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FEASIBILITY OF SOCIAL PROTECTION SCHEMES IN DEVELOPING COUNTRIES

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BRIEFING

"FEASIBILITY OF SOCIAL PROTECTION SCHEMES IN DEVELOPING COUNTRIES"

Abstract

Social protection can play a key role in reducing poverty and inequality. Growing recognition of this potential impact has led social protection to rise up the agenda of policymakers in the international development community. In recent years, increased social protection coverage in developing countries has been achieved by the expansion of a combination of programmes. The further expansion of social insurance remains a challenge as a result of low participation in the formal economy and the types of risks encountered by the poor. Initiatives to address these obstacles include the promotion of formal employment, reduction of inequalities in education and extension of coverage through community-based schemes with the support of government. While some degree of private for-profit and non-for profit involvement in social protection provision may contribute to extending coverage, government efforts are central to ensuring that the barriers faced in reaching the poorest are overcome and that access to and quality of services are guaranteed. Social protection lies at the heart of the European social model. The European experience awards a unique role to EU development cooperation in supporting social protection in developing countries. In coordination with other donors, the EU should support the efforts of governments in promoting inclusive social protection.

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EXECUTIVE SUMMARY

Social protection can play a key role in reducing poverty and inequality. Compared with OECD countries with higher government spending on formal social protection, in middle- and low-income countries social protection has a more limited impact on poverty and inequality.

The growing recognition of the potential role of social protection has led to increased interest in the introduction and further expansion of such policies in developing countries. Among multilateral and bilateral actors in the international development community, initiatives to promote and coordinate efforts on social protection development have flourished in recent years. They include the ILO's Social Protection Floor initiative aimed at ensuring national minimum policy packages are adopted by countries world-wide. Regional initiatives include the African Union's Social Policy Framework for Africa, with a chapter on social protection and recommendations on how to strengthen coordination between national and regional policy initiatives.

Three main reasons for the low coverage of social protection in developing countries concern: financial resources, policy design and implementation details and political economy factors. Both the levels and "mix" of funding sources matter. One objective for developing countries should be to reduce the share of out of pocket financing and raise the share of government revenue financing. With regards to policy design, the expansion of social insurance and contributions-based policies may be pursued by promoting employment formalisation and facilitating the enrolment into insurance schemes of workers with irregular work patterns. Policy design details may also favour broader coverage and minimise risks of exclusion and other costs associated with targeting and conditionality. The adoption of simple policy rules, information dissemination and non-punitive conditionality are examples. From a political economy perspective, the absence of clear social contracts acts as an obstacle to the development of inclusive social protection. This may be addressed through the provision of support to constituencies that promote mobilisation for the extension of political contracts.

While the distributional effects of the full privatisation of service provision raises equity concerns, there is scope for promoting complementarities between the state, private for-profit and private non- for profit actors. In the case of health care for instance, community-based insurance has, in some cases, proved to help reach poor groups previously excluded from health coverage. At the same time, in such arrangements, the poorest typically continue to remain excluded by the pre-payments required for participation. The public sector can help address this barrier through tax-financed subsidies for the poorest and has an important role to play in ensuring that other necessary conditions such as access to and quality of services are guaranteed.

Social insurance coverage faces several challenges in developing countries, including low participation in the formal economy, the nature of risks and the high costs of insuring the poor. Options governments have to address these issues include improving tax-funded financing and contributions-based insurance and creating a regulatory environment that fosters insurance.

The EU, in coordination with other donors, could support the efforts of governments in promoting effective and inclusive social protection by addressing these issues. The examples listed above and reviewed in greater detail in this Briefing may be grouped around three sets of activities: support to policy design and implementation, capacity building and lesson learning and monitoring and evaluation. The EU should actively participate in and coordinate with recent advocacy and coordination efforts, such as the Social Protection Inter-Agency Cooperation Board (SPIAC-B), to support governments and other stakeholders in promoting inclusive social protection.

1. INTRODUCTION

Social protection plays an important role in providing income support and services, redistribution and promoting inclusive growth in countries across the world. For example, recent significant reductions in income inequality in Latin America, the world's most unequal region, have been attributed in part to the expansion of public cash transfers (Gasparini and Lustig, 2011). Such trends have increased interest for the development of social protection in other middle- and low-income countries.

Among multilateral and bilateral actors in the international development community, social protection has risen up the agenda. Initiatives to promote and coordinate efforts around social protection development have flourished in recent years. International efforts include the International Labour Office (ILO) Social Protection Floor initiative aimed at ensuring minimum social protection floors are adopted by countries world-wide. Regional initiatives include the African Union's Social Policy Framework for Africa, aimed at complementing and strengthening the coordination between national and regional social policy initiatives.

Against this background, this Briefing aims to stimulate the European Parliament's debate on social protection and what can be done to promote it. It provides the foundations for an informed discussion by:

- highlighting the main alternative approaches to social protection and policy options,
- discussing the potential role of the private sector,
- identifying the main obstacles to social insurance and examples of initiatives to expand social insurance,
- reviewing international efforts to promote social protection, and
- considering the potential role of the European Union (EU) in promoting social protection in developing countries.

Throughout, special attention is paid to coverage and equity concerns as these are central to the EU's objective of promoting inclusive social protection.

