The Future of Social Security in Emerging Economies: Challenges and Proposals

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Abstracts

This article examines the future of social security in emerging economies, exploring the key challenges facing these countries and proposing potential solutions. Financial sustainability, universal coverage and equity are some of the main obstacles that must be overcome to ensure a robust and fair social security system. Through a literature review and case analysis, proposals are presented to improve the effectiveness and sustainability of these systems in the context of emerging economies.

Keywords: Social security, emerging economies, sustainability, universal coverage, equity.

Introduction

Social security is a fundamental pillar for the socio-economic stability and sustainable development of any nation. In emerging economies, the implementation and sustainability of social security systems present unique and complex challenges, largely due to the interaction of economic, demographic, and social factors. Social security, at its core, seeks to ensure that all citizens have access to services and benefits that protect them in situations of vulnerability, such as unemployment, illness, old age, and disability. However, in emerging countries, labor informality, limited fiscal capacity, and growing inequality represent significant barriers to achieving effective universal coverage (International Labour Organization [ILO], 2021).

Population aging is another critical challenge for emerging economies, as an increase in the proportion of older people requires greater resources to finance pensions and health services (Bloom et al., 2020). In addition, rapid economic transitions, such as urbanization and industrialization, have transformed labor structures, leaving many workers out of traditional social security schemes (OECD, 2022). In this context, the sustainability of social security systems becomes a primary concern. Insufficient revenue and tax evasion complicate governments' ability to sustainably finance these systems, putting the stability and well-being of millions of people at risk (World Bank, 2021).

Despite these challenges, emerging economies have an opportunity to innovate and reform their social security systems, learning from the experiences of other countries and adapting solutions to their specific contexts. This article aims to analyze in depth the main challenges faced by these countries in the management of their social security systems and propose viable strategies for their improvement. The discussion focuses on three key areas: financial sustainability, expanded coverage and equity in access to benefits, providing a comprehensive vision of the future of social security in these regions.

Methodology

This study uses a qualitative approach based on a combination of literature review, case analysis and interviews with experts to address the challenges and propose solutions for social security in emerging economies. The methodology has been designed to provide a comprehensive understanding of the factors that affect the sustainability and effectiveness of social security systems in these contexts.

Bibliographic Review

The literature review was conducted to identify and analyze recent research related to social security in emerging economies. Scholarly articles, reports from international organizations, and case studies published in the last five years (2018-2023) addressing topics such as financial sustainability, universal coverage, and equity in social security were selected. Databases used for this review include Scopus, Google Scholar, and the International Labour Organization (ILO) repository. The selection of the literature was based on the relevance and quality of the sources, ensuring that the selected studies are representative of the diverse realities in different regions.

Case Analysis

The case analysis focused on selected countries in Latin America, Asia and Africa, representing a diverse sample of emerging economies. Selected cases include Brazil, India, South Africa, and Viet Nam, as these countries face distinctive challenges and have implemented different strategies to improve their social security systems. Each case was examined in terms of its institutional structure, extent of coverage, financial sustainability, and recent policies implemented to address existing challenges. This approach allows for a comparison between different contexts and the identification of patterns and lessons learned that could be applied in other countries with similar conditions (Patton, 2018).

Interviews with Experts

To complement the literature review and case analysis, semi-structured interviews were conducted with experts in social security, public policy, and development economics. Interviewees include academics, officials from international organizations such as the ILO and the OECD, and policymakers in the countries selected for the case study. The interviews were conducted virtually and focused on discussing current barriers to the implementation of sustainable social security systems and recommended strategies to overcome these obstacles.

The interviews were analysed using a thematic coding approach to identify key ideas and emerging recommendations (Creswell & Poth, 2018).

Data Analysis

The data obtained from the literature review, case analysis and interviews with experts were integrated and analyzed using a triangulation approach, which allows validating the findings and providing a more holistic view of the problems investigated. This method ensures that the study's conclusions are supported by multiple sources of evidence, increasing the reliability and validity of the results (Yin, 2018).

Theoretical Framework

The theoretical framework of this study is based on several key theories and concepts that explain the functioning, challenges and opportunities of social security systems in emerging economies. These include welfare state theory, financial sustainability theory in social security systems, and theories of social inclusion and equity. A more in-depth analysis of each of these theoretical perspectives is presented below, integrating recent research.

Welfare State Theory

The theory of the welfare state, developed in the twentieth century, posits that the state has a responsibility to ensure a basic level of well-being for all citizens, particularly in areas such as health, education, and social security. This theory is central to understanding the justification of state intervention in the provision of social security (Esping-Andersen, 1990). In the context of emerging economies, this theory faces specific challenges, such as limited fiscal capacity and high labor informality, which makes it difficult to implement welfare systems comparable to those of developed economies (Gough, 2021).

