How to Design Inclusive Social Protection Systems
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How to design inclusive social protection systems

This is the second in a series of four policy guides developed to support policymakers and practitioners in Asia and the Pacific in their efforts to strengthen social protection. This policy guide explains how to design inclusive and robust social protection systems and focuses on tax-financed income security, mainly through cash transfers.

WHAT IS THE SOCIAL PROTECTION FLOOR?

The social protection floor framework corresponds to a set of essential social services and income security measures that all women, men and children everywhere should enjoy to fulfil their rights embodied in human right treaties. The commitment to build social protection floors was endorsed, including by countries in Asia and the Pacific, in the 2011 ESCAP Resolution 67/8 on “Strengthening social protection systems in Asia and the Pacific” and in the International Labour Organization Social Protection Floors Recommendation, 2012 (No. 202).

Building social protection floors requires States to extend social protection, at least at a nationally defined minimum level, to everyone throughout their life. A comprehensive social protection floor should consist of schemes designed specifically to reach children, working-age adults and older persons (Figure 1). The floors must ensure: 1) sufficient extent of coverage, meaning the number of people reached by the schemes; and 2) sufficient level of coverage, meaning the amount of the benefit, which must be sufficient to meet the unique needs of different individuals.
Building a social protection floor therefore amounts to taking a lifecycle approach to social protection. Schemes built according to a lifecycle approach, such as child benefits, maternity benefits, unemployment benefits, disability benefits and old age pensions, can ensure that all women, men and children have the support they need to manage the varying risks they may face along the path of life.

Building a comprehensive social protection floor with a lifecycle approach takes time. Often, countries begin by guaranteeing all people access to an old age pension and, progressively build systems that offer schemes such as disability benefits, child benefits and unemployment benefits. Many high-income countries built their systems in this way, as have some low- and middle-income countries. For example, in 1997, Nepal introduced an old age pension for everyone aged 75 years and over, a scheme for widows aged 60 years.
Over time coverage has been expanded: age of eligibility of the old age pension has been reduced to 70 years; the disability benefit is now universal; and a child benefit for children aged 0–4 years living in poverty has been introduced. Step by step Nepal is realizing the right to social security for all. Other countries which have a range of lifecycle schemes include Georgia, Kyrgyzstan, Mongolia and Uzbekistan.

CONTRIBUTORY AND NON-CONTRIBUTORY SCHEMES — WHAT IS THE DIFFERENCE?

A sustainable social protection system should combine non-contributory and contributory schemes. Non-contributory schemes are tax-financed and offer a minimum income security, while contributory schemes allow people, typically those in employment, to secure their income at a higher level. Many countries adopt mandatory public contributory schemes that are tied to employment. Here, contributions basically function as a form of insurance where employees contribute a share of their labour income while working and when a contingency occurs, such as unemployment, disability or old age, ensure a higher income-replacement benefit than would be provided by the non-contributory schemes. Contributory schemes are therefore sometimes referred to as social insurance and non-contributory schemes as social assistance.

Sound social protection systems should have both contributory and non-contributory components that ensure universal coverage throughout the lifecycle. This provides a basis for sustainable financing of the system. The combination of contributory and non-contributory schemes ensures coverage for the majority of people, including those with stable jobs and higher incomes, those in informal employment who make up the large majority of workers in the Asia-Pacific and those who are not in the labour force.

UNIVERSAL OR TARGETED SOCIAL PROTECTION

Universal social protection schemes, available to everyone within a certain category of the population, such as an age group, are more inclusive and less likely to discriminate against people in need than so-called targeted schemes. However, many countries, particularly developing countries, limit the number of potential beneficiaries and target their non-contributory schemes to those living in poverty. This is a political decision aimed to save money and include only the most vulnerable segment of the population.

However, targeted programmes are less effective than universal schemes in reaching those living in poverty. This is because it is difficult to accurately measure individual or household incomes. While targeting the poor is often conceptualised as a simple process to support those most in need, in reality the process used and data collected are rarely reliable. Identifying the poor is a complex process when detailed income-tax registers are not available or regularly updated. Moreover, incomes of people change over time, sometimes
month by month, meaning that individuals who should qualify for the scheme would fluctuate greatly even over short periods of time. These issues lead to high inclusion and exclusion errors in targeted schemes, where many people who should have received the benefit are excluded and vice versa. The most successful targeted schemes in the Asia-Pacific region have exclusion errors of over 40 per cent. Universal programmes that reach everyone reduce the risks of excluding those most in need. Exclusion errors are measured as the proportion of the intended population who do not receive benefits; as Figure 2 shows, they can be very high.

