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International Labour Conference, 100th Session, 2011

Report VI

# **Social security for social justice and a fair globalization**

*Recurrent discussion on social protection (social security) under  
the ILO Declaration on Social Justice for a Fair Globalization, 2011*

**Sixth item on the agenda**

**International Labour Office Geneva**

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# Contents

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	<i>Page</i>
Abbreviations .....	vii
Introduction. ....	1
Background .....	1
Objective of the report .....	3
Structure of the report.....	3
Preparation of the report for the recurrent discussion .....	4
Chapter 1.    The right to – and the need for – social security.....	7
1.1.    Objectives and concepts of social security .....	7
Principal objectives of social security and definitions.....	8
Concepts.....	8
1.2.    The right to social security.....	10
1.2.1.    The human right to social security and the role of the ILO .....	10
1.3.    The need for social security.....	15
1.3.1.    The role of social security systems in economic development and in facilitating structural change and managing crises .....	16
1.3.2.    Social security as a pivotal tool to progress toward social justice in a globalizing world .....	22
1.4.    A first conclusion .....	26
Chapter 2.    The global state of social security and its challenges.....	29
2.1.    The coverage challenge .....	29
2.2.    The adequacy challenge .....	32
2.3.    The financing challenge .....	35
2.4.    A second conclusion .....	43
Chapter 3.    Present policy responses.....	45
3.1.    Enabling access to health services: Social health protection .....	45
Patterns of health-care financing and access .....	46
Indicators of access to health-care services .....	47
Extending social health protection coverage .....	47
Addressing financial constraints .....	50
Improving administrative efficiency and assuring the quality of health care ....	51
3.2.    Guaranteeing income security in old age, disability and survivorship .....	52
Coverage by contributory and non-contributory pensions.....	53

	Pension coverage has a strong gender dimension .....	60
	Challenges around disability benefits .....	60
	Adequacy of pensions .....	61
	Pension finances and the global crisis.....	63
3.3.	Income security for the unemployed.....	65
3.4	Income security in the event of employment injury .....	70
3.5.	Maternity protection.....	73
3.6.	Family benefits, minimum income support and social assistance .....	75
	Providing social security to families with children .....	75
	The role of social assistance schemes in developed and middle- and low-income countries .....	76
	Extending social security coverage through social assistance programmes in low- and middle-income countries .....	79
3.7.	A third conclusion.....	81
Chapter 4.	Main issues for the future of social security .....	83
4.1.	Ensuring social and economic policy coherence .....	83
	4.1.1. Social policy objectives and institutional design: Ensuring internal coherence and responsiveness .....	84
	4.1.2. Ensuring external coherence in a wider social policy context.....	86
	4.1.3. Ensuring external coherence of economic and social policies.....	88
4.2.	Establishing and ensuring the affordability and financial sustainability of social security systems.....	95
	4.2.1. The affordability of basic systems.....	95
	4.2.2. The affordability of mature social security systems .....	104
	4.2.3. Cost versus benefit considerations: Relationship between fiscal costs and results.....	109
4.3.	Designing, governing and managing effective and efficient social security systems.....	110
	4.3.1. Designing and implementing programmes to extend social security coverage .....	111
	4.3.2. Ensuring good governance and sound administrative performance..	123
4.4.	A fourth conclusion.....	127
Chapter 5.	Future policy orientation for the Organization .....	129
5.1.	Strategies to extend social security coverage.....	129
	5.1.1. Principles for the extension of social security.....	131
	5.1.2. The horizontal and vertical dimensions of extending social security: The “social security staircase” policy paradigm.....	135
	5.1.3. The horizontal dimension: Building a social protection floor.....	137
	5.1.4. The vertical dimension: The next steps towards a social security best protection guide .....	140
5.2.	Strategies to ensure sustainability .....	140
	5.2.1. Ensuring coherence with national social and economic development policies and other objectives of the Decent Work Agenda .....	141
	5.2.2. Ensuring social adequacy .....	143
	5.2.3. Ensuring financial, economic and fiscal sustainability .....	144
	5.2.4. Strategies to ensure good governance .....	145

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5.5.	A fifth conclusion .....	146
Chapter 6.	Guidance for further ILO work on social security.....	147
6.1.	Providing policy guidance through the promotion of existing standards and the establishment of guiding frameworks.....	148
	Relevance of international social security standards at international and regional level .....	148
	Need for complementary instrument(s) .....	148
6.2.	Providing support for good governance of national social security systems....	152
	Knowledge generation and dissemination .....	153
	Capacity building.....	153
	Technical advisory services.....	153
6.3.	Suggested points for discussion by the Conference Committee .....	154

### ***Appendices***

I.	The ILO response to the need for social security .....	157
II.	Appendix tables and guidance on newly available social security statistics .....	165

## Abbreviations

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CBHI	Community-Based Health Insurance
CCT	conditional cash transfer
CEACR	Committee of Experts on the Application of Conventions and Recommendations
CPC	contribution payment centre
DB	defined benefit
DC	defined contribution
DfID	Department for International Development
ECOSOC	United Nations Economic and Social Commission
GB	Governing Body (of the International Labour Organization)
DC	defined contribution
GDP	gross domestic product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
ICESCR	International Covenant on Economic, Social and Cultural Rights
ILC	International Labour Conference
ILO	International Labour Organization or Office
IMF	International Monetary Fund
ISSA	International Social Security Association
MDGs	Millennium Development Goals
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OECD–POVNET	OECD Development Cooperation Directorate – Network on Poverty Reduction
P4H	Providing for Health Initiative
SPER	Social Protection Expenditure Review
SSI	ILO Social Security Inquiry
SPF	Social Protection Floor
UN	United Nations
UN-CEB	United Nations Chief Executives Board for Coordination
UNDAFs	United Nations Development Assistance Frameworks
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
WHO	World Health Organization

# Introduction

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## Background and objective

### Background

1. At its 97th Session (2008), the International Labour Conference adopted the ILO Declaration on Social Justice for a Fair Globalization. The Declaration recognizes that the ILO,

based on the mandate contained in the ILO Constitution, including the Declaration of Philadelphia (1944), which continues to be fully relevant ..., has the solemn obligation to further among the nations of the world programmes which will achieve the objectives of full employment and the raising of standards of living, a minimum living wage and the extension of social security measures to provide a basic income to all in need, along with all the other objectives set out in the Declaration of Philadelphia. <sup>1</sup>

2. The Declaration states, inter alia, that

[i]n the context of accelerating change, the commitments and efforts of Members and the Organization to implement the ILO's constitutional mandate, including through international labour standards, and to place full and productive employment and decent work at the centre of economic and social policies, should be based on the four equally important strategic objectives of the ILO, through which the Decent Work Agenda is expressed ...".

The Annex to the document stipulates that "The Organization will introduce a scheme of recurrent discussions by the International Labour Conference," so as to:

- (i) understand better the diverse realities and needs of its Members with respect to each of the strategic objectives, respond more effectively to them, using all the means of action at its disposal, including standards-related action, technical cooperation, and the technical and research capacity of the Office, and adjust its priorities and programmes of action accordingly; and
- (ii) assess the results of the ILO's activities with a view to informing programme, budget and other governance decisions. <sup>2</sup>

3. At its 304th Session (March 2009), the Governing Body decided that the second recurrent discussion at the 100th Session of the International Labour Conference in 2011 would be devoted to the strategic objective of social protection, and specifically focus on social security. <sup>3</sup>

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<sup>1</sup> ILO: *ILO Declaration on Social Justice for a Fair Globalization*, International Labour Conference, 97th Session, Geneva, 10 June 2008.

<sup>2</sup> *ibid.*, Annex, part II, section B.

<sup>3</sup> ILO: *Date, place and agenda of the International Labour Conference*, Governing Body, 304th Session, Geneva, Mar. 2009, GB.304/2/2.

4. The discussion at the 100th Session of the Conference in 2011 needs to be placed in the context of the sequence of key events in social security that have occurred at the ILO during the previous decade. The resolution and conclusions concerning social security, adopted at the 89th Session of the Conference in 2001, renewed the ILO's commitment to the extension of social security coverage and to the improvement of the governance, financing and administration of social security.<sup>4</sup>

5. Subsequently, the Global Campaign on Social Security and Coverage for All was launched at the 91st Session of the Conference in 2003. The activities of the Campaign – now the catalyst for the ILO's activities in social security – were reviewed in a report to the Committee on Employment and Social Policy (ESP Committee) in November 2008, which concluded on the need for further tripartite consultations “on the elements and possible form of an additional mechanism to guide improvements of social security coverage in member States”.

6. Following a request by ESP Committee members, a “Tripartite Meeting of Experts on Strategies for the Extension of Social Security Coverage” was held in Geneva from 2 to 4 September 2009. The Office reported on the proceedings of the Meeting to the Governing Body in November 2009.<sup>5</sup> The report concluded that the discussions amongst the delegates

reflected a large measure of agreement concerning the importance of social security and its role not only in individual welfare, but also with regard to broad economic growth and development. There was a consensus on the universal right to, and need for, social security; and a reminder from all sides on the importance of social dialogue.

7. The Summary of the Chairperson of the Meeting explicitly endorsed the two-dimensional strategy that the Office had pragmatically developed to extend the coverage of social security. The “horizontal” dimension comprised the extension of income security and access to health care, starting at a modest level, to the whole population. The second, “vertical” dimension sought to provide higher levels of income security and health protection in line with economic and social development, when people were faced with fundamental life contingencies such as unemployment, ill health, disability, maternity, loss of breadwinner and old age.

8. The horizontal dimension is conceptually identical to the idea of the transfer component of the Social Protection Floor (SPF), developed by the United Nations Chief Executives Board for Coordination (UN-CEB), which promotes a set of basic transfers or entitlements enabling persons to access essential goods and services. The UN-CEB has adopted the SPF as one of its joint crisis initiatives. The ILO, together with the World Health Organization (WHO) and a number of collaborating agencies, are leading the initiative. At its core is the building of a coalition of international agencies and donors supporting countries to plan and implement sustainable social protection schemes. In the meantime, the United Nations Summit on the Millennium Development Goals (Millennium Summit), meeting in New York in September 2010, endorsed the SPF concept as “an important contribution to consolidating and achieving further development gains” and stressed that “social protection systems that address and reduce

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<sup>4</sup> ILO: *Resolution and conclusions concerning social security*, International Labour Conference, 89th Session, Geneva, 2001, paras 16–19.

<sup>5</sup> ILO: *Report of the Director-General: Tripartite Meeting of Experts on Strategies for the Extension of Social Security Coverage*, Governing Body, 306th Session, Geneva, Nov. 2009, GB.306/17/2.

inequality and social exclusion are essential for protecting the gains towards the achievement of the Millennium Development Goals”.<sup>6</sup>

9. The SPF approach was incorporated into the Global Jobs Pact, adopted by the International Labour Conference in 2009. It requests countries that do not yet have extensive social security to build “adequate social protection for all, drawing on a basic social protection floor” and urges “the international community to provide development assistance, including budgetary support, to build up a basic social protection floor on a national basis”.<sup>7</sup> By placing the SPF in the context of the Global Jobs Pact, the ILO reiterated the principle that the strategic objectives of the ILO<sup>8</sup> were “inseparable, interrelated and mutually supportive”, as recognized by the 2008 Declaration,<sup>9</sup> thereby providing the analytical and conceptual framework for the report for the recurrent discussion.

## Objective of the report

10. This report seeks to inform the debate during the 100th Session of the International Labour Conference by providing:

- (a) an overview of the present state of social security around the world;
- (b) an identification of the main social security challenges;
- (c) an overview of national and ILO responses to the challenges; and
- (d) suggestions for the direction of future ILO action.

## Structure of the report

11. *Chapter 1* discusses the right to – and the need for – social security. It reflects upon its role as a human right; examines the mandate of the ILO to ensure social security for all and the setting of international labour standards to help the Organization achieve this mandate; and the pivotal role of social security in achieving a fair globalization, facilitating economic development and structural change, and managing crises. Based on recent statistical evidence, *Chapter 2* summarizes the global state of social security and identifies three core challenges for future policies: extending social security coverage; ensuring the adequacy of benefits; and guaranteeing the sustainability of social security financing. *Chapter 3* then addresses policy responses to the global need for social security by branch, focusing on social health protection; old age, survivors’ and disability benefits; unemployment protection; income security in the event of employment injury; maternity protection; and minimum income support and social assistance. *Chapter 4* identifies some of the major issues for the future of social security in three parts: ensuring the proper role of social security systems in wider policy coherence; establishing and ensuring the affordability and financial sustainability of

<sup>6</sup> United Nations: *Keeping the promise: United to achieve the Millennium Development Goals*, General Assembly Resolution A/65/L.1, adopted on 22 September 2010 (New York, 2010), para. 51.

<sup>7</sup> ILO: *Recovering from the crisis: A Global Jobs Pact*, adopted at the International Labour Conference, 98th Session, Geneva, 19 June 2009, paras 12(1), (ii) and 22(9).

<sup>8</sup> The four strategic objectives of the ILO are to: (1) promote and realize standards and fundamental principles and rights at work; (2) create greater opportunities for women and men to secure decent employment and income; (3) enhance the coverage and effectiveness of social protection for all; and (4) strengthen tripartism and social dialogue; – with gender equality and non-discrimination cross-cutting all of these objectives.

<sup>9</sup> *ILO Declaration on Social Justice for a Fair Globalization*, op. cit.

social security systems; and designing, governing and managing effective and efficient social security systems. Based on the factual information and analysis provided in the first four chapters, *Chapter 5* outlines the emerging ILO policy perspective as a basis for discussion on the future policy orientation of the Organization. *Chapter 6* identifies issues where guidance is needed from the Conference.

12. *Appendix I* complements the report with a list of ratifications of social security Conventions; and *Appendix II* contains a brief summary review of the ILO's response to the global need for social security.

### Preparation of the report for the recurrent discussion

13. The analyses presented in this report are largely based on two flagship publications: the *World Social Security Report 2010/11*;<sup>10</sup> and the ILO guide on *Extending social security to all*.<sup>11</sup> Reference is also made – when discussing demographic challenges to social security – to the analysis contained in the report prepared as a background for the discussion on the employment and social protection implications of demographic ageing at the Conference.<sup>12</sup> The report also draws on a large body of technical reports, policy papers<sup>13</sup> and Governing Body reports that were issued by the ILO on social security during the preceding ten years, as well as on social security discussions held in the context of general discussions<sup>14</sup> (including in the Committee of the Whole on Crisis Responses in 2009) or standard-setting processes (such as the Recommendation concerning HIV and AIDS and the World of Work, 2010 (No. 200); the Maritime Labour Convention, 2006; and the issue of decent work for domestic workers). This report is also closely linked to the report of the Committee of Experts for the Application of Conventions and Recommendations (CEACR)<sup>15</sup> under Article 19 of the ILO Constitution (General Survey), *Social security and the rule of law*, also due to be discussed at the 100th Session of the International Labour Conference (see box 6.1).

14. The report reflects the deliberations and conclusions of recent regional and global tripartite meetings, namely the Regional Tripartite Meeting on the Future of Social Protection in Latin America (Santiago de Chile, December 2007); the Interregional Tripartite Meeting on the Future of Social Security in Arab States (Amman, May 2008); the ILO Asia–Pacific Regional High-level Meeting on Socially inclusive Strategies to Extend Social Security Coverage (New Delhi, May 2008); the Arab Employment Forum

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<sup>10</sup> ILO: *World Social Security Report 2010/11: Providing coverage in times of crisis and beyond* (Geneva, 2010). An explanation on how to access the tables contained in this report is provided in Appendix I.

<sup>11</sup> ILO: *Extending social security to all. A guide through challenges and options* (Geneva, 2010).

<sup>12</sup> ILO: *Employment and social security protection in the new demographic context* (Geneva, 2010).

<sup>13</sup> See various issues of the ILO Social Security Policy Briefing series, including: *Social health protection*, Paper 1 (Geneva, 2008); *Setting social security standards in a global society*, Paper 2 (Geneva, 2008); *Can low-income countries afford basic social security?*, Paper 3 (Geneva, 2008); *Social security for all: Investing in social justice and economic development*, Paper 7 (Geneva, 2009); see also ILO: *World Social Security Report 2010/11*, op. cit.; and ILO: *Extending social security to all*, op. cit.

<sup>14</sup> ILO: *Conclusions concerning decent work and the informal economy*, International Labour Conference, 90th Session, Geneva, 2002; ILO: *Conclusions on a fair deal for migrant workers in a global economy*, International Labour Conference, 92nd Session, Geneva, 2004; ILO: *Conclusions on promoting rural employment for poverty reduction*, International Labour Conference, 97th Session, Geneva, 2008; ILO: *Conclusions concerning the promotion of sustainable enterprises*, International Labour Conference, 96th Session, Geneva, 2007; ILO: *ILO Declaration on Social Justice for a Fair Globalization*, op. cit.; and ILO: *Recovering from the crisis*, op. cit.

<sup>15</sup> The CEACR forms part of the supervisory machinery monitoring the application and implementation of ratified ILO Conventions by member States in their national law and practice.

(Beirut, October 2009); the Second African Decent Work Symposium (Yaoundé, October 2010); and a Tripartite Meeting of Experts on Strategies for the Extension of Social Security Coverage (Geneva, September 2009).<sup>16</sup>

15. The report also draws on the results of a recent review of the Office's global strategy and contribution to extend various forms of social security to all, to improve the governance, financing and administration of social security institutions, and to support the determination of national strategies for working towards social security for all (see box A-II.4).<sup>17</sup>

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<sup>16</sup> ILO Social Security Policy Briefing series: Documento 4, *Reunión Regional Tripartita sobre el futuro de la protección social en América Latina* (2008); Paper 5, *Interregional Tripartite Meeting on the future of social security in Arab States* (2008); Paper 6, *Asia-Pacific Regional High-Level Meeting on Socially-Inclusive Strategies to Extend Social Security Coverage* (2008).

<sup>17</sup> ILO: *The ILO's strategy to extend social security: An independent evaluation report* (Geneva, 2010).

# Chapter 1

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## The right to – and the need for – social security

16. This chapter starts with a definition of social security and affiliated terms and concepts, and then examines the mandate of the ILO in social security to ensure social security for all, as well as the setting of international labour standards to help the Organization achieve this mandate. It also discusses the right to – and the need for – social security, as well as its pivotal role in fostering decent work and facilitating economic and social development.

### 1.1. Objectives and concepts of social security

17. From earliest times, when people started to settle and organize themselves in communities, there has been a need for protection against unforeseen life circumstances. The development and establishment of formal social security systems for the provision of income support and medical care constituted a major step in the development of human societies. The emergence of different forms of formal social protection mechanisms, ranging from voluntary group-based social protection mechanisms to mandatory contributory or non-contributory public social security schemes throughout the world, bears witness to the universal human need for social security and the importance of clear rights and entitlements.

18. In the 1880s, Germany was the first nation to adopt a statutory social insurance system, thereby establishing the notion of benefits as a right and making it applicable to the industrial workforce as a whole. Some years later, similar schemes were introduced in Latin America (Argentina, Brazil, Chile and Uruguay). Existing insurance models were widened, new risks such as unemployment benefits were included, and the groups of persons covered were enlarged. Although the insurance model prevailed, tax-financed programmes were also introduced at an early stage. In the Nordic countries, not only the workers but all the inhabitants were protected. Later, the worldwide economic crisis, which unfolded at the end of the 1920s and beginning of the 1930s, and the post-crisis recovery policies adopted subsequently, gave fresh impetus to the development of social security programmes. The 1930s witnessed a further expansion of social security schemes, mainly in Europe and the Americas.

19. The Second World War and the post-war years saw significant developments in social security at the national, regional and international levels, with the confirmation of social security as a human right. The Beveridge Report,<sup>1</sup> published in the United Kingdom in 1942 and implemented from 1945 onwards, had a considerable influence in

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<sup>1</sup> Sir William Beveridge: *Social insurance and allied services*, presented to Parliament by command of His Majesty, November 1942 (H.M. Stationery Office, United Kingdom, 1969).

this. In recognition of the responsibility and obligation of society as a whole towards those who had defended it against aggression, the aim was to extend the right to social security from the pool of insured workers to entire nations.

20. Since then, the rapid globalization of markets and workforces, increased migratory flows and steadily growing informality – and, more recently, the ongoing global financial crisis – have brought about new challenges in the area of social security. Some 75 to 80 per cent of the global population still lives in a state of “social insecurity”. The 1995 World Summit for Social Development, the adoption of the Millennium Development Goals (MDGs) in 2000 – particularly the goal of halving the global rate of poor households by 2015 – and the 2005 World Summit of the United Nations (which endorsed the goals of full and productive employment and decent work for all as central objectives of relevant national and international policies), established the principle that each society was responsible for people’s social well-being, at least when it came to defining minimum social objectives.

## Principal objectives of social security and definitions

21. Irrespective of whoever assumes the ultimate responsibility for the exercise of the human right to social security, the principal objectives nevertheless aim at:

- reducing income insecurity, including the eradication of poverty, and improving access to health services for all people, so as to ensure decent working and living conditions;
- reducing inequality and inequity;
- providing adequate benefits as a legal entitlement;

while

- ensuring the absence of discrimination on the basis of nationality, ethnicity or gender; and
- ensuring fiscal affordability, efficiency and sustainability.

## Concepts

22. The concepts of *social security* and *social protection* have evolved over time, and are used in various ways throughout the world. Due to the multiple forms that both concepts take nowadays, achieving definitional clarity is a formidable challenge – particularly as neither term is used consistently, differing widely across countries and international organizations. In addition, new terms have been added to the classical terminology, such as *social transfers*, *conditional and unconditional cash transfers* and *the Social Protection Floor* (see box 1.1). While it is not the purpose of this section to put forward any universal definitions, it aims to clarify and provide a better understanding of the relevant terms and concepts as they are used in this report and by the ILO.

### **Box 1.1** **Definitions**

#### **Social transfers**

Social transfers represent a transfer from one group in a society to another (e.g. from the active age groups to the old) either in cash or in kind (access to goods and social services). The recipients qualify because they have earned entitlements through fulfilling obligations (e.g. paying contributions) and/or meeting certain social or behavioural conditions (e.g. being sick; being poor; carrying out public works). In recent years, this term has been used to describe schemes for all residents that provide benefits under the single condition of residence (universal cash transfers) or social assistance schemes that require additional behavioural conditions as prerequisites (conditional cash transfers, see below).

#### **Social protection**

Social protection is often interpreted as having a broader character than social security (including, in particular, protection provided between members of the family or members of a local community). It is also used in some contexts with a narrower meaning than social security (understood as comprising only measures addressed to the poorest, most vulnerable or excluded members of society). Thus, unfortunately, in many contexts the terms “social security” and “social protection” are used interchangeably. In this report, pragmatically, the term “social protection” is used to mean protection provided by social security systems in the case of social risks and needs.<sup>1</sup>

#### **Social security**

The notion of social security adopted here covers all measures providing benefits, whether in cash or in kind, to secure protection, inter alia, from:

- lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member;
- lack of access or unaffordable access to health care;
- insufficient family support, particularly for children and adult dependants;
- general poverty and social exclusion.

Social security schemes can be of a contributory (social insurance) or non-contributory nature.

#### **Social assistance**

Social security benefits that are conditional on the level of income of recipient, i.e. are means-tested or based on similar forms of targeting (e.g. proxy means test, geographical targeting), are generally called social assistance. They are generally a device to alleviate/reduce poverty. Benefits can be delivered in cash or in kind.

“Conditional” social assistance schemes require beneficiaries (and/or their relatives or families), in addition to other conditions, to participate in prescribed public programmes (e.g. specified health or educational programmes). In recent years, schemes of this type have become known as *conditional cash transfer (CCT)* schemes.

Social assistance schemes are usually tax-financed and do not require a direct contribution from beneficiaries or their employers as a condition of entitlement to receive relevant benefits.

#### **Social protection floor**

The term “social floor” or “Social Protection Floor”(SPF) is used to describe a basic set of social rights, services and facilities that every person should enjoy. The term “social floor” corresponds in many ways to the existing notion of “core obligations”, to ensure the realization of minimum essential levels of rights embodied in human rights treaties.

The United Nations suggests that a social protection floor could consist of two main elements that help to realize human rights:

- services: geographical and financial access to essential services such as water and sanitation, health, and education;
- transfers: a basic set of essential social transfers, in cash or in kind, to provide minimum income security and access to essential services, including health care.

<sup>1</sup> It should be noted that the ILO uses the institutional title "Social Protection Sector" which comprises a wider range of programmes than social security: the Sector deals with issues including safety at work, labour migration, and other aspects of working conditions such as hours of work and wages.

For further reference, see: ILO: *Extending social security to all: A guide through challenges and options* (Geneva, 2010), pp. 125–128.

23. Social transfers are, in their essential nature, a public responsibility, and are typically provided through public institutions, financed either from *contributions* or *taxes*. However, the delivery of social security can be and often is mandated to private entities. Moreover, there are many privately run institutions (of insurance, self-help, community-based or of a mutual character). These can partially assume selected roles usually played by social security, including in particular occupational pension schemes, which complement elements of public social security schemes.

## 1.2. The right to social security

24. The universal need for social security has been recognized by the world community as a human right. Since the ILO was first set up in 1919, pursuing the achievement of social security has consistently been at the core of its mandate. The Organization's approach to social security reflects both the status of social security in international law and its own constitutional mandate. The approach is rights-based: i.e. in order to realize the right to social security, the ILO uses international legal instruments as the starting point, the main reference and the legal basis for the recognition of the existence of this right, and seeks to anchor all assistance and policy advice in international social security standards.

### 1.2.1. The human right to social security and the role of the ILO

#### *Social security as a human right*

25. The right to social security is recognized as a human right in fundamental human rights instruments, namely the *Universal Declaration of Human Rights*,<sup>2</sup> and the *International Covenant on Economic, Social and Cultural Rights* (ICESCR)<sup>3</sup> (see box 1.2), and enshrined as such in other international<sup>4</sup> and regional legal instruments.<sup>5</sup>

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<sup>2</sup> United Nations: *Universal Declaration of Human Rights*, adopted and proclaimed by General Assembly Resolution 217 A (III) of 10 December 1948 (New York, 1948).

<sup>3</sup> United Nations: *International Covenant on Economic, Social and Cultural Rights*, adopted by General Assembly Resolution 2200 A (XXI) of 16 December 1966 (New York, 1966).

<sup>4</sup> United Nations: *Convention on the Elimination of All Forms of Discrimination against Women*, adopted by General Assembly Resolution 34/180 of 18 December 1979, Articles 11(1)(e), 11(2)(b) and 14(2) (New York, 1979); *Convention on the Rights of the Child*, adopted by General Assembly Resolution 44/25 of 20 November 1989, Articles 26, 27(1), 27(2) and 27(4) (New York, 1989); *International Convention on the Elimination of All Forms of Racial Discrimination*, adopted by General Assembly Resolution 2106 (XX) of 21 December 1965, Article 5(e)(iv) (New York, 1965); *International Convention on the Protection of the Rights of All Migrant Workers and Their Families*, adopted by General Assembly Resolution 45/158 of 18 December 1990, Articles 27 and 54 (New York, 1990); *Convention on the Rights of Persons with Disabilities*, adopted by General Assembly Resolution A/RES/61/106 of 13 December 2006 (New York, 2006).

<sup>5</sup> For example: *European Social Charter*, adopted by the Council of Europe in 1961 (CETS No. 35); *Revised European Social Charter*, adopted by the Council of Europe in 1996 (CETS No. 163).

**Box 1.2**  
**Social security as a human right: Extracts from the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights (ICESCR)**

**Universal Declaration of Human Rights**

*Article 22:*

Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.

*Article 25:*

- (1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.
- (2) Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

**International Covenant on Economic, Social and Cultural Rights**

*Article 9:*

The States Parties to the present Covenant recognize the right of everyone to social security, including social insurance.

26. While the Universal Declaration of Human Rights constitutes an authoritative recognition of fundamental human rights, the ICESCR is a treaty, open for signature and ratification – and therefore a key instrument for giving reality to these human rights. The obligation of each State Party in the implementation of these rights is one of progressive realization, as it undertakes, upon ratification, to take steps towards the full realization of the relevant rights “to the maximum of its available resources”, while ensuring immediate protection against discrimination.<sup>6</sup> To date, 160 United Nations member States have ratified or acceded to Article 9 of the ICESCR and have thus committed themselves to guarantee for everyone the right to social security within their national boundaries.

*The ILO’s mandate*

27. As the international agency specifically entrusted with setting international labour standards, the ILO has primary responsibility, since its creation in 1919, for the realization of the right to social security.

28. This mandate was reaffirmed in 1944 in the Declaration of Philadelphia and incorporated subsequently in the ILO Constitution. It explicitly recognizes the “solemn obligation of the International Labour Organization” to further among the nations of the world programmes that will achieve, inter alia, “the extension of social security measures to provide a basic income to all in need of such protection and comprehensive

<sup>6</sup> United Nations: *International Covenant on Economic, Social and Cultural Rights*, op. cit., Article 2, para. 1.

medical care”, as well as “provision for child welfare and maternity protection”, therefore extending the protection to all those in need.

29. This was the first time in history that the world community had declared its commitment to extending social security to all. This new universality paradigm view was reflected in the Income Security Recommendation, 1944 (No. 67) and the Medical Care Recommendation, 1944 (No. 69). These two Recommendations paved the way for the formulation of social security as a human right in the Universal Declaration of Human Rights and, some years later, in the ICESCR.

30. In 1999 – and pursuant to the ILO mandate – the strengthening of social protection and social security was established as one of the four strategic objectives of the Decent Work Agenda, which aims at decent and productive work for all women and men in conditions of freedom, equity, security and human dignity. Recognizing the increased need for social security in a volatile economic situation and the pressure exercised on existing social security systems, the Decent Work Agenda underlined the necessity of adjusting to social changes, extending social security, improving governance of social security, and linking labour market and employment policies with social security.

31. Ten years ago, in 2001, the International Labour Conference reiterated that social security was a basic human right, and reaffirmed that its extension to all in need was a fundamental part of the ILO’s mandate and a challenge that needed to be addressed seriously and urgently by all member States. In 2003, the Global Campaign on Social Security and Coverage for All was launched.

32. In emphasizing that the four strategic objectives of the ILO were “inseparable, interrelated and mutually supportive”, through the ILO Declaration on Social Justice for a Fair Globalization,<sup>7</sup> adopted in 2008, constituents reconfirmed their joint efforts in:

developing and enhancing measures of social protection – social security and labour protection – which are sustainable and adapted to national circumstances, including: – the extension of social security to all, including measures to provide basic income to all in need of such protection, and adapting its scope and coverage to meet the new needs and uncertainties generated by the rapidity of technological, societal, demographic and economic changes.

33. In response to the global financial and economic crisis, the ILO constituents adopted the Global Jobs Pact in June 2009, which recognized the role of social security as an automatic economic and social stabilizer and an essential component of integrated crisis response strategies. It called upon countries to reinforce and extend their social protection systems through the establishment of an SPF.<sup>8</sup> The Global Jobs Pact was subsequently endorsed by the United Nations Economic and Social Council (ECOSOC), and the SPF was identified as one of nine United Nations-wide joint crisis response initiatives.<sup>9</sup> The SPF is also becoming an integral part of the ILO’s emerging two-dimensional strategy for the extension of social security (see Chapter 5).

34. An essential means of action available to the ILO for the realization of its mandate of extending social security to all is the setting of international labour standards. Since 1919, the ILO has adopted 31 Conventions and 23 Recommendations in this area, which have greatly contributed to the development of social security as a universal human right

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<sup>7</sup> ILO: *ILO Declaration on Social Justice for a Fair Globalization*, International Labour Conference, 97th Session, Geneva, 10 June 2008.

<sup>8</sup> ILO: *Recovering from the crisis: A Global Jobs Pact*, International Labour Conference, 98th Session, Geneva, 2009.

<sup>9</sup> ECOSOC: *Recovering from the crisis: A Global Jobs Pact*, resolution E/2009/L.24 (Geneva, 2009); UN-CEB: *Global financial and economic crisis – UN system – Joint crisis initiatives* (New York, 2009).

– notably by laying down specific obligations and guidelines for member States. In 2002, the ILO Governing Body confirmed eight out of these 31 Conventions as up-to-date social security Conventions (see box 1.3).

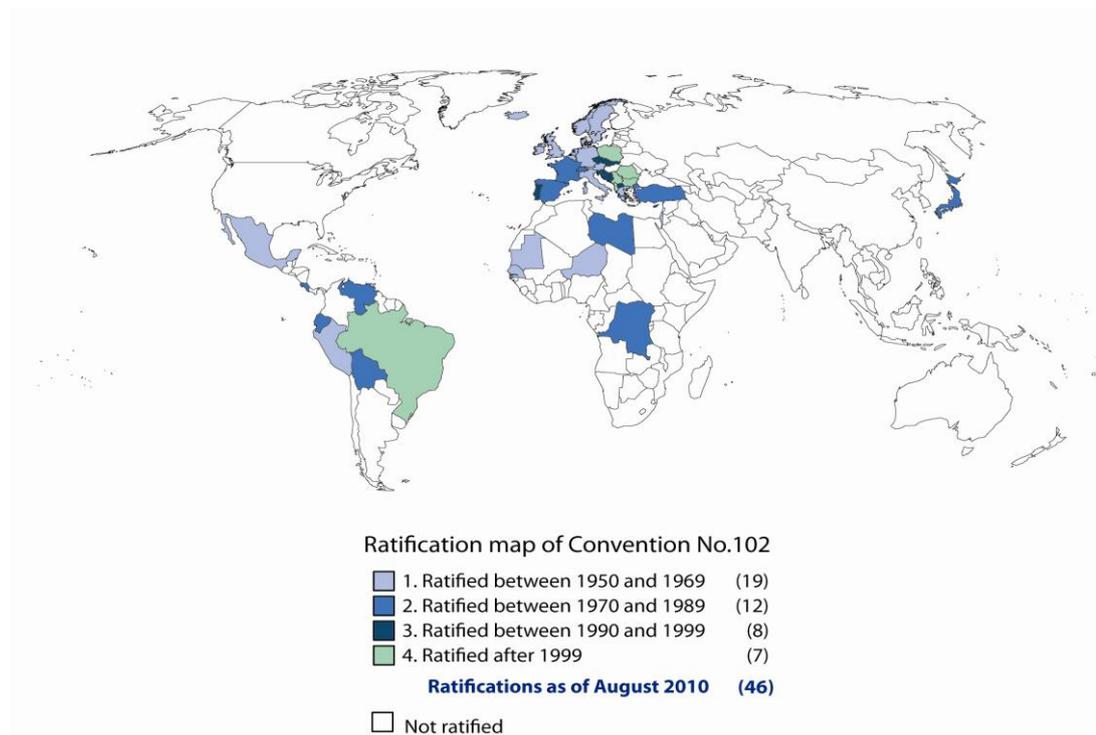
**Box 1.3**  
**Up-to-date ILO social security Conventions**

- Social Security (Minimum Standards) Convention, 1952 (No. 102);
- Equality of Treatment (Social Security) Convention, 1962 (No. 118);
- Employment Injury Benefits Convention, 1964 [Schedule I amended in 1980] (No. 121);
- Invalidity, Old-Age and Survivors' Benefits Convention, 1967 (No. 128);
- Medical Care and Sickness Benefits Convention, 1969 (No. 130);
- Maintenance of Social Security Rights Convention, 1982 (No. 157);
- Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168), and
- Maternity Protection Convention, 2000 (No. 183).

35. Most prominent among these is the Social Security (Minimum Standards) Convention, 1952 (No. 102). It is the only international Convention that defines the nine branches of social security, sets minimum standards for each of these branches, and lays down principles for the sustainability and good governance of those schemes. Another important feature of this Convention is that it contains flexibility clauses, thereby allowing ratifying member States to accept as a minimum three out of the nine branches of social security, with at least one of those three branches covering a long-term contingency or unemployment, so as to allow as many countries as possible to comply with the requirements laid down in the Convention.

36. The importance of ILO Conventions is often measured through their ratification. To date, Convention No. 102 has been ratified by 47 member States (see figure 1.1 and table A-I.1 in Appendix I), most recently by Brazil, Bulgaria, Romania and Uruguay. Some governments have indicated that the ratification process had been initiated at the national level (Argentina); other States have recently requested assistance from the ILO for the ratification of Convention No. 102 (China, Honduras, Mongolia and Paraguay), or have indicated a strong interest in its ratification or in the ratification of higher social security standards (Republic of Korea).

**Figure 1.1. Ratifications of the Social Security (Minimum Standards) Convention, 1952 (No. 102)**



Source: ILO ILOLEX, November 2010.

37. The Conventions adopted after Convention No. 102 have received fewer ratifications: Convention No. 121 has been ratified by 24 member States; Convention No. 128 by 16 member States; Convention No. 130 by 15 member States – while Convention No. 168 and Convention No. 183 have received seven and 13 ratifications, respectively (see table A-I.1 in the Appendix I).

### *Obstacles to ratification*

38. The development of a coherent strategy for extending social security coverage through ILO social security standards requires an analysis of the obstacles to ratification encountered by ILO member States up to now.

39. As demonstrated in the General Survey on social security instruments presented to this 100th Session of the Conference,<sup>10</sup> the relatively low number of ratifications of ILO social security Conventions is due to the fact that many States are not familiar with the Conventions and their provisions, which often translates into a misinterpretation of their obligations under these Conventions. This may be attributed to insufficient promotion or lack of knowledge. Concerns have also been voiced regarding some of the concepts used in the Conventions, which reflect a traditional “male breadwinner model” – a case in point being the calculation of minimum replacement rates based on men’s earnings. While the language used in the Conventions may not correspond to today’s realities, the wage levels of men in most countries and sectors are still higher than those of women; consequently, men’s earnings still constitute a relevant reference, while providing women with higher levels of benefits than if their own earnings were taken into

<sup>10</sup> ILO: *Social security and the rule of law*, General Survey concerning social security instruments in light of the 2008 ILO Declaration on Social Justice for a Fair Globalization, Report III(1B), International Labour Conference, 100th Session, Geneva, 2011.

account.<sup>11</sup> Economic, financial, social and administrative limitations are also perceived as obstacles to ratification, which indicate that some countries may not be aware of the flexibility offered by the Conventions.<sup>12</sup> As a result, some countries that would perhaps meet the Conventions' requirements – either by making use of the flexibility clauses or without even having to modify their national legislation – are prevented from ratifying them on account of false assumptions and misinterpretation.

#### *Impact of the Conventions at national level*

40. The impact of the Conventions – and that of Convention No. 102 in particular – should not only be measured in terms of the number of ratifications. Over the years, Convention No. 102 has had, and continues to have, substantial influence on the development of social security in the various regions of the world. ILO technical cooperation activities in the field of social security are based on its principles. As a result, many governments take the provisions of Convention No. 102 into account when drafting their own legislation, even if they have not yet ratified it (China, Latvia, Lebanon), so as to bring their new national legislation more in line with the Convention. Thus, the social security systems of nearly all European countries and many Latin American and Caribbean countries follow the pattern set out in Convention No. 102 and in the higher social security standards. The influence of these standards has been greatly felt in North African countries (Tunisia, Morocco) and Asian countries (Japan, the Republic of Korea).

41. The Convention has also influenced the development of formal social security systems in low-income countries: more than 30 African countries have set up pensions schemes modelled on it. Although these countries' formal social security systems cover only a small portion of the population, Convention No. 102 constitutes a development goal and is a reference used in documents setting long-term objectives with regard to the levels of protection and social security needed to be attained.<sup>13</sup>

#### *Implementation of the Conventions at national level*

42. An examination of the country cases in which the CEACR has observed non-compliance with ratified social security Conventions shows that, since 1964, ratifying States have brought their national law and practice into conformity with Convention requirements following CEACR recommendations in no fewer than 75 cases. In this regard, the ILO is often required to provide technical assistance to ratifying States to ensure a better application and implementation of social security standards (Denmark and Ireland in 2006, the Netherlands in 2007, Germany in 2008).

### 1.3. The need for social security

43. The rapidly growing interconnectedness of global financial, product and labour markets poses new challenges for the maintenance or enhancement of social justice. In a world in which financial and economic crises in any region are highly contagious and their effects on labour markets and social welfare spread rapidly, the capacity of

<sup>11</sup> ILO: *Gender equality at the heart of decent work*, Report VI, International Labour Conference, 98th Session, Geneva, 2009, para. 315; ILO: *Setting social security standards in a global society* (Geneva, 2008).

<sup>12</sup> Since the adoption of Convention No. 102, only one country (Bosnia and Herzegovina) has made a declaration under its Article 3, which allows ratifying countries whose economy and medical facilities are insufficiently developed to avail themselves of temporary exceptions in the application of certain Articles of the Convention.

<sup>13</sup> Such as the Southern African Development Community (SADC) Code of Social Security, or a number of national social security policy documents, for example in the United Republic of Tanzania and Zambia.

individuals to cope alone with economic risks is less effective than before. The global social risks associated with pandemics and the expected effects of climate change have a similar impact on the levels of individual social security. National social security systems need to be stronger than ever to neutralize additional systemic global risks. The risks and opportunities inherent in globalization require effective social security.

44. While the importance of social security for the well-being of workers, families and communities has always been an integral part of the ILO's mandate, the essential role of social security in addressing people's needs worldwide has been increasingly recognized by other international organizations. This renewed understanding of the interconnectedness of economic and social development, and the need for balanced economic growth, has also gained momentum in response to the financial and economic crisis. Some observers have identified an "emerging international consensus" on the role of social protection in development. The OECD Development Assistance Committee (DAC) has recognized that social protection "... stimulates the involvement of poor women and men in economic growth ... It helps build human capital, manage risks, promote investment and entrepreneurship and improve participation in labour markets".<sup>14</sup>

45. The international coalition around the SPF (see section 5.1.3) has brought together a large number of United Nations and other international organizations and donors concerned with extending social protection. The integration of social security into the Global Jobs Pact, and its endorsement by the UN-CEB and ECOSOC in July 2009,<sup>15</sup> bear witness to the greater appreciation of this issue at the global level. The communiqués of the G20 have also reflected this changed understanding, as reflected in its two most recent Declarations in July and November 2010, which reaffirmed the "commitment to achieving strong job growth and providing social protection to our most vulnerable citizens"<sup>16</sup> and to "improv[ing] income security and resilience to adverse shocks by assisting developing countries enhance social protection programmes".<sup>17</sup> In Africa, governments have committed to the gradual extension of a variety of contributory and non-contributory social security programmes in the African Union's Social Policy Framework for Africa, adopted in Windhoek in 2008, and most recently in the "Yaoundé Tripartite Declaration on the implementation of the Social Protection Floor", adopted in October 2010 (see box 5.2).

### 1.3.1. The role of social security systems in economic development and in facilitating structural change and managing crises

46. Social security systems are an economic necessity. The ILC in 2007 stated that "Sustainable tax-based or other models of universal social security ... are key to improving productivity and fostering transitions to the formal economy".<sup>18</sup> The understanding of the importance of social security as a prerequisite rather than a burden to growth was taking root in the development policy debate long before the crisis hit the global economy.

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<sup>14</sup> OECD: *The role of employment and social protection: Making economic growth more pro-poor*, Policy Statement, DAC High-level Meeting, 27–28 May 2009, Paris.

<sup>15</sup> ECOSOC: Resolution E/2009/L.24, op. cit.

<sup>16</sup> *The G20 Toronto Summit Declaration*, Annex I, 26–27 June 2010, para. 14.

<sup>17</sup> *The G20 Seoul Summit Leaders' Declaration*, Summit Document, 11–12 November 2010, para. 51(f).

<sup>18</sup> ILO: *Conclusions concerning the promotion of sustainable enterprises*, International Labour Conference, 96th Session, Geneva, 2007, para. 11(16).

47. The global financial and economic crisis acted as an accelerator of change in the social security policy discourse, and stressed the role of social security schemes as automatic social and economic stabilizers. It became clear that countries at all levels of development, which have social security systems in place, are in a much better position to cope with the social fall-out of the crisis. Cash transfers and other social security measures have been used as an important response mechanism that can protect and empower workers and help boost domestic demand, “build human capital and labour productivity”, and ultimately contribute to “the sustainability of economic growth”.<sup>19</sup>

*Enhancing effectiveness and efficiency of market economies*

48. The short history of intensified globalization over the past decades has shown that markets need to be embedded in a governance framework in order to be efficient and produce socially fair outcomes. A lesson learned from the economic and social development of industrialized countries throughout the last century is that social security and labour market institutions are part of the institutional tissue of successful market economies. They reduce uncertainties and hence diminish the transaction costs of necessary economic and labour market adjustment processes. In developing countries, the opening-up to international competition did not lead to sufficient growth in formal sector jobs, but instead to a large movement into the informal sector. In some countries, entire industries disappeared in less than a decade. The picture for both categories of countries is of the underutilization of productive resources – particularly of human capital. Adjustment processes in labour markets demonstrate that these processes can – if left to themselves – lead to sub-optimal outcomes with respect to employment and productivity levels. Integrated employment, labour market and social security policies are needed to create additional productive jobs and to facilitate the adjustment processes and avoid waste due to the underutilization or the wrong use of productive resources. The best form of social security remains a decent job. Facilitating access to employment opportunities should therefore be a basic orientation of integrated policies.

49. A new balance is being found through a combination of macroeconomic, employment, labour market and social security policies – setting out to achieve full and productive employment and to protect people against both traditional risks (such as sickness, unemployment, invalidity and old age) and new ones arising from technological and organizational change. Modern preferences for social arrangements seek to combine work and family life, permanent education and caring for parents and children. The ILO’s decent work approach epitomizes the concept of complementary labour market and social protection policies aiming at full and productive employment and decent work.<sup>20</sup> It is a strategic concept that seeks to achieve social and economic goals simultaneously and coherently, through a balanced strategy aimed at economic growth, full and productive employment and universal social protection.

50. The framework in which social security policy is developed is one in which policy-makers are challenged to assess social objectives alongside economic ones. Research indicates that many countries have succeeded in maintaining high-quality social security schemes, while, at the same time, performing well in terms of economic growth. The analysis, however, takes us further: not only are countries able to reconcile sound macroeconomic performance with sustainable social models, but they are bound to

<sup>19</sup> IMF–ILO: *The challenges of growth, employment and social cohesion*, discussion document for the Joint ILO–IMF Conference in cooperation with the Office of the Prime Minister of Norway, Oslo, September 2010, p. 10.

<sup>20</sup> As reaffirmed in the *ILO Declaration on Social Justice for a Fair Globalization*, op. cit., Part I(A).

implement adequate social arrangements – failing which, open market policies will be unable to absorb the adverse consequences of these same open market policies and, in the long term, be unsuccessful.

51. Provided that they are well designed, social protection programmes have a direct static impact in terms of poverty reduction. In addition, in an indirect and dynamic sense, they benefit productivity in a variety of ways: by reducing or preventing social exclusion; by empowering women and men in relieving constraints that often prevent the development of small or individual enterprises; and, most importantly, by helping to enhance human capital and support a healthy and educated workforce. Conversely, a range of studies has looked into channels through which a lack of social protection impacts on economic performance, of which an important one relates to capital market imperfections; more specifically, credit or other constraints may prevent the poor from undertaking investment. Such constraints may be financial in nature, but equally include issues of non-access to certain resources or provisions. Examples include: restrictions on the exploitation of arable land; limited access to health facilities; and lack of children's access – especially those from poor families – to education, which has been shown to have an adverse impact on future potential labour productivity and hence economic growth.

52. This does not mean that more social transfers are conducive to enhanced economic performance all the time and under all circumstances. Design matters, of course; benefit schemes (and the incidence of taxation financing them) can certainly have an impact on economic incentives.

53. What does this indicate for developing countries? Over the past decade an increasing number of initiatives have been taken and studies published, showing a variety of remarkable outcomes. Cash transfer programmes in Ethiopia, for example, have increased access to social services and led to higher circulation of cash, resulting in increased competition and local trade.<sup>21</sup> A similar picture emerges from the review of various social protection programmes in other low-income countries. Other studies support the accumulating evidence of the positive effects of income transfers in developing countries in terms of productivity and growth. In particular, with respect to increased school attendance and improvement in health conditions, there is solid evidence of the beneficial impact of cash transfer programmes in a range of different countries.

54. A series of empirical studies on South Africa clearly shows that social assistance expenditure has promoted investment, economic growth and job creation, and that these expenditures have improved the trade balance. Low-income households spend relatively high proportions of their income on domestic goods and services; hence an increase in their income tends to favour domestic industries. Moreover, there is a direct impact on education, in particular on the school enrolment of girls. This leads in turn to an increasingly productive labour force and a higher GDP growth rate.

55. In summary, the experiences noted here have been distilled from an extensive ILO literature review of studies on the impact of social security schemes on economic performance.<sup>22</sup> A strong consensus is emerging that well-designed social security

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<sup>21</sup> L. Adams and E. Kebede: *Breaking the poverty cycle: A case study of cash interventions in Ethiopia* (London, Overseas Development Institute, 2005).

<sup>22</sup> See among others: A. van de Meerendonk et al.: *The economic impact of social standards*, report prepared for the ILO (Geneva, 2009) (mimeo); ILO: *Growth, employment and social protection: A strategy for balanced growth in a global market economy*, a discussion paper for the Informal Ministerial Meeting of Ministers of Labour and Social Affairs during the International Labour Conference (Geneva, 2007) (mimeo); ILO: *Social*

systems and sound economic performance can and do coexist. In fact, it is increasingly evident that adequate social security is by no means the consequence of economic growth – it is a prerequisite for this growth.

### *Facilitating productive employment*

56. Social security systems play a key role in facilitating productive employment. However, the impact of social security on employment, in particular, has been the subject of a long-standing debate. One of the most discussed issues in this respect has been the impact of social security on the economic activity of individuals and their labour force participation – and the question of whether social security discourages people from taking up employment. The very objective of most social security benefits is to provide income in order to prevent poverty in situations when people are temporarily (unemployment, sickness, maternity) or permanently (disability, old age) unable to work. The challenge is to design benefits, and ensure their delivery, in a way that ensures an adequate level of income security is guaranteed without encouraging undesirable labour market behaviour. International experience shows many good practices where not only undesirable behaviour is prevented, but also social security benefit programmes are used in synergy with labour market and other policies to stimulate economic activity and facilitate a productive allocation of resources.<sup>23</sup>

57. Unemployment benefits are one of the main instruments to help society get through a period of economic downturn or to facilitate necessary structural adjustments towards a more efficient allocation of resources and higher productivity. At the same time, during periods of cyclical downturns or structural adjustments, these benefits play a role as macroeconomic stabilizers (helping to preserve levels of aggregate demand) and social stabilizers (helping to preserve standards of living and social cohesion during difficult times). However, this works only if such periods of unemployment are temporary and not too long. The difficult question is to ascertain to what extent there is a risk of creating dependency on benefits by weakening incentives to find a new suitable job. Most people would always prefer to have decent employment rather than to rely on social benefits. The risk of dependency on benefits arises when suitable and decent employment opportunities are not available. Often those looking for a job do not have adequate skills to match the demands of the labour market. Income support benefits should thus be accompanied by support increasing employability in the form of training and counselling. But if the available employment is only of a precarious and temporary character, this may lead to exclusion from longer-term decent employment opportunities. Policies supporting quality job creation can help by avoiding undesirable effects in such circumstances.

58. Another example is the question of old-age pensions and their impact on the labour force participation of older workers. Pensions were originally introduced to prevent poverty when people were too old to continue working. However, during the second half of the twentieth century, people started to retire earlier, when they were still physically able to work. On the one hand, the period of retirement started to be perceived as a well-deserved period of rest and leisure after an active life. On the other, retirement schemes were increasingly used as a vehicle to discontinue the employment of older workers, often viewed as being less productive or more expensive in terms of labour costs.

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*security for all: Investing in social justice and economic development* Social Security Policy Briefings, Paper 7 (Geneva, 2009); P. Townsend (ed.): *Building decent societies: Rethinking the role of social security in development* (Basingstoke, Palgrave Macmillan, 2009).

<sup>23</sup> *ibid.*

Consequently, there was a significant reduction in the labour force participation of older men and women in many developed countries. Combined with the demographic ageing of societies, this led to a considerable increase in the financial costs of pensions and to policy efforts aimed at reversing the previous trends and extending the duration of working lives. But it is clear that such a step requires much more than just a change in the statutory retirement age or in the design of the pension system. Employment opportunities need to be available, and people must be both physically and mentally able to work. This may require major improvements in working conditions. The issue of productivity of older workers has to be addressed through life-long learning opportunities and needs, as well as changed perceptions on the part of the employers. Many people, particularly women, retire from paid work to look after grandchildren, or elderly or sick family members. More efforts are required to recognize such unpaid care work on equal terms with other forms of employment, or to offer affordable substitute services. While in developed countries the challenge is how to extend working lives, in the developing world, where only a small minority is covered by pension systems, people have to work for as long as they are physically able to do so in order to survive – to a large extent in precarious and informal conditions. The main challenge is thus to create such pension provisions that would allow people to stop working at the economically and socially rational age.<sup>24</sup>

#### *Facilitating structural change*

59. Social security systems can also facilitate adjustment and structural change in the economy and society. If properly designed and adequately combined with labour market policies, social security benefits can reduce the fear of change, increase its pace – and thus improve overall levels of productive employment in economies. A better integration of social security measures in labour market policies, in particular those enhancing employability, remains a major challenge everywhere. Social security mechanisms can be more widely used as effective tools to address labour market informality.

