

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Social insurance in the Caribbean: the time has come
▪ TC Number:	RG-T4030
▪ Team Leader/Members:	Gonzalez Velosa, Carolina (SCL/LMK) Team Leader; Tapia Troncoso, Waldo Andres (SCL/LMK) Alternate Team Leader; Acevedo Calle, Daniela (LEG/SGO); Casco, Mario A. (ITE/IPS); Cecilia Siccha (SCL/LMK); Ekaterina Cuellar Khmelevskaia (SCL/LMK); Gaston Ferrin (SCL/LMK); Gomez Gerena, Maria Fernanda (SCL/LMK); Gonzalez Herrera, Beatriz Maria (SCL/LMK); King, Dana Michael (IFD/ICS); Wilks, Jason Malcolm (IFD/ICS)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	N/A.
▪ Date of TC Abstract authorization:	12 Apr 2022.
▪ Beneficiary:	The Bahamas, Trinidad and Tobago, and Barbados.
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Social Development(W2E)
▪ IDB Funding Requested:	US\$150,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months (includes execution period)
▪ Required start date:	October, 2022
▪ Types of consultants:	Firms and Individual Consultants
▪ Prepared by Unit:	SCL/LMK-Labor Markets
▪ Unit of Disbursement Responsibility:	CCB/CTT-Ctry Off Trinidad & Tobago
▪ TC included in Country Strategy (y/n):	Yes.
▪ TC included in CPD (y/n):	No.
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law; Productivity and innovation; Social inclusion and equality

II. Objectives and Justification of the TC

- 2.1 **Objective.** This Technical Cooperation (TC) seeks to provide a deeper understanding of the challenges faced by social insurance administrators in the Caribbean in the post-COVID-19 era and, in continuous dialogue with the main stakeholders, outline a roadmap in three countries that includes: (i) administrative modernization and digital transformation; and (ii) policy improvements. Thus, the beneficiaries of this TC are participants and administrators of contributory and non-contributory social insurance programs in the Caribbean.
- 2.2 The unprecedented, dramatic consequences of the pandemic have underscored the limitations of social security systems in the presence of aggregate shocks that have a global impact on the labor markets. This has been especially true in small island nations of the Caribbean that are highly vulnerable to external aggregate shocks (e.g., commodity prices and natural disasters) due to their size, geographic characteristics, limited diversification, and demographic trends. Developing an agenda that improves the design and implementation of these systems is especially urgent.

- 2.3 Caribbean countries face two key challenges in this area. First, the design of key social insurance systems leads to limited coverage (e.g., unemployment insurance in The Bahamas) and financial sustainability issues (e.g., contributory pensions in Trinidad and Tobago). For instance, actuarial studies made in 2013 estimated that pensions schemes in The Bahamas will be in deficit by 2025 and by 2035 reserves will exhaust.¹ Sustainability issues are intensified in the defined benefit pension schemes by the sharp increases in the share of elderly, combined with the decline of working age population.² Moreover, limited economic diversification, high emigration rates of tertiary educated people, and high exposure to aggregate shocks increases the structural cost of insurance. Achieving a strong balance between coverage, benefits, and sustainability will require policy reforms.
- 2.4 The second challenge Caribbean countries face is translating the design of social insurance systems into efficient and effective implementation. Specifically, there is scope for improvement in both the management and administration of social insurance programs. These programs are often fragmented and lack synchronized targeting, leading to resource leakage (e.g., duplication in benefits and collections failures) and inequities (for example, specific groups may be eligible for multiple sources of coverage and others for none). There are also difficulties with eligibility verification and conditionalities (e.g., individual participation in active labor market policies to collect unemployment insurance in Barbados). Limited institutional capacity, including technological weaknesses in the administration of contributory pensions and unemployment insurance schemes (e.g., National Insurance Boards and Offices of The Bahamas and Trinidad and Tobago), and lack of integrated information systems about the benefits and beneficiaries of different social protection programs, can also affect service delivery. Examples of this are inaccuracies in benefit calculation in public pensions in Trinidad and Tobago and inordinate delays in unemployment insurance in Barbados. Overall, administrative costs are high as compared with international standards (as is the case for contributory pensions in The Bahamas; the highest in the Caribbean). In the aftermath of the pandemic and resulting high unemployment levels, as well as given their rapidly aging populations, there may be increased political will to invest in more efficient and effective social insurance systems.
- 2.5 This TC will be targeted on three countries: The Bahamas, Trinidad and Tobago and Barbados, since, as it was previously explained, their social insurance systems have issues of financial sustainability because of rapid aging and population decline, and problems of institutional weaknesses related with management and technology. Also, since they are small island nations, the challenges they face in terms of lack of economic diversification and their vulnerability to external aggregate shocks are remarkably similar and are relevant for the assessment and development of policy recommendations for social insurance systems.
- 2.6 **Strategic Alignment.** This TC is aligned with the Second Update of the Institutional Strategy (AB-3190-2) in the overarching objective of “Reducing poverty and inequality”, and in the strategic goal of “Addressing the needs of less developed and

