Social Security After the COVID-19 Crisis

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Introduction

As market systems have expanded globally, and traditional forms of care and support have come under stress, countries have recognised the need to establish national social security systems to protect their populations, building strong social contracts, and helping generate sustainable economic growth. Indeed, the right to social security for all has been recognised in a wide range of international human rights conventions, commencing with the Universal Declaration of Human Rights (UDHR) in 1948. A commitment to building national social security systems has also been incorporated in the Sustainable Development Goals (SDGs).

In most high-income countries, the process of building strong social security systems has been on-going for centuries and most now invest, on average, 12 per cent of GDP. More recently, a similar process has started in many low- and middle-income countries. The COVID-19 crisis has demonstrated the imperative of countries establishing effective social security systems, not only to ensure income security for all citizens during normal times, but also to respond to major shocks.

The purpose of this paper is to examine international experiences with social security, and consider its implications for Bhutan. It will examine different approaches to social security, discuss the impacts of well-designed social security systems, set out the rationale for establishing an effective social security system in Bhutan, examine briefly the nation's current system. It will also propose a paradigm shift in the national social security system to strengthen the social contract and deliver greater prosperity for all.

Approaches to Social Security

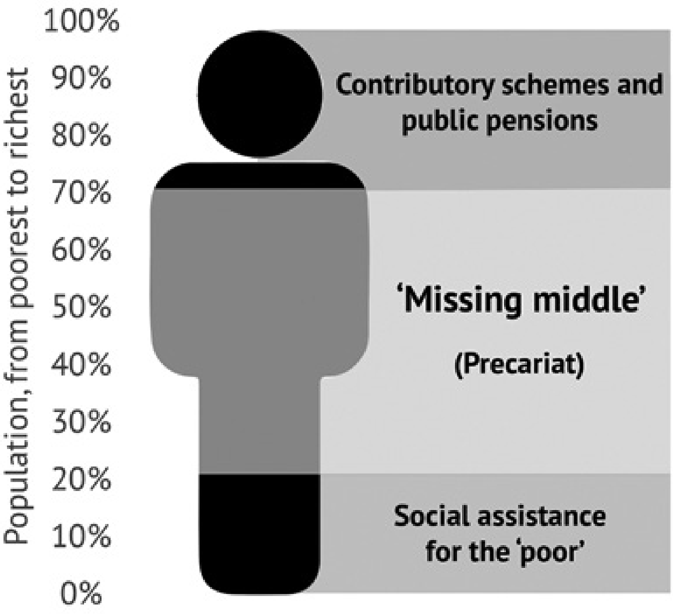
The countries with the most advanced social security systems offer support to all citizens across the lifecycle, from birth until death. The highest levels of investment in high-income countries are in schemes for children, older people and people with disabilities, although protection is also provided for working-age people if they experience unemployment, sickness, the birth of a child and the death of a breadwinner. Countries also offer residual social assistance to families living in poverty if lifecycle schemes alone are unable to provide adequate support. Social security systems are often multi-tiered, with support provided by both social insurance -- financed by contributions from employees and employers -- and general government revenues.

In the 18th and 19th centuries, when high-income countries were much poorer, the dominant form of social security was "poor relief", which, as its name suggests, is comprised of payments to the poorest members of society (Kidd 2017). As democracy strengthened, countries gradually moved away from a reliance on poor relief -- which benefited only a minority of the population -- towards more universal, lifecycle systems, which benefited the majority of people (and voters). In most high-income countries, it is now normal for every child, person with a disability and older person to receive regular income support.

In contrast, in many low- and middle-income countries, the 19th century poor relief model prevails, although it is often complemented by social insurance schemes for the formal economy labour force. Consequently, social security is offered to those on the highest and lowest incomes, while the majority of the population on middle incomes is excluded.

