

The Macroeconomic Policy Brief provides an analysis of contemporary macroeconomic policy challenges facing the ESCAP region. The series aims at generating a forward-looking discussion among policy planners, researchers and other stakeholders to help to forge political will and build a regional consensus on the needed policy actions and pressing reforms.

STRENGTHENING SOCIAL PROTECTION SYSTEMS IN ASIA AND THE PACIFIC IN THE AFTERMATH OF THE GLOBAL FINANCIAL CRISIS

The triple threats to development¹ in 2008 and 2009 highlight the need to strengthen social protection systems in Asia and the Pacific. This Policy Brief provides reasons why this strengthening should be a critical component of the region's development agenda, and shows that a number of innovative initiatives in this area have already been implemented, pointing the way forward. There is a need to build on such initiatives so that their full countercyclical macroeconomic stabilizing effect can be tapped into before threats materialize.

INTRODUCTION

The sudden and dramatic increase in the international price of rice from \$385/ton in January 2008 to \$963/ton² only four months later caused shockwaves across the region and prompted policymakers to adopt various emergency measures to protect the poor. Such measures included sales of rice at subsidized prices, emergency cash assistance to poor households, water and electricity subsidies to small users, fuel subsidies, free transportation on selected buses and trains, rice distribution to children attending elementary school and raising minimum wages. They also included more harmful measures, such as banning or restricting exports of rice and other food commodities, which may have temporarily helped to keep domestic prices under control, but at the cost of increasing the international price even more. While these measures were effective in tackling the emergency and minimizing the likelihood of social upheaval, they were costly, lacked a careful design and provided only temporary relief.

After peaking in mid-2008, international commodity prices started to recede, in some cases at fast rates, relieving pressures on domestic inflation rates. The onset of the global financial crisis and its impact on the demand for commodities played a major role in this development. However, the reduction in domestic inflation did not diminish the need for social protection measures. As the deepening crisis knocked down the region's manufacturing exports, increased unemployment and cut household incomes, Governments extended

their previous emergency measures and implemented additional ones to protect vulnerable households from the downfall.

Countries in Asia and the Pacific had to rely on emergency measures to respond to the crises because the coverage of social protection programmes in the region is, on average, low. While there is no common definition of social protection, it could be defined as benefits available from the State, market, and/or civil society aimed at: (a) reducing multidimensional deprivation and vulnerabilities of the poorest households; (b) protecting all households in the event of substantial income losses caused by unemployment, old age, disabilities, maternity, sickness or injury, death of the breadwinner, etc.; and (c) ensuring the welfare of children and households' access to health-care services.³

The figure shows information on the coverage rates of seven categories of social protection programmes in 30 developing countries of the region.⁴ The data shows that coverage rates are particularly low in the areas of health-care assistance, labour market programmes, assistance to persons living with disabilities and access to microcredit by the poor. The areas with the highest social coverage rates are social assistance to the poor and child protection. In the area of assistance to the elderly, the median coverage rate is 49 per cent, but given lower rates in China (26 per cent) and India (23 per cent), the weighted average for the region is only 30 per cent. The lack of access to social protection is particularly detrimental to workers employed in the informal economy.

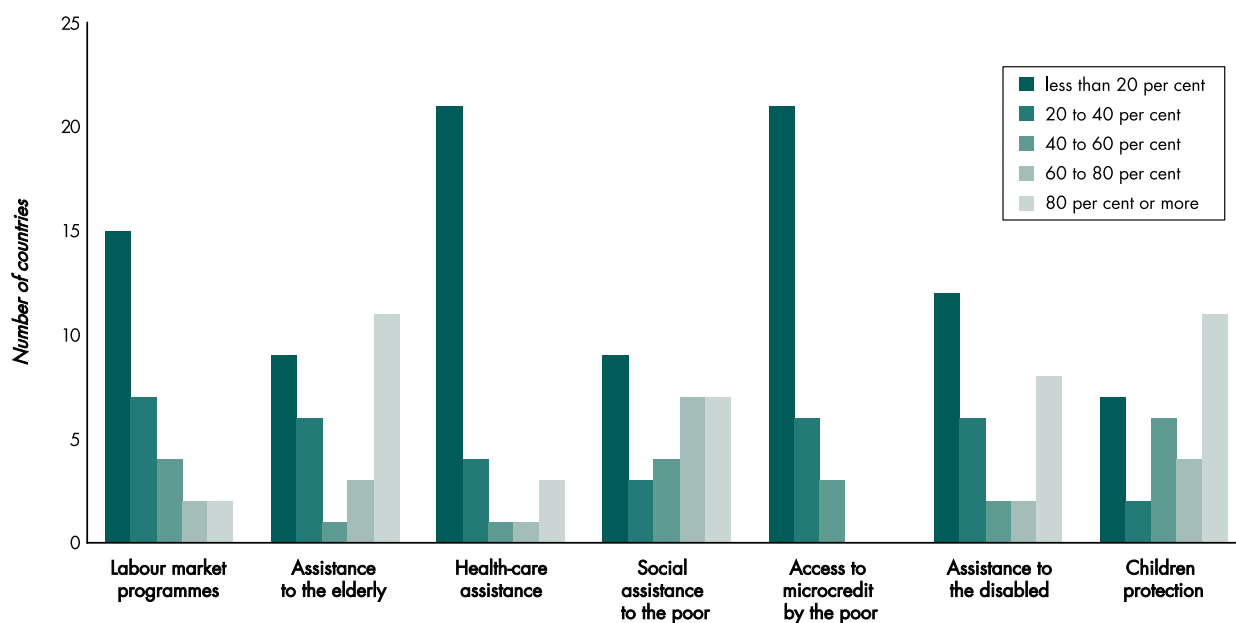
¹ For an in-depth analysis see ESCAP, *Economic and Social Survey of Asia and the Pacific 2009: Addressing Triple Threats to Development* (United Nations publication, Sales No. E.09.II.F11).

