding of social protection. The objective of the Social Protection Floor Initiative is to promote nationally defined policies that guarantee access to essential services and minimum income and livelihood security. This approach has been developed on the basis of the lessons learned from the PRC, India, and Thailand.

The Mahatma Gandhi National Rural Employment Guarantee Act, established in August 2005, is another example of social assistance grounded in the rights-based approach (Sharma, pp. 268–90). The scheme provides a legal guarantee for 100 days of employment in every financial year to adult members of any rural household willing to undertake unskilled manual work. The scheme offers a minimum daily wage to each laborer. The act was introduced with an aim of improving the purchasing power of mostly semi- or un-skilled rural households, whether or not they are below the poverty line. As Sharma argues, perhaps the most significant contribution of this scheme is that it has helped establish a legal rights-based framework. Thus, applicants are provided with "job cards" that they can use for claiming their right for employment under the scheme. This has ensured the inclusion of disadvantaged individuals, such as women and members of "scheduled" castes and tribes.

3. Policy and Institutional Developments

In general terms, social protection in Asia has been described as dualistic, weak, and fragmented. In de Haan's categorization, the "dualism" of social protection is manifested in the strong bias for urban areas and the formal sector (de Haan 2007: 104–5). The main statutory social assistance and insurance schemes in Asia support employees in larger enterprises in the public and private sectors, which are often concentrated in urban centers. This implies that social protection supports only small segments of population and effectively leaves out the majority, who derive income through their work in the informal sector. Further, publicly funded social protection in Asia is comprised of a limited range of programs, which are often underfunded and provide little protection against catastrophic shocks. Social protection systems are fragmented as they often consist of a variety of poorly coordinated activities supported by a large number of agencies, which apply different methods for targeting and project delivery. A large share of Asia's poor rely on informal networks for sustaining their livelihoods, which helps them cope with poverty but is not effective in lifting them out of it and enhancing their capabilities.

Since the mid-1990s, many Asian countries have undertaken reforms and supported policies and programs, which is likely to change the face of social protection in the region. The reforms have been shaped by a variety of socioeconomic factors and political discourses as well as different domestic and global actors. For example, the Asian financial crisis of 1997–1998 was instrumental in bringing the social protection agenda to the forefront of policy making in Indonesia. The need to revamp the ineffective social safety nets gave impetus to further integrate social protection within broader public policies and comprehensive welfare reforms (Bender and Rompel 2010: 387). In South Asian countries, such as India and Sri Lanka, social policy has been influenced by the rights discourse and prompted by civil society activism (Kabeer 2009b). In the PRC, Mongolia, and Viet Nam, the impetus for the reforms has come from the need to protect the population and cushion the social cost of economic restructuring and market liberalization (Cook 2009). Despite the variation in the origin and motives for the reforms, it is clear that social protection is beginning to assume a distinct place in public policy in Asia. As the following sections demonstrate, social protection is increasingly used by policy makers as a legitimate policy instrument in addressing poverty and vulnerability.

3.1. Integration in National Strategies and Development of Consolidated Frameworks

Many countries recognize social protection as part of national poverty reduction frameworks and social protection strategies. Analytical work supported by ADB shows that social protection forms an integral component of national development or poverty reduction strategy in Bangladesh, Cambodia, India, the Lao People's Democratic Republic, Mongolia, Pakistan, and the Philippines. In Indonesia, Cambodia, Nepal, Pakistan, the Philippines, and Viet Nam, the governments are developing national social protection strategies (NSPSs), which seek to integrate social protection into the broader development agendas and establish a framework for consolidating the programs. For example, Chanphal (pp. 291–306) analyzes the process of developing Cambodia's NSPS. He maintains that its NSPS provides an integrated framework for institutionalizing social protection as a tool to tackle chronic poverty and vulnerability.

Several governments have established committees to map out their current social protection programs and develop plans for their integration and consolidation. For example, as noted by Basri and Papanek (pp. 77–103) the Indonesian government recognized that the fragmentation of programs and policies hinders their effectiveness, that social protection activities are managed by different agencies and are often poorly coordinated, and that inconsistent methods and definitions are used for identifying the poor. In response, in 2004, Indonesia enacted a law on its National Social Security System intending to rationalize the programs and their management into a single system of social protection covering all Indonesians (Rachmatarwata, pp. 202–10). Similarly, a working group comprised of government officials and development partners, including ADB, UNICEF, and the World Bank, is developing an integrated policy framework for social protection in Nepal (Verhey, pp. 332–42).

3.2. Introduction of Social Assistance Programs

In recent years, new institutions for social assistance have emerged. In his review of social assistance in Asia, Weber (2009) suggests that most public social assistance schemes in Asia have emerged since the mid-1990s and signify increasing interest in social protection in Asia. Non-contributory schemes that provide cash benefits to poor and vulnerable individuals have proliferated in the region. As Hanlon, Barrientos, and Hulme (2010: 20) argue, the "cash transfer paradigm" represents a shift in development thinking about the causes of poverty and the role of social protection. It attributes poverty to "unfair society, not to any failings of the poor themselves" and thus makes a strong case for state-provided social assistance.

CCTs, which require recipients to comply with certain conditions (e.g., school attendance or regular health checks) are becoming a popular policy tool in Asia (see for example Handayani and Burkley 2010). CCTs have been important for legitimizing and destigmatizing the notion of public transfers. By doing so, they have gradually been paving the way for the expansion of non-conditional schemes. The potential for proliferation of non-conditional transfers is strong, especially as global experience shows that cash transfer recipients tend to invest in health and education even without conditionalities (Devereux 2009). In addition to cash transfers, countries in the region continue efforts to design and implement innovative projects that deal with especially vulnerable population groups. Some examples of the recent developments in social assistance in Asia are as follows.

- Indonesia introduced its unconditional Direct Cash Transfer program (Bantuan Langsung Tunai or BLT) in 2005. It provides monthly cash benefits of Rp90,000 ($10) per person to 19 million poor households, or 34% of the population. The conditional cash transfer Family Hope Program (Program Keluarga Harapan or

PKH) was launched in 2007 and provides grants of Rp600,000–Rp2,200,000 ($60–$220) per year per person. It targets 630,000 households in seven provinces and seeks to cover (in stages) 6.5 million extremely poor households. Basri and Papanek (pp. 77–103) offer more details on these programs.

