

# Financial Sustainability of Social Protection Systems in the ESCWA region

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# Outline

- Introduction and Objective
- Methodology and Limitations
- Context and Findings
- Recommendations



# Introduction

- The main objective of this paper is to analyze and assess the social protection schemes offered in ESCWA countries as well as their financial sustainability

# Methodology

- Based on the scope of this paper, the methodology used for this research was an extensive desk review.
- The first part undertook a literature review of social protection. Some of the major sources used were:
  - Official ILO documents
  - World Bank Reports
  - ESCWA Reports
  - UNRISD
  - World Health Organization
  - International Social Security Organization
  - EUROSTAT



# Methodology

- The second part of the desk work was an attempt to quantify, and assess the financial sustainability of these schemes. For this several databases have been accessed:
  - ILO's Social Security Expenditure Database
  - World Bank databases- World Development Indicators
  - IMF's World Economic Outlook
  - IMF's Government Finance database
  - WHO Global Health Expenditure Database
  - Annual reports of Social Security Association of ESCWA countries (when available)
  - Government budgets for the years ranging from 2005 till 2010

# Limitations

- **Lack of a unified definition:**
  - In order to assess and compare the financial sustainability of social protection in various ESCWA countries it is essential to agree on a common definition as to what social security is, what social protection is.
  - Definitions mostly have the same basis, but they differ slightly in terms of their scope and extent. Particularly, there is more confusion as to the exact definition of “social protection”, even within organizations
- **Lack of systematic data:**
  - There is a general lack of up to date, consistent and regular data in ESCWA countries.
  - Annual reports and data from social security association sites, are not always available
  - In regards to government budgets one of the main issues in this regard however is the lack of a standard definition across countries which would not only facilitate the calculation of the expenses but also their comparison.

# Background and definition

- **Social Protection**

In order to avoid confusion and for the purposes of this report, the terminology of social protection will be used as defined in the EUROSTAT as it seems to be the most precise and measurable:

- *“Social protection encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved.”*
- As such, kinship, community and family support (for example NGO services) would be excluded from the calculation and definition of social protection in this paper.

# Background and definition

- **Social Insurance:**

Contributory schemes but may also refer to tax funded universal schemes. Generally, contributory schemes are for individuals of working age employed in the formal sector. These individuals receive benefits based on their contributions and contributions from their employers and the government. These schemes are quite exclusive, leaving those most in need uncovered and unprotected. Universal schemes on the other hand, tend to have wider coverage and be more inclusive in nature.



# Background and definition

- **Social assistance:**

Refers to cash transfers, subsidies and safety nets mostly aimed at people in need as a tool for poverty alleviation. Often times, social solidarity such as family transfers and care, community help as well as services provided by NGOs are counted within the definition of social protection. However they have been discounted from the operational definition used here. Social assistance intends to give further “assistance” to the most vulnerable individuals and households in society even if and when they are covered by formal public insurance schemes.

# Background and definition

- Why is it important to look at social protection now?
  - “In times of economic downturn, revenues earmarked from contributions or taxes to finance social security program fall, while expenditure – due to the increased number of beneficiaries – rises.” (ILO, 2009)
  - It has become however, widely acknowledged that increasing spending on social protection is an essential component of economic recovery



