World Social Security Report 2010-2011

Providing coverage in times of crisis and beyond

Summary of contents

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Objective and structure of the report

Income transfers through social security have a powerful effect on the income inequality and poverty in developing countries. There is little hope that the Millennium Development Goals targets will be reached without a decisive global move towards introducing a national social protection floor of basic social security benefits in countries where no such scheme exists or where they only have a limited coverage.

Sound social security policies have to be based on facts and figures. This report provides that factual basis to support the development of national social security policies. This factual report is mostly descriptive, based on the available statistical data and other types of relevant information [1]It is the first in a series of World Social Security Reports which will also help to monitor the global progress on social security coverage and thus support the ILO's campaign to extend coverage. The *World Social Security Report* will look at: first, the scope, extent, levels and quality of coverage by various social security branches; then at the scale of countries' investments in social security measured by size and structure of social security expenditure and sources of its financing; and finally presents the nature of social security responses to the crisis as a thematic focus. The main objective of the current report is to present the knowledge available on coverage by social security in different parts of the world, and to identify existing coverage gaps.

Methodological considerations

The measurement of social security coverage in all its dimensions is still a subject of debate. In addition, the statistical information available – not only at the international but also at the national level – is far from complete. The notion of *social security* used here has two main (functional) dimensions, namely "income security" and "availability of medical care". Social security coverage is a multidimensional concept. It has at least three elements: s*cope*, i.e the range (number) and type of social security branches; e*xtent*, *i.e.* the percentage of persons covered within the whole population; and l*evel, referring to* adequacy of coverage by a specific branch of social security. In measuring all the above three dimensions of coverage a distinction is made between *legal coverage* (or *statutory coverage*) and *effective coverage*.

Social security coverage can be directly measured only separately for each of the specific branches such as health care, old age or unemployment; or even for a group of specific schemes within each branch.

[1] The data in the Statistical Annex tables, as well as the data used for most figures and tables in the body of the report, are also available in spreadsheet format in the ILO Social Security Department database *Global Extension of Social Security (GESS)* (ILO, 2009d), accessible at http://www.socialsecurityextension.org/gimi/gess/ShowTheme.do?tid=1985).

There is no universally accepted methodology yet to aggregate these branch specific coverage indicators into one overall indicators. However the report makes an effort to provide at least a technical synopsis of the individual dimensions of coverage and the size of national social protection expenditure.

Main general findings

Some level of protection by social security exists in nearly all countries, though only a minority of countries provide protection in all branches. There is no country in the world without any form of social security, but in many countries coverage is limited to a few branches only, and only a minority of the global population has – both legally and effectively – access to existing schemes. Only one-third of countries globally (inhabited by 28 per cent of the global population) have comprehensive social protection systems covering all branches of social security as defined in ILO Convention No. 102. Taking into account those who are not economically active, it is estimated that only about 20 per cent of the world's working-age population (and their families) have effective access to comprehensive social protection systems.

Social health protection coverage

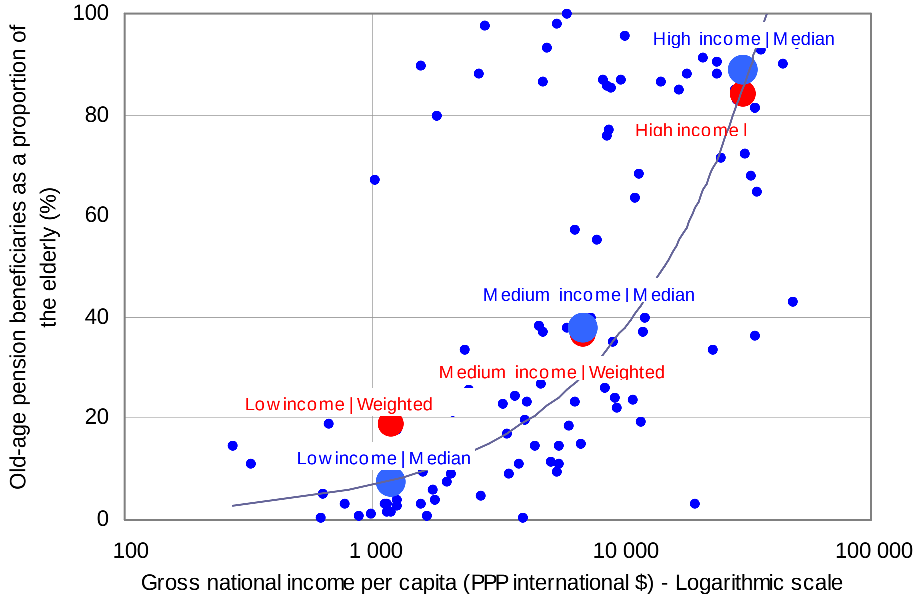
Although a larger percentage of the world's population has access to health-care services than to various cash benefits, nearly one-third has no access to any health facilities or services at all. For many more, necessary expenditure on health care may cause financial catastrophe for their household, because they have no adequate social health protection which would cover or refund such expenditure (ILO, 2008b). Our analysis reveals that in the most vulnerable group of countries more than 80 per cent of the population have no legal coverage and no access to health services due to gaps in the health workforce, and experience significant gaps in financial protection and affordability of services, given the extreme values of out-of-pocket payments impacting on poverty.

