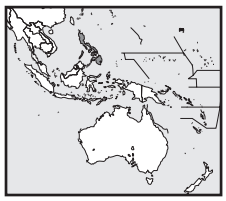
PHILIPPINES

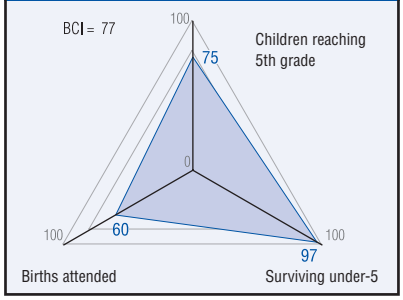
Political will is the key to social protection



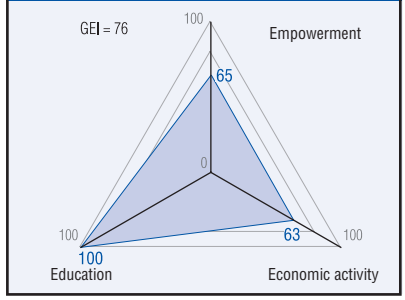
There has been a consistent decline in real per capita spending on social services, while coverage is incomplete and delivery diffused. The country's social insurance programme is a benefit for the better-off, paid for in part by the poor. Merging the national programmes with community-based health care and improved physical access would immensely contribute to economic development.

Social Watch Philippines
Dr. Eduardo Gonzalez[1]

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Political and economic – even geographic – realities suggest that the Philippines has a long way to go in providing full social entitlements to all its citizens, and in equal ways. Part of the country's recent history is a series of political crises, a record of economic growth that is prone to boom-and-bust cycles, and an onslaught of calamities – both natural and human-made. To begin with, the country is already geographically at risk, being situated right in Asia's 'ring of fire' (a zone of high volcanic and earthquake activity) and tropical cyclone belt. Exogenous factors also contribute to the country's vulnerability. An increasing proportion of the population, mostly poor, are vulnerable to the shocks of an outward-oriented economy (e.g., volatile capital market, globalization of production lines that require job informalization/flexibilization of labour, displacement of local enterprises due to uncontrolled entry of tariff-free goods); high reliance on overseas employment (which keeps the GNP buoyant but exacts a high social cost due to the break-up of families); and structural adjustments (that interrupt service delivery and lead to labour displacements). At the same time, the Philippine government is so saddled by a budget deficit and its own institutional weaknesses and governance vulnerabilities that little constructive reform is taking place.

Of late, the economy has somewhat breached its own mediocre growth (largely due to remittances of overseas workers and private consumption) but had little impact in lifting the poor out of misery. According to 2003 figures from the National Statistical Office and the National Statistical Coordination Board (NSCB), at least three out of every ten Filipinos are still trapped in poverty.[2]

Indeed, more than half of the population have consistently rated themselves as poor in the last two decades. The official unemployment rate hovers between 8% to 10%, but underemployment – people who want to work more – can be as high as 22% (Altman, 2006), suggesting the persistence of jobless growth.

The Philippines is unlikely to achieve the Millennium Development Goals (MDG) target of halving poverty by 2015 given the country's current rate of progress. In fact, average household income has declined and the incidence of hunger has risen. Even if the Philippines manages to catch up on its MDG commitments, the other half (almost a quarter of the population) will remain poor. Moreover, the reduction of hunger and child malnutrition will stay below the MDG target. A recent study indicates huge resource gaps, suggesting that the government may not be serious in its MDG commitments, particularly given the consistent decline in real per capita spending on social services (Manasan, 2006).

The Philippines has an array of social security programmes which have existed for decades. These programmes are categorized into social insurance, pensions and other forms of long-term savings, social safety nets, welfare and social payments, and labour market interventions. But coverage is incomplete and delivery is diffused. Financing remains uncertain and is vulnerable to corruption.

Regressive contribution and benefit structure

The cost of social security in the Philippines is paid for by proportional contributions of earnings from employers and employees within a public social insurance system that is centrally managed and anchored on two programmes: social security and industrial injury-related services. The Social Security System (SSS) administers the programme for private sector employees; the Government Service Insurance System (GSIS) handles it for government workers. The contribution structure is generally regressive. Coverage is not strongly correlated with level of development.

By and large, the country's social insurance programme is a benefit for the better-off, paid for in part by the poor. Gonzalez and Manasan (2002) find that among those covered – about 28.2 million workers, or 84.5% of the employed population – the poor workers benefit disproportionately little from social security services. Indeed, the better-off have greater access to social insurance because they live in urban areas where most services are accessible, and they know how to use the system. The cross-subsidization pattern points to a number of cases where poorer groups and regions, women and older workers are the sources, rather than the recipients, of subsidy.