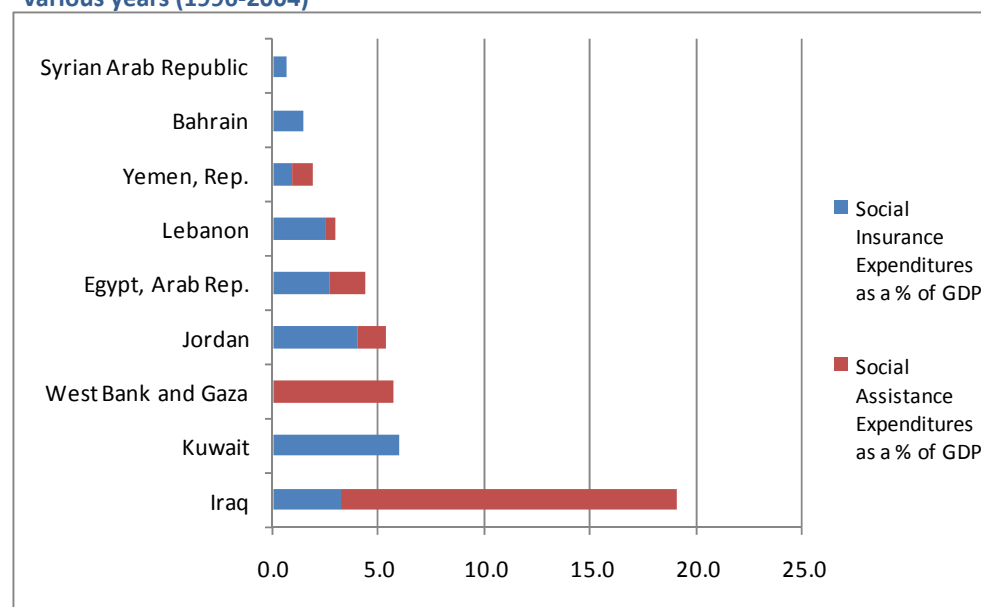
# Findings

- Oil producing countries tend to provide more universal coverage than the least developed countries or countries in conflict. This is probably due to their nature being resource rich labour poor countries as opposed to other countries (such as Lebanon, Jordan, Syria, Egypt) which are resource poor, labour abundant.
- There is a lack of universality of the schemes in most ESCWA countries

# Findings

While “OECD countries spend between 10% and 30% of GDP on social security” (Kattaa, Maha. 2011 –ILO), most ESCWA countries spend less than 7% on social protection with the exception of Iraq.

Share of social insurance and social assistance from total social protections for various years (1996-2004)



Source: World Bank “*Spending on Social Safety Nets: Comparative data compiled from World Bank Analytic Work*”



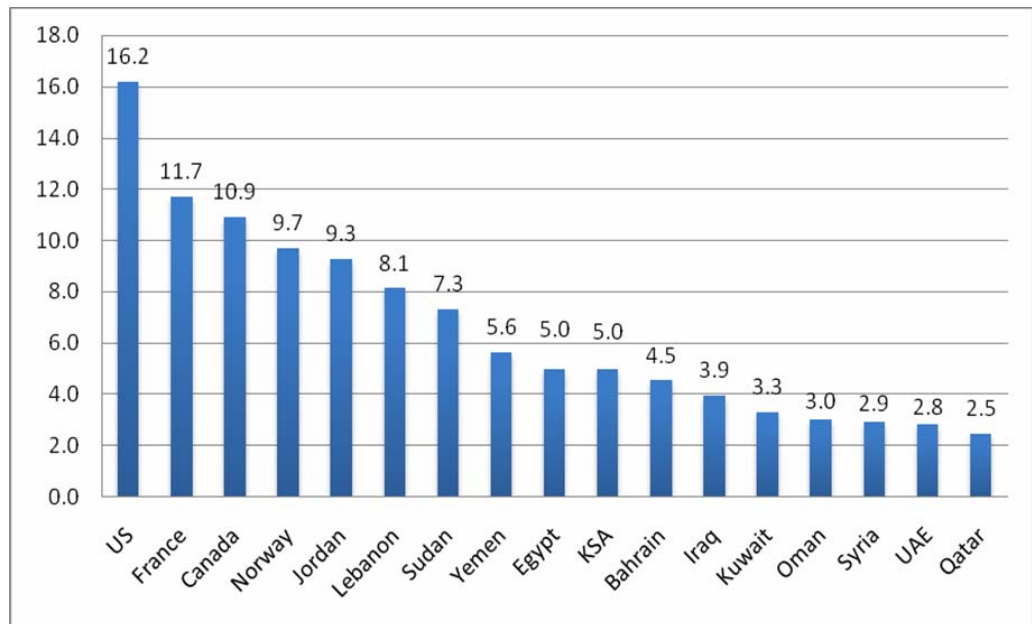
# Social Security Health Expenditures

- “Financial sustainability in health systems is: having enough reliable funding to maintain current quality health outcomes and health services for a growing population and to cover the costs of raising quality and expanding availability to acceptable levels” (USAID, 1995)
- The majority of ESCWA countries provide some form of health benefits to their citizens or at least working population.