Significant effort has been invested in improving poverty targeting mechanisms in Asia and the Pacific. Many countries have introduced proxy means tests, which measure household assets and characteristics in the belief that these provide a good representation of household incomes. Household characteristics taken into account by proxy means tests include type of housing, possession of durable and productive assets and levels of education. While this may appear to be a logical approach to identifying those living in poverty, errors in proxy means tests can be high and result in excluding many of those who should have received support. The Philippines Pantawid and Georgia’s Targeted Social Assistance programmes both use proxy means testing and are among the best performing in the region with errors of 42 per cent and 44 per cent respectively. These high exclusion errors make universal schemes more effective in reaching those left furthest behind.
There are many problems associated with targeted interventions in addition to high exclusion errors. Firstly, they do not prevent people from falling into poverty since they target only those already identified as poor. Targeting can also generate tensions between recipients and non-recipients in a community, usually because the rationale for selection is unclear. Conversely, targeting those living in poverty can generate stigma and shame for those characterised as poor and in special need.

Further, targeted schemes can discourage work as benefits are withdrawn if the family situation improves. This effect is particularly strong for people living in poverty who often have temporary or seasonal work that does not provide sufficient stability to risk leaving the scheme. Work disincentives have been observed in targeted programmes, including in Georgia’s Targeted Social Assistance poor relief scheme where women who receive the benefit are 9 to 11 percentage points more likely to be economically inactive compared to non-recipient women. Universal benefits do not feature this disincentive as recipients are rewarded rather than punished for working.

Inclusive social protection that leaves no one behind requires countries to invest in universal schemes that reach all people, including those living in poverty, or who are vulnerable to falling into poverty. The pros and cons of targeting and universality are set out in Table 1.

<table>
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<tr>
<th>TARGETED APPROACH</th>
<th>UNIVERSAL APPROACH</th>
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<tr>
<td>Large inclusion and exclusion errors, especially of those furthest behind</td>
<td>Covers most eligible beneficiaries, including the most vulnerable</td>
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<td>Leaves people in poverty traps</td>
<td>Prevents people from falling into poverty</td>
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<td>Disincentives work</td>
<td>Encourages people to work</td>
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<tr>
<td>Penalizes honesty when the beneficiary’s life situation has improved</td>
<td>Fair and transparent</td>
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<td>Creates tension within communities</td>
<td>Popular with communities and can contribute to greater cohesion</td>
</tr>
<tr>
<td>Promotes corruption and clientelism</td>
<td>Limited scope for manipulation of scheme by local elites</td>
</tr>
<tr>
<td>Stigmatizes beneficiaries</td>
<td>Empowers beneficiaries as benefit is an entitlement</td>
</tr>
<tr>
<td>Administratively complex and expensive</td>
<td>Easy to administer</td>
</tr>
<tr>
<td>Supported by elites as it is associated with lower taxes</td>
<td>Enjoys wide political support</td>
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Social protection systems should be designed to holistically protect people against risks and shocks throughout the lifecycle. Under a system with a lifecycle approach to social protection, one household and even one person can receive multiple benefits, thus more effectively reducing the unique vulnerability of a particular household. For example, a multigenerational household consisting of one older person, two parents of working age, of whom one has a disability, and two children, could potentially receive two child benefits, one disability benefit and one old age pension. In contrast, a household in the same country with two working parents and one child would only receive the child benefit.

The level of benefit depends on the investment States make in social protection, which is a largely a political matter. Social protection is affordable for all countries, including low and middle-income countries and there are good examples within the region of those leading the way.
Another important policy choice is whether access to benefits should be made conditional on recipients complying with specific behaviours set out by governments. Conditions are often linked to school attendance or health check-ups where non-compliance results in a sanction, such as the withdrawal of a benefit. For example, Pakistan’s Punjab Secondary School Girls Stipend is conditional on 70 per cent school attendance; and in the Philippines Pantawid programme, payment is conditional on 85 per cent school attendance.

Conditions are usually only incorporated within programmes when schemes are targeted at those living in poverty, when governments believe conditions are required to change the behaviour of people living in poverty, or to persuade taxpayers that recipients are not receiving an undeserved handout.

