Executive Summary

International Labour Organization

World Social Security Report 2010/11
Providing coverage in times of crisis and beyond

The *World Social Security Report 2010/11* is the first in a series of reports on social security coverage in different parts of the world. It examines the scope, extent, levels and quality of coverage by various social security branches and the scale of countries' investments in social security, measured by the size and structure of social security expenditure and the sources of its financing. The thematic focus of this first report is the nature of social security responses to the financial and economic crisis.

Mapping social security coverage

The notion of social security used here has two main dimensions, namely "income security" and "availability of medical care". 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. The report provides a technical synopsis of the individual dimensions of coverage and the size of national social protection expenditure. It finds that while some level of social security protection exists in all countries, 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 the Social Security (Minimum Standards) Convention, 1952 (No. 102). In many other countries coverage is limited to a few branches and to a minority of the population. Taking

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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.

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. The highest coverage by old-age pension schemes is found in North America and Europe, the lowest in Asia and Africa. Outside of the developed countries, coverage is concentrated on formal sector employees, mainly in the civil service and larger enterprises, leaving the majority of the world's elderly at risk of income security or poverty.

Worldwide, nearly 40 per cent of the population of working age is legally covered by contributory old-age pension schemes but only 26 per cent is effectively covered. 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 than 20 per cent of the elderly receive pension benefits; the median in this group of countries is just over 7 per cent.

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 in terms of the proportion of unemployed who receive benefits are lowest in Africa, Asia and the Middle East (between 1 and 2 per cent).

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.

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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; nowhere does total social assistance benefit expenditure exceed 5 per cent of GDP.

In countries with large informal economies 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. The most promising innovations that can help to cover the global coverage gap are conditional or unconditional cash transfer schemes, i.e. tax-financed social assistance schemes, such as the *Bolsa Familía* scheme in Brazil, the *Oportunidades* schemes in Mexico, the social grant system of South Africa, or universal basic pension schemes in countries such as Namibia and Nepal.

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, 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.

One of the greatest challenges of social protection globally is the reduction of maternal, neo-natal and under-5 mortality through maternity benefits. Coverage of cash benefits before and after birth is limited to formal sector employees. Differences in access to health care in the context of maternity protection between countries at different income levels and within countries are striking. In low-income countries no more than 35 per cent 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 per cent, which is still more than 20 percentage points lower than the access in high-income countries.

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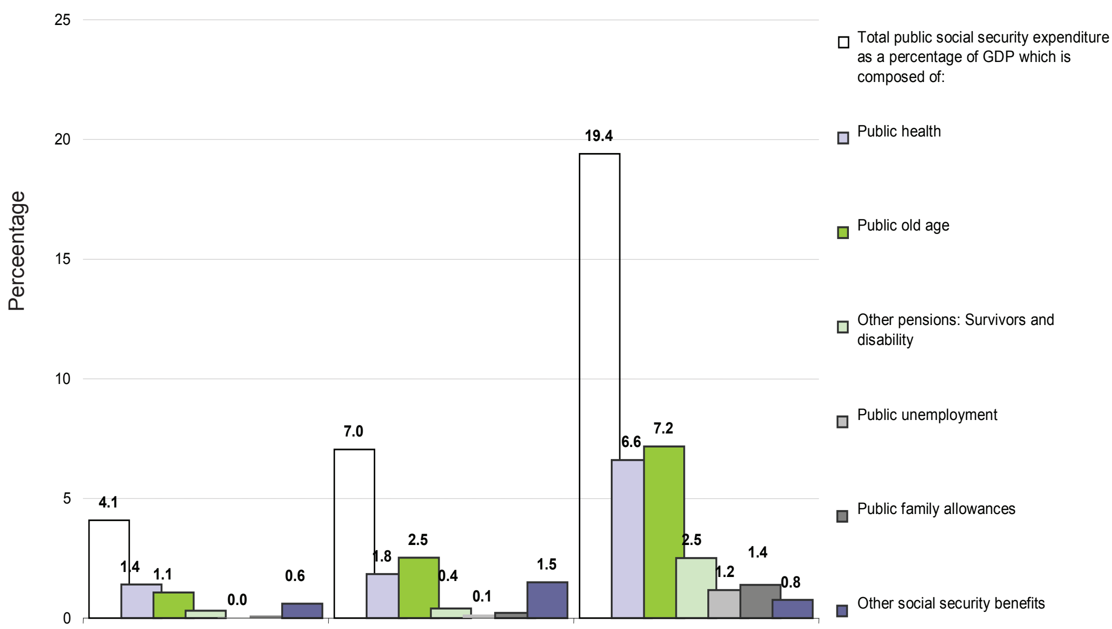
Investments in social security and the effectiveness of coverage

On average, 17.2 per cent of global GDP is allocated to social security. However, 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.

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

This does not mean that there is no fiscal or policy space for lower-income countries to dedicate to their 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.

