

Identifying factors for extended social security coverage

9

Part I of this report has presented the various dimensions of social security coverage. Data are still very limited for most of the individual branches of social security, so that it is impossible to aggregate all partial measures of coverage into one indicator encompassing all branches. But even if data were available the development of one single indicator would meet with a number of methodological problems. As already observed in Chapter 2, research is under way but more is needed in order to develop an indicator of basic protection. And even if a single indicator describing the extent, quality and scope of social security did exist, policy-makers would still need to know their contributing factors.

Despite our incomplete information base we attempt here to build what may be called a first approximation of a factor analysis explaining the success of social security schemes. It uses a proxy methodology in the form of a typology of situations in different countries. This focuses on two input factors, which can be broadly defined as the legal foundations created by a society and the sustained level of resources committed, and on a results measurement that describes qualitatively the extent to which these resources have been used successfully. The typology helps to broadly identify what preconditions for a successful social protection system are needed to achieve a high level of population coverage and a decent benefit level in the most important social security benefits.

The input factors are as follows:

The legal factor. An overview of the scope of legal social security provision is provided through a single

indicator: the number of social security branches covered by a statutory social security programme as presented in figure 2.4 (Chapter 2). The main source of information is the database *Social Security Programs Throughout the World* (SSA/ISSA, 2008, 2009) completed where necessary with information based on national legislation.

The resource factor. Resources invested in social security are measured by two indicators of social security expenditure combined with a third indicator referring to the quality or nature of health expenditure:

- *Public social security expenditure (excluding health care) as a percentage of GDP.* This indicator is available for more than 100 countries from four main sources of information: the EUROSTAT and OECD social protection databases (European Commission, 2009a; OECD, 2009a); the IMF's *Government Finance Statistics* (GFS) database (IMF, 2009); and the *ILO Social Security Inquiry* (ILO, 2009c), the latter especially for developing countries not yet covered by any other international source.
- *Public health expenditure as a percentage of GDP.* This indicator is estimated by the World Health Organization for most countries of the world (WHO, 2009a, 2009b).
- *Effective level of financial protection provided to the population by the social health protection system* is measured here by a proxy indicator, expressed as a percentage of total (public and private) health-care expenditure in the country **not financed** by private

households with out-of-pocket payments. This is more or less equivalent to the percentage of total (public and private) health-care expenditure in the country financed either from general government revenues or from pre-paid private insurance by employers or NGOs. This indicator is calculated using the national health account estimates available in the WHOSIS database (WHO, 2009a).

The results measurement is a compound notion of coverage measured in two dimensions:

- *Extent of legal coverage* within four social security branches: old age, employment injury, health and unemployment. Legal coverage is measured by estimating the size of those groups in the population who should be covered by existing legislation under national schemes. This produces indicators reflecting: (a) the proportion of the working-age population legally covered by the old-age pension system; (b) the proportion of the total population legally covered by the social health-care protection system; and the proportion of the economically active population legally covered by (c) systems of protection in case of employment injury and (d) unemployment.
- *Effective coverage* by the health-care and old-age pension branches of social security – the two largest branches in every country in the world in terms of resources invested. *Effective extent of coverage by the old-age pension system* in a country is measured by the proportion of the population above retirement age receiving any type of old-age pension. *Effective coverage in health* is reflected here by a proxy indicator of health professional staff density, and measured as the relative difference between specific country staff density levels and a benchmark staff density level assumed to be equal to a median value of health professional density observed in the group of countries of low vulnerability (low poverty and low informality indicators combined). We thus assume that in the group of countries with low vulnerability, population access to services of qualified medical staff is at the adequate level, while in countries with a lower density of qualified medical personnel, there is a coverage gap in terms of insufficient access to services of such qualified medical professionals.