The value of conditions is contested and there is little evidence that conditions have an impact on the behaviour of the beneficiaries. In fact, the impact appears to be generated by the provision of a minimum level of income security to families, which enables them to invest in the wellbeing of their individual members.

The use of conditions and sanctions also makes social protection programmes significantly more complex. For example, the collection of information on children’s school attendance and the subsequent need to vary benefit payments when sanctions are enforced increase administrative costs, as well as overburdening teachers and other staff.

What is the difference between conditional and unconditional social protection?

Some countries in Asia have introduced workfare schemes, not to be confused with labour market schemes, as a means of delivering social protection to families living in poverty. The main aim of workfare is to provide an income transfer to families living in poverty, on condition that the person works. However, there is a range of challenges with workfare including its cost-effectiveness, which is reduced by the fact that actual benefits are lower than the wages paid since participants have to give up another source of income to engage in workfare. Also, it is common for workfare schemes to deliver low-quality infrastructure since the maintenance of assets is not prioritized. Further, there is evidence that, when schemes are badly designed, they can cause harm, such as making people poorer, increasing undernutrition, reducing school attendance and incentivising child labour.

Workfare should also not be confused with labour-intensive infrastructure schemes. All governments need to build infrastructure and, whenever possible, it is good practice to employ labour rather than machines, in particular in contexts of high unemployment, as long as the quality of the infrastructure is not compromised.
Conditionality also runs counter to the purpose of social protection programmes as those who fail to comply with the conditions are often the most marginalized and vulnerable. In some cases, conditions are imposed when the required public services, such as schools or health care facilities, are not available or accessible to all, making compliance impossible, such as for persons with disabilities.

There are alternatives to the use of conditions and sanctions. At the higher policy level, one option is to increase investment in schemes so that they become universal, as Mongolia had previously done with its Child Money scheme. Alternatively, countries can offer incentives, such as a school stipend if children enrol in school rather than withdrawing the scheme if attendance is not maintained. Governments can also introduce nudges or symbolic encouragement into the design of schemes. For example, children could be enrolled in the social protection scheme on school premises to demonstrate the link between the benefit and pursuit of education. Caregivers could be asked to sign a pledge to send their children to school or, as in South Africa’s Child Support Grant, the name of the programme conveys a strong message on the purpose of the programme without enforcing conditionalities.

A rights-based approach to social protection means that targeting should be avoided and only be used as a step towards progressively achieving universal coverage. In such cases, targeting methods must be reasonable, objective, transparent, gender-sensitive, non-discriminatory, and they must to the maximum extent possible avoid exclusion errors. In particular, policy makers must ensure that the poorest and most vulnerable are not excluded due to targeting errors. Targeting processes must also be supported by appropriate outreach programmes and accessible mechanisms for redress in case of exclusion errors.

The use of conditions in social protection is also highly problematic from a human rights perspective, since conditions have the potential to hinder the enjoyment of human rights. Again, States should avoid imposing conditions to social protection. When conditions are nevertheless used, they must be accompanied by measures to protect against abuse in the oversight of compliance with the conditions. Public services, such as education and health care, must also be available so that it is possible for recipients to comply with the conditions. Conditions should never result in the automatic exclusion of a beneficiary but should be used as a tool for governments to identify and assist the most vulnerable. Finally, conditions should not add unnecessary burdens for women or perpetuate traditional gender stereotypes.

WHAT ARE THE POLITICS BEHIND SOCIAL PROTECTION?

For social protection to be sustainable, it needs political support. Within democratic contexts the breadth and depth of social protection schemes influences both the required level of investment and the benefit level. Programmes targeted at poor women, men and children tend to have low population coverage and low benefit levels. This is because the poor typically have limited political influence and power and, as a result, governments are less willing to invest in them, since they will not gain the political rewards in elections. As Sen notes, “benefits for the poor often end up being poor benefits.”

Resistance to investment in social protection can have ideological foundations among those with a preference for a small state and low taxes. Opposition can also come from people who do not directly benefit from the scheme, such as the main taxpayers in countries with predominantly targeted schemes. Building wide political support is therefore an essential step to be taken by governments to ensure sustainability.

When social protection programmes are inclusive in their design, reaching those living in poverty as well as the majority of the population, in particular the main tax-payers, the levels of investment in social protection schemes increase as do the benefit levels. Therefore, inclusive systems implicitly create alliances between social and economic classes and governments, providing tangible benefits for all, including the more powerful.

