

SHAPING THE FUTURE OF SOCIAL PROTECTION: ACCESS, FINANCING AND SOLIDARITY

Andras Uthoff

Officer in charge Social
Development Division

Economic Commission for
Latin America and the Caribbean



NACIONES UNIDAS



**ROUND TABLE: Lessons and Challenges in social
protection and poverty in Southern Africa and Latin
America: Reaching the poor**

Bi-regional Conference on Social Protection and
Poverty Reduction

Cape Town, South Africa 7-9 June 2007

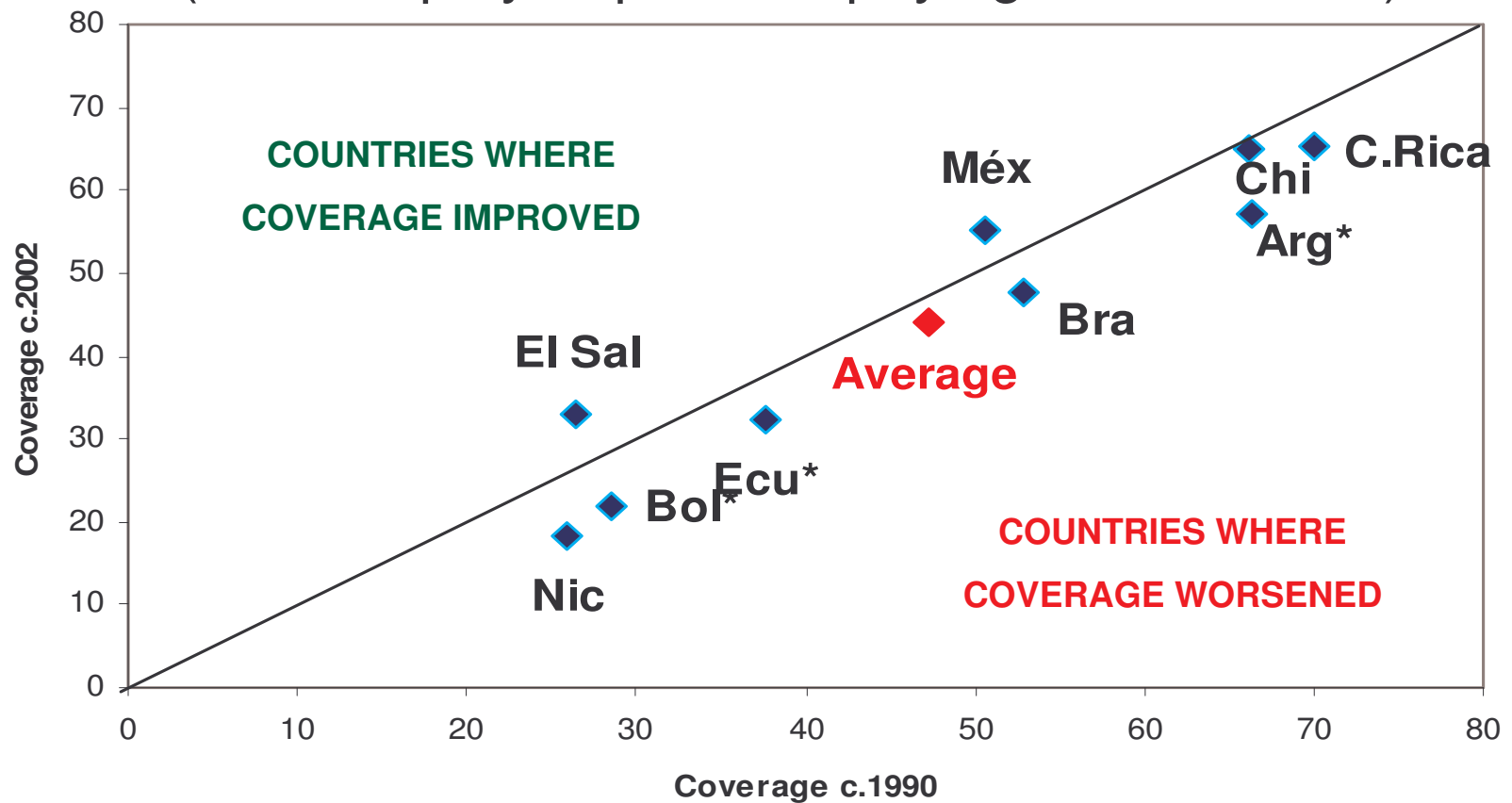


Background and the Reforms of the 1990s

- The welfare State founded upon the concept of a labour-based society has not lived up to expectations
 - Limited coverage, which is a factor in social exclusion
 - Income inequality carries over into social protection
- The reforms of the 1990s sought to improve financing and access by:
 - Creating a closer link between employment and protection based on the formalization of the labour market
 - Placing more emphasis on incentives and efficiency than on solidarity

