

# **Social Protection in Southeast and East Asia – Towards a Comprehensive Picture<sup>1</sup>**

Marei John

## **The Project ...**

‘An efficient and effective social protection system will support both social stability and social justice as well as economic development’<sup>2</sup>. In this context, the aim of the Friedrich Ebert Stiftung project on ‘Social protection in Southeast and East Asia’ is to promote dialogue on the existing social protection systems within the individual countries and to facilitate an exchange of experiences and best-practice examples on a regional level. The individual country studies serve the purpose of giving an overview on current social protection systems as well as policy recommendations for the further development of the systems of social protection.

The following preliminary conclusions may serve as a basis for further discussion:

- 1) While most countries have successfully developed comprehensive systems of social protection, difficulties in implementation remain enormous.
- 2) Some social protection systems do not adequately reflect economic development or lack thereof.
- 3) No solutions have been found so far in order to deal effectively with the informal sector.

After explaining the background of the project as well as the structural framework of the studies, these statements will be examined in more detail.

## **The Background ...**

As described in the article on ‘The Relevance of Social Security for Economic Development’ in this publication, access to social security is a basic right. How far is this right granted in Southeast and East Asian states? All examined countries have some form of social protection, but with differing ranges, degrees of intensity, and efficiency of the schemes. Existing social protection systems are usually described as achieving only very limited coverage, struggling with insufficient funds and ineffective institutions. The informal sector is growing in most countries, leaving large parts of the population unprotected.

During the Asian crisis of 1997/98, it became particularly clear in some states that informal family and community-based social safety nets – supplemented by modest

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1 This introduction is based on the original ‘terms of reference’ for the country studies. Special thanks go to Michael von Hauff for his contributions to this paper.

2 See ‘The Relevance of Social Security for Economic Development’ by Michael von Hauff.

government programmes – are not adequate in the face of serious economic crises to prevent a significant growth of poverty and the associated risk of social tension and disturbances. Industrialization and urbanization plus social mobility have additionally resulted in the disintegration of traditional forms of social protection.

In the years after the Asian crisis numerous short-term measures were introduced in order to smooth the social consequences of the financial and economic crisis and generally give support to the poor. However, the current project implemented by Friedrich Ebert Stiftung is supposed to look not only at the most vulnerable groups of the population, but to cover the whole population. Looking at the situation of only one specific group should be avoided because this always involves the risk of improving the situation of one group at the expense of another. This is aggravated by the risk of implementing overlapping or conflicting measures, which are not coordinated with each other.

Social protection aims at overcoming risks and preventing risks, therefore three areas have been included to achieve a comprehensive picture: The institutionalized system of social security/social insurance, the informal sector, and related labour market policies. Social policy (education, housing etc.) is considered within the general framework. The project addresses government officials, ministries, employers' organizations, and insurance providers in order to give support to policy makers to establish an integrated and coordinated national policy on social protection. At the same time, trade unions and civil society organizations shall be given relevant input to actively participate in the political discussion on social protection systems.

## **Definitions: Social Protection and Social Security**

There is a wide range of definitions of social security and social protection. Generally, we agreed to use the broader term **social protection**, including:

- Social insurance (social security) and savings schemes, such as industrial accident, health, old age and unemployment insurance. In other words, these are defined as contributory schemes for contingencies such as employment injury, occupational disease, sickness, maternity, invalidity, old age, death, or unemployment.
- Social assistance and services, such as benefits and transfers. These are defined as social welfare, usually tax- or donor-financed and mostly means-tested.
- Labour market policies.

Thereby, we refer to the common ILO definitions (ILO, World Labour Report, 2000). **Social security** is defined as the protection that society provides for its members through a series of public measures. The term is used mostly in the context of insurance-type schemes including mainly statutory social security schemes, but also other contributory (insurance-type) schemes such as employer-provided pension plans, community-based schemes, and private health insurance. **Social protection** is defined 'to include not only public social security schemes but also private and non-statutory schemes with similar objectives, formal or informal'. In other words, social protec-

tion encompasses a broader range of public and private measures including all non-contributory provisions such as tax- and donor-financed welfare programmes.