# Social Security Health Expenditures

GCC countries' total health expenditure is relatively small compared to OECD countries due to the very high GDP per capita, while the health expenditures of countries such as Jordan, Lebanon and near match those of developed countries.

Total Health Expenditure as a share of GDP 2009



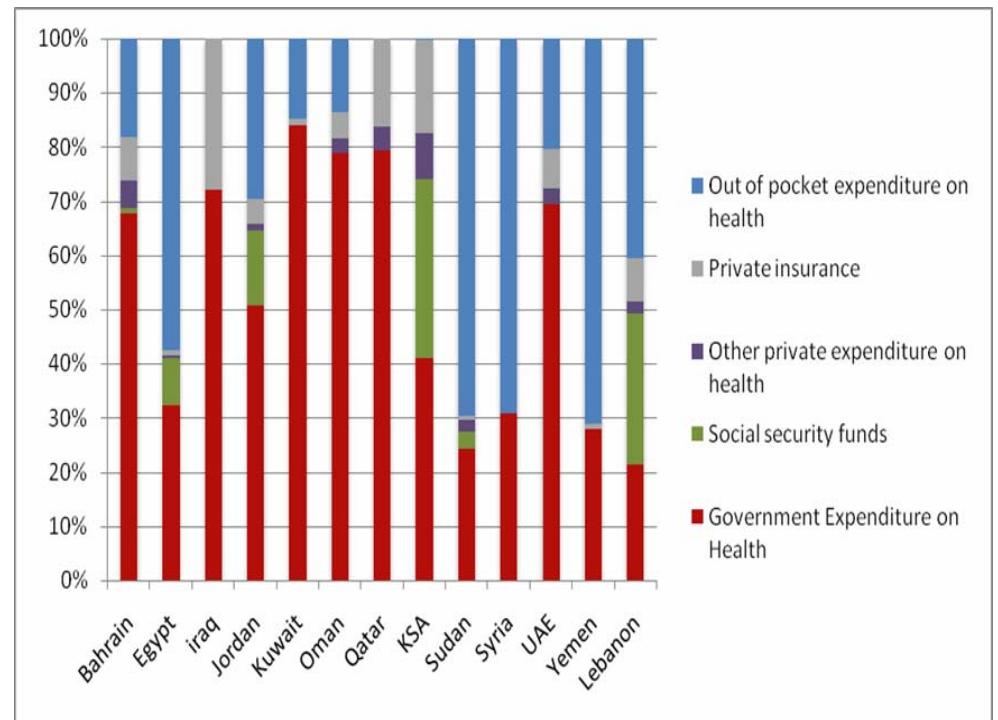
Source: World Health Organization, "Global Health Expenditure Database 2000-2009"

# Social Security Health Expenditures

GCC countries are among those who have the highest public expenditure on health out of total health expenditures. Kuwait, Oman and Qatar's governments cover 84%, and 80% respectively of total health expenditures in the country.

Though the social security fund is a major source of healthcare expenditures in Lebanon, it has been facing a deficit over the last decade mainly due to the decision to decrease contribution rates from 15% to 9% in the Sickness and Maternity branch in 2002.