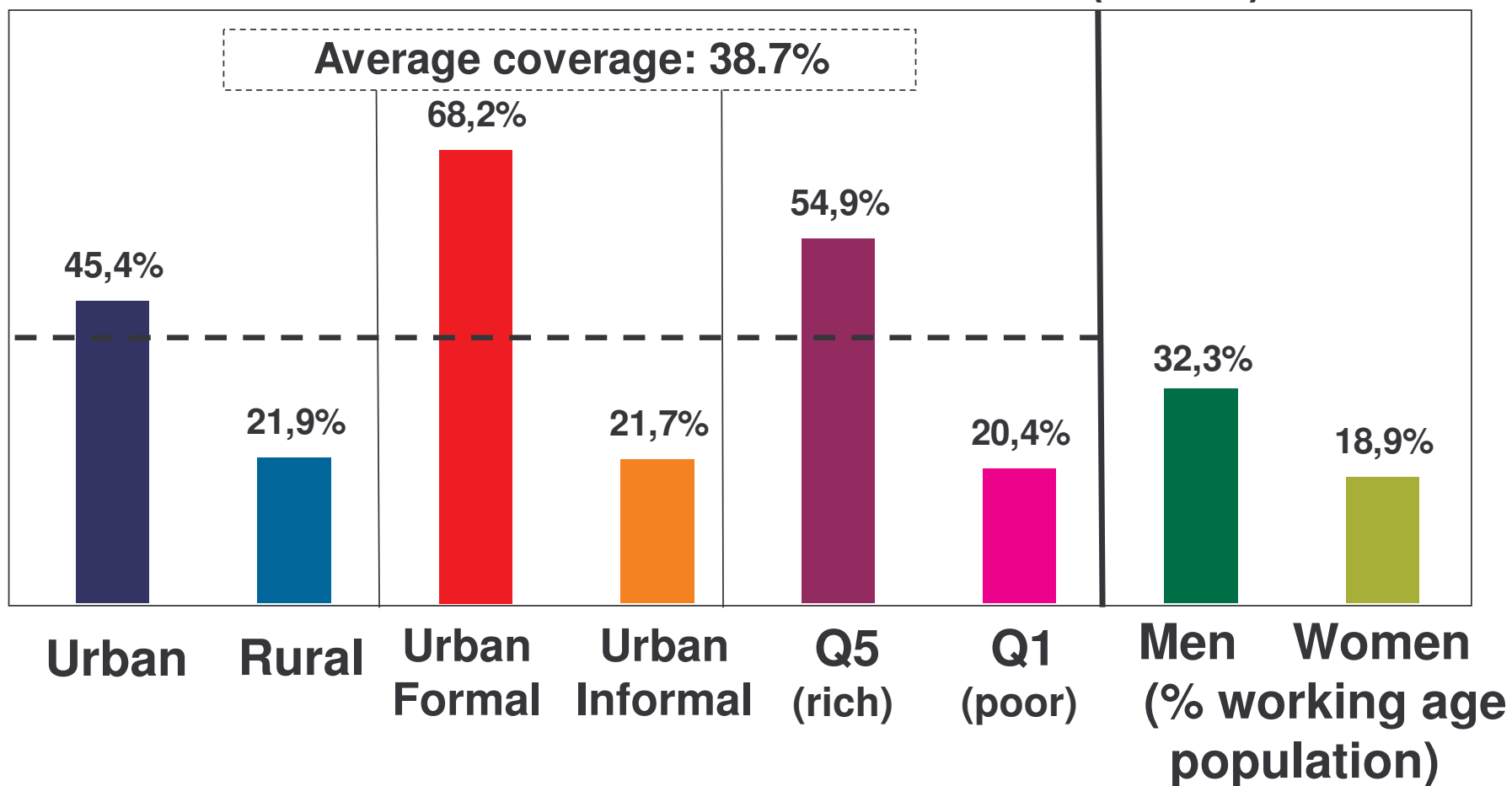
Despite the reforms, non-contributory coverage has not increased since 1990

LATIN AMERICA: COVERAGE IN 1990 AND 2002
(% of employed persons paying contributions)



Inequity in the structure of contributions

LATIN AMERICA AND THE CARIBBEAN:
EMPLOYED WORKERS WHO CONTRIBUTE (c. 2002)





In summary

On average,

- *4 out of every 10 employed persons* pay into the social security system
- *4 out of every 10 persons over 70* receive income through retirement or other pensions
- *4 out of every 10 persons* live in poverty

A high degree of heterogeneity among the countries of the region



NEW DEMANDS ON SOCIAL PROTECTION

- Social protection is *essential to democratically elected governments* as it transforms economic development into a positive force for all.
- Social protection *needs to combine efficiency and solidarity* in order to be politically and finance wise viable.
- Change in focus *employment cannot be the exclusive mechanism thru which access into social protection* is warranted.

There is a need for a new Economic, Social and Economic contract in order to UINVERSALIZE SOCIAL PROTECTION, by way of:

- **Efficiency & solidarity in benefits finance,**
- **Addressing demograohic, epidemiological and family struture changes;**
- **Neutralizing discriminatory sources:**
 - In the definition of work and employment (roles)
 - In the labor market
 - In the social protection systems



Social protection: a change in approach

- Employment should no longer be seen as the only mechanism for access to social protection
- Need to strike a better balance between incentives and solidarity
- New forces of change in demographics, epidemiological patterns and family structure

A new social covenant is needed in order to universalize social protection



Content of a new social covenant

- Explicit, guaranteed and enforceable rights
- Definition of levels and sources of financing (solidarity mechanisms)
- Development of a framework of social institutions

Promote a social contract

Compatible with				
A fiscal covenant				Democracy
<p><u>Fiscal responsibilities</u></p> <ul style="list-style-type: none"> ➤ Minimum guarantees ➤ Revision of tax burden ➤ Improve productivity of the provision of public and/or socially valued goods 	<p><u>Enhancing the role of education</u></p> <ul style="list-style-type: none"> ➤ Universal secondary education ➤ Reduce rural urban and by social strata differences in quality ➤ Reduce public/private gap ➤ Pre-schooling ➤ Learn to learn ➤ Schooling insurance ➤ Food and nutrition requirements 	<p><u>More and better jobs</u></p> <ul style="list-style-type: none"> ➤ Address productive heterogeneity ➤ Pro employment investment ➤ Human resources approach ➤ Reduce discrimination ➤ Improve labor policies and their relation to innovation, competitiveness and cycle ➤ Training policies 	<p><u>Universal Social Protection</u></p> <ul style="list-style-type: none"> ➤ Better design and regulation of private sector involvement ➤ Incorporate solidarity financing to improve access ➤ Improve protection against contingency risks ➤ Access to subsidies for housing 	<p><u>Promoting Social Cohesion</u></p> <ul style="list-style-type: none"> ➤ Citizen's participation ➤ Improve governance reviewing incentives to invest in contributive systems ➤ Decentralization and management