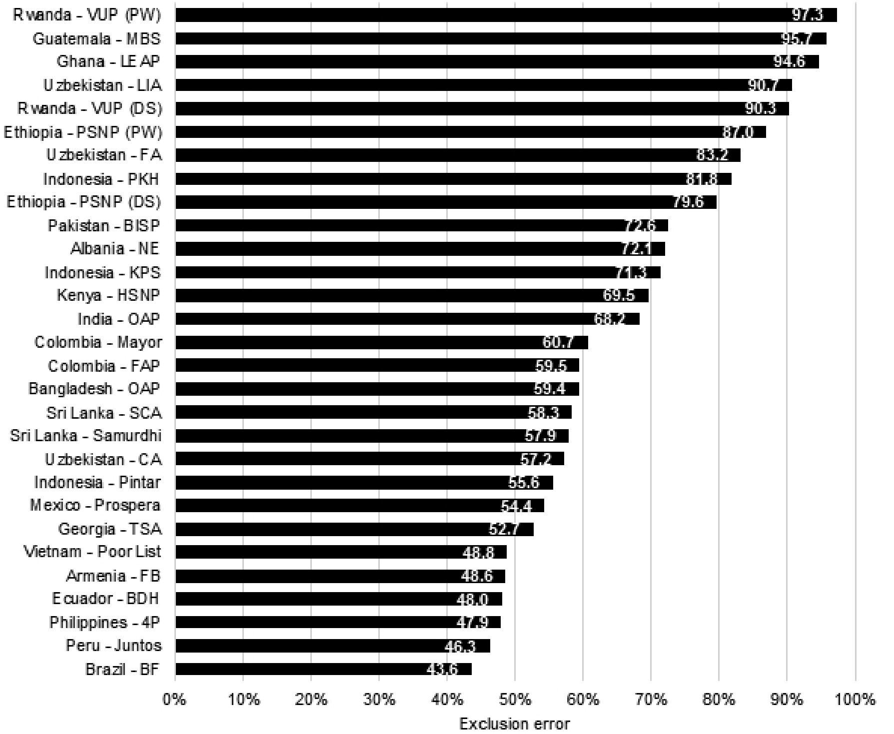
As Figure 1 indicates, this group has become known as the "missing middle" (Kidd and Damerau 2016). Yet the term "middle incomes" disguises the reality that most people in the "middle" are working for low wages in precarious and insecure employment, or as own-account workers and small farmers. During the COVID-19 crisis, this group has been hit particularly hard.

Figure 1: Depiction of a typical model of social security found in low- and middle-income countries, with a large 'missing middle'



Although "poor relief" aims to reach the poorest members of society, experience across low- and middle-income countries demonstrates that this is impossible. Figure 2 shows the targeting errors across a range of poverty-targeted programmes. The best performing, Brazil's *Bolsa Familia* programme, excludes 44 per cent of its intended recipients, while many programmes in Asia have much higher errors: for example, the exclusion error in Pakistan's Benazir Income Support Programme is 73 per cent while it is 82 per cent in Indonesia's *Programme Keluarga Harapan*.

Figure 2: Exclusion errors across a range of poverty-targeted social security schemes in low- and middle-income countries



Source: Kidd and Athias (2020).

The most effective means of reaching the excluded and poorest members of society is through universal schemes. For example, Mongolia's universal child benefit reached almost all children living in poverty. In fact, the most effective social security systems offer their core benefits -- such as old age, disability and child benefits -- as universal schemes.

While it is often argued that middle-income countries are not sufficiently wealthy to introduce the type of universal schemes found in high-income countries, when the schemes commenced, countries were much poorer. For example, when Sweden introduced its universal old age pension in 1913, its GDP per capita was US$4,840 in purchasing power parity terms (PPP), while Finland's universal child benefit commenced in 1948 when its GDP per capita was US$6,700 (PPP).[1] In comparison, in 2019, Bhutan's GDP per capita was much higher at US$8,620 (PPP). In fact, a growing number of low- and middle-income countries are moving away from a reliance on poor relief towards universal systems. Old age pensions are the most common universal schemes, with some countries introducing universal disability benefits, while a small number are expanding their child benefits.

The Impacts of Well-designed Social Protection

Well-designed social security delivers a wide range of positive social and economic outcomes, although their impacts depend on the level of investment. South Africa's investment of 3.4 per cent of GDP in tax-financed social security reduces its poverty rate by 36 per cent, while the reduction from Sri Lanka's much lower investment of 0.4 per cent of GDP is only 6 per cent.[2]

Further, there is global evidence that poverty-targeted schemes can have negative impacts on wellbeing. In the Philippines, the Pantawid programme increased stunting among non-recipients by 11 percentage points. This was the result of an increase in the price of protein-rich foods, as recipients used the extra cash to buy higher quality food for their children, which obliged non-recipients to feed more rice to their children (Filmer et al 2018).