In this Briefing, social protection is understood to include any formal initiative that aims to provide social assistance to particular vulnerable groups, social insurance against risks such as those associated with old age and the loss of employment as well as labour market programmes such as job-search and matching programmes and skills-building programmes.[1] Special attention is paid to social insurance as a specific sub-set of social protection policies. These are understood to be contribution-based instruments that aim to mitigate risk for all social groups, including the poor, by pooling group resources, either community- or society-wide.

[1] Definitions of social protection may be more or less broad to encompass a variety of different initiatives. In some cases, emphasis is placed on risk and risk management practices. In others, a wider range of activities and tools are considered. An example is provided by the well-known definition adopted by Devereux and Sabates-Wheeler (2004), which includes initiatives, both formal and informal, that provide social assistance to extremely poor individuals and households; social services to groups who need special care or would otherwise be denied access to basic services; social insurance to protect people against the risks and consequences associated with the loss of employment and livelihood shocks; and social equity to protect people against social risks such as discrimination or abuse. This Briefing adopts a broad definition to include a wide range of vulnerabilities and risks. However, it focuses on formal initiatives only.

2. SOCIAL PROTECTION, COVERAGE AND EQUITY IN DEVELOPING COUNTRIES

2.1 Social protection objectives and instruments

Social protection pursues a variety of objectives. These include assistance to vulnerable groups, income or consumption smoothing over the lifetime and redistribution. Numerous different policy instruments exist for the pursuit of these objectives. They vary depending on their design and implementation details and funding source. The adoption of a specific policy over another and of particular policy design parameters over others will depend on feasibility, including issues such as financial resources and administrative capacity. It will also depend on the specific priority objective pursued by a social protection policy or system. This should be borne in mind when comparing alternative measures and their outcomes.

Social protection instruments include cash transfers, in-kind transfers, public works programmes, tax and fiscal tools and active labour market policies. Within these broad categories, policies can vary along multiple dimensions. If we consider cash transfers alone, these may be universal, targeted, categorical, conditional or contingency-based. These features are not necessarily mutually exclusive. For instance, a cash transfer may be targeted and conditional. Moreover, they may vary by degree. For instance, Atkinson (1995) refers to "degrees of targeting" as targeted transfers may be more or less narrowly targeted.

Another useful distinction may be made between social insurance and social assistance policies. Although in practice policies may not fall distinctly into these categories, they provide a useful reference in considering variations in policy objectives and funding sources. In principle, social insurance policies aim to smooth consumption over the life-cycle through risk pooling. Eligibility is generally dependent on formal labour market participation and, in principle, policy is funded through employer and employees contributions. Examples include old-age pensions, disability and unemployment benefits. Social assistance policies aim to support vulnerable groups, such as the income poor, and directly aim to alleviate or reduce poverty. Eligibility is typically determined by the characteristics of the individual or the household, not the "formal worker". The funding source is commonly general taxation. Examples include conditional cash transfers, school feeding, disability and elderly assistance.

High coverage and equity are two policy concerns among others and different policies and systems will award them varying degrees of priority. Even when coverage and equity are a concern, approaches vary depending on whether emphasis is placed on maximising coverage of the population at large or rather of specific sub-groups deemed to be vulnerable or somehow deserving. Concerns about equity will vary depending on the question *equity between whom*? Policies may be designed to promote equality between individuals in a similar group (e.g. within an age group/horizontal equity) or across groups (e.g. across age groups/vertical equity). Furthermore, there may be a tension between the objectives of maximising population coverage and redistribution. In an unequal society, redistribution may require some degree of targeting. This Briefing pays particular attention to both issues of coverage and equity in social protection policy and to the potential tensions and trade-offs in alternative policy designs.

There is no single pattern of social protection development; historical developments are country-specific. However, broadly speaking, developments in low- and middle-income countries may be grouped into two broad approaches. One approach prioritises the protection or assistance of particular vulnerable groups; the second aims to develop a system of policies with the objective of protecting and assisting individuals over the course of the life-cycle. In some cases, the first approach reflects extremely limited available resources or a priority objective of maintaining a residual system of assistance. It may also arise from circumstances of emergency, tied to a specific contingency, and may lead, from the outset, to initiatives designed to be short-lived. This approach can lead to a piecemeal "system" of programmes, reflecting, in practice a short-term vision. This occurs for instance when programmes initially designed to be of short duration are in practice extended over time, becoming part of a more permanent structure of programmes or policies, many of which were initially designed to be temporary.

The second approach considers the variety of risks and vulnerabilities experienced over the course of the life-time. In this case, a combination of social insurance and social assistance mechanisms are used to address the multiple risks and vulnerabilities associated with contingencies such as age, ill-health, disability, loss of employment. Additional programmes may be designed to address specific unexpected contingencies. Generally, however, there is a system of different policies in place to provide assistance and protection, relying on different financing schemes, such as general taxation and employer and employee contributions.

Beyond these broad approaches, specific programmes and policies reflect varying degrees of concern regarding coverage and equity and alternative design and implementation details have different implications in terms of coverage and equity. The following section reviews the main reasons for low coverage and low redistribution outcomes and identifies the main policy alternatives and trade-offs in pursuing higher coverage and equity.

2.2 Reasons for low coverage and redistribution

We identify three main reasons for the low coverage and redistribution of social protection policies in developing countries. These concern financial resources, policy design and implementation details, and political economy factors.