Non-enrolment and evasion are commonplace in the private sector, leaving coverage ratios wanting. The value of benefits is low compared to cost of premiums, and sorry experiences such as the inability of contributing workers to obtain benefits when needed (due to non-remittance or underpayment by employers) hound the programme.

Repeatedly, the actuarial health of the social security system has been marred with issues of leakage and financial sustainability, owing to bad investments, poor management, internal inefficiencies, overly high administrative costs, corruption and unreasonably high salaries and perks for top managers. Moreover, the government has ignored calls to merge SSS and GSIS as a way of injecting more efficiency and liquidity into the system.

The pension system, which is an adjunct of the public insurance system, usually provides lump sum

1 Dr. Eduardo Gonzalez wrote this report in consultation with Social Watch Philippines convenors and local and national network members. He is a professor at the Asian Centre, University of the Philippines. Gonzalez was the former president of the Development Academy of the Philippines (1998-2006) and executive director of the Presidential Task Force on the 20/20 Initiative (1999-2001).

2 This figure is based on PHP 34 a day which is below USD 1 a day. According to the World Bank's USD 2 a day poverty line, the poverty incidence was 43% in 2003.

04-Pai´ses_in (143-248).indd 214 14/9/07 15:18:52

benefits, but may offer an annuity purchase. Contributions already do not cover current outflows. Yet short-term fiscal pressures are not motivating a major reform. The country's pension insolvency problems trace more to issues on the proper investment of retirement funds, and politicization of the management of benefits and contributions (Habito, n.d.).

The security package offered by the social insurance system does not include unemployment insurance. Such a safety net to cushion against temporary joblessness is often sidestepped because of the huge benefit funding required; however, the economy has not been generating enough jobs for the growing workforce either, compounding the problem.

Social health insurance: the poor subsidize the rich

The national health insurance programme, which grants Filipinos access to inpatient and outpatient services in accredited medical facilities nationwide, is run by the Philippine Health Insurance Corporation, or PhilHealth. Alternatively called Medicare, the PhilHealth programme covers a wide expanse: the employed sector, indigents, individually paying entrepreneurs, self-earning professionals and farmers, paying elderly members, and overseas workers.

PhilHealth has an estimated 16.26 million members or 68.4 million beneficiaries, including indigents. For the moment, the programme for indigents seems to be well-funded, receiving 2.5% of the expected government revenues from taxes on 'sin products' (alcohol and tobacco) for the next five years and 10% of the local government share in the expanded value-added tax.

While PhilHealth has been quite successful in enrolment, it lags behind in other areas, such as quality and price control (Wagstaff, 2007). The health insurance scheme does not necessarily deliver good quality care at a low cost, partly because of poor regulation of its purchasers. The PhilHealth benefit package is focused on hospital care and benefits the health care providers more. One study (Gertler and Solon, 2002) shows that Medicare fails to finance health care because health care providers capture the benefits through insurance-based price discrimination. In fact, hospitals extracted 84% of Medicare expenditures in increased price-cost margins. As a consequence, expanding Medicare increased rather than decreased the government's financial burden for health care. Such distortion has made social health insurance vulnerable to fraudulent claims. PhilHealth has recorded about PHP 4 billion (USD 87.4 million) in losses since 1995, ostensibly because of claims on unnecessary operations, overpriced medicine, and even ghost patients. Although the issue is now the subject of an investigation, it raises questions on PhilHealth's actuarial wellness.

Earlier studies suggest that not unlike social insurance, Medicare also exemplifies wide inequities: poor workers subsidizing well-off employees (who have a higher incidence of catastrophic illnesses requiring more expensive treatments), and poor regions subsidizing Metropolitan Manila.

Of late, the programme for indigents has become a political commodity. There have been claims that politicians have sought to use it to influence the outcomes of elections by appointing allies to jobs within the agency and having them allocate free insurance cards to marginal voters (Wagstaff, 2007).

Informal workers: neither poor nor well-off enough

Vendors, home workers, and self-employed agricultural, rural, and other informal sector workers are estimated to comprise about 49% of the labour force or 15.5 million people. Many of them have no adequate social protection. Precisely because these workers are outside the formal economy, and operate outside the scope of regulations, the provision of health and other social protection programmes has remained highly problematic.

