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Social protection expenditure and performance reviews

Methodological note on definitions, classifications and performance indicators

Introduction

The main objectives of the social protection expenditure and performance reviews are:

- to identify the scope of social protection in terms of risks and needs covered as well as existing gaps in coverage (risks and needs not covered or insufficiently covered);
- to establish the costs in terms of annual expenditure and financing structures (i.e. the composition of the “income” of the social protection sector from different sources, such as social security contributions/general taxation, financing at different levels of the general government and private financing, domestic versus foreign financing). Expenditure shall be measured both as a proportion of GDP and (in case of public expenditure) as a proportion of the overall general government expenditure;
- to analyse the effectiveness of the performance of the existing social protection schemes in terms of its coverage. Coverage will be analysed both in terms of the proportion of the relevant population covered and in terms of the levels/quality of coverage (replacement rates etc.).

Generally, the focus should be on revealing the vulnerable groups which are not covered or whose coverage is not sufficient to alleviate or prevent poverty.

1. Scope of the reviews - definition of social protection.

For the purpose of the reviews one needs a definition of social protection which will be operational from the statistical point of view. That is why definition and classifications developed within the European System of Integrated Social Protection Statistics (ESSPROS) are taken as a starting point.

According to the ESSPROS definition, social protection:

*“...Encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks and needs, provided that there is neither a simultaneous reciprocal nor an individual agreement involved”.*¹

ESSPROSS definition is advantageous from the operational point of view as it narrows the scope of intervention taken into account, excluding those involving reciprocity or based on purely private, individual agreements. Also, it includes the notion of “needs”, not necessarily the needs of only the “critical poor”, as it is the case in the recently proposed World Bank definition².

The word “intervention” also has to be defined. It covers financing of benefits and related administration costs, as well as the actual provision of benefits. Main forms of benefits are cash payment to protected persons, reimbursements of expenditure made by protected persons and goods and services directly provided to protected persons. This should also include tax rebates or subsidies directed to individuals (reductions in taxes or social contributions paid by individuals or households). In specific cases, like measures of the labour market policies, one may also include the financing through preferential tax rates, tax rebates or subsidies which are primarily directed to the production side of the economy but which indirectly protect households (i.e. wage subsidies paid to employers to encourage the recruitment of long-term unemployed). However, this measures should be clearly separated from the core social protection benefits provided directly to individuals and households.

Providers of social protection, have to be public or private institutions (“public or private bodies” in the definition). All direct private transfers between households and individuals are excluded, even if the purpose of these transfers is similar to social protection transfers by public or private institutions.

The institutions usually intervening are:

- social security funds
- central, state or local governments
- autonomous and self-administered pension funds
- insurance companies
- mutual benefit societies

¹ ESSPROS Manual, EUROSTAT, 1996, p. 12

- public and private employers
- private welfare and assistance institutions

ESSPROS excludes also ad-hoc emergency relief in the event of natural disasters (all the interventions which do not require regular management and accounting). In case of many developing countries, particularly the poorest countries, one should take into account also these emergency relief interventions. Their financial scale is usually large, compared to the “normal” social protection expenditure. Also, in some countries, the need for emergency relief type of interventions arises so often, they become more a continuous activity than just an ad hoc intervention.

The condition excluding simultaneous reciprocal agreements does not preclude that social protection benefits might be conditional on some action to be undertaken by the beneficiary (like taking part in a vocational training programme) provided that this action does not have the character of salaried work or sale of services. Within this scope, social protection provided directly by employers to their employees is limited to:

- the continued payment of normal or reduced salaries during periods of absence from work as a result of sickness, accident, maternity etc.,
- the payment of statutory special allowances for dependent children and other family members,
- health care which is not related to the nature of work.

The exclusion of individual arrangements does not entirely exclude taking into account individual insurance policies. When the employer provides social protection to the employees in the form of insurance, sometimes policies are taken out in the names of the individual participants. Such a scheme should be included.