² White rice, Thai 100 per cent B second grade, free on board Bangkok. Source: Food and Agriculture Organization of the United Nations, *International Commodity Prices*, accessed from www.fao.org/es/esc/prices/PricesServlet.jsp?lang=en.

³ A. Bonilla-García and J.B. Gruat, *Social Protection: A Life-cycle Continuum Investment for Social Justice, Poverty Reduction and Sustainable Development* (Geneva, International Labour Office, November 2003); S. Devereux and R. Sabates-Wheeler, "Transformative social protection", Institute of Development Studies Working Paper No. 232 (Brighton, England, October 2004); S.B. Kamerman and S. Gatenio Gabel, "Social protection for children and their families: a global overview", paper presented at the conference on Social Protection Initiatives for Children, Women, and Families: an Analysis of Recent Experience, New School, New York, October 2006.

⁴ See J. Wood, "A social protection index for Asia", paper presented at the conference on Asia Social Protection in Comparative Perspective, National University of Singapore, Singapore, January 2009. The countries are Armenia, Azerbaijan, Bangladesh, Bhutan, Cambodia, China, Cook Islands, Fiji, India, Indonesia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Malaysia, Maldives, Marshall Islands, Mongolia, Nauru, Nepal, Pakistan, Philippines, Papua New Guinea, Republic of Korea, Sri Lanka, Tajikistan, Tonga, Tuvalu, Uzbekistan, Vanuatu and Viet Nam. The coverage rates are estimated as the number of persons receiving services over the number of persons in the target population for each category of programme.

Figure. Coverage of social protection programmes in 30 countries in Asia and the Pacific



Median	20%	49%	5%	57%	8%	23%	57%
Weighted Average	20%	30%	20%	83%	13%	22%	83%

Note: Weighted averages use the countries' population in 2007 as weights.

Source: ESCAP, based on data from Wood, "A social protection index for Asia", paper presented at the conference on Asia Social Protection in Comparative Perspective, National University of Singapore, Singapore, January 2009.

WHY SHOULD GOVERNMENTS IN THE ASIAN AND PACIFIC REGION INVEST IN SOCIAL PROTECTION SYSTEMS?⁵

There are several reasons why Governments in the Asian and Pacific region should address deficiencies in access to social protection. First, crises such as the soaring fuel and food prices of 2008 and the global financial crisis that succeeded it are unlikely to be unique. Pressures on natural resources brought about by economic and population growth, and heightened by climate change effects, are likely to push commodity prices back up in the future, when the global economy recovers from the current recession. A longer-term policy response is thus needed in order to avoid the need to rely once again on ad hoc emergency measures which can, in some cases, exacerbate rather than mitigate negative effects. What is really needed is the development of comprehensive social protection systems that will be in place before the next crisis strikes.

Second, it has been estimated that 582 million people — one out of six of the population — were undernourished in the Asian and Pacific region in 2007, up from 542 million on average for the period 2003-2005.⁶ While this statistic is in itself worrisome, it is

even more so in a region that grew at an average annual rate of 8 per cent during those years, compared to 4.7 per cent for the world economy. These relatively high rates of economic growth are creating economic resources that can and should be allocated to reduce the multiple deprivations of the poorest households, with the ultimate goal of eliminating hunger in the region. Achieving this goal will require systematic investments to build social protection systems capable of reaching all members of society at all times.