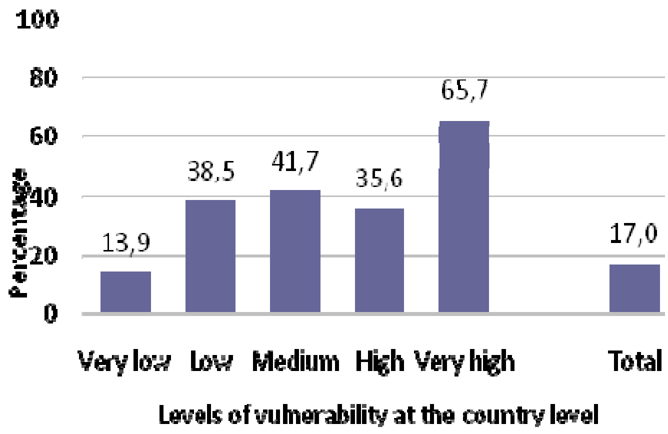
2.2.1 Financial resources

Financing is a key constraint to social protection development in developing countries. Limited coverage and impact have been attributed to scarce financial resources in many countries. The comparison of spending on social protection policies across countries highlights the higher share of spending on social protection in high-income countries compared with low-income countries. Weigand and Grosh (2008) show that spending on social protection ranges from 16% of GDP in member countries of the Organisation for Economic Cooperation and Development (OECD) (excluding Latin American, Caribbean and Eastern European countries) to 2% of GDP in South Asia and 5% in the Middle East and North Africa.

In addition to levels of financing, the sources of funding and "financing mix" matter. Both have important implications for the design and sustainability or continuity of social protection. Sources of financing for social protection include revenues of national governments, aid from international donors, private, community and NGO financing, and household saving and out of pocket expenditures.

The comparison of the financing of health care provides insight into the differences in the financing mix across regions and the dynamics associated with development. Using ILO data, Barrientos (2007) shows that the share of health expenditures financed by government revenues is dominant in the OECD region, but less so in less developed regions. Among less developed regions, out of pocket financing is substantial and external sources of finance are important in sub-Saharan Africa and Asia. Figure 1 shows the share of out of pocket expenditure as a percentage of total health expenditure by country-level vulnerability and highlights how in the poorest countries, out of pocket payments make up the highest share of health expenditure financing.

Figure 1 Share of out-of-pocket expenditure as a percentage of total health expenditure by vulnerability at the country level, latest available year (Source: ILO)



These figures, coupled with evidence showing that out of pocket payments act as a severe strain on the income and consumption of poor households, suggest that one objective for low income developing countries may be to reduce the share of out of pocket financing and raise the share of government revenue financing. Increases in government revenue financing may be achieved in several ways, including increasing tax revenue collection. The composition of tax revenues varies, with developing countries typically relying more heavily on consumption and trade taxes, whereas developed countries are able to finance their social protection programmes with payroll taxes. Low tax collection in developing countries results from both the structure of the economy and low administrative capacity. The rural subsistence economy and informal sector are a challenge for taxation. Two options forward are to improve administrative capacity and promote formal employment.

In the short run, raising external financing may also be a useful source. Efforts to increase external funding and donor aid however should reflect the importance of mid- to long-term programming and investments in social protection (Barrientos, 2007). In some cases, donors have favoured short term horizons and this may lead to tensions with the time that social protection initiatives require to be effective. Complete reliance on external funding also has implications for policy legitimacy and sustainability over time. An example is provided by the case of conditional cash transfers and the policy design and continuity implications arising from the complete reliance on external financing. For example, in Nicaragua, the attempt to integrate its CCT into the country's broader social protection system after it had been set up externally and implemented with external funding for several years, met with resistance. Tensions arising from the widespread perception that the programme was largely donor driven and from a pervasive sense of weak national ownership contributed to the gradual dismantling and eventual discontinuation of Nicaragua's CCT, despite its positive impacts on poverty and human capital outcomes (Bastagli, 2008).

This suggests that while external financing may be useful to launching a programme and/or supporting parts of its implementation, national ownership is central to securing programme legitimacy and continuity. The latter can be promoted through the close cooperation between national governments and donors and the establishment of partnerships. It can also be ensured through agreements between donors and governments on the transition to a nationally financed programme and on a clear commitment on behalf of government to take over responsibility.

2.2.2 Policy design and implementation

A second reason for low coverage and equity impact is directly linked to the details of policy design, implementation and the interactions of policy with a country's demographic and labour market structures.

Population coverage depends on policy eligibility rules. These may be more or less narrowly defined to include smaller or broader segments of the population. In social protection programmes, targeting through means-testing and categorical rules restrict participation to particular population sub-groups. Behavioural requirements and other conditionalities may further restrict programme participation. It is important to recognise that such parameters vary by degree of "narrowness" or restriction. For instance, the national population coverage of CCTs, commonly grouped into a single policy category, varies depending on the levels at which eligibility thresholds are set. The population coverage of CCTs varies from 6% in Chile (Chile Solidario) to 26% in Brazil (Bolsa Familia). Targeted transfers thus vary depending on the degree of targeting (Atkinson, 1995). Conditionalities and behavioural requirements may also be more or less strictly defined, leading to variations in the extent to which they act as barriers to programme participation for a country's population.

Categorical programmes such as old-age pensions, disability benefits and widow's benefits, target particular groups, typically because they are at a higher poverty risk or vulnerable otherwise or deemed to be somehow deserving. Another example of a targeted categorical measure are public works programmes. These are designed to reach those that are able to work and income or consumption poor, through the self-selection mechanism of low wages. While categorical policies may imply a high coverage of the target population category, with respect to the broader population, such policies may lead to higher or lower coverage depending on the categories considered and the population composition.