- The Philippines, with ADB's support, launched a major CCT program, Bridge for the Filipino Family Program (Pantawid Pamilyang Pilipino Program or 4Ps), in 2008. It provides grants of up to P1,400 (about $30) per month to poor households. The program targeted 700,000 households across the country by the end of 2009. The papers by Bala and Manasan (pp. 307–15, 104–34) provide details on social assistance programs in the Philippines and discuss their poverty reduction and targeting effectiveness.
- The PRC has four social assistance schemes. The means-tested urban *dibao* scheme, which was scaled up nationwide in 1999, provides cash grants of CNY225 per person ($33) as well as in-kind support to 22 million poor households. The 2007 new rural dibao program provides cash benefits of CNY100 ($15) per person to more than 8 million rural households. It is envisaged to replace the existing program that covers 6.5 million households. As Brixi et al. discuss (pp. 343–57), social protection in the PRC has become one of the pillars for achieving the development objective to create a "harmonious society," which emphasizes sustainability, equity, and citizen satisfaction.
- Mongolia introduced in 2005 the Child Money Program, which provides means-tested monthly benefits of MNT3.5 ($2.6) per child to families that have three or more children and are living below the minimum subsistence level. The program was expanded in 2006 to a universal scheme, which entitles all children below 18 years of age to cash assistance.
- Pakistan established in 2008 the Benazir Income Support Programme cash transfer scheme. It provides non-conditional means-tested benefits of PRs2,000 ($23) to poor households. The program intends to cover up to 5 million poor households.
- Nepal introduced in 2009 the pilot Child Grant that provides NRs200 ($2.7) per child per month and is targeted to five of the country's 75 districts. As Verhey's paper (pp. 332–42) describes, the program is also targeted nationally to poor marginalized groups.
- Formal social assistance in most Pacific island countries remains underdeveloped, but there are now attempts to design and establish new institutions to support the poor and vulnerable. As the paper by Woodruff and Lee (pp. 316–29) shows, the region is pilot testing a semi-formal safety net model, supported by ADB. Considering the limited government capacity in most Pacific countries, this model seeks to capitalize on the existing strong community-based systems for social support.

Several countries in the region introduced social (non-contributory) pension schemes to support people who are not covered by the formal public statutory arrangements. These schemes provide unconditional cash transfers to older people to offer income support and enable their access to essential services. Social pensions are most often means-tested and are specifically targeted to older people in extreme poverty (Bangladesh, the PRC, India, Indonesia, and Thailand). A few schemes are universal and provide benefits to people who have reached a certain age regardless of their income (Nepal and Viet Nam). The social pensions in Nepal and Viet Nam are universal and recognize the vulnerability of old age regardless of income level. Social pensions are important for providing security to older people who have no regular income, helping them access healthcare and other services, and strengthening their position in their families (HelpAge 2006). Examples of social pensions in Asia follow.

- Thailand introduced in April 2009 monthly social pensions of B500 ($16) for citizens aged 60 and above. Along with other schemes, this program covers 5 million people or 70% of older people in Thailand.
- Viet Nam established in 2004 the Old Age Allowance program, which provides a monthly universal social pension of D120,000 ($6) for people aged 85 and above. The eligibility age is envisaged to be lowered to 80 in 2011.
- Bangladesh's Old Age Allowance scheme, established in 1997, provides unconditional cash transfers of Tk200 ($3) per month for 1.6 million poor elderly people.
- Nepal introduced in 1995 a universal social pension scheme that provides cash transfers of NRs150–NRs500 ($2–$7) per month to individuals aged 70 and above and allowances for poor widows aged 60 and above. The scheme covers 75% of all eligible recipients.

3.3. Expansion of Pension Systems

Many countries in Asia are undertaking policy and institutional reforms to strengthen their contributory pension systems and address the needs of the populations not covered by formal social insurance. As Asher points out (pp. 211–22), one of the key challenges for pension systems is to extend the coverage of programs and improve program benefits in a sustainable manner. Informal workers account for a large share of the labor force in most Asian countries; yet most of them remain unprotected by statutory social insurance provisions. Park's paper (pp. 136–57) shows that the coverage rates in the region remain low and the pension systems tend to favor workers in urban areas and the formal sector. Thus, pensions cover only 10% of the working age population in Indonesia and Viet Nam, and 15% in the PRC, the Philippines, and Thailand. Although most poor people have little contributory power, the ILO estimates that contributory insurance schemes can be effectively extended to up to 10% of uncovered individuals in developing countries (van Ginneken 2000: 38).

Extension of pension coverage will especially benefit females, who are relatively more concentrated in informal and rural labor markets, and can help address gender-specific vulnerabilities that result from longevity and reproductive health risks and burdens. In addition to extending the coverage of pensions, it is important to strengthen the systems' administrative and institutional capacity and financial sustainability. Some recent initiatives that address these issues are as follows:

- The PRC introduced in 2009 a large pilot test for rural pension insurance schemes in 200 counties, with a plan to extend it to all rural areas by 2020. The test involves setting up personal accounts in which contributions are made by individuals and supplemented by district funds. The extension to the rural population has been especially critical considering the deterioration in the traditional support systems that the majority of the rural population has traditionally relied upon (Lee, pp. 158–86).
- India, with ADB's support, introduced in 2009 the New Pension Scheme, which is a voluntary, privately managed scheme offering retirement savings to the workers in the informal sector.
- The provincial government of Sindh in Pakistan, with ADB's support, is implementing a policy reform to improve financial management and delivery of a formal pension scheme (Khatri and Van der Auwera, pp. 187–201)
- Viet Nam's new Social Security Law was adopted in 2006. The law, developed with ADB's support, provides the legal background for the reform of the social security system and envisages a national voluntary pension scheme for workers without a contract, farmers, and small-scale traders.
- The Philippines introduced in 1997 a compulsory scheme to cover self-employed people, and it now covers more than 6 million people.
- Indonesia completed the reforms of its National Social Security System in 2004 and introduced a new mandatory defined benefit scheme with the aim to cover all workers in the formal and informal sectors (Rachmatarwata, pp. 202–10).

3.4. Development of Social Health Insurance Programs

The region has progressed toward the development of social protection against health risks. An overview of the reforms in this sector and descriptions of the challenges in the design and financing of social health insurance are provided by Bayarsaikhan; Hu; Tsilaajav, Bodart, and Dorj; and Weber (pp. 57–76, 224–65). The development of social health insurance is considered a priority for many countries in the region. Governments in the PRC, India, Indonesia, Mongolia, the Philippines, Thailand, and Viet Nam have explicitly committed to expand health insurance coverage to universal coverage. Hu describes the health insurance schemes established in the PRC, India, and Thailand. For example, by the end of 2008, the new rural cooperative medical care established in the PRC in 2003 was operational in all rural counties and covered 830 million people—more than 90% of the PRC's rural population. Bayarsaikhan states that the national target in the PRC is to ensure that by 2010 every citizen will be covered by medical insurance. The universal health insurance introduced in Thailand in 2002 seeks to cover 80% of the people not covered by the existing schemes, many of whom work in the informal sector and/or have low income.