By increasing incomes across the population, social security schemes deliver a range of other benefits, establishing the essential conditions for everyone to fulfil their potential in life. They can tackle stunting among children, increase school attendance and enable children to perform better at school. They can enhance dignity among vulnerable recipients, who no longer have to depend on others. People with disabilities are also able to cover the additional costs resulting from their disability, offering them equality of opportunities with others.

There are a number of pathways through which social security contributes to economic growth (Kidd and Tran 2017). If children perform better at school, they will become a more productive future labour force.

[1] All GDP per capita figures are given in 2011 purchasing power parity terms.

[2] Analysis undertaken by Development Pathways using most recent national household surveys. Purchasing power parity shows the equivalent standard of living in the United States and allows comparisons between countries and over time. It should not be confused with nominal dollars, which use current exchange rates. Nominal dollars are used in the following sentence.

Entrepreneurs and farmers benefit from greater income security, which gives them the confidence to invest in more risky and productive activities, while people find it easier to access employment. By injecting cash into the economy, consumption is stimulated, offering markets to entrepreneurs. It is no coincidence that many of the most successful and sustainable economies in the world are significant investors in comprehensive, national social security systems.

By providing universal social security systems to all citizens on a fair and equal basis, trust in government can grow, inequalities are reduced, social cohesion is strengthened, and societies enjoy greater peace, minimising the risk of political instability. As the social contract strengthens and citizens see governments investing their taxes in universal public services -- including social security -- they are willing to pay taxes, thereby enabling further investment by governments in public services (Kidd et al 2020).

When comprehensive, national social security systems are established, governments can better respond to large-scale shocks, through the provision of emergency cash support. When individuals and families in affected areas already receive social security benefits, governments can easily increase the value of the transfer for the duration of the crisis. The importance of social security has been demonstrated during the COVID-19 crisis: countries with more comprehensive systems have found it easier to offer income support to their citizens while those already in receipt of benefits -- such as pensioners -- have a guaranteed income to help them through the crisis.

The Rationale for Social Protection in Bhutan

Over the past 20 years, Bhutan has made good progress in reducing extreme poverty. When measured against a poverty line of US$3.20 (PPP), the poverty rate fell from 45 per cent in 2003 to 12 per cent by 2017.[3] Nonetheless, a high proportion of the population still live on low incomes: 71 per cent consume less than Nu.210 (US$3.25) per day. Inequality is also high: the Gini co-efficient was 0.374 in 2017, well above the threshold of 0.27, beyond which the International Monetary Fund (IMF) economists have determined that inequality harms economic growth (Grigoli and Robles 2017).

[3] Source: http://iresearch.worldbank.org/PovcalNet/home.aspx

Low incomes translate into inadequate standards of living for the population, as illustrated by the high rate of stunting -- 33.5 per cent -- among young children, which impacts their cognitive development, setting them back throughout their lives.[4] Under-nutrition continues across childhood: in a comparison of 200 countries, the height of 19-year-old girls in Bhutan was ranked as low as 183rd.[5]

The COVID-19 crisis has presented the nation and its citizens with even greater challenges. The IMF estimates that economic growth in 2020 fell by 4.5 percentage points.[6] Many families have suffered significant income losses. For example, across workers in the tourism sector -- comprising 20 per cent of the labour force -- 74 per cent experienced a significant loss of income in April 2020 (Soares and Alvarenga 2020). Bhutan is in immediate need of a comprehensive social security system that not only offers families income security during normal times but responds to the social and economic challenges of COVID-19 crisis.

Bhutan's Current Social Security System

Bhutan's current social security system mainly focuses on the provision of contributory schemes for workers in the formal economy, supplemented by a traditional system called kidu, which is a prerogative of the King of Bhutan to help Bhutanese citizens who need assistance in any aspect of life. As a result, there are similarities with the type of bifurcated system found in many low- and middle-income countries.

However, coverage is limited. For example, in 2019 there were fewer than 10,000 recipients of benefits from the National Pension and Provident Fund (NPPF), mainly old age pensioners (NPPF 2020). As a result, the majority of the population -- the missing middle on low and insecure incomes as well as the poorest members of society -- are excluded from the system.