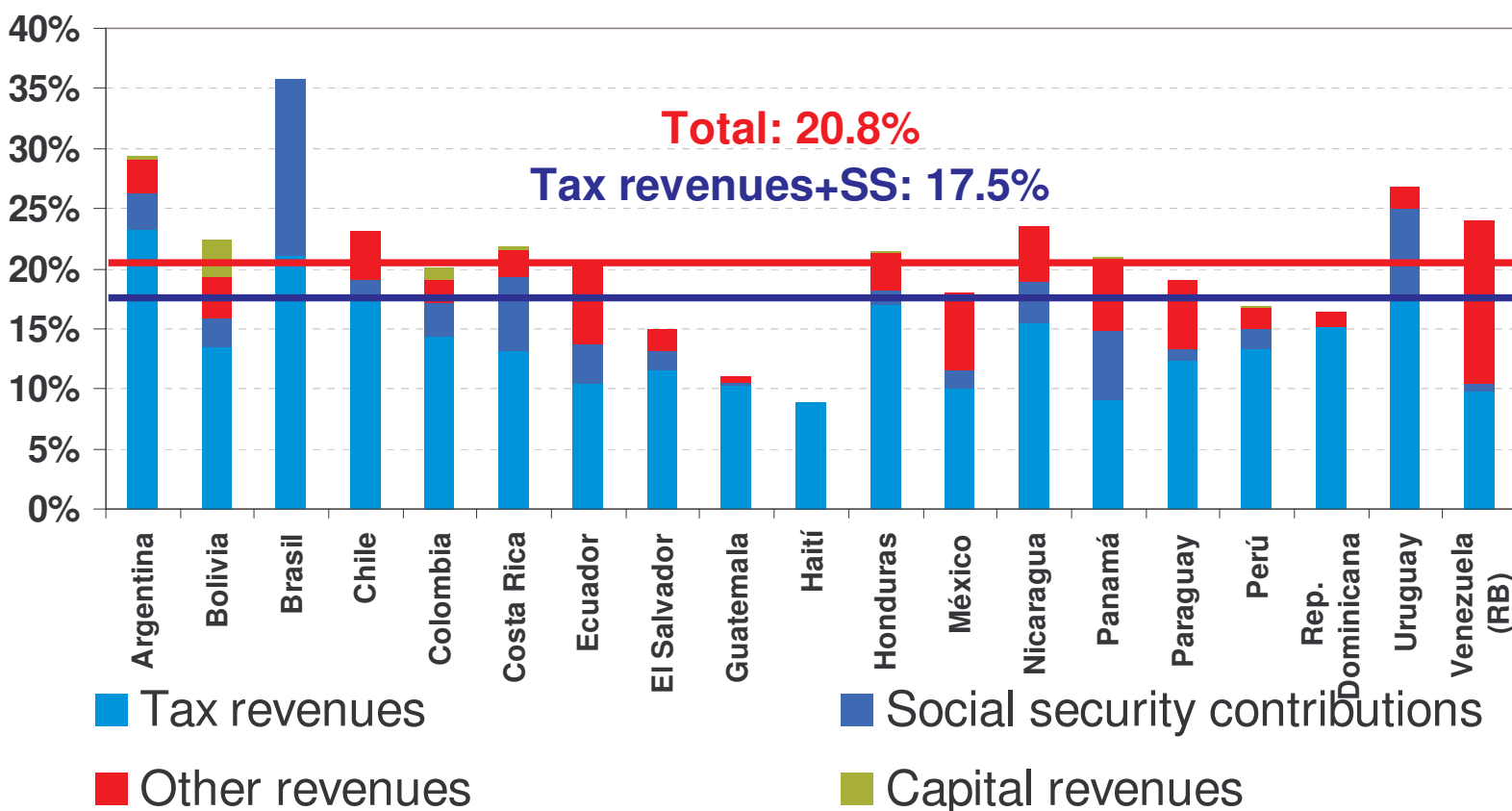


Sources of financing

- Challenges for social protection systems:
 - Increase non-contributory financing: boost tax collection and reallocate expenditure
 - Include a solidarity component within the contributory scheme

Public revenues

LOW LEVEL OF TAX REVENUES (% GDP, 2004)





Sectoral proposals

- The document develops a series of proposals regarding:
 - Health-care systems
 - Pension systems
 - Anti-poverty social programmes