Recent research highlights how welfare states in emerging economies must adapt to their particular contexts. For example, Filgueira and Espíndola (2020) argue that in Latin America, the welfare state has adopted hybrid forms, where social assistance policies coexist with contributory systems, reflecting the economic and social heterogeneity of the region. In Asia, a more gradualist approach is observed, where the expansion of social security is linked to economic growth and the expansion of formal employment (Asher & Bali, 2020).

Theory of Financial Sustainability in Social Security

Financial sustainability is a central concept in the design and operation of social security systems. It refers to the ability of these systems to be maintained over time without generating unsustainable deficits that put their future operation at risk. In emerging economies, the financial sustainability of social security systems is threatened by several factors, including high labor informality, aging populations, and economic volatility (World Bank, 2021).

The economic theory of sustainability in social security systems suggests that a balance between contributions and benefits is necessary, implying that systems should be designed so that revenues (mainly through contributions and/or taxes) are sufficient to cover current and future expenditures. Bloom, Chatterji, and Kowal (2020) stress that in emerging economies, this balance is particularly difficult to achieve due to fluctuations in tax revenues and limitations in the ability to broaden the tax base.

To address these challenges, diversification of funding sources has been proposed, including the combination of employment-based contributions with general tax revenues and other mechanisms, such as sovereign wealth funds or supplementary social insurance (Ortiz et al., 2019). Such diversification can help mitigate the risk associated with dependence on a single source of income and improve the financial resilience of social security systems.

Theories of Inclusion and Social Equity

Theories of inclusion and social equity are fundamental to understanding how social security systems can be designed to be fair and accessible to all citizens, regardless of their economic or social status. Equity in social security implies that all people have access to the same benefits and services, without discrimination based on gender, age, ethnicity, or employment status (ILO, 2021).

In emerging economies, achieving equity in social security is a significant challenge due to labor informality and socioeconomic inequality. Informal workers, who make up a large part of the labour force in these countries, are often excluded from traditional social security systems, exacerbating existing disparities (ILO, 2021). Recent studies have highlighted the need to develop innovative mechanisms to include these workers in social protection, such as flexible contribution systems or non-contributory social assistance programs (Gentilini, Almenfi, & Orton, 2022).

In addition, social justice theory argues that social security systems should be designed in a way that not only provides a minimum level of protection, but also contributes to the redistribution of wealth and the reduction of poverty (Rawls, 1971). In this regard, the inclusion of intergenerational and redistributive solidarity mechanisms is crucial to ensure that social security systems in emerging economies are both equitable and sustainable.

Results

The analysis of social security systems in emerging economies reveals several significant challenges, as well as some positive trends in the implementation of reforms that seek to improve the sustainability and equity of these systems. Below are the key findings of the study, supported by recent data and a series of tables illustrating the main trends observed.

Financial Sustainability

One of the most pressing challenges in emerging economies is the financial sustainability of social security systems. According to the World Bank (2021), the aging of the population and high labor informality are putting considerable pressure on pension systems, which in many cases already face growing deficits. Below is a table with data on the relationship between the population over 65 years of age and pension expenditure as a percentage of GDP in selected countries:

Country	Population > 65 years (% of total population)	Pension expenditure (% of GDP)	Pension system deficit (% of GDP)
Brazil	9.2%	13.1%	4.2%

China	12.6%	9.3%	3.0%
South Africa	5.6%	6.8%	1.8%
India	6.5%	4.1%	2.5%

Source: World Bank (2021)

These data highlight the growing burden that population ageing represents for pension systems in these countries. Brazil and China, in particular, face significant challenges with respect to the sustainability of their systems, given that a considerable proportion of their GDP is spent on pension payments, leading to substantial deficits. These deficits are unsustainable in the long term without significant reforms in social security policies (ILO, 2021).

Universal Coverage

Universal coverage remains a distant goal for many emerging economies due to high labor informality. According to data from the International Labour Organization (2021), more than 60% of workers in sub-Saharan Africa and South Asia are employed in the informal sector, which limits their access to social security. Below is a table showing social security coverage in terms of the percentage of the economically active population covered by some form of social insurance:

Region	Social security coverage (%)
Latin America	55%
Southern Asia	25%
Sub-Saharan Africa	17%
Eastern Europe and Central Asia	75%

Source: ILO (2021)

These data indicate that while some regions, such as Eastern Europe and Central Asia, have made significant progress in social security coverage, other regions, especially sub-Saharan Africa and South Asia, still face large gaps. In Latin America, despite progress, there is still a significant disparity in coverage between formal and informal workers (Gentilini, Almenfi, & Orton, 2022).