Distribution of health expenditures by source 2009

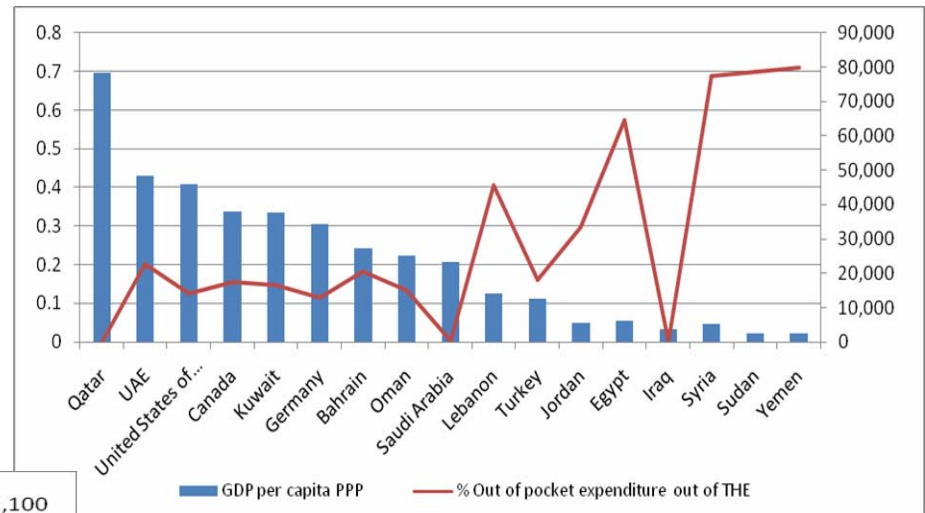


Source: World Health Organization, "Global Health Expenditure Database 2000-2009"

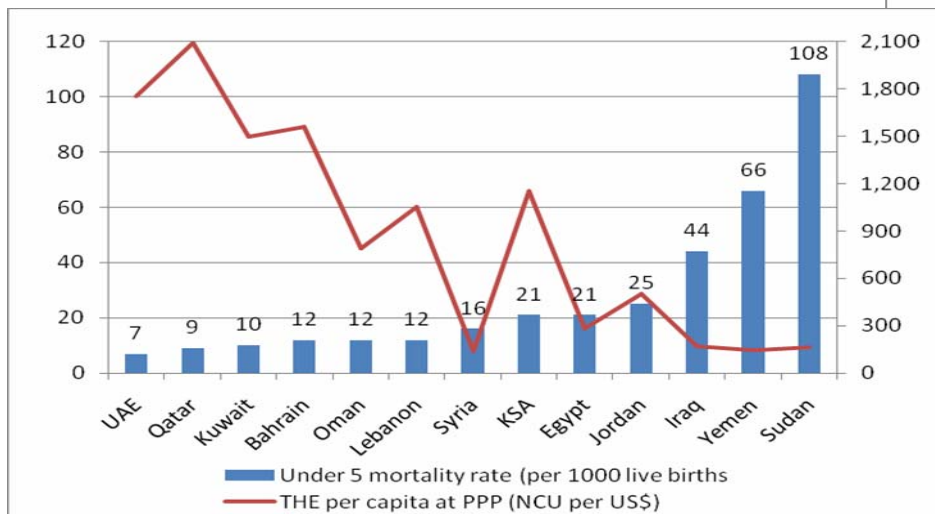
# Social Security Health Expenditures

The countries with the lowest GDP per capita (PPP) such as Yemen, Sudan, Egypt have the highest out of pocket (Oop) spending on health.

Out of Pocket Spending in relation to GDP per capita 2009



Child Mortality rate in relation to THE per capita PPP 2009



The countries – mostly GCC- which offer universal public healthcare to their citizens and sometimes foreign residents reveal better health indicators than those who do not. In fact, the Bahraini and Kuwaiti government provide free primary, secondary and tertiary healthcare to their citizens.

Source: World Health Organization, "Global Health Expenditure Database 2000-2009"





# Pension

- All ESCWA countries have mandatory public pension schemes on a pay-as-you-go basis for at least part of the labour force, however none of the ESCWA countries have one comprehensive pension scheme that covers all workers
- In Lebanon, employees in the private sector are not covered by a pension scheme but only by an end-of-service-indemnity, which consists of a lump sum after retirement
- Most workers in ESCWA countries remain uncovered by a formal pension scheme. Only Jordan and Egypt have coverage rates exceeding 30% of total workers.

