

# Social protection in Asia and the Pacific and the Arab States



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## Introduction<sup>1</sup>

Despite rapid economic growth and reduced overall poverty in Asia and the Pacific and the Arab States, the human right to social security remains unfulfilled for most people in this region.<sup>2</sup> Nonetheless, numerous countries have managed to extend social protection, mainly due to new schemes which have shown that political will, sound policy design, and inclusive social dialogue can establish and progressively develop social protection systems, including floors.

More than half the region's workers and their families now rank as middle class or higher.<sup>3</sup> However, inequalities both across and within countries remain striking and in many cases are widening. In the region as a whole, one in ten workers lives in extreme poverty, i.e. on less than US\$1.90 per day, which is often associated with a high prevalence of vulnerable employment as well as informal working arrangements offering no access to social protection.<sup>4</sup>

This report covers socially and economically heterogeneous countries that display similarly heterogeneous social protection systems. Some countries are only now beginning to establish their social protection systems, while others already have comprehensive and mature systems in place.

Employment trends and structures, together with relatively low public social spending, have been important factors behind the generally low coverage by both contributory and non-contributory social protection

schemes.<sup>5</sup> Despite a foreseeable gradual reduction in the share of vulnerable employment, informal and vulnerable employment will likely continue to prevail in countries around the region. Demographic changes will be an additional factor in the extent of social protection in the region, particularly with rapidly ageing populations and expected trends towards urbanization. Finally, regional integration processes and trade agreements, with their expected impact on labour mobility and trade, will further influence the development of social protection.

All these factors affect the policy options available to countries that are extending and improving their social protection systems. This report (a) discusses these issues in more detail, (b) presents recent developments in extending social protection, and (c) provides recommendations for countries defining their own paths towards implementing effective social protection systems, including national social protection floors.

## Trends

### Employment trends and composition, challenges for extending social protection

Most Asia-Pacific economies are growing, and as a result, the share of vulnerable employment might be expected to gradually fall across the region. Despite the region's resilience to the 2008 financial and economic crisis, however, the high growth rates of the past decade are unlikely to continue, and this will affect labour markets in the region.

<sup>1</sup> For the purposes of this note, 'Asia and the Pacific' refers to the region that includes 47 countries, plus the Occupied Palestinian Territory, across all income levels from East Asia, South-East Asia, South Asia, the Pacific Island countries and the Arab States of West Asia, unless explicitly stated otherwise.

<sup>2</sup> "Social protection" and "social security" are used interchangeably in this document. The notion of social security (social protection) adopted here covers all measures providing benefits, whether in cash or in kind, to secure protection, inter alia, from lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member; lack of (affordable) access to health care; insufficient family support, particularly for children and adult dependants; and general poverty and social exclusion.

<sup>3</sup> October 2015 update of the model in S. Kapsos and E. Bourmpoula: *Employment and economic class in the developing world*, ILO Research Paper No. 6 (Geneva, ILO, 2013), [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms\\_216451.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_216451.pdf) [accessed 8 Nov. 2016]. The definition of "middle class" is based on per capita expenditure of \$5 or more per day at purchasing power parity.

<sup>4</sup> ILO: *Building an inclusive future with decent work: Towards sustainable development in Asia and the Pacific*, Report of the General-Director, 16th Asia-Pacific Regional Meeting (Bali, 6–9 Dec. 2016), [http://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_531409.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_531409.pdf) [accessed 8 Nov. 2016].

<sup>5</sup> Contributory schemes are those in which contributions made by protected persons directly determine entitlements to benefits (acquired rights). Contributory schemes can be wholly financed through contributions usually paid by both employers and workers, but often are partly financed from taxation or other sources. Non-contributory schemes, on the other hand, normally require no direct contribution from beneficiaries or their employers as a condition of entitlement to receive relevant benefits. Non-contributory schemes are usually financed through taxes or other state revenues.

