

Timor-Leste

Despite being one of the youngest and poorest countries of the region, Timor-Leste has offered a universal social pension to its senior citizens and persons with disabilities since 2008. Almost all persons above 60 years and about one in five persons with disabilities participate in the scheme. The pensions support the well-being of beneficiaries and contribute to reducing overall poverty.

Timor-Leste's old-age and disability pension, SAll, was the first scheme targeted at older persons and people with disabilities to be introduced after the country gained independence. All citizens above 60 years and all persons with disabilities above 18 years are entitled benefits of US\$30 per month. In its first year, the Programme covered more than 80 per cent of older persons, and by 2016, the Programme covered 94,287 individuals.

The Programme was introduced as one of the measures to improve social peace after violent conflicts in 2006. It remains the only old-age and disability pension scheme for non-public servants.

National social protection floors (SPFs) guarantee access to essential health care and basic income security for children, persons of working age and older persons.

185 countries have adopted the Social Protection Floors Recommendation, 2012 (No. 202), an approach to achieve universal social protection.

This note presents a successful country experience of expanding social protection.



Main lessons learned

- The experience of SAll demonstrates that universal coverage is achievable in a short period of time, even in countries with little to no infrastructure and in the aftermath of conflicts.
- Universal pensions can act as a social stabilizer in conflict situations. The introduction of SAll, together with other social provisions, is seen as an important element in the prevention of further social unrest in Timor-Leste after 2007.
- In societies with a large number of persons living in each household, such as in Timor-Leste, this type of pension scheme can have significant impacts on the well-being of the whole family and has the potential for positive intergenerational impacts.
- SAll has always been funded by the general government budget. This demonstrates that universal social pensions are affordable even for countries with fragile economies and limited financial resources.

1. What does the system look like?

Timor-Leste is a young country, where a large share of the population lives in poverty and most are vulnerable. In the aftermath of the 2006 East Timorese crisis, the Government of Timor-Leste put in place a set of cash transfer schemes, aiming to avoid future tensions and attend to the needs of the most vulnerable.¹ The first of these schemes was the Pension for Older Persons and People with Disabilities (Subsídio de Apoio a Idosos e Inválidos (SAII)), a universal pension for persons with disabilities and for those above the age of 60.

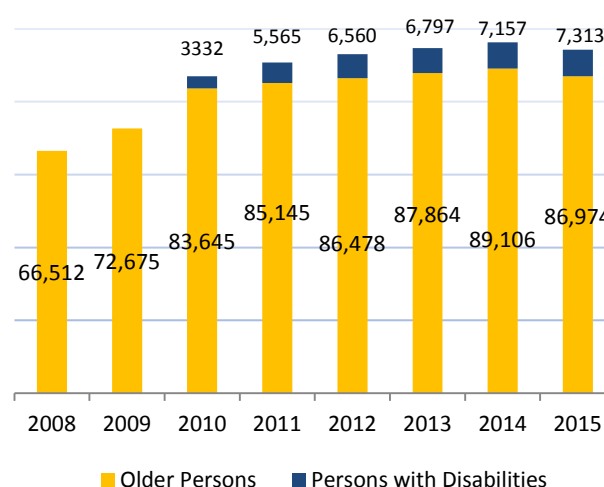
In a short time, other programmes were created, including benefits for veterans of the independence struggle and Bolsa da Mãe, a cash transfer designed for poor female-headed households with children. In 2012, the Transitory Social Security Scheme, a non-contributory old-age pension for public servants, was created as a temporary programme. A contributory social security scheme is expected to start operating for both the public and private sectors in 2017. Free health care and education have been provided to all citizens since its independence in 2002.

Despite the progress made since independence, poverty is widespread and people experience reduced labour productivity and capacity as they get older. In a country where around 70 per cent of the population lives in rural areas and many people are engaged in production of their own food, older persons who represent around 6 per cent of the population, and people with disabilities were chosen as priority groups given their vulnerable status. Before the establishment of SAII, older persons and people with disabilities had to continue working or depend on their families for subsistence, as no programme provided support to this group after independence.² The first SAII payment was made in

August 2008 and the scheme achieved substantial coverage among the elderly in its first year.