60. One often neglected aspect is that social policies themselves make up a substantial proportion of employment in social services. Health, education and personal social services account for a considerable share of employment in many developed and, to a lesser extent, middle- and low-income countries. In the latter, this is particularly noteworthy, given that employment in these services constitutes a considerable proportion of formal employment, both in the public and private sectors. Since the 1960s, the experience of many European countries, particularly the Nordic countries, demonstrates how the expansion of social policies has led to the growth of employment opportunities in two mutually reinforcing ways. It has resulted in: (1) the creation of employment opportunities in health, education and personal social services, many of which have been filled by women; and (2) an increasing demand for affordable quality care services (child care, elderly care), which again has facilitated the labour market participation of women. In the context of concerns about below-replacement fertility rates in many European countries, it is interesting to note that today those European countries with high fertility rates tend to be the countries with the highest labour force participation rates of women – a trend which can be partly explained by the availability of social services and family-friendly policies.<sup>25</sup> The importance of such services and

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<sup>24</sup> ILO: *Employment and social protection in the new demographic context* (Geneva, 2010).

<sup>25</sup> F.G. Castles: “The world turned upside down: below replacement fertility, changing preferences and family-friendly public policy in 21 OECD countries”, in *Journal of European Social Policy*, Vol. 13 (2003), No. 3, pp. 209–227.

their positive impact on employment and gender equality is increasingly being recognized by governments, employers and workers – also in emerging economies.<sup>26</sup>

61. Future adaptation processes will result from the interdependency and changing nature of global production processes on global markets, but will also stem from the necessary retooling of economies as production processes and labour market structures become “greener”. Well-designed social security schemes could also play an important role in mitigating the vulnerability of poor workers and their families who will be increasingly exposed to climate change-related shocks and stresses.

*Stabilizing demand and maintaining economic and social peace during crises*

62. The role of social security systems as an automatic stabilizer during crises has been widely acknowledged during the recent global financial and economic recession. It has provided compelling evidence that countries with effective social security systems can react quicker and more effectively to a crisis.

63. The global financial and economic crisis has also shown that the most effective social security instruments to mitigate the social fall-out of the crisis are the introduction or extension of unemployment or partial unemployment benefits. ILO analyses have revealed that the increased expenditure on social and economic stabilizers has helped to save as many jobs worldwide as discretionary ad hoc stimulus packages.<sup>27</sup> In developed countries with existing schemes, these measures are relatively cheap. As a rule of thumb: at a wage share of GDP of 60 per cent and a replacement rate of 50 per cent of former wages, 10 per cent of additional unemployment costs about 3 per cent of GDP; partial unemployment benefits would cost roughly half of this amount. In middle- and low-income countries, employment guarantee schemes, such as the Indian National Rural Employment Guarantee schemes, can most likely be financed at half the above cost. One important feature of the reaction of social security schemes during the crisis was their flexibility – for instance, the duration of benefits was increased in full and partial unemployment schemes. Partial unemployment benefit in Germany (see box 3.10) has helped to maintain a skilled workforce in enterprises. This flexibility facilitates the revving up of production almost instantaneously when the effects of the crisis abate. Lessons from history also show that countries tend to extend social security after major crises. Examples are the periods of expansion of social security after the Great Depression in the early 1930s in the United States; the Beveridge reforms in the United Kingdom in the late 1940s, as well as similar reforms in many other European countries after the Second World War; further reforms as a reaction to the oil crisis in the late 1970s; and more recently the introduction of unemployment insurance in the Republic of Korea after the Asian crisis of 1997.

<sup>26</sup> The ILO Workers with Family Responsibilities Convention, 1981 (No. 156) provides important guidance in this respect to governments, employers and workers. For practical examples on combining work and family responsibilities, see: C. Hein and N. Cassirer: *Workplace solutions for childcare* (Geneva, ILO, 2010); R. Holmes and N. Jones: *Rethinking social protection using a gender lens*, ODI Working Paper 320 (London: Overseas Development Institute, 2010); ILO and UNDP: *Work and family: Towards new forms of reconciliation with social co-responsibility* (Santiago de Chile, 2009).

<sup>27</sup> ILO: *Accelerating a job-rich recovery in G20 countries: Building on experience*, An ILO report, with substantive contributions from OECD, to the Meeting of G20 Labour and Employment Ministers, 20–21 April 2010, Washington, DC (Geneva, 2010); ILO: *Extending social security to all* (Geneva, 2010); ILO: *Recovery and growth with decent work* (Geneva, 2010).

64. These experiences lead to the question of how social security systems can be reviewed, and if necessary reformed, to ensure that they fulfil their role as economic and social stabilizers in an optimal way during recovery – and if the worse comes to worst, in any future crisis.

### 1.3.2. Social security as a pivotal tool to progress toward social justice in a globalizing world

65. Social security is a human right to which everyone in any society should have access; it is also a prerequisite for social cohesion and justice. It constitutes a powerful tool to alleviate poverty and inequality, as demonstrated through long experience in more developed countries, as well as in those middle- and low-income countries that invested early in social development.

66. There has been widespread consensus in most industrialized countries that growing prosperity should be accompanied by an improvement in the social protection of their populations. There is no successful industrialized country in Asia, Europe, North America or Oceania without a fairly extensive social security system. Over a period of many decades and until recently, that principle was – rightly – unquestioned. Many of the most successful economies in the world, such as Denmark, France, Germany, Norway, Sweden and the Netherlands, have the highest levels of social expenditure measured as a percentage of GDP, generally amounting to between 25 and 30 per cent of their respective national incomes. These economies are also traditionally open economies, having been subject to international competition for many decades. They also share a common experience in that all of them started to introduce their social protection systems around the end of the nineteenth century, at a time when they were poor. The provision of social security was – and remains – an integral component of their respective national development paradigms.

#### *Social security and its impact on poverty, vulnerability and inequality*

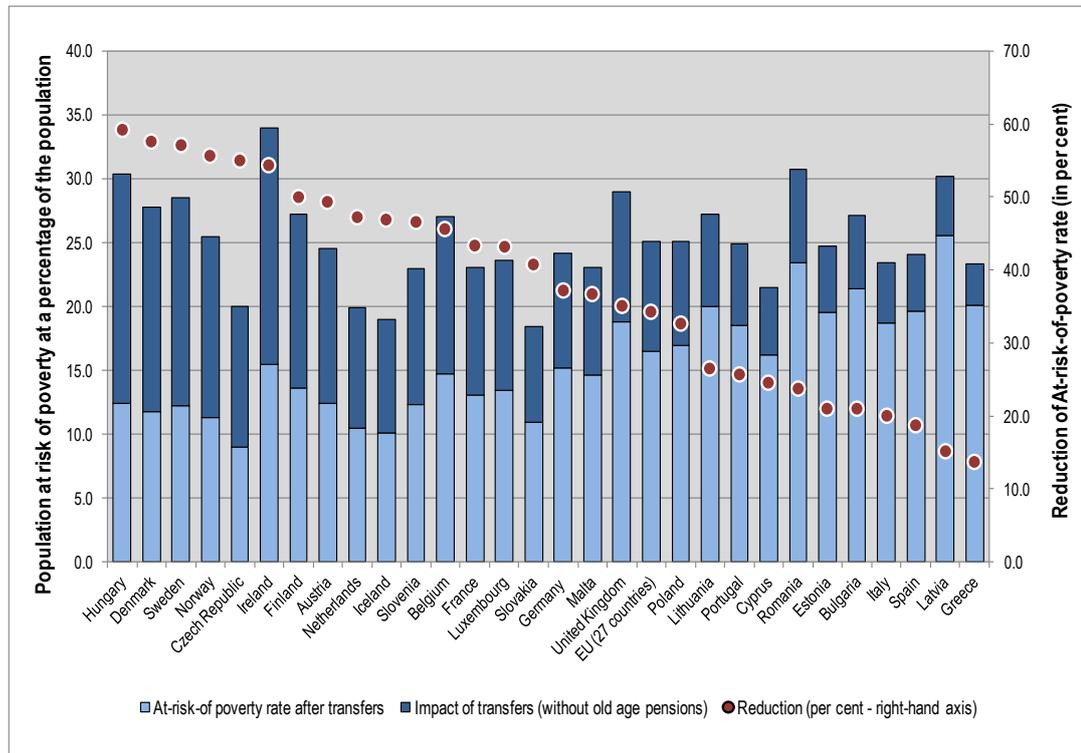
67. Social security systems are one effective mechanism to reduce poverty and contain inequality, promote equity, and sustain equitable economic growth.<sup>28</sup> In OECD countries, it is estimated that levels of poverty and inequality are nearly half of those that might be expected in the absence of such schemes. A large share of the poverty-reducing impact of social security systems is provided by old-age pensions; therefore pensions have a strong influence on the measured impact of social security on the reduction of poverty. The average impact of social security (excluding pensions) on poverty reduction in the European Union was 33 per cent in 2008. In other words, on average social security benefits reduced at-risk-of-poverty rates by 8.6 percentage points, from 25.1 per cent before receipt of benefits to 16.5 per cent after receipt (see figure 1.2).<sup>29</sup>

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<sup>28</sup> ILO: *World of Work Report 2008: Income inequalities in the age of financial globalization* (Geneva, 2008); UNRISD: *Combating poverty and inequality: Structural change, social policy and politics* (Geneva, 2010).

<sup>29</sup> Own calculations based on *EUROSTAT* statistical database. The EC uses a threshold of 60 per cent of median equivalized disposable income to define at-risk-of-poverty rates.

Figure 1.2. Poverty rates before and after transfers (without old-age and survivors' pensions) in the European Union, 2008



Note: As the objective is to measure the impact of social security benefits (excluding pensions), pensions had to be included in the definition of incomes before receipt of benefits.

Source: Based on EUROSTAT statistical database.

68. Evidence from OECD countries suggests that high levels of social expenditure are associated with low levels of poverty (see figure 1.3); this is the case for both the working-age population and people of retirement age. However, the variation of poverty levels at a given level of spending also demonstrates that expenditure levels alone are not sufficient; expenditure also needs to be allocated in an effective and efficient way, and to be associated with a socio-demographic and socio-economic environment that is conducive to the promotion of decent work and productive employment.

Figure 1.3. Social expenditure and poverty levels in the OECD, 2007



Note: Poverty rates based on a threshold set at half of median household disposable income. Social spending includes both public and mandatory private spending in cash (i.e. excluding in-kind services). Social spending for people of working age is defined as the sum of outlays for incapacity, family, unemployment, housing and other (i.e. social assistance) programmes; social spending for people of retirement age is the sum of outlays for old-age and survivors' benefits. Social spending is expressed in percentage of GDP at factor costs. Data on poverty rates refer to the mid-2000s for all countries; data for social spending refer to 2003 for all countries except Turkey (1999).

Source: Based on computations from OECD income distribution questionnaire and OECD Social Expenditure Database (SOCX).

69. In middle- and low-income countries, there are strong indications that the availability of social security programmes is associated with a reduction in poverty and inequality. For example, simulations based on micro-data have shown that modest cash transfer programmes for older people and children have the potential of closing the poverty gap significantly.<sup>30</sup> Evaluations of national social transfer programmes demonstrate that even modest cash transfer programmes can have a sizeable impact on the reduction of poverty and inequality – not only in the short term, but also over time.<sup>31</sup>

70. Social security also plays an important role in containing inequality and supporting equitable growth. Income inequality in the Scandinavian EU countries and the Netherlands (with high social expenditure and Gini coefficients of between 0.225 and 0.261) is much lower than in some other countries with lower levels of social expenditure, notably the “Anglo-Saxon” countries of the United Kingdom, Ireland and the United States (where Gini coefficients are well above 0.3).<sup>32</sup> All these countries have high labour force participation rates; hence these differences do not originate from differences in the proportion of economically active people. The percentage of children who grow up in poor households is around 3 per cent in the Nordic countries, compared with figures of 16 per cent in Ireland and the United Kingdom, and 22 per cent in the United States. The percentage of the elderly population living below the poverty line in the Netherlands is 1.6 per cent, while in Ireland it is 35.5 per cent.<sup>33</sup> When these figures

<sup>30</sup> F. Gassmann and C. Behrendt: *Cash benefits in low-income countries: Simulating the effects on poverty reduction for Senegal and Tanzania*, Issues in Social Protection Discussion Paper No. 15 (Geneva, 2006).

<sup>31</sup> ILO: *Extending social security to all*, op. cit.

<sup>32</sup> B. Cantillon: “The poverty effects of social protection in Europe: EU enlargement and its lessons for developing countries”, in P. Townsend (ed.): *Building decent societies: Rethinking the role of social security in development* (Basingstoke, Palgrave Macmillan, 2009), pp. 220–242.

<sup>33</sup> These figures are from the OECD Social Indicators Database (SOCX).

are compared with the resources that these countries spend on social transfers – 24.3 per cent on average in the Scandinavian countries plus the Netherlands, against 16.4 per cent on average in the three Anglo-Saxon countries<sup>34</sup> – then it can be concluded that, while outcomes are not necessarily uniform across countries, social security, when sufficiently endowed with resources, is effective in its main objective of reducing income inequality and poverty.

### *Balancing economic and social development*

71. It is increasingly acknowledged that disproportionate inequality in income and assets can be an impediment to growth, and that well-balanced redistributive policies are needed to generate and bolster economic growth. While most high-income countries have followed a historical path of parallel economic and social development, with social security being a key component,<sup>35</sup> the strong role of social protection in the development of low- and middle- income countries has only been recognized fairly recently – with the emergence of the concepts of “growth with equity” and “pro-poor growth”.<sup>36</sup>

72. A new understanding of the balance between social and economic benefits has emerged with respect to the fiscal and economic cost of national social security systems. The debate is now shifting from the need for social security at early stages of economic development to the deliverability of social security benefits in middle- and low-income country contexts, as well as to ways in which a country can provide and sustain the financing of a core set of meaningful benefits that reflect the state of its social and economic development and fiscal capacity.

73. Many governments, together with the social partners – often triggered by the crisis – are now reviewing and reconsidering the role of social security in national social development. In middle- and low-income countries, social security is increasingly perceived as an effective means to combat poverty and invest in people, and as a way to facilitate and safeguard long-term economic growth.

74. At present, innovations are increasingly coming from middle- and low-income countries, where so-called non-traditional forms of social security coverage are being developed. The first priority in many of these countries is to eliminate the coverage gap existing in the formal social security system. Countries including Argentina, Brazil, Chile, India, Indonesia, Mexico, South Africa and Uruguay, to name but a few, are increasingly turning to tax-financed cash transfer programmes in order to address the problems of exclusion from social security. The objective is to reach and enrol those in the working population who have so far remained uncovered, and to provide “social” pensions for those who are now beyond working age, but who were unable to build up enough credits through contributions to be entitled to benefits – many of whom are women. There are convincing examples of success with modest universal social benefit systems in Africa, Latin America and Asia. In Botswana, Mauritius, Namibia and South Africa, for example, basic pension schemes have had positive poverty alleviation effects. Valuable experience has been gained regarding the potential role of social transfers in

<sup>34</sup> Calculated from the OECD SOCX database, with reference to 2007. The figures represent net direct public social expenditure, which includes mandatory private social protection expenditure.

<sup>35</sup> Northern European countries provide particularly interesting lessons for today’s developing countries, as they introduced extensive social security programmes when they were at a low level of development. See, for example: J. Palme and O. Kangas (eds): *Social policy and economic development in the Nordic countries* (Basingstoke, Palgrave Macmillan, 2005).

<sup>36</sup> OECD: *Promoting pro-poor growth*, op. cit.

combating poverty in countries such as Brazil and Mexico. In Asia, notable successes have been seen in the Republic of Korea, which achieved full population coverage for health care in under 20 years, and Thailand, which achieved this in under 15 years. Significant progress is being made currently in both India and China.

75. All this experience demonstrates that implementing basic social security systems in low-income countries makes a critical contribution to attaining the MDG 1 of halving poverty by 2015, and that social transfer programmes are effective in their main target: to compress income inequality and reduce poverty.

#### *Social security and social dialogue: Promoting social justice and social cohesion*

76. The ILO has always stressed the importance of social dialogue and the role of workers and employers in the governance of social security schemes and wider national policy discussions on social security strategies. Social dialogue is an essential element of the pursuit of social justice and social cohesion. This has never been more apparent than in the aftermath of the global financial and economic crisis, which has again corroborated the need for constructive and inclusive social dialogue in designing, implementing and monitoring economic and social policies.<sup>37</sup> A broad social dialogue process in designing and reforming social security schemes helps to reflect notions of social justice and fairness, and to ensure broad-based ownership and accountability.

77. The representation of workers and employers in the governance and administration of social security schemes is reflected in the ILO's social security principles and standards. Successful and sustainable social security systems are based on good governance, full accountability and participation of society at large in general, and workers' and employers' organizations in particular. While the ultimate responsibility for comprehensive and adequate social security coverage lies with the State, the involvement of employers' and workers' organizations in the design, supervision and governance of social security systems can make a major contribution to creating and maintaining sound systems with effective delivery. Boards of social insurance institutions therefore represent an important arena for institutionalized social dialogue. In some countries, where other institutionalized forms of social dialogue do not exist, these boards constitute an important arena for social dialogue on a specific issue.

#### 1.4. A first conclusion

78. Women and men, as well as children, have a right to social security. At the same time, social security institutions are part of the governance and institutions of efficient market economies. The rapidly growing interconnectedness of global financial, product and labour markets increases the need for social security. In a world in which financial and economic fluctuations spread rapidly, with an immediate effect on labour markets and social welfare, the capacity of individuals to cope alone with economic risks is even more limited than before. The global social risks associated with pandemics and the expected repercussions of climate change have a similar impact on the levels of individual social security. To foster economic development, strengthen economic resilience and neutralize additional systemic global risks, national solidarity-based social security systems must be stronger than ever. Effective social security is needed to allow societies to cope with the risks of globalization, harness fully its opportunities, and

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<sup>37</sup> L. Rychly: *Social dialogue in times of crisis: Finding better solutions*, DIALOGUE Working Paper No. 1 (Geneva, ILO, 2009); J. Freyssinet: *Les réponses tripartites à la crise économique dans les principaux pays d'Europe occidentale*, DIALOGUE Working Paper No. 12 (Geneva, ILO, 2010).

adjust to continued change. This requires comprehensive and integrated national policy and institutional frameworks – encompassing employment, social security and other social policies – that will enable better responses to both structural changes and shocks. The right to social security – if it is to be consistent, play effectively its productivity-enhancing role and act as a social and economic stabilizer in an uncertain world – has to be built into national laws, governance and institutional structures, as well as effective international mechanisms. Only such a combination of instruments can set the necessary social boundaries to the functioning of global markets.

## Chapter 2

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### The global state of social security and its challenges

79. This chapter provides a first global diagnosis of the present state of social security systems across the world, in regions and countries at different stages of economic development. For the first time, the ILO can rely on a broad quantitative knowledge base on social security coverage, which complements traditional data collection activities in the field of social security expenditure and financing. Despite prevailing limitations in the availability of statistics for many countries, this statistical database offers a wealth of evidence of the coverage, adequacy, expenditure and financing of social security organized in a systematic way. This will provide useful insights to ILO constituents and to other stakeholders around the world. The first comprehensive and systematic assessment based on this knowledge base was recently published in the *World Social Security Report 2010/11*, launched in November 2010.<sup>1</sup> Chapters 2 and 3 draw largely on the findings of this Report.

80. This chapter is in three parts, which outline the main interlinked challenges for social security in all national contexts: (1) to cover all in need; (2) to provide benefits adequate in both social and economic terms; and (3) to secure sustainable financing. It concludes that the key to successfully addressing these challenges lies in good and participative governance.

#### 2.1. The coverage challenge

81. For a long time it was assumed that in middle- and low-income countries social security coverage would increase in line with economic development; yet this expectation was to prove misplaced. In many countries, the growing incidence of informal work led to stagnant or even declining rates of coverage. As a result, the great majority of the world population still lacks access to social security coverage.

82. While there has been some progress in the extension of social security coverage in some parts of the world, elsewhere stagnation and even contraction have occurred. With regard to the coverage of contributory benefits, these developments are closely associated with employment trends, particularly the quantity and quality of jobs available in the formal economy. Yet governments, in consultation with social partners, have an important role to play in defining which groups of the population should be covered, and which groups are outside the realm of social insurance; in implementing and enforcing these policies; in regulating private forms of provision; and in establishing and maintaining non-contributory social security schemes which can guarantee at least a minimum level of social security coverage for all.

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<sup>1</sup> ILO: *World Social Security Report 2010/11: Providing coverage in times of crisis and beyond* (Geneva, 2010).

83. Social insurance was originally established to serve wage and salary workers who have an explicit contract in formal enterprises in the context of an identifiable employment relationship. In middle- and low-income countries, workers not in such a position are not generally covered by law as regards employment-related social insurance. This is usually the case for the self-employed, who represent the vast majority of informal economy workers and who are not usually covered. Moreover, a growing number of workers (many of them women) work in circumstances where the employment relationship is unclear, ambiguous or hidden, and where they tend not to enjoy social insurance coverage. Furthermore, in some countries employers and workers in small enterprises are exempted from compliance with certain provisions of labour and social security laws, notably the obligation to contribute to mandatory social insurance. Where legal regulations are in place, workers may effectively be excluded from social security because the regulations are not enforced. This is the case of many workers in smaller enterprises in a number of countries where statutory coverage has been extended to them, but the means of enforcing the law are not in place; and also of workers employed in formal enterprises but without a formal contract (undeclared workers), who represent a relatively high share of total informal employment in middle-income countries.

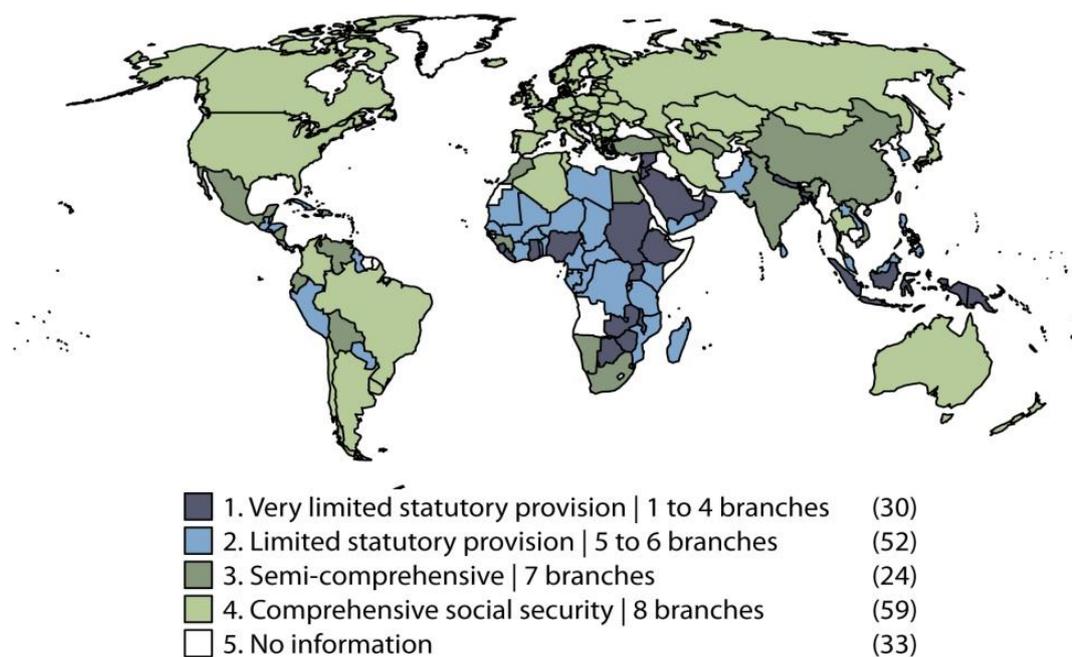
84. In many middle- and low-income countries, alternative social security arrangements, such as non-contributory schemes, are not sufficiently developed to provide at least a basic level of social security coverage to those outside a formal employment relationship. As a result, employment-related social insurance remains the main pillar of social security systems in many parts of the world, and large groups of the population are not covered at all, or only partly so.

85. Comprehensive social protection (coverage by all branches of social security at least at a minimum level of benefits as guaranteed by the Social Security (Minimum Standards) Convention, 1952 (No. 102)), is not a reality for the vast majority of the world's population. A minority thereof benefits from partial social security coverage (i.e. in some of the social security branches). The ultimate aim of all ILO standards is to provide comprehensive protection to as many people as possible; the intermediate aim is to provide everyone with at least a basic level of protection. Such a "social protection floor" would guarantee at least a basic level of income security at all stages of the life cycle, as well as access to essential health services.

86. Some level of protection by social security exists in nearly all countries, though only a minority of countries provides protection in all branches. In many countries, coverage is limited to a few branches, and only a minority of the population has access – both legally and in practice – to existing schemes. Every country makes some form of provision for social health protection, thus enabling access to at least a limited range of health-care services. These include some free public health-care services, and other services through health insurance for certain population groups at least. Most countries have schemes providing contributory old-age pensions, although in many coverage is restricted to workers in the small formal economy, or even just to part of it. Many of these schemes are relatively new, so actual coverage measured in terms of the percentage of elderly persons receiving any benefit is very low. In most countries, formal economy employees have some form of protection in the event of employment injury, although often such coverage does not meet the requirements of Convention No. 102 with regard to the scope and type of benefits provided. In most countries, at least some groups of employees are entitled to paid sick leave and paid maternity leave, either through provisions in the Labour Code or in collective agreements. However, as the actual enforcement of these provisions is often low, effective coverage is equally low.

87. Figures 2.1 and 2.2 show the extent of statutory coverage through social security schemes around the world. In Asia, Africa and some parts of Latin America, in particular, there are large gaps in the range of social security schemes legally available to at least some groups of workers.

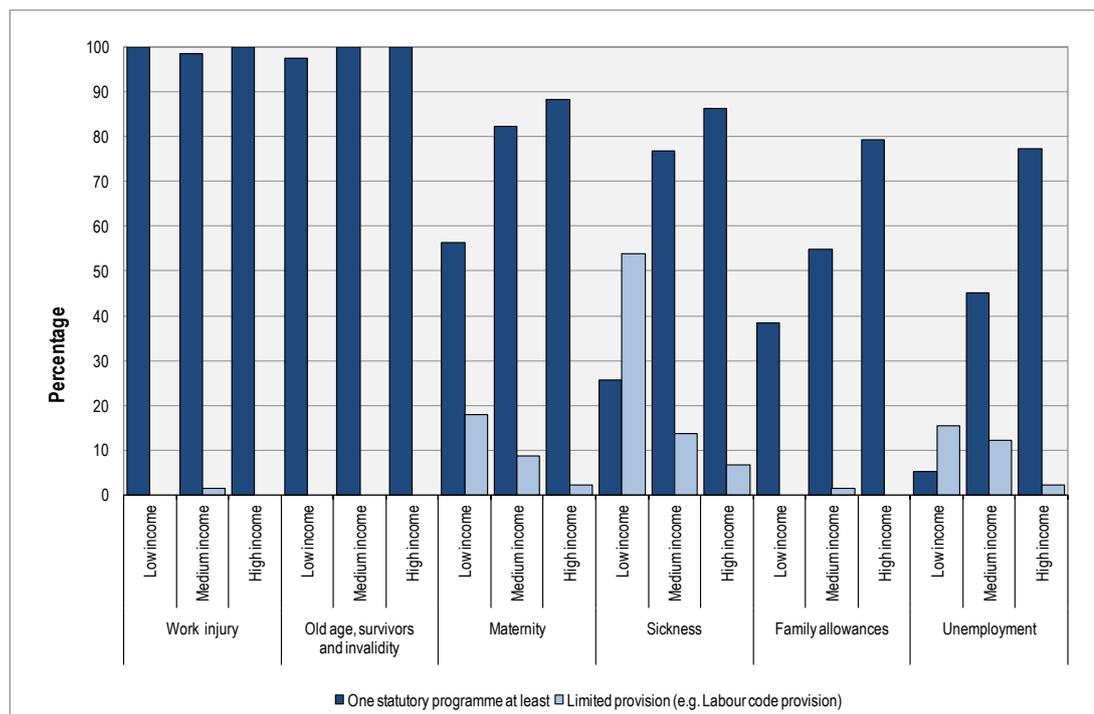
**Figure 2.1. Branches of social security: Number covered by a statutory social security programme, 2008–09**



Source: Based on information from SSA-ISSA and ILO; see ILO: *World Social Security Report 2010/11*, op. cit., figure 2.4.

88. Comprehensive social security is still limited largely to high-income countries though a number of countries have made great strides in the provision of (semi-)comprehensive statutory coverage. Roughly half of the world's countries cover seven or eight branches, and the other half provide only limited statutory protection (see figure 2.2). Work injury, as well as old age, survivors and disability are the risks covered by at least one statutory programme almost everywhere; short-term benefits in the event of maternity, sickness and unemployment, as well as family allowances, are widely available.

**Figure 2.2. Branches of social security: Countries with statutory programmes or limited provision, latest available year (percentages)**



Source: Based on legal information from SSA-ISSA; see ILO: *World Social Security Report 2010/11*, op. cit., figure 2.6.

89. Only a third of countries worldwide (comprising 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. However, most of these systems cover only persons in formal employment as waged or salaried workers, and such workers constitute less than half the economically active population globally – but over 70 per cent in countries with comprehensive social security systems. Taking into account the non-economically active, only about 20 per cent of the world’s working-age population (and their families) are estimated to have effective access to such comprehensive social security systems.

90. The focus so far has been on the extension of statutory coverage and the existence of social security programmes; a more detailed review by branch will be provided in Chapter 3.

## 2.2. The adequacy challenge

91. The coverage challenge is closely connected to the notion of adequacy. Meaningful coverage can only be achieved if the benefits provided are adequate. The adequacy of benefits concerns not only the level (or generosity) of benefits, but also wider notions of adequacy, taking into account its economic and social aspects. Social security benefits may be considered adequate if:

- they help to achieve expected social policy outcomes (e.g. meeting the needs of people who have to cope with life’s essential risks) and the relationship between benefit levels and taxes and/or contributions paid during a working life is considered to be “fair” (*social adequacy*); and

- they work in synergy with employment instruments and fiscal and other economic policies, and do not result in unwanted economic consequences (*economic adequacy*).

92. The adequacy of social security benefits has been addressed in numerous national and global policy discussions. Benefits are considered adequate if they are neither too low nor too high. Benefits are regarded as too low if people cannot live on them or if they perceive the “return” on their contributions to be too low. Cash benefits may be considered too high if they result in expenditure levels or behaviour detrimental to the common good or to acceptance by the public of the scheme itself.

93. The assessment of the adequacy of benefits provided through national health protection systems is even more complex, as adequacy includes aspects of individual needs and of a country’s available supply of medical goods and services. Adequacy is determined by the availability of necessary services and by the absence of financial barriers to access these services. This section will focus on the adequacy of cash benefits; a more detailed discussion is provided in Chapter 3.1.

94. A variety of reference variables may be used to assess adequacy of a given benefit, depending on the policy objectives being pursued. These variables include poverty lines, earnings or overall income levels (individual or average). Clearly, the choice of benchmark depends on the type of programme and on the country’s socio-economic context. The notion of adequacy can have a different meaning for social insurance benefits financed from contributions and giving rise to acquired rights, or for basic, universal or social assistance schemes largely financed through general taxation or donor sources.

95. The ILO social security Conventions contain a number of adequacy benchmarks which provide guidance in this respect. ILO Convention No. 102 sets minimum adequacy standards for social security benefits in each of the branches:

- a *minimum level of benefits* to be paid in the event of occurrence of one of the contingencies; and
- the *conditions for, and periods of, entitlement* to the prescribed benefits.

96. The other up-to-date Conventions in the field of social security set higher standards for the different branches of social security, notably as regards the minimum level of benefits to be provided (see table 2.1). “Replacement rate” refers to reference wages that are either – in the case of earnings-related benefits – the previous wage of a skilled manual male employee; or – in the case of non-earnings related benefits based on residency (means-tested or not) – typical prevailing wage levels paid for unqualified work (the benchmark being the wage of an “ordinary adult male labourer”).

**Table 2.1. Minimum replacement rate of cash benefits required by ILO social security Conventions (percentage of earnings of a standard beneficiary)**

Branches	Convention No. 102 (%)	Conventions Nos 121, 128, 130, 168, 183 (%)
Sickness benefit	45.0	60.6
Unemployment benefit	45.0	50.0
Old-age benefit	40.0	45.0
Employment injury benefits		
– Short-term	50.0	60.0
– Disability	50.0	60.0
– Survivors'	45.0	50.0
Family benefit	(3.0 or 1.5)	---
Maternity benefit	45.0	2/3 of the woman's previous earnings
Invalidity benefit	40.0	50.0
Survivors' benefit	40.0	45.0

97. If the benefits provided to cover contingencies listed in the table take the form of means-tested social assistance benefits, not only should they not be lower than prescribed portions of the typical prevailing wage levels paid for simple unqualified work, but also – together with the beneficiary's other means – they should “be sufficient to maintain the family of the beneficiary in health and decency” (Convention No. 102, Article 67).

98. *Social adequacy* relates to the achievement of the expected policy outcomes. Depending on the policy objectives, the expected outcomes are either protection from poverty, or the replacement of a certain proportion of income in the event of a recognized social risk or contingency, or a combination of both. As discussed above, the ILO social security Conventions offer different variants of minimum adequacy benchmarks which cater to national circumstances.

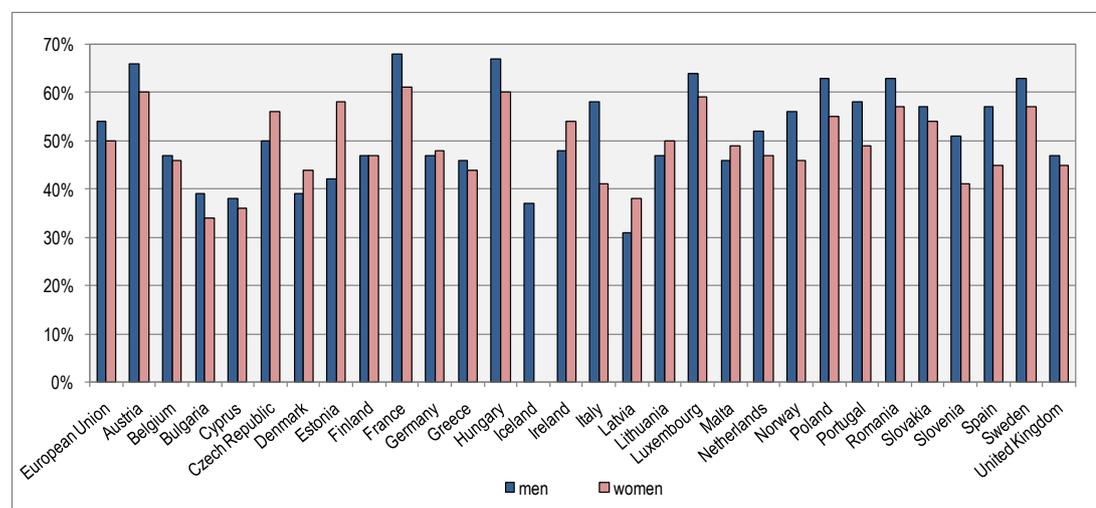
99. Most social insurance schemes aim at replacing a certain percentage of the beneficiary's previous income, which would allow him/her to maintain a minimum acceptable standard of living in relation to his/her previous standard of living. Thus, the primary objective is not only to provide a minimum benefit level, but also to maintain a certain standard of living in the event of the loss of earned income due to specific contingencies, such as old age, disability, survivorship, sickness, unemployment, etc.

100. However, as shown above, income replacement may be not sufficient, if the income to be replaced is itself very low. If, as specified in Convention No. 102, a minimum benchmark of 40 per cent of previous earnings is applied to lower than average wages or even the minimum wage, the resulting minimum replacement rates may be lower than the poverty line. Even in relatively rich countries, for men and (even more) for women with low earnings, the benchmark replacement rates of 40 per cent foreseen by the Convention may not be sufficient to prevent poverty, if such benefits are the only source of income.

101. This can be illustrated by evidence from several European countries, which shows that, for a median pensioner, old-age pensions in many countries replace only a relatively small proportion of previous earnings (figure 2.3). Taking into account that median earnings tend to be lower than average earnings, this evidence suggests that increased efforts may be necessary to secure the adequacy of pensions in order to reduce

the risk of income poverty in old age. Similar challenges, albeit less well documented, exist for other social security benefits and other parts of the world.

**Figure 2.3. Aggregate replacement ratios for pensions in European countries (2009)**



Note: The indicator is defined as the ratio of the median individual gross pensions of the 65–74 age category relative to median individual gross earnings of the 50–59 age category, excluding other social benefits. The EU aggregate is calculated as a population-weighted average of national values.

Source: Eurostat, based on European Union Statistics on Income and Living Conditions (EU-SILC) data.

102. If benefit levels lead to expenditure that is not acceptable to the active generation financing them, the scheme itself is in jeopardy. *Economic adequacy* of benefits thus requires levels and entitlement conditions to be acceptable to contributors and taxpayers. Affordability and financial sustainability are always a concern, along with adequacy of coverage and of benefit levels: achieving minimum standards should happen “as soon as possible” and “as rapidly as national conditions allow”. Actually, it is quite clear that financial affordability and sustainability, on the one hand, and adequacy of benefit provision (in terms of amounts paid and of people effectively reached and protected), on the other, are two sides of the same coin. Only meaningful benefits effectively covering those in need can create a willingness among contributors and/or taxpayers to finance the various policies; inadequacy (and/or bad governance) – as too many examples in the history of social security show – undermine sustainability, as willingness to finance such programmes quickly erodes. Furthermore, the financing of benefits, by whatever means, should be equitable and affordable to all protected persons; in particular, the need to pay taxes or contributions to finance future benefits should not be a cause of “hardship” for people on low incomes.

## 2.3. The financing challenge

103. The global discussion on social expenditure and financing has started to shift from the perspective of the “cost of social security” to a more forward-looking one of investment in economic growth and social cohesion. For a long time, the debate in industrialized countries focused on cost containment in social security; currently, discussion in low- and middle-income countries increasingly concerns how to increase levels of social expenditure and how to find the fiscal space required. In both clusters of countries, the question focuses more on the “how?” than on the “how much?”.

104. This section examines the level of resources allocated to social security around the world. How much are countries investing in social security and how is it financed? On average, 17.2 per cent of global gross domestic product (GDP) is allocated to social security. However, these expenditures tend to be concentrated in higher income countries, so this average does not reflect the situation for most of the world's population, who live in lower income countries where much less is invested in social security. An alternative measurement which reflects the situation better is a simple mean of the proportions of GDP allocated to social security in different countries. This reveals that, on average, countries allocate 10.9 per cent of their respective GDP to social security. The size of the population in different countries can also be used as a weight to calculate mean percentages of GDP: in this case the result shows that, for the "average" resident, only 8.4 per cent of the country's GDP is allocated as social security benefits in the form of cash and in-kind transfers (see table 2.2 for all results).

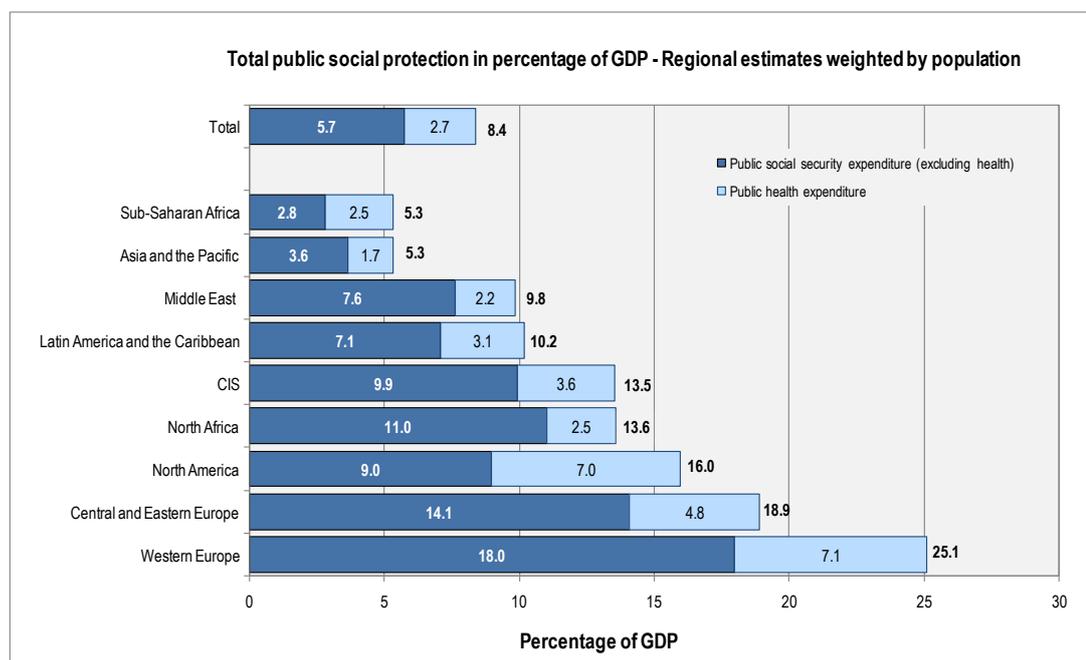
**Table 2.2. Social security expenditure by region and globally, latest available year**  
(percentage of GDP)

	Social security expenditure (excluding health) as a percentage of GDP			Public health expenditure as a percentage of GDP			Total social security expenditure as a percentage of GDP		
	GDP weighted	Simple average	Population weighted	GDP weighted	Simple average	Population weighted	GDP weighted	Simple average	Population weighted
Western Europe	17.9	16.7	18.0	7.1	6.4	7.1	25.0	23.2	25.1
Central and Eastern Europe	14.5	13.9	14.1	5.0	5.0	4.8	19.5	18.9	18.9
North America	9.0	9.3	9.0	7.0	6.9	7.0	15.9	16.2	16.0
North Africa	10.5	9.5	11.0	2.5	2.4	2.5	13.0	11.9	13.6
CIS	9.0	8.2	9.9	3.9	2.7	3.6	12.9	10.9	13.5
Asia and the Pacific	7.9	3.6	3.6	4.2	3.3	1.7	12.0	6.9	5.3
Middle East	8.8	6.6	7.6	2.8	2.8	2.2	11.6	9.4	9.8
Latin America and the Caribbean	6.6	4.0	7.1	3.1	3.4	3.1	9.7	7.4	10.2
Sub-Saharan Africa	5.6	2.3	2.8	3.1	2.4	2.5	8.7	4.8	5.3
<b>Total (138)</b>	<b>11.3</b>	<b>7.1</b>	<b>5.7</b>	<b>5.9</b>	<b>3.8</b>	<b>2.7</b>	<b>17.2</b>	<b>10.9</b>	<b>8.4</b>

Source: Based on information from Eurostat, ILO, IMF, OECD and WHO; see ILO: *World Social Security Report 2010/11* (Geneva, 2010), table 8.1.

105. Country figures vary widely between regions, and between countries with different national income levels. While residents of Europe can see between 20 and 30 per cent of GDP invested in their social security, those of most African countries see only 4–6 per cent of GDP spent on social security benefits; most of these funds are spent on health care rather than on cash transfers intended to provide income security (see figure 2.4).

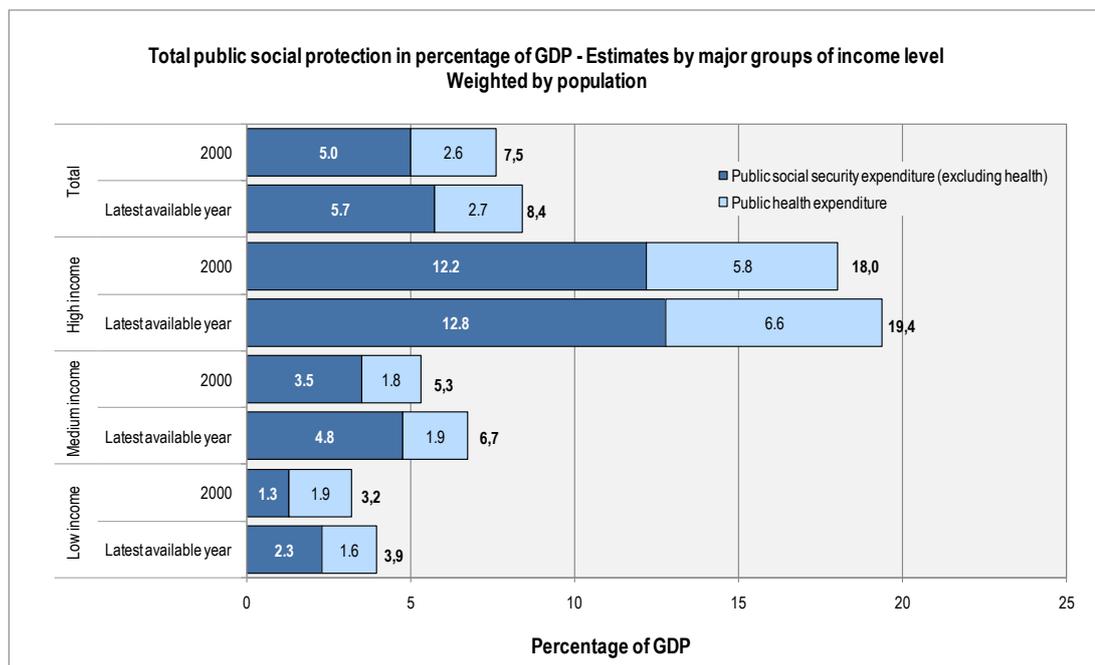
**Figure 2.4. Social security expenditure by region, weighted by population, latest available year (percentage of GDP)**



Source: Based on information from Eurostat, ILO, IMF, OECD and WHO; see ILO: *World Social Security Report 2010/11*, op. cit., figure 8.1.

106. In general, higher income countries spend a greater proportion of GDP on social security than do low-income countries (see figure 2.5). Whereas low-income countries spend from public resources an average of under 4 per cent of their GDP on health care and non-health social security income transfers, in middle-income countries this proportion is at least twice as high (7–10 per cent), and in high-income countries about five times as high (about 20 per cent). Figure 2.5 also compares the most recent situation (data for the latest available year depending on the country) with that obtaining in 2000. This comparison should be treated with caution, in that data for 2000 are available for a slightly smaller number of countries, and the availability of data for the range of contingencies included has improved in some countries. Still, it does seem that there has been a global increase in the share of GDP allocated to social security. Most of this increase has occurred in middle- and higher-income countries.

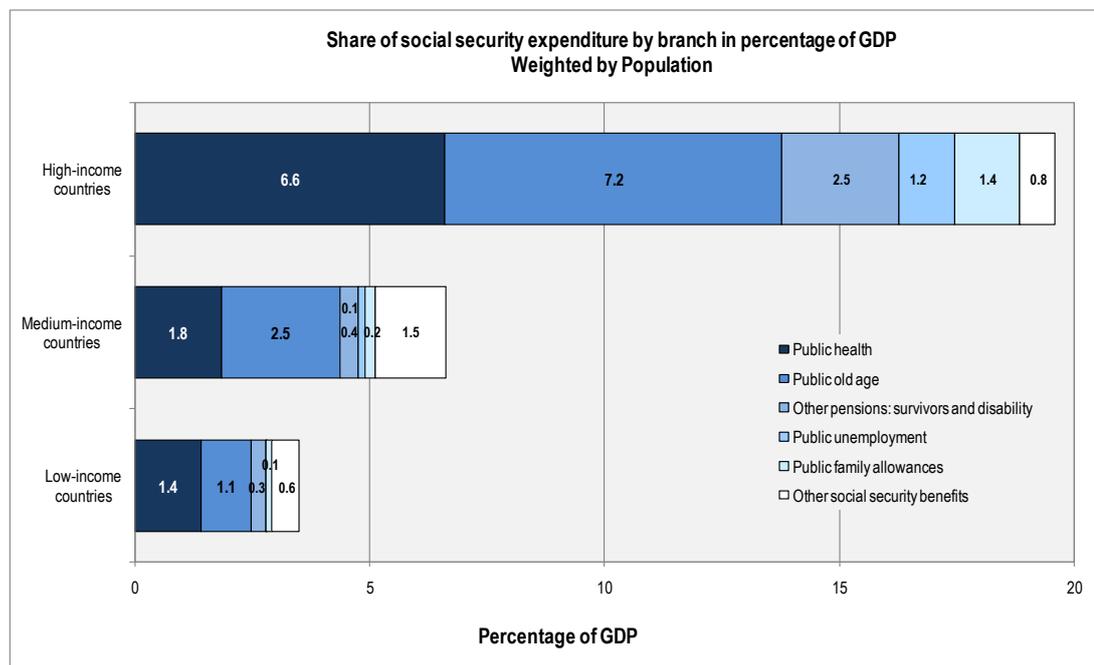
**Figure 2.5. Social security expenditure by income level, weighted by population, 2000 compared with latest available year (percentage of GDP)**



Source: Based on information from Eurostat, ILO, IMF, OECD and WHO; see ILO: *World Social Security Report 2010/11*, op. cit., figure 8.2.

107. With respect to the composition of social expenditure (figure 2.6), expenditure on health and pension predominates everywhere. However, whereas in low-income countries the largest share in social security expenditure goes on health care, in other countries the dominant share is on old-age pensions. Only in higher-income countries is expenditure on branches such as unemployment benefits and family benefits significant in terms of resources allocated.

**Figure 2.6. Social security expenditure by income level and branch, weighted by population, latest available year (percentage of GDP)**



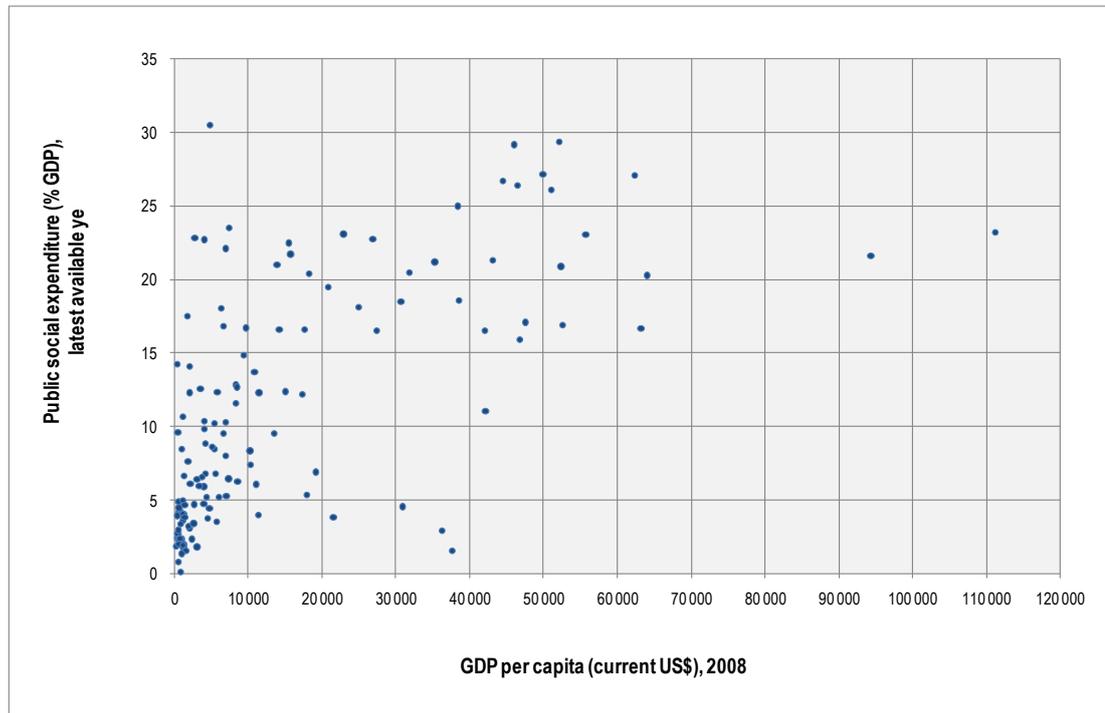
Source: Based on information from Eurostat, ILO, IMF, OECD and WHO; see ILO: *World Social Security Report 2010/11*, op. cit., figure 8.3.

108. Although this prevailing pattern shows some correlation between income levels and the resources allocated to social security, it cannot be concluded from this that social security is a “luxury” good. On the contrary, low-income countries with high poverty incidence and large informal economies need social security even more than do other countries, although they may have different priorities regarding which branches should be developed first and how benefits should be financed and delivered. Many studies show clearly that in those countries social security cannot only be made affordable but is also conducive to development.<sup>2</sup>

109. Whatever their income level, all countries enjoy a degree of freedom in determining social security expenditure levels. Countries at similar levels of per capita GDP differ significantly with respect to the size of their public finances, and to the share of resources allocated to social security (see figure 2.7).