The rate of vulnerable employment remains high, especially in South-East Asia and the Pacific and South Asia, where in 2015 it reached 53.9 per cent and 73.6 per cent respectively. Furthermore, the share of workers living in poverty – i.e. those living on less than \$3.10 purchasing power parity (PPP) per day – is estimated at 11.2 per cent in East Asia, 25.7 per cent in South-East Asia and the Pacific, and 45.5 per cent in South Asia. In spite of a long-term decrease in the number of working poor, South Asia will continue to have the second-highest incidence of working poor globally, after sub-Saharan Africa.

In the Arab States, falling oil prices have affected gross domestic product (GDP) growth in the Gulf Cooperation Council (GCC) countries.<sup>6</sup> Other countries in the region continue to suffer from political instability and geopolitical tensions and, in some cases, active conflict, which has slowed economic and labour market development. As economic growth in the Arab States region is predicted to improve modestly in 2016, labour market conditions in GCC countries are expected to stabilize, with an unemployment rate of 4.6 per cent, while in non-GCC countries unemployment is expected to remain elevated, increasing to 15.5 per cent in 2016.

In addition, vulnerable employment in non-GCC countries rose by more than a full percentage point in 2015. It is expected to improve in 2016, but remain greater than 33 per cent. This was in contrast to the GCC countries, where the share of vulnerable employment was less than 3 per cent. Similarly, the incidence of working poverty in non-GCC countries increased from 30.7 per cent in 2014 to 37.3 per cent in 2015. Despite the fact it is expected to decrease over the coming year, the estimated 2015 level of working poverty of 37.2 per cent remains higher than the average seen between 2008 and 2013. In the case of GCC countries, while the incidence of working poverty is low (at 7.9 per cent in 2015), it has increased slightly since 2011.

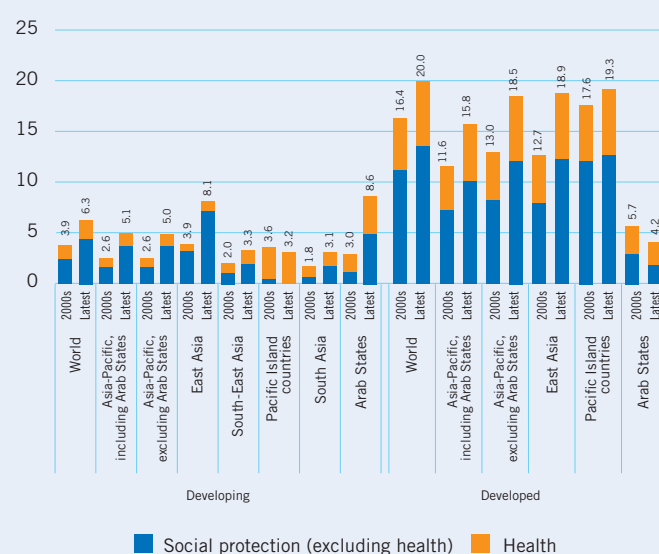
The Asia-Pacific region is also characterized by huge gender gaps in employment, evidenced by the low female labour force participation rates found particularly in the Arab States and South Asia, where the gaps are the widest in the world. In addition, women are more represented in vulnerable forms of work, particularly unpaid family work.<sup>7</sup> In addition, the risk of youth labour market detachment remains a largely unresolved issue throughout the countries of the Arab States. Only one-quarter of the youth population in GCC countries is actively engaged in the labour market, while the proportion is less than one in five for youth across non-

GCC economies. Such low youth participation rates are partly due to deep-rooted social and economic traditions, but a high reliance on public sector employment has also played a key role in this regard.

## Low investment in social protection and limited fiscal basis

A central feature of the region as a whole is the relatively low levels of public social spending, which lag significantly behind the global average, adversely affecting the levels of social protection coverage and benefits.

**Figure 1. Public social protection expenditure (% of GDP), 2000s and latest available year**



Note: Global estimates based on more than 180 countries. Latest year available ranges from 2010 to 2014.