Third, in the absence of social insurance schemes, the higher risk of suffering income losses during economic downturns induces households to protect themselves by increasing their savings — by cutting expenditures. While such behaviour is rational at the individual level, in the aggregate it contributes to deepening the downturn, thus acting in a pro-cyclical manner. In this context, social insurance programmes that provide assistance to households experiencing substantial income losses will reduce the need for self-insurance, exerting a stabilizing effect during economic downturns.

Fourth, the current economic crisis is expected to result in 24.8 million workers losing their jobs in Asia-Pacific alone. Unemployment threatens many hard-won social achievements, particularly education.

⁵ Drawn from N. Heyzer, statements at the sixty-fifth session of the Economic and Social Commission for Asia and the Pacific, 27 April 2009; at the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development, New York, 25 June 2009; and "The impacts of the financial and economic crises on sustainable development, particularly their social implications", panel presentation at the Economic and Social Council, Geneva, 13 July 2009.

⁶ ESCAP, *Sustainable Agriculture and Food Security in Asia and the Pacific* (United Nations publication, Sales No. E.09.II.F.12).

With less than 20 per cent of the population covered by unemployment benefits, poor families may be forced to pull their children from school and require them to work to supplement family income. The losses in human capital are huge, and the long-term economic costs far outweigh the immediate fiscal costs of providing income support. Furthermore, evidence from countries with extensive unemployment insurance suggests that such automatic stabilizers have a more prompt and consistent countercyclical effect than discretionary policies.

Finally, global macroeconomic imbalances have increased substantially in recent years. Between 2001 and 2008, the merchandise trade deficit in the United States of America almost doubled, from \$430 billion to \$820 billion, while the foreign exchange reserves of developing Asia and the Russian Federation increased from \$415 billion to \$3,170 billion, with China accounting for 70 per cent of the increase.⁷ While not a short-term priority, the reduction of these imbalances is a desirable medium-run objective. For that purpose, the implementation of a massive programme of investment in social protection in the Asian and Pacific region could be not only feasible — given the region's abundant foreign exchange reserves — but also an effective tool to boost domestic consumption and contribute to a more balanced pattern of economic growth in the global economy.

INNOVATIVE EXPERIENCES POINT THE WAY FORWARD

There is not a unique prescribed way to build and strengthen social protection systems. The specific details of such systems will vary across countries depending on their specific needs, existing social infrastructure and vulnerability patterns, and their technical and fiscal capacity to administer different types of programmes. But despite differences in implementation, it should be possible to agree on a common goal. A desirable goal for social protection systems in the region should be to capture all the people who fall under socially vulnerable categories and provide them with minimum grant levels. A minimum floor of social security benefits for all citizens should include:⁸

- a guarantee of universal access to essential health services
- guaranteed income security for all children through family and/or child benefits
- guaranteed access to basic means-tested or self-targeted social assistance for the poor and the unemployed
- guaranteed income security for people in old age and people living with disabilities through basic pensions.

In recent years, there has been much interest in the implementation of self-targeted and means-tested social assistance programmes for the poor in the Asian and Pacific region. Two selected examples of such programmes are described below.

The *National Rural Employment Guarantee Act (NREGA)* of the Government of India provides a legal guarantee for 100 days of employment in every financial year to adult members of any rural household willing to do unskilled manual work at the statutory minimum wage. The central Government funds the wages, 75 per cent of the cost of materials and part of the administrative expenses; the remaining costs are funded by state governments. Participants in NREGA work in projects such as water conservation, flood control, irrigation and land development, among others. The programme has many benefits, including the reduction of distress migration, employment generation in the most distressed areas and improvements in the natural resource base of livelihoods in poor communities.

The *Pantawid Pamilyang Pilipino Program (4Ps)* of the Government of the Philippines provides poor households with 500 pesos per month for their health needs and an education subsidy of 300 pesos for each child up to age 14. Poor families can receive an education subsidy for a maximum of three children. In return, beneficiaries are required to comply with the following conditions: (a) pregnant women must receive prenatal care, childbirth must be attended by a skilled or trained person and mothers must receive postnatal care; (b) children 0-5 years of age must have regular health check-ups and vaccinations; and (c) children 6-14 years of age must attend school at least 85 per cent of the time. Failure to comply with these conditions could mean losing the subsidy. School principals and municipal health officers are tasked with monitoring compliance. The rationale for the conditions is to create incentives for the recipients to invest in their own human capital. Such investments will give them, especially the children, a better chance of escaping poverty permanently.