On the other hand, not all the collective contracts are necessarily taken into account. An insurance policy should be included into the scope of social protection if it is based on solidarity, whether or not it is taken out on the initiative of the person insured. The insurance policy is based on the principle of social solidarity if, as a matter of policy, the contributions charged are not proportional to the individual exposure to risk of the people protected. Examples of such schemes are the schemes established specifically for persons belonging to the same profession or trade,

² World Bank, Social Protection, preliminary draft for comments, February 2000, p. 3

insurance offered by mutual benefit societies, micro-insurance schemes, government-based voluntary schemes open to certain categories of households, such as small businessmen, farmers etc.

2. Risk and needs covered

List of risks and needs covered by social protection (functions of social protection) is as follows:

- sickness (income maintenance and support in cash in connection with physical or mental illness, excluding disability)
- health (health care needed to maintain, restore or improve health of the people protected irrespective of the origin of the disorder)
- disability (income maintenance and support in cash and in kind (except health care) in connection with inability of physically or mentally disabled people to engage in economic and social activities)
- old-age (income maintenance and support in cash or kind (except health care) in connection with old age)
- survivors (income maintenance and support in cash or kind in connection with the death of a family member)
- family/children (support in cash or kind (except health care) in connection with the costs of pregnancy, childbirth and adoption, bringing up children and caring for other family members)
- unemployment (income maintenance and support in cash or kind in connection of unemployment)
- housing (help towards the cost of housing)
- social exclusion not elsewhere classified (benefits in cash or kind - except health care -) specifically intended to alleviate poverty and social exclusion where they are not covered by one of the other functions).

The above list of functions was established taking into account European experience. For a wider application, particularly in developing countries, one should extend the above list of functions. Inclusion of benefits related to basic education and basic food and nutrition programmes is necessary. Education benefits would cover free access to public education, fee waivers, free textbooks etc. Food and nutrition benefits would include food aid, food stamps and food subsidies.

In case of various interventions and institutional arrangements directed to the economically active in agriculture and to the rural population, it is sometimes difficult to separate their social protection and economic policy functions of subsidising/protecting agricultural production. This is the case with many social security schemes for farmers on the one hand, as well as with agricultural input subsidies or crop insurance arrangements on the other. Although the latter might play a role in supporting incomes of the rural households, they should not be classified as social protection schemes.

It is important to distinguish also another social protection function, including all the schemes providing both specific short-term incapacity benefits as well as long-term disability pensions in case of occupational (employment related) accidents and disease. This function is not treated separately in ESSPROS but is separated in other existing classifications of the ILO³ and OECD⁴. Such a separate treatment is particularly advisable for developing countries, as in a number of these countries, they are practically the only existing types of sickness and disability schemes.

Another suggested extension, in comparison to a core ESSPROS methodology, concerns the unemployment function and treatment of the labour market policies. ESSPROS is limited with this respect to benefits provided directly to beneficiaries (individuals and households) and excludes “indirect benefits”, such as wage subsidies paid to employers or reductions in employers’ social security contributions/taxes as an incentive to recruit unemployed persons. At the same time EUROSTAT is developing a separate statistical module database on labour market policies⁵. It covers much wider scope of measures than a core ESSPROS module and includes not only direct transfers to beneficiaries but also transfers to employers (in form of wage subsidies and reduction in taxes or social security contributions). We propose to follow this wider treatment of the unemployment function, separating however direct interventions from the indirect ones.

Although we suggest few departures from the ESSPROS classification, it is important to ensure a maximum possible compatibility with the EUROSTAT approach. ESSPROS classification of the social protection function was adopted (with the exception of the health care function, which is treated separately) by the UN

³ ILO, 19th International Inquiry into the Cost of Social Security, Geneva, December 1997

⁴ OECD; Social Expenditure Statistics of OECD countries, Paris 1996

Classification of the Functions of the Government (COFOG), developed by the UN Statistical Division. The IMF now also accepts the latter classification in its new approach to the functions of the government for the purpose of the Government Finance Statistics⁶.

Table 1 below presents the proposed classification. Lower level classifications should be focused, particularly in case of services, on distinguishing basic services along the lines of the UNICEF/UNDP study on public spending on basic social services.⁷ Particularly within the health care function it should be possible to separate basic health services which would include prevention, reproductive health care and basic curative care.