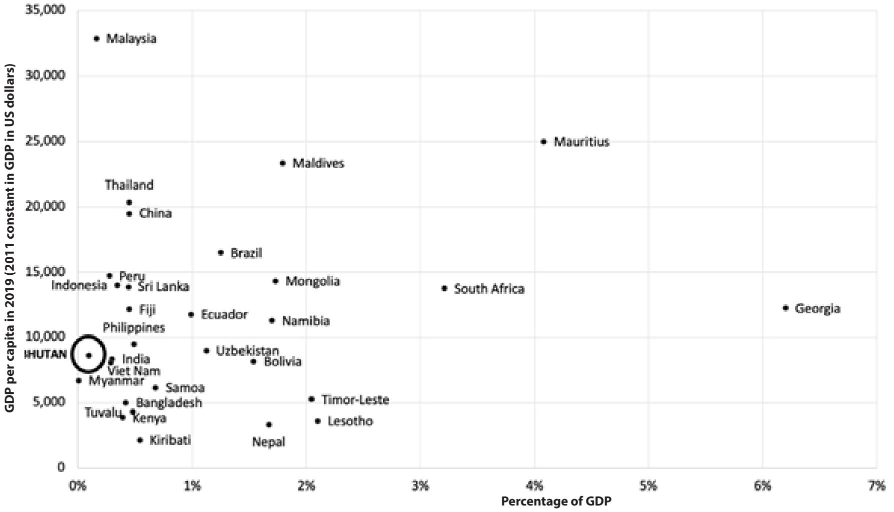
Further, spending on social security benefits in Bhutan is minimal. Figure 3 shows the level of investment in tax-financed benefits across a range of low- and middle-income countries, mapped against the wealth of the

[4] UNICEF Multiple Indicator Cluster Survey
[5] Source: https://www.ncdrisc.org/children-adolescent-bmi-height-media-link/height-mean-ranking.html
[6] IMF's World Economic Outlook Database, October 2020 version.

country. Bhutan invests no more than 0.1 per cent of GDP (Soares and Alvarenga 2020), which is well below some much poorer countries, such as Nepal, Timor Leste, Kenya and Lesotho.

In fact, given their proximity, Bhutan stands in marked contrast to Nepal, which invests 1.6 per cent of GDP in universal old age, widows and disability benefits, while also gradually expanding child benefits. When social insurance schemes are taken into account, some countries spend much more. For example, the level of investment in Brazil is over 12 per cent of GDP, 8 per cent in Mongolia and 9 per cent in Uzbekistan.

Figure 3: Level of investment in tax-financed social security by a range of low- and middle-income countries, alongside their wealth



Source: Analysis undertaken by Development Pathways; IMF's World Economic Outlook Database (October 2019 edition).

Figure 3 also demonstrates that there is no correlation between the wealth of a country and its level of investment in tax-financed social security. Some relatively wealthy countries -- such as Malaysia, Thailand and Peru -- invest much less than many poorer countries. Instead, it demonstrates that investment in social security is a political choice.

A key question for Bhutan is whether the Government wishes to build a modern, lifecycle social security system that offers income security to all citizens. The following section outlines feasible options that the Government could consider.

A Modern, Universal Lifecycle Social Security System for Bhutan

As discussed earlier, the social security schemes with the highest levels of investment are child, old age, and disability benefits. This makes sense since children, older people, and persons with disabilities are universally recognised as vulnerable categories of the population. Usually, there is a broad consensus that they should be prioritised.

The options presented would enable Bhutan to build an inclusive social security system, based around these core lifecycle benefits. Given that covering every child, older person and person with a disability with decent benefits would be challenging initially -- due to the high cost -- we propose gradually expanding the system up to 2035.

Figure 4 shows how the Universal Child Benefit would be expanded. The scheme would initially register younger children -- in this case 0-4 years -- but no child would exit until their 18th birthday, with only new-borns entering into the scheme.