Targeted policies can be more or less successful in reaching the intended population. Here too, the design and implementation details of specific policy parameters matter. Exclusion errors, whereby eligible programme participants are not included in the programme, are of special concern. Evidence suggests that means-testing with high informational requirements and complex procedures may lead to low take-up (Hernanz et al, 2004). Similarly, behavioural requirements that are particularly demanding to the eligible population, representing a high opportunity cost, may lead to higher exclusion rates and lower take-up (Bastagli, 2008).

Low coverage may also arise as a result of the implementation of policy in practice and its interaction with a country's demographic and labour market characteristics. This is the case of formal, contributions-based social insurance implemented in countries with high informality or self-employment. In many middle-income countries, low social protection coverage rates have been attributed to the predominance of social insurance policies that cover individuals in formal employment and their families. This institutional arrangement, coupled with high informality rates, leads to the exclusion of high shares of the population from any form of formal social protection. This has been the case in numerous Latin American countries with a strong tradition in contributory social insurance (in many cases inspired by welfare state developments in European countries) and a labour market characterised by persistently high informality. In such countries, the expansion of social protection coverage in recent years has been achieved through the introduction and extension of non-contributory social insurance and social assistance programmes. Cash transfers paid directly to low-income households have played an important role in addressing coverage gaps in these contexts.

Beyond coverage concerns, the pursuit of higher equity in terms of the redistribution of resources (such as income) and the generation of opportunities, may be achieved precisely through elements of targeting and conditionality. The improved targeting of cash transfers, for example, has contributed to the reduction of inequality in many Latin American countries, most notably Brazil. Elements of conditionality too have proved to be successful in improving the access to and use of services in education and health among individuals that were previously excluded from universal services (Bastagli, 2008). This should not however detract emphasis from efforts to introduce or strengthen basic universal services. In addition to the costs associated with targeting and conditionality mentioned above, such practices are also associated with administrative and political economy costs (more on this below) that may work against progress towards poverty and inequality reduction.

In terms of social protection policy design, the following options could be considered for expanding coverage and promoting equity. In terms of the design details of specific policies or programmes, these should adopt eligibility rules that minimise the risks of exclusion and other social costs associated with targeting and conditionality, while promoting the potential for redistribution and service utilisation. Simple and clear eligibility rules and low informational requirements for participation and non-punitive conditionality are examples of parameter design features that can help minimise exclusion and promote coverage. In terms of broader policy design, the introduction and expansion of a combination of social assistance and social insurance policies in a coordinated manner, paying particular attention to groups and sectors that are excluded from existing policies, can prioritise improved coverage and equity. Social assistance (in the form of cash and/or in kind benefits) and other initiatives such as public works programmes that target specific vulnerable groups may be expanded to cover groups that are excluded or under protected. Social insurance can be expanded through the promotion of formal employment, the further development of capacity for the collection of contributions and other initiatives to be discussed in more detail in Section 4.

2.2.3 Political economy

Finally, the extent of social protection policy coverage and concern for equity depends on political economy factors, such as public support for policy, the "voice" or degree of representation of different groups and the social contract between political institutions and other actors.

The establishment of permanent social protection systems requires the development of a politically sustainable social contract. Fundamental public choices need to be made about the allocation of scarce resources and priorities. The discourse and understanding about the political attitudes concerning who deserves support and in what form are key for developing countries in moving from temporary, usually externally financed social assistance strategies, to social welfare structures which are part of a domestically financed social contract (Graham, 2002). Weak social protection and limited social protection development have been attributed to the absence of a clear social contract. For example, Barrientos (2012) argues that the weak redistributive element of taxation in most Latin American countries is the result of the absence of social contracts.

Political support in the form of public approval for a programme is a crucial element to the continuity and sustainability of policy. By determining the public funding resources of social protection, public attitudes and support decide the fate of policy. Public support in turn is shaped by policy design.

Narrow targeting may jeopardise public support for social programmes and hence the redistributive budget available. Finely targeted policies leading to lower leakage to the middle classes would draw support primarily from those below the poverty line. In contrast, universalist schemes, by increasing the number of beneficiaries, become the interest of additional groups, promote their protection and the available redistributive budget (Besley and Kanbur, 1990; Sen, 1995).

Coverage and fair outcomes will depend on the degree to which different groups are represented and heard by policymakers. Weaker groups, with limited or no voice and representation, are more likely to be excluded and under protected. In Brazil, for instance, the much higher and more generous social protection coverage of the elderly population relative to the younger population is attributed in part to the much stronger representation of older age groups (Bastagli and Soares, 2013). This points to the important role played by different groups including civil society organisations and other movements in the development of social protection. In OECD countries, where inequality has been on the rise, the recent increase in wage inequality has been explained in part by the decline in unionisation rates and related worsening of employment conditions and social protection policies such as decreasing unemployment benefit replacement rates (OECD, 2011).

The challenge for countries developing national social protection systems is to sustain the political contract that has developed so far, for continued spending and provision in this area, and to extend the contract further to include the poorest. Hickey (2007) explains that the aim for donor agencies should be to strengthen and extend political contracts for social protection where they exist, and to work towards their establishment where they do not. This can be done by providing material support and advocacy, and identifying constituencies and drivers of change that might begin to provide the forms of mobilisation required to secure political contracts for social protection (Hickey, 2007).