Lower levels of the benefit classification should be adjusted to the particular situation of the country. It is important to separate between different types of benefits. Main types of benefits are cash benefits and benefits in kind. Within cash benefits one can distinguish between periodic payments, lump sum payments and reductions in taxes or social security contributions (tax benefits). Benefits in kind include direct provision of goods and services and reimbursements. Another important distinction to be made is between conditional and unconditional benefits and, among them between mean-tested ones and non means-tested.

⁵ EUROSTAT, Development of the labour market policy module, Document PS/99/7 for the Working Group on Social Protection, Brussels, September 1999.

⁶ IMF, Government Finance Statistics Manual, draft, Washington 2000. Manual includes the COFOG classification in one of the annexes.

⁷ Country experiences in assessing the adequacy, equity and efficiency of public spending on basic social services, Paper prepared by UNICEF and UNDP, Hanoi Meeting on 20/20 Initiative, 27-29 October 1998.

Table 1. Classification of social protection functions

	Main functions	Possible lower level classifications
I.	Health care	Prevention Primary health care Other health care
II.	Sickness	Paid sick leave Other cash benefits
III.	Disability Disability cash benefits Disability benefits in kind	Disability pensions Other cash benefits (including tax benefits) residential care, day care and rehabilitation, home-help services and other)
IV.	Survivors Survivors' cash benefits Survivors' benefits in kind	Survivors' pension (widows, widowers, orphans) Other cash benefits (death grant, other) funeral expenses etc.
V.	Employment injury Employment injury cash benefits Employment injury benefits in kind	Temporary cash benefit to the insured Disability pensions to the insured Other cash benefits to the insured Survivors' pensions Other cash benefits to survivors Health care Other benefits in kind
VI.	Old age Old-age cash benefits Old-age benefits in kind	Old-age pensions Other cash benefits accommodation, care etc.
VII.	Family and children Family and children cash benefits Family benefits in kind	Maternity benefit Birth grant Parental leave benefit Family or child allowance Other cash benefits (including tax benefits) Day care, accommodation, home help, other
VIII.	Unemployment and labour market policies Unemployment cash benefits	Unemployment benefit (unemployment insurance, unemployment assistance) Severance pay (redundancy compensation) Early retirement for labour market reasons

Table 1 (continued)

	Main functions	Possible lower level classifications
	Labour market programmes	Labour market training Placement services/job-search assistance Job rotation and job sharing Labour cost subsidies and reduction of taxes/social contributions Sheltered work (rehabilitation schemes) Job creation in the public or non-profit sector Start-up incentives
IX.	Housing	Cash benefits Rent/energy subsidies
X.	Social assistance and other	Low income (cash, services) Indigenous persons (cash, services) Immigrants/refugees (cash, services) Miscellaneous (cash, services)
XI.	Basic education (primary)	Cash benefits (including tax benefits) and benefits in kind
XII.	Food and nutrition	Food aid, food stamps, food subsidies

3. Social protection schemes and other useful classifications

Eventually, whatever the classification is finally agreed and adopted, the main task would be to identify existing *social protection schemes* and classify them by functions and according to other characteristics.

Identifying individual schemes is important as only at the level of the individual scheme one can properly assess not only the financing aspects, but also answer the questions related to the performance from the point of view of coverage.

One could adopt the definition of the social protection scheme, following the ESSPROS one:⁸

A social protection scheme is a distinct body of rules, supported by one or more institutional units, governing the provision of social protection benefits and their financing.

To identify coverage of a given scheme, one needs to clarify what is the legislation or other rules regulating entitlements (“body of rules”) and how these rules are implemented.

Ideally, it should be possible for each of the scheme, to draw up a separate account of receipts and expenditure:

Receipts

Social security contributions

Government financing (taxation, both earmarked and general)

Transfers from other schemes

Other receipts

Expenditure

Social benefits

Administration costs

Transfers to other schemes

Other expenditure

Balancing item

For tax benefits, in revenue side, one has to estimate tax revenue foregone due to various tax allowances due.

⁸ ESSPROS Manual 1996, p. 19

Also, when identifying social protection schemes, one should attempt to achieve a list of separate schemes, each of them providing protection towards a single risk or need and cover a specific group of the beneficiaries.