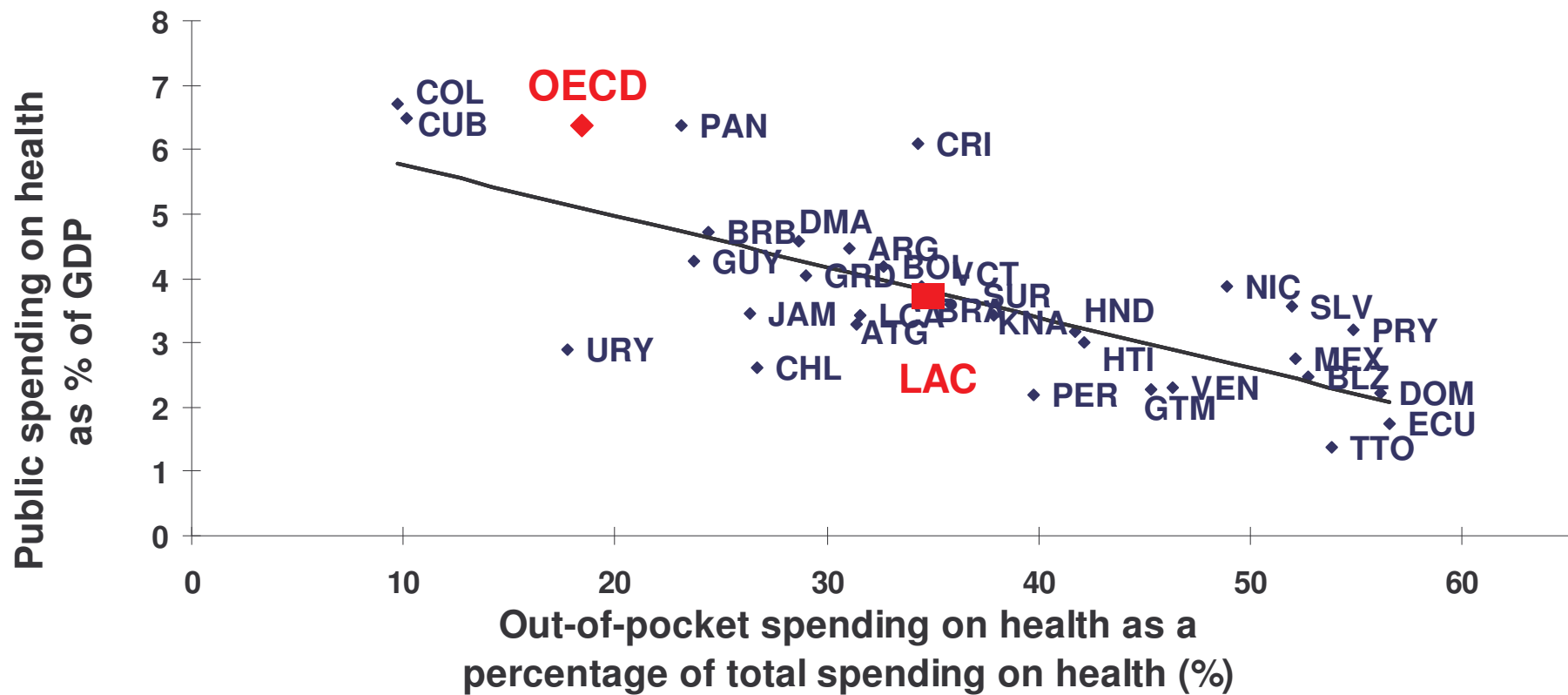
Reforms are non-replicable processes



Challenges for social protection in health

- Striking inequity in access to health services in the region

Inequity: out-of-pocket spending on health



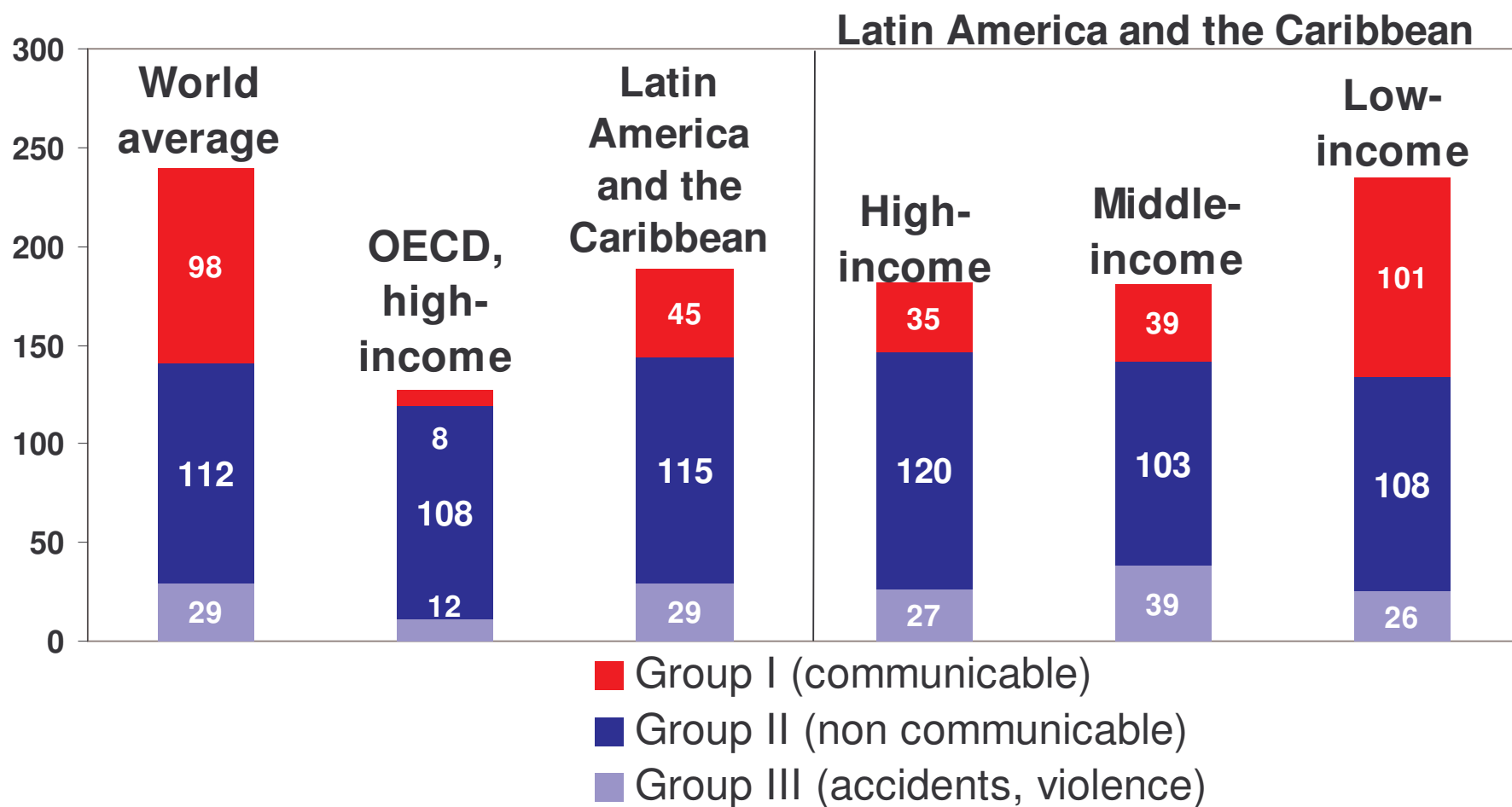


Challenges for social protection in health

- Striking inequity in access to health services in the region
- Demographic, epidemiological and technological transitions

Incidence of disease

DALYs per 1,000 inhabitants





Challenges for social protection in health

- Striking inequity in access to health services in the region
- Demographic, epidemiological and technological transitions
- Problems with the coordination of subsystems in terms of financing and service delivery

Moving towards universalization