Source: ILO calculations based on Asian Development Bank (ADB): *Key Indicators for Asia and the Pacific 2015* (Manila, 2015); Eurostat: European System of Integrated Social Protection Statistics (ESSPROS) Database; ILO: Social Security Inquiry Database; International Monetary Fund (IMF): Government Finance Statistics; Organisation for Economic Co-operation and Development (OECD): Social Expenditure (SOCX) Database; United National Economic Commission for Latin America and the Caribbean (ECLAC) statistics; World Health Organization (WHO) statistics; and official national data from ministries of finance or national social protection schemes.

Developing countries in Asia and the Pacific had the lowest level of social protection expenditure in the world, while the level of social protection expenditure among developing countries in the Arab States was higher than that of developing countries in Africa, but below that of developing countries in the Americas, Europe and Central Asia. According to the latest available data, developing

<sup>6</sup> The GCC countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, which also correspond to the high-income countries in the region, while the non-GCC countries include Iraq, Jordan, Lebanon, Syrian Arab Republic and Yemen, as well as the Occupied Palestinian Territory.

<sup>7</sup> ILO: *Building an inclusive future with decent work: Towards sustainable development in Asia and the Pacific*, op. cit.

countries in Asia and the Pacific spent 5.0 per cent of GDP for social protection (including health), and 8.6 per cent in the Arab States, compared with the world average of 6.3 per cent (figure 1). Social protection expenditures among developed countries in Asia and the Pacific were as much as 18.5 per cent of GDP – close to the world average of 20 per cent – whereas the developed countries in the Arab States, with expenditures of just 4.2 per cent of GDP, lagged far behind.

Low public social protection spending in Asia and the Pacific and the Arab States is partly the result of a long-prevailing development model that extends absolute priority to economic growth at the expense of redistributive policies. Until the 1997 Asian economic crisis, welfare policies in most countries in Asia and the Pacific – given governments of limited size and narrow tax bases with correspondingly low levels of revenue and expenditure – were dominated by strong opposition to redistributive policies. The Arab States, in contrast, maintained a relatively large public sector as part of the social contract between the State and the people. While nationals working in the public or formal private sector were entitled to generous social security benefits, the growing number of those outside of the formal economy and the poor were dependent on subsidies, charities and safety nets.

However, the 1997 Asian financial crisis and the global economic crisis in 2008 exposed the limitations of this development model. Now social protection is more often seen as an investment rather than a cost. In addition, countries increasingly recognize the role of social protection in promoting social peace and stability, essential elements for inclusive growth in the region.

In the last decade, this gradual shift in mind-set in these two geographical areas has led to an increase in the levels of public expenditure on social protection. Developing countries in Asia and the Pacific and the Arab States increased their levels of related investment from 2.6 per cent of GDP in the 2000s to 5.1 per cent in the 2010s. The trend was also observed in advanced economies, where the figure rose from 11.8 per cent to 15.8 per cent of GDP. The advanced economies in the Arab States were the only group of countries where expenditure levels had declined since the 2000s, from 5.5 per cent to 4.2 per cent, mainly as a result of decreased social protection expenditure (as a percentage of GDP) in Saudi Arabia.

Meanwhile, as a first reaction to the global economic crisis in 2008, most governments scaled up social protection interventions to sustain growth and to protect

their populations from the adverse effects of food, fuel, and financial shocks.<sup>8</sup> After the Arab Spring, most countries of the Arab States region increased their social protection, benefitting not only those in the formal economy but also those outside the formal economy and the poor.

A more recent wave of reactions to the crisis, this time influenced by pressure from international financial institutions such as the IMF, has focused on fiscal consolidation, threatening some of the advances of the recent decade and creating additional challenges for the expansion of social protection.