3. THE POTENTIAL ROLE OF THE PRIVATE SECTOR IN SOCIAL PROTECTION PROVISION

3.1 Background and definitions

Several factors have led to an increasing interest for the greater involvement of different actors, beyond government, in social protection. Pressures to curb public spending and limited public resources is one of these. Another is the acknowledgement that informal arrangements and private for-profit and non-profit arrangements have, in practice, played an important role in social service provision, a role which for some time was largely neglected by governments. Finally, the perceived failure of government in many countries to implement social protection despite efforts over several years has led to a growing interest in alternative institutional arrangements and in the involvement of additional actors. Against this background, this section examines the strengths and weaknesses of the state, for-profit and non-profit institutions, and asks whether and to what extent complementarity among different actors can be organised and strengthened in social protection.

Before examining the potential role of the private sector, three clarifications need to be made. These concern the types of actors, social protection functions, and collaborations or partnerships.

The three principal actors are the government, private for-profit and private non-profit institutions. These in turn are made up of a variety of entities at various levels and with different interests. Government entities include local authorities and national administration, the private for-profit sector includes local enterprises and multinationals, the not for-profit sector includes a vast variety of organisations ranging from locally based community organisations which deliver services to its members to national and international level NGOs lobbying for its clientele.

A second useful clarification concerns different social protection activities and types of roles carried out by different actors. Jutting (1999) identifies three main roles:

- Regulation and monitoring: setting the standards regarding prices and quality in the provision of services. These functions are necessary in order to achieve a guaranteed minimum outcome in service provision.
- Financing: may be carried out in many ways, by central or local governments and state-owned enterprises (e.g. through general taxation, collection of contributions). Private financing includes private out-of-pocket payments, private insurance premia or services provided by the private corporate sector.
- Provision: involves the supply of services (e.g. health care, education and housing). According to a simplified schematic approach, the motivation for the provision varies depending on the party involved: e.g. government for public interest, private for-profit sector to make a profit and the non-profit sector meeting their social objectives.

Finally, a vast variety of combinations of institutional arrangements or set ups exist in practice. As will become clear in some of the examples provided here, the actors listed above can interact and collaborate in a variety of ways in carrying out different social protection activities. These will depend on the degree of control the government choses to exert and the capacity and financial resources of different actors. Arrangements include full privatisation (public sector activities transferred entirely to the private sector) and public-private partnerships (PPPs).

3.2 Theory and practice

The theoretical case for and against more private social spending and privatisation is made against different goals, including economic efficiency in delivering services, giving individuals more choice and promoting fiscal savings (Pearson and Martin, 2005). Such arguments are based on a variety of claims. These include the idea that higher private sector involvement can lead to a more efficient economy (e.g. by leading to a smaller welfare state and lower taxes and helping getting the level of provision right); ensure greater flexibility of products (governments are risk-averse while innovation inevitably comes with a risk of failure); and promote efficiency in administration (the profit motive is a powerful motive to cut costs).

In practice, evidence for OECD countries shows that efficiency gains from private sector involvement in social policy have been limited (Pearson and Martin, 2005). At the same time, the distributional effects of private provision raise significant social concerns.

From an equity perspective, economic theory suggests that market failures in social protection provision call for public sector interventions. The private sector faces constraints which the public sector in principle can overcome. An example is given by health care provision. Private for-profit providers respond to the population's willingness to pay for health care. As a result, there is a risk that they will primarily serve those groups in the population who are most willing to pay, such as affluent urban residents. This commonly results in increased inequity in access and use of health care. Private providers will also possibly undersupply socially desirable services, such as immunizations and personal preventive care. To address this equity concern, publicly mandated regulations can be designed to guarantee the coverage and quality of sector provision.

A trade-off associated with the public sector's initiatives to guarantee adequacy and quality of services is that they may lead to restrictions in individuals' degree of choice. Also, some forms of private non-for profit initiatives such as community-based insurance, may present advantages in tackling particular concerns. This is the case with moral hazard (the tendency of insurance protection to alter an individual's motive to prevent loss) and fraud, which local community-based efforts may be uniquely equipped to address as a result of the detailed information they have access to and the close ties among members.

The above provides some initial examples of the relative advantages and drawbacks of different actors. In practice, the failure of both government and the market (private for-profit) to provide adequate social protection coverage and quality in some developing countries – especially to low-income people in rural areas and informal sectors - has led to the emergence of a variety of combinations of public-private partnerships and collaborations between different actors such as NGOs and local community-based initiatives.

In the area of health, the emergence of community-based health insurance schemes (CBHI) in many developing countries provides an interesting example. These are health insurance schemes rooted in local, non-profit organisations, with voluntary membership, either initiated by health facilities, member-based organisations, local communities or cooperatives and owned or run by any of these. They typically operate through the pre-payment of member contributions into a fund and entitlement to specific benefits. The community usually plays an important role in the design and running of the scheme and the organisation has a close institutional relationship to one or several providers.

Especially in countries with high informal employment, weak government finances and market interest in social protection, CBHIs have shown some potential to be effective in reaching a large number of poor people who would otherwise have no financial protection against the costs of illness. However, there is a concern that even these initiatives may not reach or take into account the needs of the poorest, that the poorest remain excluded from insurance as the problem of adverse selection persists. Another concern is that overall sustainability may not be assured.