The health reform agenda should include (1)

1. Integration of public and social security systems:
 - Solidarity: Access to services regardless of contributions, payment capacity and individual risk levels
 - Efficiency: Improved risk management and avoidance of duplications
2. Establish benefits with universal coverage and guaranteed entitlements (health needs)



The health reform agenda should include (2)

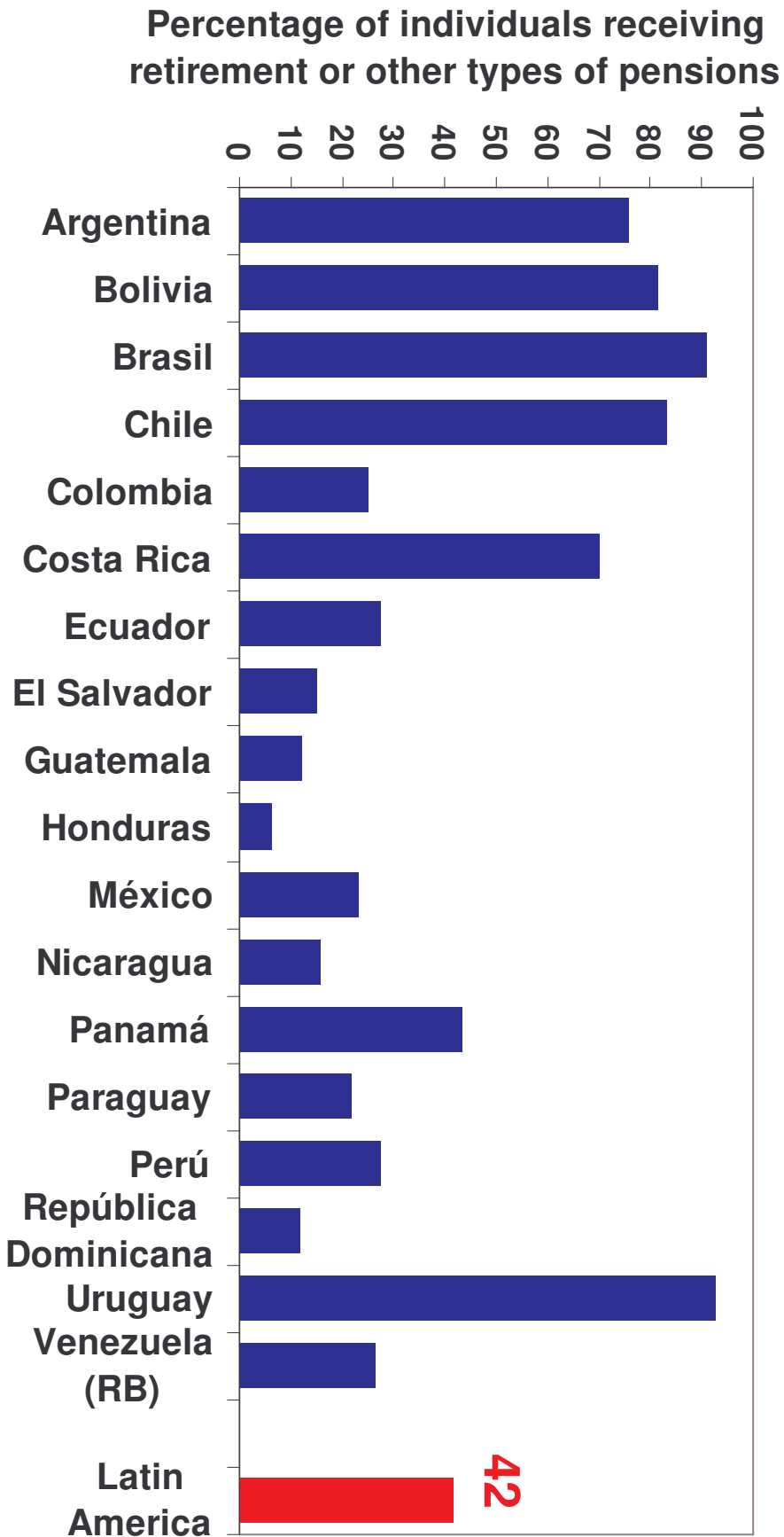
3. Policies on the organization and delivery of services
 - Separation of financing from service provision
 - Coordination of the supply of health-care services
 - Improvement of payment mechanisms
 - Regulation and oversight
4. Policies on public health and the expansion of primary care
 - Strengthening of primary-care prevention and treatment
 - Decentralization



