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Building Social Protection and Labor Systems

Concepts and Operational Implications

David A. Robalino, Laura Rawlings and Ian Walker

Background Paper for the World Bank 2012–2022 Social Protection and Labor Strategy



March 2012



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Abstract

This paper presents a framework for designing and implementing social protection and labor (SP&L) systems in middle and low income countries. Although the term “system” is used to describe a country’s set of social protection programs, these tend to operate independently with little or no coordination even when they have the same policy objective and target similar population groups. The paper argues that enhancing coordination across SP&L policies, programs, and administrative tools has the potential to enhance both individual program performance as well as the overall provision of social protection across programs. The first part of the paper discusses the characteristics of well-designed social protection systems. It also points to the gains – and some of the risks – of moving toward systems, including: (i) more effective risk management in crisis and non-crisis periods; (ii) improved financial sustainability; (iii) more equitable redistribution; (iv) economies of scale in administration; and (v) better incentives. The second part discusses issues related to design and implementation based on country studies for Brazil, Chile, India, Niger, Romania, and Vietnam. It suggests three levels of engagement to support the design of SP&L systems: (a) at the policy level, defining how different instruments (e.g., savings, risk pooling, redistribution) interact, and coordinating financing mechanisms and institutional arrangements; (b) at the program level, improving the design of individual programs and creating synergies with other programs within and across social protection functions; and (c) at the administrative level, setting up basic “nuts and bolts” tools that can work across programs, such as beneficiary identification and registry, payment mechanisms, and management information systems. The last part of the paper outlines some of the implications of a systems vision for the World Bank’s social protection and labor practice.

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Key Words: social protection, systems, safety nets, labor, social assistance, welfare, administration, public policy, public sector reform, developing countries

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I. INTRODUCTION

Most countries implement anti-poverty or risk management policies and programs that are usually classified as a “social protection system.”¹ Institutional arrangements vary widely across countries and regions but similar programs are often observed: cash or in-kind transfers to alleviate poverty and build human capital; mandatory social insurance programs to protect workers and their families against the risk of unemployment, disease, disability, or the inability to work during old-age; regulations that protect workers from exploitation, abuse, or accidents at work; and programs that aim to help individuals build skills, find jobs, and, in general, improve their earnings opportunities. These programs usually fall under the purview of the Ministries of Labor, Social Affairs, and/or Health and are delivered through public or private providers, including social assistance and insurance institutions, employment service offices, training centers, or private insurance companies.

Although the term “system” gives the idea of interconnected programs achieving interrelated functions, the reality in most cases is that of an amalgam of programs operating with little or no coordination. For instance, most insurance programs (pensions, unemployment benefits, health insurance) operate independently despite often being part of the same institution. Even within each of type of insurance program there is considerable fragmentation. Most countries, for example, have different pension programs for civil servants, formal workers in the private sector, and agricultural workers. The health insurance program is also often divided in two: social insurance for formal sector workers and national health services for the rest. There is even less coordination between social insurance and social assistance programs, or between these two and active or passive labor market programs.

¹ The discussion in this paper is focused primarily on public formal social protection systems, while recognizing that there is a wide range of private formal and informal arrangements that are critical components of social protection. In addition, many other public policies contribute to social protection that are beyond the purview of social and labor ministries (e.g., education, health, infrastructure, and community development).

*Recent literature suggests that reducing fragmentation and promoting harmonization/integration can enhance both the performance of individual programs and the overall provision of social protection.*² In other words, the aggregate increase in social welfare that the programs can generate when working as a **system** is higher than what can be achieved by summing the contributions of each program working independently. Research suggests that this is generally true of all systems (and networks). It results from the *interactions* of individual components (or nodes) and the fact that by working together they can *share resources*.³

Social protection programs could perform better if interactions between them were exploited. In an integrated system, people are less likely to fall through the cracks and lack coverage for a given risk or fail to benefit from assistance if poor or vulnerable. In addition, programs can complement each other. Bundling health insurance with pensions, for example, can strengthen incentives to save for old-age. Similarly, combining long term savings for pensions with savings for unemployment benefits can better protect young workers with short vesting periods and, during a recession, it can allow the unemployed to receive benefits for a longer period of time. There are also gains to be made through the interactions between social insurance, social assistance, and active labor market programs. For example, better integrated contributory and non-contributory social insurance programs can increase incentives to enroll in the social security and reduce incentives for informal work. Linking the beneficiaries of public transfers to counseling, intermediation, and/or training programs can strengthen incentives to work, improve their earnings opportunities, and reduce dependence.

The fact that more integrated programs can share resources could also lead to more efficient management, administrative, and financing arrangements. The obvious example is the sharing of administrative and IT systems. Setting up these systems is expensive but once in place processes such as identifying and registering plan members, collecting

² See Ribe, Robalino, and Walker (2011).

³ See Christakis and Fowler (2010).

contributions, and paying benefits can serve many programs at a reduced marginal cost. The same is true of governance arrangements to manage these programs and deliver services, and of monitoring and evaluation systems. Finally, programs that harmonize financing can eliminate distortions such as differences in contributions for similar benefits.

However, there are potential costs and risks are involved in moving towards more integrated social protection systems. A more coordinated system can be more vulnerable to errors in design or failures in a given program or administrative tool that would then propagate across interconnected programs. A systems vision can also lead to excessive institutional centralization that can stifle innovation, creativity, and responsiveness. Coordination across many independent agencies in charge of designing and implementation SP&L programs can also be costly and slowdown the pace at which reforms are implemented.

Moving towards a *systems approach* therefore requires a careful assessment of benefits and costs and tailoring to different country contexts. In general, a systems vision for SP&L calls on political leadership, clear policies, and functional institutions to guide both adjustments to individual programs and improvements to the governance, management, administrative and IT structures applied across programs. Policymakers need to define context-specific transition paths. Given higher institutional capacity and more developed SP&L programs, middle income countries can seem better prepared than low income countries for implementing a systems vision. However, middle income countries (MICs) often have established programs with vested interests and path dependency that can hamper reforms. Low income countries (LICs) are less able to afford the inefficiencies of fragmented systems and may be in a better position to put good practices into place early on when systems and programs are relatively new. As the case studies in this paper illustrate, the transition paths towards a more systemic approach often begin with a crisis and/or strong political mandate and involve initial reforms to flagship programs or a set of

related programs (e.g., a social insurance system) that can be gradually expanded to meet the needs of various population groups.⁴

II. WHAT DO WE MEAN BY A SOCIAL PROTECTION “SYSTEM”?

We start with a proposed framework to characterize a country’s social protection *system* focusing on its *functions*, drawing on the social protection literature. In the next section, we suggest a policy and operational agenda to support countries to transition towards a *systems approach* to social protection based on a common set of desirable characteristics and through a focus on three levels of system engagement: policy, programs, and tools.

There is a general consensus in the literature about the core functions of a social protection system. Most publications define three: (i) protecting income and consumption in the face of shocks such as disease, unemployment, or disability in old-age; (ii) combating poverty and deprivation by ensuring access to a basic set of goods and services; and (iii) improving individuals’ earnings opportunities by promoting investments in human capital, giving access to credit, and making labor markets (which are the main source of income for most people) work better. The literature uses different terminologies to name these functions but, beyond semantics, there is a general agreement about their meaning and purpose (see Table 1).

Table 1: Parallels between the Terminology Used to Define the Core Functions of the Social Protection System

	Risk Management Framework	Latin America Social Protection Strategy	World Bank Social Protection Strategy
Function 1	Risk Mitigation	Consumption Smoothing	Resilience
Function 2	Risk Coping	Poverty Reduction	Equity
Function 3	Risk Reduction	Human Capital Promotion	Opportunity

Source: Authors (2012).

⁴ See World Bank (2011k).

There is also a consensus regarding certain principles that should guide the design of a social protection system:

- *Equity:* A good SP&L system can ensure that fiscal resources are equitably distributed, achieve horizontal equity in the ratio of contributions to benefits across workers of similar levels of income, establish and enforce common rights and obligations, and help improve equality of opportunities.
- *Inclusion:* A good SP&L system identifies coverage gaps, works to ensure the inclusion of the most vulnerable in the SP&L system, and seeks to eliminate overlaps and redundancies.
- *Fiscal sustainability:* A good system will be fiscally sustainable. This in turn requires analysis and acknowledgement of the fiscal costs of subsidies to social insurance and social assistance and the projection of program costs under different demographic scenarios.
- *Incentive compatibility:* A good system should be based on program rules that create incentives for *individuals* to work, save, and participate in risk-pooling arrangements; incentives for *employers* to register their workers in the SP&L system and to collect and pay the required contributions; and incentives for *SP&L insurers and service providers*, to enroll all eligible beneficiaries and provide good quality services efficiently.
- *Results focus:* A good system will have clearly established goals that are linked to well-articulated programs and will use monitoring and evaluation to track progress toward meeting those goals, monitor implementation and fill knowledge gaps on performance. Good monitoring and evaluation serve as a basis for results-based management, inform policymaking, and support accountability.
- *Ability to respond to risks and shocks:* A good system will be able to respond effectively both to help households manage idiosyncratic risks during normal times as well as counter-cyclically to respond appropriately to large covariate shocks.