## Demographics

The population as a whole is ageing in the region, resulting in increased old-age dependency ratios (the ratio of those older than 65 to those aged 15–64 years). For some countries the pace is especially fast, which has implications in terms of public health costs, financing of pensions, and, potentially, productivity levels. Unlike other parts of the world, the countries in the region are becoming older before achieving higher income levels, which leads to additional pressure on government budgets. For example, it is expected that the population in the Arab States aged 65 years and older will quadruple from 17 million today to 70 million in 2050. This ageing of the population is being accompanied by rapid urbanization. Many rural-urban migrants end up in the informal economy and in vulnerable forms of work, which increases the need for social protection as a key mechanism in facilitating the transition from the informal to the formal economy.

## Recent policy developments

### Progressive introduction of new social security branches

As indicated earlier, the region presents a diverse range of social protection systems. A number of countries in South Asia, South-East Asia and the Pacific remain in the early stages of building their social protection systems, whereas developed countries of these subregions, and in Asia and the Pacific generally, already have comprehensive systems in place.<sup>9</sup> In addition to the developed economies, China, Islamic Republic of Iran, Mongolia, Thailand and Viet Nam also have “comprehensive” social security systems in place.<sup>10</sup> The Arab States lag behind, with most of these countries

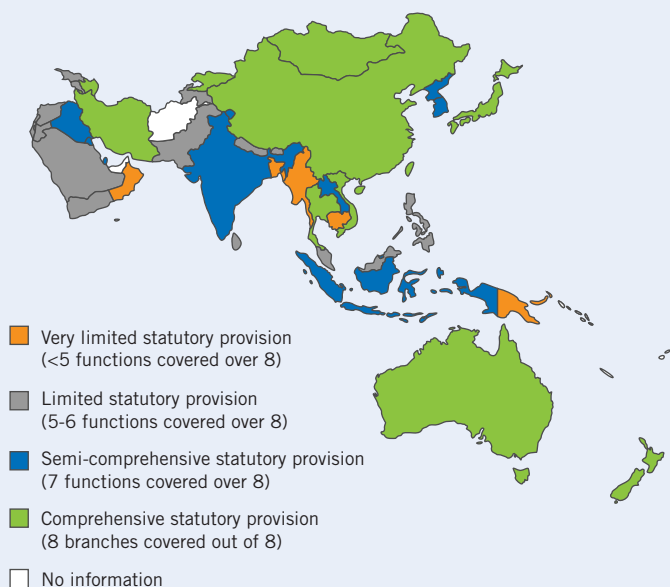
<sup>8</sup> ILO: *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice* (Geneva, 2014), [http://ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_245201.pdf](http://ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_245201.pdf) [accessed 8 Nov. 2016].

<sup>9</sup> Systems are classified as comprehensive when they cover all the eight functions defined under the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102): sickness benefits, unemployment benefits, old-age benefits, employment injury benefits, family/child benefits, maternity benefits, invalidity/disability benefits, and survivors' benefits.

<sup>10</sup> ILO: *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice*, op. cit.

having legal provisions for only a limited number of social security branches in place (mainly long-term benefits and work injury). Iraq presents an exception, at least in terms of the number of legally defined social security branches.

**Figure 2. Scope of national social protection systems: Number of social protection branches covered by social protection legislation**



Note: Myanmar has legal provisions covering eight of the above areas; however, these have not yet been implemented.

Source: ILO estimates based on International Social Security Association (ISSA): *Social Security Programs throughout the World: Asia and the Pacific, 2014* (Washington, DC, 2015).

Today, legislation in all Asia-Pacific countries, as well as the Arab States, provides benefits in case of old age and disability and for survivors. In addition, nearly all countries in Asia and the Pacific and the Arab States have employment injury benefits in place, with at least one component of social and/or compulsory insurance.

Although unemployment benefits are one of the less-established social security branches in the region (severance payment provisions prevail in most of the South Asia, South-East Asia, Pacific Island countries and Arab States), it is gradually gaining in importance. Governments are becoming more aware of the shortcomings of severance payment provisions, in particular during economic downturns when firms are unable to provide severance payments to laid-off workers, and the introduction of unemployment benefit schemes is becoming an increasing priority in national dialogues.