Social security is most often used as an equivalent for social insurance or formal, institutionalized schemes set up by the government and/or by legislation in the so-called formal sector. In the last two decades, however, there has been an intensive discussion on whether and how social security measures (e.g. health insurance) can be transferred to the informal sector (extension of coverage). The studies in this book provide different answers to this question.

### **(Lack of) Definition of the Informal Sector**

Concerning the informal sector, there is still no generally accepted definition. In 1976, Sethuraman/ILO developed a catalogue of criteria which still provides a good guideline. According to this, economic activities belong to the informal sector when either

- Family workers work in a business,
- Less than 10 people are employed in a business,
- There are no legal regulations or existing regulations are not observed,
- There are no regular working times,
- The workers have less than six years schooling,
- The work is seasonal,
- No electricity is available in the workplace or
- There is no dependency on regular loans.

A more up-to-date definition of the ILO was agreed during the 15<sup>th</sup> International Conference of Labour Statisticians in 1993, which refers to an informal sector enterprise as ‘a private non-agricultural business which is household-operated and has a total of, at most, five paid employees’.

An alternative sub-classification of the informal sector, which appears in connection with social security systems, is the following:

- Persons with regular employment, but without an employment contract, who do not enjoy the protection of social legislation or social security systems
- Persons who do not have a regular income due to the casual or seasonal nature of the work and who do not fall under the protection of social security systems (this also refers to migrant workers); self-employed workers
- Unemployed persons.

In connection with social security it makes sense to include the unemployed in the categorization of the informal sector, as they usually will have to look for jobs in the informal sector, provided they do not find work in the formal sector immediately and their family is not able to support them. Only in some cases they might benefit from a statutory scheme, e.g. unemployment insurance, or may have acquired pension rights by contributing previously to such a scheme.

## **The Framework**

Each of the country studies in this publication comprises five main sections, 1) Institutional framework, 2) Review of the existing system, 3) Assessment of the effectiveness and efficiency of the existing system, 4) Development of innovative programmes and alternative social protection schemes, and 5) Policy recommendations, in order to achieve a comprehensive picture. Using such a framework makes the studies comparable, which, in turn, is the basis for an intensive dialogue on a regional level. Please see the appendix for a complete overview of the structure of the studies.

**1) Institutional Framework:** Social protection is significant to stabilize an economy. There is a positive relationship between social protection and economic development, as long as the social protection system is effective and efficient. The justification lies both in the economic framework theory and policy as well as in macroeconomic justifications: A) Stabilization of the social and economic order, avoidance of social costs and safeguarding of labour potential; B) Stabilization of demand for consumer goods (built-in stabilizers); the purchasing power of the working class will be protected even in times of crisis.

Based on these considerations and in order to provide the relevant country background, the first section gives an overview over the general political, social and economic framework of the specific country. Furthermore, it includes information on quality and availability of data, the existing institutional framework, government support and the traditional and contemporary perception of the social protection system.

**2) Review of the Existing System:** Due to the existing, deep rooted and decisive differences between the formal and informal sector concerning social protection systems, this chapter will examine the two sectors separately. The examination of existing measures includes information on financing (personal contributions/savings, taxes, the capital market), the providers of each scheme (state, private) as well as on beneficiaries. The demarcation of statutory and non-statutory social security systems requires a categorization of the formal (organized) and informal sector.

It should be taken into account that in some Asian countries the **formal sector** only has a relatively small influence on economic growth and employment. In other cases, however, this may not be true as capital-intensive high productivity industries such as multinationals are part of the formal sector. Politically, more attention has always been paid to the formal sector. It generates tax revenue for the state and is generally considered to be progressive and productive. Section 2.1 deals with the formal sector and provides an introduction to social insurance and savings schemes (such as industrial accident, health, old age/death and unemployment insurance) as well as additional social assistance offered by the state to formal sector workers.