<sup>2</sup> See, for example, ILO: *Can low-income countries afford basic social security?*, Social Security Policy Briefings, Paper 3 (Geneva, 2008); OECD: *Promoting pro-poor growth: Social protection* (Paris, 2009); P. Townsend (ed.): *Building decent societies: Rethinking the role of social security in state building* (Basingstoke, ILO/Palgrave, 2009).

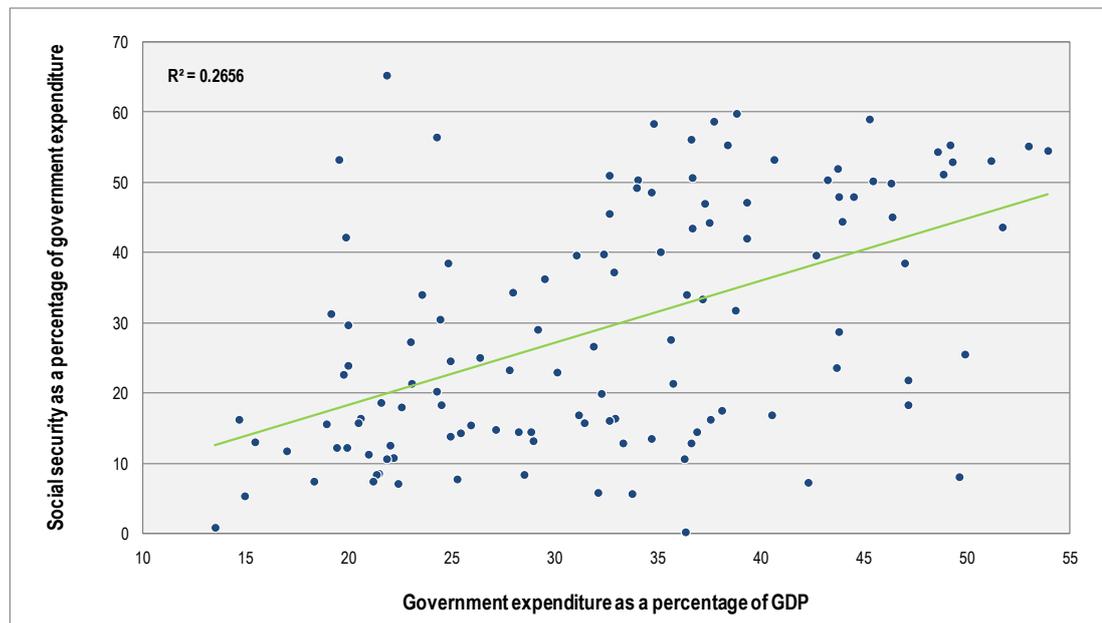
**Figure 2.7. Level of economic development (GDP per capita) and social security expenditure, latest available year (percentage of GDP)**



Source: Based on ILO: *World Social Security Report 2010/11*, op. cit., annex, tables 13 and 25.

110. The level of social expenditure is closely related to the size of a country's overall government expenditure. However, countries follow different strategies in the allocation of their public resources. Figure 2.8 shows clearly that countries with the same level of government spending (measured as total expenditure as a share of GDP) allocate widely different proportions of their available resources to social security. In many cases, this is the result of different, often historically influenced societal preferences. Thus, the size of social security investment (and therefore the extent and level of social security coverage of that country's population) depends to a significant extent on the prevailing political and social will (of the government, the taxpayers and the electorate), which effectively defines the fiscal space available to finance this programme, not others.

**Figure 2.8. Size of government and proportion of government expenditure allocated to social security (latest available year)**



Source: Based on data from the EU, ILO, IMF, OECD and WHO; see ILO: *World Social Security Report 2010/11*, op. cit., figure 8.7.

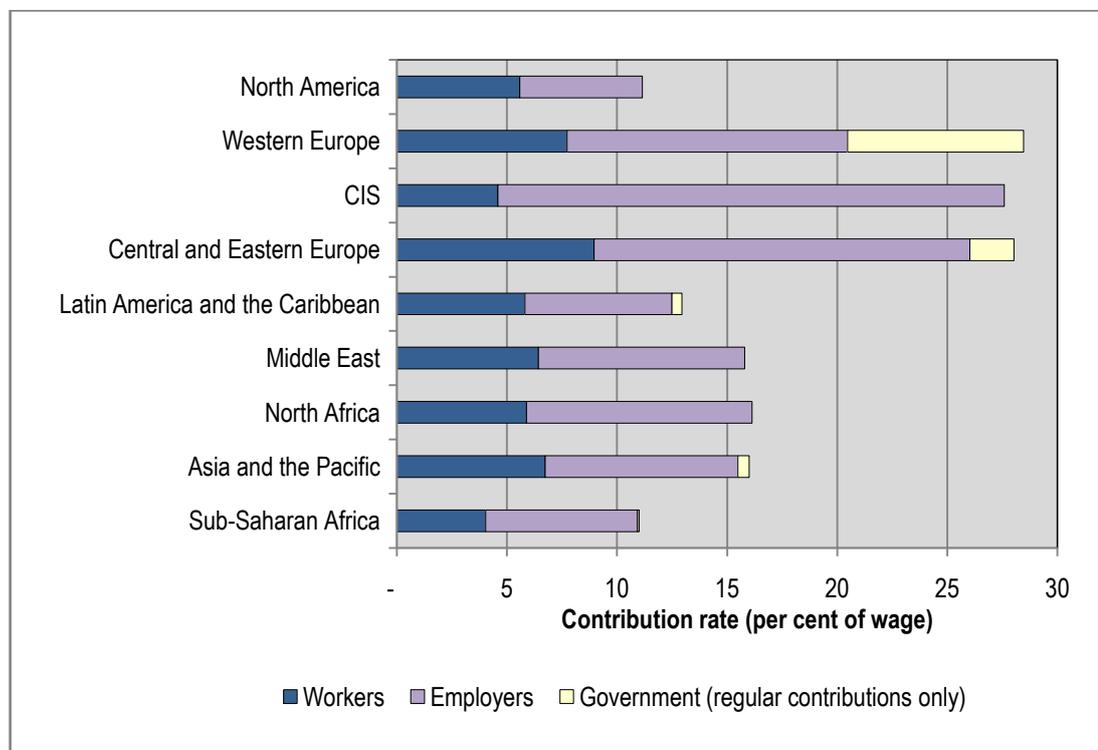
111. Thus the manner in which decisions are made is crucial for the organization and financing of public social security programmes. The main choice is how far these programmes should be organized as contributory social insurance and how far as non-contributory programmes accessible to all residents or all residents in a specified category. As discussed earlier, the success of the various approaches to social security organization and financing largely depends on labour market structure, the proportion of formal wage and salary employment in total employment, and the extent of the informal economy.

112. A comprehensive data set allowing the identification of global financing patterns of social security is not yet available, although the ILO collects data on sources of finance for social security as part of its Social Security Inquiry. With respect to public health-care expenditure, financing from general taxation dominates over financing from social security contributions. Slightly under a quarter of national public health expenditure worldwide is financed from social insurance contributions (24.7 per cent). Social health insurance contributions finance slightly more than half of public health-care expenditure in Europe and Central Asia (51.1 per cent), 27.1 per cent in the Americas, 12 per cent in Asia, the Middle East and Northern Africa and only 3 per cent in sub-Saharan Africa. If, instead of taking simple averages, one weights the average with the size of health expenditure, a different picture emerges. Then, globally and in all countries other than low-income countries, about 40 per cent of health expenditure is financed by contributory social security schemes, whereas in low-income countries the proportion is only 7 per cent. At the same time, many low-income countries depend significantly on foreign aid to finance their health-care needs: in these countries in 2006 the external financing of health care was on average equal to nearly half its public health-care financing (46 per cent) and has since increased significantly compared with 2000 (35 per cent).

113. There are no similar global estimates for financing patterns in non-health social security. However, it is obvious from the coverage patterns that contributory social security schemes dominate, although they cover only a minority of the population, notably in lower-income countries. But actual comprehensive data exist for selected countries only. In the long run, the objective is to be able to estimate all financing patterns of social security systems – both health and non-health – by type of receipt and sector of origin. It should be possible to estimate for every country what the European Union can already do for its 27 Member States: nearly 60 per cent of total receipts are social security contributions, of which 30 per cent comes from private employers, more than 20 per cent from employees and other protected persons (i.e. from households), 8 per cent from the governments as employers, and under 1 per cent from non-governmental organizations as employers. Most of the rest comes from general taxation – collected, of course, from enterprises and households. Slightly over 3 per cent of total revenue comes from other receipts, including a large part from investment income from social security funds. Government is the largest financier of social security systems in the European Union (47 per cent), with 30 per cent paid directly by enterprises and 21 per cent by households.

114. The limited data available on the financing of old-age benefits (mainly pensions) show large regional variations in the distribution of the total contribution package between workers, employers and the government (see figure 2.9). Note, however, that many governments provide irregular or discretionary funding to pension schemes, which it was not possible to reflect here.

**Figure 2.9. Financing of social security (old-age branch): Contributions by employers, workers and governments**



Note: Government contributions are considered only if they are regular; irregular or discretionary government funding is not taken into account.

Source: Based on ILO: *World Social Security Report 2010/11*, op. cit., annex, table 16.

## 2.4. A second conclusion

115. The key challenges for national social security schemes identified earlier – coverage, economic and social adequacy and financing – are all critically influenced by governance. With good governance, schemes can be set up, resources can be allocated (even if modest in size at first), and a minimum level of adequacy can be ascertained. Fiscal space and policy space need to be created by political will and investment in effective institutions. These economic and social policies should focus on the objectives of productive employment and decent work backed up by good governance based on well-informed social dialogue.

116. The only practical way of finding a sustainable balance between the challenges of high coverage, adequate benefits and sustainable financing is indeed through good governance based on well-informed social dialogue and consensus. How to reach such a balance is a crucially important question in the debates on the reforms needed to adjust social security systems to demographic change; and the issue is rapidly gaining in importance in the current post-crisis era when large stimulus packages have to be paid from public revenues. Good and responsible social governance is the central challenge to all national social security systems. The governance issue as a central element in all further social security strategies will be revisited in Chapter 4.

## Chapter 3

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### Present policy responses

117. Countries have come up with a wide variety of policy responses to the global need for social security and the core challenges identified in Chapter 2: extension of coverage; adequacy of benefits; expenditure and financing; and governance and delivery.

118. This chapter gives a summary of the current situation in specific branches of social security, and national policy responses. It focuses on a few global trends, illustrated by selected national experiences. A more detailed discussion on global and regional trends can be found in the *World Social Security Report 2010/11*.

#### 3.1. Enabling access to health services: Social health protection

119. Access to health services is essential for a minimum standard of living, and ensuring future well-being and productivity. However, a large proportion of the world's population has no access to health facilities or services. Many more are at risk of being driven even further into poverty because of necessary expenditure on health care in the absence of adequate social health protection.<sup>1</sup>

120. *Social health protection* systems should be designed with a view to achieving universal access, providing financial protection and delivering health services efficiently and effectively. Pluralistic financing mechanisms can be employed to achieve these objectives and involve a combination of the following sources of funds: (i) direct or indirect taxes; (ii) workers' and employers' contributions; and (iii) premiums.

121. Another key element of social health protection is sick leave and the related income replacement paid as compensation, as referred to in the Social Security (Minimum Standards) Convention, 1952 (No. 102), and the Medical Care and Sickness Benefits Convention, 1969 (No. 130). Paid sick leave contributes to improving health outcomes, addressing income security and avoiding sickness-induced financial hardship.

122. In order to achieve the objectives of social health protection, *statutory* universal coverage must result in *effective* access to health services. The concept of health-care coverage is multidimensional, and its measurement is more complex than for other social security branches. Effective access implies that health services are available, affordable, and of adequate quality – and that financial protection is provided.

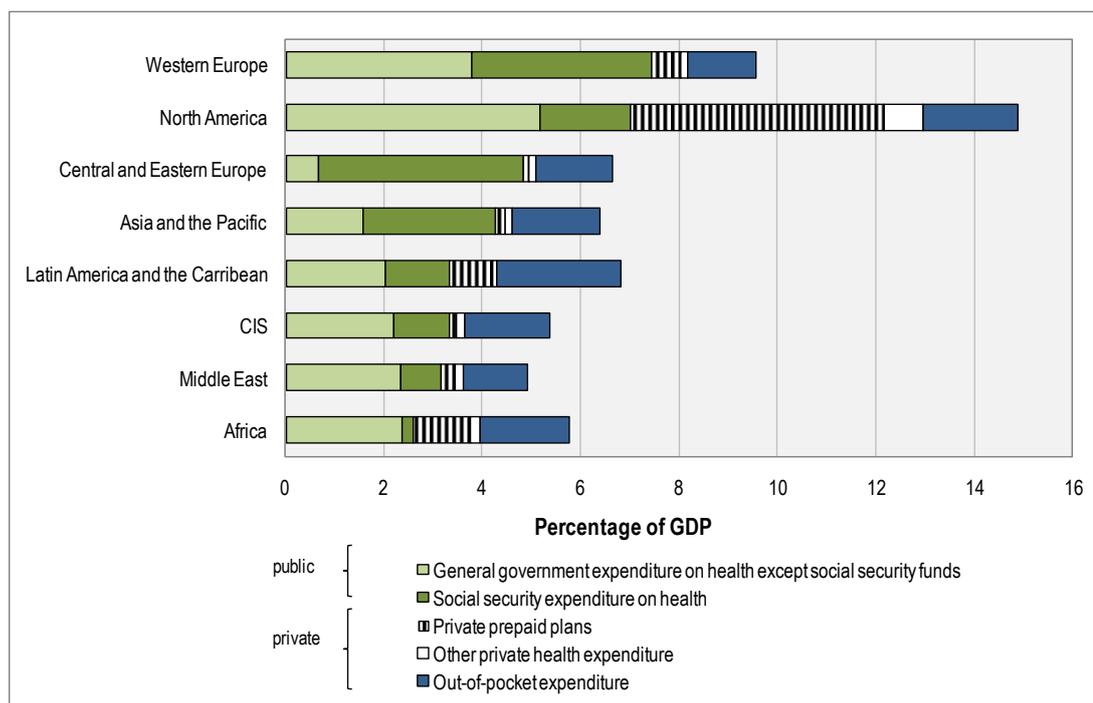
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<sup>1</sup> WHO: *The world health report: Health systems financing: The path to universal coverage* (Geneva, 2010); ILO: *Social health protection: An ILO strategy towards universal access to health care*, Social Security Policy Briefings, Paper 1 (Geneva, 2008).

### Patterns of health-care financing and access

123. It is obvious that all dimensions of health-care protection coverage are contingent upon the amount of public expenditure allocated to health. Figure 3.1 shows the level and structure of health-care financing from public and private sources, demonstrating the varying levels of engagement of the public sector in the financing of health care across different regions. It clearly shows that low levels of public financing tend to be associated with higher shares of private out-of-pocket expenditure, which tends to obstruct access to health care for the poor and vulnerable.

**Figure 3.1. Health-care financing: Public and private sources of health expenditure as a percentage of GDP, 2006**



Source: Based on ILO and WHO data; see ILO: *World Social Security Report 2010/11* (Geneva, 2010), figure 3.3.

124. Ensuring financial protection implies making health-care services *affordable* to workers and their families in both the informal and formal economies. Affordability can be assessed by looking at the share of out-of-pocket health-care expenditure in total household income or expenditure. Data on out-of-pocket payments can be used as a proxy for the size of the coverage gap in the context of a set of indicators with respect to the level of financial protection provided.

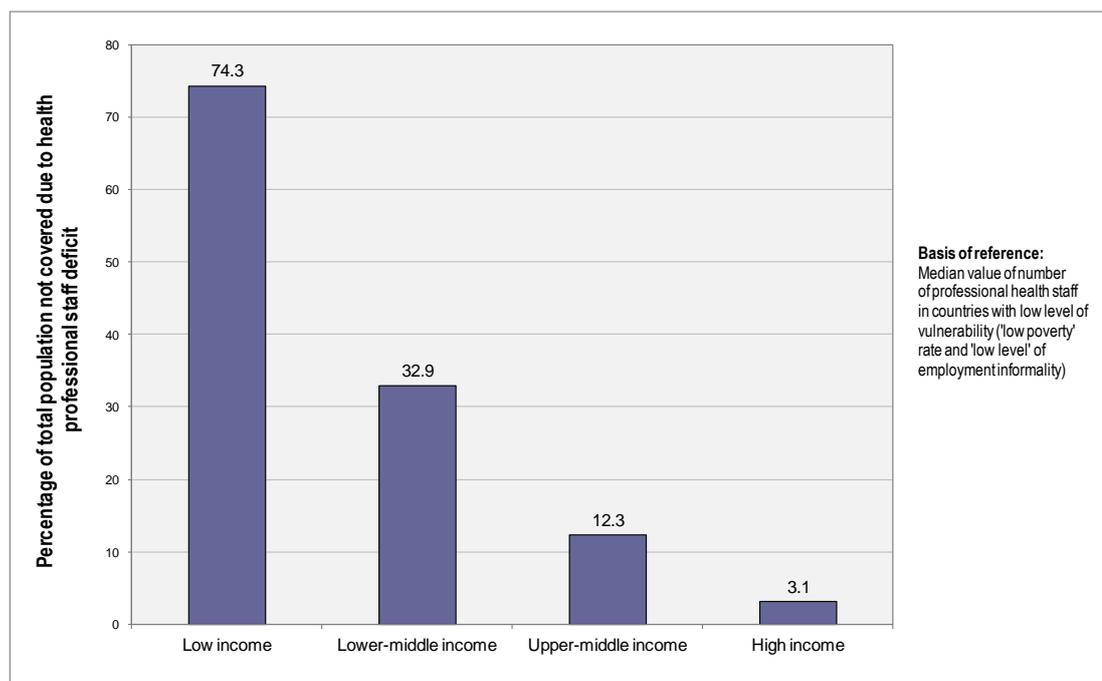
125. In low-income countries, more than half (55 per cent) of health expenditure on average is covered by households' out-of-pocket payments. In some countries, such as Cambodia, India and Pakistan, individuals shoulder more than 80 per cent of total health expenditures, due to the unavailability of social health protection mechanisms providing medical benefits, such as tax-funded services or social or community-based insurance schemes. At the same time, the average share of out-of-pocket payments in middle-income countries is 40 per cent, while in high-income countries it is 10 per cent. High out-of-pocket payments are a major cause of impoverishment and – unsurprisingly – there is a strong correlation between out-of-pocket and poverty incidence in a given country. It is critical to note that the recorded levels of out-of-pocket payments do not account for the extremely poor, who are unable to afford any medical treatment at all.

## Indicators of access to health-care services

126. Health-care coverage means affordable access to (quality) health care made possible by various public or private measures. Physical access to health-care providers, treatment and medication requires a sufficient health-care infrastructure and workforce, as well as the provision of medical goods and services.

127. Indicators of de facto “access” to social health-care services are generally weak. The ILO has developed an indicator that also reflects the supply side of access availability – in this case the availability of human resources at a level that guarantees at least basic, but universal, effective access.<sup>2</sup> Figure 3.2 provides a global overview of the estimated access deficit by income level of countries. It suggests that 30–36 per cent of the world’s population lack access to health services (using Thailand as a benchmark). Low-income countries, most of which are in Africa and Asia, show the highest levels of access deficits – on average 74 per cent of the population, compared to 33 per cent in lower middle-income countries, 12 per cent in upper middle-income countries and 3 per cent in high-income countries.

**Figure 3.2. ILO access deficit indicator, 2006** (measured shortfall of skilled medical professionals as a proxy)



Source: Based on WHO data; see also: ILO: *World Social Security Report 2010/11*, op. cit., figure 3.8.

128. Effective access is not uniform across the population. Women often face particularly high barriers to accessing health care for a number of reasons, including lack of income or education, informality and care responsibilities.

## Extending social health protection coverage

129. Efforts to extend coverage of social health protection have been taken in a number of countries in different parts of the world. For example, Thailand has, for many years, been extending social health protection coverage through its universal scheme, which

<sup>2</sup> See ILO: *World Social Security Report 2010/11*, op. cit., p. 41, for methodological explanations.

provides the poor with effective access (see box 3.1). Several other countries have made efforts to channel more funds into their health-care systems and to improve the supply of health-care services.

**Box 3.1**  
**Extending social health protection in Thailand**

As in many middle- and low-income countries, publicly mandated health coverage in Thailand was, for a long time, limited to employees in the public sector under the Civil Servant Medical Benefit Scheme (CSMBS) and the State Enterprises Medical Benefit Scheme. With a view to extending coverage to private formal economy workers, the Social Security Act was implemented in 1991, which gave rise to the Social Security Health Insurance (SSO). Initially coverage was limited to employees of enterprises with 20 or more workers, but in 2002 statutory coverage was extended to all enterprises, even those with one employee. Shortly before, in 2001, Thailand had taken a radical step towards achieving full health-care coverage by introducing a universal health-care scheme, now popularly called the “UC scheme” (earlier known as the “30-baht” scheme). The scheme offers any Thai citizen, who is not affiliated either to the SSO scheme or the CSMBS, access to health services provided by designated district-based networks of providers (consisting of health centres, district hospitals and cooperating provincial hospitals).

As a result, overall statutory coverage for health insurance in Thailand reached almost 98 per cent of the population in 2006–07, 75 per cent of it being guaranteed by the UC scheme. Thailand’s pluralistic approach has, therefore, succeeded in achieving near-universal coverage in a relatively short period of time. Despite some remaining challenges, the population is now able to access a comprehensive range of health services, in principle without co-payments or user fees, including ambulatory (“outpatient”) services, inpatient services and maternity care, furnished by public and private providers, within a framework that emphasizes preventive and rehabilitative aspects.

Sources: Based on ILO: *Extending social security to all: A guide through challenges and options* (Geneva, 2010); V. Tangcharoensathien et al.: “From targeting to universality: Lessons from the health system in Thailand”, in P. Townsend (ed.): *Building decent societies: Rethinking the role of social security in state building* (Basingstoke, Palgrave Macmillan, 2009), pp. 310–322.

130. A number of African countries have also made strides towards enhancing access to health services for their populations. Ghana, a country with more than 90 per cent of its workforce in the informal economy, has successfully addressed challenges such as insufficient funding, low service quality and exclusion, by introducing multiple social health protection schemes ranging from community-based schemes to a national health insurance for different groups of the population, and progressively aligning them into a national health policy (see box 3.2). The experience here indicates that an important key to success lies in ensuring access to all citizens, while simultaneously targeting the poor and the most vulnerable – thereby avoiding adverse selection and the fragmentation of risk pools.

**Box 3.2**  
**Extending social health protection in Ghana**

For a long time, access to health care in Ghana was provided only on a “cash-for-service” basis, leading to growing inequalities and deteriorating health outcomes. This recently led to the implementation of the National Health Insurance Scheme (NHIS), with its stated mission to address these challenges and “to ensure equitable universal access for all residents of Ghana to an acceptable quality of essential health services without out-of-pocket payment being required at the point of service use”. In this pluralistic system, three major types of health insurance cover different groups of the population: (1) district mutual (or community-based) health insurance schemes, which operate across a district with membership open to all residents of the district; (2) private commercial health insurance schemes, which are private for-profit schemes unrestricted to a particular region or district of Ghana, membership being thus open to all Ghanaian residents in that area; (3) private mutual (community-based) health insurance schemes, which serve specific groups of people – for example, members of a club, a church, or any other organization – who come together to form their own mutual health insurance schemes; usually membership is open only to members of the organization concerned. The NHIS premiums are generally based on participants’ ability to pay. Community insurance committees identify and categorize residents into four social groups, namely the core poor, the poor, the middle class and the rich, and graduate their respective contributions accordingly. The poorest category of the population, together with those aged 70 years or more, and former Social Security and National Insurance Trust (SSNIT) contributors on retirement, are exempted from paying any premiums or contributions.

In a major national solidarity effort the scheme is being financed by an increase of VAT by 2.5 percentage points and a reallocation of 2.5 percentage points of the contribution of members of the national pension scheme to the National Health Insurance Fund. People in the informal economy only pay a relatively small contribution that does not cover their cost.

Data from Ghana NHIS headquarters in Accra indicate that, in 2008, 12.5 million Ghanaians – or 61 per cent of the total national population of 20.4 million – had registered with the NHIS. Of the total enrolled, 6.3 million (or slightly more than 50 per cent) were children under 18 years of age, 867,000 (or 6.9 per cent) were over 70 years of age, and 303,000 (or 2.4 per cent) were classified as “indigent”, all of whom were in principle exempted from contribution payments.

Source: Based on ILO: Extending social security to all, op. cit.

131. A number of countries in Latin America have made considerable progress in extending social health protection. Costa Rica has achieved full health coverage through a combination of health insurance and free access to public health services. Colombia has successfully extended health insurance coverage through partially subsidized health insurance contributions for poor groups of the population.

132. Efforts to extend coverage of social health protection were also made in a number of developed countries. Most prominently, the United States addressed the lack of health coverage of a large share of the population, as well as quality and cost issues, through a health-care reform in March 2010 (see box 3.3).

**Box 3.3**  
**Health-care reform in the United States**

In March 2010, the United States Congress passed the Patient Protection and Affordable Care Act after one year of extensive debate in the country. The law has three major objectives: to extend social health protection coverage; to end some practices of the private insurance industry that had negative impacts on the insured or led to exclusion; and to curtail increasing health-care costs.

While the law seeks to contain costs in the long term, it has to outbalance the savings with the US\$875 billion spent on expanding coverage to 32 million uninsured Americans by 2019. In the next decade, the policy will set in motion measures to create the biggest expansion of coverage since 1965, when Medicare and Medicaid were introduced.

Nearly all United States citizens and legal residents are mandated to have health insurance or else pay a fine of at least US\$750 a year. Individuals and employers will be able to buy insurance coverage through new online exchanges to better inform beneficiaries of prices, benefits and options. For lower-income groups, subsidies will be provided to purchase insurance coverage and the eligibility criteria will be extended for Medicaid – the assistance programme for the lowest income levels. This will enable an estimated 16 million more of the poorest people to become eligible.

Small businesses with fewer than 25 employees will receive subsidies to buy health insurance coverage for their employees; and larger enterprises will be forced to pay a penalty if they do not insure their employees. Young adults under the age of 26 can be insured under their parents' policy. The transition into the labour market has made work for young adults less formal as they take on part-time, entry-level, or contract positions that typically do not come with health insurance.

In an effort to reduce out-of-pocket expenditure, a US\$250 rebate for the coverage gap will be introduced for people covered by the Medicare drug plan. Medicare, the programme for people over 65 years, will also undergo changes to improve service delivery and reduce inefficiency and fraud.

To achieve the second goal of the reform – holding insurance companies accountable – the law makes it illegal for insurers to deny coverage to those with pre-existing conditions or to rescind coverage when a person becomes injured or ill.

The third goal of the reform – mitigating health-care costs – will be achieved through the introduction of new taxes on high-cost insurance plans and high-income groups. Starting in 2018, employers and individuals will be taxed 40 per cent on every dollar spent on any insurance plan costing above US\$27,500 annually. The law will reduce the federal budget by an estimated US\$143 billion by 2019.

### Addressing financial constraints

133. In many developed countries, there are concerns about growing levels of health-care expenditure. In OECD countries, total health expenditure (public and private) reaches on average 9 per cent of GDP, ranging from 5.9 per cent in Mexico to 16 per cent in the United States. With the exception of the United States, the bulk of health expenditure in OECD countries is covered through public expenditure, and financed by employers' and workers' contributions and general taxation.

134. Generally speaking, the financing of health care by means of taxes or public budgets – as opposed to social insurance through social health contributions – does not have a direct impact on the level of health expenditure. The mostly privately financed system in the United States stands out in terms of both public and private health expenditure. The possible reasons for higher costs in privately organized systems include: fragmented risk pools and the reduced purchasing power of health insurance funds as compared to larger public health insurance funds and national health systems; higher administration and public relations costs; and higher salaries for health professionals.

135. Concerns about rising health-care costs have led other countries to implement reforms in order to contain cost increases, as in France, Germany and the Netherlands (see box 3.4).

**Box 3.4**  
**Health-care reform in France, Germany and the Netherlands**

In 2005, the French National Union of Health Insurance Funds (UNCAM) and the three trade unions representing doctors concluded an agreement for the introduction of registration with a personal doctor and adjustments to doctors' fees. The agreement sought to save €1 billion on health expenditure (especially with respect to long-term illnesses, sick leave, prescriptions, etc.). It increased the fees for visits to specialists, but retained the same level of general practitioners' fees. Together with the main 2004 reforms, the aim was to restrict the access of patients to specialists – making them go through a referral system rather than consulting specialists directly – as a cost-containment measure. Other cost control measures included: limits on the number of acute hospital beds; drugs reimbursed – 600 drugs have been removed from public reimbursement; protocols for the management of chronic conditions; and new co-payments for prescribed drugs, doctors' visits, and ambulance transport that is not reimbursed by complementary private health insurance. All of these measures have helped reduce the deficit over the past few years. Furthermore, in 2009, a new French bill on health reforms was introduced. The law aims to modernize the health-care system; strengthen preventive health; and improve access and care quality.

In July 2010, the German Government announced health-care reforms to cover deficits with higher fees and minor spending cuts. The reform will raise the contributions to social health insurance from 14.9 per cent of workers' gross pay to 15.5 per cent. Furthermore, budget cuts for health workers, hospitals, medicine and administration aim at generating €3.5 million in 2011 and €4 million in 2012.

In 2006, the Netherlands Health Care Act created a unified competitive health insurance market, requiring all persons to buy a basic package of health insurance – with the option of purchasing supplementary insurance for care not covered under the scheme. As the package is mandatory, individuals who do not register or pay are liable to a fine of 130 per cent of the premium. Nominal premiums constitute 50 per cent of health-care funding. Monthly subsidies paid into bank accounts are intended to support lower income groups. Although the reform aimed at streamlining administrative costs, the complexity of the new system requires considerable administration and bureaucracy. It sets out to encourage competition between insurance companies. Insurers must offer the basic package, but can compete on service, price and quality of care, and patients may switch once a year. In the first year of the reform, 18 per cent of beneficiaries switched companies due to premiums.

136. Many middle- and low-income countries are also faced with increasing health-care costs, as their health-care needs and demands increase with rising GDP. While higher levels of economic growth allow for the channelling of resources into the health-care system in some countries, other countries find it more difficult to tap into the necessary funds. The combination of different public and private sources of health financing, including taxes, contributions and possibly external funds, can be used to generate the resource base for necessary investments in the health of the population.

### Improving administrative efficiency and assuring the quality of health care

137. Given pervasive cost pressures, many governments seek to increase administrative efficiency. For example, the United Kingdom has embarked on a process to reform primary health care by strengthening the stewardship role of general practitioners (see box 3.5).

**Box 3.5**  
**Health-care reform in the United Kingdom**

The recent health-care reform in the United Kingdom has focused on increases in administrative efficiency. In July 2010, the United Kingdom Government announced plans to reform primary care commissioning in the National Health Service by giving £80 billion directly to general practitioners. Previously, government tax funds had been allocated to primary care trusts, which paid for patients in their areas to be treated in hospitals. In future, general practitioners will have to pay the hospitals directly for the referrals. They will also have to organize out-of-hours care; many practices will most likely offer 24-hour or weekend/evening services again.

As a result, 150 primary care trusts and health authorities will be phased out and related employment lost. The move is aimed at cutting bureaucracy and giving more control to doctors and patients. A previous study had found primary care trusts to be inefficient and risk-averse. The Government has promised that safeguards will be put into place to prevent wasteful behaviour. General practitioners will sign a new contract and work in local groups to commission services. These reforms are controversial given their potential impact on the quality of care and other issues.

138. While administrative reforms may help to identify potentials for cost savings and efficiency increases, it is essential to ensure that the quality of health care provided does not deteriorate as a result of such measures. This is particularly relevant in view of the projected demographic changes, which will require the adaptation of health-care services to the evolving needs of the population. Moreover, reforms also need to take into account implications for employment in the health sector, which constitutes a major share of employment.

139. The major challenges for the further extension of social health protection coverage include ensuring the sustainability of health-care financing in the context of demographic change in both developing and developed countries, and making further strides towards guaranteeing universal access to quality health care around the globe. This requires the definition and agreement of an essential health-care package in each national context (see section 4.2.2 below).

### 3.2. Guaranteeing income security in old age, disability and survivorship

140. Income security in old age is a universal need that is addressed in different forms around the world. Nevertheless, only a minority of older men and women enjoy income security in old age; in large parts of the world, old age still constitutes a major poverty risk.

141. Similarly, limited earnings capacity as a result of severe disability constitutes a major poverty risk for men and women with disabilities and their families. Invalidity pensions, also often referred to as disability pensions, provide income protection for insured persons who are no longer able to engage in any employment, or who have reduced earnings capacities as a result of disability. Such contributory pensions are complemented by non-contributory disability benefits, whose scope of coverage is wider than the insured population.

142. Income security for survivors is provided through survivors' pensions, which provide pension benefits to surviving spouses (widows and widowers), orphaned children and other survivors of insured workers upon the death of the family's breadwinner. While some developed countries are discussing the appropriateness of

survivors' pensions in the context of higher female employment rates and the availability of non-contributory pensions, survivors' pensions still play a major role in providing income security in many developing countries.<sup>3</sup>

143. Most countries in which social security is fairly developed usually have a pension system in place. This typically consists of several pension schemes that either cover certain groups of the population or have different specific objectives. Many, but not all, of those pension schemes cover the risks of old age, disability and survivorship. In many high-income countries, pension systems have proved effective in reducing income poverty and other forms of poverty among older people.<sup>4</sup>

144. In most middle- and low-income countries, pension schemes are concentrated on formal sector employees, mainly in the civil service and large enterprises. Those not covered by formal pension schemes have to rely on the support of their families and communities; yet these informal forms of protection are eroding due to demographic change, migration, urbanization and widespread poverty. As a result, the numbers of the older poor are increasing – and they are over-represented among the chronically poor. A majority of the world's older people receive no regular income, and many live on less than US\$1 a day.

#### Coverage by contributory and non-contributory pensions

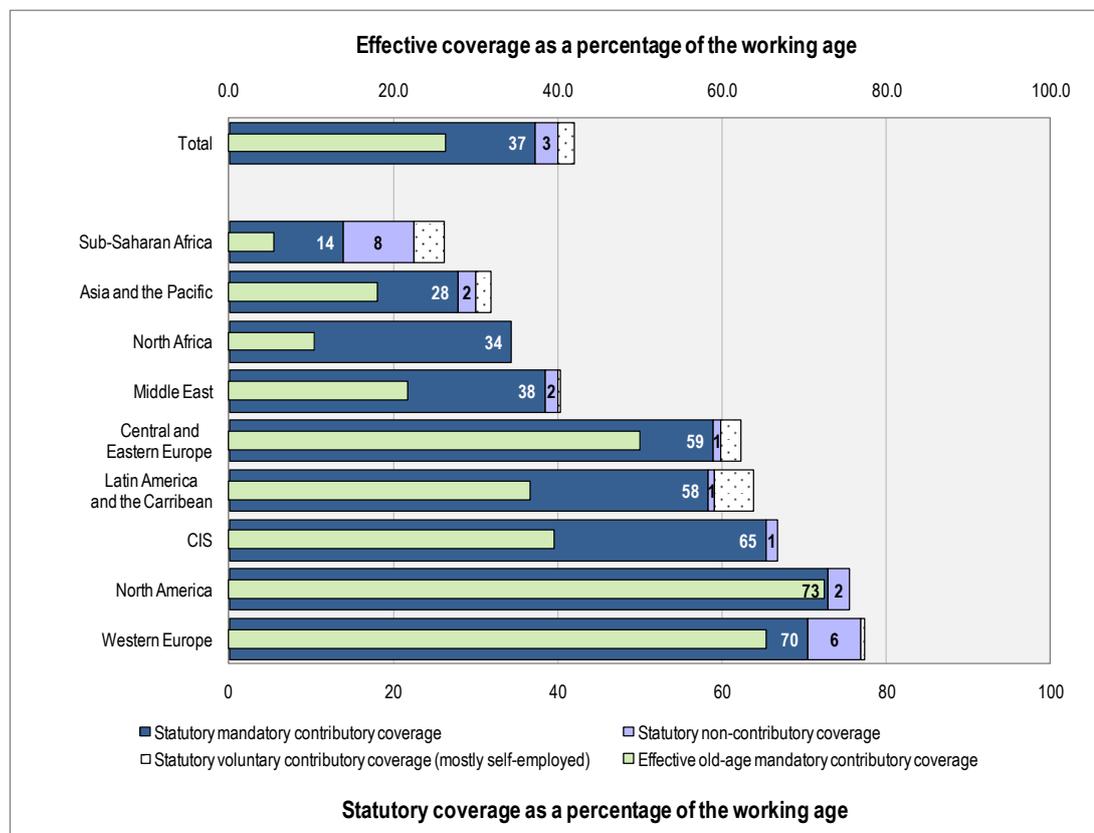
145. Worldwide, nearly 40 per cent of the population of working age enjoys statutory coverage by contributory old-age pension schemes (see figure 3.3). Statutory coverage is very diverse across world regions. In North America and Europe more than 75 per cent of the working-age population is covered, yet in Africa only less than one third. The former communist countries, including the poorer countries in Central Asia, have inherited comprehensive pension schemes that provide much higher coverage than schemes in other countries of comparable GDP per capita. In all regions, the proportion of voluntary contributory programmes hardly reaches 4 per cent of the working-age population; this sheds light on the significance of mandatory contributory schemes.

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<sup>3</sup> In view of the limited availability of comparable quantitative information on disability and survivors' pensions, the following sections will largely focus on old-age pensions.

<sup>4</sup> OECD: *Growing unequal? Income distribution and poverty in OECD countries*, Part III (Paris, 2008).

**Figure 3.3. Old-age pensions: Statutory and effective coverage: Active contributors in the working-age population, by region, 2008–09 (percentages)**

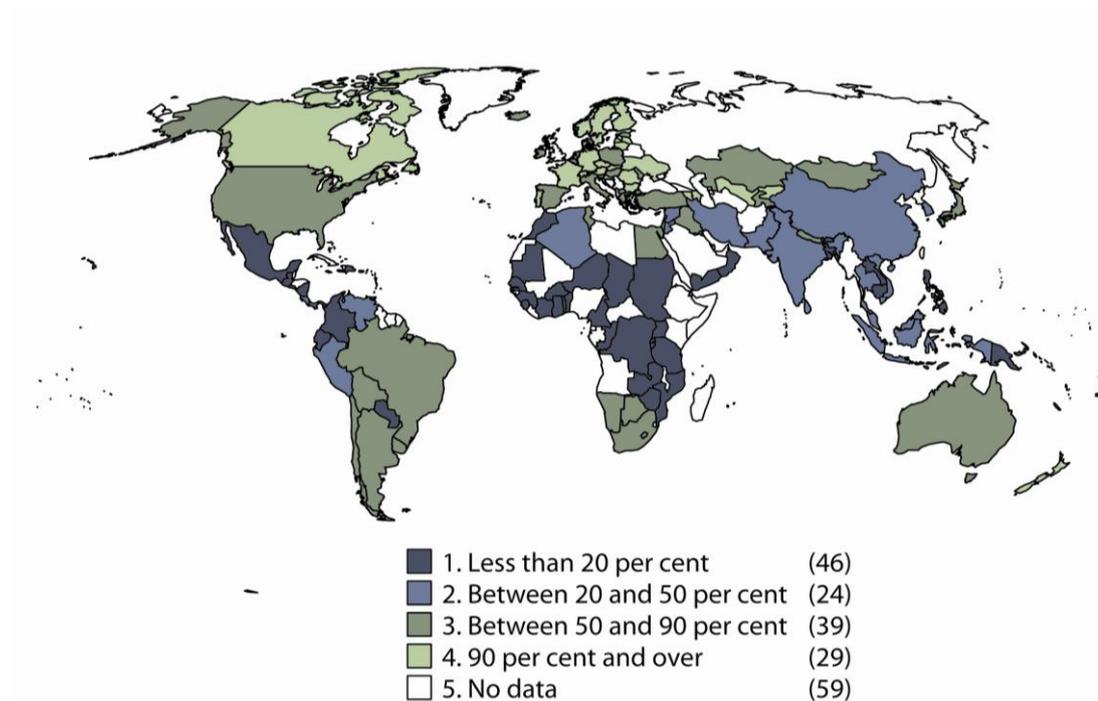


Source: Based on ILO, ISSA–SSA and other data; see ILO: *World Social Security Report 2010/11*, op. cit., figure 4.1.

146. Effective coverage is, however, significantly lower than statutory coverage (figure 3.3). This can be due to a multitude of factors, including the incomplete implementation and enforcement of the legal framework, non-compliance and possibly also a trend towards more unstable and precarious forms of employment. With the exception of North America and Western Europe, effective coverage is quite low in all regions, although it is still around 50 per cent in Central and Eastern Europe. But in sub-Saharan Africa, only 5 per cent of the working-age population is effectively covered by contributory programmes; this share is about 20 per cent in Asia and the Middle East, and 10 per cent in North Africa (see figure 3.3).

147. While the above considerations refer to active contributors as a proportion of the working-age population – who will become the pensioners of tomorrow – it is also important to consider the current generation of pensioners, and to include the effects of non-contributory benefits (see figure 3.4). Coverage ratios of more than 90 per cent are reached by some countries in Europe, as well as Canada; most other industrialized countries have coverage ratios of between 50 and 90 per cent of the population above retirement age, as do a number of middle-income countries with non-contributory social pension schemes in Africa and Latin America. In large parts of Africa, Asia and Latin America, coverage rates are significantly lower, often less than 20 per cent of the elderly population. Figure 3.4 also demonstrates the extent of intraregional variation, and the impact of inclusive pension policies.

**Figure 3.4. Old-age pension beneficiaries as a percentage of the population above retirement age, latest available year**



Source: Based on ILO, UN and other data; see ILO: *World Social Security Report 2010/11*, op. cit., figure 4.3.

148. In Asia some countries have made major efforts to extend coverage beyond the formal sector. Sri Lanka, for example, has a scheme covering farmers and fishers that has achieved substantial coverage rates (57 per cent of the farmers and 42 per cent of the fishers). India, too, has made efforts to cover the informal economy through the National Old-Age Pension Scheme, financed by central and state resources, which reaches one fourth of all older people: about half of pensioners who live in poverty. Nepal has introduced a basic non-contributory pension for all those aged 70 years and over. Thailand implemented a similar allowance for all older people as a temporary anti-crisis measure, but is now debating whether to replace it by a permanent basic pension scheme. Relatively high coverage is enjoyed by the populations of Mongolia and countries of the former Soviet Union, but low social security expenditure in some of these countries, as well as other evidence, indicates that actual pensions paid are very low and often not sufficient to keep older people out of poverty. In Japan the indicator is only below 100 per cent because many Japanese retire much later than the age of 60. For the rest of the Asian population, it seems that a minority still have effective coverage rates of between 20 and 40 per cent, with the exception of the South-East Asian countries, where coverage is lower. Taking into account the policy reforms already under way, improvements in coverage may be expected in a number of countries (such as the current efforts in China to cover the rural population in some way); but the majority of countries are still faced with the challenge of how effectively to prevent widespread and deep poverty among rapidly ageing populations, where most people work in the informal economy and have no access to any contributory social security scheme.

149. The lowest coverage levels are found in Africa, where 10 per cent or fewer of the elderly population have any pension entitlement. In countries with a longer tradition in social security and a larger formal economy (such as Tunisia or Algeria), the situation is significantly better. The highest coverage is found in those African countries where, in

addition to contributory schemes for those in the formal economy, universal pensions (Lesotho, Mauritius and Namibia) or social assistance pensions reaching a large section of the population (South Africa) have been introduced. Achieving high coverage requires an investment of resources: Mauritius and South Africa spend more than 5 per cent of their GDP on pension and other social security benefits, while the majority of the sub-Saharan African countries allocate not more than 1 per cent of GDP, and even this is mostly used to pay for civil service pensions.

150. In Latin America and the Caribbean, a region with a long history of social security, coverage in the majority of cases reflects the proportion of those working in the formal economy: 30–60 per cent, with the exception of some Caribbean islands where the formalization of the economy is higher. In Brazil, contributory pensions combined with tax-financed rural and social pensions seem to allow for a majority of the population to receive some income support, although many are still not covered. Nevertheless, social assistance pensions lift about 14 million people out of extreme poverty. The Plurinational State of Bolivia, which introduced modest universal pensions several years ago, has also succeeded in covering a large section of the elderly population.

151. With regard to contributory pensions, pension reforms in several Latin American countries during the last three decades have resulted in a mixed record. Some countries – where pension schemes were transformed into defined contribution schemes based on individual accounts – have seen a marked decrease in coverage ratios, especially in the case of workers with unstable employment histories and women. Furthermore, the level of pension benefits is being eroded by low contributions, relatively short contribution periods and high administration fees. In Chile, for example, this has resulted in a growing share of the population reverting to the minimum pension. As a result, several countries have seen a much more active engagement of the State in the regulation and governance of the pension system, as well as in the management and funding of minimum guarantees and social assistance benefits (see box 3.6).<sup>5</sup>

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<sup>5</sup> F. Bertranou, E. Calvo and E. Bertranou: *Is Latin America retreating from individual retirement accounts?* (Cambridge, MA), Center for Retirement Research, Boston College, 2009).

### **Box 3.6**

#### **Three decades of pension reforms in Chile, and the ILO's role**

Chile has experienced more than three decades of pension reform. In 1981, the military government introduced a system of mandatory defined contribution individual accounts, managed by private companies, for workers employed in the formal sector. After operating for two decades, evidence showed that benefits were low for many beneficiaries, by international standards, and coverage remained incomplete. Individuals at greatest risk were own-account workers, agricultural workers, temporary workers and women. Moreover, the transition to this privatized system exacerbated existing gender inequalities in the receipt of benefits and did not resolve questions of coverage and adequacy of the benefits.

Chile set aside up to 5 per cent of GDP to cover the transition and pay existing pension commitments under the old scheme. Yet despite having significant fiscal surpluses during the early years of the transition, the costs were high. Almost 23 years after the reform was implemented, direct government pension spending in 2004 was 5.5 per cent of GDP, with official projections remaining at this level or higher.

After 2002, ILO technical cooperation with the Budget Office was renewed through a project providing expertise to formulate an actuarial model that provided the basis for the quantitative analyses of the reform process. The Office also contributed to an analysis that sought to identify the interactions between labour market dynamics and the performance of social security.

From 2006 to 2008 the Marcel Commission was put in place to propose a way forward and to make refinements and amendments to the existing system. The ILO was active in providing technical support to this and other commissions created by the Bachelet Government (2006–10). The Pension Reform Act, enacted in January 2008, created a system of basic pensions, linked to the existing system, which consisted of three pillars: a solidarity pillar, a contributory pillar and a voluntary pillar. A separate set of reforms to the social security system created a series of programmes to address poverty and promote social inclusion (Chile Solidario programme). One of the central features of the new system was the adoption of a basic pension of US\$150 per month, payable to all persons aged 65 and over regardless of their contributions. The amount of the basic pension is gradually reduced depending on the level of the recipient's contributory pension income and other sources of income. Everyone is entitled to a basic pension if they are in the lowest 60 per cent of the income distribution. There is also a basic invalidity pension of about US\$150 per month, which was introduced in July 2009. In addition, there is a solidarity "top-up" pension that brings all pensions to approximately \$560 per month for those whose total pension benefits are less than this amount. In recognition of the caring responsibilities of women and their contribution to the reproduction of the labour force, Chile has instituted a woman's pension bond for every child born, which is paid into the mother's individual account. Simultaneously, child care has been made more easily available to facilitate women's participation in the labour market.

These reforms improved coverage and reduced poverty for more than 600,000 people in 2009. They have also addressed the need for greater intergenerational equity and gender equity; yet they did not significantly change the total cost of the existing system to the State. These reforms have also proven essential for mitigating the costs of the economic and financial crisis and responding to the demands of reconstruction in the wake of the recent earthquake in February 2010. Challenges remain, however, and there is an ongoing need to enforce the compulsory nature of contributions for the self-employed and domestic workers, and to ensure they are adequately covered. But despite this, the new system appears to be functioning well and to have garnered significant support from contributors and beneficiaries alike.

Sources: Based on N. Barr and P. Diamond: "Chile: The pension system", in N. Barr and P. Diamond: *Reforming pensions. Principles and policy choices* (Oxford, New York, Oxford University Press, 2008), pp. 227–238; M. Délano: *Reforma previsional en Chile, protección social para todos* (Santiago, ILO, 2010); ILO: *La Reforma previsional en Chile y la contribución de la OIT* (Santiago, 2008).

152. The above examples show that efforts to expand coverage gradually through contributory schemes must be coupled with the introduction of non-contributory pensions, which can immediately provide income support to those already in the old-age brackets, if coverage is to reach all – or at least the majority – of those in need. Figure 3.5 shows the relationship between levels of economic development and social security coverage in old age, and illustrates the range of policy outcomes that can be achieved at a given level of economic development. While there is a clear positive correlation between economic development and social security coverage in old age, the high coverage levels reached by a few countries, such as Brazil, Lesotho, Mongolia, Namibia and Nepal, illustrate that reaching a universal level of social security coverage in old age is also within reach for low- and middle-income countries.

153. Pensions not only provide benefits for older people and those with disabilities but also use this disadvantaged group – whose status in families is greatly enhanced through the cash income they receive – as effective agents of social transfers for whole families. Pension recipients redistribute cash income in the household, finance school fees and medication, etc.<sup>6</sup> Strong evidence of positive experience comes from countries such as Brazil, Mauritius, Namibia, Nepal, South Africa and Zambia.<sup>7</sup> As a result of rural pension payments in Brazil, school enrolments of 10–14 year-olds are significantly higher among rural Brazilian households that receive pensions as compared with those who do not,<sup>8</sup> and girls in Old Age Grant recipient households in South Africa are on average 3–4 cm taller than girls of the same age in non-recipient households.<sup>9</sup> Pension income often finances investment in assets and small business, which in turn provides financial resources for the care of very vulnerable children and orphans. Sub-Saharan Africa, for example, is home to 26 million of the 40 million persons living with HIV/AIDS worldwide and is consequently the region with the highest number of households with a generation gap.<sup>10</sup> In Botswana, Malawi, Namibia, South Africa, United Republic of Tanzania and Zimbabwe, 50–60 per cent of orphans live with grandparents. In such contexts, and particularly where other forms of social assistance are limited or non-existent, non-contributory pensions are an effective way to support a decent standard of living among older people and children simultaneously. In addition, non-contributory pensions are an important policy measure for the promotion of gender equity. Older women are disproportionately disadvantaged and tend to be poorer than

<sup>6</sup> HelpAge International: *Age and security: How social pensions can deliver effective aid to poor older people and their families* (London, 2004).

<sup>7</sup> H. Schwarzer and A.C. Querino: *Non-contributory pensions in Brazil: The impact on poverty reduction*, ESS Paper No. 11 (Geneva, ILO, 2002); F. Durán-Valverde: *Anti-poverty programmes in Costa Rica: The non-contributory pension scheme*, ESS Paper No. 8 (Geneva, ILO, 2002); F. Bertranou and C.O. Grushka: *The non-contributory pension programme in Argentina: Assessing the impact on poverty reduction*, ESS Paper No. 5 (Geneva, ILO, 2002); A. Barrientos and P. Lloyd-Sherlock: *Non-contributory pensions and social protection*, Issues in social protection discussion paper No. 12 (Geneva, ILO, 2003); E. Schleberger: *Namibia's universal pension scheme: Trends and challenges*, ESS Paper No. 6 (Geneva, ILO, 2002); F. Bertranou, W. van Ginneken and C. Solorio: "The impact of tax-financed pensions on poverty reduction in Latin America: Evidence from Argentina, Brazil, Chile, Costa Rica and Uruguay", in *International Social Security Review*, Vol. 57 (2004), No. 4 (Wiley-Blackwell, Oxford, 2004), pp. 3–18.