In the Philippines, only 14% of this sector is voluntarily enrolled with PhilHealth (Nguyen, 2006). Low enrolment plagues public social insurance as well. This undoubtedly reflects the lack of attractiveness of the terms on which the insurance schemes are framed. The contribution is flat-rate, and therefore represents a burden for the near-poor (Wagstaff, 2007). Gonzalez and Manasan (2002) also observed that the coverage gap occurs due to statutory exclusions. Domestic workers, day labourers, farmers, fisherfolk, and many urban self-employed are often excluded from many of the provisions. According to health experts, a major gap exists in the social health insurance programme in the case of beneficiaries who are neither poor enough to qualify as indigents nor well-off enough to pay regular PhilHealth premium contributions.

Overseas workers: high contribution, too little protection

The total number of overseas Filipinos may be as high as eight million. Often called OFWs (overseas Filipino workers), they sent USD 10.7 billion in earnings back to their families and friends in the Philippines in 2006 – a whopping 12% of GDP (Altman, 2006). Although overseas employment has led to significant reductions in national productivity – many of those abroad are the more productive elements of the population – there is little reason to expect any dramatic shift in the country's overseas work policy because of the OFWs' huge contribution to the economy.

But are they at the very least receiving social protection? Recent government measures indicate some form of insurance coverage for OFWs – PhilHealth's expanded programme and SSS' voluntary social security coverage, for example. However, it is the Overseas Workers Welfare Administration (OWWA) which has been expected to provide most of the social protection needed by OFWs and their families. Overseas workers have been contributing USD 25 every time they leave the country. Since OWWA has been collecting this amount for over 25 years, its sum should be substantial. Yet, its welfare assistance has been too little and too selective, leaving most overseas workers virtually unprotected while abroad and when they eventually come back. A study done by the Centre for Migrant Advocacy (CMA, 2005) showed that OWWA has been operating (and very inefficiently) using these contributions. Commission on Audit reports show that every year, it spends over three times more for its personnel and operations compared to the social benefits it gives out to overseas Filipinos.

Ironically, it is the remittances sent by overseas migrants that serve as social insurance for recipient households, shielding them from environmental risks. In a study that focuses on income shocks driven by local weather changes (called rainfall shocks), Yang and Chou (2007) discover that in Philippine households with overseas migrants, changes in income lead to changes in remittances in the opposite direction, consistent with an insurance motivation. That is, roughly 60% of declines in income are replaced by remittance inflows from overseas that serve as insurance in the face of aggregate shocks to local areas, which in turn make it more difficult to access credit or inter-household assistance networks that normally help households cope with risk.

Local civil society insurance

Social assistance ideally complements well-organized social security packages. Many government agencies provide social assistance to their sectoral constituencies in line with their mandates. The government's main delivery vehicle for social assistance is the Comprehensive and Integrated Delivery of Social Services (CIDSS), a grant-giving, community-based development project programme. The majority of the projects covered involve water systems, farm-to-market roads, post-harvest facilities, school buildings, and health centres, centred in the country's 42 poorest provinces.

Government social assistance programmes may be directed and focused – they address a wide range of risks from human-made to natural, economic and political to social and health-related – but they may have foregone efficiency gains out of a broader scale of implementation and delivery (Torregosa, 2006). As Torregosa notes, the number of beneficiaries reached is limited, and the level of benefits low. The government also does not know exactly who or where the poor are, and is thus helpless in preventing leakages to the non-poor. Given the limited resources of the government and the rising demand for social programmes, most of the programmes have become heavily reliant on foreign grants and funding. Yet continued dependence does not imbibe stakeholdership among beneficiaries and creates the wrong incentives.

A saving grace is the fact that micro-insurance products, specifically designed with the poor in mind, are gaining favour among the poor, albeit without government involvement. Local-level life insurance and health insurance are thriving in some urban and rural localities, despite actuarial weaknesses, and do help mitigate risks and reduce the vulnerability of poor households. Llanto *et al* (2007) have identified cooperatives, NGOs and mutual benefit associations as vehicles of micro-insurance programmes in the country.

(Continued on page 244)

04-Pai´ses_in (143-248).indd 215 14/9/07 15:18:54

PARAGUAY

(continued from page 211)

To rectify this situation there will have to be structural reforms in the social security system. This is easy to say but it will not be a simple process; it will call for policies that are based on a wide consensus among citizens of the country at all levels.