Coverage by social security pensions: Income security in old age

Coverage by old-age pension schemes around the world, apart from in the developed countries, is concentrated on formal sector employees, mainly in the civil service and large enterprises. The highest coverage is found in North America and Europe, the lowest in Asia and Africa.

Worldwide, nearly 40 per cent of the population of working age is *legally* covered by contributory old-age pension schemes. In North America and Europe this number is nearly twice as high, while in Africa less than one-third of the working-age population is covered even by legislation. Effective coverage is significantly lower than legal coverage. With the exception of North America and to a lesser extent Western Europe, effective coverage is quite low in all regions. In sub-Saharan Africa only 5 per cent of the working-age population is effectively covered by contributory programmes, while this share is about 20 per cent in Asia, the Middle East and North Africa. In Asia some countries have made major efforts to extend coverage beyond the formal sector. At the same time, while in high-income countries 75 per cent of persons aged 65 or over are receiving some kind of pension, in low-income countries less then 20 per cent of the elderly receive pension benefits; the median in this group of countries is just over 7 per cent.

Figure S.2 Old-age pension beneficiaries as a proportion of the elderly by income level, various countries, latest available year



Link: http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15144
Sources: ILO Social Security Department, compilation of available national data collected from national pension social security schemes; UN data. See also ILO, GESS (ILO, 2009d).

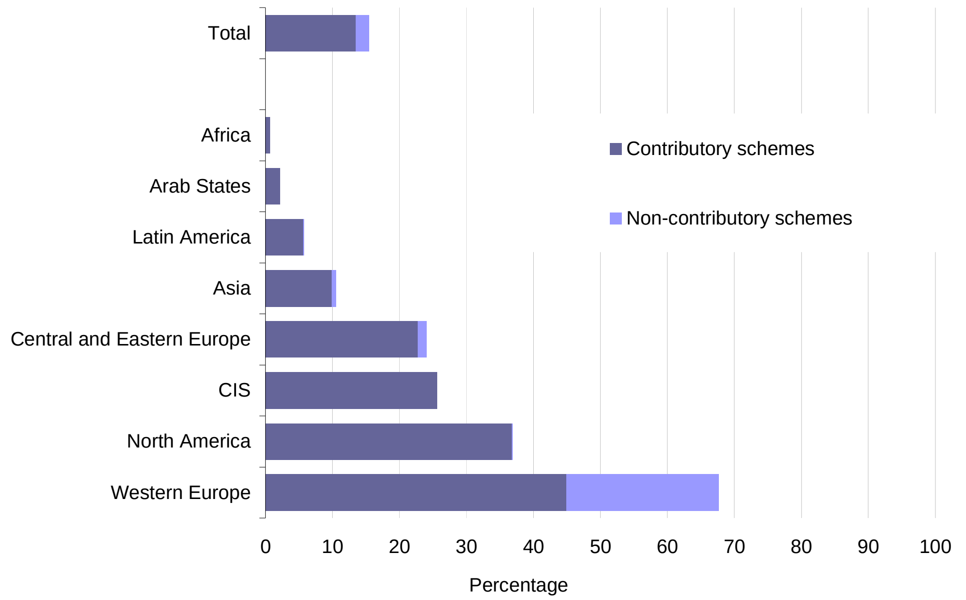
The world-wide pattern of pension *coverage* also has a strong gender dimension. In most countries of the world women are less represented in the formal economy and hence received social insurance benefits to a much lesser extent then men. In most low- and middle-income countries contributory pensions tend to benefit mainly men, while tax-financed pensions benefit mainly women.

Income support to the unemployed

Unemployment benefit schemes provide income support, usually over a limited period, to those who face temporary unemployment. Income support to the long-term unemployed and their families is often taken over by general means-tested social assistance schemes.