The evidence shows that indeed, community-based health insurance schemes may make a substantial difference to coverage in poor areas. Jutting's (2003) study of a scheme in Senegal shows that members frequent the hospital more often than non-members and pay less for a visit. In this particular case, community-financing through pre-payment and risk-sharing reduce financial barriers to health care as demonstrated by higher utilization but lower out-of pocket expenditure. However, in the example from Senegal, people belonging to the poorest groups are less likely to participate in the scheme. The poorest of the poor are not reached. Moreover, the presence of a viable health care provider who can and is willing to support the scheme is critical to the functioning of the scheme.

Similar results are obtained from studies on community-based insurance schemes in India. Sinha et al (2005) look at differential utilization of CBHI in India and report that the utilization of health care with the implementation of the CBHI scheme increases more among insured households located close to the health care facility. Members living further away from the hospital facilities have lower hospitalisation rates than those living closer to the facility. Since under most schemes, people pay the same premium, wherever they live, those distant from the facility in effect cross-subsidize those who live close. The well-known Self-Employed Women's Association (SEWA) of Gujarat experiences similar challenges. Despite providing a precious service to large groups previously excluded from any form of insurance, it suffers from inequitable patterns of utilization by socioeconomic status and by place of residence (Sinha et al, 2005). The financially better-off in rural areas are significantly more likely to submit claims than are the poorest. SEWA members living in areas that have better access to health care submit more claims than those living in remote areas.

In summary, the successful introduction and development of CBHI schemes depends on a set of factors: the presence of a health care provider who can and is willing to support the scheme and the ability of the scheme to attract members, including the poor. Barriers to effective and equitable functioning of these schemes result from the contributions or pre-payments required for participation, service provision and quality and access to benefits or treatment, due to the absence of facilities in some areas.

The example of CBHIs suggests, as does theory, that there is a key role to be played by public sector intervention to guarantee coverage and quality of services. While some degree of private for-profit and non-for profit involvement in service provision may contribute to extending coverage and access to services, government efforts are central to ensuring that the barriers faced by the former in reaching the poorest are overcome and that socially desirable services are guaranteed.

In the case of community-based insurance, the obstacle to reaching the poorest generated by the pre-payments required for participation may be overcome by regulating the cost of participation. This may be reduced or lifted by the institutions themselves or the public sector would have to subsidise premiums. In the case of BRAC, Bangladesh, for instance, the poorest of the poor are allowed to join without paying a contribution and health care is free. They are encouraged to make a contribution as soon as possible (Develtere et al, 2004).

Another barrier to community-based insurance participation and service utilization that typically needs to be tackled by government is the improvement of access to scheme benefits, for instance by improving the quality of roads and access to public transportation and ensuring that rural primary health centres and hospitals are fully equipped.

4. PROMOTING AN INSURANCE CULTURE IN DEVELOPING COUNTRIES

4.1 Reasons for low social insurance coverage

Social insurance coverage, and especially coverage of the poor, faces the following challenges in developing countries:

- Low participation in the formal economy
- The types of risk encountered by the poor
- The extra costs associated with insuring the poor
- Difficulty among the poor to properly understand their entitlements.

High informality rates pose a challenge to social protection both in terms of coverage and sustainability. Informal workers are excluded from policies that are available to workers by virtue of their labour contract and through the payment of contributions.

In some developing countries, the predominance of social insurance in social protection led to high shares of the population having access to limited or no protection. This is the case of many countries in Latin America, considered to historically have a “truncated” welfare state, with formal sector employees covered by relatively generous benefit packages and workers outside the formal sector, typically those with low incomes, with limited or no access to government benefits (Lindert et al, 2006). High informality rates also have implications in terms of sustainability and financing since they limit the instrument typically used for formal social insurance funding, contributions paid by employers and employees.

In recent years, efforts to extend social protection to informal workers has led to the adoption of non-contributory and social assistance benefits, funded by contributions paid by formal sector workers and/or general taxation. These are usually targeted benefits paid to low-income households independently of their labour market status. An example is given by conditional cash transfers (CCTs). Some commentators have pointed out that the expansion of this type of policy, while providing improved coverage of low-income groups previously excluded from social protection, has led to additional incentives for workers to remain in informal employment (e.g. Levy, 2008).

A second challenge to social insurance is given by the type of risks encountered by households in developing countries. Risks may be idiosyncratic, meaning that one household’s experience is unrelated to their neighbour’s, or covariate, meaning that neighbouring households suffer similar shocks (Barrett, 2011). Such shocks can be insured within a community. Common shocks, on the other hand, cannot since if everyone is affected, the risk cannot be shared. Common shocks then are not easily insured. In developing countries where a sizeable part of the population is dependent on agriculture and where macroeconomic instability is substantially higher than in richer countries, providing insurance can prove to be especially challenging, the emergence of private insurance will be limited and insurance transfers from outside the community are necessary (Dercon, 2004).

Low insurance coverage in developing countries also arises from the high costs associated with insuring the poor. For instance, where there are no formal titles to land or property, the verification costs in the case of home insurance claims are high. This discourages firms from offering contracts to the poor, makes them less attractive, and pushes up insurance costs.

Finally, another challenge to social insurance is given by the low awareness and difficulty among low-income families to understand their entitlements and insurance contracts. This may be the result of poor information-sharing, the high level of skills required for a complete understanding of insurance regulations, including literacy, and the complexity of schemes. This highlights the importance of promoting simplicity in social insurance arrangements.

