Rain or shine, Asia needs a better umbrella of social protection

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Last update: 29 January 2018

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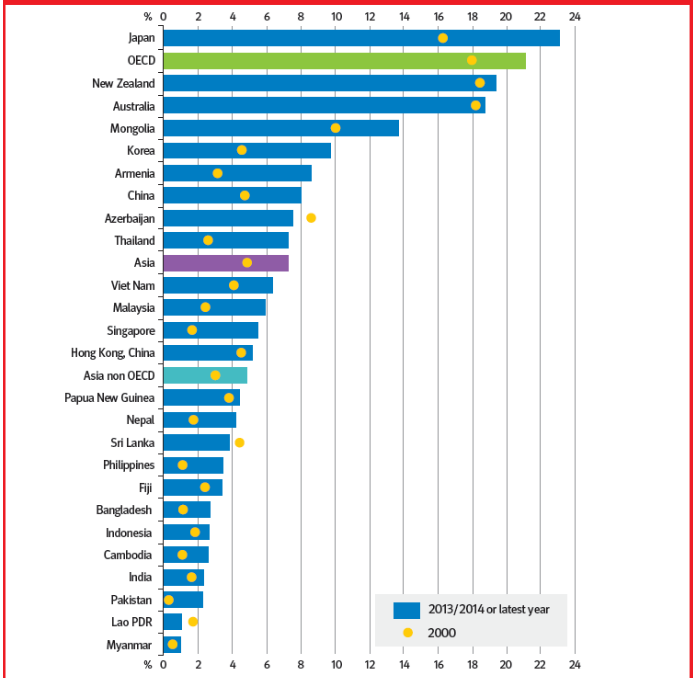
An Indonesian proverb says that a firm tree does not fear the storm. After the Asian Financial Crisis of 1997/98, Asian economies recovered with strong economic growth (on average 4.2% annually), which over the past decade has contributed to a decline in "absolute poverty"–here defined as those with incomes of less than $2 per day. The share of people living in poverty fell from over half to a third of Asia's population, with large reductions especially in China, Indonesia and Viet Nam. Greater prosperity has also contributed to lower fertility rates and higher life expectancy. Now the challenge is to create good jobs for Asia's increasingly educated workforce and prepare for population ageing, which will drive social spending upwards.

With increasing prosperity, the leeway for greater public social expenditure (defined broadly as support for households in difficult circumstances which adversely affect their welfare) is growing, but at 7% of GDP it remains low compared with the OECD average of 21% of GDP. Indeed, in many Asian countries, including India and Indonesia, public social spending is often as low as 2 or 3% of GDP. Our report on *A Decade of Social Protection Development in Selected Asian Countries* indicates that one of the reasons for such low social spending is related to the large number of informal workers. Indeed, the problem isn't so much the lack of jobs (Cambodia and Nepal, for instance, have over 80% employment rates) but rather the lack of good quality jobs–meaning the quality of the working environment, earnings quality and job security, as set out under the OECD Job Quality Framework.

Public social spending increasing in Asia
Trends in public social spending as % of GDP, 2000 and 2013/2014 or latest year



