

Social protection in the Philippines

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ON the face of it, the Philippines' commitment to the right of people to live in dignity with secure livelihood makes it one of the most socially progressive countries in Asia. The Philippine Constitution guarantees full respect for social, economic and cultural rights, and gives special attention to the rights of women and those of labor, which it sees as a primary economic force whose welfare is in need of advancement. The country has ratified key human-rights international treaties and has acceded to 33 international labor conventions, which bind it to respect, protect and fulfill these rights.

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But 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 man-made. To begin with, the country is already geographically at risk, being situated right in Asia's ring of fire 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 labor, displacement of local enterprises due to uncontrolled entry of tariff-free goods), high reliance on overseas employment (that keeps the GNP buoyant but exacts a high social cost due to the breakup of families), and structural adjustments (that interrupt service delivery and lead to labor 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 economic growth (largely due to remittances of overseas workers and private consumption) but had little impact in lifting the poor out of misery, with at least three out of every 10 Filipinos still trapped in poverty today. Indeed, more than half of the population have consistently rated themselves poor in the last two decades (see chart). The official unemployment

rate hovers between 8-10 percent, but underemployment—people who want to work more—can be as high as 22 percent (Altman, 2006), suggesting the persistence of jobless growth.

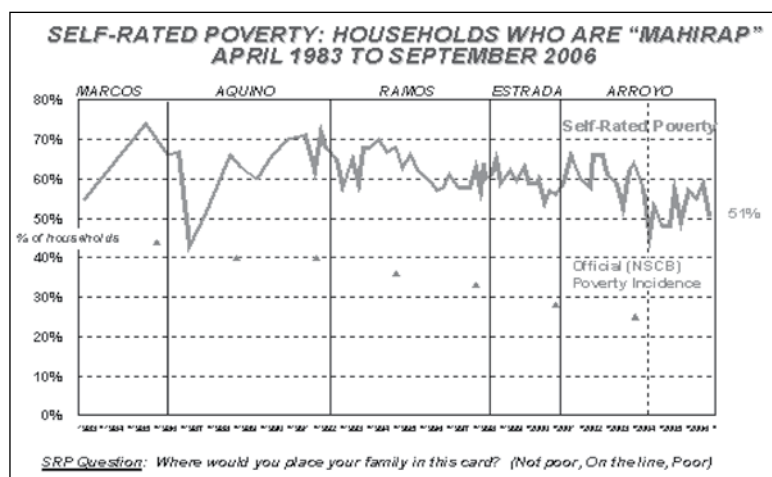
The Philippines is unlikely to achieve the Millennium Development Goals (MDGs) target of halving poverty by 2015 given the country's current rate of progress. In fact, average household income has declined and hunger incidence has gone up. Even if the Philippines manages to catch up with its MDG commitments, the other half (almost a fourth 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 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 programs which have existed for decades. These programs are categorized into social insurance, pensions and other forms of long-term savings, social safety nets, welfare and social payments, and labor market interventions. But coverage is incomplete and delivery is diffused. Financing remains uncertain and is vulnerable to corruption.

Public social insurance

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 programs: social security and industrial injury-related services. The Social Security System (SSS) administers the program 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 program 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 percent 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.

Nonenrollment 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 nonremittance or underpayment by employers) hound the program.

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, 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 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, undated).

The security package offered by the social insurance system does not include unemployment insurance. Such 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.

Health insurance

The national health insurance program, which grants Filipinos access to in-patient and outpatient services in accredited medical facilities nationwide, is run by the Philippine Health Insurance Corporation, or PhilHealth. Alternatively called Medicare, the Phil-

Health program covers a wider 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 program for indigents seems to be well-funded, receiving 2.5 percent of the expected government revenues from taxes on sin products for the next five years and 10 percent of local government share in the expanded value-added tax.

While PhilHealth has been quite successful in enrollment, it lags behind in others, such as quality and price control (Wagstaff, 2007). The health insurance scheme does not necessarily deliver good quality care at 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 percent 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 PhP4 billion 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 higher incidence of catastrophic illnesses requiring more expensive treatments), and poor regions subsidizing Metro Manila.

Of late, the program 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).

Protection for people in the informal economy

Vendors, homeworkers, self-employed agricultural, rural, and other informal sector workers are estimated to

comprise about 49 percent or 15.5 million of the labor force. 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 programs has remained highly problematic.

In the Philippines, only 14 percent of the target group is voluntarily enrolled with PhilHealth (Nguyen, 2006). Low enrollment 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. Housemaids, daily-rated laborers, 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 program in the case of beneficiaries who are neither too poor to qualify as indigents nor well-off enough to pay for regular PhilHealth premium contributions.

Protection for overseas workers

The total number of overseas Filipinos may be as high as eight million. Often called OFWs (overseas Filipino workers), they sent US\$10.7 billion in earnings back to their families and friends in the Philippines last year—a whopping 12 percent 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 program 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 US\$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 Center for Migrant Advocacy (CMA, 2005) showed that OWWA has been operating (and very inefficiently) using these contributions. COA (Commission on Audit) 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 distressed 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 percent 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 interhousehold assistance networks that normally help households cope with risk.

Social assistance for those living below the poverty line

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 for social assistance is the Comprehensive and Integrated Delivery of Social Services (CIDSS), a grant-giving, community-based development project. The majority of these projects involve water systems, farm-to-market roads, post-harvest facilities, school buildings, and health centers, centered in the country's 42 poorest provinces.

Government social assistance programs may be directed and focused—they address a wide range of risks from man-made to natural, economic and political to social and health—but may have forgone 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. Government also does not know exactly who or where the poor are, and is thus helpless in pre-

venting leakages to the nonpoor. Given the limited resources of government and the rising demand for social programs, most of the programs have become heavily reliant on foreign grants and funding. Yet continued dependence does not imbibe stakeholderhood among beneficiaries and creates the wrong incentives.

A saving grace is the fact that microinsurance products, specifically designed with the poor in mind, are gaining favor 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 microinsurance programs in the country.

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, few social mechanisms are in place to 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 programs 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 (PHDR, 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. ■

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