Renovations and Improvements

In response to these challenges, several countries have implemented reforms in their social security systems. For example, India has introduced the Pradhan Mantri Shram Yogi Maan-Dhan (PMSYM), a pension scheme for informal sector workers, covering more than 45 million people since its launch in 2019 (Government of India, 2022). Similarly, Brazil has reformed its pension system to reduce deficits by raising the retirement age and modifying the formulas for calculating benefits (OECD, 2022).

Below is a table with some of the main reform schemes implemented in emerging economies and their initial impact:

Country	Reform Implemented	Impact
India	Pradhan Mantri Shram Yogi Maan-Dhan (PMSYM)	Increase in coverage among informal workers to 15%
Brazil	Pension system reform (2019)	Reduction of the projected deficit by 2% of GDP by 2030

China	Expansion of the urban and rural social security system	Coverage extended to 85% of the urban population and 60% rural
South Africa	Social Assistance Programs Focused on Extreme Poverty	Reduction of extreme poverty by 5% since 2017

Source: OECD (2022); Government of India (2022)

These reforms show how different countries have addressed the need to expand coverage and improve the financial sustainability of their social security systems. However, the effectiveness of these reforms will depend to a large extent on their continued implementation and underlying economic conditions.

The analysis carried out in this study reveals multiple challenges and opportunities in the implementation and sustainability of social security systems in emerging economies. Throughout the study, issues related to financial sustainability, universal coverage, and reforms implemented to improve these systems have been identified. The key findings are presented in more detail below, with additional data and tables that provide a more complete picture of the current situation.

Financial Sustainability

Financial sustainability is one of the main challenges for social security systems in emerging economies. With the aging of the population and the high level of labor informality, maintaining viable pension systems has become an increasingly difficult task. Below is a table detailing the relationship between the population over 65 and pension expenditure as a percentage of GDP, along with the projected deficit of the pension system in several countries.

Country	Population > 65 years (% of total population)	Pension expenditure (% of GDP)	Pension system deficit (% of GDP)	Deficit projection for 2050 (% of GDP)
Brazil	9.2%	13.1%	4.2%	6.5%
China	12.6%	9.3%	3.0%	5.8%
South Africa	5.6%	6.8%	1.8%	3.7%
India	6.5%	4.1%	2.5%	4.9%

Source: World Bank (2021); ILO (2021)

The table shows that, without significant reforms, the deficit in these countries' pension systems is projected to increase substantially by 2050. In Brazil, for example, the deficit could reach 6.5% of GDP, posing a serious threat to the country's fiscal stability. These results underscore the need to implement structural reforms that increase the retirement age, diversify sources of financing, and strengthen pension fund management (OECD, 2022).

Universal Coverage

Universal social security coverage remains a considerable challenge in many emerging economies, mainly due to high labor informality. According to the International Labour Organization (2021), social security coverage in many of these economies is alarmingly low, especially in regions such as sub-Saharan Africa and South Asia, where informality can exceed 80% in some countries. Below is a table comparing social security coverage in different regions of the world:

Region	Social security coverage (%)	Labor informality rate (%)

Latin America	55%	52%
Southern Asia	25%	85%
Sub-Saharan Africa	17%	88%
Eastern Europe and Central Asia	75%	25%

Source: ILO (2021); Gentilini, Almenfi, & Orton (2022)

These data illustrate the direct correlation between labor informality and low social security coverage. In sub-Saharan Africa and South Asia, the very high rate of labor informality has led to only a small fraction of the population having access to social security. In contrast, Eastern Europe and Central Asia, with significantly lower informality rates, have achieved greater coverage. This suggests that the formalization of employment is a key strategy to improve social security coverage.

Renovations and Improvements

Emerging economies have implemented several reforms to address these challenges, with varying degrees of success. Some of the most prominent reforms include the introduction of pension schemes for informal workers and the modification of pension policies to reduce deficits. In India, for example, the Pradhan Mantri Shram Yogi Maan-Dhan (PMSYM) scheme has been one of the most notable interventions, extending pension coverage to more than 45 million informal workers since 2019. However, challenges remain, and the effectiveness of such schemes depends on continued engagement and strengthening of institutional infrastructure (Government of India, 2022).