SP&L systems are comprised of programs that aim to achieve the functions described above. Traditionally, formal public programs have been mapped into three categories: social insurance programs, social assistance programs, and passive and active labor market programs.⁵ Each of these sets of programs has then been linked to a given function of the social protection system. *Social insurance programs* (e.g., pensions, unemployment benefits, health insurance) have been mainly associated with the first function: insuring against abrupt reductions in consumption as a result of an income shock or emergency expenditures. If individuals become unemployed, for instance, they receive unemployment benefits and if a member of their family becomes sick, part of the health expenditures is covered. *Social assistance programs*, on the other hand, have been mainly related to the protecting against poverty by delivering transfers to the poor and vulnerable (e.g., disabled). These transfers can be in-cash or in-kind and can be allocated in different ways (through different targeting mechanisms and with or without conditionalities). Finally, *active labor market programs* (e.g., education and training, credit, employment services) and *passive labor market programs and policies* (e.g., labor regulations) have focused on the third function, improving earnings opportunities and the functioning of labor markets.

This traditional classification provides a coherent framework to organize programs but has two major drawbacks. First, by linking *programs* to specific *functions* it ignores how they interact and complement each other to achieve the objectives of the social protection system as a whole. Second, the classification hides common *policy instruments* across similar types of programs, such as *mandatory savings, risk pooling, redistributive arrangements*, and various types of *services* (e.g., counseling, child support, intermediation). Failing to coordinate these instruments can reduce the effectiveness of the social protection system and even have unintended consequences in incentives and behaviors. Finally, a facile mapping of programs into functions masks the important roles that programs can play across functions.

⁵ See Holzmann and Jorgesen (2000).

A **systems view** of social protection takes a more general perspective, focusing on how basic instruments can work together to deliver the three core functions. Thus, instead of having programs that operate independently, focusing on different risks/shocks, a systems view looks at how they *interact* and *complement* each other across risks/shocks. This implies combining the three core functions in different degrees, depending on the type of risk or shock that needs to be addressed. Table 2 illustrates these interactions. Along rows, the table shows how *different types of instruments* could be combined to manage a *given risk/shock*, and along columns, how a *given type of instrument* would need to be coordinated across *different risks/shocks*.

Table 2: Illustration of the Linkages between Basic Types of Instruments and Risks/Shocks

Risk/Shock	Types of Instruments						
	Savings	Risk Pooling	Transfers to Beneficiaries or Providers	Human Capital Formation - Training	Wage Subsidies	Access to Services	Asset and Credit Provision
Early childhood malnutrition			X	X		X	
Unemployment	X		X	X	X	X	X
Disability	X	X	X	X	X	X	X
Death	X	X	X				
Old-age	X	X	X	X		X	X
Illness		X	X			X	
Poverty			X	X	X	X	X

Source: Authors (2012).

Note: Transfers can be conditional or unconditional. Conditional transfers include payments for participation in public works. In a more general classification, they would also include wage subsidies, which are paid conditional on work. Access to services includes non-cash support such as counseling or intermediation or activities linked to improving access to health and education services.

One of the virtues of a more integrated social protection system is that coordinating instruments across different types of programs can improve the management of a given risk or shock. For instance, to manage the risk of disability and/or assist the temporary or permanently disabled, an efficient response would combine savings, risk pooling, transfers, and various activation programs (e.g., those providing counseling, training). For temporarily disabled workers, savings (complemented with transfers for low income workers) could be

used to finance benefits, and activation policies then used to facilitate access to a new job. In this case, the use of risk pooling might be inappropriate, due to possible moral hazard problems. But in the case of permanently disabled workers, savings and transfers would need to be complemented with risk pooling arrangements. Another example is providing assistance to the poor who are not disabled (i.e., are able to work). In this case, transfers should ideally be complemented with programs that help them build their skills and move into higher productivity activities and lessen dependency.

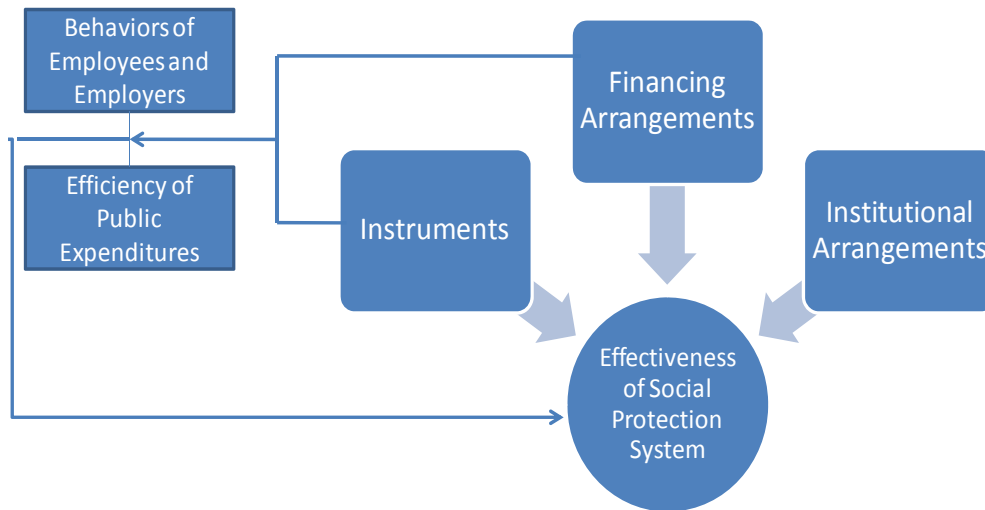
In addition, there are potential gains to be achieved by coordinating a given type of instrument across different risks/shocks. Savings accounts, for instance, could be simultaneously used to pay unemployment benefits and disability, old-age, and survivorship pensions (this type of coordination could be very relevant in low income settings). Transfers can potentially be involved in the management of a range of risks/shocks, which would then improve the distribution of available fiscal resources across different population groups. Indeed, in the absence of a systems view, programs that benefit wealthier individuals (e.g., vocational training programs) can end up generating more transfers per beneficiary than programs that benefit the poor (e.g., food programs). Similarly, active labor market programs might aim to help a given target population overcome a variety of risks thus creating economics of scale. For example, wage subsidies can be used to provide incentives to reemploy the unemployed or somebody who becomes disabled.

A systems approach to social protection can also help improve incentives and the efficiency in the use of public expenditures.⁶ Beyond the choice of programs, critical policy choices that characterize SP&L systems are related to financing and institutional arrangements. Jointly these choices directly affect the behaviors of providers and therefore costs and the quality of services. They also affect the behaviors of workers and employers. Bad policy choices can lead to systems where individuals have incentives to evade social security, retire early, or use disability as an unemployment benefit, or where employers are reluctant to hire

⁶ See Ribe et al. (2010b).

workers. Finally, by improving performance, reducing costs, and having a more integrated approach for the allocation of subsidies across programs, a systems approach to social protection can lead to a more efficient use of public resources.⁷ These ideas are illustrated in (Figure 1) and discussed in more detail below.

Figure 1: Direct and Indirect Effects of the Instrument, Financing and Institutional Arrangements



Source: Based on Ribe et al. (2010).

III. FRAMING AN OPERATIONAL AGENDA

The movement towards a systems approach is a gradual process that, as will be discussed in the next section, will depend on country context and initial conditions. Some countries might choose comprehensive reforms that aim to improve the design, coordination, and/or integration of the various SP&L programs. Other might take a more conservative stance focusing on flag-ship programs and then gradually adding connections to other programs. Overall, three levels of engagement at the operational level can be defined (see Figure 2):

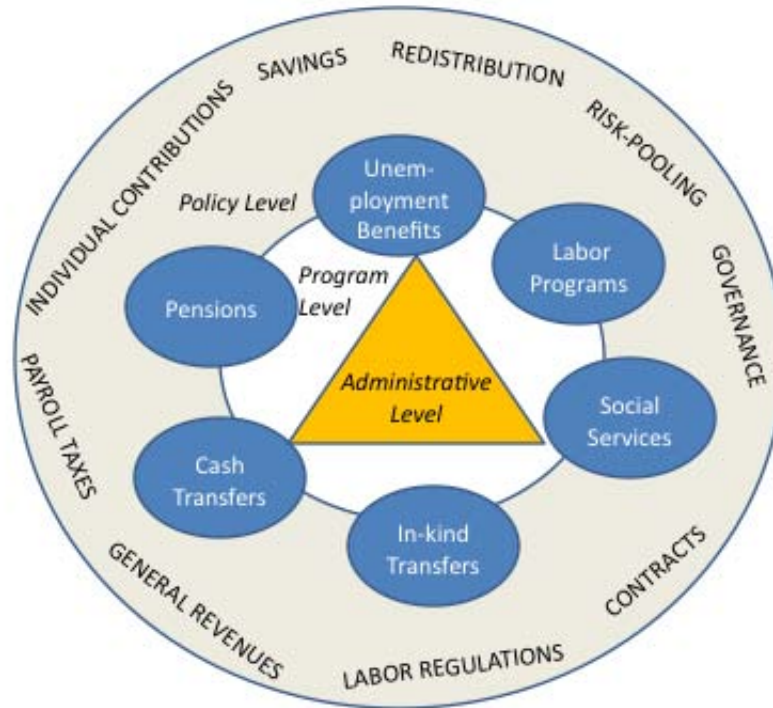
- ***Policy Level: Defining a vision for SP&L and ensuring coherence between instruments, financing, and institutional arrangements.*** This is the highest and

⁷ *ibid.*

most strategic level of engagement. It is here that the objectives and functions of the social protection systems are defined in the context of national goals and priorities. Instruments, financing, and institutional arrangements are assessed and can be benchmarked, paying attention to: consistency and coherence across programs and functions; redistributive impacts; effects on incentives and behaviors; and sustainability and efficiency of public spending. The end outcome can be a general strategy for the social protection system, outlining a medium-term vision to improve integration and coordination across programs and functions. Although most of the World Bank's operational work across countries is likely to focus on programs and tools (see below), ideally, the work would be framed within a strategic vision for the SP&L system as a whole.