¹ [Williams et al., \(2013\).](#)

² [Williams et al., \(2013\).](#)

small economies”. It is aligned with the development challenges of “Social inclusion and equality” because it invests in designing strategies to improve access to social protection systems; and of “Productivity and innovation,” because it fosters effective institutional frameworks. Also, this TC is aligned with the operational guiding principle of “Effectiveness and efficiency” because it seeks to define strategies to improve management and administration of social insurance programs. It is also aligned with the cross-cutting issue of “Enhancing institutional capacity and rule of law” because it intends to improve social security systems institutionalization. Finally, it is aligned with the strategic focus area of “Promoting Technology and Innovation,” in the objective of supporting countries to strengthen and transform social insurance using new technologies. Moreover, this TC is aligned with Vision 2025 (AB-3266), in the Tier of “Working towards sustainable and inclusive economic growth”, in the pursuit of the following medium-term strategic goals: (i) “Promotion of social progress”, through better social protection systems; and (ii) “Strengthening good governance and institutions”, through spending efficiency and enhanced redistributive effects of spending policies, fiscal sustainability to support economic growth, digital government, and more effective and efficient public management. This TC is aligned with the OC SDP Window 2 – Social Development (W2E) (GN-2819-14) with Tier 1, in the preestablished commitment of regional policy dialogue, since it promotes knowledge sharing and diffusion of the strategic topic of social insurance in the Caribbean among the three participating countries including high rank officials of the government and experts in the region. Also, it is aligned with Tier 2, in the priority areas of: (i) effective, efficient, and transparent institutions, since it seeks to contribute to the improvement in the design and management of social insurance schemes for the citizenship; and (ii) inclusive social development, in the objective of strengthening efforts of public institutions in the programming, targeting and administration of social programs, and in the objective of reducing poverty and inequality and fostering social inclusion, since it seeks to improve social insurance programs that are key safety nets against the risk of old age and loss of income. This TC is aligned with the Country Strategy of Bahamas (GN-2920-1) in the strategic area of enhancing public sector effectiveness in the objectives of (i) strengthening institutional capacity for digital government; and (ii) strengthening the framework for integrity and transparency in the public sector, since it seeks to develop a roadmap for administrative modernization and digital transformation of social insurance institutions. Also, it is aligned with the cross-cutting issue of dialogue since it promotes regional policy dialogue of social protection schemes. This TC is aligned with the Country Strategy of Barbados in the priority area of: (i) fostering fiscal sustainability and public sector efficiency since it seeks to design an action plan for management modernization, digital transformation, and design improvements of social insurance institutions; and (ii) safeguarding social outcomes, since it promotes more effective and efficient social insurance schemes. At last, this TC is aligned with the Country Strategy of Trinidad and Tobago in the strategic area of promoting digitalization to support economic transformation, since it seeks to design a roadmap of digitalization in social insurance systems.

- 2.7 **Lessons Learned.** This TC considers lessons learned from the design and execution of similar operations, such as: (i) the relevance of strengthening the social security system in aspects related with management, operational processes, monitoring and information systems (ATN/OC-17777-RG, ATN/OC-19296-RG); (ii) the key role of inspection and regulation to guarantee transparent social security systems (3585/OC-DR); (iii) the importance of strengthening social security institutions for

policy-making, supervision, coordination and evaluation (ATN/OC-14162-PR; ATN/OC-14763-PR); (iv) the relevance of improving the management of benefits in the pensions system through strategic integration, efficiency and transparency of information systems (1882/OC-CH); (v) technical principles that may guide future reforms to the social protection system (RG-E1729); and (vi) a fiscal model to estimate the distributive and fiscal impact of a reform in the social protection system (RG-E1729). Moreover, this TC will use the learnings generated by the Network for Pensions in Latin America and the Caribbean (PLAC Network) (ATN/OC-16485-RG) through their regional dialogues, knowledge and diffusion events, and technical assistances. Specifically, diagnostics, assessments and policy proposals from this TC will be guided by the main principles of pensions systems defined by the network: coverage, efficiency, equity, and financial sustainability, and by the good practices identified in terms of institutional strengthening for supervision, regulation, and design of pension systems.

- 2.8 **Sustainability.** The activities financed by this TC are expected to have a sustainable impact on social insurance programs of the beneficiary countries through: (i) the alignment of these activities with the political priorities of the governments, whom will have to express their commitment with revising their system in terms of digital transformation and policy design; (ii) financing of communication and dissemination activities of the main findings and recommendations for social insurance programs; and (iii) the active participation of main stakeholders of social insurance programs from the beneficiary countries from outset.