Figure 4: Illustration of how the age of eligibility for the Universal Child Benefit would grow over time

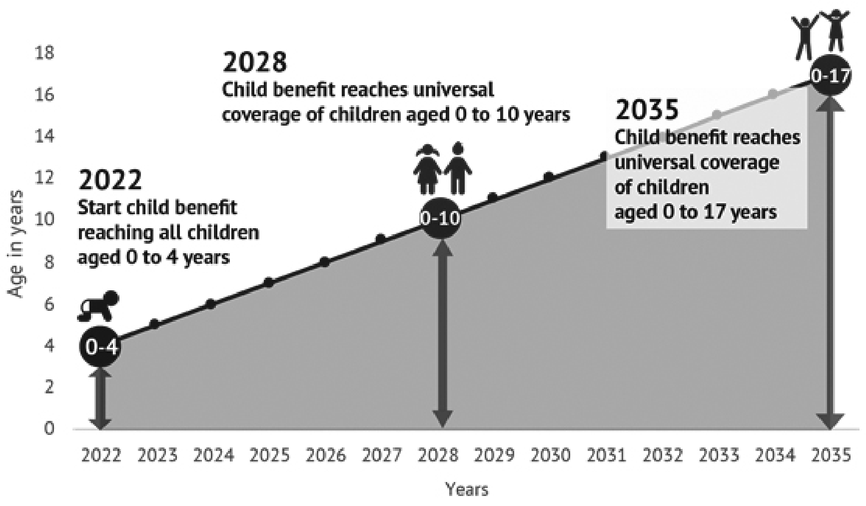


Table 1 sets out two options for introducing a universal social security system in Bhutan. A low-cost option would have slightly lower transfer values, while the disability and child benefits would be introduced only in 2023 and 2025 respectively.

In contrast, in a higher cost option, all schemes would begin in 2022. Further, the age of eligibility for the old age pension would be higher in the low-cost option -- at 70 years compared to 67 years for the higher cost option -- while the child benefit would begin at 0-3 years compared, with 0-4 years in Option 2. The disability benefits would be offered to both children and working age adults and, on reaching the age of eligibility for the old age pension, all recipients would transition onto it.

Table 1: Options for introducing a universal, lifecycle social security system in Bhutan

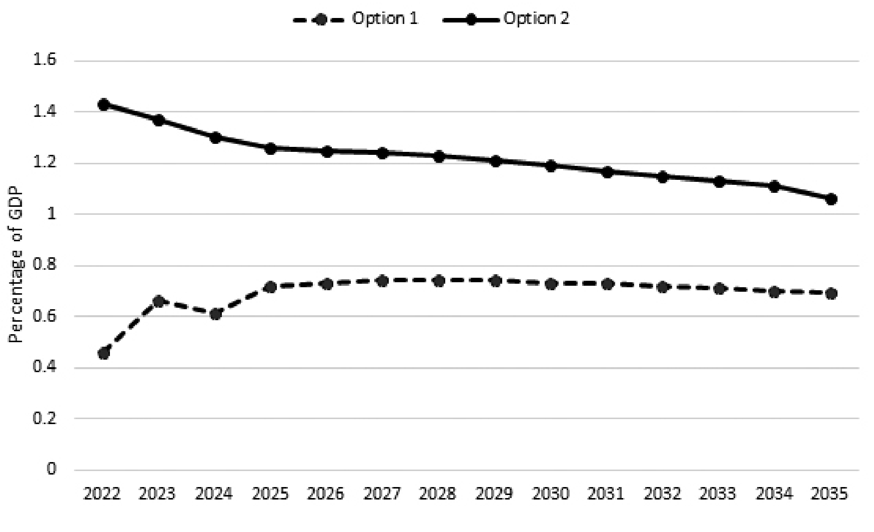
Scheme	Age of eligibility	Monthly Transfer (Nu)	Monthly Transfer (US$)
Option 1 (Lower cost)			
Child Benefit	0-3 years from 2025	Nu 800	US$11.00
Disability Benefits	0-69 years from 2023	Nu 2,500	US$34.30
Old Age Pension	70+ years	Nu 2,500	US$34.30
Option 2 (Higher cost)			
Child Benefit	0-4 years from 2022	Nu 1,000	US$13.70
Disability Benefits	0-66 years	Nu 3,000	US$41.00
Old Age Pension	67+ years	Nu 3,000	US$41.00

As Figure 5 demonstrates, Option 1 would require an investment of 0.42 per cent of GDP in 2022 and reach a maximum cost of 0.74 per cent of GDP in 2027, before gradually falling. The cost of Option 2 would be 1.43 per cent of GDP in 2022 and, over time, it would fall.