3.5. Experimentation with Microinsurance

One way to extend social protection to the informal sector is through microinsurance schemes—insurance schemes based on the principle of risk pooling and targeted at the poor. Microinsurance programs serve as an important social protection tool especially in small-scale agriculture and the urban informal sector. The vast majority of poor people in Asia are not covered by formal insurance schemes and remain vulnerable to various risks. These risks, such as death, old age, illness, unemployment, harvest failure, and natural disasters, can cause loss of income and unexpected expenditures (Henning, pp. 374–84). As Ozaki argues (pp. 414–20), the microinsurance model is inclusive and affordable as it tends to set a low premium and does not screen out the poor who are perceived to be "high risk." Microinsurance in Asia is increasingly being used to help vulnerable households mitigate risks and enhance their coping strategies. One of the main microinsurance providers in the Philippines is the Center for Agriculture and Rural Development Mutually Reinforcing Institutions (CARD MRI). It is the first grass-roots-based microinsurance organization in the country, and since 1999 has served more than 5 million individuals (Alip, pp. 385–97). Sri Lanka has several microinsurance groups (Sanasa, Yasiru, Sarvodya, and others) and ADB is currently financing a microinsurance sector development project for Sri Lanka (Anthony, pp. 398–413).

3.6. Measuring and Monitoring Social Protection

Systematic and rigorous monitoring and impact assessment of social protection is a prerequisite for improving the systems and developing new policies and programs. Most developing countries in Asia have limited institutional and technical capacity for regular monitoring and evaluation, rigorous diagnostic impact assessments, and policy analysis of social protection. Several agencies, such as the Organisation for Economic Co-operation and Development (OECD), ILO, and ADB, have designed instruments for monitoring social protection activities. The ILO's Social Security Inquiry was launched in 2003. It collects, stores, and disseminates comparable statistical data on social security worldwide (Bonnet, pp. 422–57). The OECD uses different social indicators to assess publicly provided social protection, social and health expenditure, and relative income poverty (Adema and Lorenzoni, pp. 458–81). ADB has recently developed mechanisms to capture informal employment statistics through labor force surveys (Maligalig and Cuevas, pp. 482–504). This approach was successfully tested in Armenia, Bangladesh, and Indonesia. Finally, ADB's Social Protection Index (SPI) seeks to improve the availability of quantitative information on social protection in Asia. The SPI has generated inventories of social protection in 31 countries, containing data on social protection expenditure, coverage, distribution (poverty targeting), and impact on poverty (Wood, pp. 505–27).

4. Implications for the Future

The developments in social protection during the last decade are transforming the policy landscape in Asia. Thus, we are witnessing the emergence of new institutions for social protection (e.g., cash transfer schemes), expansion of the programs (e.g., contributory pensions), and the consolidation of programs (e.g., integrated policy frameworks for social protection and organizational restructuring). Several governments have introduced the principle of universal coverage as a basis for allocating social entitlements, including cash transfers and social health insurance. These developments have important institutional and normative implications. As this paper argues, the current conceptual and policy shifts are paving the way for introducing or reintroducing social protection into the public policy and donor development agenda. The shifts contribute to the establishment of institutional systems for social protection that are integrated into broader development strategies. This legitimization and expansion of social protection signifies an important shift in the perceptions of the role of the state-driven social policies and the normative foundations of public policy in Asia.

Social protection in Asia remains fragmented and limited and beyond the reach of a significant proportion of poor citizens. ADB's SPI characterizes social protection in most developing Asian countries as weak in terms of the effectiveness of government spending, coverage, poverty reduction impact, and targeting. Compared with the SPI ranking of Japan (the most economically advanced country in Asia), the SPI value is two times lower for Central Asian countries, three times lower for South Asia and East Asia, and four times lower for the Pacific island countries (Baulch, Weber, and Wood 2008: 86). Funding for social protection in most countries is insufficient and benefit levels are low. The most generous schemes that cover the poverty gap may help satisfy the recipients' basic needs but are not sufficient to lift individuals out of poverty. At the same time, the needs of the vast numbers of poor and vulnerable people remain unmet. In other words, most countries in the region have yet to establish effective, sustainable, and comprehensive social protection systems.

A major concern about the future of social protection is its affordability. Developing countries have limited "fiscal space" and resources to expand the coverage of the existing programs and invest in new social protection activities. Ortiz and Yablonski (pp. 36–56) review the evidence on the affordability of social protection and argue that "the fiscal space for social protection may be more elastic than at first glance." There are various policy options for increasing financing for social protection, including integrating the existing programs, reallocating funding from other budgetary categories, improving tax collection, and introducing new taxes. New programs can be introduced gradually, over time, and by age and geography, and can be phased to match projects with revenue growth. Similarly, Hu (pp. 57–76) argues that "policy space" for financial maneuver may be wider than is often assumed and that political will seems to be the crucial factor in determining public provision for social protection. The work in the area of social pensions carried out by HelpAge concurs that universal social transfers are affordable even in very poor countries and that political will is of primary importance for finding avenues for financing and extending transfers (HelpAge 2006).

Coordinated efforts and strategic partnerships between developing countries, donor agencies, the private sector, and civil society organizations are important to meet the needs of the people in the region. Ultimately, the fate of social protection in the region will depend on how countries themselves identify and prioritize policy interventions to address the needs of their citizens. As ADB Vice-President Ursula Schaefer-Preuss mentioned in her address, to support the goals of social protection, governments need to create an enabling environment for reforms and innovative initiatives. Donors in their turn can assist the governments and other domestic actors in developing a systematic and comprehensive agenda for social protection. It is important to capitalize on the momentum built by the impressive developments in the last decade and advance the social protection agenda further.

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Appendixes

Appendix 1
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Isa Rachmatarwata is Head of the Insurance Bureau, Capital Market and Financial Institutions Supervisory Agency, Ministry of Finance, Indonesia. His managerial positions in the Pension Funds Directorate of the Ministry of Finance have included Head of Section, Head of the Subdirectorate of Inspection and Services, and Head of the Subdirectorate of Development and Information Services. He has a master's degree in mathematics and actuarial science from the University of Waterloo.