Taking into account all existing data limitations, the following types of outcome typology can be identified (see table 9.1):

- **Very limited or limited rights – low resources – low coverage.** A narrow scope of legal foundations of social security (a few branches only), often combined with a low level of resources invested in them, results in a relatively small proportion of the population covered and thus a significant coverage gap. This pattern occurs most often in the world's poorest countries, particularly in Africa and Asia, and results to a large extent from resource constraints (limited fiscal space) and also, often, from the fact that comprehensive national social security strategies and policies are still at the early stage of debate, so that the policy space is still to be decided. In these countries the majority of the population is in the large informal economy; both legal foundations and resource allocations are missing if access to social security by this majority is to be provided. However, even those in the formal economy are insufficiently covered. This situation concerns more than half of the 146 countries included in this typology, with more than 80 per cent of all African countries and more than 70 per cent of all Asian countries included.
- **Comprehensive rights – low resources – low coverage.** A relatively wide scope of legal foundations existing for different branches of social security, but coupled with low resource allocations, may result in very low effective coverage and low levels of protection. There are a number of countries, for example, which developed relatively strong legal foundations in the past but which then, owing to economic downturns, structural adjustments and/or policy changes, lost the sufficient resource foundations necessary to turn the legal provision into effective coverage.
- **Limited or comprehensive rights – high resources – low coverage.** A relatively wide scope of legal foundations existing for different branches of social security, even combined with an above-average level of resource allocations, may result in limited population coverage. This situation usually arises in countries where the informal economy is large: while those in formal employment enjoy a wide scope of relatively generous benefits, a large part of the population remains uncovered. There is a need to strengthen this part of the social security system so that it is able to reach those in the informal economy.
- **Limited or comprehensive rights – low resources – high coverage.** A few countries with

Table 9.1 Legal provision, resources committed and coverage achieved in 146 countries: A typology

	Low coverage		High coverage	
	Limited resources	High resources	Limited resources	High resources
Very limited rights	22 countries (15%) Informality 69% Poverty 70%	NONE	NONE	NONE
Limited rights	53 countries (36%) Informality 57% Poverty 51%	3 countries (2%) Informality 41% Poverty 22%	6 countries (4%) Informality 28% Poverty 23%	5 countries (3%) Informality 23% Poverty 18%
Comprehensive rights	5 countries (3%) Informality 42% Poverty 12%	3 countries (2%) Informality 37% Poverty 19%	7 countries (5%) Informality 38% Poverty 28%	42 countries (29%) Informality 17% Poverty 2%

Notes:

Informality: The proportion of non-wage workers in total employment is used as a proxy for workers in the informal economy.

Poverty: The proportion of the population living above \$2 a day is used as a proxy for the effective coverage of the population by basic social protection.

Scope of legal provision: Very limited rights (or very limited legal provision) refers to countries where fewer than five of the eight social security branches are covered in national legislation: old age, invalidity, survivors and employment injury; limited legal provision where five to seven branches are covered (with in most cases no legal provision for unemployment protection); and comprehensive legal provision for countries with legal provision for all social security branches.

Resources: Expressed in terms of public expenditure on social security as a percentage of GDP combined with an indicator of quality of health expenditure (the percentage of total health expenditure not financed by out-of-pocket payments).

Low coverage/high coverage: The cut-off point between low and high groups is based on the value observed for each component for the 6th decile (i.e. 60 per cent of the countries have values below the cut-off point).

Sources: ILO calculations based on SSA/ISSA, 2008, 2009; European Commission, 2009a; OECD, 2009a; ILO, 2009c; WHO, 2009a, 2009b; national legislation. See further details in the text, and in the Statistical Annex.

relatively low resource allocations, and sometimes even with a relatively narrow scope of legal foundations, still show relatively high outcomes in coverage and protection levels in selected areas. This is usually thanks to the existence of provisions for benefits which, although at a basic level, have either universal outreach or are effectively targeted by other means to large sections of the population. In such countries, however, the challenge of how to broaden the scope of protection and improve its adequacy remains. This is the case for less than 9 per cent of all countries considered.