Coverage: Being a universal programme, all Timorese above the age of 60, or individuals above 18 who have a disability, are eligible for SAII. It currently delivers benefits to 94,287 individuals, which includes 86,974 older persons or 103 per cent of the target group and 7,313 people with disabilities or 18.2 per cent of the target group.³ Individuals living abroad are not eligible and beneficiaries must have been living in the country for at least one year prior to receiving benefits.

Figure 1: Number of beneficiaries of the universal old-age and disability pension



Source: Ministry of Social Solidarity

Figure 1 shows the evolution of coverage of SAII through the years. Public servants do not receive the SAII but are covered by a higher benefit provided by the Transitory Social Security Scheme, which pays old-age pensions calculated based on the average lifelong income of the beneficiary. Currently, this programme covers 688 former public servants.

Benefits: The benefit amount is the same for all beneficiaries. Its value is defined by official decree and it is limited to one third of the minimum wage of civil servants. When launched in 2008, the SAII benefit was \$20 per month. The benefit was

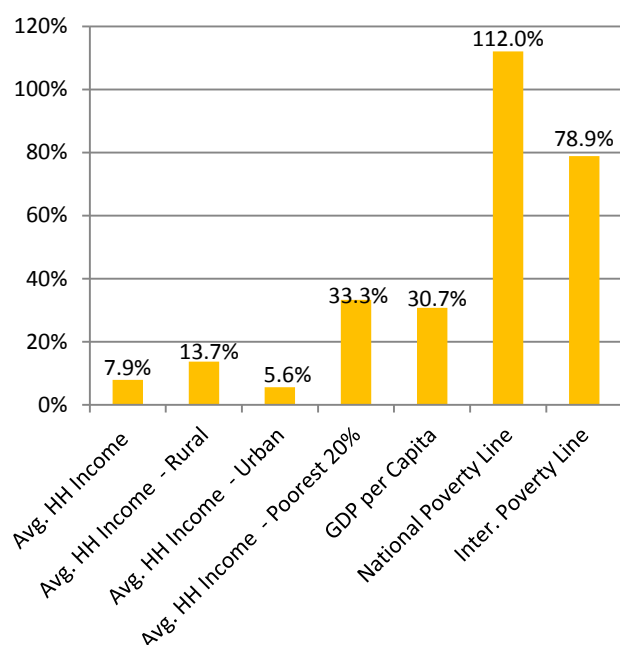
¹ The 2006 East Timorese crisis was marked by riots and violence across the country as citizens took to the streets in their frustration with the apparent failure of the Government to deliver the advances promised at the time of independence in 2002.

² Before independence, they were part of the Indonesian system. After independence, contributions made to the previous system were lost.

³ The coverage exceeds 100 per cent due to some inclusion errors or due to underestimation of the number of people above the age of 60 by projections based on the 2010 Census.

increased to its current value of \$30 per month in 2010. The benefit is above the national poverty line but below the international poverty line. It stands at 7.9 per cent of the average household income in the country (see figure 2).

Figure 2: SAIL benefits (\$360 per year) as share of various income indicators⁴



Source: HIES 2011; World Bank Database; Ministry of Social Solidarity; and author's calculations

By law, benefits should be paid monthly by bank transfer or every three months in cases where payments are made directly. In practice, the lack of financial infrastructure, the difficulty in accessing isolated communities and limited resources for payment operations has resulted in payments being made twice per year.

Individuals receiving veteran benefits or benefits from the Transitory Social Security Scheme for public workers are entitled to the pension with the higher value. Additionally, inmates in prison and individuals

in government social institutions temporarily lose the benefits while they are in these institutions.

Financing: All current social protection programmes in Timor-Leste, including SAIL, are financed by the General National Budget. Currently, SAIL's budget of \$30.6 million along with \$1.3 million for the Transitory Social Security Scheme represents about 2.2 per cent of gross domestic product (GDP) (non-Oil). This is slightly above the Asia and the Pacific regional average of 2.0 per cent, but still below the global average of 3.3 per cent of global GDP. While the global and regional figures include both contributory and non-contributory schemes, the current Timorese old-age pensions are exclusively tax-funded. Looking only at tax-funded pensions, Timor-Leste will likely be found in the higher end of investment in older persons globally.

Legal aspects: Social protection is a right in article 56 of the Constitution of Timor-Leste, according to which, "every citizen is entitled to social assistance and security in accordance with the law". Articles 20 and 21 reinforce the right to protection for older persons and people with disabilities.