By contrast, countries usually do not provide for family allowances and child benefits anchored in legislation. In addition, periodic cash benefits in cases of sickness and maternity – not yet part of national social protection legislation – remain the sole responsibility of the employer, negatively affecting the reliability and level of protection provided.

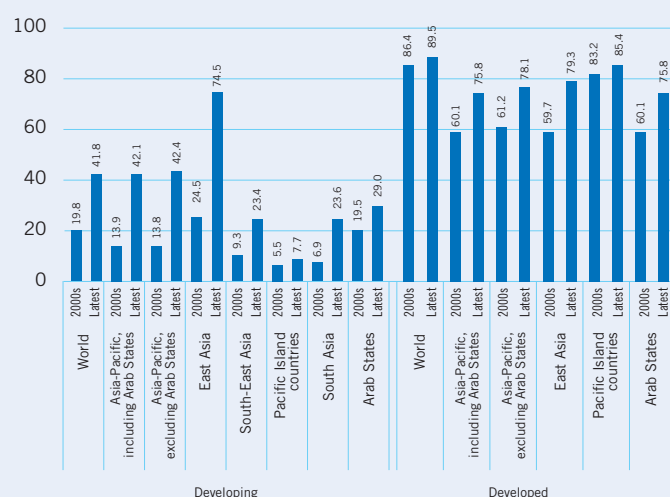
Recently, some countries in the region have also revised their social security legislation, gradually increasing the legal coverage of their social insurance schemes.

## Towards universal coverage: Compulsory social insurance schemes complemented with expanding non-contributory schemes and voluntary affiliation to social insurance schemes

Two decades ago, countries had already started to make efforts to reduce social protection coverage gaps, in particular to address challenges posed by the magnitude of non-standard and informal employment. Since the 1990s, the rapid extension of legal social protection coverage, especially to the self-employed and workers in the informal economy, has been one of the most important developments. The introduction of non-contributory programmes and the option provided by national legislation of voluntary affiliation to social security systems have played a significant role in this regard.

These immense efforts by governments in the region have meant that the proportion of people above retirement age receiving old-age pensions increased from 16.4 per cent in the early 2000s to 43.8 per cent a decade later. This increase can be attributed mainly to the introduction of non-contributory pension schemes and to the fact that contributory schemes established in the 1980s and 1990s started paying out their first old-age pensions.

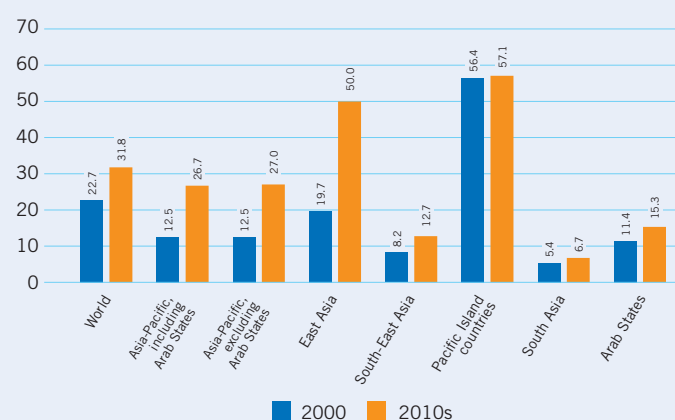
**Figure 3. Effective pension coverage by subregion (% of those older than retirement age receiving a pension), 2000s and latest available year**



Source: ILO estimates based on ADB: Social Protection Index (SPI) Database; ILO: Social Security Inquiry Database; and national household survey data.

Some of these initiatives have not achieved the expected results, however, and have had a limited impact on effectively extending population coverage and protection levels. For example, the more than doubling of the proportion of the region's working age population contributing to a pension scheme (compulsory or voluntary) over the last decade (13 per cent to 27 per cent) is largely due to the extension of pension coverage in China. Without China, the proportion of active working-age pension contributors in the region increased only from 12.7 per cent to 14.8 per cent over a period of ten years.