- ***Program Level: Integrating, harmonizing, or coordinating programs.*** This second level of engagement is driven by reform initiatives aiming at improving the performance of a given function, program, or set of programs. Beyond design issues to be addressed *within* a given program (the standard approach), the focus of the policy analysis and operational work would be on *harmonization or integration of* similar programs (e.g., social assistance transfers) and exploiting the *interactions/synergies with relevant programs* within and across SP&L functions.
- ***Administration Level: Building basic management, information, and administrative tools.*** This is the most basic level of engagement where the focus is on developing the “nuts and bolts” tools that facilitate the core business processes of social protection programs. These include, for instance, beneficiary identification systems and registries, targeting schemes, monitoring and evaluation arrangements, and contracting and payment arrangements for providers. The set-up of these basic tools or building blocks can serve as an entry point for more structural reforms, including those related to the harmonization or integration of similar programs or the coordination of programs within and across SP&L functions.

Figure 2: Three Levels of Engagement to Design SP&L Systems



Source: Authors (2012).

3.1 Policy Level: Setting the Vision for SP&L

Defining a long term vision for a social protection and labor system involves aligning social preferences – including fundamental questions about the role of the state, the role of redistribution in achieving equity, and the rights and responsibilities of citizens – with financial, institutional, and political constraints. This level recognizes that SP&L approaches are rooted in countries’ social contracts and that appropriate solutions will depend on the local context.

As discussed above, policy choices need to be made at three levels: (i) how various programs will be designed both in terms of their mandate and the choice of instruments; (ii) how they will be financed; and (iii) what type of institutional arrangements will be used for implementation.

Defining the mandate and instruments of a SP&L system. *The first choice to be made is about what programs are needed and their mandate.* For instance, should a country have mandatory pensions or simply facilitate the development of voluntary long term savings and guarantee transfers to protect the elderly poor? If a mandatory pension system is going to be implemented, what should be the replacement rate offered to individuals with different income levels? Similarly, should the government subsidize employment services, training, or skills certification programs? If yes, by how much? Choices at these levels reflect in part social preferences but, ideally, should also be the result of an analysis of the constraints that preclude private arrangements alone from providing sufficient insurance or access to better jobs and earnings opportunities to different population groups.

The second set of choices is about the instruments to implement different programs. Unemployment benefit programs provide a good example. Should unemployment risks be managed through risk pooling or savings arrangements? Choices at this level will affect not only the type of protection the unemployed receive but also their behaviors. There is some evidence, for instance, that savings arrangements provide better incentives for job-search and are less likely to increase the length of the unemployment spell.⁸ Another set of choices refers to the roles of other instruments (e.g., transfers, counseling, intermediation, training) and the type of conditionalities that link them to the payment of unemployment benefits. For example, since enforcing the rule that those receiving unemployment benefits should not be working is difficult in countries with large informal sectors, an alternative is to condition the payment of unemployment benefits on participation in training and job-search activities. Similar conditionalities are needed to allocate transfers (subsidies) to individuals who fail to accumulate sufficient savings to receive benefits during the unemployment spell.

The third set of choices is about how to design the various instruments, and this requires coordination across risks/shocks. Continuing with the example of the unemployment

⁸ See Robalino et al. (2010) and Robalino et al. (2011).

benefits program, there are questions to address not only in terms of the mandate of the system (e.g., what would be the contribution rate and the duration of benefits) but also how individual savings would be shared across other risks (e.g., old-age and disability pensions). Choices also need to be made regarding the design of transfers that might be needed to complement individual contributions: (i) how should they be targeted; (ii) whether they should be ex ante (matching contributions) or ex post (benefit top-ups); and (iii) and how should they be withdrawn as income rises (tapered systems are less likely to have negative incentives effects than sudden cut-offs – but they can also cost a lot more). Depending on design, workers will have less or more incentives to search for jobs and/or will move to the informal sector.⁹ More importantly, as discussed in the previous section, the moment transfers are shared across risks/shocks, a mechanism is needed to guide allocations across different income groups with different risk profiles.

Financing an SP&L system. *The systems view of social protection opens the door to thinking about more integration across financing mechanisms.* In general, there are three sources of financing: payroll taxes (paid by the employer); workers' contributions (paid by the employees); and general revenues (which can be financed through different combinations of income and consumption taxes). As with the choice of instruments, how alternative financing arrangements are combined will affect the behaviors of employers and employees, as well as public finances. A high payroll tax, for instance, can reduce incentives to create formal sector jobs but, other things being equal, can also reduce the need for using general revenues. Social security contributions from workers that are not linked to benefits can also discourage participation in the formal sector.¹⁰

In a more integrated approach, the goal would be to choose financing arrangements that obey three principles: (i) ensure that the SP&L system is financially sustainable so that inputs from general taxation are fiscally affordable; (ii) ensure that subsidies are progressive; and (iii) minimize economic distortions, particularly in labor markets. Currently, several

⁹ See Levy (2008).

¹⁰ For a discussion see World Bank (2011d).

proposals are widely debated. One proposal suggests decoupling social insurance financing and formal sector employment in order to reduce distortions in labor markets and improve equity and coverage. This proposal calls for making the redistribution that exists within the social protection system explicit and financed out of general revenues (e.g., part of the payroll tax could be substituted by an income or consumption tax).¹¹ There are also recommendations about ways to give greater flexibility to employers and employees in deciding how they share the financing of a given bundle of social protection services, which could include employment services and training.¹² These proposals require more analysis but already show how the integration of programs can lead to more efficient financing arrangements.

Choosing institutional arrangements governing service delivery. *Choices at this level will ultimately determine the performance of the social protection system.* The main issues to be addressed include: (i) governance and accountability; and (ii) contracts with providers of SP&L goods and services. Policy decisions at these two levels affect the behaviors of managers and providers and through this channel, the quality of the services provided¹³ and the operating costs of the system.

Governance arrangements should ensure clear program “rules, roles, and controls”: operating rules, well-defined responsibilities for different levels of the government (central vs. local) and incentives for performance, and appropriate mechanisms to monitor results and create accountability.¹⁴ Potential beneficiaries should understand their rights and responsibilities. This implies not only providing access to the relevant laws and regulations, but also, and more importantly, outreach work to give workers clear information about the types of programs that are available and how they operate, including the benefits and services that they provide and the eligibility conditions. There should also be clear

¹¹ See Ribe et al. (2010).

¹² See Almeida, Berman, and Robalino (2012).

¹³ The quality of services will also affect the perceptions that workers have towards the social protection system and therefore their willingness to enrol in contributory programs, or use employment services and training programs.

¹⁴ See World Bank (2011i).

definitions of responsibilities, tasks, and goals for officials, program managers, and staff in central and local governments, as well as incentives and criteria to reward or sanction performance. Within a social protection system, a key responsibility of managers is to ensure adequate coordination and communication mechanisms between programs. For these arrangements to work, however, program managers and staff should be given the tools and decision-making power to achieve their objectives. Finally, adequate systems are needed for audit, oversight, and grievance redress, including arrangements that ensure that citizens can voice their needs and concerns and provide feedback about satisfaction with the services and benefits received (see Box 1).

Contracts with providers of SP&L goods and services are another element. Service providers include both government agencies (e.g., ministries, municipalities) and local service providers (e.g., training, employment services, cash transfers), which can be public or private. A first issue to ensure is that public and private providers are on a level playing field. In some cases, this could require removing direct transfers to public providers while giving their managers the flexibility to manage budgets and human resources. In general, contracts with public or private providers could need to link payments to performance. For instance, those managing employment services could receive payments for services provided and effective placements. Contracts could also make interconnections across programs explicit. For instance, providers could be expected to offer a set of services (e.g., counseling, training of life and technical skills, and intermediation) as well as report and coordinate with the offices in charge of paying unemployment benefits or wage subsidies.

Box 1: Rules, Roles, and Controls – Governance in Social Protection

Governance in social protection can be defined as the set of incentives and accountability relationships that influence the way in which providers are held accountable for their behaviors and ability to deliver services with quality and efficiency. Efforts to strengthen governance can be categorized into three broad areas:

Rules of the game that define the context for accountability relationships among policymakers, providers, and citizens. At the program level this refers to the legal framework governing the SP&L system, or individual program, including legislation and secondary regulations and operational guidelines such as clear criteria for eligibility, entry and exit from programs, and predictable and transparent mechanisms for setting benefit levels.