Challenges for pension systems

- Ageing of the population and limited contributory and non-contributory pension coverage

Pension coverage: Only 4 out of every 10 persons over 70 receive some sort of pension





Challenges for pension systems

- Ageing of the population and limited contributory and non-contributory pension coverage
- Segmented contributory systems with financing difficulties
- Difficulty of reaching a consensus on parametric reforms in PAYG systems
- Limited coverage of non-contributory systems

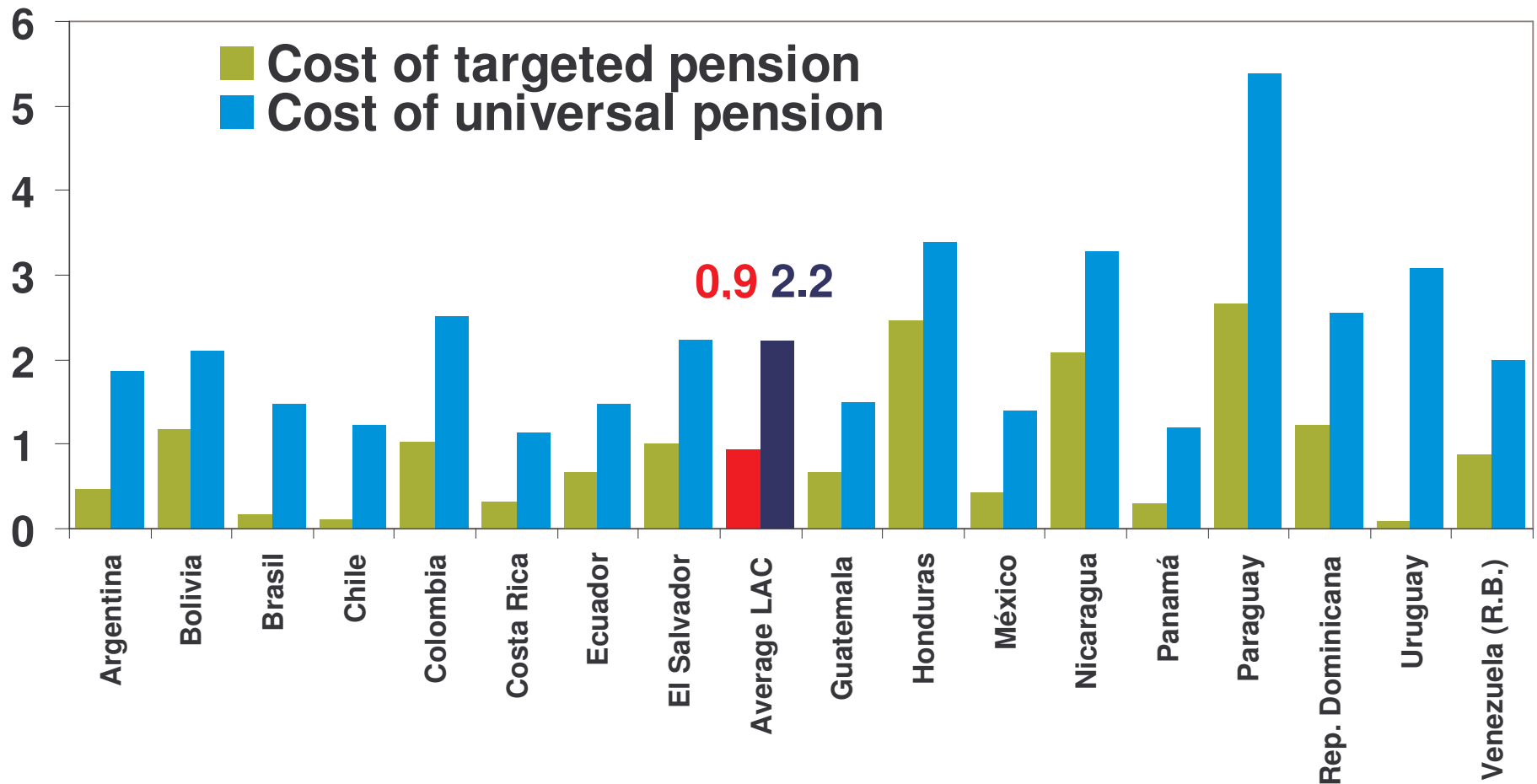


Pension reform agenda

1. Strengthen non-contributory pensions

Non-contributory pensions for over-65s to cut the poverty rate in half

COST OF PENSION BENEFITS EQUIVALENT TO ONE POVERTY LINE
(As percentage of GDP)