Both programmes combine a safety net component with the generation of assets (land improvements in the case of NREGA and human capital in the case of the 4Ps), which can help recipients and their communities to reduce their poverty in the longer term. However, the two programmes differ in the way they target the poor. NREGA is an example of a self-targeted programme, characterized by low administration costs and high accuracy in reaching the targeted population. By guaranteeing income support to anyone willing to participate in unskilled manual labour at low wages, and for just 100 days in a year, the programme ensures that only the neediest will apply. In contrast, conditional cash transfer programmes such as the 4Ps require the implementation of specific targeting mechanisms to ensure that the benefits reach the desired recipients. Ensuring the accuracy of such targeting mechanisms could be expensive, administratively complicated and time-consuming.

A major challenge in implementing social protection programmes is the coordination among Government institutions. Typically, social protection mandates stretch across various Ministries. In the Philippines, for example, the National Economic Development

⁷ U.S. Census Bureau, "Foreign trade statistics", Foreign Trade Division, Washington D.C.; International Monetary Fund, *World Economic Outlook* (Washington D.C., April 2009).

⁸ See M. Cichon, "Building the case for a global social floor", Social Security Department (New York, International Labour Office, February 2008), accessed from www.un.org/esa/socdev/social/documents/side%20events/ILO_Building_the_case.ppt.

Authority (NEDA), with funding support from the United Nations Development Programme, is conducting a study⁹ to assess the various social protection programmes in place, and to identify and propose which programmes were in need of being merged, realigned, continued and/or strengthened. Initial findings of the study point to numerous programmes that are uncoordinated, have limited reach, are inadequately funded, and consequently are shortlived. The study is expected to be available in August 2009.

Coordination issues are of special concern, particularly in low-income countries, due to the limited capacity of Governments to raise tax revenue and the small share of the workforce employed in the formal sector. These make the social protection programmes that are common in industrialized countries, such as Government-funded old-age pensions and unemployment insurance schemes, difficult to afford and limited in reach and scope. However, national public revenues are not necessarily the only source of financing for social protection. An area that deserves more exploration is the potential for co-financing by households and communities.¹⁰ In the area of health care for the poor, a promising example is Grameen Health Care, whose clinics recover 93 per cent of their costs by selling inexpensive insurance policies, asking patients to pay a very small fee at the point of service and selling pharmaceutical and diagnostic services.¹¹

THE ROLE OF REGIONAL AND INTERNATIONAL COOPERATION

Notwithstanding the challenges, the examples show that the Asian and Pacific region is acquiring growing experience in the implementation of various types of social protection programmes. Much more experimentation, particularly through innovative Government and private sector partnerships, is worth pursuing.

Because countries in the region differ in their needs and in their technical and fiscal capabilities, there is much to be gained by exchanging information about various experiences and by forging mechanisms for technical cooperation in their design and implementation. It is also necessary to conduct systematic studies, such as the one underway in the Philippines, on the effectiveness of various programmes to determine which ones are most appropriate to the characteristics of different countries in the region. For planning and policymaking purposes, it may also be useful to examine at the regional level the possibilities of developing a commonly shared perspective on what constitutes a minimum floor of social protection benefits,¹² aside from a minimum floor of social security benefits. The ESCAP secretariat can contribute towards these goals. At the same time, there is a need for assistance from the international donor community for support in developing or strengthening social protection systems. This could mean refocusing grants on the direct financing of social protection benefits, as well as strengthening the administrative and technical delivery capacity of national institutions with social protection mandates.

In sum, the Asian and Pacific region has much to gain by strengthening its social protection systems. The benefits include a better preparedness to mitigate the impact of future economic and environmental crises on vulnerable groups, the possibility of making real progress in the objective of eliminating hunger, a stabilizing effect during economic downturns, and a contribution towards reducing global macroeconomic imbalances. The region not only has resources for investing in social protection, derived from its fast economic growth and record level of foreign exchange reserves, but also is increasingly acquiring experience in the implementation of innovative programmes. Thus, the Asian and Pacific region is in a good position to make substantial progress in this critical component of the development agenda in years to come.

⁹ The forthcoming Review and Strengthening of the National Social Protection and Welfare Program.

¹⁰ A. Barrientos, "Introducing basic social protection in low-income countries: lessons from existing programmes", University of Manchester, Brooks World Poverty Institute Working Paper No. 6 (Manchester, October 2007).

¹¹ *Bangkok Post*, "Revolution in health care for the poor: apply some common sense and no one need be deprived of medical services", 2 May 2009.

¹² For example, on 13 February 2007, the Philippines, through Resolution No. 1, Series of 2007, Social Development Committee, adopted a definition of social protection whose components are labour market programmes, social insurance, social welfare and social safety nets.

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For further information on the *Policy Brief*, please contact the Director, Macroeconomic Policy and Development Division, ESCAP, e-mail: escap-mpdd@un.org.