Social protection schemes are not institutional units, however one or more institutional units normally support them (for some units social protection might be their main activity, for other only a subsidiary activity (employers, insurance companies, trade unions etc.)).

The body of rules, referred in a ESSPROS definition, might be established *de iure*, by law, regulations or contract, or *de facto*, by administrative practice.

Schemes may be grouped according to their different characteristics. Possible groupings are as follows:

- A. by the type of unit which takes the essential decisions:
 - public schemes (central government, state or local government)
 - private schemes (by employers and other)
- B. by the existence or absence of legal obligation
 - compulsory schemes
 - non-compulsory (of which: voluntary but established by law or regulation)
- C. by the way the entitlements are established
 - contributory schemes
 - non-contributory schemes
- D. by the scope
 - universal schemes (covering whole population upon materialisation of specific risks or needs))
 - general schemes (covering i.e. all economically active or all employees or all private sector employees)
 - special schemes (for specific groups, like public servants, self-employed, workers in a specific branch, occupation or profession)
 - community based schemes
- E. by level of protection
 - basic schemes
 - supplementary schemes

Eventually, of course, the institutions are implementing the rules of the social protection schemes, administering provision of benefits and its financing. That is why

it is also important to identify institutions managing social protection schemes and analyse their financing and other governance aspects. One can compose a functional/institutional matrix of social protection expenditure. Example of such a matrix is included in the Table 2.

Table 2. Functional/institutional matrix of the social protection expenditure – an example: Social protection benefit expenditure in Lithuania, 1998 (per cent of the total social protection expenditure)

Institutions	Social Insurance Institution	Health Insurance Institution	Central government	Local governments	Employers	Total
Main functions						
Health care	-	26.9	0.5	-	-	27.4
Sickness	3.2	-			3.2	6.5
Disability	7.6	-	2.0	0.1	-	9.7
Survivors	2.2	-	0.0	0.4	-	2.6
Old age	34.3	-	4.3	1.1	-	39.6
Family and children	2.4	-	1.6	3.4	-	7.4
Unemployment	3.0	-	-	-	-	3.0
Housing		-	-	1.2	-	1.2
Social assistance and other	0.5	-	0.4	1.7	-	2.6
Total	53.2	26.9	8.9	7.8	3.2	100.0

Source: own calculations based on: Social protection in Lithuania 1998, Statistics Lithuania, Vilnius 2000, pp. 63-67

4. Financing

Objective of the exercise is not only to identify existing social protection schemes and assess their costs in terms of expenditure but also to reveal the financing patterns. Transactions financing the social protection schemes can be grouped by type of revenue and by its source of origin.

Types of revenues for a given scheme are presented in Table 3. Again, for tax benefits, one would have to estimate tax revenue foregone due to existing tax allowances.

Table 3. Social protection receipts by type**Social security contributions**

Employers social security contributions

*Actual contributions**Imputed contributions*

Social contributions by protected persons

*Employees**Self-employed**Pensioners and other*

Re-routed social contributions

General government financing

Earmarked taxes

General revenue

Transfers from other schemes**Other receipts**

Property income

Other

Another important question relates to the issue: who is financing a given scheme and what are the sources of financing the overall system of the social protection (Table 4).

Table 4. Social protection financing by source of origin**I. All residential units****Public sector**

General government

*Central government**State and local governments**Social security funds*

Corporations (non-financial and financial)

Non-profit institutions serving households

Private sector

Corporations (non-financial and financial)

Non-profit institutions serving households

Households

II. Rest of the world (foreign aid etc.)

Ideally, one should aim at the matrix, which would provide information on social protection expenditure by function, and by financing source (like social accounting matrix described in the forthcoming ILO publication⁹). This might not always be possible, as not all the receipts can be assigned to specific functions – receipts of the same type and from the same source may finance a number of social protection

⁹ W.Scholz, M.Cichon, K. Hagemejer, Social Budgeting, ILO, Geneva 2000

schemes associated with different functions. However, what should be always possible, is to establish a matrix listing institutions, schemes they administer and financing sources.