III. Description of activities/components and budget

- 3.1 **Component 1. Roadmap for administrative modernization and digital transformation.** This component will finance: (i) incubation workshops with National Insurance Administrators and other stakeholders to identify and design possible solutions that include technological modernization, strategic management, and process optimization; (ii) a report analyzing operations in the administration of social insurance programs in the Caribbean (e.g., registration, verification of eligibility, collection, benefits management, provision and access to individual records, data management, and delivery); and (iii) a roadmap for technological modernization based on conclusions from activities (i) and (ii) that, to the extent possible, will include an estimation of gains in service delivery and savings from implementation.
- 3.2 **Component 2. Policy analysis and recommendations.** This component will finance: (i) a report analyzing unique challenges for social insurance in small economies (Trinidad and Tobago, The Bahamas, and Barbados), including pensions schemes and unemployment insurance, (e.g. coverage, financial sustainability, duplication and fragmentation of programs, targeting of benefits, lack of integrated information systems, limited knowledge of programs' effectiveness and limited responsiveness to aggregate shocks), derived from particular characteristics of small island developing states (e.g. limited productive sectors, small labor markets with limited skilled high emigration rates, rapidly aging population) and recommendations for improvement in their design (e.g., integrate programs, improve coordination and communication among participating agencies, consolidate integrated information systems, incorporate monitoring and evaluation of programs, improve investment strategies,

include automatic mechanisms that facilitate demographic adaptation³; and (ii) a dissemination event that presents the main findings and recommendations for addressing the challenges faced in small economies for social insurance design and implementation.

- 3.3 The main expected result from activities delivered from Component 1 and 2, is to provide a deeper understanding of the challenges faced by social insurance administrators in the Caribbean, in the post-COVID-19 era.
- 3.4 It is estimated a budget of US\$150,000 to be executed up to 24 months (2022-2024). The funding source of this TC is the OC SDP Window 2 – Social Development (W2E) (GN-2819-14).

Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Total Funding
Component 1. Roadmap for administrative modernization and digital transformation	Roadmap for administration modernization and digital transformation	US\$100,000	US\$100,000
Component 2. Policy analysis and recommendations	Analysis and policy recommendations for the design of social insurance programs	US\$50,000	US\$50,000
Total		US\$150,000	US\$150,000

IV. Executing agency and execution structure

- 4.1 This TC will be executed by the Bank through the Labor Markets Division (SCL/LMK). SCL/LMK will have overall responsibility for the direction, supervision, coordination, and evaluation of this TC. This is justified by: (i) the fact that this TC is an initiative that comes from the Bank; (ii) the regional character of the TC; (iii) the lack of a suitable agency with the capacity to execute in the three countries; (iv) the need to have an administration that brings international expertise in an effective and timely manner; and (v) the technical specialized experience of the Bank in designing and developing tools to promote better social protection systems in terms of management modernization, digital transformation and design improvements. Moreover, the Bank will seek a local counterpart in each of the beneficiary countries with experience in this field to partner to accomplish the objectives of this TC and facilitate the scalability and sustainability of the activities carried out. The supervision of this TC will be made by Carolina González-Velosa, specialist of the Labor Markets and Social Security Division (SCL/LMK).
- 4.2 The activities to be executed in this operation have been included in the Procurement Plan (Annex IV) and will be executed in accordance with the Bank's established procurement methods, namely: (a) Contracting of individual consultants, as

³ This report will be informed by the application of an actuarial model to estimate key aspects of the pension systems and informing the design of policy recommendations in the Caribbean led by the IDB's Research Network and the Network for Pensions in Latin America and the Caribbean (PLAC Network).

established in the regulations AM-650; (b) Contracting of consulting firms for services of an intellectual nature according to GN-2765-4 and its associated operational guidelines (OP-1155-4); and (c) Procurement of logistics services and other services other than consulting, in accordance with policy GN-2303-28.

- 4.3 The period of execution of this TC is of 24 months (from October 2022 to October 2024) and the UDR will be SCL/LMK. If interventions are to be carried out in the countries, they will be coordinated with the country offices and the corresponding non-objection letters will be obtained before they initiate.

V. Major issues

- 5.1 The risks in executing and achieving the project's objectives are: (i) insufficient engagement from main stakeholders since there have been a limited dialogue with the social insurance sector in these countries; (ii) risk of not implementing the policy recommendations that result from the activities of this TC; and (iii) unforeseen events related to the COVID-19 crisis that prevent from having face to face meetings, workshops or missions and could delay the implementation of the activities of this TC. To mitigate these risks, the following activities will be carried out: (i) locally based consultants will be involved in the project supporting its correct development, and the team will establish constant and effective communication channels with local counterparts related with the activities of this TC; (ii) timely and effective communication channels will be built with high ranked officials of the Government to share the relevance and results of the project generating an appropriate visibility; and (iii) support from the IDB's RED-PLAC will be leveraged and partnerships with other international social insurance networks (e.g., International Social Security Association) will be promoted.

VI. Exceptions to Bank policy

- 6.1 There are no exceptions to bank policy considered in this TC.

VII. Environmental and Social Strategy

- 7.1 This TC is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Banks Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Results Matrix - RG-T4030](#)

[Terms of Reference - RG-T4030](#)

[Procurement Plan - RG-T4030](#)