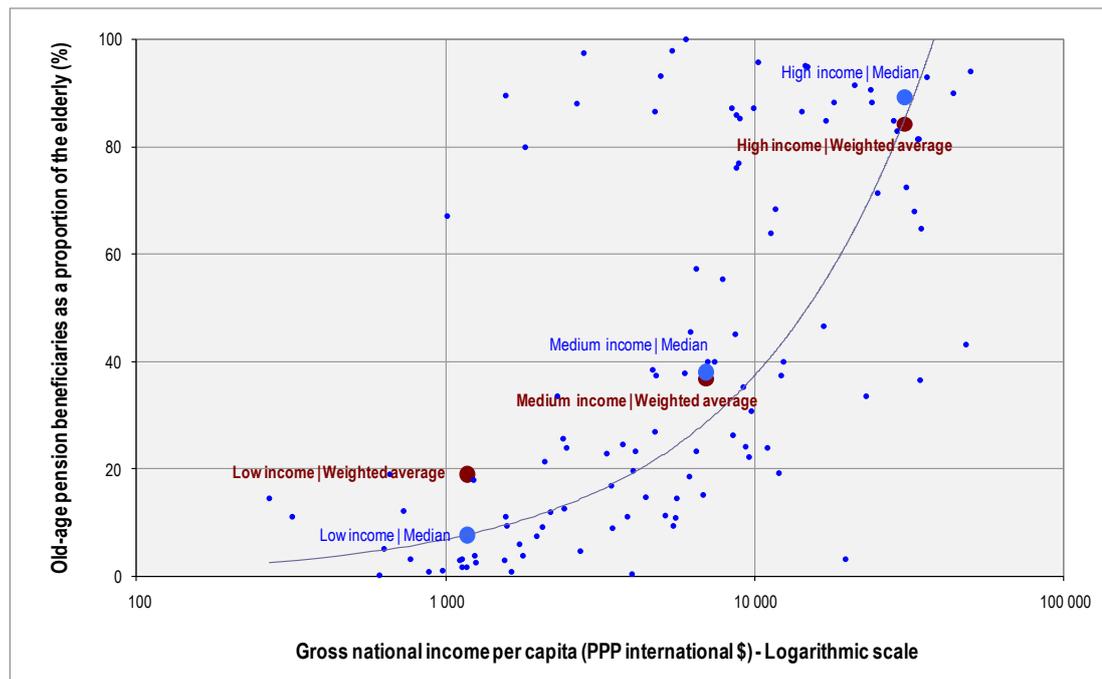
<sup>8</sup> I. Carvalho: *Household income as a determinant of child labour and school enrolment in Brazil* (Cambridge, MA, Massachusetts Institute of Technology, 2000).

<sup>9</sup> E. Duflo: *Grandmothers and granddaughters: Old-age pension and intra-household allocation in South Africa*, NBER Working Paper 8061 (Cambridge, MA, National Bureau of Economic Research, 2000); see also R. Palacios and O. Sluchynsky: *Social pensions. Part I: Their role in the overall pension system*, SP Discussion Paper 0601 (Washington, DC, World Bank, 2006).

<sup>10</sup> United Nations Human Rights Council: *Report of the independent expert on the question of human rights and extreme poverty*, Magdalena Sepúlveda Carmona, A/HRC/14/31 (New York, 2010).

men. In middle- and low-income countries, the great majority of women work all their lives in the informal economy or unpaid activities. They are thus excluded from formal social security and health schemes as these are linked to paid, formal employment. In urban China, for example, poverty rates are three to four times higher among older women than among older men.<sup>11</sup> For this reason, non-contributory pensions generally redistribute more income to women and thus play a particular role in alleviating and reducing poverty among older women.

**Figure 3.5. Old-age pension beneficiaries as a proportion of the elderly population by gross national income per capita (PPP, international dollar), latest available year**



Source: Based on ILO, ISSA–SSA and other data; see ILO: *World Social Security Report 2010/11*, op. cit., figure 4.2.

154. The need to extend coverage is most urgent in middle- and low-income countries where coverage rates are low. To begin with, pension schemes in these countries tend to cover a restricted proportion of the workforce, mainly those in formal wage employment. In high-income and an increasing number of middle-income countries, universal pension coverage has been – or is being – achieved. For most of the OECD countries, the proportion of pension beneficiaries to the population over retirement age is close or equal to 100 per cent of the elderly population. But with increasing longevity and relatively short working lives, as well as increasing demands for long-term care of older people, social security systems are under growing financial stress. This tends to increase pressure to reform pension systems and to reduce the level of provision for future generations of retirees.

155. At the same time, the majority of older people in the world – particularly in low-income countries – are obliged to continue working, mainly in the informal economy, because they are not entitled to pensions, or if these exist they are too low. Since most of these people have been working in the informal economy or in rural areas, they have not contributed to pension schemes during their working life. Moreover, in most lower-

<sup>11</sup> UNFPA: *Demographic change in China: Ageing of the world's largest population*, Papers in Population Ageing No. 4 (Bangkok, UNFPA, 2007), p. 20.

income countries they cannot benefit from non-contributory social assistance or universal pensions that could lift them out of poverty when they reach retirement, because such schemes are non-existent. Only a minority of the elderly population are receiving any pension at all from the formal social security system.

### Pension coverage has a strong gender dimension

156. The worldwide pattern of pension coverage also has a strong gender dimension. In most countries women are less represented in the formal economy, and are therefore less likely to be covered by social insurance pensions as compared to men. When women do receive social security pensions in their own right, they usually receive them under similar conditions to men, according to their earnings and years of service. While differences in legal provisions for men and women (e.g. prescribing different minimum pensionable ages) may lead to small gender differences in terms of benefit levels and coverage, gender-specific employment patterns are reflected in social security entitlements and account for considerable differences in social security coverage. For example, in Argentina and Jordan, around 65 per cent of all men above the age of 60 receive a pension, but only 33 per cent of women in Argentina and 10 per cent of women in Jordan receive pension benefits. The gender bias may be explained by the fact that women on average are less likely to be employed, earn lower wages and accumulate fewer years of service – either because they interrupt their careers to look after their children or for other care responsibilities, or because they are encouraged to leave the labour market earlier than men. This effect is particularly strong in pension schemes based on individual savings.

157. Another pattern is that the husband contributes to a social security pension scheme, while his wife is dependent on his pension. This is the classic model of the male breadwinner. In this situation women are entitled to derived pension rights, which are typically lower than pensions in their own right. In addition, these entitlements are often conditional on the continuation of the marriage, which leaves women in a potentially vulnerable position. How a woman benefits during retirement depends on the intra-household decision-making process. In the event of her husband's death, a woman normally receives less of his previous pensions. If a marriage breaks down, there is usually no splitting of pension claims between husband and wife. At best, wives will then be eligible for lower-level tax-financed pension assistance benefits.

158. The most common situation worldwide, however, is that neither husband nor wife is entitled to social security pensions, since they have both worked in the informal economy. Where tax-financed pensions exist, a higher proportion of women than men tend to benefit from such transfers. In most low- and middle-income countries contributory pensions tend to benefit mainly men, while tax-financed pensions benefit mainly women. Although average indicators of coverage may be lower (as in Africa) or higher (as in Europe), a significant gender gap shows up everywhere: in nearly all countries older women are covered to a much lesser extent than older men.

### Challenges around disability benefits

159. Disability benefits include contributory and non-contributory benefits paid to persons with disabilities with a view to providing income security to reflect reduced earnings capacities and to cover special needs. Invalidity benefits, as defined by Convention No. 102, cover the contingency of being unable to engage in any gainful activity, to an extent prescribed, where such inability is likely to be permanent or persists after the exhaustion of sickness benefit. Other forms of disability benefits include non-contributory benefits, in many countries provided under the umbrella of social assistance

benefits, which provide cash transfers and benefits in kind to provide minimum income security, cover special needs and facilitate access to social services.

160. A major milestone was set by the adoption of the United Nations Convention on the Rights of Persons with Disabilities and its Optional Protocol in 2006, which marked a paradigm shift towards a stronger emphasis on the rights of people with disability, non-discrimination and an enabling environment. State signatories of the Convention committed to take appropriate steps to safeguard and promote the realization of these rights, including the right to social protection.<sup>12</sup>

161. A rising number of beneficiaries of disability benefits has prompted many high-income countries to review their disability benefit policies and to step up their efforts in promoting integration into the labour market by: reforming work-capacity assessments; strengthening participation in work-related activities; making stronger use of partial disability benefits; encouraging people to remain in work, take up employment or participate in education or training measures; or moving towards integrated working-age benefits for people with or without disabilities.<sup>13</sup>

162. In most low- and middle-income countries, contributory invalidity benefits cover only a small proportion of the population. Many women and men with disabilities rely on social assistance schemes for benefits in cash and in kind, and on access to social services. However, the effectiveness of many such schemes is limited by unclear entitlement conditions, and a lack of coordination with other social security schemes and employment policies.

### Adequacy of pensions

163. While there is a certain body of knowledge on the *extent* of old-age pension coverage, information enabling an assessment of the *level* of coverage – that is, benefit amounts relative to national and international<sup>14</sup> benchmarks – exists for only a limited number of countries. But levels of benefit received from the social security pension system are, of course, dependent on resources invested. High-income countries spend an average of 6.9 per cent of GDP on social security old-age pensions (slightly more than the average they spend on social health protection); middle-income countries only 2.1 per cent; and low-income countries 0.6 per cent. The size of national benefit expenditure is a function of both the number of beneficiaries and the level of benefits. Pension spending per person above retirement age in a country, expressed as a percentage of its GDP per capita, is an average of 56 per cent in high-income countries, 33.2 per cent in middle-income countries, and 17.8 per cent in low-income countries.

164. Over 60 per cent of the world's elderly population now live in countries classified by the United Nations as "less developed". In 2050, that proportion will have reached nearly 80 per cent. Some 60 per cent of them will be living in Asia, with over half in just two countries: China and India. A growing number of low- and middle-income countries have made moves to cope with the challenge. They have either already implemented a basic non-contributory pension scheme (whether universal or income-tested) or are currently discussing the possibilities. Examples from countries where such pensions

<sup>12</sup> As of December 2010, the Convention was signed by 147 member States and ratified by 96 member States.

<sup>13</sup> OECD: *Sickness, disability and work: Breaking the barriers – A synthesis of findings across OECD countries*, (Paris, 2010).

<sup>14</sup> ILO Convention No. 102, for example, states that earnings-related old-age pensions should on retirement be 40 per cent of previous earnings of the beneficiary following 30 years of contributions, and that this level at least should be guaranteed to those with lower than average earnings.

have been put in place, and many studies from other countries,<sup>15</sup> show that even in low-income countries, a basic non-contributory pension is affordable, feasible and the most effective solution for closing the existing coverage gap quickly – thus reducing poverty among the elderly population and alleviating overall poverty in those households where they live.

165. Pension reforms, which started in the 1980s in Chile and were subsequently promoted globally,<sup>16</sup> have had a major impact on the adequacy of benefits. There was a strong belief in some quarters that the reforms converting widespread defined benefit (DB) pension schemes – financed on a pay-as-you-go basis – into pre-funded defined contribution (DC) schemes, would help to ensure availability and affordability. On the one hand, it was hoped that such reforms would prevent contribution rates and other pension system costs growing as a result of ageing populations: unless people contributed longer and retired later, benefits would go down, keeping the overall costs of pensions more or less constant. On the other hand, there was also a strong belief that such reformed systems, closely linking amounts contributed with future benefits and relegating redistributive components to social assistance schemes, would provide very strong incentives to contribute, even on a voluntary basis. Such systems were thus seen as a major instrument to increase the scope of coverage, particularly to the self-employed. The privatization of the management of the funds was supposed to strengthen these incentives – by providing higher rates of return and gaining higher public confidence than allegedly bankrupt public schemes.

166. ILO and other studies on these reforms, particularly in Latin America<sup>17</sup> and the transition countries in Central and Eastern Europe,<sup>18</sup> have shown that they may reduce the income security of those covered when they become old; reduce the actual effective coverage of those previously covered; and fail to meet expectations with respect to the increased coverage of those not previously covered and to rises in national savings rates. ILO concerns have, in the meantime, been echoed by the World Bank's own Independent Evaluation Group (IEG). The Group's report on the evaluation of the World Bank's assistance to pension reforms concluded, inter alia: "There is little evidence that privately funded pillars have succeeded in increasing national savings or in developing capital markets" and "the Bank's preoccupation with fiscal sustainability tended to obscure the broader goal of pension policy, that is, to reduce poverty and improve retirement income adequacy within a fiscal constraint".<sup>19</sup>

167. The ILO studies quoted above also point to high and long-lasting transitional costs, considerable administrative costs and expected low replacement rates, especially for women or other persons with short or interrupted careers and lower incomes – or those,

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<sup>15</sup> See HelpAge International ([www.helpage.org](http://www.helpage.org)) for country examples.

<sup>16</sup> Probably the most influential work was a World Bank report from 1994: *Averting the old-age crisis: Policies to protect the old and promote growth* (New York, Oxford University Press, 1994).

<sup>17</sup> See, for example, F.M. Bertranou (ed.): *Cobertura previsional en Argentina, Brasil y Chile* (Santiago, ILO, 2001); F.M. Bertranou, C. Solorio, W. van Ginneken (eds): *Pensiones no contributivas y asistenciales: Argentina, Brasil, Chile, Costa Rica y Uruguay* (Santiago, ILO, 2002); see also the lists of ILO technical cooperation reports and publications, available at <http://www.ilo.org/legacy/english/protection/secsoc/info/tclist.pdf>.

<sup>18</sup> See, for example, E. Fultz, M. Ruck, S. Steinhilber (eds): *The gender dimensions of social security reform in Central and Eastern Europe: Case studies of the Czech Republic, Hungary and Poland* (Budapest, ILO, 2003); *Pension reform in Central and Eastern Europe* (two volumes) (Budapest, ILO, 2002); see also the lists of ILO technical cooperation reports and publications, available at <http://www.ilo.org/legacy/english/protection/secsoc/info/list.pdf>.

<sup>19</sup> World Bank: *Pension reform and the development of pension systems: An evaluation of World Bank assistance* (Washington, DC, 2006), pp. xvi and xvii.

such as the self-employed, who compulsorily contribute only a certain, low minimum amount. Recent estimations of future replacement rates show that they are likely to decrease not only in countries that embarked on so-called paradigmatic reforms, unless people contribute significantly longer and retire much later; even so-called parametric reforms – like the ones in France or Germany – may reduce future replacement rates quite considerably (see figure 4.5). A recent European Commission “Green Paper” also points to endangered future benefit adequacy in many countries<sup>20</sup> (see box 4.8).

168. The most common way to accommodate revenue reductions is to cut benefit levels, which often results in added uncertainty for those hardest hit by global and national adjustment processes. The expected turbulences on national labour markets – with respect to changing patterns of work sharing in an increasingly globalizing labour market – coupled with the global adjustment processes, may lead to “broken” careers for many people. Such careers may be interspersed with spells of unemployment or periods of retraining required by new labour market conditions, and those affected will most probably face replacement rates that no longer meet the requirements of ILO Conventions.

### Pension finances and the global crisis

169. The crisis provides a further stress test for the pensions reforms of the last three decades.<sup>21</sup> In a serious economic recession, all social security systems face immediate financing problems. If the rate and average duration of unemployment increase, the result will be a further reduction in incomes from pension schemes which link benefit amounts to contributions paid – and these are the vast majority of pension schemes.<sup>22</sup>

170. The repercussions that these developments will have on contributors and pensions are not straightforward, and will most likely affect people who retire after the crisis. In DB schemes, where pension amounts are calculated without regard to the level of reserves, the immediate impact will be less than in DC schemes where benefit guarantees are less effective by nature. However, a long-term contraction of employment – and hence fewer contributors – will also force governments to make downward adjustments in DB schemes.

171. Pension funds in many countries have suffered enormous losses during the global crisis, particularly in 2008.<sup>23</sup> In 2009, many pension funds returned to positive nominal investment returns, yet the crisis is likely to continue to weigh heavily on pension finances. Figure 3.6 shows the dramatic contraction of many pension funds in 2008, as well as the average annual nominal investment returns over the two-year period 2008–09, in which many funds started generating positive returns once again. The figure demonstrates that, while some of the losses incurred during the crisis may be recovered during economic recovery relatively quickly, a complete restoration of pension finances

<sup>20</sup> European Commission: *Towards adequate, sustainable and safe European pension systems* (Green Paper) (Brussels, 2010).

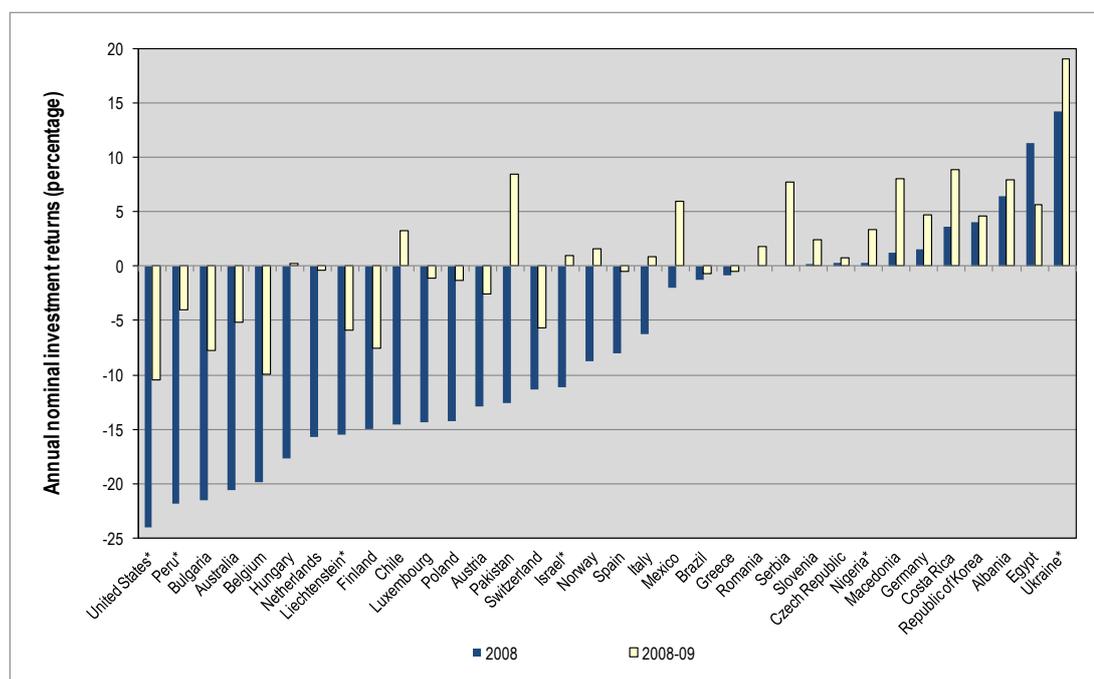
<sup>21</sup> See discussion in A. Drouin and M. Cichon: *Optimal financing and self-adjusting mechanisms for sustainable retirement systems. The social stabilization of pensions in times of crises and beyond: A critical review of three decades of pension reform and their outcomes*, International Conference of Social Security Actuaries and Statisticians, Ottawa, Canada, 16–18 September 2009; see also World Bank: *Pensions in crisis: Europe and Central Asia Regional Policy Note* (Washington, DC, 2009); OECD: *Pensions at a glance – Public policies across OECD countries* (Paris, 2009); OECD: *Preparing fiscal consolidation* (Paris, 2010).

<sup>22</sup> F. Bonnet, E. Ehmke and K. Hagemeyer: “Social security in times of crisis”, in *International Social Security Review*, Vol. 63 (2010), No. 2, pp. 47–70.

<sup>23</sup> A. Pino and J. Yermo: “The impact of the 2007–09 crisis on social security and private pension funds: A threat to their financial soundness?”, in *International Social Security Review*, Vol. 63 (2010), No. 2, pp. 5–30.

may take many years. While some of the losses have been recovered in the meantime, the fact remains that people have lost a number of years of savings due to the financial crisis. Moreover, the crisis has also demonstrated the vulnerability of pension levels in DC schemes, notably for people who are close to retirement and whose savings portfolios might not recover during their remaining active life. A further question is whether the accumulation of pension savings in the global markets had considerable impact on the development of asset price bubbles, and hence might have contributed to the new level of benefit uncertainty.

**Figure 3.6. Impact of economic and financial crisis on value of pension reserves during crisis and recovery: Nominal investment returns 2008 and 2008–09**



Note: \* Data for 2009 refer to January to June only. Data for United States include IRAs.

Source: Own calculations based on OECD: *Pensions markets in focus*, July 2010 (Issue 7) (Paris), statistical tables.

172. National pension reserves are likely to feel the impact of the global crisis for a long time. While some countries have directly tapped into national pension reserves, other countries have modified the regulations of pension funds to give the government a greater say in the investment policy of the fund, which can be used to redirect investments to the national economy. The latter has been the case in Ireland, where the Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Act (2009) paved the way for a “directed investment” of €7 billion in preference shares issued by the Bank of Ireland and Allied Irish Banks, followed by its contribution to the national bail-out plan under the National Recovery Plan 2011–14.<sup>24</sup> While such measures may help to supply liquidity to ailing national companies and save jobs in the short term, they may expose pension funds to greater risks and jeopardize the sustainability and adequacy of pensions in the long term.

<sup>24</sup> National Pensions Reserve Fund Commission: *Annual Report and Financial Statements 2009* (Dublin, 2009); Government of Ireland: *The National Recovery Plan, 2011–14* (Dublin, 2010).

173. Recent pension reforms have rendered pension systems more vulnerable to economic shocks and have shifted financial and economic risks to individuals. This was the case where pension systems were converted into funded DC schemes without putting adequate safeguards in place to protect the future incomes of pensioners. The global crisis has had a particularly strong impact on workers close to retirement, who may defer their retirement for several years due to the sudden depletion of their pension accounts. A recent study assesses the impact of the crisis on pension levels in Chile where the reformed DC schemes are closest to maturity.<sup>25</sup> The case demonstrates that while in 2010 the capital market rebound led to a recovery of savings to pre-crisis levels, the fact remains that a number of contributors – notably those saving in higher risk portfolios – have effectively lost up to two years of savings. That means that they contributed to their old-age income systems without any impact on their pension level, and again demonstrates the inherent uncertainties created by entirely capital market-based old-age income security systems.

174. If a crisis, or its national spin-offs, turns into a long-term downward adjustment of asset prices, the outcome in DC schemes will inevitably be the payment of lower retirement benefits. Any prolonged suppression of interest rates and asset prices will lead to serious difficulties by way of destabilized annuity rates (prices) and management of annuity reserve funds. The size of the long-term effect will depend on the depth and the duration of the downturn in asset prices.

### 3.3. Income security for the unemployed

175. The world has been reminded of the importance of income security for the unemployed during the recent global crisis. Countries with unemployment protection and similar schemes, ideally combined with active labour market policies, have been able to react to the crisis quicker and in a more effective way than countries without such automatic stabilizers.<sup>26</sup> Unemployment benefits were able to stabilize aggregate demand and facilitate transitions to new jobs. Involuntary unemployment is an economic contingency many people face in market economies, not only in times of global crises. Unemployment benefit schemes provide income support to maintain a certain standard of living, usually over a limited period, to those who face temporary unemployment.<sup>27</sup>

176. In order to ensure their effectiveness, unemployment benefit schemes are usually complemented by employment services, employability-enhancing measures and other labour market interventions. These include assistance in searching for new employment, counselling, training or retraining whenever necessary, or temporary wage subsidies. There are also measures such as public works or other forms of employment guarantees that provide certain forms of paid employment to beneficiaries. Those benefiting from such measures may still require income transfers in addition to what they earn from this

<sup>25</sup> R. Bluhm: *Private pensions in Chile: Costs of the financial crisis, long-run performance and public alternatives*, Issues in Social Protection Series, Discussion Paper 20 (Geneva, ILO, 2010).

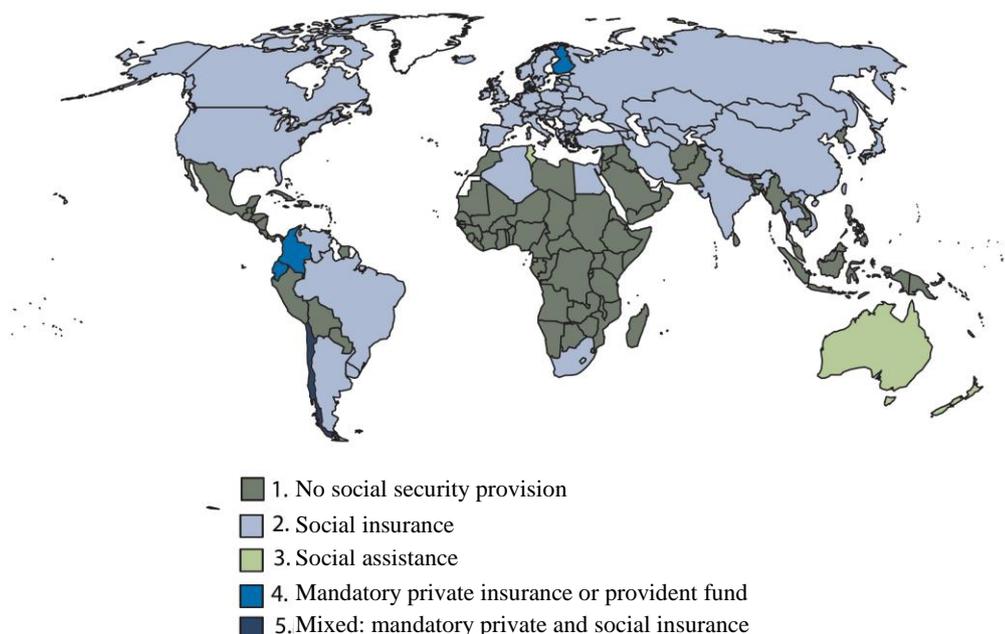
<sup>26</sup> ILO: *Protecting people, promoting jobs: A survey of country employment and social protection policy responses to the global economic crisis*, report to the G20 Leaders' Summit, Pittsburgh, 24–25 September 2009 (Geneva, 2009); ILO: *World of Work Report 2010: From one crisis to the next?* (Geneva, 2010).

<sup>27</sup> In some countries where there is no unemployment insurance or other statutory income support programmes for the unemployed, there exist legal provisions (usually included in the Labour Code or equivalent acts) obliging employers to pay a lump sum equivalent to several months' salary to workers who are laid off. The entitlements and amounts of such severance pay normally depend on past employment service with a given employer. One of the limitations of this system is that the obligation to pay severance benefits may put further limitations to the liquidity of enterprises in times of economic difficulties.

work, which is usually very low paid; they also need linked benefits (access to other forms of social insurance such as health or pensions) and – since public works are temporary solutions – they need to be assisted with employability-enhancing measures as well.

177. Contributory unemployment benefits tend to be restricted to those in formal employment, and exist mostly in high- and middle-income countries. Figure 3.7 demonstrates that unemployment insurance schemes exist in 64 countries, 17 of which also offer unemployment assistance benefits (most of these are middle- and high-income countries). A few countries mandate savings accounts or provident funds; but given their limited protection function and lack of risk pooling, such schemes are not considered social security schemes.

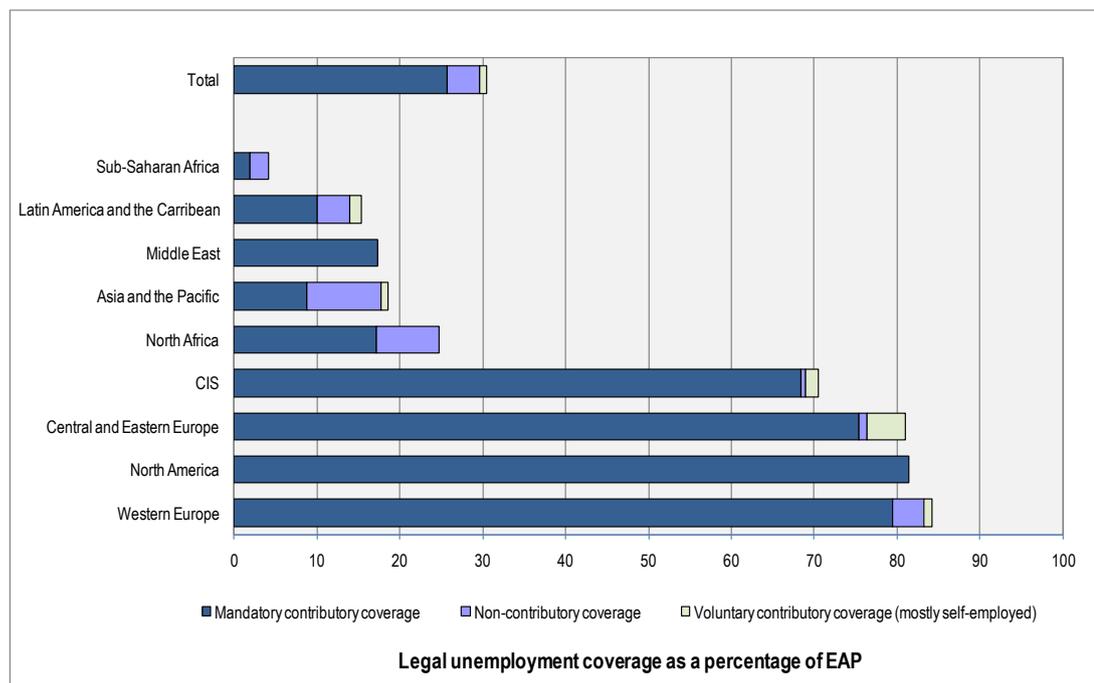
**Figure 3.7. Existence of unemployment protection schemes by type of scheme, 2008–09**  
(periodic benefits only)



Source: Based on ILO, ISSA–SSA and other data; see ILO: *World Social Security Report 2010/11*, op. cit., figure 5.1.

178. 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. The main issues in these countries are underemployment and the extreme precariousness in terms of remuneration and other aspects of the working conditions of the existing employment opportunities for those in poverty. But even in low-income countries unemployment is a growing challenge, in particular in increasingly populated urban areas.

**Figure 3.8. Unemployment protection schemes: Level of statutory coverage, regional estimates, as a percentage of the economically active population (EAP), latest available year**



Source: Based on ILO, ISSA–SSA and other data; see ILO: *World Social Security Report 2010/11*, op. cit., figure 5.4.

179. The level of unemployment protection coverage varies widely (see figure 3.8). Globally, less than 30 per cent of the economically active are covered by law for any form of income support benefit in the event of unemployment. Statutory coverage is as high as 80 per cent or more in Western Europe, North America, and Central and Eastern Europe and slightly less (70 per cent) in the Commonwealth of Independent States (CIS) countries, although effective coverage is dramatically lower in the latter group. In the rest of the world only a small minority is legally covered: slightly over 20 per cent in North Africa; less than 20 per cent in Asia, Latin America and the Middle East; and just a few per cent of the economically active in sub-Saharan Africa. These variations in coverage ratios are largely a function of the share of formal employment in the labour force.

180. With higher levels of economic development, many middle-income countries have realized the need to introduce systems of unemployment protection in order to be able to facilitate structural transitions of the economy and respond to shocks.<sup>28</sup> For example, the Republic of Korea introduced unemployment insurance in 1995, shortly before the Asian financial crisis of 1997. This scheme has also helped the country absorb the repercussions of the recent global financial and economic crisis in a more systematic and effective way.<sup>29</sup> In 2007, shortly before the current global crisis, Bahrain also introduced an unemployment insurance scheme (see box 3.7).

<sup>28</sup> J. Berg and M. Salerno: “The origins of unemployment insurance: Lessons for developing countries”, in J. Berg and D. Kucera (eds): *In defence of labour market institutions: Cultivating justice in the developing world* (Basingstoke, Palgrave Macmillan, 2008), pp. 80–99.

<sup>29</sup> N. Prasad and M. Gerecke: *Employment-oriented crisis responses: Lessons from Argentina and the Republic of Korea* (Geneva, ILO, 2009).

**Box 3.7**  
**The unemployment insurance scheme in Bahrain**

In 2007, the Kingdom of Bahrain became the first country in the Middle East to implement an unemployment insurance scheme, within the context of broader labour market reform. This was achieved with the technical assistance of the ILO, which assessed the feasibility of such a scheme and supported the drafting of the legislation and its implementation. The scheme covers all workers, national and foreign alike, and is financed by respective contributions of 1 per cent of wages by workers, employers and the Government. The unemployment insurance scheme provides two types of benefits to jobseekers who are actively looking for employment: (1) unemployment compensation, which is paid to jobseekers who have fulfilled the minimum contribution period, and which replaces 60 per cent of the insured's average wage during the last 12 months of employment up to a ceiling for a maximum period of six months; and (2) unemployment aid, which is paid to first-time jobseekers and those jobseekers who have not fulfilled the minimum contribution period, at a flat rate (differentiated by level of education) for a maximum period of six months.

In April 2010, the unemployment insurance scheme paid unemployment assistance benefits to 2,237 jobseekers, 40 per cent of whom were in possession of a university degree. Since the implementation of the scheme, more than 14,000 registered jobseekers have found new jobs. Reflecting their higher unemployment risks, women are more strongly represented among registered jobseekers and make up 70 per cent of recipients of unemployment benefits, and 56 per cent of those who have found a job.

Owing to the low number of terminations, the scheme has had to deal with few cases of unemployment compensation so far. However, if the number of terminations should increase in the future as a result of the financial and economic crisis, a system is in place which provides income security for jobseekers while actively supporting their return into employment by linking cash benefits to participation in training, job matching and career guidance through employment offices.

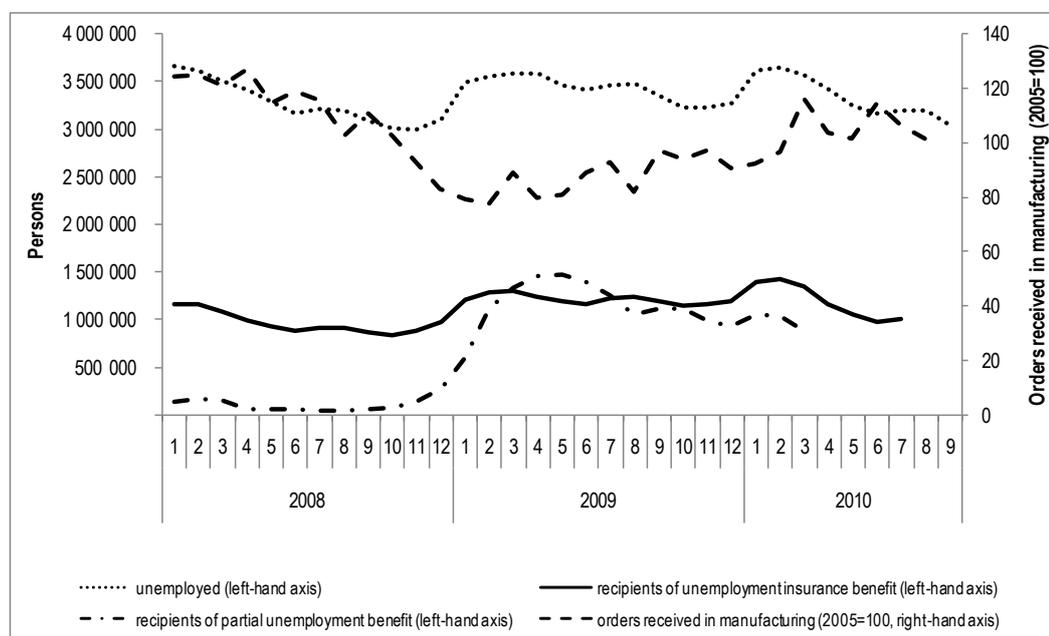
Source: Based on ILO: Building adequate social protection systems and protecting people in the Arab region (Beirut, 2009); ILO: *Kingdom of Bahrain: Technical note – Social protection for the unemployed: Preliminary findings on unemployment insurance and assistance* (Geneva, 2005); and official information from the Bahraini Government.

181. The potential of unemployment protection schemes in times of crisis has been illustrated by national responses to the global financial and economic crisis, where unemployment protection schemes have helped workers and employers to adapt to the sudden drop in aggregate demand, secure incomes and smooth consumption, and facilitate economic recovery, e.g. in South Africa or Germany (see box 3.8).

### Box 3.8 Partial unemployment benefit in Germany during the global crisis

Germany's part-time unemployment benefit (or short-time work compensation, *Kurzarbeitergeld*) was one of the main policy instruments used during the global financial and economic crisis. This benefit allowed companies faced with a drop in demand to retain workers on shorter working hours while guaranteeing income security to workers. The loss in earnings was partly compensated through a cash benefit paid to workers during a maximum period of six months. These benefits were received by close to 1.5 million workers (5.4 per cent of the workforce) in May 2009 during the peak of the crisis.

The following figure shows that the sudden downturn of the economy (using orders received in manufacturing as a proxy) led to a relatively moderate increase in the number of unemployed and the number of recipients of unemployment insurance benefits (recipients of unemployment assistance benefits are not considered here), as a large share of the employment impact of the downturn could be cushioned by the remarkable expansion of partial unemployment benefits.



This policy is considered to be one of the factors explaining the relatively quick recovery of the German economy, because it ensured that employers were in a position to retain their workers throughout the crisis, thus avoiding firing and rehiring cost, and were able to quickly respond as the markets picked up again. The average reduction in working time was 30.5 per cent, which corresponding s to the equivalent of about 432,000 full-time jobs. A loss of jobs of this magnitude would have resulted in an increase in the unemployment rate of about one percentage point.

Source: Based on ILO: *Germany's response to the crisis*, G20 Country Brief (, Geneva 2010); Statistics from the Federal Employment Service Agency and the National Statistical Office.

182. Unemployment insurance can provide a critical safeguard to prevent workers sliding into informal employment after having lost their jobs. By providing unemployed workers with income security for a limited period of time, it gives them the opportunity to look for a new job that matches their skills – rather than being forced to engage in work opportunities in the informal economy. This helps to improve labour force matching and, as a consequence, to improve the overall productivity of the economy.

183. However, the main source of widespread poverty in lower-income countries is not temporary but structural unemployment and underemployment. The long-term solution lies in sustainable employment-generating policies and adequate macroeconomic frameworks, but there is still a need for interventions that alleviate the current situation. These should include income support to the unemployed and underemployed (working poor) in the form of cash transfers, as well as certain types of basic employment guarantees such as public works. Probably the most prominent example of the latter type of scheme is the Indian National Rural Employment Guarantee Scheme (NREGS), which since 2006 has provided income support to more than 92 per cent of all agricultural workers' households (about one quarter of all rural households in India, including at least one economically active person) (see box 3.9). It is for this reason that both income support and employment guarantees are among the foundations of the SPF (as defined in Chapter 1) promoted by the ILO and the United Nations; they have also been reflected in the Global Jobs Pact.

### Box 3.9

#### The Indian National Rural Employment Guarantee Scheme (NREGS)

The NREGS was established under the corresponding Act (NREGA), adopted in 2005. Reflecting the constitutional right to work, the scheme confers statutory rights on beneficiaries, which distinguishes it from similar schemes without statutory authority, which are more prone to discretionary changes. There are, however, some concerns that poor, often illiterate, households cannot realize their rights in practice.

Under NREGS, a rural household is entitled to demand up to 100 days of employment per year, which is made available on agreed schemes of public works. A share of places in this programme is reserved for women. The programme undertakes projects facilitating land and water resource management, together with infrastructure development projects such as road construction. The wages paid are equal to the prevailing (and officially declared) minimum wage for agricultural labourers in the area. If work is not provided within the stipulated time, the applicant is entitled to receive an unemployment allowance. The programme is designed in a manner which is effectively self-targeting, since the wage specification is such that while the poor will choose to enter the programme, the non-poor will abstain from participation.

The allocation for the programme from the national budget for the financial year 2006–07 was equivalent to 0.3 per cent of GDP. According to official cost estimates, the expenditure of the scheme could reach 1.5 per cent of GDP once fully operational; there are differing views on the affordability of the programme.

The programme is regarded as one of the largest rights-based integrated employment and social protection initiatives in the world, reaching around 40 million households living below the poverty line.

Source: Based on ILO: *Extending social security to all*, op. cit., pp. 89–90.

## 3.4 Income security in the event of employment injury

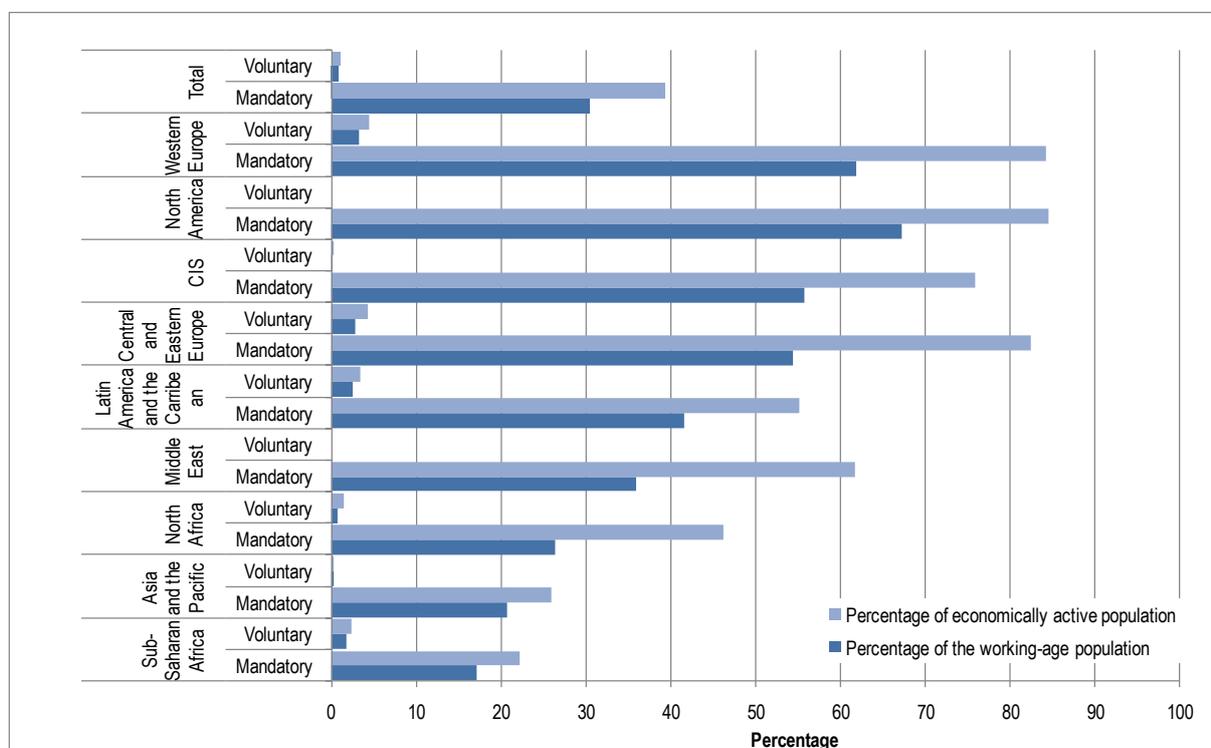
184. Most countries in the world offer some coverage for work-related accidents and occupational diseases.<sup>30</sup> In the majority of countries, employment injury was the first contingency covered by social security; these schemes are often closely linked to occupational safety and health regulations. Many schemes also include preventive elements, aimed at improving workplace safety. Nonetheless, coverage is 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.

<sup>30</sup> See ILO: *List of occupational diseases (revised 2010)* (Geneva, 2010).

185. Employment injury schemes providing benefits are often organized on a contributory basis, sometimes constituting a separate fund, sometimes merged with other social security branches. Because of this link between workplace risk and prevention, employment injury schemes in many countries are organized separately from other schemes and financed from employer contributions only. Contribution rates are often differentiated according to the level of risk of accident or disease in different types of economic activity.

186. Globally, estimated statutory coverage represents less than 40 per cent of the economically active population. However, there are large regional differences in statutory coverage (see figure 3.9). In Central, Eastern and Western Europe as well as the CIS region and North America, around three-quarters of the economically active population are covered by employment injury schemes, whereas in Africa and Asia only around 20 per cent of this target group is covered (mainly by employer liability schemes).

**Figure 3.9. Extent of statutory coverage by employment injury scheme, 2008–09**



Source: Based on ILO, ISSA–SSA and other data; see ILO: *World Social Security Report 2010/11*, op. cit., figure 6.2.

187. Data on effective coverage, as far as available, suggest that the number of persons effectively protected is very low in large parts of the world. The evidence suggests that, in the majority of the countries for which data are available, less than half of the employed population are protected in the event of employment injury.<sup>31</sup> More efforts would be necessary to systematically assess the extent of coverage through labour inspection data and compensation statistics, to ensure that all cases of employment injury are adequately reported and compensated, and to harmonize data collection processes and methodologies.

<sup>31</sup> ILO: *World Social Security Report 2010/11*, op. cit., figure 6.3.

188. Social security coverage in the event of employment injury contributes significantly towards protecting people from financial risks resulting from employment injury and occupational diseases, and towards restoring their productivity quickly through access to medical care. As mentioned above, employment injury insurance has often been one of the first contingencies of social insurance to be established, and this was the case in Cambodia, where the newly established National Security Fund introduced the employment injury branch (see box 3.10).

**Box 3.10**

**Introducing employment injury insurance in a low-income country: The example of Cambodia**

In 2008, Cambodia introduced mandatory employment injury insurance – the first branch of its new mandatory social insurance scheme for workers in the private sector. This followed the implementation of the National Social Security Fund in 2007, which was created under the first National Social Security Law adopted in 2002. The ILO provided comprehensive technical assistance in this process, mainly on the policy and design of the scheme. Employment injury insurance, which at present covers companies with more than eight employees in conformity with the labour law, is financed by employers' contributions from equal to 0.8 per cent of insurable earnings. In order to support the country's ailing garment and shoe industries, the Government decided to reduce temporarily the contribution rate to 0.5 per cent of insurable earnings during 2009 and 2010 for these sectors, while financing the remaining 0.3 per cent from government revenue. The employment injury insurance scheme provides cash benefits to injured workers in the event of temporary or permanent incapacity to work and to survivors of workers who died of occupational injuries or diseases, as well as medical care to workers injured as a result of employment-related injuries and occupational diseases.

More than 1,400 companies had registered with the National Social Security Fund by October 2010, with the majority of covered workers in the garment and shoe industries. More than 2,500 claims were filed by March 2010.

Sources: Based on ILO: Report to the Government on employment injury insurance in Cambodia: Legislation, financing and administration (Bangkok, 2005); website of the National Social Security Fund: [www.nssf.gov.kh](http://www.nssf.gov.kh); and ILO: Cambodia: Moving forward toward better social security, ILO Better Factories Cambodia Programme (Phnom Penh, 2010).

189. Social protection in the event of employment injury illustrates, more than for any other branch, the importance of a constructive interplay between prevention policies – namely with respect to occupational safety and health, integrated labour inspection policies, and social security.<sup>32</sup> In the Plan of Action (2010–16), the Governing Body underlined that effective prevention policies, in close collaboration between governments and social partners, may have a positive impact on social security schemes and their finances.<sup>33</sup>

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<sup>32</sup> ILO: *General Survey concerning the Occupational Safety and Health Convention, 1981 (No. 155), the Occupational Safety and Health Recommendation, 1981 (No. 164), and the Protocol of 2002 to the Occupational Safety and Health Convention, 1981*, Report III (Part 1B), International Labour Conference, 98th Session, Geneva, 2009.

<sup>33</sup> ILO: Plan of Action (2010–16) to achieve widespread ratification and effective implementation of the occupational safety and health instruments (Convention No. 155, its 2002 Protocol and Convention No. 187), adopted at the 307th Session of the Governing Body, March 2010 (para. 34); see also the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187), Art. 4(3)g.

### 3.5. Maternity protection

190. Statutory provision for maternity benefits today ranks third among social security branches providing cash benefits, after employment injury and retirement pensions. This is an achievement that should be seen in the context of the high importance the ILO has historically accorded to maternity protection. The first international Convention on social security (maternity protection) was adopted at the First Session of the International Labour Conference in 1919, while the most recent one, revising earlier standards on maternity protection, was adopted in 2000.<sup>34</sup> According to the Maternity Protection Convention, 2000 (No. 183), benefits include access to health services for pregnant and childbearing mothers, and their children, and cash benefits during maternity leave.<sup>35</sup> These benefits need to be seen in the broader context of maternity protection, as defined in Convention No. 183, which includes a broader set of protective measures, such as employment protection and non-discrimination, as well as provisions for breast-feeding mothers.

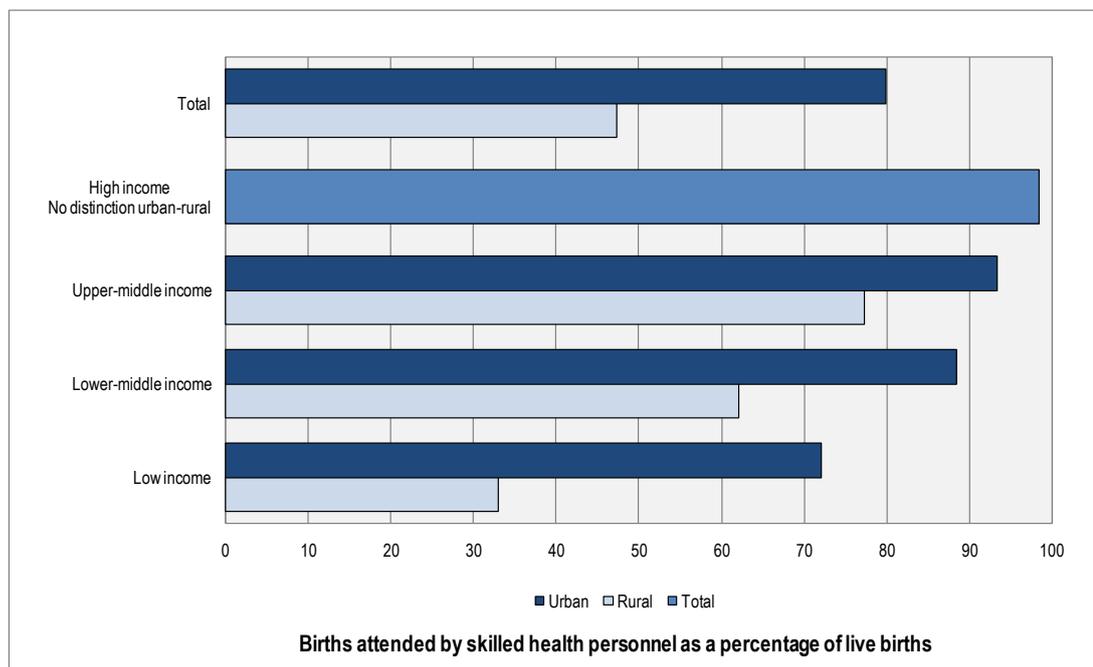
191. In view of the international commitment to reduce the mortality rates of mothers, newborns and young children, and improve maternal health, under Millennium Development Goals (MDGs) 4 and 5, the provisions of Convention No. 102 are of particular relevance: benefits in the event of pregnancy and childbirth and their consequences should include at least prenatal, natal and post-natal care, either by medical practitioners or by qualified midwives, and hospitalization where necessary. The available statistical evidence shows that, despite recent improvements in some parts of the world, the provision of maternal health services is not sufficient in reaching these objectives, and considerable inequities in access between urban and rural areas persist, particularly in low-income countries (see figure 3.10). In addition, in many parts of the world, the health effects of HIV/AIDS, malaria and other diseases increase the mortality risks for mothers and children. Extending and improving social health protection for women, and increasing their access to maternal health services, would contribute to achieving better results.

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<sup>34</sup> ILO: The Maternity Protection Convention, 1919 (No. 3); and the Maternity Protection Convention, 2000 (No. 183).

<sup>35</sup> For an overview on national maternity protection legislation, see: ILO: *Maternity at work: A review of national legislation. Findings from the ILO database of conditions of work and employment laws* (Geneva, 2010).

**Figure 3.10. Levels of and inequities in access to maternal health services in rural and urban areas, latest available year (percentage of live births)**

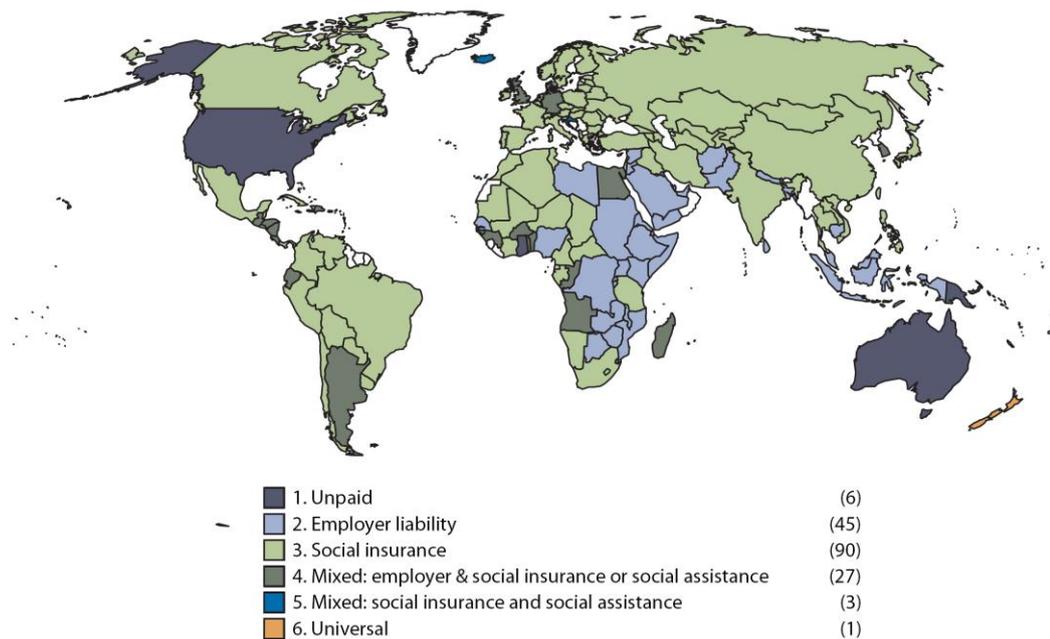


Source: Based on ILO, WHO and other data; see ILO: *World Social Security Report 2010/11*, op. cit., 2010, figure 6.4.