Lawrence E. Rosenberg is a Research Associate at the Department of Global Health and Population, Harvard School of Public Health. He is a project manager; does research on political and economic development in Asia, Latin America, and the Middle East; and has been an adviser to several governments. He has coauthored over 10 publications. He has a master's degree in public administration from Harvard University.

Ursula Schaefer-Preuss is Vice-President, Knowledge Management and Sustainable Development, ADB. She is an economist and has been engaged in development policy for more than 30 years. Prior to joining ADB, she was Director-General of the Federal Ministry for Economic Cooperation and Development in Bonn/Berlin, Germany, responsible for the development policy framework for various countries and regions. She was also engaged in bilateral cooperation with countries in Asia, Europe, and Latin America. She was Chief of Cabinet of the Federal Minister for Economic Cooperation and Development (1998–2000); and held posts in the Permanent Mission of the Federal Republic of Germany to the United Nations in New York; the Inter-American Development Bank in Washington, DC; and the German Embassy in Khartoum, Sudan. She has a PhD in economics from Albert-Ludwig University.

Joseph Patrick Sevilla is a Research Associate at the Department of Global Health and Population at the Harvard School of Public Health. His research interests include social protection in the Asia and Pacific region, HIV prevention among the youth in Sub-Saharan Africa, and normative issues in population health. He has a PhD in economics from Harvard University.

Amita Sharma is Joint Secretary, Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), Ministry of Rural Development, Government of India. The MGNREGA scheme is noted as a legal and social safety net in wake of the global economic meltdown. For her outstanding work she won the Commonwealth Gold Award in 1998. She also headed the adult literacy program in Madhya Pradesh that won the President's Award. Recently she received the India Today Award for Women in Public Affairs for 2010.

Weilin Shi is a Social Policy Specialist of the UNICEF PRC Office, working in areas related to child poverty and social protection. She worked for the Child Protection Section, UNICEF PRC, and the Policy Office in Beijing Municipality before joining the Social Policy and Economic Analysis Section, UNICEF, in 2007. She holds two master's degrees: in development studies and sociology from the Institute of Social Studies (the Hague) and in sociology from Renmin University (Beijing).

Tsolmongerel Tsilaajav is the Leader of the Expert Group on Social Health Insurance in Mongolia. She has research interests in social health insurance and health financing issues in Mongolia and other nations, especially in the Asia and Pacific region. She has a master's degree in development economics from the University of Manchester.

Michiel Van der Auwera is a Social Security Specialist at ADB. He works on social protection activities in the Asia and Pacific region. He is currently involved in programs in Pakistan supporting pension reform of the civil service in Punjab and Sindh, and assisting in the development of a federal social safety net. Prior to joining ADB, he worked with the ILO on social security projects in Asia and the Pacific. He has two master's degrees: in social security from the Catholic University in Leuven and in financing social protection from the University of Maastricht.

Beth Verhey is Chief of Social Policy and Decentralization for UNICEF Nepal, where she leads the office's policy and advocacy work on social protection, including introduction of a child-targeted cash transfer, decentralization and local governance, child poverty, and adherence to the Convention on the Rights of the Child (CRC) and the Committee on the Elimination of Discrimination against Women (CEDAW) in the context of Nepal's historic new Parliament and drafting of a Constitution. She has 20 years of experience in social development and child protection work in field and headquarter locations and with a number of agencies in the United Nations system and international organizations. She has a master's degree in international development policy and practice from Oxford Brookes University.

Axel Weber is a freelance Health Systems and Social Protection Advisor working in the field of social protection, healthcare financing, and institutional development. He has been a lecturer at Cologne University and an officer in the German Ministry for Labor and Social Affairs, and has held positions in the German Social Health Insurance, in the European Union Commission (as National Expert), and at ADB (as Social Protection Specialist, where he was instrumental in developing ADB's Social Protection Index). He has served as adviser and consultant to governments and nongovernment organizations. He has a PhD in economics from Cologne University.

Jonathan Wood has over 30 years of worldwide experience with a wide range of development projects as a Senior Consultant for Halcrow Group Ltd. He specializes in urbanization, social and poverty assessment, and social protection. His recent work has included poverty assessments in the Caribbean; the relationship between the spatial expansion of cities, urban planning, transportation, and poverty; and project identification in Bangladesh. He has diplomas in applied statistics from Oxford University and urban and regional planning from the Architectural Association, London.

Allison Woodruff is an Economist at ADB, currently working on social protection activities in Pacific countries. Prior to joining ADB, she was a natural resource economist with the Pacific Islands Applied Geoscience Commission based in Suva, Fiji, working with governments and communities around the Pacific on strengthening natural resource management systems. She has a master's degree in environment and development studies from the London School of Economics and a master's degree in development economics from the University of London.

Jenn Yablonski is a Social Protection Specialist for UNICEF, New York. She has worked for Save the Children UK and Oxfam America, with a focus on inequality, exclusion, and poverty analysis and policy. Her publications pertaining to children and social protection include *Lasting Benefits: The Role of Cash Transfers in Tackling Child Mortality; Children and Social Protection: Towards a Package that Works;* and *Impacts of Social Protection Programmes in Ethiopia on Child Work and Education*. She has a master's of science degree in economics from the University of London.

Appendix 2
Presentation and Paper Summaries*

A. Opening presentation: An Overview of Social Protection Needs in Asia and the Pacific

David E. Bloom, Ajay Mahal, Larry Rosenberg, and Joseph Patrick Sevilla

The Asian Development Bank (ADB) defines social protection as consisting "of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income."[1]

A quick survey of social protection in ADB's developing member countries (DMCs) reveals growing demand for social services, and, the demand is expected to accelerate, primarily due to income growth but also due to population aging. Thus, DMCs are facing a multiplicity of challenges that require the dedication of significant resources.

The Logic for Social Protection. Social protection is justifiable because it facilitates the accumulation of human capital in the form of health and education, thereby providing a strong foundation for income growth throughout the income distribution. By reducing socioeconomic inequality and promoting political stability, social protection also diversifies the risks associated with shocks to health and income. Social protection achieves this effect by strengthening people's connection to the future and reducing vulnerability. The seven distinct arguments in favor of devoting resources to social protection are (1) an ethical justification; (2) the legal justification, requiring countries to implement national laws corresponding to international agreements to which they are signatories; (3) that social protection programs promote economic growth; (4) that the focus on the poor and vulnerable tends to reduce inequality and thereby foster more equitable societies that tend to be more politically stable; (5) that social protection programs enable the development and smooth operation of financial markets; (6) that spending on social protection tends to be counter-cyclical and helps shore up expenditure in times of recession; and (7) the contribution to gender equity.