Roles and responsibilities of actors involved across levels of government and institutions. Mechanisms for strengthening roles and responsibilities include establishing institutional relationships, clarifying job descriptions for providers, and putting in place performance incentives.

Controls and accountability mechanisms that help ensure that “the right benefit gets to the right person at the right time.” Most social protection programs – especially cash transfer programs – require measures to ensure appropriate flows of information and money. Control and accountability mechanisms include both measures on the supply side, including verification, M&E processes such as audits, quality control mechanisms, spot checks, policies to ensure access to information, and formal grievance redress mechanisms. Accountability measures also include demand-side elements that involve citizens in oversight. These include engaging citizens in social audits, third-party monitoring, and information provision through report cards.

Source: Bassett et al. (2012).

3.2 Program Level: Integrating, Harmonizing, or Coordinating Programs

Most of the World Bank’s analytical and lending operations in SP&L are organized around a given program, such as a cash transfer, public works, pensions for workers in the private sector, or youth training programs. At this second level of engagement the idea is to ensure that policy analysis takes into account the relevant interactions of the respective program with other programs within and across SP&L functions. Three types of engagement can be envisioned: (i) addressing issues related to the *integration or harmonization of similar programs* or schemes; (ii) improving the coordination or *strengthening the links of programs*

within one of the SP&L functions; and (iii) strengthening the links and exploiting the complementarities of programs across SP&L functions (see Figure 2).

Integrating or harmonizing similar programs. One of the common problems across SP&L systems is the fragmentation of core programs such as cash transfers, pensions, or training-related active labor market programs. It is common to observe different programs covering different population groups, offering different benefits, and having different eligibility conditions, financing mechanisms, and institutional arrangements. Many countries, for instance, have different pension programs to cover private sector workers, civil servants, workers in state owned enterprises or those in the agricultural sector (see next section). This fragmentation creates problems in terms of equity and efficiency. Problems of equity can arise because different population groups are treated differently by the SP&L system, with high income workers often receiving a larger share of subsidies than low income workers. Inefficiencies can result from the duplication of administrative systems, the duplication of programs serving given population group (while others may not be covered) and, at least in the case of insurance programs, from the effects of program rules on labor mobility, if it is difficult to transfer acquired rights across schemes.

Depending on country context (including issues of political economy) part of the reform agenda could focus on harmonizing benefits, services, and eligibility conditions or on integrating programs. Harmonization implies improving coordination across programs. Integration, in its most radical form, calls for closing down current programs and transferring beneficiaries transferred to a new or consolidated remaining programs A more gradual form of integration would keep current programs in operation but closed to “new entrants,” who would be referred to the new program. Operationalizing either form of integration is of course logistically challenging and would usually require investments in new administrative and information systems (see next section).

Linking and coordinating programs within and across functions. Coordination within and across the insurance, protection against poverty and promotion of opportunity functions

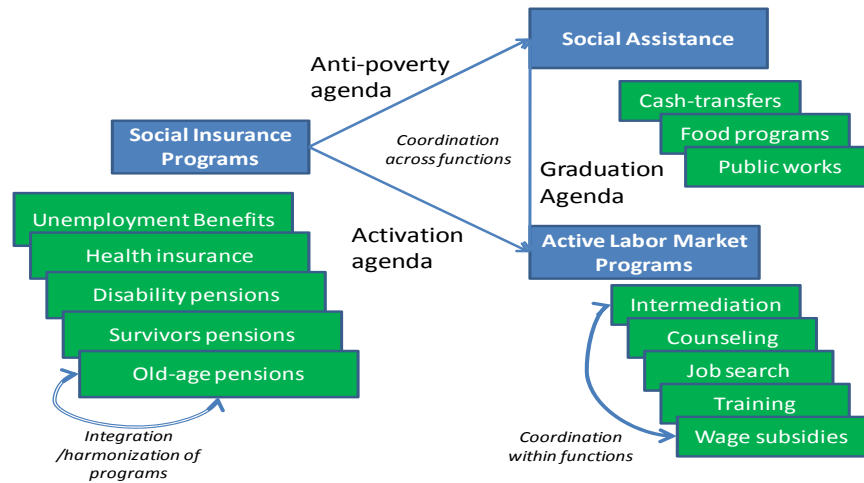
has received little attention in the past. There are two interrelated areas where policy analysis and operational work can focus. The first is to explore and exploit opportunities to enhance the impact of individual programs by linking them to others. Within a given SP&L function, for instance, a task team leader (TTL) working on the design of a cash transfer can consider linkages to an infant nutrition program. A TTL working on pension reform can open discussions about the possibility of introducing a new unemployment benefit system or the reform of an existing one. Or, there can be operations where the objective is to integrate training, counseling, intermediation, and skills certification programs into a package of services to link individuals to jobs. There are also interactions to exploit across functions in the context of the *activation* and *graduation* agendas: how to improve the employability and earnings opportunities of beneficiaries of social assistance and social insurance programs by linking them to active labor market programs (see Figure 2).

The second is improving coordination between existing programs to address existing problems. The two most common cases that can negatively affect incentives and behaviors are coordination failures between social insurance programs and those between social insurance and assistance programs. Design problems with unemployment benefit systems, for instance, can reduce incentives to contribute to the pension systems and/or encourage early retirement.¹⁵ Similarly, non-contributory transfers that are not properly linked to contributory social insurance programs can provide incentives for informal work.¹⁶

¹⁵ See Robalino, Zylberstajn, and Robalino (2011).

¹⁶ See Ribe et al. (forthcoming).

Figure 2: Levels of Integration/Coordination within an SP&L System



Source: Authors (2012).

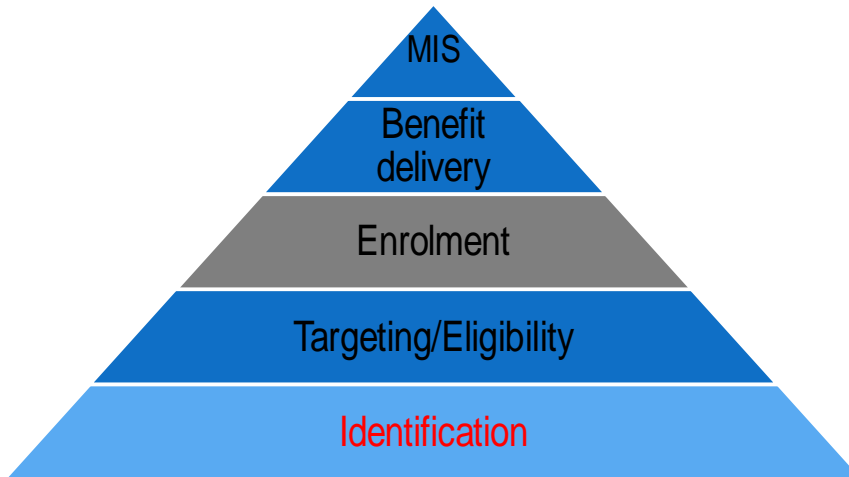
3.3 Administration Level: Building Basic Management, Information, and Administrative Tools

*At a basic operational level, a series of “nuts and bolts” tools are required to perform core business processes common to most SP&L programs. Depending on the operational cycle these range from beneficiary identification, to targeting/eligibility, to enrolment, benefit delivery, and management information systems (see Figure 3). Engagement at this level is indispensable for the performance of individual programs and can also facilitate program integration when common administrative systems are used across programs. Indeed, the use of common administrative systems can become a “Trojan Horse” for structural reform. For instance, working on national identification (ID) systems and the beneficiary rosters of social assistance programs can facilitate the integration of ad hoc transfer programs. This was the experience of Brazil’s *Bolsa Família*, which is discussed in the next section.*

Even if they are initially focused on a given program, new administrative systems should be built with a long term vision that plans for their extension to other programs. Ultimately, one of the most important contributions of an integrated social protection system is that it opens the possibility for sharing business processes and infrastructure. Information and

communication technologies are crucial to enable programs to work together. Even for single programs, data management needs are hefty due to both large clienteles and high transactions volumes. *Bolsa Família* in Brazil, for example, supports over 12 million families. India's National Rural Employment Guarantee Scheme (NREGS) covers even a larger number, in the order of 100 million. Even "small" programs like Liberia's Cash for Work Temporary Employment Program provide benefits to several tens of thousands of clients. As large as those numbers may sound, these are just *single* programs. When programs need to work together – and thus exchange information – demands are further amplified.

Figure 3: Building Basic Administrative Systems



Source: Palacios (2011).