SAIL was enacted in June 2008 by Law Decree No. 19/2008, which described, regulated and effectively created the Programme. In August 2010, the "Diploma Ministerial Conjunto/MSS/MF/2010" increased the value of the benefit.

Institutional Arrangements: The Ministry of Social Solidarity (MSS) is responsible for the SAIL through the National Directorate of Non-Contributory Social Security (DNSSNC). Registration to the programme is done in partnership with the district and sub-district administrations (under the Ministry of State Administration), and payments are organized in cooperation with the Ministry of Finance and the National Bank. Local leaders (*Suco* chiefs) play a significant role in the identification of the beneficiaries and are responsible for confirming that the each older person lives at the specified location.⁵

When the creation of the Contributory Social Security Scheme has been approved by the Parliament, an

⁴ Average household income = \$4,532.76 (2011); average rural household income = \$2,624.52 (2011); average urban household income = \$6,379.20 (2011); average household income of the poorest 20 per cent = \$1,080 (2011); GDP per capita - non-Oil (2014) = \$1,169; national poverty line = \$0.88 per capita per day; international poverty line = \$1.25 per capita per day.

⁵ *Sucos* are the smallest administrative units in the State, comparable to a hamlet or small village.

independent institution will be created to manage and operate the new system. Once this occurs, the responsibility for administering the Transitory Social Security Scheme and SAIL is to be transferred to the newly created National Institute of Social Security.

2. How was this achieved?

As mentioned before, SAIL was developed partly as a strategy to mitigate the risks of unrest and instability due to widespread poverty and vulnerabilities, and partly as means to alleviate poverty. However, the creation of the universal pension scheme is solidly based in the Constitution, which expresses the right to social assistance to all and recognizes the extra attention older persons and people with disabilities require. Additionally, social assistance has been seen as an important tool for social stability from the first National Development Plan (NDP) from 2002. Furthermore, the NDP also foresaw the provision of support for older citizens and persons with disabilities, recognizing the vulnerabilities facing them.

In the first years after independence, the Government chose not to rely on financial benefits for social assistance, but offered non-cash benefits to households, often in an ad hoc manner. After the conflicts of 2006-07, the approach to social protection changed as the National Recovery Strategy concentrated efforts in five areas: transitional shelter and housing; social protection; security and stability; local socio-economic development; and confidence-building/reconciliation activities. As a consequence, the mentioned set of social provisions was created to lower tensions and to promote social peace. The social protection package launched in 2008 included SAIL, veteran benefits and the Bolsa da Mãe programmes. The rapid increase in beneficiaries and coverage led to large increases in social expenditures, from \$109 million in 2008 to \$160 million in 2012.

Overcoming constraints: For a country with such limited infrastructure, the rapid increase in pension coverage is an impressive feat. Currently, SAIL covers almost 87,000 older persons, a number that corresponds to 103 per cent of the population above the age of 60 in Timor-Leste. However, coverage of persons with disabilities remains a challenge. It is

estimated that there are about 40,000 persons living with physical or mental disabilities in the country and that SAIL reaches only 7,313 of them – about 18.2 per cent of the target population.

As mentioned earlier, the lack of financial infrastructure in the districts and the difficulties in accessing isolated communities result in payments being made only twice per year. A solution for this is being developed in two manners: the first is to progressively require the use of bank accounts to receive benefits (current limitations are due to fragile banking infrastructure in the districts), and the second is to use mobile units for payments. The mobile payment system – currently running on a pilot basis – is designed for beneficiaries with mobility problems or who are sick.

Other issues arise from problems with documents and the identification of beneficiaries. Many Timor-Leste citizens do not have identity documents. Among those who do, the most common identity document is the electoral card. This creates three challenges. The first challenge is to identify those who do not have any documents. Many do not have documents either because they have never had them or because they were lost during displacement due to conflicts. The *Suco* chiefs often intervene in these cases to attest an applicant's identity. The second issue is that the electoral card is easily falsified, leading to cases of fraud, which can partly explain the coverage of older persons being above 100 per cent. Lastly, the lack of documentation extends to death certificates, which are often not issued. Thus, payments could still be made to family members of beneficiaries whose deaths are not reported.

Improving coverage among people with disabilities goes beyond the improvement of identifying and registering beneficiaries. Families are often ashamed of having a member with a disability, and thus hide them from outsiders, including social workers and survey collectors. For coverage among this group to increase, people with disabilities need to be perceived as individuals with the same rights and needs as everyone else. In this sense, the Government is investing in raising awareness and social inclusion of persons with disabilities.