While this major process of change is taking shape, there is no reason to postpone intermediate measures like the different pension schemes granting each other reciprocal recognition, excluded groups being systematically incorporated into the system, the legislature dealing with the dozen or so bills on these matters that have been shelved, the state meeting its financial obligations to the social security system, the coordination of services between sectors, and the implementation of policies to cater to lower income sectors and unpaid workers.

For the system to really serve the whole population there will have to be a complete change of approach. ■

References

Amarilla, J.M. (2003). *El estado del derecho a la seguridad social en Paraguay. Derechos Humanos*. Paraguay.

Barreto, C., Ramírez, R. (1997). *Reforma previsional. Elementos de análisis*. CEPRO. Asunción.

DGEEC (Dirección General de Estadística, Encuestas y Censos) (2005). *Resultados de la Encuesta de Hogares 2005. País total* [online]. Secretaría Técnica de Planificación. Paraguay. Available at: <www.dgeec.gov.py>.

ECLAC (Economic Commission for Latin America and the Caribbean) (2006). *La protección social de cara al futuro: acceso financiamiento y solidaridad* [online]. Available at: <www.eclac.cl>.

Flecha, O., Ortellado, J.M., Gaete, R., Martínez, E. and Carrizosa, A. (1996). *Diagnóstico sobre la situación del sector salud en el Paraguay*. CEPRO. Asunción.

Frutos, C., Ferreira, P. (2007). "El aumento de la protección social del adulto mayor en el Paraguay, mediante el reconocimiento de servicios laborales a la concesión de beneficios jubilatorios empleando el método de prorrata tempore". Instituto de Previsión Social. Paraguay.

Güemes, A., Villacrés, N. and Kieninger, M. (2005). *Una estrategia para la extensión de la protección social en salud: El seguro de salud integral de Caazapá - Paraguay*. Ministry of Public Health. OPS. Paraguay.

Holst, J. (2003). *La protección social en Paraguay. Condiciones, problemas, desafíos y perspectivas de los sistemas provisionales*. Secretaría Técnica de Planificación – Presidency of the Republic. GTZ. Asunción.

IPS (Instituto de Previsión Social) (2006). "Documentos de Archivos de la Gerencia de Salud". Asunción.

PAHO (Pan American Health Organization) (2003). *Exclusión en salud en países de América Latina y el Caribe*. Washington D.C.: PAHO.

PAHO (2006). *Cuentas de Salud*. Paraguay, October.

Soto, L. (2005). "La situación de las trabajadoras domésticas y el trabajo infantil remunerado" in *Trabajo Doméstico Remunerado en Paraguay*.

Valiente, H. (2005). "Se necesita muchacha…sin derechos. Las leyes sobre el trabajo doméstico remunerado en Paraguay" in *Trabajo Doméstico Remunerado en Paraguay*.

World Bank (2005). *Prestación de servicios de salud en Paraguay. Una evaluación de la calidad de la atención, y las políticas de recursos humanos y de aranceles para los usuarios*. Paraguay.

PHILIPPINES

(continued from page 215)

Final note

The long-term solution to poverty in the Philippines is robust, *equitable and broad-based* sustainable economic growth. Even if the Philippine economy seems to be shifting to a rapid-growth track, there are few social mechanisms in place that could pull the rest of the population out of economic and social deprivation. The reality for the vast majority of poor people is that social services are unavailable, or are skewed towards the needs of the rich, or are dauntingly expensive – and this drives up social inequality.

Yet social protection contributes immensely to economic development, and the nice thing about it, according to Obermann *et al* (2006), is that it can be implemented independently of the current economic situation. For starters, they suggest merging the national programmes with community-based health care financing schemes, and creating the environment for high quality care and improved physical access. Aside from reforms in contribution and benefit structures to remove inequities and expand coverage to the informal sector, tighter oversight in the management of social insurance funds would be necessary.

As the Human Development Network observes, the government has a huge job to do in terms of facilitating reliable information, standard-setting and rationalization of involved government agencies, more vigorous encouragement of private insurance and pension plans for overseas workers, and pushing for bilateral agreements that protect Filipino workers' interests abroad (UNDP, 2002).

Social protection for all Filipinos is well within grasp: money and know-how are not what is lacking. Rather, the commitment to act is needed to challenge the status quo. The will to reform is key to making social protection work, and to do this the government must feel the heat. Civil society organizations and private companies can pick up some of the pieces, but only the government can reach the scale necessary to provide universal access to services that are free or heavily subsidized for poor people and geared to the needs of all citizens – including women and minorities, and the very poorest. Sadly, it is failing to meet this essential need. ■

References

Altman, D. (2006). "Managing Globalization: Costs of Exporting Labor". *The International Herald Tribune*, 3 April.