IV. APPLYING A SYSTEMS VISION: INITIAL CONDITIONS AND TRANSITION PATHS

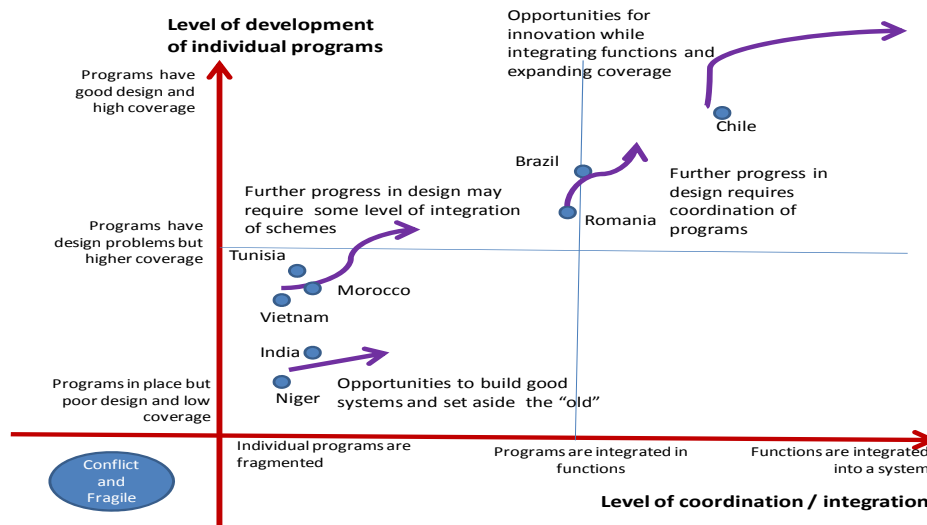
In this section we discuss how a "systems" vision for social protection could be applied in practice based on country studies for Brazil, Chile, India, Morocco, Niger, Romania, Tunisia, and Vietnam. In composite, four clusters of very different social protection systems provide a good sample of initial conditions and challenges confronting policymakers. While "standard" social protection programs are in place in all of these countries, many are beset

with low social insurance coverage, unsustainable financing, meager incentives, regressive redistribution, and weak administration. In general, coordination is scant across SP&L functions and within a given function, across programs; and there is a high degree of horizontal and vertical fragmentation within programs, with different schemes covering different population groups and parallel systems for rich and poor. These eight countries, thus, offer a snapshot of the progression toward more integrated SP&L systems.

A useful way to characterize a country's SP&L system is to look at the level of development and coverage of individual programs, on the one hand; and the level of coordination/integration across programs and SP&L functions, on the other. This two dimensional map is illustrated in Figure 4 which displays six blocks identified by a letter across columns (A through C) and a number across rows (1 to 3). Countries in the **south-west block** (A1), usually low income, are characterized by programs with poor design and very low coverage (e.g., social insurance programs would cover less than 5 percent of the labor force). In addition, there is little coordination within and across SP&L functions and individual programs are fragmented into multiple schemes. At the other extreme, in the **north-east block** (C3), countries have social protection systems that are more in line with the vision outlined in the previous section: programs are well designed and have high coverage, and they are integrated within and across functions. Countries starting from any location in the figure can move up (along the vertical axis) if either the design of their programs improves (e.g., registries and targeting in transfer programs improve) or if the coverage of a given program expands (e.g., the coverage of the national pension scheme increases). Countries can also move to the right (along the horizontal axis) as schemes are integrated into programs and linkages and coordination between programs (within and between SP&L functions) improves. Inevitably, there will be tradeoffs between moving horizontally and vertically, with decisions reflecting country priorities.¹⁷

¹⁷ Conflict countries have been excluded from the discussion. These countries constitute special cases where core institutions maybe lacking and there is no effective policymaking process (PMP). In Figure 6, these countries are treated as a "singularity" outside the main six blocks. Initially, the focus will be on the delivery of

Figure 4: Initial Conditions and Transition Paths towards more Integrated SP&L Systems



Source: Authors (2012).

Our sample of countries can be classified around four groups: (i) countries with fragmented programs, weak design, and very low coverage of contributory social insurance programs (Niger and India); (ii) countries with fragmented programs, weak design, but insurance coverage above 10 percent (Morocco, Tunisia, Vietnam); (iii) countries with more integrated programs, improved design, and coverage above 20 percent (Brazil and Romania); and (iv) countries with some integration across SP+L functions, with innovations in design and coverage above 50 percent (Chile). Below we discuss challenges and propose options in terms of transition paths towards more integrated SP&L systems.

4.1 Fragmented Programs, Weak Design and Low Coverage: Niger and India

Niger and India have low levels of income per capita, high poverty rates, and underdeveloped social protection systems. In Niger, for instance, over 85% of the population lives on less than USD 2 per day (62% lives below the poverty line). Social

basic services and close integration will be required with other sectors, including providers of health, education, and nutrition services, as well as those related to livelihoods and security. In these countries, the government has a limited role in financing and managing alternative social protection programs, which most likely rely on donors, NGOs, and communities. But eventually, as local conditions improve, various elements of a public social protection system are likely to emerge. The challenge is to avoid the mistakes that other countries have made and start directly with integrated programs that can eventually be coordinated within and across social protection functions.

protection has focused predominantly on providing emergency assistance, typically in response to food shortages. Social assistance programs provide cash transfers, school meals, and other support through the school system, nutritional and health services, free (or subsidized) food distribution, and public works projects. Niger's social insurance schemes cover only a tiny fraction (3%) of the labor force at a cost of 0.7% of GDP: the *Caisse Nationale de Sécurité Sociale* covers workers in the formal private sector while the *Fond Nationale de Retraite* covers civil servants, the military, and local administration employees.

Similarly, in India, social protection remains focused primarily on alleviating chronic poverty, often with food-based support and targeting to rural areas. Spending on centrally sponsored programs accounted for 2% of GDP in 2009, half of which went to the Public Distribution System (PDS), which provides subsidies for food and fuel for 23% of the population. The Mahatma Gandhi National Rural Employment Guarantee (MGNRE), which pledges 100 days of work per year at the agricultural minimum wage, is India's second largest program, with expenditures equal to 0.6% of GDP. Other centrally sponsored programs are far smaller – costing, in total, about 0.4% of GDP – and range from a targeted credit scheme to a non-contributory social pension scheme, a rural housing program, a school feeding program, stipends for school enrolment, and subsidized health insurance.

Low coverage of most programs presents opportunity to design coherent and well-integrated programs from scratch, allowing for countries in this category to move “rapidly” towards a more integrated and coherent social protection system while gradually expanding coverage.

Building basic tools for integrated social assistance programs. *Administrative and program* levels can be an initial focus for reform. A general strategy could be, for instance, to implement an integrated cash transfer program (that would eventually replace ad hoc in-cash and in-kind transfers), setting up basic systems for identification, targeting, record keeping, and benefits payment. The cash transfer program could then become the platform

to which other programs/functions are gradually connected. For example, individuals could gain access to social insurance through a subsidized long term savings program that would include provisions for short term withdrawals. As this program expands and is able to provide pensions to low income workers and those in the informal sector, it could absorb the smaller pension systems that cover civil servants and formal sector workers.¹⁸ Similarly, active labor market programs (e.g., training, micro-finance, support to the self-employed) could be set up to serve the beneficiaries of both transfers and savings programs. In some instances, transfers can become conditional on participation in ALMPs.¹⁹

Both Niger and India are considering reforms that go in this direction, focusing first on the rationalization of assistance programs. Given its constrained fiscal envelope, Niger is trying to improve targeting. This will require incremental – deliberate and strategic – investments in basic administrative infrastructure, such as better mechanisms to identify poor and vulnerable individuals and households, and procedures and systems to evaluate eligibility, disburse and control benefit payments, limit systematic leakage, and monitor and evaluate programs. Similarly, in India, initiatives have been introduced to unify the social assistance program by providing largely cash- rather than food-based support. The program would be managed by a significantly reformed PDS and merged with existing social pension programs (similar in design to the Chinese *di bao* program of means-tested social assistance).

Coordinating programs within and across SP&L functions. If appropriately developed, the infrastructure for safety net programs has the potential to serve as a common platform for other social protection programs. In Niger, for instance, carefully targeted promotion programs could be considered, including: (i) *public works programs linked to training programs* (e.g., cash-for-food programs like Kenya's *Kazi Kwa Vijana* program) that are targeted to youth and focus on the development of such basic capacities as literacy, numeracy, and life-skills; (ii) *programs of subsidized credit* aimed at household enterprises and micro-enterprises in the unorganized sector for the purchase of raw materials or

¹⁸ See Palacios and Robalino (2010).

¹⁹ See World Bank (2011c).

agricultural inputs (possibly also linked to training); and (iii) *apprenticeship programs* for younger workers and persons about to enter the workforce.

India is also considering strengthening promotion by linking social assistance beneficiaries to active labor market programs, including public works. Two proposals that merit consideration are: (i) making benefits from social assistance conditional on participation in education, health, and possibly nutrition services; and (ii) shifting resources away from existing mechanisms of subsidized credit to livelihood promotion programs designed to improve earnings opportunities and adapting them to the specific conditions of the labor markets of individual states (as is being proposed under the National Rural Livelihoods Commission).

When it comes to insurance both India and Niger are considering voluntary savings arrangements that can protect workers in the case of income shocks, while also promoting investments in income-generating activities. In the case of Niger, this might involve, for example, providing participants with access to basic financial services (e.g., savings accounts) and training in numeracy, financial literacy, and microenterprise management (i.e., Rwanda's *Vision 2020 Umurenge* Program). In this novel context, pilot projects will serve as the bellwether, gauging effectiveness and scalability, and the view should take into consideration the limited reach of the social insurance scheme and the importance of finding a way to protect informal workers and their families from shocks – a long horizon.