5. Effectiveness of performance

To assess the performance of the social protection system and its particular schemes, one has to identify clearly objectives of each of the schemes and its target groups. One also needs information demographic characteristics, on income levels and composition and on the labour market status of the different groups in the society, different types of households.

There are three most important aspects of the performance, which should be looked at:

- coverage
- distributional performance
- governance and administrative performance.

5.1. Coverage

Coverage will be measured in three dimensions:

- **extent of coverage**, or: **personal coverage**, percentage of persons covered (by gender, age, labour market status) within the whole population or the target group,
- **scope of coverage**: range of contingencies, risks and needs covered (old-age and survivors, disability, unemployment, sickness and health, unemployment, maternity, family and children, poverty
- **depth** of coverage: level of protection (benefit levels, replacement rates etc.)

A. Partial indicators

- **Scope of coverage:**
 - range of contingencies and needs covered by the existing schemes: old-age and survivors, long-term disability, short term incapacity and sickness, maternity and family, unemployment, poverty and exclusion. Specific schemes and programmes delivering benefits and services in case of these contingencies has to be identified, than their specific extent and depth of coverage provided assessed.
- **Extent of coverage, personal coverage:** percentage of persons covered (by sex, age, labour market status)
 - percentage of persons protected (i.e. insured persons and their dependants) within the total population or population group. Coverage has to be estimated basing on existing regulations and population, labour market and specific scheme data (like protected persons, insured, beneficiaries). Such information can be collected only at the particular social protection scheme level and than aggregated. There might be also a difference between protection *de iure* and *de facto*: actual access to existing benefits and services also has to be estimated (by density of health care or social welfare centres, number of staff per person entitled etc.),
 - percentage of beneficiaries within the potential beneficiary population (old-age pensioners to those over retirement age, unemployment benefit beneficiaries to the total number of unemployed, social assistance beneficiaries to those below poverty line etc.). The question of access should be also addressed here – through “take up” or “access rates” rates, measuring proportions of those subject to a given contingency and entitled to benefits who actually received benefits or used services.
- **Depth (quality) of coverage:** level of protection (benefit levels, replacement rates etc.).
 - legal replacement rates,
 - actual benefit levels relative to average earnings, average incomes or any other comparable basis,
 - patients co-payments as a percentage of total expenditure (or, at an aggregated level: private health expenditure to total health expenditure),
 - shares of income from different social transfers in cash and in kind in the total household income,
 - medical services available relative to some normative “basket” of medical services, etc.

One can map the coverage through the set of matrices, showing scope, extent and depth of coverage for different population groups. Example of such a matrix is shown in Table 5. In this example the focus is on status and coverage of persons providing the main source of income for their respective households. If the necessary data are available, one should also aim at showing the status and coverage of households’ members, distinguishing not only types of economic activity, but also features like gender and age.

Table 5. Matrix of coverage – an example

Function	Health care		Old-age pensions		Unemployment benefits	
Population (household) group (by labour market status of the breadwinner)	Extent of coverage	Depth of coverage (% of cost reimbursed)	Extent of coverage	Depth of coverage (replacement rate)	Extent of coverage	Depth of coverage (replacement rate)
Civil servants						
M	100%	100%	100%	100%	100%	100%
F	100%	100%	100%	80%	100%	80%
Employees in public enterprises						
M	100%	80%	100%	50%	100%	40%
F	100%	80%	100%	30%	100%	20%
Employees in private enterprises						
M	80%	80%	80%	40%	60%	30%
F	80%	80%	80%	25%	60%	20%
Self-employed outside agriculture						
M	40%	50%	10%	30%	0%	0%
F	20%	50%	5%	20%	0%	0%
Self-employed in agriculture						
M	10%	50%	0%	0%	0%	0%
F	5%	50%	0%	0%	0%	0%
Employees in the informal sector						
M	0%	0%	0%	0%	0%	0%
F	0%	0%	0%	0%	0%	0%
Self-employed in the informal sector						
M	100%	100%	100%	100%	100%	100%
F	100%	100%	100%	80%	100%	80%
Unemployed						
M	15%	50%	100%	0%	0%	0%
F	10%	50%	100%	0%	0%	0%
Economically inactive above retirement age						
M	30%	100%	50%	35%	0%	0%
F	20%	100%	30%	25%	0%	0%
Economically inactive below retirement age						
M	10%	50%	5%	35%	0%	0%
F	5%	50%	5%	35%	0%	0%