Gertler, P. and Solon, O. (2002). "Who Benefits from Social Health Insurance? Evidence from the Philippines" (n.p.).

Gonzalez, E. and Manasan, R. (2002). "Social Protection in the Philippines". In Adam, E., von Huff, M. and John, M., *Social Protection in Southeast and East Asia*. Singapore: Friedrich Ebert Stiftung, p. 180-229.

GSIS Annual Report.

Habito, C.F. (n.d.). "Comment on Hans Fehr, Sabine Jokisch and Laurence Kotlikoff's Simulating the Demographic, Fiscal and Economic Transition Paths of the US, EU, Japan and China".

Llanto, G., Almario, J. and Llanto-Gamboa, M. (2007). "Microinsurance in the Philippines: Policy and Regulatory Issues and Challenges". Discussion Paper Series No. 2006-25 (Revised). Philippine Institute for Development Studies.

Manasan, R. (2006), "Financing the Millennium Development Goals: The Philippines". Report submitted to the National Economic and Development Authority (NEDA).

Nguyen, T. K. P. (2006). "Extending Social Health Insurance to Informal Economy Workers –The Case of Vietnam". Presentation at Conference on Extending Social Health Insurance to Informal Economy Workers. Manila, Philippines 18-20 October.

Obermann, K., Jowett, M., Alcantara, M.O., Banzon, E.P. and Bodart, C. (2006). "Social Health Insurance in a Developing Country: The Case of the Philippines". *Social Science & Medicine*, Vol. 62, No. 12, p. 3177-3185.

PhilHealth Annual Reports 2001, 2002, 2003, 2004, 2005.

Piggott, J. (2007). "Pension Reform and the Development of Pension Systems: An Evaluation of World Bank Assistance". Background Paper Regional Summary: Asia. Independent Evaluation Group. Washington, D.C.: World Bank.

SSS Annual Report.

Torregosa, C.L. (2006). *Looking into Social Protection Programs in the Philippines: Towards Building and Implementing an Operational Definition and a Convergent Framework*. Philippines: National Anti-Poverty Commission.

UNDP (United Nations Development Programme) (2002). *Philippines Human Development Report 2002. Work and Well-Being*.

Wagstaff, A. (2007). "Social Health Insurance Reexamined". World Bank Policy Research Working Paper 4111, January.

Yang, D. and Choi, H.J. (2007). "Are Remittances Insurance? Evidence from Rainfall Shocks in the Philippines". World Bank Economic Review (n.p.)

POLAND

(continued from page 217)

References

Anka (2007). "Kiedy b'd'ubezpieczenia od bezrobocia?". *Zycie Warszawy*, 16 June.

Constitution of the Republic of Poland of 2 April 1997. Available from: <www.sejm.gov.pl>

CSO (Central Statistic Office) (2005). "Work not Registered in Poland in 2004". Warsaw.

CSO (2007). "Monthly Information about Unemployment In Poland". May, Warsaw.

Federation for Women and Family Planning (n.d.). Available from: <www.federa.org.pl>

Gorzelak, G. (1994). "Regional patterns of Polish transformation, 1990-2005". In Wódz K. (ed.) *Transformation of Old Industrial Regions as a Sociological Problem*. Katowice.

Kostrzewski, L. and Mi'czy'ski, P. (2006). "Nie bedzie zrownania wieku emerytalnego?". *Gazeta Wyborcza*, 14 September.

KSE (2005). "Krajowa Strategia Emerytalna". Warsaw: Ministry of Social Affairs.

Lohmann, K. and Seibert, A. (2003). "Gender Assessment of the Impact of EU Accession on the Status of Women in the Labour Market in CEE. National Study: Poland". Warsaw: Karat Coalition.

Ministry of the Treasury (2002). "Spotkanie Ministra Skarbu Panstwa Wieslawa Kaczmarka z dziennikarzami z Austrii". Available from: <www.msp.gov.pl/start.php>.

Panek, T. (2006). *Diagnoza Społeczna 2005. Warunki i jako' 'ycia Polaków*. Warsaw: Wy'sza Szkoła Finansów i Zar'dzania w Warszawie.

Sta'ko, D. (2003). *Performance Evaluation of Public Pension Funds: The Reformed Pension System in Poland*. London: The Pensions Institute.

04-Pai´ses_in (143-248).indd 244 14/9/07 15:20:05