Present entitlements to unemployment benefits tend to be restricted to those in formal employment, and exist mostly in high- and middle-income countries. In a large part of the world where extreme poverty is high, the very concept of "unemployment" seems to be irrelevant, as everybody has to work in order to survive. Of 184 countries studied, statutory unemployment social security schemes exist in only 78 countries (42 per cent), often covering only a minority of their labour force. Coverage rates are lowest in Africa, Asia, and the Middle East, where social security schemes for unemployment are still under debate rather than actually implemented.

Figure S.3 Unemployment: Effective coverage, regional estimates – unemployed who actually receive benefits, latest available year (percentages)



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Note: Regional estimates weighted by the economically active population.

Sources: ILO Social Security Inquiry database (ILO, 2009c), compiled from data on unemployed receiving unemployment benefits collected from national social security unemployment schemes; ILO, LABORSTA (ILO, 2009e) for total unemployed used as the denominator. See also ILO, GESS (ILO, 2009d).

Minimum income support benefits and other social assistance

In most countries with developed social security systems a large part of the population is covered by social insurance schemes, while social assistance plays only a residual role, providing income support and other benefits to the minority who for some reason are not covered by mainstream social insurance.[2] In the European Union (plus Iceland, Norway, and Switzerland), expenditure on means-tested benefits does not exceed 3 per cent of GDP on average, while total social protection expenditure is on average over 25 per cent (see figure 6.9). While there are countries in the European Union (such as Ireland, Malta and the United Kingdom) where a relatively high share of social security benefits is delivered through targeted social assistance, nowhere does total social assistance benefit expenditure exceed 5 per cent of GDP.

While in most of the developed countries (except Australia and New Zealand) social assistance-type schemes play an important although residual role in closing relatively small coverage gaps, in many middle- and low-income countries non-contributory income transfer schemes have been recently gaining importance. Particularly in countries with large informal economies and where only a minority are covered by social insurance schemes, non-contributory social security provides an opportunity not only to alleviate poverty but also – at least in some cases – to fill a large part of the sizeable existing coverage gaps shown in previous chapters. In fact, the most promising innovations that can help to cover the global coverge gap are conditional or unconditional cash transfer schemes in a number of developing

[2] Australia and New Zealand are the most prominent exceptions among OECD members; in these countries income-tested benefits play a dominant role in the provision of social security.

countries, i.e. tax financed social assistance schemes, such as the *Bolsa Famila scheme* in Brazil, the *oportunidades schemes* in Mexico, the social grant system of South Africa, or universal basic pensions schemes in countries like Namibia and Nepal.

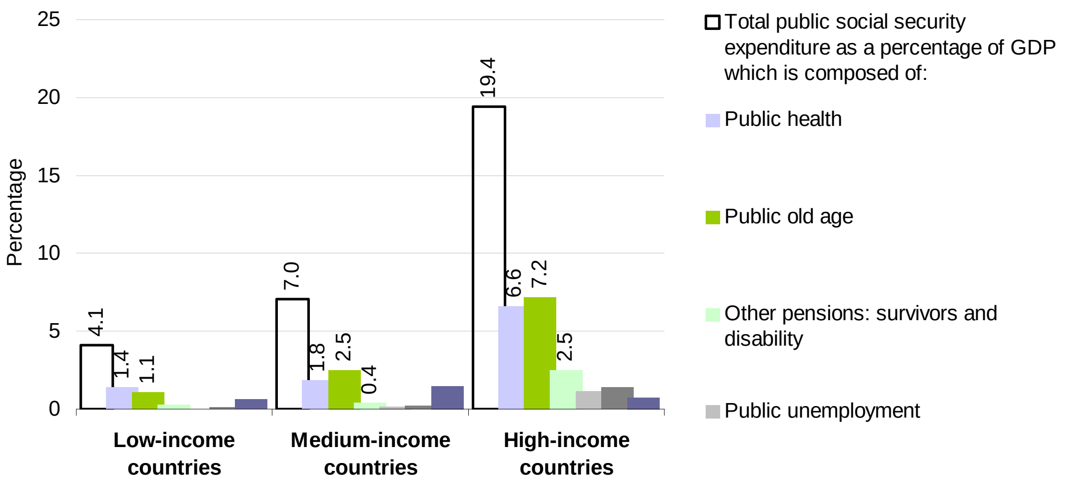
Coverage by other branches of social security