4.2 Options for promoting social insurance

Initiatives to promote social insurance with the objective of improving coverage and equity outcomes include:

- Enhanced risk-pooling of financial resources by improving tax-funded financing and contributions-based insurance
- Extending statutory social insurance by promoting formal employment and closing education gaps
- Extending coverage through community-based schemes, when appropriate, and ensuring coverage for the poorest through tax-financed subsidies
- Creating a regulatory environment that fosters insurance and financial intermediation with special attention to coverage and equity concerns
- Monitoring activities and promoting transparent institutions.

Tax-funded financing as well as contributions-based insurance constitute the main social protection financing options and strengthening such sources should remain an objective, even in countries where they are weak. Keen (2012) examines efforts to establish and improve effective and fair taxation in developing countries. Initiatives that have shown promising results include the creation of quasi-independent revenue authorities (e.g. in Peru and Uganda) to address corruption and non-compliance, large taxpayer offices to secure the remittance tax of large enterprises (e.g. banks, large foreign investors and resource companies; the gain from having such companies not avoid or delay remitting tax can dwarf that from expanding the net of small taxpayers) and adjusting the design details of specific taxes, such as the Value Added Tax (VAT), to promote compliance.

Statutory social insurance can be extended by promoting formal employment and addressing education gaps. The experience of African countries reveals a number of key policy areas for enabling the transition to formality (ILO, 2009).

The continued strengthening of the organisation and representation of workers in the informal economy is central to these efforts. Furthermore, macroeconomic policy can be designed to channel investments into those sectors of the economy that increase labour absorption and improve productivity in the informal economy. Legal and institutional frameworks can be designed to ensure that formal employment is beneficial and that this is understood by employers and workers by highlighting the benefits of complying with regulations and fighting legal illiteracy. Other initiatives have targeted small enterprises with the aim of improving job quality, promoting association-building between employers and workers and upgrading work for workers in the informal economy. More generally, improving the skills and training of informal economy workers is another effort that has been successful in promoting formality, since adequate skills are central to accessing decent jobs (ILO, 2009).

As discussed in the previous section, forms of voluntary for profit and non-for-profit insurance are complementing options to government initiatives. They may be relied on initially to build up insurance schemes or to establish formally and publicly regulated partnerships. Especially in reaching the poorest and informal sector workers, adopting a mix of insurance tools has proved to be a very useful option. A combination of tax-based financing and micro or community-based insurance may be appropriate since community-based measures alone may continue to exclude the poorest. Indeed, the examples reviewed earlier indicate that the poorest of the poor can only be reached by tax-financed approaches. The challenge for governments is to link different financing mechanisms to complement each other to achieve maximum coverage and equity.

Governments are responsible for creating a regulatory framework that fosters insurance. This could include for instance the establishment of micro-insurers at the local level, with the objective of relying on proximity and community relations to use information and trust to build risk-pooling efforts, while maintaining overall coordination to ensure adequate coverage and service equality.

Finally, guaranteeing the stability and credibility of the broader social insurance system is another crucial role for government. Activities that facilitate this objective include the regular monitoring of and reporting on social insurance efforts to highlight progress made and persistent or new gaps and obstacles to effective social insurance. Such initiatives promote the legitimacy of and public support for social insurance, two key ingredients to secure continuity and sustainability.

5. INTERNATIONAL EFFORTS TO PROMOTE SOCIAL PROTECTION AND THE ROLE OF EU DEVELOPMENT COOPERATION

5.1 International efforts to promote social protection

Recent years have witnessed a remarkable expansion in the interest for social protection in the international development community. This renewed interest has been accompanied by a shift in emphasis among donors that initially adopted narrow approaches, focusing on the provision of social safety nets in the event of shocks, towards a broader understanding of the definition and scope of social protection systems.

A number of initiatives to promote social protection have been launched by different institutions including international organisations, regional agencies and smaller working groups. This section reviews the primary recent developments in this area.

In the international development context, one of the central players in social protection has traditionally been the International Labour Office (ILO). Its most recent effort on this topic has been the launch of the Social Protection Floor initiative ([2]), a set of recommendations on how to extend social protection coverage through the social protection floor approach, which has been endorsed by the G-20 and the United Nations, as well as other organisations. A social protection floor involves an integrated set of nationally-driven policies designed to guarantee income security and universal access to essential social services. In June 2011, the ILO adopted a resolution on social protection that reconfirms the role of social protection as a human right and a social and economic necessity for countries at all levels of development. This resolution expresses the commitment of governments, employers and workers in the country members of the ILO to step up their efforts to build social protection floors as part of their national strategies to develop comprehensive social protection systems. Later that same year, G-20 Leaders officially recognised the importance of investing in nationally-designed social protection floors and confirmed a new emphasis on jobs and growth.

At the international level, other initiatives include the elaboration of strategy documents. An example is provided by the World Bank's Social Protection and Labour Strategy 2012-2022, which outlines the goals, direction and commitments that underpin the work of the Bank and its development partners in social protection (World Bank, 2012).

Along with these international initiatives, regional level efforts have also aimed to strengthen existing social protection policies and develop new ones. Most notably, the African Union's 2009 Social Policy Framework includes a section on Social Protection ([3]). The document encourages member states to extend coverage and provide a minimum package of services to serve as a platform for broadening social protection as fiscal space is created.

[2] For information on the ILO's Social Protection Floor initiative, see: http://www.socialsecurityextension.org/gimi/gess/ShowTheme.do?tid=1321.