Additionally, despite the high coverage of older people, the value of the benefit paid has not been adjusted since 2010. Inflation during this period has reduced the purchasing power of the transfer and has likely reduced the impact of the Programme. Indexation mechanisms could be adopted to help guarantee that the pension remains at an adequate level to support older persons and people with disabilities in their subsistence.

3. What is the main impact on people's lives?

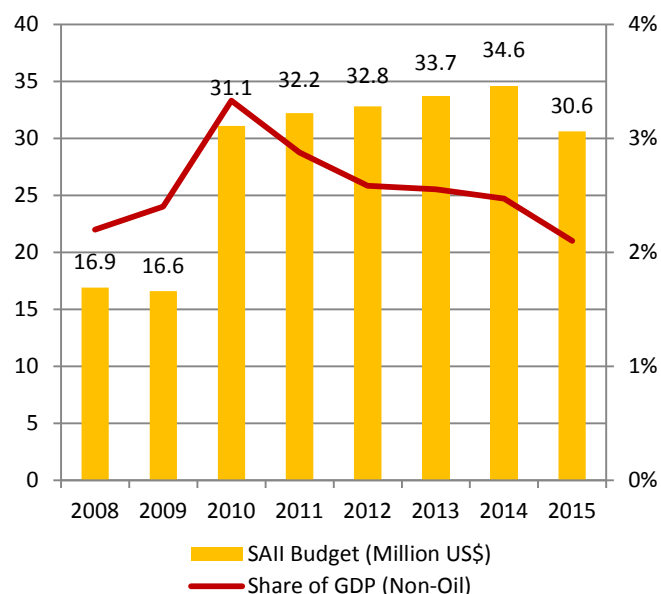
Outcomes: The old-age pension achieved universal coverage early on and continues to maintain high coverage rates. There are few studies on the effective impacts of the pension. However, a 2011 simulation estimated that SAIL reduced national poverty from 54 to 49 per cent and poverty among older persons from 55.1 to 37.6 per cent.⁶ For persons with disabilities, reduction in the poverty headcount was 17.5 percentage points, from 63.3 to 45.8 per cent.

Impact on people's lives: Although older persons over 60 years of age represent only 6 per cent of the population, almost one in three households have an older person in residence. Information on the use of SAIL benefits shows that recipients spend most of the transfer (88.4 per cent of the benefit value) on food items, followed by frequent expenditures on education (28.1 per cent of recipients), showing that inter-generational transfers are common. Other uses of the benefit include health care (13.4 per cent) and purchase of livestock or other assets (6.4 per cent). The use of the benefits shows that older persons contribute to overall household economies and invest a significant share of their resources into improving household earning capacity.

Sustainability of the system: The cost of SAIL has varied from \$30 to \$35 million in the last few years, just above 2 per cent of non-oil GDP. This will most likely change in the future since life expectancy is increasing rapidly in Timor-Leste, rising from 60.2 years in 2001 to 68.2 in 2014. Thus, more beneficiaries will receive the transfers and for longer periods of time. However, the creation of a non-cumulative contributory old-age pension scheme will

result in broader coverage than the Transitory Social Security Scheme, which will reduce the number people depending on SAIL. Nonetheless, dependency ratios of older persons will continue to be low for many decades to come since the Timorese birth rate remains one of the highest in the world.

Figure 3: SAIL budget evolution, 2008-15



Source: Ministry of Social Solidarity, Directorate for Social Security; World Bank Database

4. What's next?

Plenty of challenges remain to improve the reach and effectiveness of SAIL. In order to learn more about its impact, an evaluation study is being developed. This will bring to light the true impact of SAIL and ways in which its operations and benefits can be improved. Parallel to this, efforts to improve the registration and payment systems, and to raise awareness among the Timorese people to increase coverage of the disability pension, are at the top of the MSS' agenda.

These improvements will, unquestionably, help the SAIL to overcome some of its limitations; however, it is important to highlight the achievements the SAIL has had so far. Even in places with little to no infrastructure, it is possible to reach most of the eligible people. Moreover, the Timorese experience shows that universal social protection programmes are affordable and can have significant impacts on the lives of the beneficiaries and their families.

⁶ At the international poverty line of \$1.25 per capita per day.

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