**Figure 4. Affiliation to contributory pension schemes (early 2000s and 2010s) (% of working age)**



Source: ILO estimates based on ADB: Social Protection Index (SPI) Database; ILO: Social Security Inquiry Database; and national household survey data.

Coverage gaps also remain salient among women. The proportion of women above retirement age receiving a pension averages 13.3 percentage points lower than men in Asia and the Pacific, 21 percentage points lower in Eastern Asia, and 27.7 percentage points lower in the Arab States. Furthermore, the level of income security ultimately depends on the level of benefits received. In 11 of the 21 Asian countries with a non-contributory pension in place, and, with available data, beneficiaries received less than \$1.90 per capita per day.<sup>11</sup>

While all countries in the region are committed to universal health-care coverage, several countries have already achieved or almost achieved this objective. This has involved either: (a) general tax-financed national health-care systems; (b) mandatory savings- and contribution-based health-care systems with a social assistance component for those in need; or (c) a mix of partial or full subsidization for the poor and mandatory or voluntary coverage for self-employed or informal economy workers.

## Recommendations

Given the current status of social protection in the region plus the foreseeable labour and economic trends, overcoming the prevailing social protection deficits requires a clear and ambitious vision. This vision must focus on the development of comprehensive social protection systems, inclusive of social protection floors for all, based on a rights-based approach. Comprehensiveness includes the extension of personal coverage while widening the range of benefits, so as to guarantee the adequacy of benefits for a decent life lived with dignity. This vision should follow a universal but progressive approach, and must be accepted by societies – an outcome best achieved through social dialogue. In moving forward, the region can learn from worldwide social protection reform experiences within the framework of South-South collaboration as a platform for exchange.

Making this vision a reality depends on several prerequisites:

- The aggregate level of public expenditure on social protection needs to be significantly increased. This can include, for example, the re-allocation of public expenditure or increased revenues from improved tax income and/or social insurance contributions. Experience demonstrates that social and political choices and political will play a central role in these decisions; countries with similar levels of economic development exhibit significantly different levels of investment in social protection.
- Contributory schemes need to be adapted to labour market characteristics, particularly to the many workers in non-standard forms of work and informal employment. Such measures call for innovative policies, but also for efforts from social security administrations and labour inspectorates to find new solutions for law and compliance enforcement.
- Synergies between contributory and non-contributory schemes need to be promoted and even guaranteed. The combination of these two social protection mechanisms can play an important role in the development of innovative policy solutions.
- Employer liability schemes need to be converted into social security schemes. Comprehensive national social protection systems should be based on the principles of risk pooling and state responsibility.

<sup>11</sup> The 11 countries include Bangladesh, China, Fiji, India, Indonesia, Mongolia, Nepal, Papua New Guinea, the Philippines, Thailand and Viet Nam. \$1.90 represents the World Bank's updated international extreme poverty line (based on 2011 purchasing power parity).

- Despite the rapid ageing of populations observed in some countries and the increasing pressure for governments to introduce fiscal consolidation measures, reforms need to ensure a fair balance between sustainability and adequacy.
- In addition, reforms must be guided by sound quantitative evidence, informed by regular actuarial valuations.
- The design of social protection systems needs to acknowledge the specific challenges faced by women in the labour market. As women tend to be more strongly represented than men in informal and vulnerable employment, systems design should take into account their vulnerable situation in the labour market.
- National legislation must ensure equal treatment of national and migrant workers. Countries should develop bilateral and/or multilateral social security agreements for maintaining the social security rights of migrant workers.
- Efforts to implement universal access to affordable and adequate health care and financial protection in case of sickness should be continued and complemented by matching efforts in improving health-care quality, including investing in infrastructure, technology, human capital development, and working conditions for health sector workers.
- Developments in national policies and legal frameworks should be complemented by improved management and administration of schemes, and by providing quality services, including at decentralized levels.

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