[3] For more information on the African Union's Social Policy Framework, see: http://www.un.org/esa/socdev/egms/docs/2009/Ghana/au2.pdf

As regards efforts to enhance global coordination and advocacy on social protection issues, the Social Protection Inter-Agency Cooperation Board (SPIAC-B), was formed in 2012 ([4]). This body, composed of representatives of international organisations and bilateral institutions, meets regularly and is developing new initiatives on advocacy, capacity building and cooperation, most recently for example in the field of social protection statistics.

5.2 The role of EU development cooperation

Social protection lies at the heart of the European social model and, despite variations in policies across Member States, reflects a common commitment to providing universal access to social protection against life cycle risks. The history and experience of European social policy place the EU in a singular position and awards a unique potential to the role of EU development cooperation in the promotion of social protection in developing countries.

As outlined by the Communication from the Commission on "Social protection in EU social development cooperation", the fundamental values of the EU underpin the primary goals of EU development cooperation in supporting social protection. These are to improve equity and efficiency and provision, while supporting social inclusion and cohesion. The EU's focus on coverage and equity concerns, as reflected in this Briefing, sets it apart from other institutions with a more narrow emphasis on safety nets and/or risk management.

Having clarified the main goals pursued – inclusive and sustainable social protection through improved coverage and equity - the remaining paragraphs of this section summarise the main instruments available to the EU in promoting social protection in developing countries. Specific instruments and activities the EU should consider fall under three main categories:

- support to governments and other stakeholders on the implementation of specific policies
- capacity building and lesson sharing
- monitoring and evaluation.

The Briefing identified a variety of constraints developing countries face in the development of inclusive social protection and specific policy initiatives which the EU, jointly with other donors, can support in the pursuit of improved social protection coverage and equity outcomes. Table 1 provides examples of the constraints listed above and of specific areas in which the EU could consider providing support.

In the area of policy financing, the EU may provide critical support for the launching of a programme and supporting parts of its implementation by providing initial or partial funding. At the same time, supporting governments in developing domestic revenue sources and facilitating transitions to nationally run programmes is crucial to ensuring policy and system sustainability. National ownership is central to securing policy legitimacy and continuity. With regards to the sources of financing, evidence suggests that for many developing countries, raising the share of government revenue financing as opposed to additional increases in out of pocket financing is desirable. Steps to increase tax-funded financing include measures to improve compliance.

[4] For information on SPIAC-B, see: http://www.ilo.org/gimi/gess/ShowProjectPage.do?pid=1625.

Table 1. Constraints to inclusive social protection and examples of potential areas of support

Type of constraint	Constraint examples	Areas for support and action
Policy financing	Limited national public finances.	Donors may provide initial funding to support the introduction of a programme or implementation of some of its components, while securing national ownership and transition to a fully nationally funded programme.
	Comparatively low reliance on government revenue and high levels of out of pocket financing.	Support efforts to increase the share of government revenue financing on social protection.
Policy design and implemen-tation	Challenges to expansion in social insurance coverage resulting from high informality.	Support efforts to increase formal employment and reduce inequality in education. Support community-based insurance schemes that ensure broad-scale access, transparent operational and financial accountability; promote tax-financed subsidies to ensure the participation of the poorest.
	Narrowly targeted policy with high targeting costs and conditionality requirements.	Promote the design of policies that promote inclusion and minimise the costs associated with targeting and conditionality.
Political economy	Absent or weak social contracts.	Provide support and advocacy to constituencies involved in the mobilisation required to secure political contracts for social protection.

With regards to social protection policy design, the expansion of social insurance and contributions-based policy is central to improving policy coverage. Formal social insurance may be extended by promoting formal employment and reducing educational inequalities. The implementation of community-based insurance schemes can also contribute to reaching poor households previously excluded from social insurance. However, reaching the poorest through such initiatives may require tax-financed subsidies and public sector intervention to ensure service access and quality. The EU and other donors can support governments' role in promoting a regulatory environment that fosters insurance while promoting coverage and fair treatment. The introduction and expansion of social assistance policies, for instance in the form of targeted cash transfers, has also helped improve social protection coverage and equity. In designing such programmes, governments may be encouraged to adopt design details that minimise risks of exclusion and other costs associated with targeting and conditionality. Simple policy eligibility rules, non-punitive conditionality and information dissemination on entitlements are examples.

Finally, ensuring public support for social protection and politically sustainable social contracts are also central to the development of social protection. The EU and other donors can provide support and advocacy to constituencies and drivers of change involved in the mobilisations required to secure political contracts for social protection.

In addition to supporting direct efforts to address financial, policy design and political economy constraints to social protection development, the EU can promote social protection through capacity building and knowledge-sharing and monitoring and evaluation activities.

Capacity building and lesson sharing includes the promotion of exchange between different stakeholders on issues associated with social protection development and implementation, the facilitation of knowledge sharing and the development of practices to ensure such initiatives are carried out regularly. This category includes the promotion of enhanced coordination among international agencies and institutions. The EU itself could actively participate in efforts such as the SPIAC-B aimed at promoting coordination in this area. With regards to knowledge-sharing, initiatives designed to encourage exchange through seminars, workshops, country visits and other opportunities for government and other actors to learn from institutions facing common challenges can be extremely useful.

Finally, monitoring and evaluation activities would benefit from EU support. Such activities generate information required to assess progress towards the implementation of inclusive social protection. By identifying groups that are excluded, monitoring highlights the areas in which more needs to be done. Evaluations yield information that may be used to improve policy design and effectiveness. These costly and technically demanding activities may be usefully supported by donors. In addition to generating a precious information base, they help legitimise policy and ensure its continuity.

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