In India, the government is also aiming to develop an insurance package for those outside the formal sector, one that can be expanded as fiscal space emerges and institutional capacity develops. At least initially, the program would be voluntary and target informal workers who are members of cooperatives, trade unions, and other groups. India's experience with the provision of health insurance to the poor could guide the design and implementation of programs to cover additional risks.

4.2 Fragmented Programs, Weak Design But Higher Coverage: Morocco, Tunisia, and Vietnam

India, Morocco, Niger, Tunisia, and Vietnam, all absent first generation reforms, share largely the same problems of technical design and fragmentation. Yet, Morocco, Tunisia, and Vietnam have stronger institutional capacity, better-developed basic administrative tools, and considerably higher – though fragmented – coverage of social insurance.

In Morocco and Tunisia, for instance, there are different pension programs for public and private sector workers and within the private sector, workers have multiple schemes depending on where they work (e.g., formal wage employees, agricultural workers, fishermen). These programs cover around 30 percent of the labor force. They are all financially unsustainable, prone to regressive redistribution, and induce adverse incentives in terms employment creation and labor force participation given a high tax-wedge and badly designed benefit formulas. The unemployment insurance system in both countries has similar problems and is delinked from the pension scheme. Several active labor market and assistance programs managed by different ministries and operating with little coordination have also been set up.

In Vietnam, social insurance is comprised of pension and unemployment programs and is overseen by one institution. Coverage of the labor force is lower, around 20%, and those who join voluntarily are treated differently than wage employees. The problems of design found in Morocco and Tunisia exist in Vietnam but are compounded by extemporaneous factors. For instance, the cash transfer schemes are a combination of build-outs of existing and new programs: in sum, they are too disjointed to be effective. Active labor market programs were designed outside of a coherent policy framework and evolved independently in several government institutions; they focus on everything from training to counseling, labor export, and credit. Finally, weak institutional capacity at the district and commune (xã) levels of government hampers delivery.

Integrating and harmonizing social insurance programs. *These three countries, quite apart from India and Niger, cannot “ignore” their social insurance programs because of higher coverage and unfunded liabilities, particularly in the pension schemes.* Reforms are needed to improve design, but this requires integrating or at least coordinating interventions across multiple schemes. In essence, movement would first have to occur “to the right” in the two dimensional space presented above, before “moving up” and initial engagement would need to focus at the program level. One way to achieve integration would be to reform the largest schemes across functions and use them as the pillars of the new SP&L system. For instance, in Morocco, the government is considering reforming the pension system for private, formal sector workers and mandating all new entrants to the labor market (including civil servants and informal sector workers) to enrol. To the extent possible, benefits and eligibility conditions in the “old-schemes” would be adjusted and harmonized to improve financial sustainability, incentives, and equity. The national pension system could then be integrated with a reformed unemployment benefit system that relies on savings as opposed to risk pooling. Similar reforms would be needed in Tunisia.

Integration of pension schemes is less of an issue in Vietnam, but there is still a need to address problems of sustainability and differentiated treatment to plan members by introducing a unique, appropriately designed, defined-benefit formula or switching to a defined-contribution formula (which could still be financed on a pay-as-you-go basis). Rationalizing the benefit formula would enable the scheme to be opened on a voluntary basis to informal workers while guaranteeing them the same rights and obligations and without creating unfunded liabilities. Linkages with a reformed unemployment benefit system could then be considered.

Integrating social assistance programs. *In all three countries, better-integrating social assistance programs while improving institutional capacity is a necessity.* This agenda is similar to that of India and Niger, except that reforms would need to be coordinated with those in the insurance programs. Morocco is already moving in this direction by introducing conditional cash transfers to replace existing less efficient programs. In Vietnam, the

government's draft Social Security Strategy for 2011–2020²⁰ also aims to make social assistance conditional on behavioral changes that help develop human capital, and there are initiatives to establish a non-contributory pension system that would cover the elderly poor. In both cases, transfers should be based on individuals' means, not their employment status, in order to avoid distortions in labor markets. This implies coordinating redistributive arrangements within and outside the social insurance programs. An integrated system of subsidies that can be used to match contributions (or top-up benefits) for persons with inadequate savings capacity could be considered.²¹ This same arrangement could then be used to facilitate improved redistribution in the benefits provided by the unemployment insurance scheme.

Another reason to coordinate reforms in social assistance and social insurance programs is the need to harmonize (identification - ID) numbers, with the eventual goal of establishing a common ID across all of them. In the long term, a national public ID number would best serve this objective. The social security institutions could take the lead in adopting a common ID and using it to record transactions.

Integrating and coordinating Active Labor Market Programs. *Regarding active labor market programs, the main challenge for this group is coordinating different interventions while improving delivery.* Contrary to the lower income countries, ALMPs in these countries are more developed – although usually managed by the public sector and with a poor record of improving labor market outcomes among beneficiaries. Recent evaluations of vocational training in Tunisia, for instance, suggest that rates of return to investment in training are negative.²² One approach is to better target these programs to vulnerable groups, including the beneficiaries of safety nets. Instead of separate programs, there would be a move towards packages of services provided through “one-stop shops” established at the local

²⁰ See Government of Vietnam (2010).

²¹ An example of this approach is China's new rural pension scheme which – in addition to subsidizing contributions and benefits for eligible participants – also provides benefits to elderly persons who have never contributed as long as their children join the contributory pension scheme (an arrangement referred to as *family binding*).

²² See World Bank (2006).

level. The services would be delivered by private sector institutions based on contracting and payment systems that reward performance.²³

4.3 More Integrated Programs, High Coverage, and Improved Design: Brazil and Romania

Brazil and Romania have higher levels of coverage of contributory social insurance, have achieved some level of integration within programs while improving their design, and are starting to positively exploit synergies across programs and social protection functions. That being said, the social insurance and social assistance functions have persistent problems in terms of financial sustainability, regressive redistribution, and weak incentives while active labor market programs could stand for better design and coordination.

Brazil's social insurance programs, for instance, cover around 55 percent of the labor force. The various programs for the private sector work together and share administrative capacity, and benefit formulas have been modified to improve financial sustainability. In addition, the government integrated four important assistance programs²⁴ under the umbrella of *Bolsa Família*. There are nonetheless several issues to address.

The two pension schemes are unsustainable and rely on multiple benefit formulas that result in regressive transfers, provide little incentive for low income workers to contribute, and encourage early retirement. Non-contributory pension benefits operate in parallel, fragmenting the system and providing incentives for informality. Unemployment provisions rely on three mechanisms (insurance, individual savings accounts, and severance pay) which are also potentially regressive, unsustainable, and likely to increase turnover and the average duration of unemployment spells. Finally, active labor market programs are designed and managed by numerous agencies at various levels of government with little

²³ See Almeida et al. (2011).

²⁴ Prior to the establishment of *Bolsa Família*, a number of social assistance programs existed to serve the poor, accounting for 7% of federal spending. Among them were *Bolsa Escola* (which targeted primary and secondary education), *Bolsa Alimentacao* (nutritional needs for women and children), *Cartao Alimentação* (food security), and *Auxilio Gas* (subsidies for cooking gas).

coordination and insufficient scrutiny paid to overlapping benefits, gaps in coverage, consistency in policy design, and overall efficacy.

In Romania, the comprehensive social protection system was developed during the transition from a planned to a market economy. Various transfers to protect vulnerable groups and unemployment insurance were created to mitigate the impact of market reforms on workers. An ambitious system of coordinated active labor market programs designed to facilitate access to wage employment was also set in place, along the Guaranteed Minimum Income program for low income households, which included a job-search conditionality. In the early 2000s, the country reformed the defined-benefit, pay-as-you-go pension program while introducing a fully funded, defined-contribution pillar and a voluntary pillar. The current SP system, however, faces several challenges. The aging population in Romania continues to exert pressure on the fiscal sustainability of the pensions system. High contribution rates for employers discourage formalization of employment, which in turn reduces revenue and makes the pension scheme even less affordable. The social assistance system became more costly, regressive, and complex, with higher risks of error and fraud, after its rapid expansion in 2006. And, the contributory schemes and the non-contributory schemes have duplications and gaps. For example, disability pensions and disability allowances are managed by two separate institutions, subject to separate eligibility determination systems, and administer two different bundles of financial benefits and systems.

Consolidating reforms and integrating/coordinating programs within and across functions.

The agenda in Brazil and Romania would need to focus on consolidating reforms of individual social protection programs while expanding their coverage to relevant population groups and continuing to integrate/coordinate programs within and between SP functions. Contrary to the two previous categories of countries, engagement in high level policy analysis and strategic planning would be necessary in both Brazil and Romania.

In Brazil, one of the priorities would be to improve the design and coordination of social insurance and social assistance programs. A systemic reform of Brazil's contributory and non-contributory pensions and unemployment schemes would have two objectives: rationalizing the redistributive arrangements of social insurance by making them explicit, well targeted, and unrelated to where individuals work in order to improve equity, fiscal sustainability, and incentives; and strengthening linkages between pensions and unemployment benefits. In support of these objectives, the following interventions could be considered: (i) moving to a single defined-contribution pension formula while preserving pay-as-you-go financing; (ii) integrating unemployment insurance and individual savings accounts while replacing severance pay with a dismissal tax; (iii) linking the notional savings components of the pension and unemployment schemes;²⁵ and, as discussed in the case of Vietnam above, (iv) designing an integrated system of transfers, allocated on the basis of means, to top-up contributions or the benefits of the pension and unemployment schemes. The goal of the last intervention would be to replace the rural pension and the non-contributory benefits paid to the elderly poor. Transfers would be used not only as an anti-poverty tool but also as a means to encourage broader participation in the scheme, including, for example, participation by informal workers.