# Pension

- Another reason is the lack of incentives for workers and employers to comply with the pension systems. Despite the relatively generous benefits, workers tend to doubt the ability of the system to deliver the promised benefits.
- Pension schemes in the region are considered relatively generous in terms of replacement rates, minimum pensions, minimum years for full pension, etc. However, one should note that wages – one of the main factors of pension calculations - in most ESCWA countries especially the labour abundant ones are considerably lower than OECD and EU countries
- The benefits of the schemes usually exceed contributions and invested reserves, which renders the pension schemes financially unsustainable

# Pension

- Pension schemes in the ESCWA region are poorly designed. Pensions are calculated based on the last salary of the beneficiary, which constitutes an incentive for both employers and employees to give false income declarations.
- Most of the schemes give incentives for early retirement. For instance, in Bahrain early retirement (at 45 years) has a return rate (8%) higher than old age (65 years) retirement which stands at (4%). The same applies for Jordan, with a return rate of 7% for early retirement and only 3% for males retiring at 70 years old.

# Pension

None of the pension schemes in ESCWA are financially sustainable despite the relatively young population. Even without an ageing population, pension schemes in the region will be facing financial problems taking into consideration a very high implicit return on contributions.

Pension Contribution rate (per cent gross earnings) 2009

Country	Total contribution	Employee	Employer	Government
Bahrain	12			
Egypt	31	13	17	1
Jordan	14.5	5.5	9	
Kuwait	25	5	10	10
Lebanon	8.5	-	8.5	
Oman	18			
Saudi Arabia	18	9	9	
Syria	21	7	14	
Yemen	12	6	6	
Argentina	23.7	11	12.7	
Brazil	31	11	20	
China	28	8	20	
India	24	12	12	
OECD34	19.6	8.4	11.2	
EU27	22.5	7.9	14	

*Social Security Online. 2010. Social Security Programs throughout the World 2010;*

*OECD.2011, Pension at a glance 2011: Retirement-Income Systems in OECD and G20 Countries, p.153*

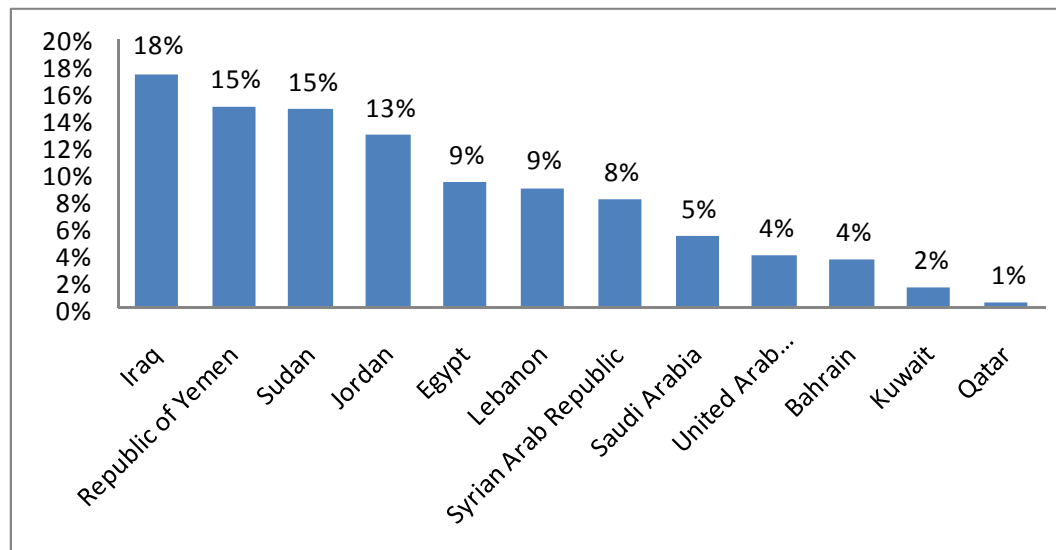
# Unemployment

- There are generally two types of programs, unemployment insurance and unemployment assistance. Unemployment insurance provides coverage to a larger share of society as it is intended as a right to any unemployed person. Unemployment assistance on the other hand is intended to keep vulnerable households out of poverty, it is more means-tested

# Unemployment

Only a few ESCWA countries have in place an unemployment fund. One of these countries is the Kingdom of Bahrain who introduced this scheme in 2007. The establishment of the Unemployment Insurance System is credited for playing an important role in reducing the country's unemployment rate which reached around 15% in 2005.

