Institutional innovations in social protection
Can they fill the coverage gap?

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New social protection instruments and coverage gaps

• Nearly all countries in the world have statutory social security programmes, but most have limited scope and coverage

• Alongside these are a number of social assistance instruments and these have evolved dramatically in the past 20 years:
  - From general subsidies to the prices of food and energy (gas, fuel)…
  - to a series of new policy interventions: cash transfers (conditional and unconditional), workfare

• Poverty-focused social protection innovations are not sufficient because coverage gaps also exist among the non-poor

• Need instruments that bridge social assistance and social insurance
The coverage gap – work injury insurance

Legal employment injury coverage (mandatory)

Challenges in coverage

Multiple challenges posed by informality
  • Registration to verify entitlement
  • Contribution to finance the system
  • Verifiability of income

Responses:
  • Provide systems for uncovered/informal workers (e.g. Mexico’s Seguro Popular)
  • Rely on self-insurance for formal workers (e.g. Unemployment Insurance Savings Account)
  • Provide universal benefits (means-tested or not)
Institutional innovations

- Innovations from the South:
  - Conditional Cash Transfers
  - Workfare / Employment guarantees
  - Unemployment Insurance Savings Accounts

- Unbundling of social protection
  Health, Old age, Income support, Workfare

- Rapid expansion of cash transfers to the poor:
  - Means-tested (proxy vs direct)
  - Conditional
  - Social pensions
Is new better?

- **Performance:**
  - Generally good (or potentially good)
    - UISA in Chile: 22% coverage vs 6.7% of unemployed before reform
    - CCTs: poverty gap fall of 18% in Brazil (Satyro and Soares, 2009) 30% in Mexico (Skoufias, Davis and de la Vega 2001)
  - but relative to narrow objectives (poverty vs inclusion)
  - Cost effective (especially low administrative cost)

- **Mechanics:**
  - Targeting/Self selection: Lower costs, political consensus
  - De-linking from employment relationship and unbundling
  - Individualisation of the social contract
Is lack of coverage an issue for poor, informal workers?

Zoom down on pension coverage:

**How often do workers in the formal and informal sectors contribute to their pension scheme?**

**Sample:** Bolivia, Brazil, Chile and Mexico

**Data:** National household surveys data (ECH 01-02, PNAD 96-06, CASEN 94-06, ENIGH 98-06)

**Informality:** Labour contract or *carteira de trabalho* (BRA)

**Coverage:** Total contributors BRA and CHL, affiliates BOL and MEX

**Middle sectors:** 50% and 150% of the household-adjusted median income per head
Low coverage is evident also among middle sectors

*Note:* Percentage of affiliates (Bolivia and Mexico) or contributors (Brazil and Chile), over workers (14-64 years)
Middle income workers are not mostly formal

Middle sectors’ workers by employment category

Note: Percentage of total middle sectors’ workers (0.5 – 1.5 median household adjusted income)
Informality reduces severely pension coverage

Middle sectors’ workers pension coverage rate

Note: Percentage of affiliates (Bolivia and Mexico) or contributors (Brazil and Chile), over middle-sectors’ workers (14-64 years).
Informal workers are heterogeneous

Pension coverage rate of the informal middle sectors

Note: Percentage of affiliates (Bolivia and Mexico) or contributors (Brazil and Chile), over middle-sectors workers (14-64 years)
Coverage is ‘regressive’ among informal workers

Pension coverage rate of informal workers by income level

Note: Percentage of affiliates (Bolivia and Mexico) or contributors (Brazil and Chile), over workers (14-64 years)
## Determinants of contributing to the pension system

### Brazil (2006) vs. Chile (2006)

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A recap on independents in Brazil and Chile

• **Work status, income and pension coverage**

  **Key Results**
  • Household income (+), as in Packard *et al.* (2002) and Auerbach *et al.* (2007)
  • Household income (++) among not formal workers
  • Compulsory affiliation of independents raises overall coverage...
    but does not break the link income-contributions

  **Other results**
  • Women less likely to contribute (by 5%)
How well do social pensions do?

Note: Data for 2006 except Bolivia 2004. No data are available for non-contributory pensions in Brazil and Mexico.

Source: Based on National Household Surveys.
Policy recommendations: pensions (ex post and ex ante)

**Minimum pensions**: old affiliates, agricultural informal
  Universality vs. Looser eligibility

**Affiliation**: Independents with tertiary education
  Compulsory for independent workers vs. *Opt-out*
  Flexibility (contributions, withdrawals)
  Hu and Steward (2009)

**Public co-funding**: Middle-sectors informal workers with savings
  Matching defined contributions
  Holzman *et al.* (2009)
Limitations of targeted benefits

• Targeted benefits

• Means tests and vulnerability

• Integration with contributory schemes in middle income countries and with other social assistance schemes in low-income countries
  
  • Universality
  
  • Subsidised social insurance (Subsidised or Matched contributions)
Thank you