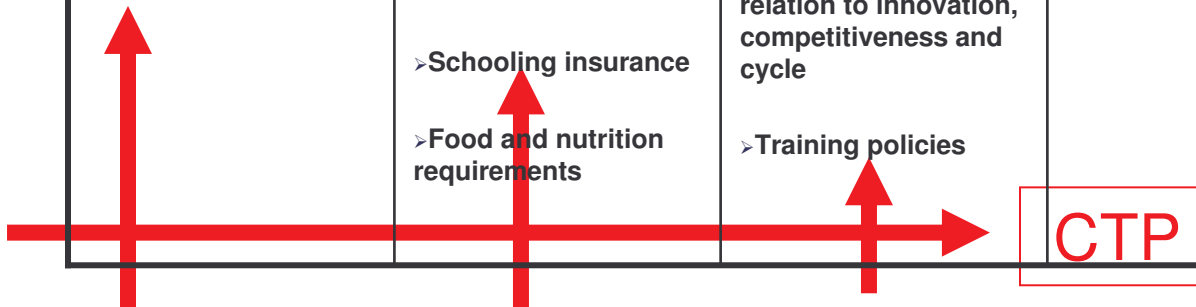
Pension reform agenda

1. Strengthen non-contributory pensions
2. Reform PAYG systems
 - Emphasis on contributory solidarity
 - Promotion of participation in contributory system (e.g., a closer link between contributions and benefits)
 - Financial viability (notional or parametric reforms)
 - Standardization and unification of pension systems
3. Supplement with individual capitalization
 - Diversify economic, financial and demographic risks
 - Transition costs
 - Industrial organization
 - Gender equity (labour market and life tables)

Promote a social contract

Compatible with

A fiscal covenant				Democracy
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Context for social programmes

- Poverty limits the exercise of citizenship and the enforceability of rights
- Poverty runs counter to equality of opportunity for present and future generations
- Multidimensionality of poverty has given rise to a broad range of programmes

EN ALGUNOS PAÍSES LOS PROGRAMAS DE TRANSFERENCIAS CONDICIONADAS (PTC) SON IMPORTANTES

PROGRAMA	Beneficiarios / Población (%)	Gasto / PGB (%)
“Bolsa Familia” (Brasil, 2003)	16.0	0,28
Chile Solidario (Chile, 2002)	6,5	0,10
Familias en Acción (Colombia, 2001)	4,0	0,30
Superémonos (Costa Rica, 2000)	1,1	0,02
Programa de Asignación Familiar PRAF (Honduras, 1990)	4.7	0,02
Programa de Avance Mediante Salud y Educación, PATH (Jamaica, 2002)	9.1	0,32
Oportunidades (Ex-Progresas) (México, 1997)	25.0	0,32
Red de Protección Social Mi Familia (Nicaragua, 2000)	1,2	0,02



Challenges for anti-poverty social programmes

- Alleviate poverty in the short run
- Break the cycle of intergenerational poverty transmission (human capital)
- Create a framework of social institutions:
 - Intersectoral coordination and integration
 - Transparency and evaluation
 - Continuity and consistency
 - Engagement of civil society



Proposals for enhancing conditional transfer and employment programmes

1. Share the programme-generated workload within the household (CCT)
2. Incorporate social capital criteria
3. Proactive role for the State in incorporating beneficiaries into the programmes
4. Ensure supply of health and education services to match programme-induced increase in demand (CCT)
5. Explicit exit rules
6. Strengthen skills-building in employment programmes

Promote a social contract

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Economic and social rights in public policy

- Three dimensions of economic and social rights:
 - ethical
 - procedural
 - content

Work to build genuine social citizenship.



In summary

- The task of universalizing and improving social protection is yet to be completed
- Employment alone is not enough to universalize coverage
- Greater complementarity between solidarity and incentives
- The contributory and non-contributory systems need to be integrated

Reforms in the context of a social pact in which rights are the normative horizon and economic inequalities are constraints to be overcome

Chile's 2006 pension reform proposal

MANDATE

- The President, Michelle Bachelet, creates an Advisory Council to respond to the worries and questions of all Chileans to their future old age conditions.
- The objective is to anticipate potential problems that the pension system might experience, in order to adapt or redesign it to the new economic, social, cultural and political context of the next decades.
- **The council hence:**
 - **Prepared a diagnosis of the current situation of the pension system**
 - Identified its weaknesses and strengths
 - Outlined the challenges ahead
 - **Elaborated proposals to improve it**
- The Council's report contains opinions and proposals on the pension system reform, but does not engage the government's decisions on the subject, nor the National Congress position.

Chile's 2006 pension reform proposal

A NEW SOCIAL CONTRACT

- To reconstruct a framework on rights, obligations and guarantees
- To generate consciousness on the risks of an unprotected old age
- To guarantee fairness on the returns to savings
- To recognize the value of both paid and not paid work
- To raise the confidence on public and private institutions that invest saving and administer benefits



Set of reforms to widen and balance the structure on rights, obligations and institutional responsibilities.

- Universalize the right to social protection
- Minimize the risk old age poverty
- Fair returns to the individuals contribution to society in all its forms