* This appendix contains summaries of and/or brief excerpts from papers not included in the main text.

[1] ADB. 2010. Social Protection: Reducing Risks, Increasing Opportunities. Manila. http://www.adb.org/SocialProtection/

A multiplicity of interests and perspectives are at play in the social arena, ranging from the citizens and political leaders of DMCs to the private sector and to international organizations such as ADB. It is important to clarify whose point of view is reflected during discussions of social protection.

Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020 explicitly recognizes the role of social protection in promoting "inclusive economic growth" and specifies that "The region must promote greater access to opportunities by expanding human capacities, especially for the disadvantaged, through investments in education, health, and basic social protections. It must also improve the poor's access to markets and basic productive assets by putting in place sound policies and institutions. Finally, social safety nets must be strengthened to prevent extreme deprivation."[2] Social protection can help achieve "environmentally sustainable growth" and build resilience to climate change.

Demand for Social Protection. Considering the need for social protection and the many convincing arguments in its favor, the lack of social protection programs across the DMCs is rather surprising. Existing social health insurance programs cover no more than one-third of the population in the DMCs and in most DMCs no more than one-fifth of the elderly population is covered by pension—women especially lack pensions. Further, there is no shared understanding of social protection in Asia and the Pacific, and thus no shared agenda.

Selected Discussion Questions and Conclusion. There are several questions to consider over the course of this Regional Conference. First, what is the investment case for ADB involvement in the area of social protection? Second, can private enterprise and public–private partnerships be harnessed in a manner that advances social protection? In addition, do public–private partnerships have a natural role to play in this arena? Third, what is the actual and potential contribution of particular social protection programs to gender equity? Fourth, what steps can ADB take to promote regional solutions for addressing gaps? Fifth, what are the next steps in reconceptualizing and then acting on the view of social protection as a core contributor to inclusive economic growth? Sixth, how might ADB better identify and capture the social protection potential of its core operational programs? Seventh, does it make sense for ADB to think of social protection as a form of insurance for its country projects? In addition, for the DMCs, what can be done to regularize and depoliticize the assessment of local social protection needs?

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2 ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila. p. 8.

B. Overview of Social Assistance in the Asia and Pacific Region

Joseph Patrick Sevilla

The overview commenced with a brief description of the types of social assistance, then noted that governments in Asia and the Pacific seem to be expanding and promoting social assistance. Social assistance specifically and social protection generally are starting to appear in national development strategies, national poverty reduction strategy papers, and the development of a fairly new instrument—the national social protection framework. Such frameworks have been developed in Bangladesh, Cambodia, the Lao People's Democratic Republic, India, Indonesia, the Philippines, Pakistan, and Mongolia. However, much more is needed to tackle the huge amount of poverty and vulnerability evident in the region.

The increase in provision of social assistance has been accompanied by an incredible amount of innovation, such as in conditional and unconditional cash transfers, but also in new types of works programs and linking of social assistance with microfinance and microcredit. However, learning about the innovations, especially what works and what does not and why, needs to be more widely disseminated, as does information about other effects such as the meritorious impact that social assistance can have on social security.

C. Social Protection against Financial Risks from Ill Health

Ajay Mahal

Ill health among individuals is primarily associated with two kinds of financial risks: the amount spent out-of-pocket on health services and income losses, primarily from days missed at work, or due to premature death of working age adults. A striking feature of households' financial exposure to ill health is the considerable variation in out-of-pocket expenditure across countries in the Asia and Pacific region, even among countries with very similar levels of gross domestic product (GDP).

Countries in the Asia and Pacific region face long-term trends that will exacerbate the financial burden of ill health of their populations, especially the growing share of the elderly population, and the increasing cost of health expenditures—in the low- and middle-income countries, these have grown at at least 2 percentage points faster than the rate of GDP growth.

Coverage and Financing. Coverage is discussed in terms of breadth (extent of the population covered) and depth (benefits of the coverage). For example, the Republic of Korea, Sri Lanka, and Thailand provide good breadth and depth of coverage. Financing such coverage faces two constraints: resource availability and political issues. Generally, the better performing systems use a combination of cost containment, public funding (including earmarked taxes), and shifting the cost for the better-off populations to private insurance, which requires good targeting. Further, health funds must be well managed and health pools must be large enough to permit economies of scale. An added issue is supply, especially in rural areas, given the associated high opportunity costs for medical personnel to live and practice there. One solution that is being tried in the region and elsewhere is the use of information technology (IT)-based platforms for treatment protocols and diagnostics that can be applied with a limited set of skills and infrastructure.

Implications for ADB. ADB could support the expansion of coverage via improvements in governance, such as by helping develop

- systems for better targeting the less well-off for enrolling in subsidies,
- systems for monitoring provider behavior and performance and costs of health services,
- improved birth and death registration and identification documents,
- strengthened capacity for managing risk pools, and
- strengthened legal systems to help increase the accountability of providers and insurers to each other and to patients.

An important element of ADB's strategy to enhance governance for expanded coverage of financial risk protection has to be promoting approaches that engage actively with the private sector. ADB could play a significant role in addressing the challenges in expanding coverage, by supporting innovations in health service in remote and rural areas. ADB could also serve as an important repository of information and help transfer the lessons of specific country experiences in the Asia and Pacific region—an example is on micro health insurance.

D. Child and Family Welfare Services in Indonesia

Niloufar Pourzand and Astrid Gonzaga Dionisio

In 2009, the United Nations Children's Fund (UNICEF) and the Ministry of Social Welfare in Indonesia, in collaboration with Child Frontiers, assessed Indonesia's system for prevention of and responses to abuse of, violence against, and exploitation of children. Issues and challenges include laws and regulations that present an approach to child protection that is primarily community driven and charitable, responsive and forensic, victim-centered, and focused on center-based services. Further, no one institution is clearly mandated and accountable to provide continuing protection and care services. Social workers, who are at the forefront of delivering social welfare services, are mostly based in institutions and mainly do administrative work, with limited linkages at the community level.

To strengthen child and family welfare services in Indonesia, a more binding legal and policy framework must be established, including introducing (1) binding government regulations on child protection with key essential elements, (2) interagency protocols defining roles and responsibilities between agencies involved with child protection, and (3) the allocation of adequate resources to effectively implement a national framework on child and family social welfare. Structures must be strengthened and capacity built. Building from the result of the assessment, the Ministry of Social Affairs has initiated efforts to gradually shift its program paradigm on child welfare and protection, to focus on a comprehensive and sustainable approach that is family-based rather than issue-based. Additionally, the Ministry of Social Welfare launched the child social welfare program that includes a conditional cash transfer for empowering targeted vulnerable families so their children can access basic services.