The **informal sector** in many countries, on the other hand, is playing an increasingly important role in this respect and therefore deserves greater attention. The main problems arise from the fact that informal sector workers are usually non-legal and outside the scope of official statistics and government regulation – therefore it is extremely difficult to give reliable assessments according to the specific size of the

sector and its necessities. Section 2.2 provides information on its problems and features, on existing benefits and transfers available for this sector and, usually most importantly, on savings, small credit and micro-insurance schemes.

As it is an important element of a comprehensive and sustainable social protection scheme, attention is also paid to supporting **labour market policies**. Employment is the most important form of social protection for workers. At this point, it is not intended to deal with macroeconomic dimensions and measures in detail, but more with training and supportive programmes to improve people's reintegration in the working process or prevent dropout and unemployment. Job creation programmes are usually more attractive, as the labour markets of most developing countries are characterized by a high degree of informal activity. In section 2.3, we distinguish between active labour market policies (creating job opportunities, human capital formation, matching job seekers) and passive labour market policies (educational system, retrenchment payments, minimum wage policy, occupational safety and health).

For a long time, labour market policy in the formal sector was restricted primarily to the promotion of economic growth. Usually, 'conventional' labour market policy was not geared to the informal sector and thus only covered a fraction of the labour potential. Labour market programmes for the informal sector are offered both by NGOs and to a certain extent by government bodies. The effectiveness hinges to a very large extent on the quality of labour market analyses, the legal structuring, the implementation of labour market legislation and the quality of the state's labour market administration. In all three areas, there are still significant deficits in many developing countries (e.g. in the regular statistical survey of labour market data). There is, however, no doubt that the formulation and implementation of instruments of labour market policy depend largely on the methodological approach and accuracy of labour market analyses.

**3) Assessment of the Effectiveness and Efficiency of the Existing System:** The idea is that new proposals should not be made without first looking at the effectiveness and efficiency of the existing model. The evaluation of social security systems is a relatively new field of research, especially in the context of the long-term goal of 'social protection for all' and the study of new approaches as alternatives to the existing statutory schemes. One has to bear in mind who has set out the objectives, if they are sufficient to cover basic needs at least, if they are realistic and achievable within the set time frame and the existing means and if it was seriously intended to meet them at all. The following fields for analysis have been agreed on: Coverage, feasibility, financial sustainability, gender equity, costs of administration, targeting, accountability & transparency.

**4) Development of Innovative Programmes and Alternative Social Protection Schemes:** This chapter is open to proposals, suggestions for improvement, and new innovative ideas. After having stated and analysed the positive features and deficiencies of the existing system, the aim is to tackle the question where changes are deemed necessary and which best-practice examples can be identified. Usually it is neither possible nor desirable to completely substitute the existing model with an-

other one. New ideas always have to be built into the existing system. Specific attention has been paid to the development of possible schemes to provide adequate coverage to the informal sector.

**5) Policy Recommendations:** After having presented suggestions for improving existing schemes, policy recommendations are made in order to answer the question of how these ideas can be implemented and by whom. Looking at general development trends, the model of a system of social protection in which both the state and private and charitable bodies assume complementary functions will assert itself. The authors show possible solutions for their specific countries.

## **Some Preliminary Conclusions**

Examining the systems of social protection, it is apparent that serious efforts have been made to provide sufficient coverage to the population against various contingencies. However, more often than not, the existing system focuses on the formal sector only. The informal sector including the self-employed, daily and family workers are outside the scope of the system, and social assistance is insignificant. The Asian financial crisis has altered perceptions somewhat, due to the sheer magnitude of adversity that workers and vulnerable groups faced. In recognition of this fact, efforts are increasingly apparent to reassess the existing systems. However, need for reform is not only obvious in the implementation of specific measures, but also in the general design of the social protection systems. On a large scale, the following preliminary conclusions may be drawn:

1. *While most countries have successfully developed comprehensive systems of social protection, difficulties in implementation remain enormous.*

Common problems include lack of coverage, lack of financial sustainability and lack of coordination between different measures. This is aggravated by lack of reliable data and statistics, and ineffective administration. Often tax evasion, low income tax revenues and/or corruption lead to lack of financial resources.