192. Income security before and after childbirth is equally important. Statutory provisions for maternity protection exist in a majority of countries (90 per cent of high-income countries, 80 per cent of middle-income countries and over 50 per cent of low-income countries).<sup>36</sup> However, these provisions usually apply only to women employed in the formal economy and thus in many low- and middle-income countries only this minority enjoy benefits from maternity protection schemes. Nevertheless, a number of initiatives aim at extending the coverage of maternity benefits beyond formal wage employment. Figure 3.11 shows the types of programme existing in the nearly 180 countries for which information is available. The majority of these schemes are of the social insurance type: in two-thirds of countries, and in 52 per cent as the main or only programme; in others as a complement to employer-funded or assistance schemes. In just over a quarter of countries, maternity benefit during maternity leave should be paid directly by employers (so-called employers' liability) as legislated in the Labour Code or similar legal provisions.

<sup>36</sup> ILO: *Maternity at work*, op. cit.

Figure 3.11. Maternity legal provision: Types of programmes worldwide, 2009



Note: In the United States there is no national programme, yet cash benefits may be provided at the state level. In Australia, a paid parental leave programme is to be implemented as of 1 January 2011.

Source: Based on ILO, ISSA–SSA, UN and other data; see ILO: *World Social Security Report 2010/11*, op. cit. figure 6.6.

193. The further extension of social security coverage for maternity would contribute towards enhancing income security and access to health care for mothers and children during a very sensitive period of their lives. International experience has also shown that the collective financing of maternity cash benefits through social insurance helps remove obstacles to young women's employment.

### 3.6. Family benefits, minimum income support and social assistance

#### Providing social security to families with children

194. The provision of social security benefits for families with children, according to Convention No. 102, includes periodic benefits, as well as benefits in kind such as the provision of food, housing or clothing. There is a broad variety of types of benefits and funding, including social insurance benefits covering salaried workers (France and Tunisia); tax-financed universal or quasi-universal child benefits, partly provided for in the form of a tax credit; parental leave benefits (Germany); and categorical means-tested social assistance benefits (Belgium). The programme's effectiveness in preventing poverty and enhancing the living standards of families and children is contingent upon its design. When family benefit programmes cover only workers in the formal economy and their families, the extent of coverage is limited – unless specific measures are adopted to enhance protection for those outside formal employment.

195. In recent years, some countries have reformed and expanded parental benefits, aiming at the replacement of earned income for young mothers and fathers (e.g. in Germany). The German experience confirms earlier experiences from Sweden, where

earnings-related benefits with specific incentives significantly increased the take-up by fathers, with effects on the sharing of work and family responsibilities between women and men.

196. Some low- and middle-income countries offer contributory child benefits to a small group of workers in the formal sector. The more dominant form of family benefits are social assistance benefits targeted at vulnerable groups of the population (e.g. orphaned children, single-parent families). These, including some major innovations in this field, will be discussed in conjunction with other social assistance benefits in the following sections.

### The role of social assistance schemes in developed and middle- and low-income countries

197. Social assistance programmes have played an important – albeit long neglected – role in social security. They aim to provide a minimum level of resources to those individuals and households living under a defined level of income, and usually include a means test, often in the form of an income test or a proxy means test. Social assistance programmes can either focus on a specific risk or contingency (for example means-tested social pensions),<sup>37</sup> or provide generalized income support to all in need. It should be noted that Convention No. 102 explicitly mentions means testing as one possible way of providing benefits in several branches, including old-age benefits and unemployment benefits.

198. Recommendation No. 67 notes that “income security schemes should relieve want and prevent destitution by restoring, up to a reasonable level, income which is lost by reason of inability to work (including old age) or to obtain remunerative work or by reason of the death of a breadwinner”. As far as possible, these schemes should be organized in the form of compulsory social insurance, and other needs should be covered by social assistance, based on prescribed scales for certain categories of the population (such as dependent children and older men and women), appropriate to the needs of the case for “other persons in want”.<sup>38</sup>

199. Most countries with developed social security systems follow policies whereby 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.<sup>39</sup> In the European Union (plus Iceland, Norway and Switzerland), expenditure on means-tested benefits is less than 3 per cent of GDP on average, while total average social security expenditure is over 25 per cent. 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 one third of total social expenditure, or 5 per cent of GDP (see figure 3.12).

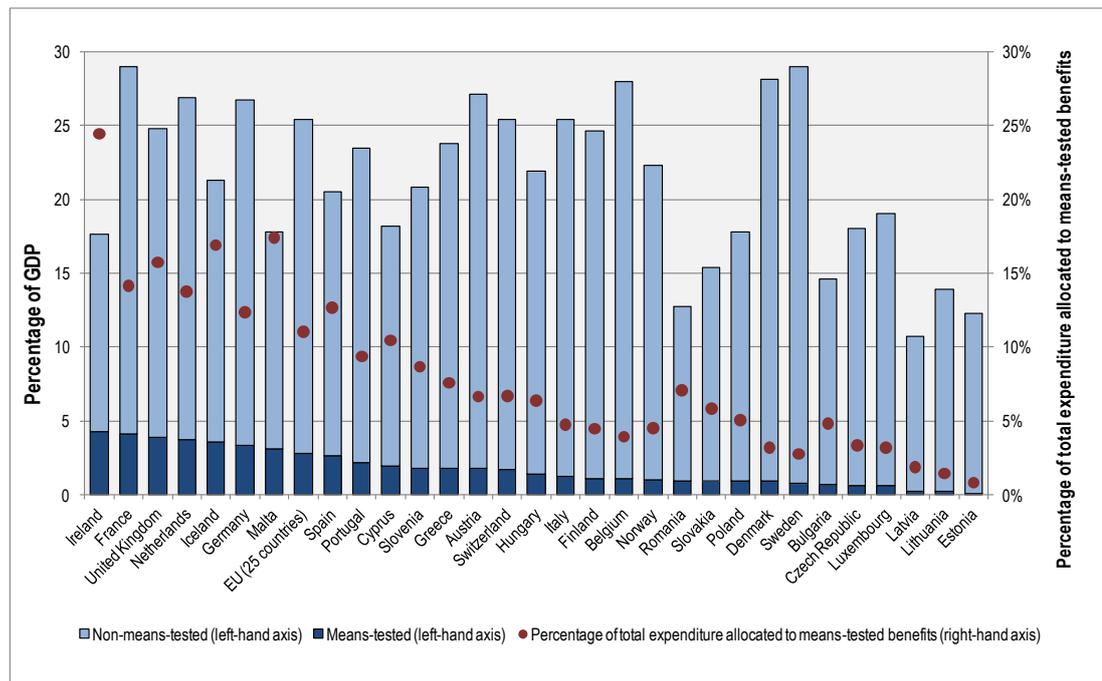
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<sup>37</sup> Social assistance programmes focusing on a specific contingency were discussed under the respective section earlier in Chapter 3.

<sup>38</sup> ILO: Income Security Recommendation, 1944 (No. 67), Paras 1, 3 and 4.

<sup>39</sup> 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.

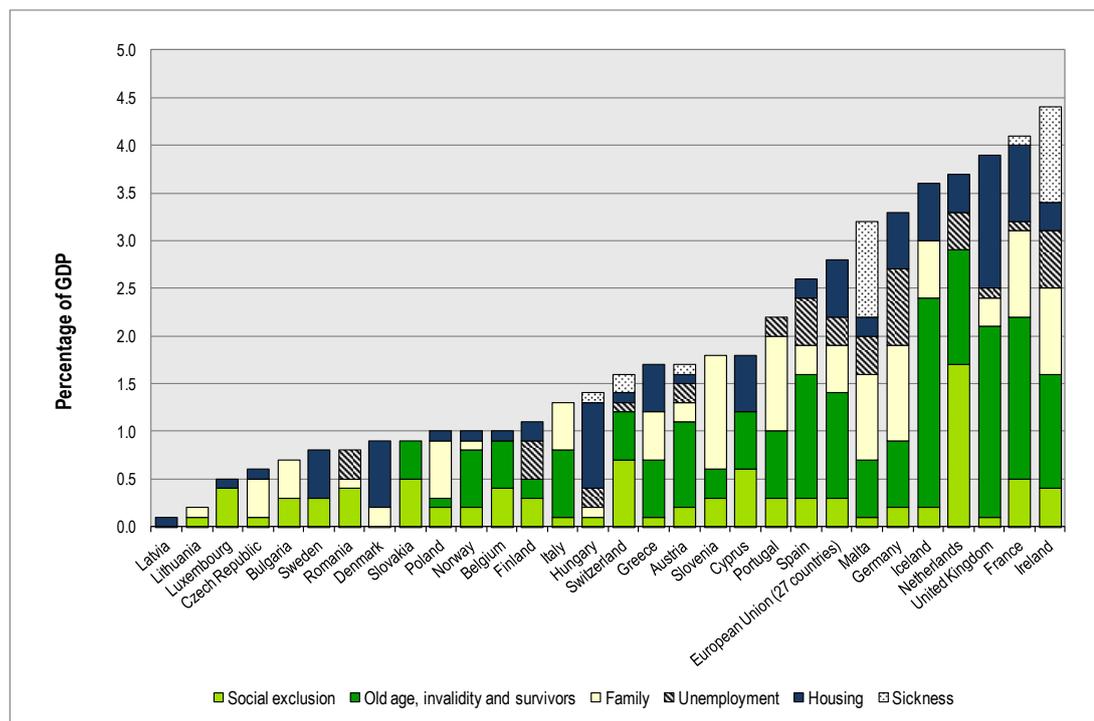
**Figure 3.12. Means-tested and non-means-tested benefit expenditure in European countries**  
(percentage of GDP and percentage of total expenditure)



Source: Based on ILO, EU and other data; see ILO: *World Social Security Report 2010/11*, op. cit., figure 7.1.

200. Patterns of social assistance in terms of what contingencies are covered differ considerably among European countries (see figure 3.13). On average, the majority of means-tested benefits go to older people, persons with disabilities and survivors (more than one third, representing 1.1 per cent of GDP). Second come housing benefits (0.6 per cent of GDP); third, family benefits (0.5 per cent of GDP); fourth and fifth, income support to unemployed workers (0.3 per cent of GDP) and social assistance to socially excluded groups (0.3 per cent of GDP).

**Figure 3.13. Means-tested benefits in European countries: Totals and by function, 2007**  
(percentage of GDP)



Source: Based on EU, ILO, and other data; see ILO: *World Social Security Report 2010/11*, op. cit., figure 7.2.

201. While in most developed countries social assistance-type schemes play an important although residual role in closing relatively small coverage gaps, in many middle- and low-income countries a large proportion of the population is not covered – sometimes the majority of the population.

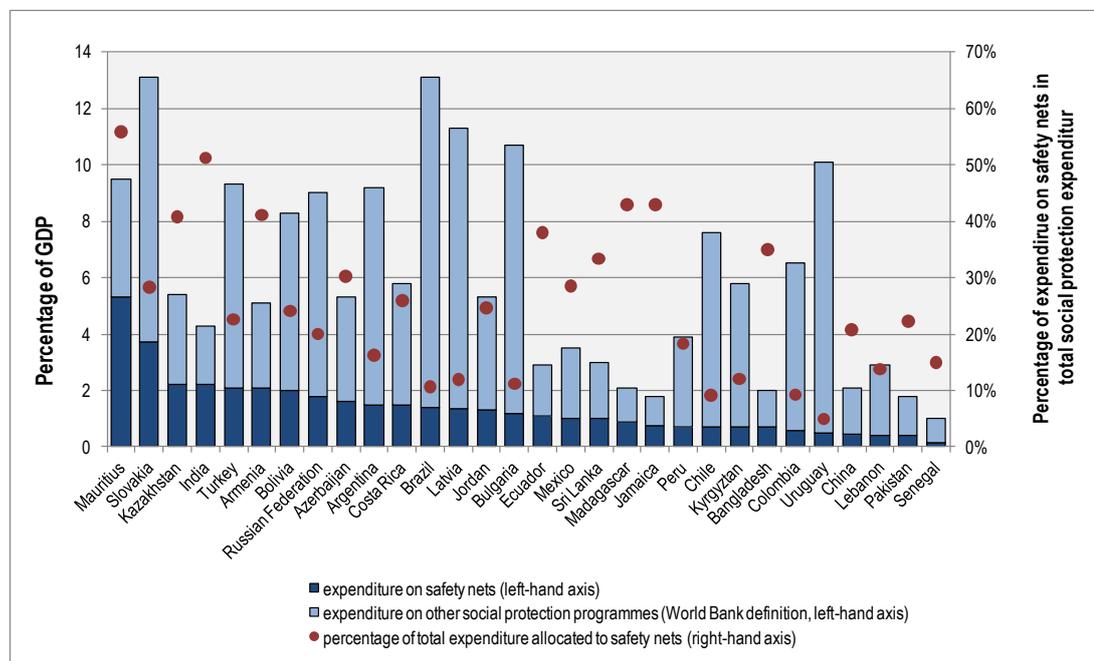
202. In the latter category of countries, non-contributory income transfer schemes have recently been gaining in importance. Particularly in countries with large informal economies and where only a minority are covered by social insurance schemes, non-contributory social security provides an opportunity 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 sections. Despite some recent efforts, there is little systematic and comparable quantitative evidence that would indicate not only expenditure on such schemes, but also numbers of beneficiaries and effective coverage in terms of percentages of target groups reached.<sup>40</sup> Figure 3.14 shows expenditures on social safety net programmes (as a proxy for expenditure on social assistance programmes) as a percentage of GDP for selected middle- and low-income countries from World Bank data.<sup>41</sup> These data show a wide variation of expenditure levels on social safety nets, which varies from close to zero to more than 5 per cent of GDP. Given lower overall levels of expenditure on social security, the share of “safety net” expenditure in total social security expenditure tends to be higher in low- and middle-income countries than

<sup>40</sup> The available evidence includes A. Barrientos, M. Niño-Zarazúa and M. Maitrot: *Social assistance in developing countries, database (Version 5.0)* (Manchester and London, Brooks World Poverty Institute and Overseas Development Institute, 2010); World Bank: *Spending on safety nets: Comparative data compiled from World Bank analytic work* (Washington, DC, 2008).

<sup>41</sup> World Bank: *ibid.* It should be noted that the definitions used are not fully consistent with ILO definitions of social assistance and social security expenditure.

in European countries; it ranges from 5 to more than 50 per cent of total social security expenditure.

**Figure 3.14. Social assistance expenditure, selected countries, 2008 (percentage of GDP)**



Note: The definition of social assistance expenditure is not fully consistent with the ILO definition.

Source: Based on World Bank: *Spending on safety nets: Comparative data compiled from World Bank analytic work* (Washington, DC, 2008).

### Extending social security coverage through social assistance programmes in low- and middle-income countries

203. The large variation in expenditure levels across countries illustrates the role that policy initiatives to extend social security to the poorest have played.

204. A new generation of non-contributory schemes, often referred to as “cash transfer schemes”, have emerged over the past two decades. These schemes aim to alleviate – or even prevent – poverty by providing a minimum benefit to individuals or families who are in need. Various characteristics distinguish such schemes:

- they may or may not be means tested;
- they may be paid for a limited or an unlimited period; and
- they may be conditional or unconditional.

205. The most widely known schemes are the *Oportunidades* programme in Mexico; the *Solidario* programme in Chile; and the *Bolsa Família* scheme in Brazil (see box 3.11). All are conditional cash transfer schemes. Similar programmes implemented in 16 Latin American countries cover around 70 million people, or 12 per cent of the population in the region.

**Box 3.11**  
**The *Bolsa Família* programme in Brazil**

The Brazilian *Bolsa Família* programme is one of the largest social assistance programmes in the world. In 2008, it covered 47 million people, corresponding to about one quarter of the Brazilian population, with a level of expenditure of 0.4 per cent of GDP, representing 1.8 per cent of the federal government budget.

Conceived as part of integrated social policies, the programme has a double objective: (a) to reduce current poverty and inequality, by providing a minimum level of income for extremely poor families; and (b) to break the inter-generational transmission of poverty by making these transfers conditional on the compliance by beneficiaries with “human development” requirements (for example, children’s school attendance, attendance at vaccination clinics, and arrangement of prenatal visits). Evaluations show positive impacts on the reduction of poverty and inequality, contributing to the country’s recent progress in this respect, as well as on the level of children’s school attendance. While no significant negative impacts on labour supply have been noted, the programme appears to have generated a positive impact on female labour force participation – particularly in the lower-income deciles.

Source: Based on ILO: *Extending social security to all*, op. cit., section 6.3.1; ILO: *Bolsa Família in Brazil: Context, concept and impacts* (Geneva, 2009).

206. In 2007 an experimental conditional cash transfer initiative was launched in New York City to reduce urban poverty. It provides financial incentives in three areas: health, children’s education, and adults’ skills and employability. Other United States cities are following this programme’s development closely and considering similar initiatives.

207. In other parts of the world, countries have engaged in extending social security coverage to poor and vulnerable groups of the population through social assistance programmes. Such programmes have been implemented and/or extended in low- and middle-income countries in different parts of the world. Examples include Bangladesh’s Targeting the Ultra-Poor programme; Pakistan’s Benazir Income Support Programme (see box 3.12); and South Africa’s various grants programmes.

**Box 3.12**  
**Extending income support to poor families in Pakistan**

Created in 2008, the Benazir Income Support Programme in Pakistan provides 1,000 rupees (Rs) per month (currently about US\$12) to poor families, who comprise about 10 per cent of the population. The condition is that the monthly income of the family is less than Rs6,000 (about \$75) and that the family owns less than three acres of land or a house of not more than 80 square yards (70m<sup>2</sup> approximately). The cash is paid to female household members only. The programme was allocated an amount of Rs34 billion for the financial year 2008–09. It is the third largest allocation in the Pakistani budget and constitutes 0.3 per cent of GDP.

208. In recent years, pilot social cash transfer schemes have been introduced in a number of African countries (see box 3.13 for an example from Zambia). In some of these countries, discussions are under way to scale up these programmes and fully integrate them into national social protection strategies.

**Box 3.13**  
**Social cash transfer scheme in Zambia**

The aim of this social assistance programme, implemented originally in 2004 in the Kalomo District of Zambia as a “pilot” for wider extension, is the reduction of extreme poverty, hunger and starvation, with a focus on households headed by older people and those caring for orphaned and vulnerable children. Until 2010 Zambia had partially covered five districts with cash transfer schemes (Kalomo, Monze and Kazungula districts in the Southern Province, and Chipata and Katete districts in the Eastern Province). At present 8,000 households are covered in the first four districts, with assistance targeted at the most vulnerable households – plus nearly 5,000 individuals in Katete district covered by the old-age pension scheme. A recent Memorandum of Understanding between the Government and the Cooperating Partners foresees further expansion of coverage: (1) gradually all the eligible households in the currently covered districts will be reached, (2) similar schemes will be initiated in other districts characterized by high poverty rates, (3) districts with the highest poverty and child mortality rates will gradually be covered by child grants targeted at children under 5 years.

Programmes are administered by the Ministry of Community Development and Social Services, but financing comes to a large extent from Zambia’s donor partners. However, there is a commitment from the Government to gradually increase its participation as coverage is extended. The potential cost of covering all destitute households in Zambia has been estimated at US\$16 million, which equates to 0.4 per cent of GDP, or 4 per cent of annual aid flows.

Most of these schemes (except the Katete pension scheme) are targeted at critically poor households with no capacity to undertake any income-generating activity. The monthly benefit level of about US\$10 per household was initially estimated to cover the cost of a meal a day, and was not expected to lift people out of general poverty, but to preclude critical poverty. The coverage is targeted at (and at present limited to) the most vulnerable 10 per cent of the population in the areas covered. Benefits for households with children are higher, and in some areas soft conditionality is also applied – benefits are increased if children go to school or members of the household meet requirements to participate in some public health programmes.

The programme has had a significant impact on the reduction of poverty, the improvement of nutritional indicators, and an increase in school attendance and productive activities.

Source: ILO: *Extending social security to all*, op. cit., section 6.4.2; ILO–DFID: *Zambia: Social Protection Expenditure and Performance Review (SPER)* (Geneva, 2008); see, for example, F.M. Bertranou (ed.): *Cobertura previsional en Argentina, Brasil y Chile* (Santiago, ILO, 2001); F.M. Bertranou, C. Solorio, W. van Ginneken (eds): *Pensiones no contributivas y asistenciales: Argentina, Brasil, Chile, Costa Rica y Uruguay* (Santiago, ILO, 2002); see also the lists of ILO technical cooperation reports and publications, available at <http://www.ilo.org/legacy/english/protection/secsoc/info/tclist.pdf> and <http://www.ilo.org/legacy/english/protection/secsoc/info/list.pdf>, and information collected during the missions of ILO officials to Zambia.

209. The various countries need to make a considerable effort to improve national databases on social security beneficiaries in general and social assistance recipients in particular. Much also remains to be done by the international community to improve and standardize the methodology used to measure coverage by social assistance, as well as to create stronger data foundations for such measurements.

### 3.7. A third conclusion

210. While substantial progress has been made in recent years, the extension of social security will remain one of the major challenges for balanced economic growth and social cohesion during the coming decade. The first priority today is to provide the 75–80 per cent of those who are excluded with some form of social security, which will

allow them to live without fear of losing their livelihood. A number of promising policy innovations have emerged in the past few years – mainly in low- and middle-income countries. More than 30 countries in this category have already successfully taken measures to introduce elements of national social protection floors in the form of cash transfer programmes, or programmes enabling wider affordable access to health care. Practically all the other countries have either small-scale pilot schemes in place, or are discussing their social protection strategies. Also promising is the growing understanding of the importance of social protection in national debates, and in debates with the international development community. There is also more and more cooperation between the different international agencies involved, as well as among the countries themselves: South–South cooperation in the area of social protection has strengthened significantly over the past few years.

## Chapter 4

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### Main issues for the future of social security

211. This chapter maps out the issues pertaining to the development of a policy framework for the ILO discussed in Chapter 5. The main challenges for the near future will be to develop, through national dialogue, coherent economic and social development policies that extend social security coverage, maintain and extend the necessary fiscal space and ensure the effective, efficient and equitable design, governance and management of social security schemes.

212. In this context, national policies have to address a number of issues, which are reflected in the three main parts of this chapter. The first part addresses the need to clearly define policy objectives of social security systems on a national level and to incorporate them coherently into wider social policy and economic policy frameworks and hence to ensure coherence with employment and other social policies.<sup>1</sup> The second part discusses the financial and economic foundations of social security schemes and addresses issues concerning their affordability and sustainability, based on a broad approach combining an assessment of their economic and social aspects. The third part of the chapter identifies emerging challenges with regard to the design, governance and management of social security schemes around the world.

#### 4.1. Ensuring social and economic policy coherence

213. Social security is not a policy island. Ultimately all social policies are part of national development policies. Development does not stop at any particular level of development but is an ongoing process that explicitly or implicitly pursues a societal vision of how people should live and work. In order to pursue a coherent vision, social security objectives should be clearly defined, institutional set-ups should respond to these objectives and they should be compatible with and serve wider social policy and economic policy objectives.

214. Embedding social security policies into this broader context will help to realize the commitments that the constituents made in the ILO Declaration on Social Justice for a Fair Globalization in 2008 and confirmed in the Global Jobs Pact in 2009, with regard to the inseparable, interrelated and mutually supportive nature of the four strategic objectives of the ILO.

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<sup>1</sup> ILO: *Resolution and conclusions concerning social security*, International Labour Conference, 89th Session, Geneva, 2001, paras 16–19.

#### 4.1.1. Social policy objectives and institutional design: Ensuring internal coherence and responsiveness

215. As international experience has shown, the extension of social security coverage is critically linked to the development of coherent national social protection policies, which are well defined, coordinated with employment policies and other social policies and developed in a broad national dialogue including the social partners and other stakeholders. This is essential for social security systems at all stages of development. Most national social security systems have grown historically without a major overall design plan. Systems have reacted to emerging and perceived needs and each new emerging problem has been solved by adjusting the existing system or inventing a new benefit scheme. The perceived degree of severity of a social policy problem was often highly correlated to the level of political influence of the groups affected by that particular problem. Thus what emerged over decades were pluralistic systems where individual components did not always communicate in a perfect manner, resulting in inefficiencies, coverage gaps, coverage overlaps and imperfect resource allocation. The development of coherent social protection policies can help to identify and close those gaps, and improve the efficiency of the system.

216. The biggest practical challenge in designing or realigning national social security systems is the interplay of social insurance schemes, universal benefit schemes, and social assistance schemes as well as private benefit systems. The actual set-up of national systems reflects implicit policy choices. Contrary to the general perception, sub-systems are not financially and fiscally independent. Fiscal space, or the amount of taxes and contributions that a society is willing to pay, is limited – at least in the short run. In other words, money that is collected as contributions from formal sector workers and their employers cannot be collected again as income or profit tax to support national solidarity through social assistance schemes. A similar interdependence exists on the expenditure side of social security benefit schemes. Fee levels adopted by private health insurance have an inevitable impact on wages as well as on fee levels in the public health systems.

217. All elements of social security systems need to be aligned with the overall objectives. Consequently, the operations of the sub-systems should together provide for a coherent and comprehensive system that reaches out to all in an effective and efficient manner.

218. While in some low- and middle-income countries social insurance schemes tend to be perceived as securing mainly the better-off employed in the formal economy, it is often overlooked that they also help to generate a political consensus for the financing of basic income security for those who are not currently covered by social insurance through contributions or taxes. The value of social insurance programmes in preventing and alleviating poverty also needs to be recognized more strongly, both in national and international debates, as well as in the practical reform of existing programmes.

219. The explicit recognition of needs and priorities by policy-makers in many developing countries has led to the implementation of new forms of tax-financed benefits. While social assistance programmes represent a necessary component of the social security system in virtually all countries, they are not sufficient to combat poverty in the long run. Ultimately, it is necessary to address directly the diverse factors underlying poverty, particularly that of exclusion from a series of “social assets”. In some parts of the world, social assistance programmes have started to move from a “safety net” to a “social inclusion” framework, which incorporates access to a range of

basic services, particularly health care and education, and to economic opportunities.<sup>2</sup> Access to health services for mothers and children and access to education by children are the most common features of such programmes (for example, through conditional cash transfers). They are seen as a valuable mechanism enhancing the capabilities of poor people, thus providing an escape from poverty over the long term. Ensuring children's access to education is especially beneficial, as it helps to reduce child labour, which not only represents a violation of children's rights, but also tends to entrap them in lower skilled/poorly paid jobs when adults.<sup>3</sup>

220. Access to economic opportunities has been promoted either directly, through the provision of employment (as exemplified in public works programmes), or indirectly, by creating the conditions for developing employability, entrepreneurship and access to the labour market (including input grants, access to microcredit and training). Another important aspect of inclusive social assistance has been support for particular categories of working-age poor. A group of particular importance is that of working-age women; one example of such a scheme is the Indian NREGS (see box 3.9), in which a specific share of places has been reserved for women. Another group meriting special attention is the "extreme poor", who face specific obstacles limiting access to available services and economic opportunities. The relevant programmes often work in an intensive and personalized manner in areas of exclusion (BRAC–TUP in Bangladesh and *Solidario* in Chile are notable examples). Accordingly, inclusive social assistance has gained prominence in the human development agenda. It has become a major instrument for addressing poverty while promoting more cohesive societies. Nevertheless, as the potential impact of social assistance in addressing poverty has increased, so have the challenges.

221. The availability of health and education services and their capacity to cope with increasing demand become the key to success. The same applies to economic opportunities, in terms of the creation and sustainability of jobs, particularly in an unfavourable macroeconomic climate. A further challenge is to ensure the quality of services offered and jobs created, and the responsiveness to the needs of the poor. For example, in the education sector, a particular challenge is to ensure that increased school enrolment and attendance are not accompanied by greater drop-out rates and greater failure rates.

222. This discussion illustrates the importance of coordinating contributory and non-contributory forms of social protection, and also of integrating social security policies closely with other sectors (particularly education, health and employment), preferably within a global and integrated development framework. International experience has shown that coordinated policies, which combine different policies and mechanisms, have been very successful in extending social security coverage (see box 4.1 for the example of Cape Verde).

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<sup>2</sup> ILO: *Social protection and inclusion: Experiences and policy issues* (Geneva, 2006).

<sup>3</sup> See ILO: *Effects of non-contributory social transfers in developing countries: A compendium* (Geneva, 2010); H. Tabatabai: "Conditional cash transfers and child labour", in *Global Social Policy*, Vol. 9 (2009), No. 2, pp. 179–182.

**Box 4.1**  
**Extension of social security coverage in Cape Verde**

Over the last decade Cape Verde has experienced sustained growth, driven by tourism, remittances from the *diaspora*, foreign direct investment and official development assistance, while the public budget deficit and debt have remained limited. Most of the human development indicators registered considerable improvement and are among the highest in sub-Saharan Africa. Life expectancy at birth is 72 years, the infant mortality rate has halved within the last 20 years, the literacy rate is 80 per cent and the enrolment rate in primary education recently reached 100 per cent. The poverty rate has decreased from 36.7 per cent in 2001 to 26.6 per cent in 2007. Cape Verde is one of the few countries in Africa that foresees reaching all the targets of the Millennium Development Goals. The country gained middle-income country status in 2008.

Cape Verde is strongly committed, with ILO support, to achieving universal social security coverage by combining gradual extension of contributory social insurance (vertical approach) with the provision of basic non-contributory benefits (horizontal approach).

Social insurance coverage has doubled over the last ten years, from 14 to 29 per cent of the economically active population. Benefits of social insurance include old-age, disability and survivors' pensions, health-care coverage, maternity, sickness, paternity benefits and family allowance, among others. The main social insurance institution (INPS) is currently engaged in improving efficiency, governance and compliance, and extending coverage to previously excluded groups, such as domestic workers and the self-employed.

Tax-financed social security programmes also expanded markedly in recent years. The non-contributory pension, launched in 1994, now reaches 90 per cent of the target population and was strengthened with the creation of the National Centre for Social Pensions (CNPS). The level of the pension has regularly been increased, standing today at 4,500 escudos (about US\$60), one of the highest in the African context. Essential health services cover nearly the whole population, through the joint efforts of the ministries of health and social security. Since independence, Cape Verde has used employment-intensive public works (FAIMOs) as a means of guaranteeing an income for the working poor. Between 15,000 and 20,000 people (a third of them women) have access to FAIMOs each year, which represents a significant proportion of the active population (around 15 per cent in 1990). Public works have recently been reformed but remain an important component in the provision of income security to both the unemployed and the working poor. An income security programme for children is provided, mainly through the school meals programme. Children with disabilities have recently been included in the non-contributory pension scheme.

The combined and well-coordinated efforts to extend social security coverage through both contributory and non-contributory programmes have resulted in an impressive increase in the coverage rate.

223. The key lesson learned from over a hundred years of experience is that there are various institutional approaches to achieve social policy objectives. What matters is that a social security system has clear objectives and that its effectiveness and efficiency are constantly monitored. Permanent monitoring most likely leads to permanent adaptation of systems to new economic, social and demographic realities and to changing societal values. The most effective social security systems are in a constant state of reform. That is a sign of institutional strength rather than a design weakness.

**4.1.2. Ensuring external coherence in a wider social policy context**

224. Social security policies support a number of wider social protection objectives. They can help to correct some of the inequalities between men and women on the labour markets, they can support families affected by HIV/AIDS through the provision of

minimum incomes and of medical care, and they can support migrant workers in coping with their specific risks.<sup>4</sup> Moreover, “palliative” social security expenditure, such as benefit payments in the event of occupational accident and diseases, can be reduced by risk-reducing “preventive” occupational safety and health measures.

*Promoting equal opportunities and equal treatment, and protecting people*

225. The promotion of equal opportunities and equal treatment in social protection and employment is part of the ILO’s key mandate. It is no coincidence that two ILO Conventions, the Equality of Treatment (Social Security) Convention, 1962 (No. 118), and the Maintenance of Social Security Rights Convention, 1982 (No. 157), explicitly deal with issues relating to equal treatment, non-discrimination, and the protection of rights of migrant workers. The promotion of equal opportunities for population groups often affected by discrimination (including women and migrant workers) is of particular relevance. From an economic perspective, discriminatory practices undermine the functioning of labour markets, thwart the effective allocation of human resources and ultimately impair economic growth. From a social perspective, discriminatory practices give rise to social exclusion (including from education, employment, income security and access to social services), and yield vulnerability and poverty.

226. With regard to preventing gender discrimination in employment and promoting wider participation in society, well-designed social security systems can play a strong role in enhancing female labour force participation, encouraging the formalization of employment for both women and men, and enhancing the balance between work and family responsibilities. One example is the provision of maternity benefits through social insurance (as opposed to through employers’ liability) which transfers the responsibility for the payment of the woman’s wage during maternity leave from individual employers to a larger risk pool.<sup>5</sup> This equalizes labour costs between men and women, and thus contributes to preventing discrimination against young women in the labour market, while at the same time assuring income protection for both young mothers and their children. This illustrates how well-designed social security measures can help to promote equal opportunities and the employment of women.

227. The promotion of equal treatment of migrant workers in social security is increasingly perceived as a social, not just an economic necessity. It is also increasingly realized that the exclusion of migrant workers from national social insurance schemes can give rise to a segmented labour market, with negative implications for national populations, too. The inclusion of migrant workers under the same conditions as nationals not only guarantees equal treatment (both in terms of contributions and benefits), but also avoids segmentation. A number of countries have revised their social security legislation so as to ensure equal treatment for migrant workers, or have concluded bilateral or multilateral social security agreements to ensure the social protection of migrant workers (see box 4.2 for the example of the Caribbean Community Secretariat (CARICOM) Agreement on Social Security).

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<sup>4</sup> See the ILO Recommendation concerning HIV and AIDS and the World of Work, 2010 (No. 200); and ILO: *An ILO code of practice on HIV/AIDS and the world of work* (Geneva, 2001).

<sup>5</sup> See, for example, ILO: *Feasibility study on the implementation of a maternity cash benefits scheme*, report to the Government of the Hashemite Kingdom of Jordan (Geneva, 2007).

**Box 4.2**  
**The Caribbean Community Secretariat Agreement on Social Security**

In order to ensure the social protection of migrant workers and their families, in 1997 the member States of CARICOM established a multilateral social security agreement which protects migrant workers' entitlement to long-term social security benefits in the participating countries (Antigua and Barbuda; Bahamas; Barbados; Belize; Dominica; Grenada; Guyana; Haiti; Saint Kitts and Nevis; Saint Lucia; Saint Vincent and the Grenadines; Suriname (with some exceptions); Trinidad and Tobago; United Kingdom). With the aim of harmonizing the social security legislation of member States, the CARICOM Agreement on Social Security affirms the principles of equality of treatment for residents, whatever their nationality, under their social security legislation; the maintenance of rights acquired or in the course of acquisition; as well as the protection and maintenance of such rights, notwithstanding changes of residence among their respective territories.

Under the Agreement, migrant workers in the participating countries are insured in their country of employment and are entitled to the same benefits as nationals of the host country. Contributions paid during previous periods of employment in other countries are taken into account for the calculation of entitlements.

Sources: ILO MIGRANT good practices database and CARICOM website ([www.caricom.org](http://www.caricom.org)).

#### 4.1.3. Ensuring external coherence of economic and social policies

##### *Social security, employment and retirement*

228. Social expenditure is financed by taxes and contributions, which inevitably influences labour costs and the tax burden on employers and employees. For decades this was perceived as curtailing competitiveness and employment. Only in recent years has it been increasingly realized that social security expenditure is actually an investment in productivity and the stabilization of economies and societies.

229. However, benefit design matters. Wrong macroeconomic incentives can jeopardize the macroeconomic effects of investing in social security. This can prove the case if benefit levels or design cause an unwanted degree of inactivity or even withdrawal from the labour market, resulting in unnecessarily high dependency rates, reduced output and, as a result, economic inefficiency.

230. To be effective, policy responses to such challenges may require adjustments in the social security system, and may also need to address the availability of quality employment opportunities, and the adequate coordination of labour market policies (especially active labour market policy) and wage policies with social security policy. Measures to increase the employability of actual and potential social security beneficiaries are necessary but cannot be effective if employment opportunities with decent remuneration and working conditions are not available.

231. The old-age pension (which may be considered as deferred wages) is a benefit designed explicitly to allow people to leave the labour market at a specified age.<sup>6</sup> Formal social security pensions are deeply rooted in long-standing values of inter-generational solidarity; they rapidly became an important part of inter-generational arrangements and were considered a necessary supplement to informal arrangements. A common understanding of the nature of “retirement” (and hence of a “retirement benefit”)

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<sup>6</sup> The following section is based on ILO: *Employment and social protection in the new demographic context* (Geneva, 2009).

has evolved and changed over the past century across Europe and in other developed countries, where the right to retire has been granted to most of the population.

232. When the first European retirement pension schemes were established over a hundred years ago, old-age pensions had the rather narrow function of providing a certain income to persons no longer physically able to work on account of their age and health status. Even the Social Security (Minimum Standards) Convention, 1952 (No. 102), clearly links the pensionable age to the ability to work: “The prescribed age shall be not more than 65 years or such higher age as may be fixed by the competent authority with due regard to the working ability of elderly persons in the country concerned” (Article 26, paragraph 2). Reflecting a shift in the lifelong work–life balance, the effective retirement age started to go down in high- and some middle-income countries, even though on average people were living longer and increasingly enjoying relatively good health. Now there are growing signs that the inclination to retire early is changing or has to change.

233. Conversely, in low-income and many middle-income countries with underdeveloped social security systems, people may want to retire earlier but are compelled by economic circumstances to continue working. Without access to affordable retirement, they may be forced to work against their wishes and possibly in spite of failing health. In fact, this is still the prevailing situation throughout the world: most people still work until very old age and often until they die.

234. One can distinguish involuntary (push) and voluntary (pull) factors determining retirement. The most frequently mentioned push factors are health problems; others include redundancy due to recession or economic restructuring, reduced job satisfaction, caring responsibilities, and a change in the individual worker’s role or the nature of the work itself. Among pull factors, financial security, that is the ability to afford retirement, is the most important; others include the opportunity to look after the home and/or spend time with family, and a desire to enjoy quality time and hobbies.

235. Financial need is the most important reason for continuing to work, but not the sole factor. Other personal practical reasons and considerations also contribute to older persons’ decisions to work longer or to return to the labour force following a period of absence. Job satisfaction and a desire to remain fit and active may be other reasons for remaining at work. Poor health may help explain the decision to retire early, but improved health and well-being, as well as a better work–life balance, may be factors motivating a decision to remain at work. Relations with co-workers and managers, including feelings of appreciation and belonging, are seen as benefits derived from an extended working life, along with more time to prepare better for retirement.

236. The retirement wishes and plans of older workers who have alternatives need to be placed in a larger societal context, which comprises decisions to be taken by national and local governments, enterprises, the social partners and a broad range of civil society actors. Many workers regard the right to retirement and access to cheap or free medical care as deferred remuneration for work during their earlier years, as has recently been witnessed in the struggles over retirement age in several countries. Societies that maintain relatively early ages of withdrawal from the labour force have to accept what such an implicit redistribution of income might cost in terms of overall levels of welfare if it cannot be compensated by an increased productivity of the shrinking workforce. Considering the overall distribution effects, how to accommodate the desires of older workers with the workforce needs of companies and organizations and the relatively smooth functioning of society as a whole becomes an important challenge.

237. Extending working lives and increasing the employment rates of older workers is high on the policy agendas of many countries. The European Union has set itself two key objectives with regard to the employment of older people. In 2001, the Stockholm European Council set a target that, by 2010, at least half of the EU population aged 55–64 should be in employment. This was followed by the conclusion of the 2002 Barcelona European Council that “a progressive increase of about five years in the effective average age at which people stop working in the EU should be sought by 2010”, the aim being to step up efforts to allow older workers to remain longer in the labour market. The need to improve the labour market situation of older workers is taken into account in the European Union’s *Europe 2020: Integrated guidelines for the economic and employment policies of the Member States*.<sup>7</sup> These guidelines emphasize the need to underpin strategies for managing an ageing workforce with coherent and consistent economic and social policies. They also emphasize promoting increased labour force participation through policies to promote active ageing, gender equality and equal pay and labour market integration of young people, the disabled, legal migrants and other vulnerable groups.

238. However, prolonging one’s working life is not appropriate for everyone. First, there are older people in poor health, or who have spent their lives working in difficult conditions or who have long contribution periods. Research shows that health status and working conditions are important variables explaining early withdrawal from the labour market. Blue-collar workers and less qualified workers are likely to retire earlier than white-collar workers and more highly qualified workers. The qualitative aspects of work and health are both important factors in determining the involvement of older workers in the labour market.

239. Research in Latin America has also revealed the important links between quality of work, health and longer working lives.<sup>8</sup> Furthermore, the working conditions of older workers can influence their preference for leisure over work. Work that is damaging to health, stressful and poorly paid hardly induces them to keep working. When people below the statutory retirement age cannot work because of poor health, they should be able to count initially on an adequate disability pension, followed by a decent pension after the statutory retirement age. For other workers, the decision to retire earlier than the statutory retirement age may be entirely voluntary as in the case of persons who started to work at a relatively young age and who have contributed to social security for many years. Early retirement for this group of workers is entirely justified and these workers should be able to retire on acceptable terms and with a decent retirement pension. To work longer, an individual must be in good health, be receptive to the idea of working longer and have the opportunity to do so. The working conditions of older workers, health and safety at work, opportunities for lifelong learning and adequate working time and work organization throughout the life cycle all play a vital role in this respect.

240. The key policies to contribute to productive employment and decent work for the older population must include reforms, with the pension system itself introducing effective incentives to retire later wherever feasible, but these have to be combined with policies in other areas: promoting employment of older workers, combating prejudice and age discrimination, fostering employability and lifelong learning, ensuring a safe

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<sup>7</sup> European Commission: *Europe 2020: Integrated guidelines for the economic and employment policies of the Member States* (Brussels, 2010).

<sup>8</sup> J.A. Paz: *Envejecimiento y empleo en América Latina y Caribe*, Employment Working Paper No. 56 (Geneva, ILO, 2010).

and healthy working environment and adapting working time, working life and work organization.<sup>9</sup>

241. Ultimately each society has to balance the interests of active contributors and tax-payers, the interests of groups who wish to retire early or late, the need of the economy to maintain the size of workforce needed to produce the level of national income desired, a preference for a largely domestic workforce and for smaller families. Mathematical solutions can be found to such dilemmas, but in political terms, discussions on retirement ages amount to much more than debates on social security policy; they are battles that determine the size of an economy, the distribution of its income and the very fabric of society.

#### *Promoting formalization of employment*

242. High levels of informal employment and the risk of their rising further represent one of the greatest challenges facing many countries. According to the International Conference of Labour Statisticians, one of the characteristics of informal work is the absence of social security coverage.<sup>10</sup> Many low- and-middle income countries exhibit high levels of informal employment. In many parts of the world, most of the labour force works in conditions of informal employment and without any social security protection. Though the extent of informality is generally much lower in most high-income countries compared with low- and middle-income countries, the growth of precarious employment and informality is a cause for concern in some countries. The repercussions of the global financial and economic crisis have also contributed to increased informality in large parts of the world, and these may give rise to negative effects on social and economic development in the medium and the long run.

243. One of the challenges for the formalization of employment is ensuring social security coverage to workers in small and micro-enterprises, and to the self-employed. Bringing these groups under the umbrella of social protection provided by labour and social security legislation is an important step, but not enough to ensure effective coverage, as compliance ratios tend to be low. A number of countries are promoting the extension of coverage to these groups (see box 4.3 for an example from Jordan).

#### **Box 4.3**

##### **Promoting the social security coverage of workers in small enterprises in Jordan**

Following the launch of the Global Campaign on Social Security and Coverage for All in Jordan in 2005, the Social Security Corporation launched an initiative to extend coverage, which focused on small enterprises of fewer than five employees, estimated to number some 150,000 enterprises employing 340,000 workers. The programme started with a local information and registration campaign in the Governorate of Aqaba in November 2009; subsequently this was run in the Governorates of Irbid and Ma'an. Coverage is expected to have increased by 10,000 workers per year once the campaign has covered the whole country by the end of 2011. The new Social Security Law adopted in 2010 extended legal coverage to workers in small enterprises.

Source: Based on material from the Social Security Corporation, Jordan.

<sup>9</sup> These policies are discussed in detail in ILO: *Employment and social protection in the new demographic context* (Geneva, 2010), Ch. 3.

<sup>10</sup> International Conference of Labour Statisticians: *Guidelines concerning a statistical definition of informal employment* (Geneva, ILO, 2003).

244. Some countries grant temporary or permanent reductions in contribution rates to small enterprises in specific circumstances. Such policies may prove very effective at overcoming the initial difficulties of new or expanding enterprises, but need to be carefully designed in order to avoid negative effects on adequacy of benefits, equity between groups of insured persons, and the financial sustainability of social security as a whole.

245. Efforts to smooth administrative procedures for small enterprises may have a similar effect and encourage their compliance. Complex and non-transparent administrative procedures are a major problem for small enterprises, particularly procedures for registering their employees and paying regular contributions on earnings that are often instable.<sup>11</sup> In some countries, reviews of administrative procedures or the establishment of support centres for small enterprises have had positive results (see box 4.4 for an example from Bulgaria).

**Box 4.4**  
**Promoting the social security coverage of workers**  
**in small enterprises in Bulgaria**

With the aim of formalizing informal employment, the Bulgarian Industrial Association (BIA) and the ILO jointly initiated a project which led to the opening of contribution payment centres (CPCs) at regional employers' organizations (BIA members). Modelled on the Belgian social secretariats, these centres help affiliated small and medium-sized enterprises (up to 50 employees) administer registration procedures, wage calculation, contribution payments and consultations on labour and social security legislation. The main objectives of these centres are to reduce the size of the informal economy in Bulgaria (one of BIA's priorities); and to broaden the scope of the services employers' organizations offer their members. Regulation of CPC activities has been incorporated into the Social Insurance Code, and CPCs must be registered with the National Revenue Agency and the National Social Security Institute.

Sources: Based on ILO: A solution for members of employers' organizations: The Payroll Administration Services, How to move from informality to formality (Geneva and Budapest, 2005); European Commission: Models to reduce the disproportionate regulatory burden on SMEs, Report of the Expert Group (Brussels, 2007).

246. Greater flexibility in the collection of contributions may also help people with irregular incomes to contribute to social security schemes. The *monotributista* schemes currently being introduced in Latin America have demonstrated that they can include people previously de facto excluded from the schemes (see box 4.5).

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<sup>11</sup> See, for example, ILO: *Decent work and the transition to formalization: Recent trends, policy debates and good practices*, Report of the Tripartite Interregional Symposium on the Informal Economy: Enabling Transition to Formalization, Geneva, 27–29 November 2007 (Geneva, 2007).

**Box 4.5**  
**The *monotributista* schemes in Argentina, Brazil and Uruguay**

Argentina, Brazil and Uruguay have extended social security coverage to self-employed workers through *monotributista* schemes; these are integrated and simplified national schemes for the payment of taxes and social security contributions by small enterprises and self-employed workers.

In *Argentina*, self-employed workers (i.e. most categories of self-employed worker and independent professionals on regular incomes) are legally covered by the Integrated Retirement and Pension System (*Sistema Integrado de Jubilaciones y Pensiones*). Workers who fall into the category of small contributors can choose to register through the Simplified Scheme for Small Contributors (*Monotributo*) which covers payment of income tax, value-added tax and pension contributions. This scheme is also applicable to small contributors (*Monotributo Eventual*) and to certain categories of vulnerable worker who are registered but exempt from payment under certain conditions (*Monotributo Social*).

In *Uruguay*, very small enterprises (defined according to several criteria, including the number of workers employed and the volume of turnover) can use a global tax scheme (*monotributo*) to pay their taxes and social security contributions. Though the scheme was initially limited to a few types of establishment, a reform implemented in 2007 extended its coverage to a larger number of establishments. This scheme provides access to all social insurance benefits except unemployment benefit.

In *Brazil*, a *monotributo* scheme covers the self-employed and small enterprises; it offers three different programmes (introduced in 1996, 2007 and 2009) according to the size of the enterprise.

Available evidence on *monotributista* schemes suggests that they have successfully increased the coverage rates of self-employed workers, but that careful design is needed, in order to ensure equity between different categories of worker.

Source: Based on F.M. Bertranou: Informal economy, independent workers and social security coverage in Argentina, Chile and Uruguay (Santiago de Chile, ILO, 2007).

247. International experience shows that it is possible to design social security schemes in a way that actively promotes formalization of employment.

248. This is illustrated by the extension of social security coverage to domestic workers (many of them women), which needs to address the specific challenges arising from the fact that the employer is a private household rather than a company, and from the atypical nature and volatility of domestic work.<sup>12</sup> Measures are likely to prove successful if several factors are combined, for example, attractive and affordable benefit packages for workers; incentives to employers; and outreach and enforcement measures, for example, information and awareness-raising campaigns on the importance of social security coverage; the involvement of national workers' and employers' organizations; and an effective monitoring system. A number of countries (including India and Uruguay) have extended labour legislation and social security coverage to domestic workers. South Africa has included domestic workers in its unemployment insurance scheme (see box 4.6). Several countries (e.g. Belgium, Brazil, France, Germany) offer fiscal incentives to employers to formalize employment relationships involving domestic work, notably for the simplified payment of social security contributions. It will be crucial to assess the impact and sustainability of measures taken so far in order to consolidate progress in extending social security protection to the growing (mainly female) domestic work sector.

<sup>12</sup> See ILO: *Decent work for domestic workers*, Report IV(1), International Labour Conference, 99th Session, Geneva, 2010.

**Box 4.6**  
**Extending unemployment insurance to domestic workers in South Africa**

In 2003, the Department of Labour included domestic workers in the Unemployment Insurance Fund (UIF). The UIF was established to provide income support to workers during periods of unemployment. It provides unemployment, maternity and adoption benefits, as well as benefits in the event of illness or death, and covers all domestic workers, including housekeepers, gardeners, domestic drivers and persons who care for any person in the home (farm workers are not included).

Employers' obligations include registering their workers with the UIF, making regular contributions and declaring any changes in their workers' personal details when these occur. The law is clear that failure to comply is a punishable offence. Employers must pay unemployment insurance contributions of 2 per cent of the value of each worker's pay per month. The employer and the worker each contribute 1 per cent. Domestic workers may claim the benefits if they work for more than one employer and lose their job at one of the employers, or their employer dies. A contributing worker who loses his/her job with one of the employers is entitled to benefits, despite still being employed, if the contributor's total income falls below the benefit level that he/she would have received if becoming wholly unemployed. In addition, workers must register as looking for – and available for – work. The UIF has developed procedures and launched a free online service to minimize the administrative hurdles for employers and workers and to reduce the administrative costs to the Fund.

Between 2003 and 2008, the Fund registered over 633,000 domestic workers and over 556,000 domestic employers, and collected more than R395 million (US\$53 million). By 2008, over 324,000 temporarily unemployed domestic workers had received benefits, which represents close to R200 million (US\$27 million) in social security payments. Most of the beneficiaries are women.

249. Extending social security coverage to workers in agriculture is another major challenge. The prevalence of seasonal work, low and irregular wages, as well as the size and nature of establishments make it especially difficult to extend social security coverage. This is particularly important for women, who often work as unpaid family workers. However, international experience also demonstrates the range of possible policy responses to extend social security coverage, including rural pensions (e.g. Brazil), contribution schedules adapted to harvest times (e.g. in community health insurance schemes in the United Republic of Tanzania) or subsidized health insurance (e.g. Ghana).

250. Informality is one of the key obstacles to economic development. No society can unlock the full potential of its workforce, and hence the full potential of its economy, if a major part of its workforce is locked into irregular, unprotected – hence low-productivity – jobs. Social security benefits can increase productivity but care must be taken that they do not simultaneously become effective deterrents to formal employment. Sound design of administrative systems is one necessary condition to reduce the administrative barriers to contributing and paying taxes; attractive benefits that provide incentives to contribute are another; but, ultimately, effective and credible enforcement is the sufficient condition determining whether schemes are mandatory or de facto voluntary. Unless it invests in its capacity to enforce contribution and tax collection, no State can ever leave informality behind.

*A virtuous cycle of social and economic development*

251. Investment in extending social protection security is critical to a coherent social and economic development strategy. If well designed and managed, such investment can trigger a virtuous cycle leading to a logically sequenced set of social protection and

employment policies. Obviously, without investment in extending – at least – basic social protection, countries cannot unlock the full productive potential of their workforce and therefore cannot exploit their full growth potential. For such investment provides the basis for effective employment policies which can then lead to faster formalization of the workforce, hence higher levels of sustainable and equitable growth – a prerequisite for financing higher levels of social well-being. This development process should be based on credible principles as stipulated in ILO standards, be steered by social dialogue to maintain societal consensus, and proceed within the framework of Decent Work Country Programme processes.

252. Such investments will help ensure the population is healthy, well nourished and educated – and so employable in the formal economy. Only if people can migrate from the informal to the formal economy, can move from being low-productivity subsistence-level workers into formal workers who pay their taxes and social contributions, can an economy truly grow and incomes be taxed to finance a state and social security systems which help achieve higher levels of welfare and growth. Once people are in a position to enter the formal labour market, higher levels of social security, if properly designed, provide the necessary incentives to remain in formal employment as well as the financial security that allows individuals to adapt to technological and economic change through training and retraining. A higher level of social security is one of the conditions that need to be met to maintain high levels of formality.