These reductions in the level of investment required would happen despite a growth in the number of recipients. In Option 1, the number of recipients would increase from 63,000 in 2022 to 218,000 in 2035 while, under Option 2, the increase would be from 132,000 to 280,000.

The required budget would fall slightly because GDP growth would be higher than the projected rise in the population. Even if the projected average rate of GDP growth was reduced to a pessimistic four per cent per year from 2022, the overall cost in 2035 for Option 2 would only be 1.25 per cent of GDP compared to 1.06 per cent with the assumptions used in the current analysis. There is, therefore, no fiscal time bomb waiting for Bhutan if it were to introduce these schemes. In fact, if, as expected, economic growth increases, there will be a parallel increase in tax revenues. Beyond 2035, the government could make prudent choices on transfer values to limit the budget required.

Figure 5: Levels of annual investment required for an inclusive social security system in Bhutan, using two options (2022-2035)[7]



Prior to introducing the schemes, Bhutan would have to undertake a range of measures to ensure the effective delivery of the schemes. Legislation

[7] The cost estimates assume the following: 95 per cent coverage of children and older people; one per cent of children and 3 per cent of working age adults have a severe disability; the transfers are indexed to inflation; and, future economic growth is, up to 2025, based on IMF projections and, in future years, set at 6 per cent per year.

should be passed, and governance structures should be developed, outlining Ministerial and operational delivery responsibilities. Rather than creating a parallel structure, giving responsibility for the management and delivery of the system to the NPPF could be explored, while transfer payments could be via banks or mobile phone networks.

Bhutan should also invest in a high quality, digital management information system that integrates local and central structures via web-based connectivity. A reliable disability assessment mechanism will also be required, but this could serve multiple purposes, by enabling people with disabilities to access other services. It will be necessary to develop an effective communications strategy to ensure that all citizens understand how to access the schemes. There will be a cost to investing in new systems but, because the schemes are universal and, therefore, relatively simple to deliver, administrative costs will be low, probably less than three per cent of the annual cost of the schemes.

The costs of not acting could be significant. Families will continue to struggle on low and insecure incomes. As a result, children will continue to experience under-nutrition, which will impact on their cognitive development and undermine the nation's human capital and future labour force. People with disabilities and older people will continue to find it challenging to maintain their independence and dignity. Since the economy will not receive a boost from increased spending, markets will not expand, thereby inhibiting the efforts of entrepreneurs and limiting employment opportunities. Ultimately, social cohesion and the national social contract may be undermined.

Conclusion

Bhutan is at a crossroads in the development of its national social security system. The COVID-19 crisis has demonstrated the weakness of the current system, which excludes the vast majority of the nation's most vulnerable citizens. The nation needs to consider whether it is time for a paradigm shift in national social security policy, to build a modern, universal social security system that offers income security to all citizens across the lifecycle.

Once the schemes proposed in this paper are in place, the Government could also address other risks, such as unemployment, sickness, maternity costs and loss of a breadwinner. There would, of course, still be a place for the kidu system, but it should be a complement to, not a replacement of, a modern social security system.

It is important to note, however, that social security is not a gift from government. Rather, it is a form of redistribution by government of the taxation it receives from its citizens. Therefore, while citizens have the right to receive social security, they also have a responsibility to pay the taxes which will finance it. The good news is that international evidence indicates that, if citizens are given social security on a universal and equitable basis, trust in government strengthens and the willingness to pay tax increases (Kidd et al 2020).

The benefits of investing in a universal social security system would be significant. The vast majority of households in Bhutan would receive a minimum level of income security. Families could invest in their children, thereby tackling under-nutrition while building their skills to prepare them for the labour market. Parents would have greater confidence to engage in higher risk and higher return income-generating activities. They would know that, if their enterprise failed, they could still provide for their children.

Older people and people with disabilities would be able to live more independently and with greater dignity. At a national level, inequality would fall, the social contract would be strengthened while the economy would receive a significant boost, which would support economic recovery from the COVID-19 crisis. A comprehensive social security system is an investment that Bhutan cannot afford not to make.

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