The studies give varying suggestions based on the specific context in order to tackle these problems. Generally, the government has to play a more pro-active role in terms of enforcement and in dealing with a low/not existing tax base. At the same time, in some cases the role of the private sector should be improved, always keeping in mind whether the state or the private sector can offer the best performance in terms of effectiveness and efficiency.

2. *Some social protection systems do not adequately reflect economic development or lack thereof.*

In some of the poorer countries, economic development does not support the complex (sometimes even generous) systems, which were developed. Some systems promise adequate benefits for the whole population. However, with low contribution rates, inadequate long-term planning and other difficulties, the main

burden lies on the state. If economic development does not provide the necessary resources, the state budget is insufficient to sustain the system in the long run.

In some more developed nations the government opted for capital-based (defined contribution) systems without pooling risks. Each individual pays into his or her own account for pension, health care etc. This system offers certain advantages, e.g. in terms of financial sustainability, but there are also drawbacks. The responsibility lies almost exclusively with the individual and the family, with the state offering little support. The system works reasonably well in times of full employment. However, in economically difficult times with higher unemployment, social assistance can be inadequate. The necessity of at least partly pooling risks and providing transfer payments becomes apparent. It has to be kept in mind, as the authors of the Malaysia country study put it, that 'development creates the need for formal social security provisions'.

3. *No solutions have been found so far in order to deal effectively with the informal sector.*

Usually, informal sector workers are neither covered by any social insurance or savings scheme, nor are social assistance schemes, such as benefits and transfers, sufficiently developed and accessible to provide adequate protection for them. There are conflicting statements according to whether the informal sector should be integrated into the formal one. Obviously, simple registration of informal sector workers is insufficient. However, integration/inclusion seems to become necessary once numbers grow in any successful voluntary scheme. At the same time, trust into formal institutions has to be gradually developed and increased, so that savings and insurance schemes become a more valid option.

Some positive experiences have been made with micro savings and small credit schemes. However, most countries are still in the experimenting stage. As a consequence, much of the responsibility lies with civil-society organizations and their networks. The government has to acknowledge this fact by giving some financial support to NGOs. Generally, more visibility is needed to change the image of the informal sector.

## **Appendix**

All country studies are structured according to the following list of topics:

### **Abstract**

#### **1. Institutional Framework**

- 1.1 General Political, Social, and Economic Framework
- 1.2 Availability and Quality of Data
- 1.3 Existing Institutional Framework
- 1.4 Government Support
- 1.5 Traditional and Contemporary Perception of the Social Protection System

#### **2. Review of the Existing System**

- 2.1 Social Protection in the Formal (Organized) Sector
  - 2.1.1 Categorization of the Formal Sector
  - 2.1.2 Social Insurance and Savings Schemes
  - 2.1.3 Social Assistance and Services: Benefits and Transfers
  - 2.1.4 Others
- 2.2 Social Protection in the Informal Sector
  - 2.2.1 Categorization of the Informal Sector
  - 2.2.2 Problems and Features of the Informal Sector
  - 2.2.3 Social Assistance and Services: Benefits and Transfers
  - 2.2.4 Voluntary Schemes: Savings, Credit and Micro-Insurance Schemes
  - 2.2.5 Others
- 2.3 Labour Market Policy
  - 2.3.1 Active Labour Market Policy
  - 2.3.2 Passive Labour Market Policy

#### **3. Assessment of the Effectiveness and Efficiency of the Existing System**

- 3.1 Coverage
- 3.2 Feasibility
- 3.3 Financial Sustainability
- 3.4 Gender Equity
- 3.5 Costs of Administration
- 3.6 Targeting
- 3.7 Accountability & Transparency

#### **4. Development of Innovative Programmes and Alternative Social Protection Schemes**

#### **5. Policy Recommendations**