## 4.2. Establishing and ensuring the affordability and financial sustainability of social security systems

253. The affordability and sustainability of social protection systems have become major concerns for countries at all stages of economic development. During recent decades, much has been said and written about the financial sustainability of higher levels of protection, notably the need to contain costs in ageing societies. However, any reasonable discussion on affordability should look not just at the costs and shorter-term fiscal implications of social security systems, but should also compare both short- and longer-term costs with impacts and benefits. The challenge to maintain and extend fiscal space and to determine optimal overall expenditure levels persists as economies develop and have to find the best balance between social expenditure and competing areas of public spending. This remains topical even for countries at a high rate of economic development. However, the need to finance extensive stimulus packages will create additional pressure on social spending in the near future.

254. The affordability of each social security system may be addressed according to three criteria: (1) the social security system should be based on a reasonable relation between fiscal costs and results; (2) it should avoid negative externalities; and (3) there should be an appropriate balance between contribution-financed and tax-financed benefits. Taking these criteria as the point of departure, the following section turns to questions concerning the affordability of social security, both in countries with mature social security systems and in poorer countries.

### 4.2.1. The affordability of basic systems

255. Only in recent years have many low- and middle-income countries come to acknowledge the positive effects of investments in social security on social and economic stabilization, and begun to systematically integrate social security systems into their development strategies. Apparently most governments had simply assumed that social transfers are too large a burden on developing economies, would compromise

growth, and were therefore unaffordable for poorer countries. Meanwhile, many of these countries had already experienced a long-lasting social crisis before the onset of the present global economic downturn. However, the economic arguments in favour of making resources available for investments in social security are overwhelming. The World Bank noted in 2005 that poverty was a risk to security and lack of security was a hindrance to the investment climate.<sup>13</sup> It is also widely acknowledged that people can engage in productive activities if they enjoy a minimum level of material security and so can afford to take entrepreneurial risks, if they are healthy and not hungry, and if they can build on at least a reasonable level of schooling. Without basic social transfer schemes that foster health, adequate levels of nutrition and social stability, countries cannot unlock their full productive potential.

256. The amount of public resources allocated to social security does matter with respect to levels of actual coverage and social outcomes. One clear example comes from health care. If private out-of-pocket expenditure is not matched by substantial public health expenditure (i.e. from government budget(s) and social security schemes), higher mortality and reduced healthy life expectancy rates can be expected in the population. The same applies to investments in cash benefits providing income security in old age, disability, unemployment, and so on. There is a strong correlation between how much countries invest in social security benefits and the incidence of poverty or other social indicators.

257. For a long time, many development planners had assumed that there was insufficient fiscal space in such countries to finance social security benefits and, hence, that they could not afford social security. This assumption does not hold: a minimum package of social security is affordable even in the poorest countries, as recent ILO estimates of costs of a minimum package of social security in low-income countries have shown. Two ILO costing studies on seven sub-Saharan African countries and five Asian countries provided a first estimate of the costs of a hypothetical basic social protection package in low-income countries now and over the coming decades.<sup>14</sup> The indicative package included basic child benefits, universal access to essential health care, an employment guarantee scheme (100 days) for the poor in the active working-age range, and a universal basic old-age and disability pension.<sup>15</sup> The studies show that the initial gross annual cost of the overall basic social protection package (excluding access to basic health care that is already financed to some extent) is projected to be in the range of 2.2–5.7 per cent of GDP in 2010 (see figure 4.1).

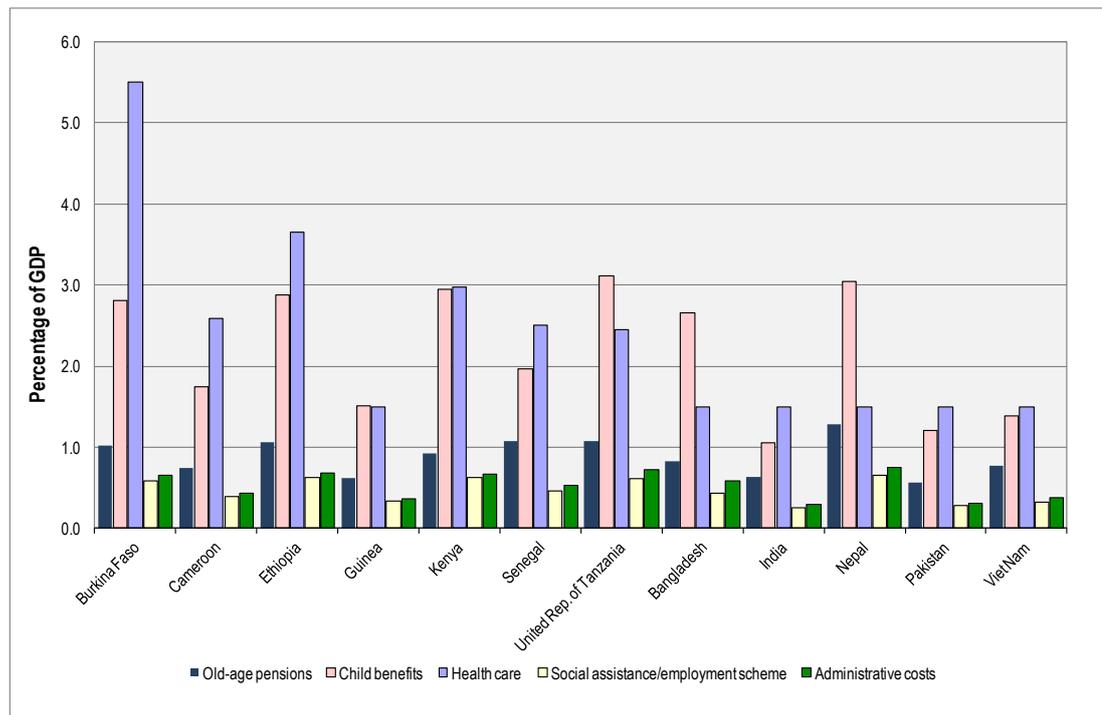
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<sup>13</sup> World Bank: *World Development Report 2005: A better investment climate for everyone* (Washington, DC, 2004).

<sup>14</sup> The results of the two studies are summarized in ILO: *Can low-income countries afford basic social security?*, Social Security Policy Briefings, Paper No. 3 (Geneva, 2008). See also Karuna Pal et al.: *Can low income countries afford basic social protection? First results of a modelling exercise*, Issues in Social Protection Discussion Paper 13 (Geneva, ILO, 2005); S. Mizunoya et al.: *Costing of basic social protection benefits for selected Asian countries: First results of a modelling exercise*, Issues in Social Protection Discussion Paper 17 (Geneva, 2006).

<sup>15</sup> It was assumed that the simulated universal old-age and disability pension would be set at 30 per cent of GDP per capita, with a maximum of one US dollar (PPP) per day (increased in line with inflation) and would be paid to all men and women aged 65 and older; and to persons of working age with serious disabilities (the eligibility ratio was assumed to be 1 per cent of the working-age population, which reflects a very conservative estimate of the rate of disability). The amount of child benefits was set at half the amount of pensions. The costs of universal access to essential health care were calculated on the basis of a health human resource ratio of 300 health professionals per 100,000 of population.

**Figure 4.1. Costs for components of a basic social protection package as a percentage of GDP for selected countries in Africa and Asia, 2010**



Source: ILO calculations.

258. While the cost of a basic social protection package appears to be within the reach of many low-income countries, in most cases the package will have to be implemented on a gradual basis. Some of these countries may require the international donor community to help them on a joint basis for a suitable transition period. Low-income countries may also be able to re-allocate their existing resources, for example, by gradually increasing social protection expenditure towards an eventual target of, for example, 20 per cent of total government expenditure.

259. ILO micro-simulation results for the United Republic of Tanzania and for Senegal show that the introduction of basic old-age cash benefits can have a significant impact on poverty reduction.<sup>16</sup> These simulations estimated the cost of old-age and disability pension benefits at levels fixed at 70 per cent of the food poverty line per eligible individual. The results of the simulations show that in the United Republic of Tanzania a universal old-age pension would cut poverty rates by 9 per cent, with a considerably stronger effect (36 per cent) for older men and women, and 24 per cent for individuals living in households with elderly family members. Likewise, for Senegal, old-age and disability pensions are expected to have a more positive impact on older people, especially older women, and their family members.

260. Even more convincing than theoretical exercises is real life experience. There is a growing body of evidence from the developing world of the successful implementation of basic social security packages (see Chapter 3). There are many ways of achieving affordable social security coverage in a middle- or low-income country context as a first step towards a national social security development strategy. While some countries seek to extend social insurance and combine it with social assistance, others subsidize social

<sup>16</sup> F. Gassmann and C. Behrendt: *Cash benefits in low-income countries: Simulating the effects on poverty reduction for Senegal and Tanzania*, Issues in Social Protection Discussion Paper 16 (Geneva, 2006).

insurance coverage for the poor, to enable them to participate in the general schemes; still others seek to establish tax-financed universal or conditional schemes, also called social transfer schemes. Each approach has its advantages and its limitations and each will depend on national values, past experience and institutional frameworks. The evidence shows that, almost everywhere, progress towards extending social security coverage is possible.

### *Creating the necessary fiscal space in developing countries*

261. The notion of fiscal space has lately emerged in the discussions and debates of international organizations (especially in the context of achieving the MDGs).<sup>17</sup> Fiscal space has been defined as “the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position”.<sup>18</sup> The notion of fiscal space emerged from the pressures on governments to relax budgetary rules in order to leave room for productive investments that would generate paybacks in the future. Such investments were initially targeted mostly at the accumulation of physical capital, yet the same rationale has successively been applied to investment in human capital (mainly education and health) as, it was argued, these investments would also pay for themselves over the long term. The creation of fiscal space also needs to take into account the possibility of enhancing domestic resource mobilization and the reforms needed to secure the governance, institutional and economic environment enabling these policy actions to be effective.<sup>19</sup>

262. Low-income countries with high poverty incidence and large informal economies need social security even more than other countries do, yet they may have different priorities on which branches should be developed first and how benefits should be financed and delivered. Moreover, some studies show clearly that in those countries social security can not only be made affordable but is also necessary as a factor in development.<sup>20</sup>

263. As we have seen in Chapter 2.3, the size of social security investment (and, it follows, the extent and level of social security coverage of the population) depends significantly on the prevailing political and social will (of governments, of taxpayers, and of the electorate); to a large extent this element defines the fiscal space available to finance social security, and not other programmes.

264. All countries, whatever their level of income, enjoy a measure of freedom in defining their policies. As shown in the ILO’s *World Social Security Report 2010/11*,<sup>21</sup> there is a very weak correlation between levels of GDP and size of government. Countries at similar income levels differ significantly with respect to size of government measured by size of public finance. In many cases, this is a result of different, often

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<sup>17</sup> This section draws on L. Aguzzoni: *The concept of fiscal space and its applicability to the development of social protection policy in Zambia* (Geneva, ILO, forthcoming); see also M. Cichon et al.: *Financing social protection* (Geneva, ILO and ISSA, 2004).

<sup>18</sup> P.S. Heller: *Understanding fiscal space*, IMF Policy Discussion Paper (Washington, DC, IMF, 2005), p.3. See also R. Perotti: *Fiscal policy in developing countries: A framework and some questions*, Policy Research Working Paper (Washington, DC, World Bank, 2007).

<sup>19</sup> R. Roy and A. Heuty: *Fiscal space: Policy options for financing human development* (New York, UNDP, 2009).

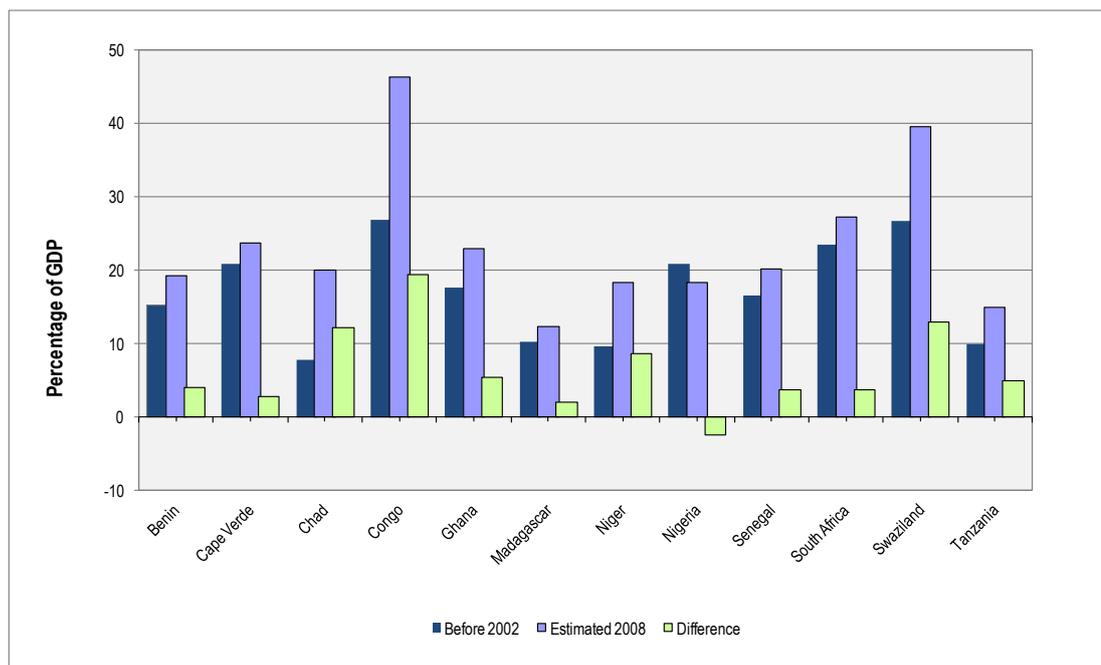
<sup>20</sup> See A. Barrientos: “Introducing basic social protection in low-income countries: Lessons from existing programmes” in P. Townsend (ed.): *Building decent societies: Rethinking the role of social security in state building*, pp. 253–273 (London, Palgrave, 2009), pp. 269–270.

<sup>21</sup> ILO: *World Social Security Report 2010/11*, op. cit.

historically influenced, societal preferences. In some cases, however, where government expenditure is very small this may simply indicate the authorities' low capacity to raise and collect taxes and other revenue. In such countries the main challenge is to introduce and enforce tax reforms to increase fiscal resources, including enhancing the effectiveness and efficiency of tax collection. But it may also mean the need to revise spending programmes, making them more responsive to societal preferences in order to increase the public's willingness to pay taxes.

265. Obviously, there are some cases in which the fiscal space for social transfers cannot easily be extended in the very short run. Each case must be assessed in detail. However, "policy space" for financial manoeuvre may be wider than is often assumed. One concludes that policy decisions on the financing of social security systems and negotiations seeking fiscal consensus between the different stakeholders in the public expenditure portfolio are made in a manner specific to each country. In this context it should be noted that domestic revenues in Africa increased by about US\$230 billion between 2002 and 2007 (i.e. in the post-Monterrey period). In sub-Saharan Africa alone, the share of domestic public revenues in GDP increased by 4 percentage points between 2002 and 2007 (see figure 4.2). Given a sufficient policy priority, it does not seem unrealistic to phase in a package of modest social security benefits over, say, a decade, at a net cost of around 4 per cent of GDP.

**Figure 4.2. Increase of domestic public resources in selected African countries**



Source: OECD and UN Economic Commission for Africa: *Development finance in Africa: From Monterrey to Doha* (Paris and Addis Ababa, 2008).

266. There are several approaches to creating or extending fiscal space in order to finance public expenditure, depending on the type of programme desired and on the context. This involves considerations of a short-, medium- and long-term nature, as the public programmes for which resources are sought are likely to be long-term projects

requiring fiscal space over the long run, not just in the year of implementation. Four broad categories of fiscal instrument may be distinguished:<sup>22</sup>

- official development assistance (ODA);
- deficit financing;
- reprioritization and efficiency of expenditures; and
- domestic revenue mobilization.

267. *ODA*. The availability of external grants to finance public expenditure is an appealing source of financing for middle- and low-income countries, especially in view of international commitments to the Millennium Development Goals and debt relief initiatives. However, external grants cannot be relied upon as a long-term sustainable source of fiscal space owing to their limited predictability and the cost this represents for the beneficiary country. Thus, for many countries ODA is an attractive source of financing but one that has its downsides, such as the risk of creating avoidable degrees of aid dependency. ODA cannot be a systemic long-term financing source for social transfers. The Director-General of the ILO reported in 2010 that “ILO calculations show that a basic social floor benefit package [...] would cost about US\$46 billion per annum [...] these resources would be sufficient to pull about 442 million people out of the most severe poverty ... The cost would amount to [...] 38 per cent of the total official development aid (ODA) for 2009”.<sup>23</sup> Extending the list of eligible countries from least developed countries to less developed countries would increase the cost of a basic benefit package to about US\$117 billion per annum and hence to 112 per cent of official ODA. It is unlikely the global community would allocate enough ODA to close the global poverty gaps through social transfers on a permanent basis. For a selected number of low-income countries with limited scope for access to other resources in the short term, ODA might represent an important source of temporary finance. However, this would necessitate careful budgetary planning for funding needed in the medium run, when domestic resources would have to substitute external grants.

268. *Deficit financing*. Both external and internal borrowing are potential sources for creating fiscal space. However, borrowed funds need to be repaid and so, sooner or later, revenue will need to be mobilized, to pay back the funds borrowed. For countries which have already accumulated high levels of debt, increasing borrowing levels might become unsustainable. If borrowing is used to finance a government fiscal deficit rather than a specific project, the sustainability of the loan will need to be considered in the light of the overall debt position of that country.<sup>24</sup> Taking into account the history and implications of international debt, both borrowers and lenders should learn from the errors of the past and carefully plan and assess any new borrowing prospects.

269. *Reprioritization and efficiency of expenditures*. In the quest for fiscal space, reprioritizing and increasing the efficiency of expenditure must be high on the agenda. This will call for an extensive, comprehensive review of all public expenditure items in order to identify areas for improvement. Expenditure tracking mechanisms, internal control systems and audit procedures may help to optimize resource allocation. Appropriate fiscal planning mechanisms can and should support this process.

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<sup>22</sup> Development Committee: *Fiscal policy for growth and development – An interim report*, background report prepared for a Development Committee Meeting, 23 April 2006 (Washington, DC, World Bank, 2006).

<sup>23</sup> See ILO: *Recovery and growth with decent work*, Report of the Director-General, Report I(C) International Labour Conference, 99th Session, 2010, para. 134.

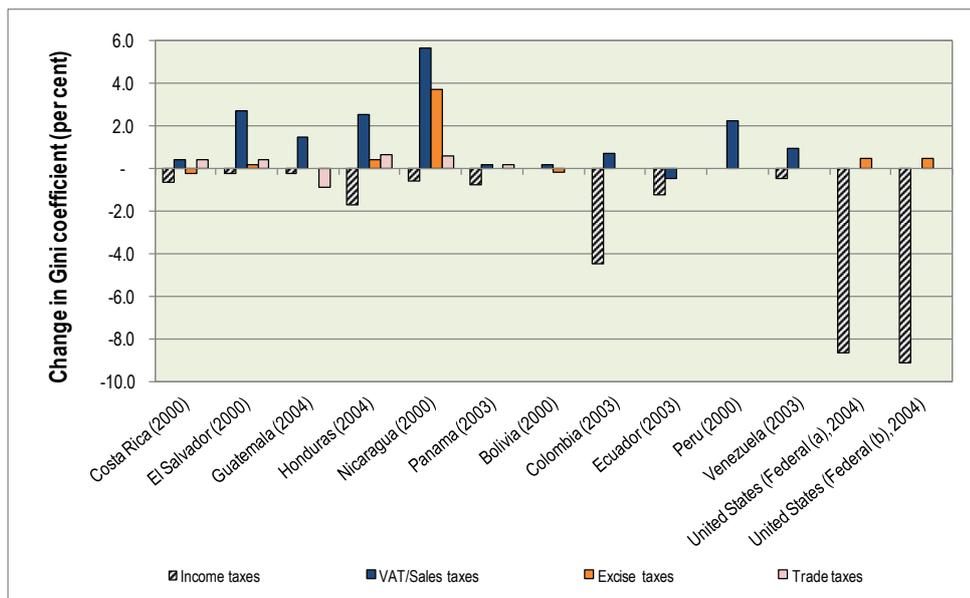
<sup>24</sup> Heller, op. cit.

**Box 4.7**  
**The effect of alternative forms of taxation**  
**on the distribution of income in Latin America**

A recent study analysed the effects of different forms of taxation on income inequality in selected Latin American countries. The figure below captures some of the main quantitative effects of taxation on income inequality (measured by the Gini coefficient). The effects confirm the theoretical reasoning, but overall the effects of the different taxation on income inequality remains relatively small. Comparison with the United States shows that, in theory, income taxes can have a substantial effect on inequality, but that that potential is not used in Latin America. The reason is that the overall tax-to-GDP ratio in the selected countries is substantially lower than that in OECD countries and, hence, the potential to influence the income distribution remains relatively small. Logically, the potential financial volume for transfers also remains relatively small and, hence, the combined effect of taxes and transfers on income equality in Latin America is equally small compared with OECD countries, i.e. only about one-third of that of the EU-15 group of countries.

The study concludes: “The limited redistributive potential of taxation, especially compared with that of social spending, suggests that a key focus of tax policy in Central America should be raising revenue efficiently. [...] there is often a trade-off between the progressivity of a tax and its potential to raise revenue: if the progressivity of the tax derives from exemptions or differential tax rates, its base may be eroded. Broadening the tax base – even if that implies eliminating progressive exemptions – to increase the pool of resources available for redistribution through social spending may enhance the overall progressivity of fiscal policy. However, these conclusions do not imply that equity considerations should be absent from tax policy debates. The evidence shows that income taxes can be much less progressive and VATs and sales taxes much less regressive in some countries than in others. In part, this might reflect differences in economic structures across countries, but flaws in tax design likely also play a role. These flaws may simultaneously harm equity, efficiency, effectiveness, and administrative simplicity. For example, exemptions that disproportionately favour the richer segments of society may make the tax more regressive, facilitate evasion, and reduce revenue.”

**Effects of different forms of taxation in selected countries on income inequality in the Americas**



Notes: <sup>(a)</sup> including social security contributions; <sup>(b)</sup> excluding social security contributions.

Sources: Based on R. Cubero and I. Vladkova Hollar: *Equity and fiscal policy: The income distribution effects of taxation and social spending in Central America*, IMF Working Paper No. 10/112 (Washington, DC, IMF, 2010), pp. 33 (for quotation), 38; own calculations.

270. *Domestic revenue mobilization.* There is broad consensus that, for poor countries, too, the mobilization of domestic resources will need to be a major source of public expenditure financing for sustained development to be achieved.<sup>25</sup> Mobilizing domestic resources does not entail the negative side-effects of external resources, yet the process can be demanding in terms of both administrative capacity and technical capabilities, and it usually takes several years for extensive reforms to be implemented. Reforms of the taxation system in middle- and low-income countries (especially in countries with a large informal economy and subsistence agriculture) should include measures to broaden the tax base, to design effective progressive tax rates, to modernize tax administration and to combat tax evasion. Being an essential element in state-building, taxes are central to the life and development of a state and their role goes far beyond the simple financing of government goals.

271. How can countries identify unexploited potential for revenue mobilization? It has been estimated that, in low-income countries, the volume of revenue collected through taxes could be raised by 1 to 4 percentage points of GDP over the coming ten years.<sup>26</sup> However, a sensible assessment of the possibility of increasing domestic revenue would have to be highly country specific. For example, on average sub-Saharan African countries display a tax-to-GDP ratio of around 20 per cent (compared with an OECD average of 36 per cent) and this ratio has remained quite stable over the past 30 years. Although the overall ratio remained fairly constant during that period, the composition of tax revenue changed quite significantly: while the share of revenues from international trade decreased, reflecting the fall in tariffs that followed the recent waves of globalization, revenues from direct and (to a smaller extent) indirect taxes increased. Evidence suggests that revenue levels could be increased in low-income countries as they graduate from low-income to higher income levels; still, the optimal level of revenue-to-GDP will be highly country specific. Taxation policies are affected by structural factors and efforts at tax collection. While structural factors usually change in the long run, tax collection efforts can be changed in the short run.

272. Possible strategies to increase revenue mobilization need to distinguish between the main categories of revenue: direct taxes (usually income tax, property and wealth tax, corporate tax), indirect taxes (of which value added tax (VAT) is the most important, but also excise and sales taxes) and trade taxes (tariffs on imported and exported goods), ensuring adequate and equitable taxation of a broad tax base. Although the specific mix of instruments will depend on the current tax performance of each single state, most of the strategies proposed apply to the vast majority of countries. Over recent decades, revenue gathered from trade taxes has drastically diminished in most low-income countries and is likely to diminish further. Still, low-income countries need to strengthen their capability to tax international trade. This would probably entail a reorganization of the customs system and a rationalization of customs procedures, so as to have a cost-effective and efficient system in place. Following the fall in trade taxes, indirect taxes mostly filled the gap in governments' revenues.

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<sup>25</sup> Heller, *op. cit.*; R. Roy and A. Heuty: *Fiscal space: Policy options for financing human development* (London, UNDP/Earthscan, 2009); D. Bräutigam, O-J. Fjeldstad and M. Moore (eds): *Taxation and state-building in developing countries: Capacity and consent* (New York, Cambridge University Press, 2008); P.S. Heller: "Strengthening revenue mobilization efforts in Sub-Saharan Africa", in L. Wallace (ed.): *Deepening structural reform in Africa: Lesson from East Asia* (Washington, DC, IMF, 1997), pp. 39–53.

<sup>26</sup> S. Gupta and S. Tareq: "Mobilizing revenue: Strengthening domestic revenue bases is key to creating fiscal space for Africa's developmental needs", in *Finance & Development*, Vol. 45 (2008), No. 3, downloadable at: <http://www.imf.org/external/pubs/ft/fandd/fda.htm>.

273. Many countries have successfully introduced VAT, yet further adjustments may be necessary to ensure equitable application and to curb consumption of goods which are harmful to the users (e.g. tobacco, alcohol) or society (e.g. petrol). Table 4.1 shows that in countries such as Brazil and Ghana, indirect taxes on goods and services (which are considered relatively easy to collect) tend to represent a larger share of overall government revenue than in typical European countries. This does not mean that increasing indirect taxation is a fair solution to the need to increase revenues.

274. When tax reforms are undertaken, their impact on national income distribution deserves close attention and cannot be isolated from transfer policies. Governments have two main instruments at their disposal with which to alter national income distribution: taxation (including social security contributions); and social transfers. In theory, both can have progressive and regressive effects or can cancel each other out. In the end, what counts is the combined outcome of taxes and transfers. The total effect of all social transfers is clearly intended to be progressive. The collection of taxes and contributions permits the financing of social transfers, but can diminish or increase the progressive effects of transfers. That effect depends on the relative weight of different forms of taxation in national tax systems and on the specific design of the individual components. Though specific forms of taxation are often associated with regressiveness or progressiveness, the actual design of a tax may modify these generic characteristics. Income tax, for example, is generally thought to be progressive, but exceptions are perceptible. Indirect taxation on consumption and sales are thought to be regressive, but some of the effects can be reduced by exemptions of some basic goods and services from indirect taxation, or by the use of differential tax rates. Social insurance contributions are generally neutral if charged as a uniform percentage of wages or income. However, different effects occur if contribution breaks are granted for people on low incomes, and/or contribution ceilings are introduced for high-income earners. The real effect of different forms of taxation in a developing country context is analysed in box 4.7.

275. From an equity and efficiency point of view, income and corporate taxes, as well as property taxes, may need further adjustments to simplify the tax system, broaden the tax base, restrain exemptions and ensure adequate and equitable tax rates at all levels of the income distribution. A review of regulations and institutional arrangements in tax administration can also generate positive results.

**Table 4.1 Government revenue as a percentage of GDP**

	OECD countries			Developing countries		
	United Kingdom	Germany	Sweden	Spain	Brazil	Ghana
<b>Total revenue from taxes and contributions</b>	<b>35.55</b>	<b>36.31</b>	<b>43.01</b>	<b>32.86</b>	<b>31.70</b>	<b>23.78</b>
Direct taxes	14.23	11.64	17.09	10.08	6.88	6.41
Taxes on goods and services	10.29	10.54	13.08	8.28	10.17	10.56
– <i>general taxes on goods and services</i>	6.36	7.07	9.58	5.13	9.84	7.83
– <i>excise</i>	2.89	2.55	2.73	2.04	0.32	2.50
– <i>other</i>	1.04	0.92	0.91	1.06	0.00	0.28
Social contributions	6.87	13.27	11.69	12.13	13.01	*
Other taxes	4.16	0.86	1.15	2.37	1.64	6.81
<b>Other revenue</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6.52</b>	<b>8.17</b>

\* Data for Ghana refer to Budgetary Government and do not include social security funds.

Sources: Based on data from OECD (Germany, Spain, Sweden and United Kingdom), IMF (Ghana), IPEA and Treasury (Brazil).

276. One of the greatest challenges for most low-income countries over the coming years will be the taxation of the informal economy. The importance of the informal economy in those countries is one of the causes of poor revenue collection from that informal economy, characterized as it is by small units, high heterogeneity and low expected returns. In addition to increasing VAT (with its potential negative equity effects), two main approaches to taxation of the informal economy are proposed: associational taxation and forfeit tax. The advantage of associational taxation is that it is the outcome of a bargain between government and business associations (which bargain on behalf of their members). Two conditions need to be met for associational taxation to be successfully implemented: the government needs to be under great pressure to raise additional revenues; and there has to be a counterpart (recognized by its members), representing informal businesses. One example of successful implementation is the agreement whereby income tax was introduced to the informal transport sector in Ghana, in 1987. The second proposal concerns the introduction of a “forfeit” system for small businesses, whereby businesses pay taxes in relation to some observable characteristic, for instance, rent paid, turnover, or size of business premises.

277. Finding and extending fiscal space is a challenge governments need to take up, supported by social dialogue with the social partners and other stakeholders. This requires a broad knowledge base of current and future levels of expenditure and revenue, based on scenarios involving the development of key demographic, macroeconomic and labour market variables. A social budgeting approach can be a helpful tool to support this policy-planning process (see box AII.1 in the annex). Likewise, household-based micro-analytical models simulating the effects of taxes and transfers on household income help predict the likely distributional effects of transfer and revenue-raising mechanisms, and thus provide important information for consensual national decision-making. Unfortunately, in most developing countries these crucial instruments of good governance and effective social dialogue are underdeveloped.

278. In practical terms, the relationship between revenue-raising and good, participatory governance has been largely neglected by the international development community, while most efforts have been concentrated on reducing expenditure and fewer on raising revenue. Notwithstanding the merits of recent reforms of the tax system and tax administration in low-income countries, the question arises whether the right balance has been found between coercive taxation and taxpayer information, and engagement in dialogue about the need for and use of general revenues.

#### 4.2.2. The affordability of mature social security systems

279. The affordability of mature social security systems has been widely discussed in the context of demographic change. The expected increases in economic dependency ratios over coming decades have raised concerns about the sustainability of European and other developed economies. In 2050, it is expected that in the European Union there will be two working-age people for each older citizen, as opposed to the current ratio of four to one.

##### *Adjusting for demographic change*

280. Ageing will drive up expenditure on pensions, health and long-term care in the decades to come. However, given the expenditure consolidation measures that many countries have already deployed over the past 20 years, this need not pose a major threat to the financial equilibrium of national social protection systems and/or the fiscal balance of government budgets. Even if the demographic challenge is not well managed (the worst case scenario), the effects on the sustainability of national social transfer

systems (even in countries with highly developed systems) may be less dramatic than is commonly assumed. However, this will require policy adjustments, such as measures to tailor social health protection in response to shifting disease patterns, to improve coordination of health and social services, to reduce health-care worker shortages (particularly of nurses and caregivers), and to extend coverage and benefits for long-term care.

281. The latest available forecast by the European Union Economic Policy Committee on the combined cost of the most important social security benefits as a result of ageing populations shows that there is still reason to believe that the European demographic transition is manageable (table 4.2). The key indicator for Europe's alleged "demographic catastrophe" in social security has always been the old-age dependency ratio. However, that problem may not be as big as it seems and the reason is quite simple. It can easily be shown that on the basis of the demography of rapidly ageing Western Europe, increasing the time spent de facto in employment is probably a solution for most pension schemes. This can be achieved by increasing labour force participation rates in the 15–64 age group through various measures, such as increasing those of women, as well as overall labour participation rates due to earlier entry into the labour force. But above all, the old-age demographic dependency ratio in Europe can most likely be kept at its present level for the next 50 years through a gradual increase in the de facto retirement age from about 60 (as at present) to 65 years.

**Table 4.2. Expected increases in social expenditure in the European Union, 2007–60**

Level in	Percent of GDP		Change from 2007 in percentage points	
	2007	2035	2060	
Pensions	10.2	+1.7	+2.4	
Health care	6.7	+1.0	+1.5	
Long-term care	1.2	+0.6	+1.1	
Unemployment benefits	0.8	-0.2	-0.2	
Education	4.3	-0.3	-0.2	
Total	23.1	+2.7	+4.7	

Source: European Commission: *The 2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008–60)*, European Economy Series No. 2, 2009 (Luxembourg, 2009), table 1.

282. Table 4.2 indicates that the expected average increase in national social expenditure is less than 5 percentage points of GDP over the next 50 years which, though substantial, should not prove unmanageable. However, there are significant differences between individual countries, which are less the result of the ageing process itself and more of the characteristics of programmes, including their financing, eligibility and benefit generosity. The projections take into account the expected effects of social security reforms already legislated and implemented (including new benefit formulae and raised retirement age), as well as expected increases in labour force participation and employment rates. The European Commission has taken steps to actively manage the impact of ageing on social protection systems and the economy as a whole. One important step was the issue in July 2010 of the EU Green Paper on pensions which, for the first time, clearly seeks to strike a balance between maintaining fiscal sustainability and maintaining social adequacy (see box 4.8).

283. However, possibly much more important than concerns about the financial sustainability of pensions and other social security schemes is the probability that GDP and per capita GDP growth rates will be at risk when the population ages and the

employable labour force shrinks. Ageing under status quo conditions may act as a brake to economic growth, reducing average long-term growth levels by half compared with the growth levels of 2–2.5 per cent per annum that could be obtained in a situation in which demographic ageing is not a constraint on employment growth.

**Box 4.8**

**Pension systems in the European Union: The EU Green Paper (July 2010):  
“Towards adequate, sustainable and safe European pension systems”**

In general, the national social security pension systems of the Member States of the European Union are designed to entitle older people in the population to reasonable levels of comfort and dignity. Most such schemes fall broadly into the defined benefit, generally earnings-related category, or include a major element thereof; many are financed on a pay-as-you-go basis, rather than through pre-funding or savings arrangements. That apart, however, each Member State has developed its pension provision in the light of its own conditions and perceptions, so that a fairly wide diversity of approaches now prevails; certainly there is no trend towards a “one-size-fits-all” solution.

At present, however, pension provision within the broader ambit of social security is commonly held to be placing increasing strain on national finances, as a result of two factors in particular: first, the twin demographic trends towards greater longevity and reduced fertility rates, which result in a changing and hard-to-manage balance between “active” contributing workers and beneficiary pensioners; and second, the severe and costly economic downturn experienced globally since 2007.

The European Commission (EC) has undertaken extensive studies to identify the basic features of this common experience, and possible policy approaches open to the Member States. Accordingly, in July 2010, the EC published the Green Paper: “Towards adequate, sustainable and safe European pension systems,” setting out the results of this work on a provisional basis, to be updated subsequently in the light of comments and responses.

In addition to the challenges posed by demographic ageing and the global financial crisis (now followed by large-scale fiscal consolidation), the Green Paper identifies a set of issues arising in the context of recent reforms carried out in a number of countries in the search for financial sustainability; these have added to the challenge of providing adequate pensions.

The Green Paper sets out a framework of objectives within which policy solutions may be sought. The overarching aim is identified as the maintenance of both adequacy and sustainability. As observed in the Green Paper, these represent two sides of the same coin; the affordability of pension systems across the EU may depend critically on further steps in addition to the reforms that have already taken place. The Green Paper also lists a range of outstanding matters needing to be addressed, including those arising from increasing mobility of labour in the EU, regulatory aspects, and the distribution of risks (relating to investments and otherwise) in the light of the nascent development of an internal market for pensions, and the need to improve financial education and awareness. One highlighted issue is the rapidly increasing old-age dependency ratios observable to a greater or lesser extent in all the EU Member States, and the consequent implications for increasing costs of pension provision year after year. As observed, increasing longevity is welcome in itself, but has led to the result that individuals in the EU now spend, on average, one third of their adult lives in what was traditionally regarded as the pensionable age range; this positive trend is far from coming to an end. One key approach is to enable older workers, both women and men, to remain longer in the labour market; this echoes recent work by the ILO pointing to the need for integration of social security pension policies with appropriate employment policies. However, early responses to the Green Paper from European trade union confederations make it clear that, if the need to encourage longer working lives is translated, simply, into raising the statutory retirement age, then such policies may well attract fierce opposition.

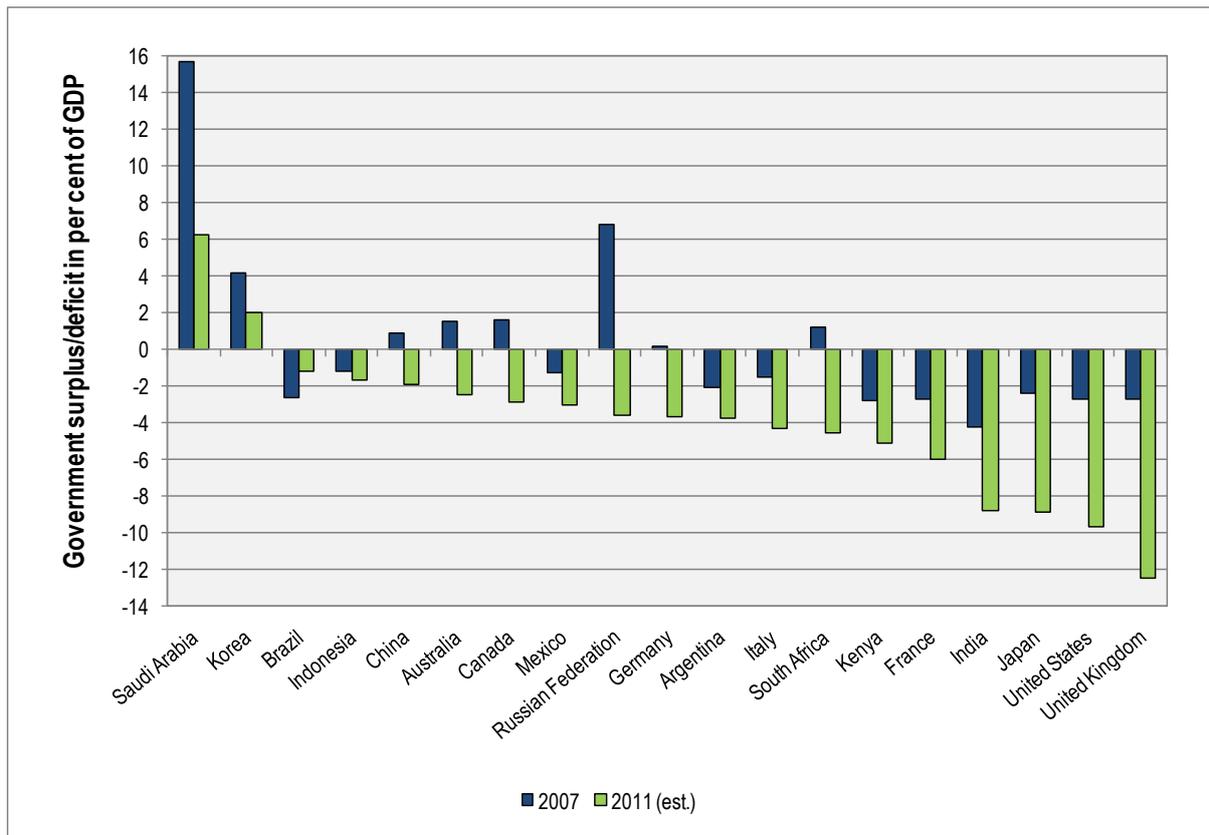
Source: European Commission: “Green Paper: Towards adequate, sustainable and safe European pension systems”, COM(2010)365 final (Brussels, July 2010).

284. The debate on demographic change and social security in recent years has also reflected an improved understanding of the complexity of this relationship. It is now widely accepted that, rather than looking at demographic old-age dependency ratios, adjustment to demographic change should take full account of the economic performance/employment/social security nexus. Reflecting the impact of demographic change on labour markets and employment, integrated policy responses need to address possible skills shortages, to promote productivity, to take advantage of the greater diversity in the workforce in terms of sex, age and ethnic background, to facilitate the balance between work and family for both women and men, and to ensure income security and access to social services.<sup>27</sup>

#### *Ensuring financial resources for social security in times of austerity*

285. Many countries are facing large and growing government deficits in the aftermath of the global financial and economic crisis. This is the case for countries at all levels of development. As figure 4.3 shows, in all but two countries for which data are available, government budgets are expected to be in deficit in 2011, owing to a combination of dwindling revenues and higher expenditure. This development reveals increasing pressure on government expenditure, including on social security.

**Figure 4.3. IMF estimates of pre- and post-crisis levels of government deficit (percentage of GDP)**



Source: IMF: *Fiscal Monitor: Fiscal exit: From strategy to implementation* (Washington, DC, 2010).

<sup>27</sup> For a more detailed discussion, see ILO: *Employment and social protection in the new demographic context* (Geneva, 2010).

286. Obviously, deficits of that order create enormous pressure to consolidate public expenditure. However, the immediate reaction to the debt crisis in the advanced economies (notably in Europe) should not consist of containing expenditure at a time when the real economy has not picked up speed. Cutting expenditure would most likely affect transfers and public-sector wages and public investments. The effect would be pro-cyclical demand contractions and infrastructural depreciation with negative longer term growth effects.

287. A more rational response would be to expand domestic revenues. There is no obvious reason why Austria (48.8 per cent of GDP), Denmark (55.6 per cent), Finland (47 per cent), and Sweden (51.9 per cent) can support public revenue ratios of about 50 per cent of GDP while others, e.g. Germany (44.4 per cent), Greece (36.9 per cent), United Kingdom (36.9 per cent) and United States (30.4 per cent) can only support public revenue ratios of about 35–45 per cent of GDP.<sup>28</sup> There is also no reason to assume that redistribution through taxation automatically reduces aggregate demand.

288. The IMF estimates that the potential for revenue increases in France, Germany, Italy, Japan, United Kingdom and United States lies between 4 and 6 per cent of GDP.<sup>29</sup> The answer seems to be that some of the countries with a more systemic primary balance deficit should increase their revenues. If part of these increases were invested in productive areas, such as education, health, greening production, rehabilitation of infrastructure but also social security as a trigger of domestic demand, this could enhance growth and, notably, public employment. Likewise, in middle- and low-income countries, there are calls for increased domestic revenue mobilization to finance development.<sup>30</sup> It appears that a policy of increased taxation is needed, one that is conducive to higher productivity and investments, and is also equality enhancing.

289. As the pendulum swings from crisis-induced fiscal expansion to post-crisis fiscal consolidation, there is a risk that fiscal austerity measures might jeopardize recovery, particularly regarding an expansion of productive employment and the guarantee of adequate levels of social protection; this may lead to an increase in poverty and vulnerability in the short and the long term. This is partly due to a structural bias in fiscal consolidation measures in certain countries where austerity measures mainly target social security and labour market spending programmes, affecting mainly low-income groups, while at the same time high-income earners and large corporations have seen their tax burdens decrease.<sup>31</sup>

290. The experience of the 1980s and 1990s has shown the disastrous effects that poorly balanced austerity measures can have on countries' economic and social development. One of the main lessons from structural adjustment policies is that investments in human development need to be safeguarded, if not extended, during times of austerity so as not to compromise future productivity, growth and social cohesion. In emerging economies in particular, the strengthening of social protection systems can help to boost domestic

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<sup>28</sup> General government revenue as a percentage of GDP for 2009, from IMF *World Economic Outlook* database.

<sup>29</sup> IMF: *Navigating the fiscal challenges ahead*, IMF Fiscal Monitor Series, 14 May 2010, Washington, DC, 2010, pp. 45–47.

<sup>30</sup> UNECA: *Economic report on Africa 2010: Promoting high-level sustainable growth to reduce unemployment in Africa* (Addis Ababa, 2010).

<sup>31</sup> ILO: *World of Work Report 2010: From one crisis to the next* (Geneva, 2010), pp. 57–75.

demand, reduce excessive savings, compress excessively high levels of inequality and contribute to more equitable and sustainable economic and social development.<sup>32</sup>

291. Achieving higher levels of participation in employment for women and men is imperative for the maintenance of standards of living in ageing societies and not only for the stabilization of pension schemes. Further raising the retirement age, *de facto* not *de jure*, and in a fair way (as currently being attempted in many European countries) will remain an inevitable political challenge. However, the most important task for the next decade is to ensure adequate jobs for older workers – which is the key to successfully reducing the ageing crisis to manageable proportions.

#### 4.2.3. Cost versus benefit considerations: Relationship between fiscal costs and results

292. Though demographic change has required some adjustments – and may continue to do so – the social security systems of developed countries remain an integral part of the socio-economic structure of all their economies. In the EU and other high-income countries, social security programmes have been effective in achieving their main target: to compress income inequality and reduce poverty (see also section 1.2.1).

293. It is now well accepted that widespread poverty and economic insecurity are threats to sustained economic growth for countries at all levels of development.<sup>33</sup> It has also become clear that coordinated policies to promote employment, reduce poverty and address distributional concerns have fared well at alleviating the repercussions of the crisis and moving to a quick recovery. Well-designed social security programmes play a critical role in promoting balanced economic and social development.

294. There is evidence to help refute arguments that high levels of social expenditure are unaffordable in the light of global competition. Taking a historical and worldwide perspective, it can be shown that the countries most successful at achieving long-term sustainable growth and poverty reduction have all put in place extensive systems of social security; at the same time all of them have open economies. Though strong evidence may be lacking to date demonstrating a causal link between social security and positive economic performance, what is known is that in all successful countries the two coexist. OECD countries have made the decision to invest heavily in social security – generally more than 20 per cent of GDP – as part of their long-term growth and poverty reduction strategies. And, what is perhaps more important, they started to do so when they were poor. At some stage, these countries all embarked on strategies promoting growth with equity – and these strategies proved successful.

295. However, their recent history has also shown that high social expenditure alone is not a sufficient condition for success in terms of reducing poverty and inequality and supporting economic growth. Experience shows that, in broad terms, good governance is one necessary condition for success. In such a framework, by implication, though social expenditure should be wisely allocated and contained in an economic upturn, avoiding unjustified dependence on transfers, in times of economic and social crisis such expenditure should be allowed to expand when needed.

296. In times of national and global economic crisis, social security systems play an important role as both social and economic stabilizers. Providing social protection benefits to unemployed workers and other vulnerable beneficiaries helps not only to

<sup>32</sup> See, for example, R. Torres: “Incomplete crisis responses: Socio-economic costs and policy implications”, in *International Labour Review*, Vol. 149 (2010), No. 2, pp. 227–237.

<sup>33</sup> ILO: *World of Work Report 2008: Income inequalities in the age of financial globalization* (Geneva, 2008).

prevent individuals and their families from falling into deep poverty, but equally to limit the fall in aggregate demand, thus limiting the potential depth of recession and opening the way to recovery. In many countries where unemployment benefits and other social security and income support programmes exist, it is critically important that measures to strengthen them (such as broader eligibility conditions, increased benefit amounts or increased budgetary allocations) be included in the economic stimulus package.

297. However, social security systems presently face the inevitable dilemma that, when they are most needed to provide income support, they are experiencing the lowest levels of revenue. This may require fairly heavy anti-cyclical spending by governments, together with allowing the depletion of social security reserves. Dealing with an earlier crisis in 1935, the United States Government introduced pensions and unemployment benefits among the policies of the New Deal. Again, in September 2008 the United States Congress adopted an extension of unemployment benefits as part of a broader economic stimulus package to promote creation and preservation of jobs, to invest in infrastructure, and to provide economic and energy assistance. Likewise, increased allocation to different social security programmes represents an important part of the European Economic Recovery Plan, which recommended temporary increases in the level and duration of unemployment benefits for households strongly affected by the crisis.<sup>34</sup> Clearly, social insurance and social assistance schemes are major instruments with which to stem the social fallout of such a crisis.

298. Furthermore, one of the consensus conclusions following the Asian financial crisis in the late 1990s was that, if income support programmes had been in place, the impact of the crisis would have been much less damaging. Nevertheless, though some countries (such as the Republic of Korea) accelerated the implementation of their unemployment insurance scheme for formal economy workers and strengthened their social security coverage in general (a strategy later followed by Thailand), most of the world's population still lacks any access to social security provision.

299. In a number of industrialized countries, policies need to be developed to ensure the necessary fiscal space for social transfers, especially when faced with a build-up of budgetary pressure arising from the need to finance huge stimulus packages. There are already signs that, in future, social spending will have to be adjusted as countries face up to the need to finance the levels of debt associated with the crisis.

### 4.3. Designing, governing and managing effective and efficient social security systems

300. Social security systems are effective and efficient when they reach their policy objectives at appropriate cost and without unwanted side effects. Social security systems are only sustainable if they are designed to respond to people's needs and if they are seen to be properly and reliably managed. Nothing undermines the credibility of social security systems more than bad management that is seen to waste money and is perceived as unresponsive to people's needs. Over recent years, a number of topical issues have emerged which deserve further discussion. Above all, there has been an ongoing debate on the best ways of ensuring that the benefits provided reach the whole population or, as a matter of priority, a number of specific target groups; that benefits provided are adequate; and how benefit delivery and supervision can be assured.

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<sup>34</sup> Commission of the European Communities: *Communication from the Commission to the European Council: A European Economic Recovery Plan* (Brussels, 2008), p. 8.

#### 4.3.1. Designing and implementing programmes to extend social security coverage

##### *Responding to the coverage challenge*

301. The increased attention given to social assistance programmes in recent years reflects the acknowledgement that, even in contexts where contributory schemes are well established, a significant share of the working-age population lacks the minimum economic prerequisites for a decent life. Social assistance schemes strengthen the income security of the poor, reflecting social solidarity with poor members of society, who should also benefit from the wealth produced by that society.

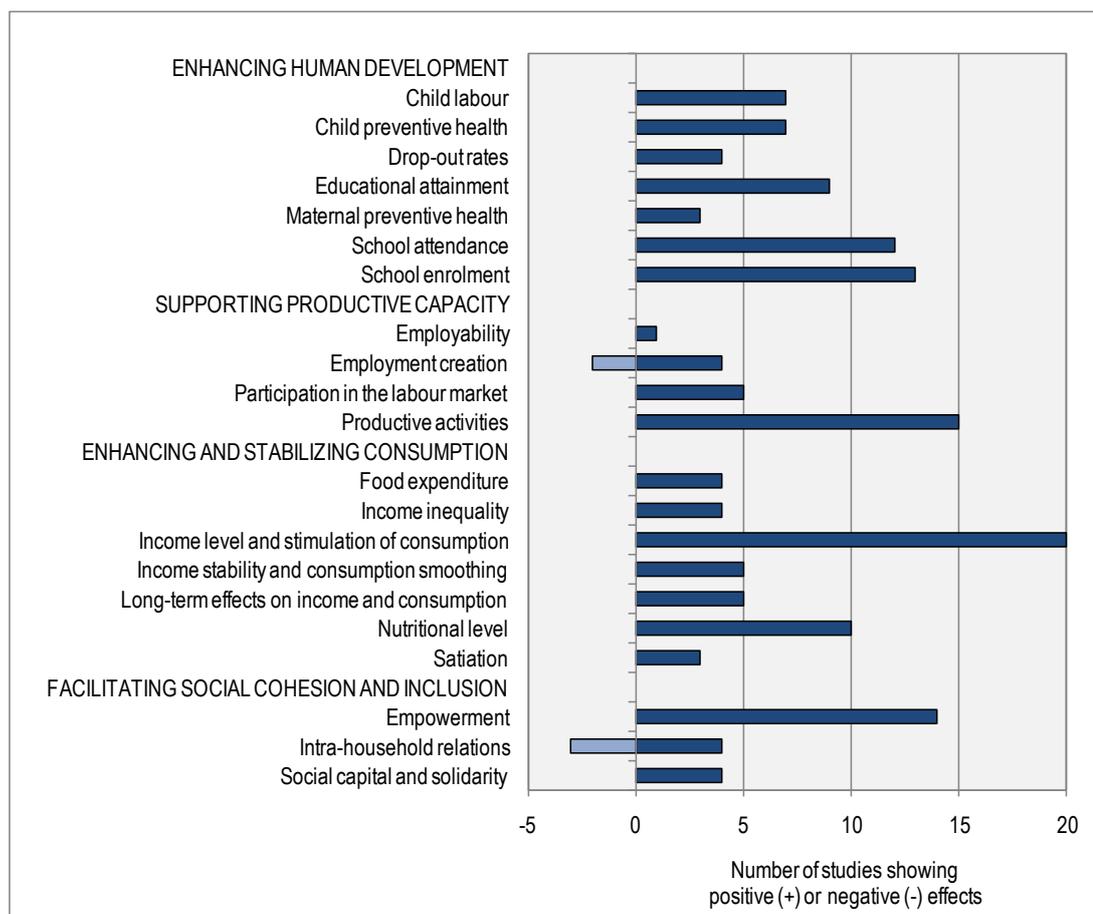
302. Within this redistribution function, social assistance was basically perceived as a “safety net” protecting those whose income security could not for some reason be assured by the social insurance/employment nexus. In most cases this protection was understood to be temporary, as the natural economic functioning of society was expected to reintegrate beneficiaries into the economic system. Another important aspect of redistribution is beneficiaries’ continued access to “social assets” (for example, education and health), thus reinforcing their resilience in the face of poverty.