B. Aggregate indicators

Partial indicators (quantitative and qualitative) could be used to calculate aggregate index of the social protection coverage, using statistical methods, similar to those utilised to build the UNDP Human Development Index. A compound coverage indicator has to be a function of the above three types of partial indicators:

- of a scope of social protection functions available relative to all the social protection functions,
- of a percentage of population protected for the different contingencies and needs and,
- of a level of protection measured by replacement rates etc.

It should be however noted that size of the total social protection expenditure (measured as its ratio to GDP) is also a function of all the three dimensions of coverage and thus may be used as an aggregated indicator of coverage

$$SER = \sum_{i=1}^n br(i) \times rr(i)$$

Where:

SER – social protection expenditure ratio

br(i) – ratio of the number of beneficiaries (persons protected) of the scheme *i* to the total population

rr(i) – ratio of expenditure per beneficiary (person protected) to GDP per capita

n – number of existing social protection schemes

Another possible and important aggregate indicator of coverage will be a proportion of income from social protection transfers (cash and in kind) in a total income of the households' sector. Necessary data should be normally available from the national accounts and/or from the households' budget survey.

C. Information and data requirements

- Complete list of all the social protection programmes has to be identified. This should include:
 - social insurance type programmes (mandatory)
 - state programmes
 - local government programmes
 - voluntary protection substituting mandatory social insurance
 - mutual and community based activities
 - charity type activities (domestic and foreign)
 - foreign aid (food etc.)
 - other
- For each of the programmes information and data has to be collected covering:
 - Respective regulations enabling to identify number of protected persons
 - Any information necessary to estimate actual coverage (access problems in terms of a distance, shortage of staff, lack of information etc.)

- Data on insured, beneficiaries (by sex, age groups, labour market status, type of employment)
- Data on benefit levels and amount of services delivered etc.
- Data on total expenditure (benefit expenditure and other expenditure for all schemes)
- General data necessary to estimate indicators
 - Population by age and sex
 - Labour force by age and sex (formal and informal)
 - Employed (total – formal and informal):
 - Employees by age and sex, by sector (public, private, economic sector, type of contract – full time, part time, seasonal, by size of enterprise etc. – data required depend on particular coverage of different schemes and to what extent these schemes address particular groups of employees
 - Self-employed, by age and sex, economic sector
 - Family workers, by age and sex
 - Estimate and characteristic of underemployed
 - Unemployment, by age, sex, economic sector etc.
 - Average earnings, by age, sex, economic sector
- Any other estimates of average incomes which could be used as a reference to assess levels of cash benefits

5.2. Distributional performance

Another important aspect of the performance analysis is looking at coverage of the most vulnerable groups of the society. This should include:

- Looking at horizontal distribution of coverage and benefits (with a particular attention to the gender distribution, formal/informal sector distribution, and distribution to other groups identified as the most vulnerable). It should cover analysis of the portion of cash benefits actually distributed to these groups and assessing access of member of these groups to social protection and other basic social services;
- Looking at the vertical distribution of coverage and benefits (with a particular attention to the effectiveness of the system and its schemes to reach the poorest and fill the poverty gap).

5.3. Administrative performance.

Aggregate measure of the administrative performance should be the ratio of administrative costs to the total expenditure. This should be measured for individual schemes, institutions and for the overall social protection system.

Otherwise, one should look also into other aspects of the particular scheme and/or institution administration: effectiveness of the collection of contributions (compliance rate, arrears etc.), of the processing of benefit claims and of the benefit payment/delivery.

6. Concluding remarks

The reviews may be combined with other activities in a country, like a full social budgeting exercise and/or actuarial projections for the selected schemes/institutions.

Important part of the activity will be to identify existing gaps in statistics and to advice the government how to enhance statistical capacity.

Final reports may also include policy recommendations on the measures necessary to enhance coverage and improve effectiveness of the overall social protection system and its individual schemes.