The report presents a first approximation of a typology of social security situations in different countries, showing the factors that ensure success in terms of coverage. The typology uses two input factors (legal foundations built and the sustained level of resources

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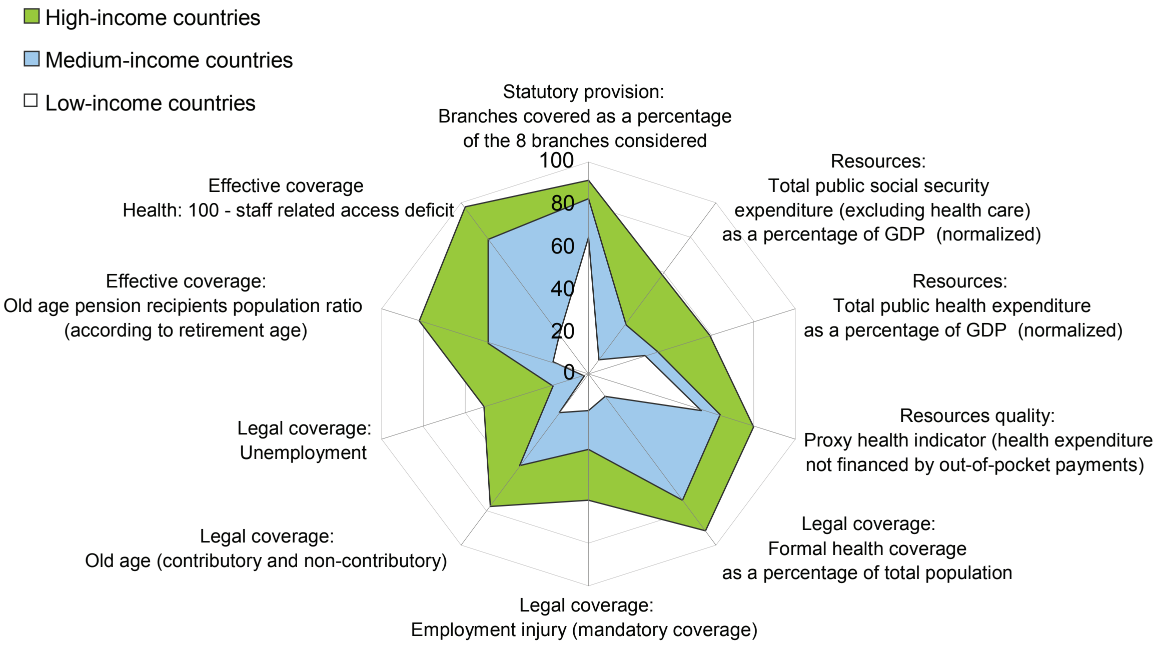
committed), and a proxy for effective and good quality coverage as an output measure. The typology demonstrates that strong legal foundations are a necessary condition for securing higher resources: there are no national situations where generous resources are available despite the lack of a legal basis. In 29 per cent of 139 countries that were analysed, a comprehensive legal basis and high levels of resources coincided with high levels of good quality coverage.

Components of the typology by level of income



Sources: ILO calculations based on SSA/ISSA, 2008, 2009; European Commission, 2009a; OECD, 2009a; ILO, 2009c; WHO, 2009a, 2009b; national legislation.

Social security in times of crisis

In addition to providing income replacement for those who lose their jobs, thus safeguarding them from poverty, social security benefits also have major economic impacts through stabilizing aggregate demand. And, contrary to earlier beliefs, no negative effects on economic

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growth of increased social spending during and after crises 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. Having schemes in place allows countries to scale up measures relatively easily to respond in an appropriate and timely way. Looking back at the economic crises in Latin America and Asia, countries without social security schemes found it difficult – if not impossible – to introduce new schemes or ad hoc measures quickly enough to cushion the impact of the crisis.

In those countries reviewed that have at least elements of comprehensive social security in areas such as pensions, health schemes or family benefits, 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.

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.

To stave off the possibility of structural unemployment, government strategy in a number of European countries aims at the avoidance of full unemployment – with the consequent loss of skills and discouragement of workers – by expanding the application, eligibility and coverage of partial unemployment benefits. Partial unemployment benefits allow workers to stay in their employment relationship, but with reduced working hours, for example.

The most common form of crisis response in middle-income countries is the extension of cash transfer schemes (for example, in Brazil) or public employment schemes (for example, in the Philippines). The latter often have an ad hoc character: they may be implemented more quickly 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-

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income countries. Schemes providing income support in case of unemployment exist, but rarely. In addition, many of these countries, in particular in sub-Saharan Africa, already faced mass poverty and underemployment well before the recent global economic crisis.

The crisis and the consequential losses in pension reserves clearly demonstrate the vulnerability of pension levels, and hence old-age income security, to the performance of capital markets and other economic fluctuations. Introducing defined-benefit-type guarantees into defined-contribution schemes would reduce this unpredictability, as would guaranteed rates of return that would provide replacement rates on retirement at target levels.

However, some countries that followed an expansionary fiscal policy during the crisis are now facing pressure for fiscal consolidation to cope with increased deficits and public debt. This may result in future cuts of social security spending to even below pre-crisis levels. This 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 effects, 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, working as an irreplaceable economic, social and political stabilizer in hard times. 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 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 clearly shows 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 fundamental task is to

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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 to all in need: a global 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.

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