303. There is strong evidence that social assistance programmes are effective in achieving their objectives. The ILO has compiled a “meta-study” of results from some 80 studies of cash transfer programmes which have been run over the last ten years in about 30, mostly developing countries around the world and which are already providing elements for a social transfer floor.<sup>35</sup> Figure 4.4 condenses the results of this meta-study in one summary assessment of various cash transfer schemes. It is clear from the figure that the cash transfer schemes in 30 countries had a clear and positive impact on enhancing human development, supporting the full use of productive capacities, enhancing and stabilizing consumption and facilitating social cohesion and inclusion.

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<sup>35</sup> ILO: *Effects of non-contributory social transfers in developing countries: A compendium* (Geneva, 2010).

**Figure 4.4. Summary of impact assessments of existing social transfer schemes in 30 countries**



Note: The figure shows the number of studies which demonstrated a clear positive or negative effect (only categories covered by three or more studies). Studies showing no or unclear effects are not reflected in this graph.

Sources: Based on I. Orton: *Reasons to be cheerful: How ILO analysis of social transfers worldwide augurs well for a basic income – with some caveats*, paper presented at the 13th International Congress of the Basic Income Earth Network, São Paulo, June–July 2010; ILO (2010), op. cit.

304. ILO studies and various other studies of existing social transfer schemes conclude that in general they have a positive impact on poverty, health and nutrition, the social status of recipients (notably women), economic activity and small-scale entrepreneurial investments (notably in agriculture), and that they have avoided significant adverse effects on the labour market participation of the poor populations they serve.

305. In addition to the overwhelmingly positive social effects of cash transfers they found, the studies that analysed the economic effects of cash transfer schemes also found positive effects on entrepreneurial behaviour in recipient families. Many families used part of the cash transfer to invest in small-scale agricultural activities, including the purchase of livestock. Thus, these families sought to create sources of income that could also provide some protection from future economic shocks, particularly food price crises. In Namibia, for example, universal old-age and disability pensions have stimulated markets for locally produced goods and services. In middle- and low-income countries – as in industrialized countries – social transfers have demonstrated their capacity to act as economic stabilizers.

306. The ILO recently published a report which describes a range of programmes in selected countries.<sup>36</sup> It observes that the programmes' impact is generally encouraging, with numerous contributions to desirable outcomes in nutrition, health, education, reduced income poverty and inequality, improved skills and access to opportunities.

307. The range of these examples shows that lower-income countries can indeed achieve improved coverage rates in a relatively short time. There is clearly a strong link between a country's level of income and labour market structure and the general level of coverage achieved, but it is certainly possible for countries to make remarkably rapid progress. The review of current practices also illustrates the diversity of design and arrangements for benefit delivery. In fact, there are many ways of achieving basic social security guarantees. For health care, several schemes (social/national insurance, tax-financed schemes, vouchers, etc.) coexist in most of the countries reviewed. Programmes also present different levels of integration with other policy areas, such as access to basic social services or employment. Though the government usually has overall responsibility for the provision of adequate benefits, delivery can be made through public- or private-sector (profit or non-profit) vehicles, with varying levels of decentralization. Each approach has its advantages and its problems and each is historically path dependent. In any case, the design and delivery of benefits should be sensitive to beneficiaries' needs and capacities (e.g. their ability to contribute). Ultimately, what matters is that everyone should have access to the basic guarantees. The outcome of national social security strategies is what matters above all – the ways and means whereby countries achieve them are secondary.

308. These new schemes that have sprung up around the globe show a growing consensus is emerging on the importance of extending social security coverage to all, regardless of a country's level of development. This indicates significant progress towards fulfilling the human rights aspect of social security. Such progress apparently reflects a stronger acknowledgment of the essential contribution of social security to poverty reduction and human development. Income security and access to health care are central to the protection provided by these new schemes.

### *Getting the design right*

309. In the context of poverty reduction, the emergence of large-scale non-contributory income support programmes in middle- and low-income countries has brought the debate on "resource" (income or wealth) -based targeting to the foreground. This debate is driven by a number of considerations, including affordability, costs, effectiveness, income inequality, values, rights, employment trends and political support. Some elements of this debate are presented below.

310. Targeting based on individuals' personal status can be carried out in a number of ways:

- means-testing (income or expenditure tests), although this requires high-quality data which are not available in many countries and may be expensive to put in place, but which may be estimated by "proxy" means-testing methods;
- geographical targeting, whereby transfers are provided to everyone living in areas where there is a high incidence of poverty;
- community-based targeting, which uses community structures to identify the poorest members of a community or those eligible according to agreed criteria;

<sup>36</sup> ILO: *Extending social security to all* (Geneva, 2010).

- categorical benefits provided to those recognized as belonging to a specific vulnerable category of the population (e.g. indigenous people);
- self-targeting, as in work programmes offering below-market wages, based on the logic that only poor people will opt for such programmes.

311. Targeting is found in many tax-financed programmes providing old-age pensions, child benefits and benefits to persons of working age who may be unable to support themselves through paid work. As noted above, it is also used in health programmes. It is often added to other eligibility conditions governing access to benefits, such as age (for old-age pensions), place of residence (for rural programmes) or behaviour (for school attendance).

312. Explicit arguments in favour of targeting relate to affordability, efficiency and income equality. Quite simply, it is argued that because targeted programmes have fewer beneficiaries than do universal programmes, then they are less expensive and more sustainable.<sup>37</sup> By focusing income redistribution on the poor, in theory targeted interventions create the same poverty reduction outcome with fewer resources and are therefore more efficient. For the same reason, targeted interventions are also considered more efficient at reducing income inequalities than universal redistribution measures.

313. These arguments have played – and still play – a major role in the widespread implementation of means-tested or similarly targeted programmes throughout the world. In spite of this, their conceptual basis has been challenged in a number of respects. Criticism has been levelled for a number of reasons.

314. First, the arguments expressed very simply above fail to consider the dynamic character of poverty, as targeting transfers only on the poor does not by any means prevent poverty. A more proactive and forward-looking approach would not target resources exclusively on those already poor, but would include persons at risk of falling into poverty.

315. Second, the above arguments (which centre on the particular efficiency of the targeting programmes) are general statements that have been strongly challenged in contexts where the share of the poor in the population is high (so that any “savings” resulting from targeting are likely to be low), and the implementation of targeting is costly and difficult, leading to large inclusion and exclusion errors; such scenarios are typical of low-income countries.<sup>38</sup> More generally, it is argued that not all targeting methods are suited to all types of benefit; that they are not all similarly effective regarding inclusion/exclusion errors; and that statistical and administrative demands differ widely. Moreover, ultimately the same is true of costs.

316. Third, the cost of targeting is an area for debate in itself and it is argued that some methods can be unduly costly. Means-testing presents an example in which the cost of implementing targeting can come to represent a high share of the programme’s total costs. This arises because where reliable population data (and data systems) are lacking, it is very complicated and costly to identify the poor accurately and to update such information. Nevertheless, in some programmes it has been possible to implement targeting through proxy means-testing at relatively low cost. Generally, it has been observed that the more efficient the targeting mechanism (in terms of reduced inclusion

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<sup>37</sup> See, for example, D. Coady, M. Grosh and J. Hoddinott: *The targeting of transfers in developing countries: Review of experience and lessons* (Washington, DC, World Bank, 2003).

<sup>38</sup> See, for example, T. Mkandawire: *Targeting and universalism in poverty reduction*, Social Policy and Development Programme Paper No. 34 (Geneva, UNRISD, 2005).

error), the more expensive it is likely to be, and the more likely to be associated with exclusion errors. In brief, targeting costs cannot be assessed without reference to the inclusion and exclusion errors generated.

317. Fourth, it is important to ensure the system is transparent: beneficiaries and potential beneficiaries must be able to understand whether or not they are entitled to benefits; only thus can they be in a position to obtain their rights (including the opportunity to appeal against a decision). This helps to contain stigmatization effects, ensures that benefits reach the intended target groups and acts as a safeguard against corruption.

318. Finally, some argue that targeting costs should take into account not only the direct administrative costs of implementation, but also the indirect costs to programme participants. This means that programmes with low administrative costs (as is often the case with self-selective methods) can still prove very expensive if the costs incurred by participants are taken into account. Examples include the cost of time spent, of transportation, of loss of other income opportunities, of payment of fees (sometimes bribes) to acquire the necessary documentation, of the possibility of stigma, of the erosion of self-esteem and community cohesiveness, and of the potential undermining of informal support networks.

319. Another controversial aspect of targeting is its possible exclusion effect. On the one hand, those in favour of targeting maintain that the programmes minimize exclusion because their design makes them more sensitive to the specific needs and capacities of the poor. This design sensitivity, it is argued, may be more prevalent than in universal programmes, where the design is based on a “standard household”. On the other hand, there are concerns that targeting increases exclusion by setting conditions (regarding income or wealth) which are difficult to assess; by generating direct and indirect costs for potential beneficiaries; and by being too demanding on local institutions.

320. It is important to bear in mind the technical complexity and the widely different experiences in targeted schemes and their empirical outcomes. These are the characteristics that have fuelled, and promise to prolong, the debate on targeting according to personal resources or status. It is also true that this debate is inextricably linked with political factors. Purely technical issues apart, politics and ideology have influenced the relative inconclusiveness of the debate on the relevance of targeting, and have defined the context for the questions of whether to introduce resource-based targeting, and of the definition of resource thresholds defining eligibility. To a great extent, these questions reflect different value systems and the power of different actors in the broad political arena to promote their values and interests. Over the past ten years, targeted programmes have apparently enjoyed enhanced social legitimacy, perhaps because they are perceived as fair, in the sense that they claim to address those most in need and, by doing so, can contribute to the reduction of existing inequalities. However, there is a lurking suspicion that the process of defining eligibility for benefits does not always meet appropriate standards of independence and transparency.

321. Finally, in this area, as with many other aspects of social protection, each choice entails its own advantages and disadvantages. It is important to consider these in a comprehensive way, not in isolation. As shown above, improving some aspects may have negative effects on others. The debate on targeting according to income, wealth or other resources invariably tends to move the discussion away from specific programme objectives, from the context in which they are implemented and from the characteristics of the beneficiaries. Targeting is merely a tool whose relevance and design should be assessed according to its contribution to those objectives. Effective targeting

programmes have proved to have very positive outcomes for poverty reduction. Nevertheless, they should be considered neither as the only efficient means of transferring income to the poor, nor as sufficient to fight poverty.

*Responding to the adequacy challenge –*

*Securing benefit reliability*

322. It is obvious that in the long run social security systems need two types of stabilization: financial and social. Most of the reform debates over recent decades were implicitly or explicitly triggered by the perceived or real need for financial stabilization. Policies focused on the two major expenditure blocks within national social budgets, namely, pensions and health care. By tacit public consensus, financial stabilization of pension and health schemes has largely been translated into keeping contribution rates constant in contribution-financed pension schemes, or into keeping constant the large share of pension expenditure to GDP or to total government expenditure in tax-financed schemes. Most pension reforms appear to have been reasonably successful in that respect. Health reforms were less successful and cost containment in health care has become an overwhelming policy concern since the late 1970s – often at the expense of concerns about quality and adequacy of care.

*Ensuring income security in old age*

323. Ensuring the sustainability and adequacy of pension systems remains high on the agenda, as it has been for at least 25 years. A lively international debate and a series of pension reforms were kick-started in 1994 by a World Bank publication.<sup>39</sup> This advocated three-pillar pension systems, consisting of a first tier in the form of a modest targeted or universal social assistance pension financed from taxation; a second tier made up of a mandatory individual savings scheme based on the Chilean model; and a third tier consisting of a voluntary individual savings scheme, as a way of avoiding the expected upwardly spiralling pension costs. The ILO remained sceptical for 30 years while the World Bank model took root in Latin America and, later, in Central and Eastern Europe. The main ILO criticism was that reforms based on defined contributions would not lead to predictable benefit levels and, hence, real income security in old age. Meanwhile, the impact of the current crisis on DC pension schemes has unfortunately confirmed that view. The history of the pension debate is summarized in box 4.9.

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<sup>39</sup> World Bank: *Averting the old-age crisis: Policies to protect the old and promote growth* (Oxford, Oxford University Press, 1994).

**Box 4.9**  
**A brief history of the pension reform debate**

The World Bank's reform paradigm focused on privately managed, fully funded pensions as the "second tier" of a multi-pillar pension scheme. The main message of *Averting the old-age crisis: Policies to protect the old and promote growth* was that this system would insulate pension schemes against the effects of ageing societies and also increase growth thanks to a rise in national savings.

Towards the end of the 1990s, the World Bank model (notably its focus on the forced savings component) drew criticism from within and outside the Bretton Woods institutions. Criticism centred on several key issues. It was demonstrated it was by no means clear that national pre-funding of pension schemes actually made pensions less vulnerable to the effects of ageing, bad governance or economic shocks. The evidence of the impact on growth was also considered inconclusive. It was shown that both pay-as-you-go (PAYG) and funded systems require good governance and enduring economic output to ensure their viability. Privatization per se did not improve the quality of governance. Systemic reforms often camouflaged the fact that actual benefit levels were reduced over time. Many authors also pointed out that the financing of the transition from PAYG or partially funded to fully funded schemes caused transitional fiscal problems in most countries.

In 2000, the ILO presented its position on multi-tiered pension systems in *Social security pensions: Development and reform*. Being less prescriptive about its paradigm, the ILO stressed the importance of adequacy of benefit levels (to provide income security in old age and thus give people the right to affordable retirement), the extension of coverage (with the ultimate objective of making it universal), and the role of good governance as sine qua non conditions for the proper functioning of all pension systems. The bottom line of the ILO position was summed up in 2000 by an author from the OECD: "the ILO is fundamentally unwilling to accept systems which cannot guarantee insured persons with a full contributions record any more than benefits at the subsistence level" (Queisser (2000), p. 37). Since the minimum replacement rates required by the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), are close to many national relative poverty lines, the ILO has maintained its stance.

While the academic policy debate was raging within and outside the institutions, a variety of pension reforms were introduced in a number of countries during the 1990s and early 2000s. Following the Chilean reform, 11 more countries in Latin America included mandatory savings tiers in their pension systems. The first wave of such systemic paradigmatic reforms in Latin America was followed by reforms in 13 countries in Central and Eastern Europe and Central Asia (Bulgaria, Croatia, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, The former Yugoslav Republic of Macedonia, Poland, Romania, Russian Federation, Slovakia and Ukraine), which implemented multi-tier systems that were essentially scaled-down versions of the Latin American reforms.

The crisis of 2008 and beyond has led to new developments in the history of pension reform. Argentina and Bolivia have effectively reversed their reforms based on individual accounts. In some parts of Central and Eastern Europe, countries are debating the resizing of the private tier of their pension systems (Croatia, Hungary, Poland).

However, a substantial number of (often overlooked) European countries adopted so-called "parametric reforms" of their pension systems that did not radically change the paradigm of old-age income security. These countries included Germany and France. These reforms generally focused on the adjustment of some parameters, predominantly by increasing the pensionable age, modifying eligibility conditions, reducing benefit entitlements through changes in the pension formula or indexing rules, and adding a new tier to the pension system. Sweden and Italy introduced reforms which, although they kept the PAYG character of the main pension scheme, also introduced notional defined contribution (NDC) principles in determining future benefit levels. The ILO has advocated and been involved in a number of such reforms.

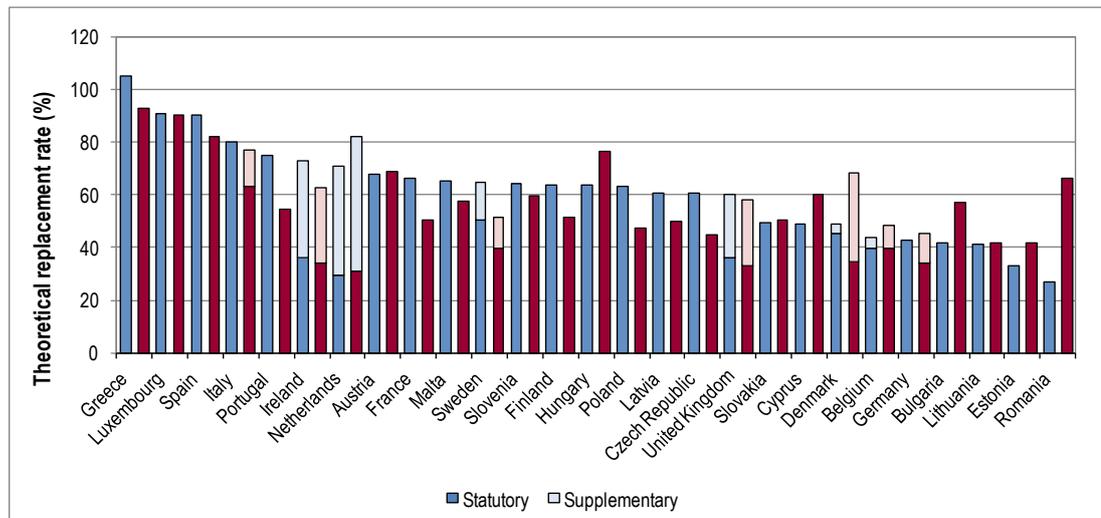
Sources: Based on A. Diop: "Pension reforms in Central and Eastern Europe in a global perspective: Lessons learned," address to the Wissenschaftliches Kolloquium "Internationale Entwicklungen in der Rentenpolitik", held in Berlin, 2 Apr. 2008; ILO: *Social security for all: Investing in global social and economic development*. A consultation, Issues in Social Protection Discussion Paper No. 6 (Geneva, 2009); World Bank: *Averting the old-age crisis: Policies to protect the old and promote growth* (Oxford, Oxford University Press, 1994); C. Gillion, J.A. Turner, C. Bailey and D. Latulippe (eds): *Social security pensions: Development and reform* (Geneva, ILO, 2000). See also C. Gillion: "The development and reform of social security pensions: The approach of the International Labour Office", in *International Social Security Review*, Vol. 53 (2000), No. 1, pp. 35–63; and M. Queisser: "Pension reform and international organizations: From conflict to convergence", in *International Social Security Review*, Vol. 53 (2000), No. 2, pp. 31–45.

324. The new pension systems will reduce replacement rates significantly in all "paradigmatic" reform countries. According to recent EU projections,<sup>40</sup> total post-reform pension expenditure in some countries will stagnate or may even decrease between 2007 and 2060. This concerns countries which move from the defined benefit to the defined contribution principle – for example, Estonia, Italy, Latvia, Poland and Sweden. The current and prospective demographic situation in all these countries is similar: the demographic dependency ratios will double by 2050. This has one simple mathematical consequence: replacement rates will have to go down. They will also be highly uncertain, largely because of the unpredictable performance of the capital market. In Poland, calculations by the institution supervising pension funds show future median replacement rates for men to be 51 per cent and for women 33 per cent (assuming that men work 44 years and retire at the age of 65, whereas women work 39 years and retire at the age of 60, the present statutory retirement ages). These replacement rates are much lower than the pre-reform levels, which were on average well above 60 per cent. Additionally, the reforms are quite regressive in their effects: in Poland, for example, replacement rates will decrease the most for those with the lowest earnings while actually increasing for those with the highest earnings. Similar results came out of a recent EU study which considered theoretical replacement rates for workers with average earnings after 40 years of employment (see figure 4.5).

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<sup>40</sup> European Commission, Indicator Sub-Group of the Social Protection Committee: *Updates of current and prospective theoretical pension replacement rates, 2006–46* (Brussels, 2009).

Figure 4.5. Theoretical replacement rates of old-age pensions in EU countries, 2006 and 2046



Note: The graph includes two columns per country. The left-hand column for each country shows theoretical replacement rates for the base case in the year 2006; for some countries this includes supplementary pensions (lighter shade). The right-hand column shows theoretical replacement rates in 2046. The base case is defined as a single male full-time employee who is covered by most general schemes for private-sector employees in the country for statutory pensions and, if applicable, supplementary occupational pensions, and who has an employment career of 40 years.

Source: Based on European Commission, Indicator Sub-Group of the Social Protection Committee: *Updates of current and prospective theoretical pension replacement rates 2006–46* (Brussels, 2009).

325. In some countries the relative income levels of pensioners are expected to fall and greater variance and volatility are expected than before the reform. Furthermore, there are good reasons to expect that the reforms will also disproportionately disadvantage lower-income groups. Taking into consideration the very high past unemployment rates of groups hardest hit by the economic transition, the benefit levels of many low-income people will be very low and may lead to the social exclusion of large groups of old people and persons with disabilities, whose income may drop to the social assistance level.

326. However, the calculations by the EU referred to earlier show that countries which embarked on so-called paradigmatic reforms will not be the only ones to see their replacement rates going down – unless people contribute significantly longer and retire much later. Simulations for France and the Czech Republic show that even countries which followed so-called parametric reforms may see future replacement rates reduced quite considerably. However, these reductions are more predictable than the ones resulting from paradigmatic reforms.

327. In some cases there may be some justification for reducing benefit levels, if promises made at the design stage are turning out to be over-generous (e.g. replacement rates in pension schemes for public servants close to 100 per cent, in some cases). The ILO has developed specific recommendations on cost-control mechanisms in a number of country projects. All of them were based on actuarial and social budget analyses and developed a menu of choices that were developed as a factual basis for the national social dialogue process.

328. It is also worth looking at the protective functions of pension schemes in greater detail. For many people, turbulence on national labour markets – with respect to changing patterns of work-sharing in an increasingly globalizing labour market – coupled with global adjustment processes may lead to “broken” careers dotted with spells of unemployment or periods of retraining. For these people, pensions from the DC

schemes, i.e. those subjected to paradigmatic reforms, will decline the most in future. Resulting replacement rates may no longer meet even the minimum requirements of ILO Conventions – which means that they will no longer provide a guaranteed insurance against poverty in old age and disability. As a result, income uncertainty may creep back into the lives of many workers and pensioners in Europe.

329. The concept of social stabilization has been neglected for some time. Social stabilization implies that pension levels are not allowed to fall below a certain minimum benchmark. ILO social security Conventions are the only globally agreed legal instruments defining such benchmarks. Convention No. 102 requires a pension to be at least 40 per cent of “the total of the previous earnings of the beneficiary” after 30 years of service (Article 65(1)), also in cases where these previous earnings are lower than average. This can therefore be considered a benchmark for the minimum replacement rate necessary for the social stabilization of a pension scheme. This means that no pension reform should lead to replacement rates lower than this benchmark. Benefit benchmark replacement of 40 per cent after 30 years can be translated into a minimum accrual rate of 1.33 per cent of previous earnings for each year of contribution and can be applied to DB and DC pension schemes alike. In any scheme there is a relationship between contribution rate paid to the scheme and rate of return achieved, on the one hand, and the life expectancy at retirement and the implicit accrual rate and, therefore, replacement rate offered by a scheme.<sup>41</sup> In the case of a fixed contribution rate in the funded DC scheme, when one seeks to achieve a benchmark replacement rate as defined by Convention No. 102, using this relationship enables easy assessment of the rate of return that has to be guaranteed.

#### *Ensuring adequacy of health care*

330. The key to maintaining health costs at reasonable levels while also ensuring an acceptable level of quality and adequacy is to protect essential benefit packages that should be accessible to all. Such strategies have recently been adopted by many low- and middle-income countries. The benefit packages provided through health protection schemes were reformed with a view to creating greater equity and effectiveness and to addressing issues arising from the conflicts inherent in approaches of universality versus targeting the poor, rationing of care and quality. In fact, many of the reforms resulted in limitations on access to fully adequate health care, which should be the key to achieving global health priorities, such as those enshrined in the MDGs on maternal and child health care; they also lacked adaptations to demographic and epidemiological changes, needs and perceptions, resulting in inefficiencies in the provision of services. Some countries have successfully focused on integrative approaches without limiting packages to low-cost or very basic interventions.

331. Defining the content of the benefit package according to health priorities is not enough; implementation issues also matter. There are some prerequisites at systemic and global levels governing the successful implementation of essential benefit packages with a view to achieving the overall objectives of social health protection. These include:

- creating fiscal space and generating domestic funds to allocate sufficient resources, in both rural and urban areas, and to strengthen the overall financial system;

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<sup>41</sup> For more details, see A. Drouin and M. Cichon: *Optimal financing and self-adjusting mechanisms for sustainable retirement systems: The social stabilization of pensions in times of crises and beyond: A critical review of three decades of pension reform and their outcomes*, paper presented to the International Conference of Social Security Actuaries and Statisticians, held in Ottawa, 16–18 September 2009.

- demand-side strengthening with a view to empowerment of the poor and the vulnerable, for example by providing vouchers and conditional cash benefits and using third-party payers;
- setting contributions according to capacity to pay;
- use of all existing – pluralistic – health-financing mechanisms in a coordinated way, which allows gaps in coverage to be filled and universal access to health services to be achieved. Possible approaches include creating linkages between national health systems and social and community-based schemes. Moreover, efficiency of service provision should be institutionalized by clearly defining the responsibilities of the different levels of care providers, claims procedures, etc.;
- ensuring social and national dialogue, information and participation with a view to the empowerment of different groups in civil society;
- creating support for quality improvement, for example, through strategic purchasing, quality management, ensuring appropriate training and decent work conditions for the health workforce and monitoring providers' performance, and reviews of benefit packages.

*Fostering human development objectives through social security: Potential and limits of benefits conditional on participation in other social programmes*

332. Of all the additions to the modalities of social security over recent decades, the increasing use of conditional cash transfers (CCTs) is one of the most significant developments. Many CCT programmes are targeted at poor households with children. They are considered to be innovative and distinctive for a number of reasons: (i) for their targeting mechanisms; (ii) beneficiaries receive cash instead of in-kind benefits; and (iii) the transfers are conditional in that they often impose behavioural conditions on the individual/household recipient. These conditions oblige individuals to satisfy some action associated with human development goals (i.e. child visits to clinics or ensuring a high level of school attendance). They continue to be an increasingly popular way of improving human development outcomes and of reducing poverty. However, there has been debate over the impact and the implications of conditions for the effectiveness of such schemes. The following paragraphs discuss several key questions concerning the nature and the current application of CCTs in greater detail. First, do the conditions incorporated in CCT programmes serve human rights? Second, do the conditions bring about a marked difference in their effectiveness? Third, do they promote or limit poor people's "agency"? Fourth, are they replicable elsewhere, given that experience to date has mostly been in Latin America?

333. Opinion is mixed on the implications of conditionality for CCTs in terms of human rights. Some argue that they are contradictory in nature and obstruct the human rights agenda, while others stress the importance of obligations complementing those rights.

334. The first argument is that human rights are unconditional, and as social security, health and education represent generally recognized human rights, it is therefore unacceptable to deny a fundamental human right through the imposition and enforcement of conditions in CCT programmes.<sup>42</sup> This problem is exacerbated by the fact that the fulfilment of the conditions depends both on the beneficiaries, and on the availability and quality of basic social services. The non-existence of such services

<sup>42</sup> See, for example, R. Künnemann and R. Leonhard: *A human rights view of social cash transfers for achieving the millennium development goals* (Stuttgart, Brot für die Welt, 2008), p. 22.

implies the de facto exclusion of a group of people needing access to the right to social security. This situation, it is argued, is particularly marked in regions deprived of social services and where, traditionally, vulnerability is also higher. Furthermore, the opportunity costs (in terms of both money and time) of meeting the CCTs' conditions may penalize the most vulnerable, who tend to have the most difficulty in meeting such conditions. It is also argued that responsibility for fulfilling the conditions falls solely on the individual/household, so CCTs implicitly convey the notions of the "deserving" and the "undeserving" poor, which raises concerns from a human rights point of view. Rights are universal in character, and cannot be based on notions of merit.

335. However, as noted earlier, conditionality has also been advocated from a rights-based standpoint. In fact, CCTs have been invoked as a way of promoting a combination of rights and of helping their materialization. This represents an important shift in perception as, though universal in principle, in practice rights have remained a dead letter for many, if not most, of the poor. In other words, CCTs may represent a practical way of bridging the gap between the legal basis of rights and their practical fulfilment. It is argued that this can be achieved because it is recognized that the situational knowledge and behaviour of beneficiaries are key to the materialization of their rights. CCTs can also positively influence the behaviour of non-beneficiaries who may wish to participate too. More broadly, it is argued that where conditions bind not only the beneficiaries but also the public authorities, such programmes can help to create the necessary conditions for their fulfilment (i.e. the availability of basic services). This is why CCTs are now presented as a vehicle for co-responsibility, for example in the discourse supporting the *Bolsa Família* programme in Brazil (see box 3.11). It is beyond the scope of this review to conduct an extensive discussion of supply-side benefits; suffice it to say that CCTs tend to expose the limits of existing basic social services and can play a valuable role in encouraging their upgrading.

336. Further, in assessing the role of conditions in CCT programmes, it is essential to consider how public authorities enforce them. In reality, the lack of compliance can have various effects on different programmes. It can be the trigger for a punitive approach, leading to the exclusion of the beneficiary. Equally, non-fulfilment can be understood as having the function of revealing the vulnerability of individuals. This sheds light on the balance – or the lack of it – between the solutions provided and the needs of the beneficiary. This can create a "feedback loop" whereby further inquiry leads to a gradual improvement in solutions.

337. Finally, recent findings in behavioural economics show that "myopic households often undertake actions that can reduce their own long-term welfare (...) Conditionality offers a constraint that limits the adverse effects of this myopia."<sup>43</sup> In other words, CCTs may provide a safeguard against poor decision-making inconsistent with human development goals or, arguably, with the best interests of household members.

338. The second key argument advanced for preferring conditional over unconditional cash transfer schemes is that conditions provide a strong incentive for families to invest – notably in the health and education of their children. Conditionality also acts as stimulus, if not an obligation, on public authorities to invest in relevant services, when their availability and quality are not satisfactory. In practice, CCTs have led to good outcomes tending to confirm such assertions, although relatively little systematic research has been documented to date. An evaluation of the impact of the imposition by Mexican CCT *Progresa* of education-related conditions on school enrolment and

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<sup>43</sup> A. de Brauw and J. Hoddinott, *Is the conditionality necessary in conditional cash transfer programmes? Evidence from Mexico*, IPC One Pager No. 64 (Brasilia, International Poverty Centre, 2008), p. 1.

attendance showed a significant effect. That said, unconditional cash transfers (UCTs) can also deliver favourable human development outcomes. In Brazil, old-age pensions have helped increase school attendance, and there is evidence that the cash paid through the Namibian pension scheme has ultimately been spent on children's education in spite of the absence of conditions. Thus, the conditions themselves cannot automatically be assumed to be pivotal in satisfying human development goals. Nevertheless, the conditional element helps improve the acceptability of social transfers directed at the poor. Conditionality can improve the political acceptance of schemes, because it reflects the social ethic of reciprocity, namely, that for the poor (as much as for other members of society) benefits should be balanced in some way by responsibilities.

339. CCTs can also have a number of drawbacks in terms of human development objectives. If, for example, a household fails to satisfy conditions on health, it may be excluded from other developmental benefits encompassed within the same CCT(s), such as reduced poverty and improved nutrition. The goal of human development would hardly be served by "punishing" households through suspension or expulsion from the programme for unfulfilled obligations, when those who would suffer directly are likely to be children, rather than those who should actually fulfil the obligations.

340. Third, it is argued that because CCTs help access to health, education and higher incomes, they promote poor people's "agency". Conditionality can also strengthen the bargaining power and status of women and children within the household. This aspect can be particularly important for women and children, as traditionally they have subordinate positions in the household. Such conditions may also contribute to overcoming the stigma-inducing effects otherwise associated with welfare payments. On the other hand, some see CCTs as representing a form of mean-spirited paternalism, showing little faith in the poor to know what is best for them and their families.

341. Fourth, another important question in the debate is whether CCTs can be made operational in countries other than the "early adopters" in Latin America. Are they really suitable and feasible in low-income countries where existing infrastructure is less well developed? What is possible in large middle-income countries such as Brazil is quite different from what is feasible in a low-income sub-Saharan country. Low-income countries are likely to be hampered by major supply-side constraints, a severe lack of schools and clinics and limited budgetary resources. For many, there is a continuing concern that in low-income countries it may be more effective to redirect the resources needed to administer the conditions and use them to improve existing social services. Supply-side constraints are obviously more pressing in poorer countries and the regions within them.

342. This debate is unlikely to be settled in the foreseeable future. Nevertheless, CCTs have become a promising new way of reducing poverty and improving human development outcomes.

#### 4.3.2. Ensuring good governance and sound administrative performance

343. Though there is a growing consensus on the need to guarantee access to income security and essential health care for all, there is also substantial debate on the complementary question of *how* to deliver these benefits effectively and efficiently. Good management and governance are ultimately the factors determining whether national social security schemes work or not. Good management and governance are able to offset certain negative effects of poor system design, but good design alone –

without good governance and management – will never be able to deliver real social security to people.

344. A set of social security benefits can be implemented in a variety of ways, but certain generic steps and principles also need to be followed in a logical sequence of actions:

- setting out clear policy objectives (e.g. providing income security for specific groups in relation to specific contingencies, reducing poverty within target groups, reducing income inequality, assuring gender equity and responsiveness, etc.);
- designing the institutions, benefit provisions and delivery mechanisms, including design of the appropriate funding mechanisms and legislative framework corresponding to these objectives;
- using social dialogue to achieve and maintain national consensus on objectives and delivery mechanisms;
- codifying the design in a legislative process; and
- monitoring, evaluating and adjusting their implementation on a permanent basis.

345. The whole process of implementation, management and administration, governance and monitoring has to meet requirements of transparency, predictability and accountability, and be participative through effective, inclusive and representative social dialogue and social partnership in management and governance. However, the administration of social security schemes varies remarkably from one country to another. The options found across the world range from public administration through ministries or specialized agencies, (semi-)autonomous institutions (parastatal institutions), via public–private hybrids to partly or fully privatized systems under public supervision. To achieve transparency and active governance by social partners pragmatically in such a pluralistic environment requires well-trained managers and “governors” as well as sound management tools. The very high administrative cost ratios that many ILO actuarial valuations of national social security schemes detect regularly indicate that many schemes and systems chronically under-invest in these areas.

346. The training of managers and governors of social security schemes remains chronically underdeveloped in many national schemes. Increased efforts are necessary to provide adequate training in financial and general management as well as policy design in social security. Systems that redistribute between 5 and 30 per cent of national GDP deserve much more investment in their effectiveness and efficiency.

347. One set of management tools that is increasingly applied is performance indicators that allow the systems’ governors to assess whether national social security systems or their components are still “on track” with regard to their stated objectives. Many national schemes have developed performance indicators that show, for example, whether schemes take too much time to process claims, have excessive administrative costs or are unresponsive to client complaints. The ILO is developing a standard set of such indicators that will be used in its technical advisory services.

348. Furthermore, national experience demonstrates the importance of institutionalized monitoring mechanisms to track the performance of social security systems and their environment (macro economy, labour market, social conditions) in an integrated way that can be used as an early warning system to recognize and adjust to changing conditions, if necessary.

349. The diversity of national institutional contexts does not allow for a one-size-fits-all approach to good social security governance, but calls for solutions adapted to national contexts which reach the respective policy objectives in the most effective and efficient way. International experience, as reflected in ILO social security standards and principles, suggests that the following elements need to be in place in order to guarantee effective institutional frameworks:

- the state needs to assume overall responsibility in order to ensure that societal objectives are being pursued in a balanced way;
- tripartite involvement in the governance of social security schemes ensures the representation of those who finance and benefit from social security; and
- national ownership and responsiveness of the social security scheme.

350. Many good governance principles are included in the ILO social security Conventions and Recommendations. These instruments contain a number of provisions securing the rights of the persons covered (including the right to appeal and to non-discriminatory treatment), their participation in decision making, as well as provisions relating to accountability and sound and just financing.

351. Recommendation No. 67 attaches great importance to the proper coordination of the social security system: the administration should be unified or coordinated within a general system of social security services and contributors (both employees and employers) should, through their organizations, be represented on the bodies which determine or advise upon administrative policy and propose legislation or frame regulations. If there is a separate authority administering social insurance, it should be associated with the authorities administering social assistance, medical care services and employment services in a coordinating body for matters of common interest. Central and regional advisory councils, representing – in addition to trade unions and employers – such bodies as farmers’ associations, women’s associations and child protection societies should be established for the purpose of making recommendations for the amendment of the law and administrative methods, and generally of maintaining contact between the administration and protected persons.

352. The governance of social security schemes with the active involvement of social partners is one of the chief areas of social dialogue. The participation of protected persons in the management of social security schemes is incorporated in Convention No. 102, as well as in several other social security Conventions. Participation includes involvement in the boards of social security institutions, as well as in national socio-economic councils (see box 4.10). In some countries where formal national social dialogue institutions are underdeveloped, tripartite boards of social insurance institutions are one of the few formalized areas of exchange and collaboration between the social partners and the government.

**Box 4.10****The Netherlands: Pension reform through social dialogue**

The Netherlands has a strong tradition of social dialogue and this has been a major contributory factor in the establishment and governance of large occupational pension plans which cover most of the workforce. The effects of the global financial and economic crisis have led to a situation where many pension funds failed to meet regulatory requirements. In addition, the pension scheme is affected by higher life expectancy and, as a result, higher dependency ratios. In March 2009, the Cabinet requested recommendations from the Social and Economic Council (SER) by the following October regarding a change in the retirement age; the SER is an advisory and consultative body of employers' representatives, union representatives and independent experts. However, negotiations between the Dutch social partners failed because of issues of contention between them. The Confederation of Netherlands Industry and Employers (VNO-NCW) wished to move some of the pension investment risks on to the scheme members, while the Dutch Trade Union Federation (FNV) would not agree to higher retirement ages unless guarantees were built in for vulnerable workers or people with long careers, i.e. employees who had entered the labour market at a young age.

Meanwhile, the Dutch Government coalition parties reached an agreement on increasing the statutory retirement age: first, the pensionable age would be increased from age 65 to 66 in 2020, and then to 67 in 2025. Pension reform discussions between the social partners were yet again delayed when the Dutch Government fell in February 2010. After weeks of negotiations, the social partners acknowledged the need to come to a bilateral agreement in order to avoid unilateral government action. In June 2010, they reached agreement on new regulations governing the pensionable age in occupational pension schemes, notably on an increase from age 65 to age 66 in 2020. In order to account for rising life expectancy, workers wishing to retire at age 65 will face a reduction in pension benefits of 6.5 per cent. Further increases in pensionable age will be made conditional upon regular assessments every five years of the development of life expectancy, starting in 2015.

Sources: Based on M. Grunell: "Social partners agree on retirement age and pension schemes", in *EIR Online*, 2 Aug. 2010; Y. Ghellab: *Recovering from the crisis through social dialogue*, Dialogue in Brief No. 1, ILO Industrial and Employment Relations Department (Geneva, ILO, 2009).

353. In the conclusions of the 89th Session of the ILC (2001), the ILO constituents called for the development of national social security strategies which are closely coordinated with and linked to employment strategies and other social policies, and which are established on the basis of social dialogue.<sup>44</sup>

354. The experience of the past decade has shown that developing national social security strategies can be quite challenging, as it requires a high level of coordination required between different ministries (e.g. the ministries of labour, social affairs, social development, health, planning, finance as well as ministries responsible for gender issues), other government units, social insurance institutions, as well as employers' and workers' organizations and other stakeholders. Nonetheless, this is an extremely important process which needs to take into account the *complexities* of social protection policies and their linkages and interactions with other policy areas. The involvement of the social partners in these processes is critical to reaching balanced and sustainable solutions (see box 4.11).

<sup>44</sup> ILO: *Resolution and conclusions concerning social security*, International Labour Conference, 89th Session, Geneva, 2001, para. 16.

**Box 4.11**  
**National social dialogue process on social security**  
**in Uruguay, 2007–08**

In recent years, at least 18 countries in Latin America and the Caribbean have set up social dialogue processes to support the development of social protection policies. Starting in 2007, the Uruguayan “Diálogo Nacional sobre Seguridad Social (DNSS)” involved about 80 institutions, including government, employers, workers, beneficiaries, international organizations and academia. The nine months of debate were prepared by a commission and supported by five technical commissions. The ILO was invited to participate in the launching of this process in 2007, to accompany the debates and to support the preparations of dialogue reports. At the conclusion of its first phase in 2008, the dialogue process delivered ten basic agreements.

Several of the proposals provided grounds for reforms; the two most significant concern pension and unemployment benefit rules. The reform of the old-age pension scheme included a reduction in the minimum number of contribution years required to be eligible for a pension, measures to facilitate coverage for workers with histories of interrupted formal employment and a bonus for women, corresponding to one year of insurance per child raised, promoting gender equality. The reform of the unemployment benefit programme enhanced coordination with other social security programmes and with active labour market policies, an extension of the benefit duration for older unemployed workers, the introduction of a graduated benefit formula with benefit levels decreasing over time, and an automatic extension of the benefit by two months during times of economic recession.

Besides the reforms resulting from this social dialogue process, the “Plan de Equidad” (i.e. extension of child benefit coverage, improvements in labour market intermediation), the tax reform (which introduced an income tax and made the tax system more progressive) and the health reform (which extends compulsory affiliation to the health programme) have generated a strong increase in coverage and progress in the fight against poverty. A second phase has been announced by the new President for 2010–11.

355. Ensuring good governance mechanisms that deliver gender-sensitive benefits effectively and efficiently, adjusting them to changing needs when necessary, can only be done in conditions of well-informed social dialogue. The only practical way of balancing the challenges of high coverage, adequate benefits and sustainable financing is through dialogue and consensus. How to reach such a balance is an extremely important component in the debates on the reforms needed to adjust social security systems to demographic changes. The issue is rapidly gaining renewed importance in the current post-crisis era, during which large stimulus packages must be repaid from public revenues. There is a danger that, under pressure, social dialogue may be bypassed, which may have a negative impact on social peace and stability.

#### 4.4. A fourth conclusion

356. This chapter returned to the main challenges of social security policies and set out the choices and options for national policies. Given the glaring need for social security and its enormous potential to help close the poverty gap, increase equality, foster economic performance and the adaptation process on the labour market, and complement other social policies – perhaps its most optimistic conclusion is that something can be done nearly everywhere. Once objectives are clearly, realistically and pragmatically established, institutions and fiscal space can be created through investment in good governance. The prerequisites for long-term success are a clear and coherent vision of economic and social policy, sound governance based on the maintenance and nurturing

of national consensus through national dialogue, a willingness to monitor the performance of national social security systems constantly, and the flexibility to adapt to change. Up-to-date social security systems need to be kept in a state of constant change in order to remain relevant. One of the prerequisites for responsive governance is investment in the people who design, run and govern the system. That, also, is something that can be done everywhere.

## Chapter 5

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### Future policy orientation for the Organization

357. In the light of the preceding analysis, the ILO has begun to adopt various strategic approaches, which can broadly be categorized in two sets of strategies: those to create or extend the coverage of national social security systems; and others to maintain long-term sustainability. Both these sets of strategies are outlined in this chapter.

#### 5.1. Strategies to extend social security coverage

358. As indicated previously in the text, the ILO Tripartite Meeting of Experts on Strategies for the Extension of Social Security Coverage, held in September 2009, endorsed a two-dimensional strategy for the Global Campaign on Social Security and Coverage for All, with a “horizontal” and a “vertical” extension (see box 5.1).

**Box 5.1**  
**Conclusions of the Tripartite Meeting of Experts on Strategies for the  
Extension of Social Security Coverage (Geneva, September 2009)**

The Chairperson’s summary noted that among the participants of the tripartite meeting, there was a large measure of agreement concerning “the importance of social security and its role not only in individual welfare, but also with regard to broad economic growth and development. There was consensus on the universal right to, and need for, social security; and a reminder from all sides on the importance of social dialogue”.

It highlighted that the two-dimensional strategy for the extension of social security proposed by the ILO had found wide acceptance and it called for the ILO to intensify its efforts in promoting ratification and implementation of the main social security related Conventions in its work agenda for the forthcoming years.

The Chairperson’s summary stressed the need for horizontal coverage extension through the implementation and expansion of a set of basic public policies, aimed at delivering basic income security for the working-age population, basic health-care services for everyone, children-focused income benefits coordinated within a policy package with education/health/labour market and family policies, and basic pensions for the aged and disabled. Government speakers considered this a social investment, which would also contribute to sustainable economic development. This view was echoed by the Workers who, together with various Governments, made the case for the creation of an international labour standard on the SPF. While Employers stated that employment and employability were important elements for the development of social protection and their financing, they expressed a preference for a non-binding mechanism as they felt that a pragmatic approach based on best practices would be the most efficient mechanism to achieve the goal of extending coverage of social security.

359. Prior to this meeting, discussions had taken place at Regional Tripartite Meetings (for Latin America in December 2007; Asia–Pacific in May 2008; and the Arab States in May 2008), which provided the basis for the Meeting of Experts – representing a substantial investment in the part of the Office in a social security policy consultation process.<sup>1</sup> The commitment undertaken by 47 African Government, 26 Employer and 26 Worker delegates at the Second African Decent Work Symposium in Yaoundé in October 2010, entitled “Building a Social Protection Floor through the Global Jobs Pact”, confirmed the validity of the two-dimensional strategy in the context of nations with – so far – very limited social security coverage (see box 5.2).<sup>2</sup>

**Box 5.2**  
**“Yaoundé Tripartite Declaration on the Implementation  
of the Social Protection Floor”**

The Second African Decent Work Symposium in Yaoundé in October 2010, entitled “Building a Social Protection Floor through the Global Jobs Pact”, was attended by delegates from 47 African ILO member States, including 26 Employer and 26 Worker representatives. The Symposium adopted the “Yaoundé Tripartite Declaration on the Implementation of the Social Protection Floor” on 8 October 2010.

The delegations called upon governments and social partners in Africa “to undertake decisive steps to improve the level of social security for all in Africa through the adoption of a two-dimensional strategy for the extension of effective social security coverage” as follows:

- “The horizontal dimension should consist of the rapid implementation of national social protection floors, i.e. a minimum package of transfers, rights and entitlements that provides access to essential medical care and provides sufficient income to all in need of such protection”.
- “The vertical dimension should seek to provide higher levels of social security – at least in line with the coverage and benefit requirements of the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) – to as many people in our societies as possible and as soon as possible; based, as a prerequisite, on policies to gradually formalize the informal economies of Africa”.

The delegates also called for “reinforce[d] efforts for speedy actions towards the widest possible ratification of Convention No. 102”, and requested the ILO “to explore ... the option to introduce a new mechanism that guides countries in national implementation of the Social Protection Floor”. The ILO was invited to play a leading role in developing a strategic plan of action for joint follow-up with African Union, employers’ and workers’ organizations, and others.

Source: ILO: *Yaoundé Tripartite Declaration on the Implementation of the Social Protection Floor*, adopted at the Second African Decent Work Symposium, Yaoundé, 8 October 2010.

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<sup>1</sup> ILO Social Security Policy Briefing series: *Documento 4, Reunión Regional Tripartita sobre el futuro de la protección social en América Latina*, (2008); Paper 5, *Interregional Tripartite Meeting on the Future of Social Security in Arab States* (2008); Paper 6, *Asia–Pacific Regional High-Level Meeting on Socially-Inclusive Strategies to Extend Social Security Coverage* (2008).

<sup>2</sup> ILO: *Yaoundé Tripartite Declaration on the Implementation of the Social Protection Floor*, adopted at the Second African Decent Work Symposium, Yaoundé, 8 October 2010.

### 5.1.1. Principles for the extension of social security

360. The International Labour Conference, meeting at its 89th Session in 2001, had a general discussion on social security.<sup>3</sup> The ensuing *resolution and conclusions concerning social security* contained a detailed list of aspects – technical, social, and political – to be taken into consideration in formulating an approach to the development of policy and practice in social security, which is appropriate for the ILO.

361. The conclusions may be broadly divided into four sections:

- A list of basic principles, starting with the affirmation of the Declaration of Philadelphia of “the solemn obligation of the International Labour Organization to further among the nations of the world programmes which will achieve ... the extension of social security measures to provide a basic income to all in need of such protection and comprehensive medical care” (points 1–3 of the conclusions).
- A set of observations as to the principles and choices which should inform the development of national schemes of social security, starting from the precept that “there is no single right model of social security” (points 4–6 of the conclusions).
- A set of observations concerning the translation of these fundamental concepts into practical systems of social protection, within the decent work framework. The basic premise is that “for persons of working age, the best way to provide a secure income is through decent work”, leading to conclusion 16 that “within the framework of the basic principles ... each country should determine a national strategy for working towards social security for all ... closely linked to its employment strategy”. The issues covered were demographic (including ageing), financial (including the need for financial sustainability), as well as cross-cutting aspects, notably the need for gender-responsive policies, and the importance of the solidarity principle in social protection schemes (points 7–16 of the conclusions).
- An outline of the way forward, centred on the proposal for a major campaign to promote the extension of coverage of social security, together with some guidance as to how the ILO should achieve the synergies with its constituents, with the international community of relevant expertise, and with other international agencies.

362. A number of essential elements, or principles, may be extracted from the general discussion in 2001, the ILO’s mandate and Constitution, the abovementioned legal instruments and the Universal Declaration of Human Rights. They include: universal coverage; progressive realization of this coverage while providing immediate protection against discrimination; adequacy – comprising benefit equivalence; rights-based benefits; pluralism; financial sustainability; good governance; and outcome focus. These principles can guide national policy and strategic decisions.

#### *Universal coverage*

363. Universal coverage refers to the policy objective that all people should have access to at least an adequate minimum level of formal social security. It does not necessarily imply that the nature of the benefits, as well as the organization that reaches out to recipients, should be identical for all population subgroups. And realistically, but perhaps regrettably, it does not mean that such universal coverage can be achieved immediately. However, universal coverage in this context implies that countries should

<sup>3</sup> ILO: *Social security: Issues, challenges and prospects*, Report VI, International Labour Conference, 89th Session, Geneva, 2001.

focus first on the implementation of a “basic package” of benefits, i.e. transfers that belong to a “social protection floor”.

364. Inevitably, universal coverage may, in some cases, assume the character of a progressive development objective to be reached within a specific time frame. Not all countries are able to afford a complete range of social security benefits or have the logistical systems in place to reach the entire population immediately. Nonetheless, universal coverage should be stated as a clear objective that has to be achieved progressively.

#### *Progressive realization of universal coverage*

365. Development plans in all nations can outline ways in which universal access to an essential set of benefits may be achieved within a realistic time frame. This inevitably requires decisions on priorities and sequencing of benefit schemes, while ensuring immediate protection against discrimination. Attention may be initially focused on strengthening those aspects of social protection systems that provide benefits with the strongest potential for reducing poverty in the short and longer term and ensuring an increasing productive capacity of the population.

366. The metaphor of a national system of social security as a multi-storey building is useful, and clearly its development should not stop at the ground floor. A society may wish – depending on the stage of development which it has so far reached – to accord a high priority to the implementation of a social protection floor benefit package; as described below, this represents just the first step of an upward *staircase*, the objective being to provide higher levels of security to as many people as possible, as and when, the continuing development of the national economy permits.

367. The opportunity for national social security systems to grow should open up as increasing fiscal space is made available through economic growth. The critical need is that systems should be designed in a way which, while (financially) progressive, is at the same time both rational, i.e. able to address priority needs in a logical order, and built in a manner that allows the level of security to be increased as economic development progresses. Within an overall national resource envelope, at any given stage of development, the volume of contributions and taxes allocated to social security priorities must be determined on the basis of national consensus.

#### *Adequacy and benefit equivalence*

368. Adequacy has two dimensions. First, benefits have to enable all residents to meet their basic needs. This is the minimum level of adequacy applying to all residents, irrespective of whether or not they are taxpayers or contributors. Benefits have to be sufficient to allow all recipients to live a socially meaningful life. In other words, benefit levels have to be designed in such a way that the recipient’s income reaches the poverty line and the basket of health services meets the available national standards of essential services. There is obviously considerable space for national discretion with regard to the sufficient levels of minimum income or poverty lines, as well as the adequate set of health services. A uniform definition appears impossible and impractical. However, benefits may be considered inadequate, if they do not permit recipients to purchase or access a set of goods and services ensuring them to live a life without hunger and in a state of health that is not worse than the average earner in the society with a similar morbidity profile (and who has access to health services).