Unemployment Rates for the years 2006-2009



*IMF World Economic Outlook , World Bank data, and Ministries reports.  
They vary between the years of 2006 and 2009*

# Unemployment

- It has been shown over time that per capita GDP is positively correlated with the presence of an unemployment insurance system. This does not apply to the MENA region.
- The higher the GDP per capita the more likely it is that the country does not have an unemployment scheme in this region.
- The oil exporting countries of the region are more likely not to have an unemployment insurance scheme (with the exception of Bahrain), than the oil importing countries with lower per capita GDP. A reason for this may be the high presence and employment of migrant workers in oil exporting countries.

# Unemployment

	Jordan (not yet implemented)	Bahrain	Egypt (new law)
<b>Coverage</b>	Employees older than age 16 working in private establishments with at least 5 workers.	Civil servants (regardless of nationality), private-sector employees (regardless of nationality), and first-time job seekers (Bahraini citizens only).	Employed persons in the public and private sectors.
<b>Source of Fund</b>	<b>Insure Person:</b> 0.5% of monthly earnings <b>Self Employed:</b> Not applicable <b>Employer:</b> 1% of payroll <b>Government:</b> Any deficit	<b>Insured person:</b> 1% of total monthly salary <b>Self employed:</b> Not applicable <b>Employer:</b> 1% of the employee's monthly salary <b>Government:</b> 1% of employee's total monthly salary	<b>Insured person:</b> None <b>Self employed:</b> N/A <b>Employer:</b> 2% of covered payroll <b>Government:</b> Any deficit
<b>Benefits</b>	<b>Unemployment cash benefits:</b> Paid for up to 3 months with contributions of less than 180 months; up to 6 months with contributions of 180 months or more. 75% of the covered wage is paid for the first month; 65% for the second month; 55% for the third month; and 45% for the fourth to sixth months.	<b>Unemployment benefits:</b> 60% of the average earnings in the last 12 months. The maximum unemployment benefit is 500 dinars. The benefit is paid for up to 6 months <b>Unemployment aid:</b> 150 dinars for persons with academic qualifications or 120 dinars for other unemployed persons. The benefit is paid for up to 6 months.	<b>Unemployment benefit:</b> The benefit is equal to 60% of the insured's last monthly wage and is paid after a 7-day waiting period for up to 16 weeks; may be extended to 28 weeks if contributions have been paid for the last 24 months



# Disability

Work-related disability in government sponsored or mandated programs, such as disability insurance schemes, is usually defined for cases in which the underlying condition and subsequent impairment prevent the affected individual from performing work that the individual would otherwise be qualified to undertake