At election time, promises to develop inclusive benefit schemes, or promises to increase existing benefits, have been found to be powerful vote winners. Schemes that benefit most of the population tend to enjoy greater public support than those benefitting a small minority, such as those living in extreme poverty. Universal schemes are also likely to have higher benefit levels and greater impact on reducing poverty than poverty-targeted programmes. In contrast, programmes for those living in extreme poverty generally have minimal popular support and face a greater threat of shrinking or disappearing. Therefore inclusive higher cost schemes are more sustainable politically.

Social protection schemes need to be firmly anchored in rights-based national legislation. Schemes introduced as policies or decrees without underpinning legislation tend to be narrowly framed as short-term initiatives to deal with selected vulnerabilities. Grounding social protection in national legislation promotes politically sound long-term systems that safeguard social protection from being hastily modified or removed at a political whim.
Inclusive and strong social protection systems are needed to achieve the 2030 Agenda, which calls on all countries to leave no one behind and, in particular, to focus on those furthest behind first. Such systems, including cash transfer schemes, should ensure that everyone, without discrimination, is guaranteed the protection required to have an adequate standard of living at every stage of life.

Sustainable social protection systems, based on a mix of contributory and non-contributory schemes, should be grounded in rights-based national legislation, and cover all women, men and children throughout the lifecycle. In line with countries’ commitments to build a social protection floor, and upholding the right to social security, countries should extend social protection, at least at a nationally defined minimum level, to everyone, and over time extend the depth of coverage. Social protection systems should not inadvertently, through targeting or conditions, exclude or do harm to the most vulnerable and marginalized.

Inclusive social protection systems can serve as a critical tool to narrow development gaps. As recognized by countries in Asia and the Pacific, in ESCAP resolution 67/8, “Political commitment at the highest level and participation of multiple actors, including the beneficiaries themselves, are crucial to formulate and implement social protection policies that effectively meet the needs to all in society.” The resolution further acknowledges that “social protection is an investment in people and in long term social and economic development.”
Did you get that?

KEY TAKEAWAYS FROM THE POLICY GUIDE “HOW TO DESIGN INCLUSIVE SOCIAL PROTECTION SYSTEMS”

Building a social protection floor...
Universal social protection that leaves no one behind requires countries to invest in social protection systems that guarantee an adequate standard of living at every stage of life.

...helps people throughout life...
Building social protection floors requires States to extend social protection, at least at a nationally defined minimum level, to everyone throughout their life, with schemes designed specifically to reach children, working-age adults and older persons.

...to ensure an adequate standard of living...
Social protection benefits should enable beneficiaries to have an adequate standard of living. In practice, governments have to strike a balance, in terms of affordability, between how many to cover and the level of benefits.

...but requires sustainable financial investment by governments.
Sustainable social protection systems, based on a mix of contributory and tax-financed schemes, should be grounded in rights-based national legislation. The combination of contributory and tax-financed schemes ensures coverage for the majority of people, both those in the formal sector and the large majority of workers in Asia and the Pacific who are in informal employment.

Universal schemes are the most politically sustainable...
Sustainable social protection needs both political and public support. Universal schemes that benefit the majority of the population enjoy greater public support than those benefitting a small minority.

...and reach the most vulnerable.
Universal social protection schemes available to everyone within a certain category of the population, such as an age group, are inclusive and do not exclude the most vulnerable.

Targeting and conditionality can exclude the most vulnerable...
Social protection systems should not inadvertently, through targeting or using conditionality, exclude the most vulnerable and marginalized.

...are less effective in poverty reduction...
Targeted programmes are less effective than universal schemes in reaching those living in poverty because of problems to accurately measure individual or household incomes. Targeted interventions do not prevent people from falling into poverty since they target only those already identified as poor.

...and don’t change behaviour.
There is little evidence that conditionality changes the behaviour of the beneficiaries. The use of conditionality also makes social protection programmes significantly more complex and increases administrative costs.
REFERENCES

1. ESCAP Resolution 67/B: Strengthening social protection systems in Asia and the Pacific
4. Universal programmes that are available to a certain group of the population, for example those under or over a certain age, or people with disabilities are at times referred to as categorical programmes.
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This is the second in a series of four policy guides developed to support policymakers and practitioners in Asia and the Pacific in their efforts to strengthen social protection. This policy guide explains how to design inclusive and robust social protection systems and focuses on tax-financed income security.

The first policy guide explores why social protection is needed; the third focuses on its effective implementation; and, the fourth discusses options for financing.

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