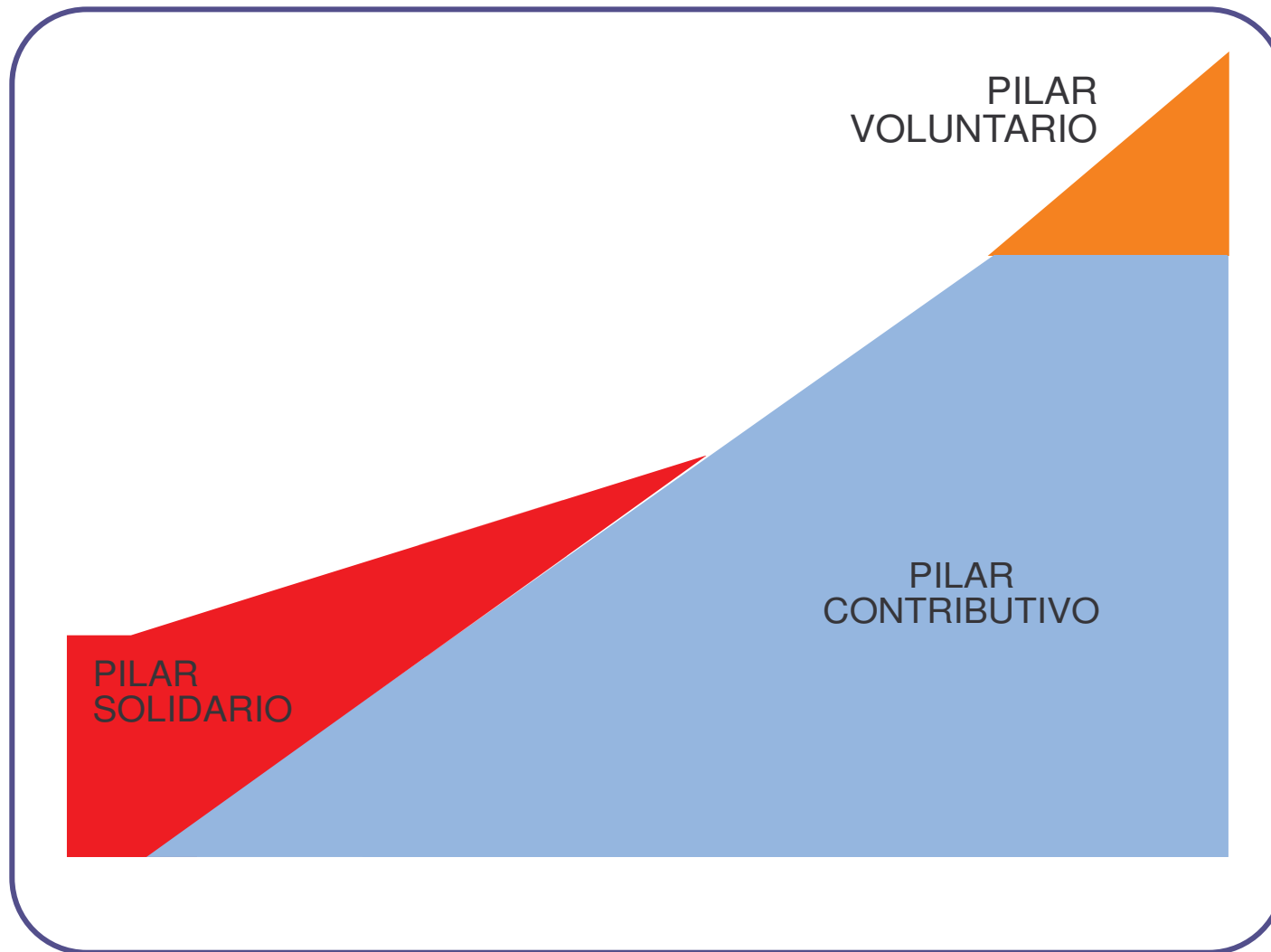


Chile's 2006 pension reform proposal

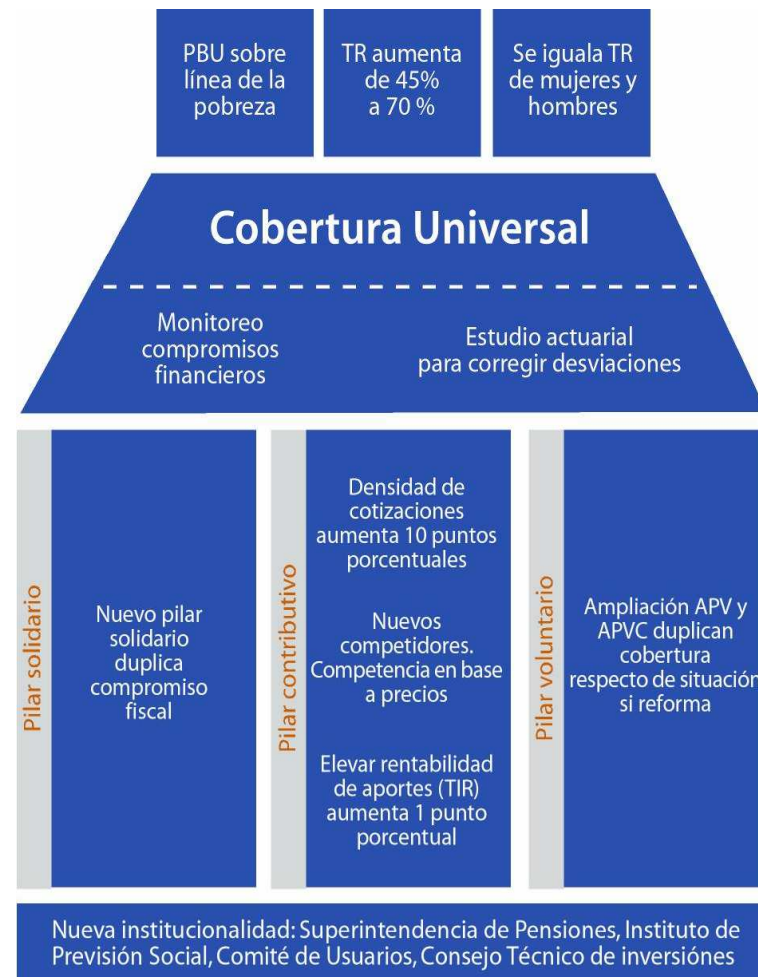
PROPOSALS

- **UNIVERSALITY AND COVERAGE** To build a strong and integrated solidarity, and also rise the density of contributions to the contributive system.
- **EFFICIENCY** To intensificate price competition within the industry of prevsional services.
- **FNANCIAL SECURITY** To improve financial risk management and raise the returns to the affiliates contribution.
- **TRANSITION** To take advantage of the reduction in the earlier reform transition costs.

COVERAGE: INTEGRATING CONTRIBUTIVE AND NON CONTRIBUTIVE BENEFITS



NEW PENSION SYSTEM DESIGN



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