E. Overview of Social Protection in ADB

Sri Wening Handayani, Marife Principe, and Babken V. Babajanian

ADB's poverty reduction strategy aims to assist DMCs to achieve irreversible reduction in poverty. ADB's Social Protection Strategy (adopted in 2001) defines social protection as a "set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income." Five major components comprise ADB's Social Protection Strategy: (1) labor markets, (2) social insurance, (3) social assistance, (4) micro and area-based schemes to protect communities, and (5) child protection.[3]

The Long-Term Strategic Framework 2008–2020 of the Asian Development Bank: Strategy 2020, indicated that by 2020, the Asia and Pacific region could move to a higher level of economic development.[4] ADB implements social protection projects and project components to support inclusive growth and enhance ADB's overarching goal of poverty reduction in Asia and the Pacific.

Social Protection in ADB Interventions. ADB's loans, grants, and technical assistance (TA) projects during 1996–2008 reflect a wide range of activities. Their common element is the focus on assisting population groups to manage their risks and vulnerabilities.

Social Assistance. ADB's lending for social assistance included welfare and social services to highly vulnerable sectors of the population, and cash or in-kind transfers such as conditional cash transfers. Social protection grants with a social assistance component ranged from community interventions for HIV and AIDS to social infrastructure, livelihoods, and projects specifically for

3 ADB. 2001. *Social Protection: Our Framework Policies and Strategies*. Manila.

4 ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank*. Manila.

poor women and children. Social assistance interventions are often preferred because they provide immediate relief to poor and vulnerable people, enabling them to cope with consequences of shocks as a result of disasters and crisis. With the increasing need for social assistance, ADB's interventions have gradually evolved from support for reform programs into portfolio lending supporting social assistance as part of the long-term social policy.

Labor Market. During the study period, loans related to the labor market comprised the second largest share of ADB's overall lending portfolio for social protection and the third largest share of JFPR grants and TA. In addition to the direct benefits derived, indirect benefits consisted of strengthened institutions, an improved legal framework, and enhanced capacity, which included the construction of new training facilities. Grant assistance mainly consisted of skills development and direct employment generation.

Social Insurance. Social insurance interventions consisted of social security, unemployment insurance, old age insurance, work injury insurance, and pension reforms. Most of ADB's loans involving social security and pension reform focused on improving the design and management of schemes.

Micro and Area-Based Schemes. Most ADB micro and area-based interventions dealt with the use of community-based and -managed social funds, and disaster preparedness and management. ADB's lending for such schemes reduced vulnerability and institutionalized empowerment mechanisms at the community level. These innovations specifically benefit the rural small-scale agricultural and urban informal sectors, which are usually not covered by traditional and formal social insurance programs.

Child Protection. ADB's interventions included early child development, school feeding, and scholarships. Most of the child protection initiatives were part of larger interventions in the education sector. TA for child protection comprised a relatively small (13%) component given that children and youths comprise 40% of DMC populations and that investment in child protection is an efficient and sustainable way to promote opportunities and more equitable economic growth.

Trends Moving Forward. DMCs as well as development agencies are increasingly recognizing that social protection can help reduce poverty and vulnerabilities and serve as a mechanism for promoting human well-being in the long term. Some of the social protection areas ADB will be supporting in the near future include (1) innovative social assistance programs such as conditional cash transfers; (2) the design and strengthening of social protection systems to provide income support to the growing number of older people; (3) support for bottom-up approaches to serve and improve channels of accountability between service providers and citizens, such as the successful community development project in Indonesia; and (4) work on measuring the effectiveness and efficiency of social protection measures in the region, building on initiatives such as ADB's Social Protection Index.

F. Closing Presentation: Summing up and Looking Forward

David E. Bloom, Ajay Mahal, Larry Rosenberg, and Joseph Patrick Sevilla*

The large and growing need for social protection throughout the Asia and Pacific region is felt acutely by millions of people throughout ADB's DMCs. In response, many DMC governments have recently initiated or strengthened a wide array of social protection plans and programs. Arguments in favor of carrying out social protection programs range from the ethical imperative to help those in greatest need to legal requirements, to gender equity, to the value of reducing inequality, to enhanced political stability, to the widening and deepening of financial markets, and to the macroeconomic stabilization that social protection programs can facilitate.

Several presentations at the Regional Conference showed that social protection is not just a matter of channeling resources to those who need it right now; it is an investment in a country's most important resources—its human resources—an investment that will fuel the process of economic growth and can lead to significant reductions in poverty.

Social protection can take various forms, including protection for children and workers, the elderly (by virtue of pension coverage), those at physical and financial risk of ill health, and those who are impoverished or displaced. And most countries can afford to provide some basic protection to their needy populations for just a small percentage of GDP.

New or Revised Concepts Surrounding Social Protection. Clearly, social protection should not be thought of as an isolated program. Currently, social protection is often a fragmented mosaic of well-defined and well-established sectors such as labor, education, health, finance, social welfare, and environment, and of individuals and organizations. The fragmentation complicates and undermines effective engagement.

Nevertheless, agreement on some very basic goals is widespread. The agreement includes that (1) everyone should be substantially protected from poverty and vulnerability; (2) the cost of not achieving these goals would be catastrophic; (3) the poor need some degree of subsidy for both pension and health coverage; and (4) to achieve 100% coverage in the health arena, cost containment matters.

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* Presented by David E. Bloom. The authors thank Elizabeth Cafiero and Marija Ozolins for their contributions.

Unresolved questions regarding social protection include the following: (1) Should countries strive for defined benefit or defined contribution systems? (2) Should health insurance typically have a substantial contributory element, or be funded by tax revenues? (3) Should benefits be universal or means-tested? (4) Can micro health insurance provide adequate protection against the financial risks associated with ill health?

ADB and Social Protection. ADB needs to ensure that its social protection activities fit well into its overall strategic framework, that they are consistent with proven modes of operation, and that they leverage existing assets. ADB has a deep understanding of the DMCs, which is unrivaled among development organizations.

It should be natural for ADB to mesh social protection activities with its strategic framework, since the links between social protection and ADB's core principles are strong. ADB's Strategy 2020 provides institutional legitimacy and support for a wide range of potential projects. Pensions, social health insurance, social assistance, child protection, and labor market protections are all highly consistent with ADB's strategic agendas; the drivers of change it has identified; or its core operational areas, as laid out in Strategy 2020.