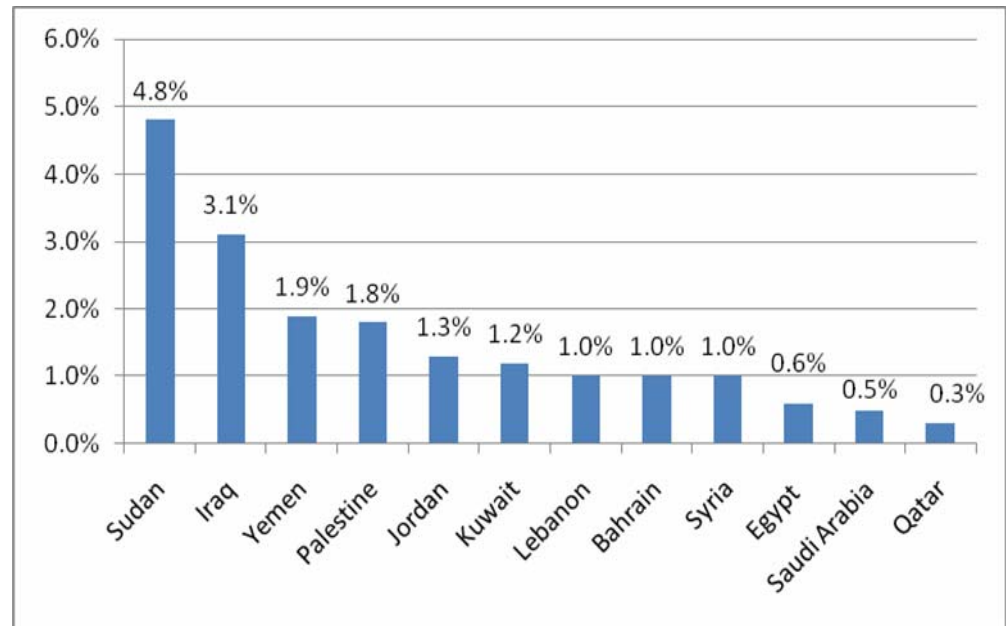
According to the WHO, disability is defined as:

*“an umbrella term, covering impairments, activity limitations, and participation restrictions. Impairment is a problem in body function or structure; an activity limitation is a difficulty encountered by an individual in executing a task or action; while a participation restriction is a problem experienced by an individual in involvement in life situations. Thus disability is a complex phenomenon, reflecting an interaction between features of a person’s body and features of the society in which he or she lives”*

# Disability

Prevalence of disability in ESCWA countries seems to be quite low. This however does not entail that there is a small minority of individuals with disabilities. This is mostly a reflection of the narrow definition used by these countries in their surveys and questionnaires to determine disability. In fact, the number of persons with disability in Iraq is estimated to be three times higher than that reported officially.

Prevalence of Disability in ESCWA countries for different years (1996-2010)



ESCWA, 2010. "International and Regional Practices favoring the inclusion of persons with disabilities in the labour market"

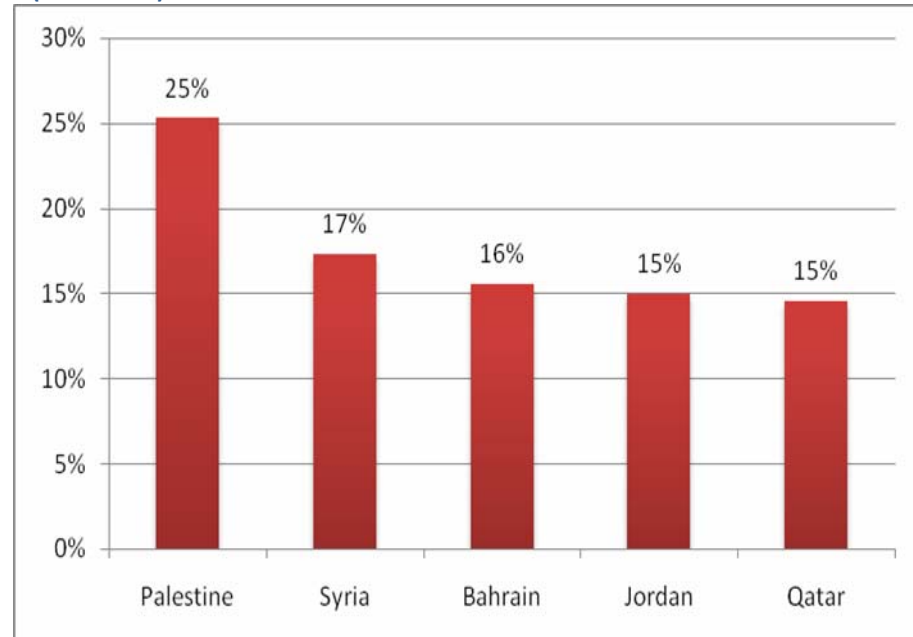
# Disability

- Most ESCWA countries do offer some form of disability benefit, provided it is caused by a work related injury however. Here again, access to protection is linked to employment. And even then, the benefit received does not compensate for the income lost often times
- Generally no data exists in developing countries regarding social protection expenditures on disability. However, as a point of reference, it is useful to mention OECD expenditures. “For OECD countries an average of 1.2% of GDP is spent on contributory and non-contributory disability benefits, covering 6% of the working age population in 2007.”