Most countries in the world offer some coverage for work-related accidents and diseases. Coverage is generally limited to those working in the formal economy, and even there effective coverage is low with only a certain portion of accidents reported and compensated. In the informal economy prevailing in many low-income countries, conditions and safety of work are often dramatically bad, accidents and work-related diseases widespread and with no protection at all for their victims. Globally, estimated legal coverage represents less than 30 per cent of the working-age population, which is less than 40 per cent of the economically active.
Reducing maternal, neo-natal and under-5 mortality through social security maternity benefits is globally among the greatest challenges of social protection; it concerns 11 million children who die before the age of 5, and 500,000 mothers dying during maternity (WHO, 2005). Coverage of cash benefits before and after birth is limited to formal sector employees. Differences in access to health care in the context maternity protections between countries at different income levels and within countries are striking as the following graph shows. In low income countries no more than 35% of all women in rural areas have access to professional health services, while in urban areas the access rate amounts to an average of about 70% which is still more than 20%-point lower that the access in high income countries which is nearly complete.

Investments in social security

On average, 17.2 per cent of global GDP is allocated to social security. However, these expenditures tend to be concentrated in higher-income countries, and so this average does not reflect the situation for the majority of the world's population, who live in lower-income countries where much less is invested in social security (see figure S.4).

Figure S.4 Social security expenditure by income level and branch, weighted by population, latest available year (percentage of GDP)



Link: http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15128
Note: The number of countries for which detailed social security data on expenditure by branch are available is smaller than the number of countries covered for the calculation of total expenditure as presented in figure 7.2. This explains some differences in the results for total expenditure.
Sources: As for table 7.1.

Although this prevailing pattern shows a strong correlation between income levels and amounts of resources allocated to social security, it cannot be concluded there is no fiscal or policy space for countries to decide on the size of there social security system. Countries with a similar level of GDP per capita may take very different decisions as to the size of the public sector. And at any size of government, countries have some choice as to what portion of public resources to invest in social security.

A first approximation of a factor analysis

Despite methodological difficulties we attempted to build a first approximation of a typology of situations in different countries, i.e. of factors that ensure success in terms of social security coverage. The typology uses two input factors (legal foundations built, sustained level of resources committed), and a proxy for effective and good quality coverage as an output measure.

Not all the theoretically possible combinations of different factors occur in reality: not even the widest legal foundations can ever result in adequate coverage outcomes if they are not enforced and not backed by sufficient resources. But strong legal foundations are a necessary condition for securing higher resources; there are no national situations where generous resources are available despite the lack of a legal basis. In 28% of 139 countries that were analysed, a comprehensive legal basis, high levels of resources coincided with high levels of good quality coverage.

Thematic focus: Social security in times of crisis

In addition to providing income replacement for those who lose their jobs and thus safeguarding them from poverty, social security benefits also of course have major economic impacts through stabilizing aggregate demand. And, contrary to earlier beliefs, no negative effects of increased social spending during and after crises on economic growth have been found. On the contrary, well-designed unemployment schemes, social assistance and public works programmes effectively prevent long-term unemployment and help shorten economic recessions.

In those countries reviewed that have at least elements of comprehensive social security responses in areas such as pensions, health schemes or family benefits, such the main crisis responses are usually automatic increases in number of beneficiaries and expenditure as well as expansions in coverage and in benefit levels of existing schemes, except for a limited number of countries which have been forced by circumstances to actually decrease benefits or to narrow coverage.

Measures expanding benefits and coverage can be found everywhere – in high-, medium- and low-income countries. The difference is of course in the scale of impact of such measures. In countries where coverage is comprehensive the expected impact of these changes is significant, not only in individual income levels of the recipients covered, but also in overall aggregate demand. On the other hand, in countries where coverage is limited to those in the small formal economy the impact may be important from the point of view of effective protection of recipients covered, but from the point of view of aggregate demand it is negligible.

Where they exist, unemployment insurance schemes are the branch of social security that bears the brunt of costs of income replacement for employees who have lost their jobs. But unemployment insurance schemes are in place in only 64 of the 184 countries for which information is available. Social assistance, public works and similar programmes also have very limited coverage globally. In the economic crises of past decades which affected countries such as those in Asia and Latin America where social security schemes were absent, it proved to be difficult – if not impossible – to introduce new schemes or ad hoc measures quickly enough to cushion the impact of the crisis. But countries which had introduced unemployment schemes before the onset of the crisis, such as the Republic of Korea, could relatively easily scale up these measures to respond in an appropriate and timely way .

In an analysed set of 46 high, medium and low income countries analysed, government responses are found in all the three groups of measures providing income support to the unemployed. And as governments' ability for social security interventions is primarily confined to the instruments available, the global distribution of crisis responses reflects the distribution of coverage by established social security systems.