A New Framework. To put all these ideas together, it is useful to apply the "three spheres" framework: of value, capacity, and support. The framework helps to identify some of the key elements involved in planning any action, understand that effective action is a complex process, diagnose why some initiatives succeed and others fail, and provide guidance in designing an action plan. The framework may provide direction for expanding the social protection portfolio and charting a path forward that identifies and circumvents bottlenecks.

That social protection programs have value means that attention must be shifted toward support and capacity. The capacity sphere contains human resources (people, knowledge, and skills); material resources (money, equipment, and physical space); and organizational resources (managerial infrastructure, authority, and access to technology). ADB has some capacity in that social protection programs are in place or in development, and ADB can claim the organizational legitimacy, mechanisms, and financial capacity necessary for moving forward in this area. To strengthen its capabilities, ADB needs to hire a critical mass of people, ensure that they are well trained, and provide them with incentives that are consistent with the goal of expanding ADB's presence in the social protection arena.

In terms of support, during this conference, ADB President Haruhiko Kuroda asserted that social protection is central to ADB's mission, and keynote speaker Noeleen Heyzer cited social protection as a crucial element of the agenda for the Asia and Pacific region. ADB's Strategy 2020 also affords a great deal of institutional legitimacy and traction for a dramatic expansion of ADB's social protection portfolio. For greater support, ADB's internal tracking system could more accurately identify all its social protection activities, which could lead to a better understanding of the role of social protection activities within ADB's portfolio and of steps to bolster ADB's participation in this arena

To address issues of fragmentation, DMCs could form social protection or coordinating ministries.

Conclusion. Heightened and sustained support for social protection must clearly arise from, or be stimulated in, the DMCs. ADB could actively raise its share in the social protection arena. Creating an operational plan for social protection that aligns ADB's capacity with its Social Protection Strategy (2001) and its recent reaffirmation of the value of social protection would be entirely consistent with the principles enunciated in Strategy 2020.

Appendix 3
Agenda: Regional Conference on Enhancing Social Protection in Asia and the Pacific

Day 1: Wednesday, 21 April 2010

9:00 **Introduction to the Session:** Bart Édes; Director; Poverty Reduction, Gender, and Social Development Division; Regional and Sustainable Development Department (RSDD); Asian Development Bank (ADB)

9:05 **Welcome Remarks:** Haruhiko Kuroda, President, ADB

9:20 **Keynote Address:** A Social Protection Agenda for Asia Pacific
Noeleen Heyzer, Executive Secretary, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)

10:05 **Conference Guidelines and Arrangements**
Myo Thant, Principal Regional Cooperation Specialist, RSDD, ADB

10:15 **Session 1: Social Protection Challenges and Needs**

An Overview of Social Protection Needs in Asia and the Pacific
David Bloom, Director, Harvard University Program on Global Demography and Aging, and Chair, Department of Population and Health, Harvard School of Public Health

Investing in People—Social Protection for All
Isabel Ortiz, Associate Director, Policy and Practice Group, The United Nations Children's Fund (UNICEF)

A Social Protection Floor for All—A UN Joint Crisis Initiative
Valérie Schmitt-Diabate, Social Security Specialist, International Labour Organization (ILO)

Social Protection Policy in Indonesia
Muhamad Chatib Basri, Senior Lecturer and Research Associate, University of Indonesia

12:00 **Discussion**

1:30 **Session 2: Canvassing Social Protection Initiatives in the Region**

Session 2A: Pension: Assessment of Pension Reform in Asia the Pacific

East and Southeast Asia's Pension Systems—Overview and Reform Directions
Donghyun Park, Principal Economist, Economics and Research Department, ADB

Pension reform in the People's Republic of China
Hyung Ju Lee, Financial Sector Specialist, East Asia Department, ADB

Reform of Retirement Schemes in Sindh, Pakistan
Fazal Karim Khatri, Coordinator, Economic Reform Unit, Finance Department, Government of Sindh, Pakistan
Michiel Van der Auwera, Social Security Specialist, Central and West Asia Department, ADB

Social Security Reform in Indonesia
Isa Rachmatarwata, Head, Insurance Bureau, Capital Market and Financial Institutions Supervisory Agency, Ministry of Finance, Indonesia
Edimon Ginting, Economist (Trade and Financial Sector), Southeast Asia Department, ADB

Pension Reform in Southeast Asia
Mukul G. Asher, Professor, Lee Kuan Yew School of Public Policy, National University of Singapore

3:15 **Discussion**

4:00 **Session 2B: Health Insurance Initiatives**

Social Health Protection in Asia and the Pacific
Ajay Mahal, Associate Professor, Harvard School of Public Health

Social Health Insurance in Asia and the Pacific
Dorjsuren Bayarsaikhan, Regional Adviser In Health Care Financing, World Health Organization (WHO), Southeast Asia Regional Office, Manila

Social Dialogues and Consensus Building to Strengthen Social Health Insurance in Mongolia
Odbayar Dorj, Member of Parliament, Mongolia
Claude Bodart, Senior Health Sector Specialist, East Asia Department, ADB
Tsolmongerel Tsilaajav, Leader, GTZ Expert Group on Social Health Insurance, Mongolia

Financing Social Health Insurance—Challenges and Opportunities
Axel Weber, Health Systems and Social Protection Advisor, Germany

Day 2: Thursday, 22 April 2010

9:15 **Session 3: Innovations in Social Assistance**

Overview of Social Assistance
Joseph Patrick Sevilla, Research Associate, Harvard School of Public Health

Rights-Based Legal Guarantee as Social Protection Framework:

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)
Amita Sharma, Joint Secretary (MGNREGA), Ministry of Rural Development, India

Cambodia's Social Protection Strategy for the Poor and Vulnerable
Ngy Chanphal, Secretary of State, Ministry of Interior, Cambodia

The Social Welfare and Development Reform Agenda of the Philippines and Conditional Cash Transfer
Alicia Bala, Undersecretary, Department of Social Welfare and Development (DSWD), Philippines

Social Protection of the Vulnerable in the Pacific
Allison Woodruff, Economist, Pacific Department, ADB
Sunhwa Lee, Senior Social Development Specialist (Gender and Development), Pacific Department, ADB

10:15 **Discussion**

10:30 **Session 4: Child Sensitive Social Protection**

Social Protection in Nepal: Introducing a Child Benefit
Beth Verhey, Chief, Social Policy, UNICEF Nepal

Social Protection to Benefit Children in the People's Republic of China: Progress in and Challenges on the Way Forward
Hana Brixi, Chief, Social Policy and Economic Analysis, UNICEF People's Republic of China