Another set of reforms in Brazil would aim to coordinate and integrate active labor market programs and link them to assistance and insurance programs. To this end, it would be necessary to develop a policy framework linking federal and local governments to clarify the roles and objectives of Brazil's various ALMPs and to more clearly identify their targeted populations, which would include the beneficiaries of social assistance and social insurance programs (e.g., the unemployed, disabled, retirees). The framework would need to establish performance indicators linked to programmatic objectives, establish metrics for these indicators, and provide a multi-year strategy to systematically monitor and evaluate programs impacts. In parallel, institutional arrangements would need to be identified to

²⁵ Prior to reaching retirement – and under specific circumstances – workers could use part of their pension savings to finance unemployment benefits. After reaching retirement, funds remaining in a worker's unemployment account could be used to top up his or her pension.

coordinate activities with the social security institution and the institutions in charge of managing social assistance programs. On the ground experience and good practice in inter-institutional coordination already has been established, as exemplified by: (i) the *Ministério do Desenvolvimento Social e Combate à Fome* (MDS) and the Ministry of Education for prioritizing the beneficiaries of *Brasil Alfabetizado*; and (ii) the MDS and the Ministry of Labor and Agricultural Development in establishing “affirmative action targets” to promote greater inclusion of the poor in their programs.

In Romania, an important component of current reforms will be to integrate and improve the functioning of social assistance programs while connecting them to active labor market programs. The goals are to: (i) reduce the fiscal cost of the system by improving targeting and administration; (ii) reduce fragmentation by consolidating institutions, programs, and procedures; (iii) increase the equity of the system by focusing more resources on those in need; and (iv) improve incentive and labor market opportunities for beneficiaries. At the same time, the country needs to consolidate reforms in the social insurance systems both by addressing the unfunded liabilities of the pension systems, consolidating pillars (at least for new entrants), and creating linkages with the unemployment benefits.

4.4 Integrated SP&L Functions and Innovations in Program Design: Chile

A few countries are much more advanced and can focus their efforts on consolidating the expansion of coverage and the integration of social protection functions. Chile has a long and noteworthy history with the provision of social protection. Over the past 30 years – starting in 1980 with the introduction of a pension scheme based on privately managed, fully funded, defined-contribution accounts – it has pioneered significant new approaches to social protection, and its experience has helped to shape the global debate over a number of important social policy questions. More recently, social protection in Chile has been shaped by a lifecycle approach to poverty prevention and alleviation – referred to as *Red Protege* – which targets risks at each stage in an individual’s life. In doing so, *Red Protege* explicitly recognizes that poverty and vulnerability represent an inherently inter-

temporal and inter-connected set of public policy challenges that cannot be effectively addressed by discrete programs operating independently of one another. By (i) designing programs within an overarching framework, (ii) deliberately blurring the categorical lines of social insurance, social assistance, and labor market programs, and (iii) creating linkages between programs, Chile serves as an excellent example of how a systems approach can be applied – and how its application can improve upon traditional, categorical approaches to social protection design.

Chile's holistic approach to social protection is most clearly evident in its second generation pension reform which blends aspects of social insurance and social assistance. Instead of parallel contributory and non-contributory schemes, a single system covers all workers regardless of where they work – a design choice that explicitly recognizes that a large portion of the labor force is not in formal wage employment, at least not continuously. To the contrary, employment patterns fall along a continuum: many individuals work only intermittently, migrate between the formal and informal sectors, are self-employed, or earn low wages. Chile's second generation pension reform provides explicit transfers to those unable to save enough on their own for retirement. These transfers take the form of a solidarity pension payment (APS), the value of which falls linearly but gradually as the value of an individual's pension increases in the contributory scheme. As a consequence, each peso saved in the contributory scheme increases retirement income, even for intermittent or low wage earners who expect to qualify for the APS upon reaching the retirement age. This provision encourages formal sector employment on the part of workers who – in other countries – might otherwise elect to remain in the informal sector because they (accurately) assign little value to participating in social insurance. In addition to improving their prospects for a secure retirement, this feature of the reformed pension system (i) improves the efficiency of transfers so that greater resources are directed toward those who truly need them; and (ii) reduces the cost of transfers by encouraging at-risk workers to participate and to save as much as they are able toward the cost of their future pension.

A systems approach to social protection is also evident in Chile's unemployment scheme which combines a savings component with a redistributive component and makes benefits conditional on job-seeking activities and other requirements. Unemployment benefits in Chile are paid monthly, for a maximum of five months, and are financed initially from a worker's individual savings account. Only once an account has been exhausted are benefits paid from the Solidarity Severance Fund, an explicitly redistributive scheme financed by payroll taxes and general reviews. By eliminating the implicit redistribution typical of regular unemployment insurance, Chile's unemployment scheme reduces moral hazard and reduces overall costs. Benefits from the Solidarity Severance Fund can only be claimed twice in five years and decline from 50% of the displaced worker's average earnings (in the first month of eligibility) to 30% in the fifth (and last) month of eligibility.²⁶ In addition, individual savings accounts are managed by a consortium of the same AFPs that operate the pension scheme. Consequently, in the eyes of most workers, unemployment insurance and the pension scheme are perceived as components of a single integrated system, governed by a harmonized set of rules that create a consistent set of incentives.

Chile has also integrated its programs of social assistance and is developing interventions to link beneficiaries to programs to improve their prospects for employment. Chile Solidario was implemented in 2003 and focused initially on families in extreme poverty. Two of the more innovative aspects to the program include: (i) the premise of shared responsibility whereby participating families are required to sign a written contract agreeing to meet some 53 specified minimum conditions (including the participation in active labor market programs); and (ii) the provision of personalized (i.e., family-specific) interventions and psychosocial counseling. Another program, *Chile Crece Contigo*, provides support to children from birth through the age of four when they enter into the school system.²⁷ For both schemes, linkages and other provisions have been implemented to: (a) improve

²⁶ The provisions are less generous for employees working under fixed-term contracts.

²⁷ *Chile Crece Contigo* provides: (i) subsidies to pregnant women which reach about 40% of the most vulnerable households; (ii) free nurseries and kindergartens to roughly 60% of the most vulnerable households; and (iii) other benefits.

behaviors and incentives; (b) discourage dependency; (c) impose greater consistency in how different groups are treated; (d) reinforce key policy objectives with multiple and coordinated interdictions; (e) improve the targeting; and (f) use resources more efficiently.

Expanding coverage and improving institutional coordination. *Looking ahead, the challenge for Chile will be to consolidate the expansion of social protection coverage.* This will require addressing issues of fiscal space, incentives, and enforcement. The costs of expanding the poverty prevention pillar can only be met through appropriate fiscal planning. For this reason, the government has set up a reserve fund managed by the Central Bank using investment policies formulated by an external committee made up of recognized experts. The other challenge is to attract particular groups, including the self-employed, agricultural workers, fishermen, and owners of small businesses. Part of the problem is to ensure that the right set of incentives is in place. There is also the issue of what to do with wage earners in informal, low productivity firms, which cannot afford to comply with labor and social insurance laws. Finally, space exists to strengthen (and better coordinate) the regulations, policies, and enforcement activities of the Inland Revenue Service and the General Treasury with respect to the self-employed.

In addition, some crucial issues of institutional coordination remain unresolved. The components of the social protection system in Chile are managed by different entities, with their own resources, agendas, constraints, and objectives. While combining entities might improve efficiency – if it can be done given the political economy – it runs the risk of creating overly large and powerful institutions that are too large and bureaucratic to function efficiently. Thus, the defining objective in Chile is to have a single social protection system, rather than a single social protection institution, while still finding ways of making those institutions involved in the provision of social programs and services work effectively together.

These challenges notwithstanding, social protection in Chile is likely to continue to evolve in a positive direction, in large measure because the policymaking process is remarkably

efficient. Indeed, political power in Chile has always been vested in the executive branch of government, with the exception of a brief period of parliamentary government (from 1890 to 1925). Since the mid-1970s, the techno-bureaucracy associated with the president and his or her ministries has played a central advisory role in decision-making. This is particularly true of the Finance Ministry, which serves as the agent of the Executive with which all other government agencies and entities must negotiate their budgets. Since the return of democracy in 1990, fundamental changes have taken place in attitudes toward social issues in Chile, particularly within policy circles. Social protection programs are consequently now defined more in terms of guaranteeing social rights to the entire population than in terms of satisfying basic needs. Over the past decade many social policy issues in Chile have been managed at a very high level by special Presidential Advisory Committees constituted from non-partisan experts. Not only have these advisory bodies taken the lead in terms of designing reforms from within a consistent and sensible policy framework, but they have served quite effectively as vehicles for soliciting input – and obtaining buy-in – from stakeholders and the broader Chilean society.