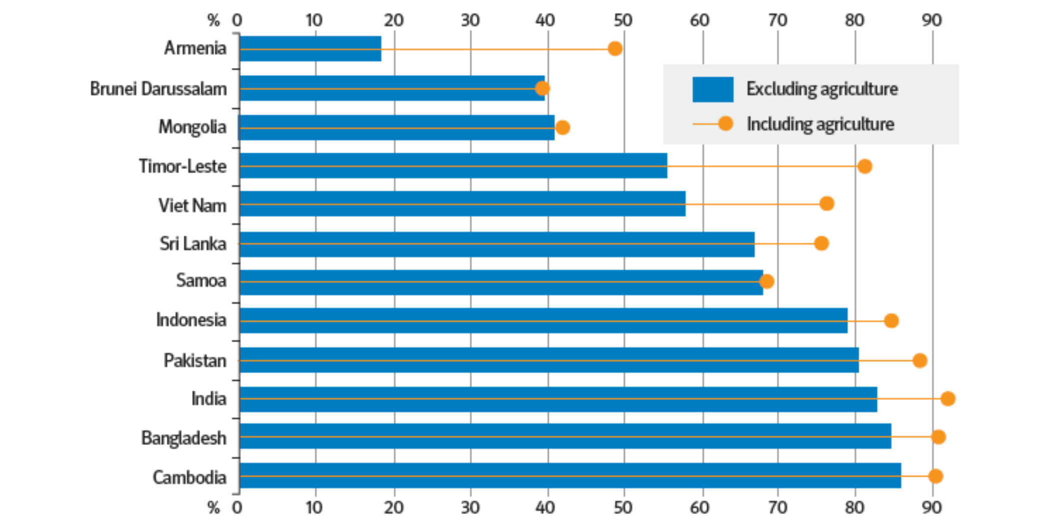
Source: OECD Social Expenditure Database. http://www.oecd.org/social/expenditure.htm

Informal workers in Asia frequently work long hours for little pay, with little to no job security and without social protection coverage. These workers do not make contributions to social insurance schemes– for healthcare and pensions for example– and therefore they cannot claim health insurance benefits when they fall ill or draw a pension when they grow old. As the bulk of public social spending goes to pension and health benefits tied to formal employment, current government efforts are more likely to benefit better-off households rather than poor ones. Governments have sometimes put in place last-resort benefits but spending on such social assistance benefits (support in cash or in-kind which is targeted at low-income households) is limited as benefits are small and they are not given to everyone. Public spending on labour market programmes is even lower, and only a limited number of poor workers have access to employment guarantee schemes.

Extending social protection is clearly needed not only to further reduce poverty, but also to provide for the population's increasing medical and financial needs. Crucially, population ageing in Asia is expected to progress at a fast pace: by 2030 there will be fewer than seven people of working age (15-65) per senior citizen (65+), compared to more than 10 today. So what are countries doing to prepare for this challenge? Richer Asian countries such as Japan, Korea and Singapore have long since put in place mandatory pension systems to which workers contribute during their working life. In recent years, China has arguably been particularly successful in increasing pension coverage. In addition to its pension provisions for civil servants, China's basic urban worker pension system covered almost 9 out of 10 workers in 2015, while the basic national resident pension system (which includes the rural pensions scheme) covered 500 million people, or about 75% of the target population (see report by Queisser et al, 2016). Various measures were also used to encourage pension saving, such as subsidising contributions or making pension payments to the elderly parents of those workers who started to contribute to rural pension schemes.

Informal employment is widespread in Asia

Informal employment in total employment, 2016 or latest year available



Source: ILO ILOSTAT Database (download 19 October 2016).

In the poorer countries, not many workers have had a chance to save for retirement, and contributory pension systems still do not cover many workers. To fill the gap, some Asian countries, such as Bangladesh, India, Nepal and Thailand, have established pension schemes targeted at low-income households, which are often the main or only system of income provision in retirement. However, coverage of such schemes is variable and the payment rates are generally low. Increasing access to social protection is an imperative for achieving more inclusive and cohesive societies in Asia. The challenge facing many economies with a large rural sector or a large urban informal sector is overcoming administrative bottlenecks limiting coverage extension of social protection, not least because of the very limited capacity to register participants in insurance schemes and/or collect contributions from employers and employees. One approach worth considering is India's effort of equipping all its citizens with a digital identity. This initiative, known as Aadhaar, is not compulsory yet, but covers about 4 out of 5 Indian citizens and addresses a range of activities from financial services, such as daily bank transfers to making benefit payments. This includes, for example, making payments to low-income households that are eligible for the "cooking gas subsidy" and "social assistance pensions".

New technologies can represent a great opportunity for governments in Asia to leapfrog standard registration methods, track social protection eligibility, and help extend coverage to all those who need social protection most.

First published on www.oecdinsights.org, June 2017. Share this article at http://oe.cd/27D

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