Below is a table summarizing the reforms implemented in some selected countries, along with their initial impact on financial sustainability and social security coverage:

Country	Reform Implemented	Impact on financial sustainability	Impact on coverage (%)
India	Pradhan Mantri Shram Yogi Maan-Dhan (PMSYM)	Mild improvement; Expanded coverage by 15 million people	+15%
Brazil	Pension system reform (2019)	Reduction of the projected deficit by 2% of GDP by 2030	-
China	Expansion of the urban and rural social security system	Significant improvement; greater inclusion of rural workers	+10%
South Africa	Social Assistance Programs Focused on Extreme Poverty	Moderate reduction of the deficit; Improving sustainability	+5%

Source: OECD (2022); Government of India (2022); ILO (2021)

These reforms, while variously successful, highlight the diversity of approaches countries have taken to address their unique challenges. In China, the expansion of the social security system has succeeded in significantly increasing the inclusion of the rural population, while in South Africa, social assistance programmes have contributed to reducing extreme poverty, albeit with a moderate impact on financial sustainability.

Conclusions

Analysis of social security systems in emerging economies reveals that these countries face significant challenges, but they are also making notable efforts to improve financial sustainability, expand coverage, and ensure equity. Below are the key findings of the study, supported by additional data and tables illustrating the main points discussed.

Financial Sustainability

Financial sustainability remains a critical challenge for emerging economies. As previously shown, countries such as Brazil and China face growing deficits in their pension systems, which could reach up to 6.5% of GDP by 2050 in the case of Brazil (World Bank, 2021). These deficits reflect the urgent need to implement reforms that not only reduce spending in the short term, but also ensure the long-term viability of social security systems.

A key strategy to improve sustainability is to increase the retirement age. According to OECD data (2022), Brazil has increased the minimum retirement age to reduce pressure on its pension system, which is projected to reduce the deficit by 2% of GDP by 2030. However, these adjustments must be accompanied by policies that promote the labor inclusion of older people, ensuring that these measures do not aggravate social inequality.

Another essential strategy is the diversification of sources of financing. In China, for example, the government has implemented a mixed system that combines employee contributions, general taxes, and sovereign wealth funds to finance the pension system. This diversification has made it possible to increase the sustainability of the system, although it is still projected that the deficit could reach 5.8% of GDP by 2050 (ILO, 2021).

Expanding Coverage

Social security coverage remains uneven, with large disparities between regions and economic sectors. Labor informality is one of the main obstacles to achieving universal coverage. As highlighted above, in regions such as sub-Saharan Africa and South Asia, social security coverage is extremely low, with only 17% and 25% of the economically active population covered, respectively (ILO, 2021).

One of the key findings of this study is that the formalization of employment is essential to increase social security coverage. In Latin America, where labor informality is 52%, countries that have implemented policies to formalize employment, such as Uruguay and Costa Rica, have managed to increase coverage significantly (Gentilini, Almenfi, & Orton, 2022). Below is a table showing the relationship between the formalization of employment and the increase in coverage in some Latin American countries:

Country	Labor informality rate (%)	Social security coverage before formalization (%)	Social security coverage after formalization (%)
Uruguay	20%	65%	85%
Costa Rica	35%	50%	75%
Mexico	55%	30%	45%

Source: ILO (2021); Gentilini, Almenfi, & Orton (2022)

These data suggest that employment formalization is an effective strategy to increase social security coverage, but they also highlight the need for complementary policies that support workers during the transition to formal employment.

Equity and Social Reforms

Equity in access to social security benefits is another key challenge. In many emerging economies, socioeconomic and gender inequalities continue to limit equitable access to benefits. For example, in India, women are 20% less likely than men to be covered by some form of social insurance, due to their high representation in the informal sector (Government of India, 2022).

To address these inequalities, some countries have implemented specific programs targeting vulnerable populations. In South Africa, Social Assistance Programs have been instrumental in reducing extreme poverty, reaching 95% coverage among the poorest households (ILO, 2021). These programs, while costly, have proven effective in reducing poverty, as shown in the table below:

Country	Population in extreme poverty before the programme (%)	Population in extreme poverty after the programme (%)	Programme coverage among the poorest households (%)
South Africa	22%	17%	95%
Brazil	18%	15%	80%
India	28%	25%	70%

Source: ILO (2021); OECD (2022)

These data indicate that social assistance programs can have a significant impact on reducing extreme poverty, especially when they target the most vulnerable populations.

Final Thoughts

The future of social security in emerging economies depends on the ability of these countries to implement structural reforms that address financial sustainability challenges, expand coverage, and ensure equity. As these economies continue to grow and evolve, it will be crucial for governments to adopt a comprehensive approach that combines employment formalization policies, pension reforms, and targeted programs for vulnerable populations. The experience of countries such as Brazil, China, and South Africa shows that, although reforms can be difficult and costly, they are essential to building robust and sustainable social security systems that can protect all citizens.

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