Assessment of the Child and Family Welfare Systems in Indonesia
Niloufar Pourzand, Chief, Social Policy and Protection, UNICEF Indonesia

Community-Based Social Protection for Orphan and Vulnerable Children in Bangladesh
Rose-Anne Papavero, Chief, Child Protection Programme, UNICEF Bangladesh

12:15 **Discussion**

1:30 **Session 5A: Social Protection for the Informal Sector**

Microinsurance: Challenges and the Role of Development Cooperation
Jennifer Hennig, Policy Adviser, GTZ

Microinsurance in the Philippines: The CARD MRI Experience
Jaime Aristotle B. Alip, Founder and Managing Director, Center for Agriculture and Rural Development and Mutually Reinforcing Institutions (CARD MRI), Philippines

Microinsurance in Sri Lanka: The Role of NGOs as Service Providers
Emil Anthony, Deputy Managing Director, Sarvodaya Economic Enterprise Development Services (SEEDS), Sri Lanka

Microinsurance in South Asia
Mayumi Ozaki, Financial Specialist, South Asia Department, ADB

1:30 **Session 5B: Measuring and Monitoring Social Protection**

The ILO Social Security Inquiry
Florence Bonnet, Statistician and Coordinator of Statistical Activities, ILO

The OECD Approach to Measuring Social and Health Expenditure
Willem Adema, Senior Economist, Organisation for Economic Co-Operation and Development (OECD)

Expanding the Labor Force Survey to Capture the Extent of Social Protection Mechanisms
Dalisay Maligalig, Senior Statistician, Economics and Research Department, ADB

A Social Protection Index
Jonathan Wood, Senior Consultant, Halcrow Group

3:00 **Discussion**

3:30 **Lessons Learned and the Way Forward for Social Protection in Asia and the Pacific**
Chair: Xianbin Yao, Director General, RSDD, ADB

Panelists:
Ngy Chanphal, Secretary of State, Ministry of Interior, Cambodia
Isabel Ortiz, Associate Director, Policy and Practice Group, UNICEF
Willem Adema, Senior Economist, OECD
Mukul G. Asher, Professor, Lee Kuan Yew School of Public Policy, National University of Singapore
David Bloom, Director, Harvard University Program on global Demographics, and Chair, Department of Population and Health, Harvard School of Public Health

5:00 **Closing Remarks**
Ursula Schaefer-Preuss, Vice President, Knowledge Management and Sustainable Development, ADB

Appendix 4
Resource Persons and Participants

Table A4.1. Resource Persons

Resource Person	Designation, Agency
Adema, Willem	Senior Economist, Social Policy Division, Organisation for Economic Co-operation and Development (OECD), France
Alip, Jaime Aristotle	Founder and Managing Director, The Center for Agriculture and Rural Development and Mutually Reinforcing Institutions (CARD MRI), Philippines
Anthony, Emil	Deputy Managing Director, Sarvodaya Economic Enterprise Development Services (SEEDS), Sri Lanka
Asher, Mukul	Professor, Lee Kuan Yew School of Public Policy, National University of Singapore, Singapore
Babajanian, Babken V.	Social Development Specialist, Poverty Reduction, Gender, and Social Development Division, Regional and Sustainable Development Department (RSDD), Asian Development Bank (ADB)
Bala, Alicia	Undersecretary, Department of Social Welfare and Development (DSWD), Philippines
Basri, Muhammad Chatib	Senior Lecturer, University of Indonesia
Bayarsaikhan, Dorjsuren	Regional Advisor in Health Care Financing, World Health Organization (WHO) Western Pacific Regional Office, Philippines
Bhushan, Indu	Director; Strategy, Policy, and Interagency Relations Division; Strategy and Policy Department; ADB
Bloom, David	Director, Harvard University Program on Global Demography and Aging, and Chair, Department of Population and Health, Harvard School of Public Health; ADB Consultant for Regional Technical Assistance 6480: Enhancing Social Protection Initiatives in Developing Member Countries
Bodart, Claude	Senior Health Specialist, Social Sectors Division, East Asia Department, ADB
Bonnet, Florence	Statistician and Coordinator of Statistical Activities, Social Security Department, International Labour Organisation (ILO), Switzerland

continued on next page

Table A4.1. continuation

Resource Person	Designation, Agency
Brixi, Hana	Chief, Social Policy and Economic Analysis, United Nations Children's Fund (UNICEF), People's Republic of China
Brooks, Douglas	Assistant Chief Economist, Development Indicators and Policy Research Division, Economics and Research Department, ADB
Chanphal, Ngy	Secretary of State, Ministry of Interior, and 2nd Vice Chair, Council for Agricultural and Rural Development, Cambodia
Dorj, Odbayar	Member, Mongolian Parliament; Member, Standing Committee on Social Policy, Education, Culture and Science, Mongolia
Édes, Bart	Director; Poverty Reduction, Gender, and Social Development Division; RSDD; ADB
Ginting, Edimon	Economist; Financial Sector, Public Management, and Trade Division; Southeast Asia Department; ADB
Handayani, Sri Wening	Senior Social Development Specialist; Poverty Reduction, Gender, and Social Development Division; RSDD; ADB
Hennig, Jennifer	Policy Adviser, Social Protection Section, GTZ, Germany
Heyzer, Noeleen	Executive Secretary, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), Thailand
Khatri, Fazal Karim	Coordinator, Economic Reform Unit, Finance Department, Government of Sindh, Pakistan
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continued on next page

Table A4.1. continuation

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Table A4.2. Participants

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continued on next page

Table A4.2. continuation

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continued on next page

Table A4.2. continuation

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continued on next page

Table A4.2. continuation

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continued on next page

Table A4.2. continuation

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continued on next page

Table A4.2. continuation

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continued on next page

Table A4.2. continuation

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Enhancing Social Protection in Asia and the Pacific

On 21–22 April 2010, the Asian Development Bank (ADB) organized a social protection conference in Manila. Interest in social protection has been growing since the global financial crisis heightened awareness of the many millions of people in Asia and the Pacific who live in poverty or vulnerable situations. Thus, policy makers are now keen to develop social protection systems that can assist people to both leave and stay out of poverty. The conference brought together people from ADB, its developing member countries, partner agencies, research institutes, and civil society organizations to exchange valuable experience and information and discuss ideas on how to develop social protection and expand it for the well-being of people in Asia and the Pacific.

This book features selected papers from the conference that respond to the need for integrated and inclusive social protection to improve the quality of peoples' lives and livelihoods. Specific areas emphasized are health insurance, pensions, the informal sector, measures targeting children, and measuring and monitoring social protection.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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