- **Comprehensive rights – high resources (with exceptions) – high coverage.** The last type is where legal provision, resources and results are relatively high for the overall set of countries under study (comprehensive rights – high resources and high coverage). A few countries (representing just over 3 per cent of all countries considered) present a rather similar pattern but with a relatively low level of legal provision. This pattern, which concerns around 30 per cent of countries considered (green cells in table 9.1), is typical for industrialized nations and the few developing countries that have achieved high levels of social security. In many of these countries

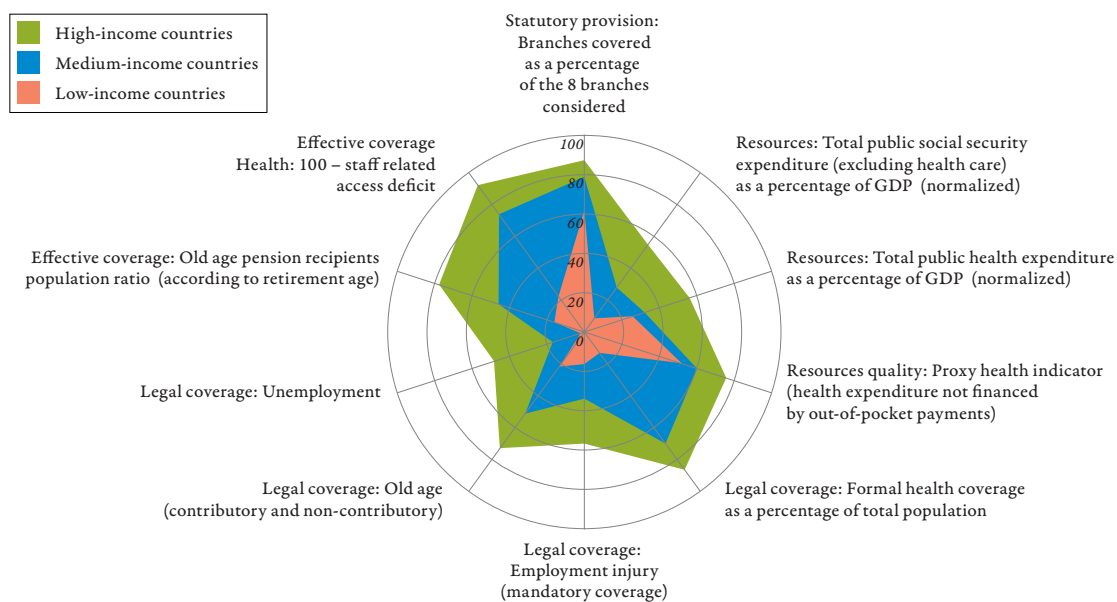
efficiency becomes the main question; there needs to be careful monitoring of whether the resources invested result in sufficiently adequate outcomes.

It is noticeable that not all the theoretically possible combinations of different factors occur in reality: not even the widest legal foundations can ever result in adequate outcomes if they are not enforced and not backed by sufficient resources. Strong legal foundations are a necessary but not sufficient condition for securing higher resources; there are no situations where generous resources are available despite the lack of a legal basis.

Table 9.1 presents the possible combinations of situations with, for each, the number of countries; the average percentage of non-wage workers in total employment as a proxy for informal employment; and the proportion for the group of countries of the population living on less than US\$2 PPP per day. Figure 9.1 shows the various components of the typology by income levels of groups of countries.

The largest group of countries in the world still belongs to the first category: low legal foundations, low resources and low results. Many of these countries are facing significant resource constraints in terms of the fiscal space available. In many of them there is also a lack of “policy space”, where social protection strategies

Figure 9.1 Components of the typology by level of income



Link: <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=15189>

Note: For presentation purposes, only two indicators are normalized: those for which maximum values are significantly smaller than the other variables taken into account in this graph. The normalization follows the standard procedure developed for the UNDP's Human Development Index (HDI), which can be defined as follows:

Normalized value = $\frac{[actual - minimum\ values]}{[maximum - minimum\ values]}$, where *actual* is the proportion attained by the country on a particular indicator, *minimum* is the lowest value attained by any country on that particular variable, and *maximum* is the maximum value attained by any country for that variable.

Sources: As for table 9.1.

are still at a relatively early stage in national debate. Currently, attention usually focuses on easing the most urgent problems. This is understandable. However, the need for a structured approach is increasingly acknowledged, an approach that will yield sustained solutions

rather than ad hoc ones. In the multi-faceted crisis now facing so much of the world, the need for social protection has become even more obvious as the majority's lack of access to effective social protection becomes ever more dramatic and disastrous.