# Disability

Only a minority of disabled individuals aged 15 years and above are actually employed, entailing that the majority of disabled people do not get benefits. It is more likely that the majority of disabled individuals in the MENA region receive aid in terms of social assistance, if any.

Proportion of persons with disabilities (15+) who are employed for various years (1997-2004)



ESCWA, 2010. "International and Regional Practices favoring the inclusion of persons with disabilities in the labour market"

# Social Assistance

- Social Assistance in social protection, better understood as safety nets is generally a non-contributory transfer aimed at the most vulnerable individuals in society.
- Instead of giving assistance to those who have sufficient means, the aim is to target the spending thereby effecting a pro-poor distribution of social services.
- One of the major criticisms of these studies lies in the underreporting of the under-coverage in these schemes
  - *“Egypt’s direct income transfer programs [for example] are well targeted and efficient but too small in scale and scope to have any substantial effects on poverty levels... and 80% of the needy receive no assistance at all.”* (Loewe, Markus. “Social Security in Egypt: An Analysis and Agenda for Policy Reform” )
- The administrative cost and capacities required in order to identify with precision “the poor” often prove to be too high for developing countries.

# Social Assistance

- “Countries with unstable macroeconomic conditions are more likely to have insufficient resources to finance the social safety net” (de Ferranti and others 2000).
- There are several limitations to calculating the social assistance expenditures of governments in the ESCWA region:
  - several of the countries do not have their annual government budgets online
  - those who do are not always systematic
  - the level of disaggregation in social spending is not sufficient in these budgets in order to assess the expenditure on social assistance in particular
  - “data on the budgetary costs of [...] subsidies, which include outlays for subsidies and foregone revenues are scarce”

# Social Assistance

- Comparing and assessing social assistance schemes in countries might be misleading
- Providing subsidies is in fact spending budget on consumption items rather than investing them in income generating, or productive activities
- Many 'social assistance' measures "taken by Arab governments, especially in non-oil producing countries, are not sustainable. This is partly because of budget constraints as most of these countries are running serious budget deficits" (Carnegies Endowment for International Peace, 2008)

# Recommendations

- In order to improve the financing of these systems, there needs to first off be an agreement on the understanding of what social protection is and what it comprises of.
- A second step is to improve the data and more specifically government budgets pertaining to social protection.
- When it comes to the actual financing of social protection schemes, this should be pro-poor, “otherwise, there is the possibility that the pro-poor benefits of social service provision may be undermined by ‘anti-poor revenue raising strategies’
- Governments should build a minimum social protection floor which will guarantee basic, minimum protection to the whole population leading to a more universal system



# Recommendations

- In countries where a universal health scheme is currently not in place or where it is still being developed, governments may consider developing a co-pay system. This would lessen the burden imposed on the government by such a new scheme and would require individuals to only pay a minimal amount.
- When it comes to contributory schemes, a solution for ESCWA countries, and specifically the GCC ones, could be to increase the contribution rates in order not to diminish the pension benefit offered. However, when increasing these rates attention must be paid to not negatively impact those poorer individuals and those with lower wages (i.e. the most vulnerable)



# Recommendations

- Increasing the revenues of social security organizations may allow for the increase of the scope and extent of benefits offered. Governments may in this case develop an unemployment insurance scheme, essential nowadays for a well functioning society.
- Another way to increase the revenue, or rather render pension schemes sustainable is by increasing the number of years of contribution required, especially when it comes to early retirement.