V. CONCLUSIONS AND IMPLICATIONS FOR OPERATIONAL AND KNOWLEDGE WORK

This paper makes a case for taking a systems approach to social protection and labor with a view toward enhancing the impact of individual programs and the overall effectiveness of the three core social protection functions: using insurance to smooth consumption, protecting against poverty, and improving access to jobs and earnings opportunities. Based on a review of the recent literature on social protection and case studies, the paper argues that countries can benefit from adopting a *systems* approach to social protection and labor. There are three main reasons for this. First, within a systems approach it is possible to exploit positive interactions between programs that enhance their impact and avoid coordination failures that have unintended consequences on incentives and behaviors. Second, social protection programs working as a system can improve their efficiency and effectiveness through sharing resources, including administrative tools and infrastructure.

This can help reduce operation costs, improve service delivery and quality, and enhance coverage and performance. Third, a systems approach can be better tailored to respond both to national priorities and to the needs of different population groups.

The paper emphasizes that building a social protection systems does not imply creating a single institution that manages multiple programs. On the contrary, a uniform and monolithic system can halt innovation and lead to inefficiencies. Integrating programs that have similar objectives (e.g., cash transfers, pensions, or intermediation services) can be desirable in several settings. But otherwise the focus is on enhancing program coordination within and across social protection functions in terms of their mandate, the selection and design of instruments (e.g., savings, risk pooling, redistribution), financing mechanisms, and institutional arrangements, including basic administrative tools. Thus, there is a large typology of social protection systems that can be created and that will depend on countries' particular circumstances. The goal is to ensure that the resulting design has a set of desirable characteristics, namely: inclusion, equity, fiscal sustainability, incentive compatibility, a focus on results, and the ability to react counter-cyclically to crises.

The paper also outlines possible transition paths towards more integrated/harmonized SP&L systems depending on countries' initial conditions and goals. In general, the form and speed of this transition will reflect the types of programs that countries already have and social preferences. Most transitions will be gradual and may often involve very few programs, or focusing on building basic administrative tools that can work across programs. But it is important that each intervention or reform is introduced within a long term vision for the SP&L system as a whole. This is relevant for all countries, regardless of income, capacity, and social and political contexts. In this sense, a systems vision for social protection is also relevant for low income countries even when institutional capacity is weaker. In fact, the opportunities for building more integrated SP&L systems from scratch can be greater there.

To operationalize systemic reforms the paper identifies three levels of engagement. At the policy level, the goal is to develop a vision for the social protection system, which implies

making choices about programs and their mandate; instruments; financing mechanisms; and institutional arrangements within the context of a society's social contract. At the program level, the focus is on the integration, connection, and/or coordination of programs. This level of engagement can involve the integration and harmonization of similar programs (e.g., pension schemes, employment services); the linkage of two or more programs that can complement each other within or across SP&L functions (e.g., unemployment and activation programs); or the correction of design problems that lead two or more programs to counteract each other and/or distort incentives and behaviors (e.g., poorly designed contributory and non-contributory insurance). At the administrative level, the focus is on building basic tools to support the core business processes across SP&L programs. These basic administrative building blocks can also be the entry point for more systemic reforms to improve program design and expand coverage.

Adopting a systems vision for social protection has implications for how the work is organized and implemented at the World Bank and imposes new demands in terms of knowledge generation and management and the way operations are designed and implemented. Social protection teams will need to become more multi-disciplinary. Pensions, labor market, and social safety net experts will need to work together and also interact with other sectors (e.g., health, education, private and financial sector development). New tools also will be needed to benchmark social protection systems and guide reforms, and there will be demands for new knowledge regarding how different programs should work together (most of the knowledge today focuses on programs working independently), about practical strategies to merge or consolidate similar programs (if deemed appropriate), and about the best way to set-up basic administrative tools. To this end, it will be critical to promote learning and share knowledge across countries. In addition, it will be necessary to develop new guidelines to staff for setting up analytical advisory assistance (AAA), or lending operations, including in terms of team composition, quality enhancement reviews (QERs), and peer-reviews.

What would be some of the most promising areas of innovative engagement in knowledge generation and sharing to help countries assess and develop social protection and labor systems? The following represents a few ideas for future research and policy analysis within the World Bank's SP&L practice.

5.1 Building New Tools for Policy Analysis

Designing a social protection system assessment and benchmarking tool. Building on current engagement including the Social Protection Atlas, a greater focus would be placed on developing common measures to characterize the main features of a given SP&L system through objective indicators along key dimensions including efficiency in program design and coverage; level of integration; financing mechanisms; and efficiency of institutional arrangements. The assessment tool would then map the emerging typology of SP&L systems to specific reform paths. In essence, the objective is to allow for a more systematic analysis of SP&L programs (not subject to the discretion of team leaders and specialists) that take into account their interactions, and to provide guidance regarding the type of reforms/policy recommendations that can be considered in specific cases.

Integrating modeling tools. Today, there are different tools for simulating reforms of different social protection programs and assessing their welfare and fiscal implications. The Pensions Reform Options Simulation Tool (PROST) is used for pensions, UBsim for unemployment benefits, and other micro-simulation tools are used for social assistance programs. The various models do not “talk” to each other and rely on different sets of macro-economic and/or micro-economic assumptions. Beyond creating internal inconsistencies in the results of policy analysis, the process of maintaining different models is inefficient, particularly when some of the platforms are outdated. Looking forward, it would be important to invest in an integrated model – or at least a set of modules relaying on the same platform and sharing the same underlying economic, demographic, and behavioral assumptions – for policy analysis in the area of social protection (mainly unemployment insurance and social assistance programs).

Adapting evaluations. In principle more integration and coherence is likely to generate social gains, but it is also important to take into account the cost of the various reforms and to assess empirically whether moving toward a systems approach yields intended benefits. The current approach to impact evaluations is strongly project oriented. A more systems-oriented approach opens a new agenda for the impact evaluation of interventions that aim to merge, bridge, or coordinate programs.

All of the above calls on improving the availability, quality, and use of micro-data, notably from household and labor force surveys, administrative records, and evaluations. In most countries today these data are of poor quality and often not produced regularly enough to serve as useful sources of information for informing policy and program decisions.

5.2 Reorganizing Operational Work and Adjusting the Skills Profile of SL&L Staff

Organization of task teams and operational entry points. A systems vision of social protection is unlikely to develop in the World Bank if social protection teams continue to work in silos (pensions, safety nets, and labor). It is critical to promote the emergence of multi-disciplinary teams both in the case of regional operations and in the network, while balancing the need for in-depth technical expertise. Operational engagement can also serve as an entry point for preparing a rapid SP&L system assessment, looking at policy coherence, main program interactions, and the possibility of leveraging existing or new tools across programs. Quality assurance processes (e.g., peer-reviews, QERs) could be adapted to encourage teams to take advantage of these opportunities.

Use of lending to support systems-oriented operations. Each of the three main lending vehicles – Sector Investment Loans (SILs), the new Program for Results (P4R), and Development Policy Loans (DPLs) – can be used to support a stronger systems focus. SILs will continue to be a natural vehicles for investments in specific programs as well as in the basic administrative tools (beneficiary registries) that can be used across programs. The P4R tool opens the possibility of focusing more directly on sectoral and program engagement, which will be a natural vehicle for integrating, coordinating, and harmonizing programs.

Finally, DPLs will continue to be appropriate vehicles for policy reforms, including those supporting systems.

Using administrative tools and ICTs. Ultimately, much of the performance of the SP&L programs and systems will depend on how efficiently they are able to implement core businesses processes (e.g., identification, registration, collection of contributions, or benefit payments). As discussed above, new information and communication technologies (e.g., computer-assisted biometrics, mobile phones, GPS technology) will play a key role. An important element of a strategy to move towards more integrated social protection systems will be to take stock of these innovations, promote their diffusion, and develop tool-kits to guide design and implementation.

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Abstract

This paper presents a framework for designing and implementing social protection and labor (SP&L) systems in middle and low income countries. Although the term “system” is used to describe a country’s set of social protection programs, these tend to operate independently with little or no coordination even when they have the same policy objective and target similar population groups. The paper argues that enhancing coordination across SP&L policies, programs, and administrative tools has the potential to enhance both individual program performance as well as the overall provision of social protection across programs. The first part of the paper discusses the characteristics of well-designed social protection systems. It also points to the gains—and some of the risks—of moving toward systems, including: (i) more effective risk management in crisis and non-crisis periods; (ii) improved financial sustainability; (iii) more equitable redistribution; (iv) economies of scale in administration; and (v) better incentives. The second part discusses issues related to design and implementation based on country studies for Brazil, Chile, India, Niger, Romania, and Vietnam. It suggests three levels of engagement to support the design of SP&L systems: (a) at the policy level, defining how different instruments (e.g., savings, risk pooling, redistribution) interact, and coordinating financing mechanisms and institutional arrangements; (b) at the program level, improving the design of individual programs and creating synergies with other programs within and across social protection functions; and (c) at the administrative level, setting up basic “nuts and bolts” tools that can work across programs, such as beneficiary identification and registry, payment mechanisms, and management information systems. The last part of the paper outlines some of the implications of a systems vision for the World Bank’s social protection and labor practice.

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