The most common responses in high-income countries are modifications of existing unemployment schemes. Since past recessions have led to higher structural unemployment in some Western European countries, in this crisis government strategy in a number of countries such as Germany, the Netherlands and France aims at the avoidance of full unemployment by expanding the application, eligibility and coverage of partial unemployment benefits. Partial unemployment benefits allow workers to stay in their employment relationship, but – for example – with reduced working hours. They aim at preventing the loss of skills and the discouragement of workers, both of which may occur when they become fully unemployed.

The most common form of response in middle-income countries is the extension of cash transfer schemes (e. in Brazil) or public employment schemes (e.g. in the Phillipines). The latter often have an ad hoc character they may be implemented quicker than social security schemes, and discontinued once the crisis is over.

The availability of measures for crisis response is clearly the most limited in low-income countries. Although national differences remain, low-income countries share a triple constraint in the crisis: they are adversely hit through declines in global demand, remittances, FDI and trade; they have limited access to foreign capital; and their scope of social security is very narrow: its coverage is limited to the minority in formal employment, and schemes providing income support in case of unemployment exist but rarely. In addition, many of these countries, in particular in sub-Saharan Africa, have already been facing mass poverty and underemployment well before the recent global economic crisis.

No unemployment benefit scheme, whether partial or full, can work to its full potential unless it is combined with other labour market instruments that increase employability, such as training. Training and related measures are part of the stimulus packages introduced in most European countries (often in combination with partial unemployment benefits) and also, for example, in the Republic of Korea, where workers who undergo training are entitled to higher benefits. Korea has also decided to invest in tools aimed at providing better information on jobseekers, qualifications and open positions, which should help to avoid long-term unemployment.

Corrections to pension schemes might also be required in all countries where schemes were reinforced during the last three decades. The crisis and the consequential losses in pension reserves clearly demonstrated the vulnerability of pension levels, and hence old age income security, to the performance of capital markets and other economic fluctuations. Strong minimum pension guarantees may work here as "automatic stabilizers" of retirees' living standards. Some countries have such guarantees already; others have included one-off payments to older people in their stimulus packages as a temporary relief (Australia, Greece, United Kingdom and United States). Others have decided as a result of the current crisis to strengthen and expand minimum guarantees in their pension systems (Belgium, Finland, France and United Kingdom, as well as countries with higher than average poverty incidence among the elderly (Australia, Republic of Korea and Spain). The non-predictability of pension levels may be reduced by through introducing DB-type guarantees into the DC schemes, or by guaranteeing rates of return in such a manner as would provide replacement rates on retirement at target levels.

There is a risk that countries, that followed the expansionary fiscal policy during the crisis, will now face pressure for fiscal consolidation to cope with increased deficits and public debt. If and wherever it happens, this may result in future in cuts of social security spending to even below pre-crisis levels. This in turn may not only directly affect social security beneficiaries and consequently the standards of living of a large portion of the population but also, through aggregate demand effect, slow down or significantly delay a full economic recovery.

Conclusions

The current crisis has once more proved how important a role social security plays in society in times of crisis and adjustment. It works as an irreplaceable economic, social and political stabilizer in such hard times – both for individual lives and the life of society as a whole. Social security plays this role in addition to its other functions – providing mechanisms to alleviate and also to prevent poverty, to reduce income disparities to acceptable levels, and also to enhance human capital and productivity. Social security is thus one of the conditions for sustainable economic and social development. It is a factor in development. It is also an important factor in a modern democratic state and in society.

This report has clearly shown that the majority of the world population still has no access to comprehensive social security systems. Thus, to prepare global society for future economic downturns and to achieve other global objectives such as the Millennium Development Goals, sustainable economic development and a fair globalization, a most fundamental task is to develop comprehensive social security systems in countries where only rudimentary systems exist so far, starting with the provision of basic income security and affordable access to essential health care. The demands of the current crisis carry with them the risk that we seek only short-term “quick fixes” to poverty and insecurity while neglecting longer-term solutions that would help to correct the fundamental inequities in the global economy and society.

Social security will effectively cushion the negative impacts of the crisis if its foundations, based on social solidarity, are strengthened. The ILO is promoting the reshaping of national social security systems based on the principle of progressive universalism. It seeks first to ensure a minimum set of social security benefits for all: the social protection floor. Based on that floor, higher levels of social security should then be sought as economies develop and the fiscal space for redistributive policies widens.