369. The second dimension of adequacy is described by the notion of benefit equivalence, i.e. the tenet that people need to be guaranteed an adequate return for their taxes or contributions. It is obvious that, after many years of contributing to a pension

system, the benefit levels should bear some resemblance to the contributory effort and not just reflect the basic needs levels. The key outcome that a cash benefit system has to achieve is income security, which can be guaranteed if a scheme generates a predictable level of income replacement. The ILO Conventions – in particular, Convention No. 102 – set adequacy levels that relate the minimum levels of replacement rates to the number of years of contributions.

### *Benefit provision as a legal entitlement*

370. Benefit provision as a legal entitlement has two dimensions: the fundamental human rights element; and the acquired rights of contributors to benefits that are equivalent or commensurate to their contributions. Entitlements to benefits should be specified in a precise manner so as to represent predictable rights of residents and/or contributors. Benefits should protect all residents, as a clearly defined right, against poverty.

371. If benefits are based on contributions or earmarked taxes, the law should specify the exact nature of the relationship between the contributions to be paid and the range and the level of the benefits to which a contributor is entitled. The minimum benefit levels should be in line with Convention No. 102, or more recent Conventions providing for higher levels of protection.

### *Pluralism*

372. Neither adequacy nor universalism implies a uniformity of means to achieve the objective. There are many ways in which a set of basic social security guarantees, along the lines suggested above, or higher levels of social security, might be implemented in a comprehensive national social security strategy.

373. Some countries will seek to extend social insurance and combine it with social assistance, while others will facilitate access to social insurance coverage (possibly community-based) for the poor through subsidies, and still others may put in place tax-financed universal schemes. A wide range of choices and combinations exist regarding the set of financing instruments, the design of benefit entitlements and accumulations, and administrative arrangements, including, for example, mechanisms to ensure compliance with contribution obligations and to minimize the incidence of moral hazard. Each approach has its advantages and its drawbacks, and each will be determined by past commitments and national values. The central objective, ultimately, is that all people enjoy the basic guarantees.

374. Worldwide experience and evidence show that there is no single “right” model for providing social security and health protection, or one single pathway towards achieving universal coverage.

### *Financial, fiscal and economic sustainability*

375. Social security systems should be financed in such a manner as to ensure – to the utmost extent possible – their long-term financial, fiscal and economic viability and sustainability. No comprehensive social security system can be maintained without a stable revenue basis. Just as there is no “single right system of social security”, so there is no single right level of social expenditure. The share of social expenditure of GDP per annum reflects two major factors: the demographic ratio, i.e. the average number of beneficiaries to the total population; and the financial ratio, i.e. the average amount or monetary value of the average benefit per annum and beneficiary and the amount of GDP per capita. The first factor depends to a large, but not exclusive, extent on the demographic, morbidity and employment structure of the country in question; but it can

also depend on behavioural and governance matters, such as the time when people are “allowed” or even encouraged to retire from the labour market. The second factor, the financial ratio, largely reflects normative values of a society with respect to the adequacy of benefit levels. Both factors implicitly reflect a number of policy choices by a society and are thus open to correction by these choices. Schemes do not become unsustainable on account of increases in the demographic or financial ratio but because either:

- explicit or implicit policy decisions with respect to the generosity of the systems are out of step with policy decisions that define the fiscal space for the system as a whole or some individual benefits schemes; or
- benefits schemes provide incentives that have a detrimental effect on overall productivity levels, hence reducing the overall volume of GDP to an extent that is not acceptable to society at large.

376. Financial, fiscal and economic sustainability simply has to ascertain that the promises made are matched by the willingness to pay – requiring absolute transparency about expected long-term expenditure levels and the likely fiscal space that will be needed to finance such benefits. This can be assured through long-term actuarial and social budgeting scenarios, which should also ensure that no resources are wasted through inefficient administration.

#### *Responsibility for governance*

377. The State should remain the ultimate guarantor of social security rights, while the financiers/contributors and beneficiaries should participate in the governance of schemes and programmes. This means that the ultimate responsibility for the social security of all people living on its territory has to lie with the State. However, whenever employers and workers contribute directly to the financing of a social security scheme, they should play a direct role in its supervision and governance and ensure that benefits are delivered in line with the provision of the law. In tax-financed schemes, employers, workers and other civil society groups should participate in an advisory capacity. In view of the increasing complexity of the management and governance of social security schemes, members of the supervisory and governance mechanisms should be properly trained for their responsibilities. This increasingly presupposes a minimum of financial literacy and the design of a set of robust performance indicators against which the performance of a scheme can be measured.

#### *Outcome focus*

378. It is the outcomes of national social security strategies that matter, not the ways and means through which countries set out to achieve those outcomes, which – as observed in the paragraphs above – can and should be as diverse as the circumstances of countries themselves. By its nature, social security is a subject of some technical complexity, and it has long been a feature of work on the subject that theorists and practitioners have sought deeper understanding both of those technicalities and of the supposed “trade-offs” between, for example, maximizing beneficiaries’ welfare and maximizing economic efficiency.

379. The central tenet of a pragmatic policy approach is that the focus and emphasis should be shifted towards the outcomes of social protection policies, not the means and methods to achieve such outcomes, i.e. the actual payment and sufficiency of benefits paid to those having a right to or need of such benefits, and correspondingly away from the detailed mechanisms of scheme design.

380. In carrying out technical advisory and capacity-building services in relation to social security, the approach followed – naturally within the mandate of the ILO as laid down in the Constitution and reflected in the Conventions and Recommendations – is intended, thus, to be essentially pragmatic, focusing on the quest for optimal social outcomes rather than engaging too deeply in academic debates as to the processes and methods for achieving these outcomes. Outcomes will be measured against the above-listed principles that essentially reflect the values enshrined in the body of legal instruments, from which the ILO derives its legitimacy. In assessing national systems, the ILO must basically ascertain whether the social outcomes as defined by the above principles are met.

#### 5.1.2. The horizontal and vertical dimensions of extending social security: The “social security staircase” policy paradigm

381. In the light of the basic principles underlying the ILO’s approach, a conceptual strategy for the Campaign to extend social security coverage can be seen to be two-dimensional in nature. One dimension comprises the extension of some income security and access to health care, even if at a modest basic level, to the whole population. This dimension may be called the “horizontal” extension. The second dimension would seek to provide higher levels of income security and access to higher quality health care at a level that protects the standard of living of people even when faced with fundamental life contingencies such as unemployment, ill health, invalidity, loss of breadwinner and old age. This dimension may be called the “vertical” aspect of extension. Both dimensions should be pursued in parallel, and adapted to national circumstances.

382. The horizontal dimension seeks to extend a basic level of core benefits to as many population groups as fast as possible, while the vertical dimension seeks to increase the scope of the coverage – the range and level of benefits – to a level that is described in Convention No. 102, and preferably to a higher level as defined in other up-to-date ILO Conventions.

##### *The horizontal dimension*

383. No matter what the multiplicity and severity of sources of insecurity are and the ability to tackle them, social security should ensure that two fundamental needs are met for all, namely: basic income and access to health care. At the same time, emphasis on the importance of social security should not obscure the fact that there are numerous other interventions available to reduce insecurity, nor should it undermine the need to strengthen the relationship between social security provision and other aspects of public action.

384. It is not necessary to argue for the importance for every household and individual in the world of having (at least) a basic income. Ultimately, obtaining an income is self-evidently one of the key life focuses and motivations in contemporary society everywhere. The Income Security Recommendation, 1944 (No. 67), provides a further description of the aim of income security schemes. For instance: “income security schemes should relieve, want and prevent destitution by restoring, up to a reasonable level, income which is lost by reason of inability to work (including old age) or to obtain remunerative work or by reason of the death of a male breadwinner” (paragraph 1).

385. What constitutes a “reasonable level” is an open question. It applies equally to the definition of basic income security, as well as to what constitutes essential health care. It relates to needs, for example, in relation to health services, and also to political choices and discussions of affordability at the national level. Despite the patent need for income security and access to health care and the establishment of the universal right to social

security, exclusion from coverage remains very high worldwide, notably in the developing world, as discussed in detail elsewhere in this document.

386. In April 2009, the UN-CEB pointed to a new strategic approach to the need for a horizontal extension through the promotion of a set of basic social security guarantees within the framework of a wider social protection floor (see section 5.1.3 below).<sup>4</sup>

#### *The vertical dimension*

387. The SPF concept represents a crucial strategic approach to the “horizontal” extension of coverage amongst vulnerable and excluded populations, notably those working in the informal economy. Countries with a limited fiscal capacity cannot, in the short term, offer the integrated protection of social security at the benefit levels and the range of contingencies that are defined in ILO social security standards.

388. As countries gain fiscal space, it is to be expected that steps will be taken, within the framework of the Conventions,<sup>5</sup> to put in place correspondingly higher levels of provision. The objective will be to build a level higher, and with wider perspectives, than simply the ground floor level.

389. It is obvious that population groups with income levels higher than the “poverty line” will seek, and have a right, to create social security measures for themselves that provide significantly higher levels of income replacement in case of loss of income than those that may be deemed adequate as mere poverty protection. The mechanisms to achieve such levels of income replacement, or access to quality health care, are fairly well developed, ranging from social insurance, through community-based protection systems and tax-financed DB schemes, to mandatory private insurance. ILO Conventions stipulate minimum benefit levels and thus help to promote effective income replacement in countries where they are ratified. In other countries they provide a unique set of internationally accepted minimum benchmarks for benefit levels against which to assess the design of national social security systems that help to formulate long-term national aspirations in the form of national social security development plans. The ILO can support governments and social partners in the establishment of realistic national social security development scenarios by providing a set of best practice benchmarks.

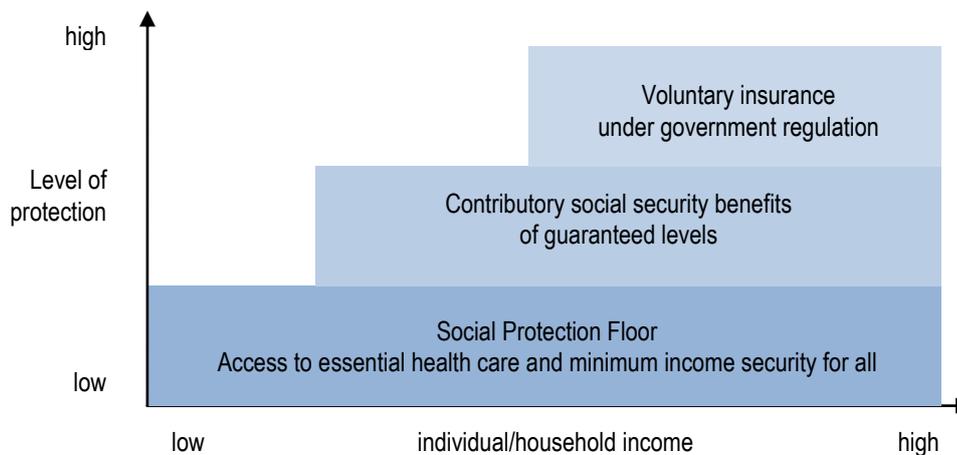
#### *The social security staircase*

390. The metaphor that thus emerges for the extension of social security coverage is the image of a social security staircase (see figure 5.2).

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<sup>4</sup> UN-CEB: *Global financial crisis – UN system joint initiatives* (New York, 2009).

<sup>5</sup> Convention No. 102 and the subsequent Conventions setting out stronger levels of protection in relation to the various contingencies.

**Figure 5.2. The social security staircase**

391. The floor level comprises a set of basic guarantees for all. For people with tax-paying or contributory capacity, a second level of benefits as a right (defined and protected regarding the minimum levels by law) can be introduced and, finally, for those with need or wish for high levels of protection, a “top floor” of voluntary private insurance arrangements can be organized (but should be subject to regulation and public supervision in the same way as all private insurance schemes). This metaphor is appropriate to all countries, albeit that the number of people whose only protection consists of basic social guarantees is naturally larger in countries at lower income levels or with limited fiscal space.

### 5.1.3. The horizontal dimension: Building a social protection floor

392. Noting the current high levels of exclusion, the International Labour Conference, meeting at its 89th Session in 2001, stated in its conclusions concerning social security that: “Of highest priority are policies and initiatives which can bring social security to those who are not covered by existing systems”. Accordingly, the Global Campaign on Social Security and Coverage for All was launched at the 91st Session of the Conference in 2003 with the aim of supporting this extension of coverage.

393. In order to translate into practice the aim of providing income security to all, including financial protection against catastrophic health expenditure, together with access to health-care services, while recognizing that many middle- and low-income countries face strong financial constraints, the ILO recommends that they first aim to put in place a basic and modest set of social security guarantees.

#### *Four basic social guarantees*

394. With regard to income security, the suggested social security guarantees consist of providing income security to those who cannot or should not work: in particular, protection should be afforded to children (combined with other policies facilitating their access to health, nutrition and education), to pregnant women, to older people and to people with disabilities. Income support should be combined with employment guarantees and/or other labour market policies for those able and willing to work, but who are excluded from access to employment that would provide sufficient income.

395. Organizing income security guarantees for these particular population groups with specific needs goes far towards achieving the overall objective of extending social

security to all. Providing specific child maintenance support to households is motivated by the need to secure the well-being of dependent children. Elderly and disabled people, who are generally unable to earn sufficient or any income by working, depend directly on income support for a dignified life and, for that reason, need specific attention. For the working-age population, income security should prevent destitution stemming from insufficient income-earning opportunities or unemployment. It should go hand-in-hand with policies fostering equitable access to – and equitable opportunities and treatment in – remunerative employment for women and men in the broader context of the Decent Work Agenda.<sup>6</sup> Such a categorization, moreover, facilitates the possibility of sequential implementation of the basic set of guarantees according to the priorities and capacities of individual countries.

396. In summary, the basic set of guarantees promoted by the ILO aim at a situation in which:

- all residents have the necessary financial protection to afford and have access to a nationally defined set of essential health-care services, in relation to which the State accepts the general responsibility for ensuring the adequacy of the (usually) pluralistic financing and delivery systems;
- all children have income security, at least at the level of the nationally defined poverty line level, through family/child benefits aimed at facilitating access to nutrition, education and care;
- all those in active age groups who are unable to earn sufficient income on the labour markets should enjoy a minimum income security through social assistance or social transfer schemes (such as a minimum income guarantee for women during the last weeks of pregnancy and the first weeks after delivery) or through employment guarantee schemes; and
- all residents in old age and with disabilities<sup>7</sup> have income security at least at the level of the nationally defined poverty line through pensions for old age and disability.

#### *Flexibility and the concept of guarantees*

397. The level of benefits and range of population covered (for example, eligibility based on age for social pensions) for each guarantee should be defined having regard to national conditions (potential fiscal space, demographic structure and trends, income distribution, poverty rates and gap, etc.), political imperatives, the characteristics of groups to be covered and expected outcomes. In no circumstances, however, should the level of benefits fall below a minimum that ensures access to a basic basket of food and other essential goods and services. While the content of the health-care benefit packages has to be defined at the country level, it is important that certain minima are provided in order to achieve the overall objective of social health protection. Benefit packages need to be designed with a view not only to generic priorities but also to equity and affordability, and paying regard to the needs, demands and perceptions of individuals.<sup>8</sup>

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<sup>6</sup> Thus, income security for this group is meant to have an enabling function, which opens up opportunities for developing forms of autonomy bolstering people's capacity to face risks and address their needs.

<sup>7</sup> This means a degree of disability that excludes them from labour market participation.

<sup>8</sup> This involves: (a) covering health-care needs in terms of structure and volume of burden of disease; (b) responding to demands in terms of quality and expectations; (c) defining benefits in terms of primary, secondary (and tertiary if available) care and preventive care; and (d) ensuring the legal right to health, sick leave and maternal leave.

While keeping the principle of universality in mind, this definition should focus, in an integrated way, on the most vulnerable; there may be a need for targeted interventions. Modelling tools can help assess costs and budget implications of different scenarios of benefits. Decision-making at the national level may benefit from evidence from other countries on the outcome of similar initiatives, together with micro-simulation techniques.

398. In this context it should be noted that the above set of four basic social security guarantees explicitly rejects a “one-size-fits-all” approach, allowing considerable national flexibility as regards the actual form that social security benefits fulfilling these guarantees might take. Benefits may be organized as universal benefits (as in the case of universal tax-financed pension or a universal national health service), or as social insurance schemes with complete coverage (which may mean subsidized insurance coverage for some population groups); they may be conditional or unconditional, or organized as social assistance schemes that guarantee access to income security and health care only for those who have no other form of risk coverage. What is important is that everyone who is in need of income transfers or health services can access these transfers in cash or in kind and does not have to meet conditions that effectively exclude him or her from coverage. The term “guarantee” also implies that income transfers and essential health services, whether universal or targeted, require benefits to be an effective legal entitlement. Such guarantees should be an inherent part of the explicit or implicit social contract that all decent society should have.

399. The guarantees approach also creates the flexibility that makes the concept of a social protection floor compatible with all possible national social security systems. The difficulty of combining the concept – an issue often raised – with the existing national social security organizational architecture becomes a non-issue. The four basic guarantees “package” actually sets a minimum performance standard with respect to the access, scope and level of income security and health in national social security systems. Such quality standards can and should be met by all national social security systems.

400. The rationale for introducing a basic set of social security guarantees is grounded in rights, but the level and scope of benefits in any given country will have to reflect the prevailing capacity to finance the benefits. A national forward-looking social security strategy and diagnosis of priority needs can help to sequence the implementation of various social programmes and policy instruments that address individual guarantees. Examples in many middle- and low-income countries show that some elements of the floor are affordable everywhere; others may have to wait until the fiscal space can be extended through policy and governance decisions, or widens as a corollary to economic growth.

401. Even if not all social security guarantees can be implemented at once, there is still a need to adopt the package of four guarantees as a policy objective, although it might have to be introduced gradually. In this way, countries do not lose sight of the overall objective of achieving comprehensive protection for all residents; and they are able to assess and be constantly aware of the opportunity cost in terms of other guarantees that are put on hold when taking a decision on priorities. Formulating a package of guarantees as a floor should thus lead to rational cost/benefit-based policy decisions.

402. As countries achieve higher fiscal capacity, their social security systems can also advance alongside, extending the scope, level and quality of benefits and services provided.

#### 5.1.4. The vertical dimension: The next steps towards a social security best protection guide

403. As outlined above, social protection cannot stop “at the ground floor”. As economies grow and become more resilient, people’s income security and their access to health care should increase in parallel. As described in the previous chapters, social security systems in the industrialized countries expanded their coverage and scope during most of the twentieth century. In the present crisis – a major stress test – they have proved their importance as a guarantor of social coherence. The ILO supports countries at all stages of development of their social security systems, so that they might build a long-term vision in line with the aspirations set forth in the up-to-date higher-level social security standards.

404. The ILO could, in one of the coming biennia, undertake an in-depth analysis of well-performing social security schemes and systems with respect to:

- (1) their scope and levels of protection, including their ability to respond to emerging new challenges such as long-term care provision in “old societies”, or the need to provide adequate forms of protection to those in irregular forms of employment; and their capacity to deal with adjustments in the labour market and the productive employment of older workers, people with disabilities and people with family obligations;
- (2) their means to ensure the effectiveness and efficiency of the benefit delivery and revenue collection mechanisms;
- (3) their ability to ensure vigorous and rigorous national dialogues processes on the future of social security that create the necessary policy space through a robust and well-informed national consensus on desired and affordable levels of social security; and
- (4) their deployment of mechanisms to ensure long-term sustainability and sufficient fiscal space.

405. These national experiences could be collected in a *social security best protection guide*, which might serve as a benchmark for alternative options for social security development plans or long-term visions in countries. Once such a best protection guide has been established, the ILO could enter into a process of reviewing the up-to-date social security Conventions, with their higher levels of social security, i.e. the Employment Injury Benefits Convention, 1964 [Schedule I amended in 1980] (No. 121), the Invalidity, Old-Age and Survivors’ Benefits Convention, 1967 (No. 128), the Medical Care and Sickness Benefits Convention, 1969 (No. 130) and the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168) – to ensure that they are still relevant for the social security aspirations of societies that are exposed to the benefits and risks of rapid globalization.

## 5.2. Strategies to ensure sustainability

406. The sustainability of social security systems is only at risk if they are no longer carried by a broad-based societal consensus. Societal consensus is at risk if schemes are perceived to be out of touch or contradicting a wider social and economic policy agenda; socially inadequate; fiscally or economically unsustainable; or badly, i.e. wastefully, managed.

### 5.2.1. Ensuring coherence with national social and economic development policies and other objectives of the Decent Work Agenda

407. Social security and wider social protection policies cannot be designed and pursued in isolation. They can only be successful and sustainable in the long run if they are part and parcel of a national social and economic development strategy that is both comprehensive and coherent. Development strategies are most explicitly defined for developing and emerging countries – but social and economic development does not stop when OECD levels of GDP are achieved. All countries and all societies are constantly evolving and require comprehensive social and economic policy strategies.

408. The ILO’s development model is defined by the strategic objectives of the Decent Work Agenda. The ILO Declaration on Social Justice for a Fair Globalization has declared these objectives “inseparable, interrelated and mutually supportive”. The ILO’s development paradigm was clearly stated in the conclusions of the recurrent discussion on employment during the 99th Session of the Conference in 2010.<sup>9</sup>

409. The previous chapters and the ILO study, *Extending social security to all* (2010), contain ample evidence that such a development paradigm is being pursued in a number of developing and emerging economies that have introduced a social protection floor, or at least some elements of it, and has been pursued by developed economies throughout their economic maturation process.

410. High levels of formality are, in turn, a necessary condition for societies to function with a minimum of social security, social justice and a decent standard of living. Without high levels of formality, no government can collect the taxes that decent societies require.

411. One of the most tangible effects of the implementation of national versions of such a decent work development paradigm is that many countries will develop specific policy instruments to accelerate the process towards achieving the development target set by the relevant MDGs (Goals 1–5).

412. Concrete social security policy measures to support that policy paradigm – and hence the MDGs in the national context – include:

- (1) investing in policies that facilitate basic education, such as conditional or unconditional child and family benefits, that help to ascertain future employability in the formal labour market;
- (2) investing in policies that improve the health and nutritional status of populations, including the present and future work force, such as social health protection and benefits in cash or in kind that ensure an adequate minimum nutritional intake;
- (3) investing in benefits that directly encourage labour market participation, such as employment guarantee schemes;

<sup>9</sup> “The inseparable, interrelated and mutually supportive nature of the four strategic objectives in the Global Jobs Pact is increasingly looked to not only as an effective crisis response and recovery strategy, but as the framework of a new social and economic development paradigm, characterized by employment-centred and income-led growth with equity: (i) the full economic and social growth potential of a society cannot be realized if people are not benefiting from a social protection floor; (ii) by the same token, social security schemes cannot be financed without a sound economic and employment base; (iii) freely chosen employment cannot be realized without respect for the fundamental principles and rights at work; (iv) a fair sharing of the benefits of productivity gains and growth and of adjustment burdens in times of economic crises cannot be assured without social dialogue; and (v) productivity gains and employment growth cannot be achieved without an enabling environment for sustainable enterprise”. ILO: *Conclusions concerning the recurrent discussion on employment*, International Labour Conference, 99th Session, 2010, para. 42.

- (4) investing in benefits that facilitate training, retraining and lifelong learning, such as training allowances for jobseekers; facilitating labour market adjustments and structural change as triggered, inter alia, by changing demographic contexts, the changing nature of employment, and changing production patterns – resulting from the global interconnectedness of markets, production chains, and environmental and climate change;
- (5) while ensuring adequate levels of employment, wages, incomes and labour conditions, shaping social security benefits in such a way that the contributory capacity of the population is maintained and the unnecessary dependency of social security benefits is avoided; excess dependency is largely created through premature or avoidable withdrawal from the labour market, and thus it may be necessary to strengthen incentives and the labour market conditions that allow people to keep or find reasonably decent employment or retire later, etc.;
- (6) investing in benefits that encourage labour market participation and the lifelong learning of women through policies facilitating care responsibilities for mothers and fathers, such as child-care benefits and services, as well as social pensions to grandparents in middle- and low-income countries, which allow them to reduce their own labour market participation and take care of grandchildren while the parents are gainfully employed;
- (7) investing in benefits, such as partial invalidity and partial unemployment benefits, which allow people with a reduced earnings capacity – due to sickness (including people living with HIV/AIDS), disability, caring obligations, etc. – to sustain their economic activity to the fullest extent;
- (8) investing in benefits that enhance the consumption of locally produced goods and services through, for example, basic pensions for rural populations in middle- and low-income countries;
- (9) designing simple and easy-to-understand benefit provisions, and meaningful benefit levels that are tailored to people’s priority needs and provide incentives to stay or join the formal economy;
- (10) promoting social dialogue that helps balance economic effects and the social objectives of national social security systems, thereby maintaining a social consensus for economic and social progress – for instance, by encouraging the participation of employers’ and workers’ organizations in the definition of the scope, levels and conditions of benefits that are financed by them through contributions or taxation; and
- (11) investing in benefits that can act as direct social and economic stabilizers in times of crises.

413. The instruments for ensuring coherent ILO support for the development paradigm are already in place. On the national level, where the ILO has to provide policy and technical advice, social security policies can never be stand-alone policies. They have to be perceived as elements and tools in national social and economic development policies and have an obvious impact on national fiscal policies. Hence, in the ILO technical cooperation and advisory context, social security activities are embedded in Decent Work Country Programmes and “One-UN” efforts to achieve the MDGs.

414. Social security policies promoted by the Office have an obvious complementary and supportive role in achieving better working conditions, the protection of migrant workers and the protection of people living with HIV/AIDS and their families. One of

the main policy challenges is facilitating labour market adjustments in view of the changing demographic environment, the changing nature of employment and evolving production patterns – resulting from the global interconnectedness of markets and production chains, as well as from environmental and climate change.

415. The key instrument to develop coherent social and economic policies at the national level, reflecting all the strategic dimensions of the Decent Work Agenda, is intensified social dialogue on the role, nature and design of national social security systems within broader economic and social policies. In this regard, the first step is to build the social security expertise of the social partners.

### 5.2.2. Ensuring social adequacy

416. In an ageing world with changing social structures and social needs, and in a world that has to cope with a number of complex and often interacting financial and fiscal, economic, political and environmental crises, national social security systems will have to face an increasing demand for their services. At the same time, these same crises usually limit the perceived fiscal space for social security benefits. In addition, competitive pressures in the global economy can exercise pressures on overall social expenditure. Means have to be found to avoid a downward spiral of social expenditure and defend the necessary fiscal space, in order to ensure that social security systems can continue to perform their role as economic and social stabilizers.

417. One way to create or maintain the policy space for social security expenditure in as many countries as possible is through renewed and enhanced efforts to extend the levels of ratifications and the application of ILO social security Conventions, notably the ratification of Convention No. 102. Recent ratifications by Brazil, Bulgaria, Romania and Uruguay show that such efforts can be successful. The Conference discussions on the General Survey concerning social security instruments (Recommendations Nos 67 and 69, as well as Conventions Nos 102 and 168), which will take place at the 100th Session of the International Labour Conference in June 2011, will provide substantial insights into the potential effectiveness of that approach (see also Chapter 6). The General Survey is the subject of a separate report to the Conference by the Committee of Experts on the Application of Conventions and Recommendations (CEACR), and will be discussed in parallel to this report by the Committee on the Application of Standards.

418. Ensuring social adequacy in a national context could imply, for example, that pension levels are not allowed to fall beyond a certain minimum benchmark. That may be defined by the national poverty line in the case of tax-financed universal benefits, but also by relative benefit benchmarks. ILO social security Conventions are the only globally agreed legal instruments defining such benchmarks. For example, to protect those with incomplete or broken labour market careers, Convention No. 102 defines a minimum pension replacement rate of 40 per cent of “the total previous earnings” after 30 years of service.

419. The ILO can therefore take a pragmatic policy position aimed at safeguarding social outcomes. No normative position on the exact architecture of national pension systems is necessary as long as they attain these outcomes, regardless of whether they are achieved by public or partially privatized systems.

420. This approach also shows that anchoring ILO social security policy advice on existing social security standards remains clearly relevant, even if the instruments in question are decades old. Intensified efforts to increase the level of ratification, which are now being undertaken, are fully justified.

### 5.2.3. Ensuring financial, economic and fiscal sustainability

421. As outlined earlier in the text, ensuring fiscal and economic sustainability involves not only controlling expenditure levels but also keeping the available fiscal space in line with promises made.

#### *Cost-control mechanisms*

422. The number of cost-control policies are limited and in principle well known. Some of them lie within the realm of social security policies proper, while others reside in other policy spheres. This underlines the interrelationship between social security policies and a wide range of other social and economic policies. Such measures include:

- well-managed international migration;
- investments in measures to increase productivity by supporting production technologies that make it possible to employ older workers and workers with health impairments;
- raising the labour force participation rates of women and older workers;
- making it easier for women and men to reconcile work and family responsibilities; and
- investing in improvements in working and living conditions.

423. There are also a number of cost-control mechanisms that lie within the social security system itself. Reducing dependency is key to longer-term cost control. This may be brought about by a number of measures, such as:

- investing in peoples' health with a view to cutting health expenditure by promoting healthier lifestyles;
- combining an income replacement function with incentives that promote labour market participation in unemployment benefit schemes; and
- introducing socially acceptable rules pertaining to the age at which people are allowed to withdraw from the labour market; there could be a rule stipulating the ratio between the average period of time per cohort (and possibly occupational group) spent in retirement, and the period of activity in the labour market. Earlier retirement could only be possible by "buying" additional years of retirement through the reduction of pension levels, or the payment of real actuarial cost to the pension funds by employers who wish to use early retirement regulations to reduce their workforce.

#### *Creating the necessary fiscal space*

424. Creating and maintaining fiscal space for an adequate level of benefits – socially agreed upon – is equally as challenging as cost containment. Higher-income countries generally spend a higher proportion of all available resources on social security than low-income countries. Nonetheless, social security should not be seen as a luxury, and can also be afforded by lower-income countries, or those with relatively limited available resources. While countries generally spend more as their social security systems mature, they also enjoy a substantial freedom to determine levels of social spending and fiscal space – as described in Chapter 2.

425. While the global financial and economic social crisis has, on the whole, reinforced support for social protection, the imminent fiscal consolidation in many countries may curb the scope of manoeuvre for the extension of social security, as governments may be tempted to reduce social expenditure. However, there are solid grounds to believe that a

growing number of countries are coming to acknowledge – in the wake of recent developments – the importance of investing in social protection even during times of austerity, and are committed to creating and extending fiscal space.

426. Maximizing fiscal space may, however unpopular, require substantial attention to the effectiveness of a country's tax and contribution collection mechanism. Without sound machinery for revenue collection no revenue can be redistributed. The challenge of increasing fiscal space has a different face for each country. A checklist of components for a national strategy was identified by the Tripartite Meeting of Experts on Strategies for the Extension of Social Security in September 2009<sup>10</sup> and may include:

- (1) tax reforms to increase fiscal resources including, in particular, enhancing the effectiveness and efficiency of tax collection;
- (2) gradual increases in social spending as a proportion of GDP and as a proportion of total spending;
- (3) redistribution between social policy areas to refocus expenditure on most urgent needs; and
- (4) refocusing spending within social sectors and policy areas to make certain spending more effective in combating poverty and vulnerability.

#### 5.2.4. Strategies to ensure good governance

427. In order to ensure the sustainability of social security schemes, there must be effective and efficient governance and management of social security schemes. As a matter of general principle, the various stakeholders in a social security system should all participate together in its governance (being represented amongst the trustees or board members). A clear determination of the role and central responsibility of the state and social partners, as well as the safeguarding of the power of the state to effectively exercise its responsibility, remain essential – as the economic and financial crisis has shown again.

428. Intensified social dialogue on the role, nature and design of social security systems within broader economic and social policies is key to developing coherent national social and economic policies that reflect all the strategic dimensions of the Decent Work Agenda. The first step is to build the social security expertise in workers' and employers' organizations, as a fundamental investment in good governance. A major programme on the capacity building of members of the boards and advisory groups of national social security systems is under way, based mostly in the International Training Centre in Turin. Universally adaptable and tested sets of performance indicators that would allow social security board members to quickly assess the financial and benefit delivery performance of social security schemes are also being developed.

429. Another part of good governance is good management. Good management requires well-trained managers. Many schemes have made substantial investments in training their staff. The ILO has assisted with creating university-based Masters programmes and ITC-based training programmes and is still expanding that activity. But obviously efforts by the ILO and the International Social Security Association (ISSA) to train managers can only help to set pivotal standards for good training programmes and cannot reach the large number of trained personnel required by the hundreds of social security institutions around the world. The onus is clearly on national schemes and hence national stakeholders, i.e. governments, employers and workers.

<sup>10</sup> See ILO: *Extending social security to all*, op. cit., p. 30.

430. The ILO has developed a number of instruments for good management, notably financial management that permits the assessment of the financial sustainability of social security schemes against the background of future demographic and economic developments. These tools include, for example, standardized social protection expenditure and performance reviews (SPERs), the technique of social budgeting and detailed actuarial analysis of pension, health care and unemployment benefit schemes.

## 5.5. A fifth conclusion

431. Today, social security, in addition to its primary social role, is seen as an investment in social and economic development, helping societies to be resilient in times of economic crisis. It is widely understood that without a social protection floor, no society can exploit its full productive potential and hence achieve desired levels of welfare for all its members. And unless there are higher levels of social security, there will be no universal acceptance of globalization which brings no potential benefits and accompanied by faster economic change and increasing insecurity. People need a minimum level of security to accept the risks of change. Pragmatic policies are required to open the fiscal space for a social protection floor, subsequently making higher levels of security more affordable, while maintaining the overall level of redistribution in synergy with social and economic development.

432. The ILO, its member States and the Office have contributed to a change in perception and have developed strategies that hold the promise of a successful and consensual implementation and long-term maintenance of national social security systems; and the Office is contributing to good national policy design and implementation through the dissemination of knowledge, the development of policy paradigms and tools for good planning and governance.

## Chapter 6

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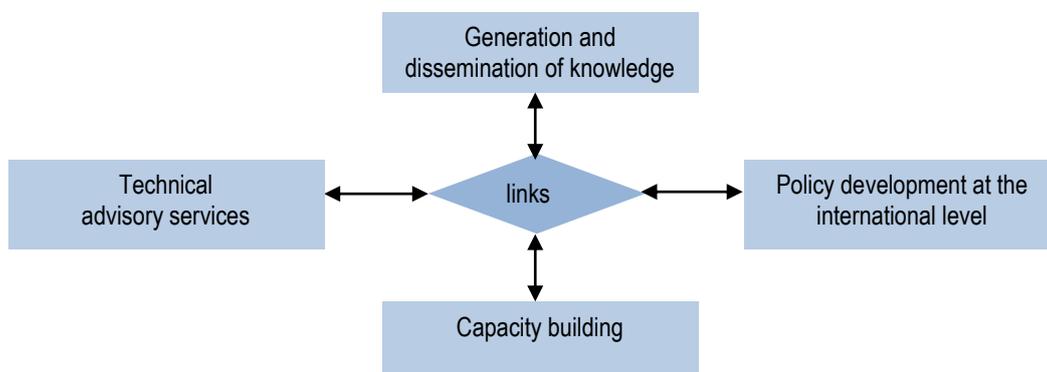
### Guidance for further ILO work on social security

433. This final chapter identifies issues where – based on the analysis of the worldwide policy debate and emerging ILO policy responses – guidance is needed from the Conference. Given resource constraints, there is a need to select a number of priorities, to streamline activities and to improve linkages with other operational and strategic objectives. Activities should focus on helping constituents meet the four major categorical challenges of national social security systems. In the coming decades, the Office should therefore direct its activities towards:

- (1) supporting national policy development by:
  - (a) developing a new generic guiding mechanism for the extension of population coverage to all, as a contribution to the horizontal dimension of the strategy to extend social security;
  - (b) developing a new strategy to ensure the adequacy of benefits and the effectiveness of the role of social security as social and economic stabilizers through the use of existing ILO standards;
- (2) supporting improvement in the governance of social security by:
  - (a) ensuring sustainability through sound economic, financial, actuarial and fiscal advisory services; and
  - (b) generating and disseminating knowledge and capacity building, including strengthening the social partners' capacity to be active in the governance of social security systems.

434. There are obvious links between these major groups of activity. The central focus of all activities should be support for national policy development through ILO guidance. Such support should employ all other means of action, knowledge generation and dissemination, technical advisory services, capacity building, partnerships and coalition and policy development to support its constituents.

Figure 6.1. ILO means of action and their linkages



### 6.1. Providing policy guidance through the promotion of existing standards and the establishment of guiding frameworks

#### Relevance of international social security standards at international and regional level

435. While providing for the right to social security, the international human rights instruments and their supervisory mechanisms have remained mostly silent on the definition and specific content of this right. In the absence of such definition and given the ILO’s mandate, it has been left to the ILO to establish the parameters and substantive provisions of the right to social security. In this respect, ILO social security standards, and more particularly Convention No. 102, have constituted the main reference for the interpretation and definition of this right, while providing guidance for its implementation in a very detailed way. As mentioned previously, they have always been regarded as playing a key role by providing substantive content to the right to social security; moreover, on several occasions over the last ten years the Committee on Economic, Social and Cultural Rights (CESCR) has recommended to countries to ratify Convention No. 102 as a means of fulfilling their obligations under the International Covenant on Economic, Social and Cultural Rights (ICESCR).

436. Moreover, international experience shows that the ILO social security Conventions, and particularly Convention No. 102, are a means of preventing the levelling-down of social security systems worldwide, as they constitute benchmarks to assess whether their requirements have been met and contribute to the creation of a level playing-field for social conditions across the world.

#### Need for complementary instrument(s)

437. ILO standard-setting competence underpins the authority, legitimacy and basic policy orientation of ILO technical advice and cooperation. Its legitimacy rests on global tripartite consensus. However, the process of developing new standards in social security has remained somewhat dormant for some 20 years or so. In 2007, the ILO analysed the “standards” base for the emerging policy paradigm of the Global Campaign on Social

Security and Coverage for All. The main findings of the ILO technical paper <sup>1</sup> may be summarized as follows.

438. Convention No. 102, the ILO's flagship Convention on social security, embodies an internationally accepted definition of the principles of social security and has been recognized as a symbol of social progress. It plays a key role in defining the right to social security under international human rights instruments and to date has been ratified by 47 countries (31 in Europe, nine in Latin America, including the very recent ratifications by Brazil and Uruguay, five in Africa and one in Asia (Japan)). This and other up-to-date social security Conventions have had (and continue to have) a positive impact on the development of social security schemes in most countries worldwide and serve as models for regional instruments and national laws. Thus, it remains a valid instrument for the "vertical dimension" of the extension of coverage. In order to stress the importance of benefit adequacy, the ILO could intensify the campaign for the ratification of Convention No. 102.

439. However, the up-to-date social security Conventions, including Convention No. 102, have their limitations when it comes to ensuring a defined minimum benefit package. Notably, they neither define priority benefits nor require universal coverage. Consideration should therefore be given to elaborating a mechanism for "horizontal coverage extension" to provide further guidance to countries on how to establish a social protection floor comprising basic guarantees, in line with the ILO's constitutional mandate.

440. The ILO technical study mentioned above <sup>2</sup> identified a range of options that could provide enhanced legitimacy to the campaign strategy, ranging from a new promotional strategy for existing standards to additional mechanisms more effectively promoting the universal human right to minimum social security guarantees. In September 2009, the Tripartite Meeting of Experts on Strategies for the Extension of Social Security Coverage took the issue one step further, outlining the standard components of a two-dimensional strategy for the extension of social security coverage. Among participants in the meeting there was virtually unanimous support for the concept of a rights-based, two-dimensional strategy to extend social security in countries where coverage is deficient. <sup>3</sup>

441. There was widespread consensus on using the promotion of ratification and application of ILO up-to-date Conventions as a catalyst for the vertical extension of social security. The Conference might set targets for additional ratification of the up-to-date Conventions. As a contribution by the ILO to meeting the MDGs, a target of 70 ratifications of Convention No. 102 could be set, for achievement by 2015. However, it would be more meaningful to define the target in terms of the share of the global population benefiting from the protection of Convention No. 102. At present, 18.1 per cent of the world's population lives in countries which have ratified Convention No. 102, with a large regional variation (see table A-I.1 in Annex 1). One ambitious target would be to raise this indicator to about one third by 2015.

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<sup>1</sup> ILO: *Setting social security standards in a global society: An analysis of present state and practice and of future options for global social security standard setting in the International Labour Organization*, Social Security Policy Briefings Paper 2 (Geneva, 2008).

<sup>2</sup> *ibid.*

<sup>3</sup> ILO: *Report of the Director-General, Second Supplementary Report: Tripartite Meeting of Experts on Strategies for the Extension of Social Security Coverage* (Geneva, 2–4 September 2009), Governing Body, 306<sup>th</sup> Session, Geneva, Nov. 2009, appendix, Chairperson's Summary, Points 7–14.

442. There was also consensus at the Expert Meeting that the ILO needs to complement its present set of up-to-date Recommendations and Conventions through a mechanism promoting the SPF, as a means to achieve horizontal extension of coverage and to guide countries in building and developing their social security systems so that providing basic social security to all in need becomes a priority.

443. However, no unanimity was found among the different groups regarding the form that mechanism should take. The views held by the group of participating governments covered a fairly wide spectrum. Some countries stressed the value of a possible new ILO standard to guide work on the social security component of the SPF. Members of the Workers' group also held that view, but not those of the Employers' group, who expressed their preference for a non-binding mechanism providing guidance by codifying best practice.

444. This report cannot make explicit recommendations as to the form of the instrument or mechanism. These will emerge from the deliberations of the Conference Committee and the recommendations for follow-up.

445. Nonetheless, some basic principles for inclusion in an instrument may be suggested here, as follows:

- (1) **Universality:** Universal coverage of all residents by a defined set of essential social security guarantees should be achieved as quickly as possible.
- (2) **Gradual target-oriented implementation:** The set of basic guarantees can be gradually implemented, in line with an overall development plan seeking ultimately to implement all essential guarantees over a defined period, while ensuring immediate protection against discrimination.
- (3) **Consensual and rational priority setting:** In the case of gradual implementation, the priorities should be identified through national social dialogue and rational procedures seeking to close a country's aggregate poverty gap as fast as possible.
- (4) **Financial and fiscal sustainability:** The scope of the basic set of guarantees embodying the national SPF should be commensurate with the current and likely future fiscal space available to finance the social transfers required; the size of the fiscal space available should be determined by societal consensus.
- (5) **Adequacy of guarantee levels:** The levels of guarantee should be defined so as to ascertain that people of all ages would be able to purchase all essential goods and services enabling them to live decently; this means that their income should be lifted above a poverty level to be defined through a transparent national process.
- (6) **Core components:** The set of essential guarantees should aim to achieve a situation in which:
  - all residents have sufficient financial protection to afford and have access to a nationally defined set of essential health-care services, in relation to which the State accepts general responsibility for ensuring the adequacy of the (usually) pluralistic financing and delivery systems;
  - all children have income security, at least at the level of the nationally defined poverty line, through family/child benefits aimed at facilitating access to nutrition, education and care;
  - all persons of active working age who cannot earn sufficient income through employment should have access to minimum income security through social assistance or social transfer schemes (such as income transfer schemes for

women during the last weeks of pregnancy and the first weeks after delivery) or through employment guarantee schemes; and

- all residents in old age or with disabilities<sup>4</sup> should have income security at least at the level of the nationally defined poverty line, through old-age pensions or disability pensions.
- (7) **Focus on outcomes:** The term “guarantee” implies no preference either for universal or means-tested benefits as long as the objective, i.e. a minimum level of income security for all residents, is achieved.
  - (8) **Pragmatic pluralism:** No preference should be implied as to the organizational or institutional set-up that actually delivers the various guarantees provided it ensures that all residents are reached by one of the subsystems.
  - (9) **Coherence:** The guarantees should not be an isolated element of national social security systems, they should be so designed as to provide a first tier that complements existing social security benefits and to ensure that the national social security system is coherent and efficient.
  - (10) **A rights-based approach:** The guarantees should be defined by law and every eligible man, woman or child should have the right to claim his/her respective benefits and, if necessary, to appeal against an administration’s decision in court.
  - (11) **Promoting higher-level ILO standards:** The guiding framework for the basic guarantees could also encourage their countries’ compliance with up-to-date ILO social security Conventions as their economies mature and fiscal space expands.

446. The target date for finalization of an instrument should be no later than 2015 to enable it to play a prominent role in time for the global discussion on the follow-up to the MDGs. The ILO could monitor progress towards universal coverage by the full set of minimum guarantees of the SPF through a simple but robust set of indicators in the context of its Social Security Inquiry.

447. In its report to the Conference Committee on the Application of Standards,<sup>5</sup> the Committee of Experts recommends a wider set of guidance or standard-setting items which, in effect, would also be a way of codifying the above principles in the international mechanism. The suggestions of the Committee of Experts would establish a workplan for at least ten years. The recommendations of the Committee of Experts are summarized in box 6.1. Their suggestions could be preceded by a systematic analysis of high-performing social security systems through a best protection guide, as suggested in Chapter 5.

<sup>4</sup> This means a degree of disability that excludes them from labour market participation.

<sup>5</sup> See ILO: *Social security and the rule of law: General Survey concerning social security instruments in light of the 2008 Declaration on Social Justice for a Fair Globalization*, Report III(1B), International Labour Conference, 100th Session, Geneva, 2011.

**Box 6.1**  
**General Survey 2011 (Social security and the rule of law)**

In order to align the General Survey of the Committee of Experts on the Application of Conventions and Recommendations (CEACR) with the report for the Recurrent Discussion, the Governing Body decided that the General Survey would cover the Social Security (Minimum Standards) Convention, 1952 (No. 102), and the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168), as well as the Income Security Recommendation, 1944 (No. 67), and the Medical Care Recommendation, 1944 (No. 69).

Surveying the legacy of the social security standards under review, the Committee of Experts observes in the General Survey that there is now a clear need for the adoption of new complementary approaches to help guide the future policy choices of ILO constituents. It also found that the ILO's mandate and mission on social security (as reaffirmed and updated by the Declaration on Social Justice for a Fair Globalization of 2008) now exceed the existing standards under which they are to be implemented. According to the Committee, the current ILO Conventions are still relevant and indeed important, but they should be supplemented by new initiatives to reinvigorate the right to social security of "everyone, as a member of society".

The Committee explicitly endorses the two-dimensional extension strategy and seeks to underpin both dimensions with a set of new instruments.

Regarding the horizontal dimension of the strategy, the Committee concludes that the instrument envisaged for the SPF should seek to close the coverage gap and to ensure coverage for everyone in line with the human rights-based approach and with the principle of non-discrimination. As far as the Committee is concerned, the task of globalizing social security clearly requires the ILO to complement the existing body of standards with a new, high-impact instrument that is sensitive to the distinctive structural realities obtaining in less developed economies, but is designed to be accepted by virtually all ILO member States.

Regarding the vertical dimension of the strategy, the Committee also suggests:

- (i) the outdated non-gender sensitive language of Convention No. 102 be adapted to present social realities, though such an adaptation should not lead to any reduction of benefit levels guaranteed by Convention No. 102. The Committee also proposes how this could be done without a formal revision of Convention No. 102;
- (ii) that "guidelines on sound governance and the protection of social security funds, based on the principle of prudent finance, tripartite oversight and best actuarial practice" be elaborated in the light of experience of the present financial and economic crisis;
- (iii) that Convention No. 102 be complemented by a new instrument guiding the extension of equivalent benefits to the increasing number of workers in irregular forms of employment who so far have not been adequately protected; and
- (iv) that the provisions of Convention No. 168 be made more flexible, so that more countries would be in a position to ratify it.

## 6.2. Providing support for good governance of national social security systems

448. In order to ensure implementation of the Organization's policies, the Office should strengthen its other means of action.

## Knowledge generation and dissemination

449. Generating and sharing knowledge are the factual and methodological bases of all technical and policy advice. Over recent years the Office has made considerable efforts to create a web-based platform of knowledge generation and dissemination (Global Extension of Social Security – GESS). A major upgrading of this facility is required in order to create a truly global, interactive depository of experience in social security planning, administration and governance, and of general underlying social policy research and statistics. However, cost-effective knowledge generation cannot be undertaken without the active contribution of ILO constituents. Regular reporting on national experience and progress is beneficial to all other ILO constituents. A discussion is therefore proposed of whether a standard collaborative agreement (SCA or Memorandum of Understanding) could be concluded between the Office and national constituents, whereby countries would make regular contributions to the ILO knowledge platforms. A best protection guide (suggested earlier) would also be an important way of sharing global experience and knowledge sharing.

## Capacity building

450. Capacity building is an efficient form of investment indispensable to good governance. Successful capacity-building programmes hasten countries' independence from external technical advisory services. The ILO's collaboration with a number of universities seeking to introduce social security planning and management into academic curricula should be extended. However, such investment in the sustainable promotion of ILO values might be more efficient if the collaboration encompassed all areas of decent work and if it occurred in the context of a global network of academic institutions that teach decent work principles as part of national economic and social development strategies. Building on the ILO's Decent Work and Social Protection Chair's project, the International Training Centre of the ILO, Turin (ITC), might take the lead. Together with the ITC the Office should also further develop programmes catering for its constituents' specific needs, notably service by their representatives on the supervisory boards of national social security schemes.

## Technical advisory services

451. Technical advisory services need to combine three elements in order to build up a solid base of global knowledge: the availability of highly specialized professional skills; the proximity and familiarity of the social, demographic, economic and political environment in which ILO constituents operate; and the extension of delivery capacities through collaboration with national and international agencies. This calls for a clearer division of labour between headquarters and the ILO's field structure.

452. Headquarters need to develop and make available specialized skills that complement those offered by the regions: namely, the supervision of global knowledge generation; development of technical tools; and delivery of highly specialized assistance, such as legal services, as well as financial, actuarial and social budgeting services.

453. The regions need to be able to provide diagnoses of national planning, design and management problems, to offer technical advice and to organize major interventions drawing, *inter alia*, on specialized support from headquarters.

454. However, capacity constraints will remain. Recent experience shows that the effective demand for the ILO's advisory services substantially exceeds its capacity to deliver. Important opportunities to support national stakeholders have been missed owing to capacity constraints. New ways of extending cost-effective capacity must be

sought. The first option is close collaboration within the United Nations family: the initiative of the UN-CEB on the SPF and the GTZ–ILO–WHO Consortium on Social Health Protection have shown that such arrangements have considerable potential. Contributing to the United Nations planning framework (notably to United Nations Development Assistance Frameworks – UNDAFs) should become the norm for ILO country activities. Close collaboration with the World Bank and the IMF is necessary.

455. The key challenge will remain access to well-qualified technical experts. An innovative way of extending the circle of ILO technical experts and of ensuring state-of-the-art technical inputs is to have much greater recourse to the technical expertise to be found in countries that already have well-developed national social security systems. To this end, collaborating countries might conclude agreements with the ILO to second experts from national institutions to ILO projects, who would remain on the payroll of governments and social security institutions. Capacities could be thus extended, project costs reduced and the quality of advice improved. The ILO could collaborate with the ISSA to build up a network of collaborating governments and institutions.

### 6.3. Suggested points for discussion by the Conference Committee

456. In the light of the analysis of the state of social security around the world, its role in the Decent Work Agenda, the nature of the present policy debate and the remaining challenges provided here, the following may be considered as starting-points for the discussion of the Conference Committee:

- (a) What is the role of social security in promoting economic growth and social development? How can social security, interacting coherently with other policies, contribute to increasing participation in formal, decent and productive employment, ensuring income security, and accelerating the achievement of the MDGs? What role are social security measures playing in the economic crisis recovery in the context of the Global Jobs Pact?
- (b) Which policies contribute best to the extension of adequate social security coverage at all levels of development? How can governments, workers and employers collaborate to put these policies into effect? How can the ILO's two-dimensional strategy for the extension of social security best support their efforts? How could the gender dimension be strengthened in policies to extend the social security coverage?
- (c) Which policies can ensure affordability, adequate financing arrangements (such as pay-as-you-go funded schemes, pre-funded individual savings accounts or different combinations of both) and sustainable fiscal space for inclusive and effective social security systems in a context of demographic, economic and social change?
- (d) How can governments, workers and employers contribute to enhancing the design, governance and administration of social security systems? How can institutional frameworks be improved to support these efforts?
- (d) What is the role of ILO standards in further promoting the extension of social security coverage for all? What further measures should be taken to enhance the ratification and application of Convention No. 102 and other up-to-date ILO social security standards? What further instruments or other mechanisms (Conventions, Recommendations, guidelines, codes of practice, etc.) could be developed to guide

the implementation of the SPF in the context of the two-dimensional strategy for the extension of social security for all?

In discussing these questions, the Conference Committee may provide guidance on how the Organization and the Office can respond more effectively and efficiently when addressing constituents' needs in each of these areas.

## Appendix I

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### Appendix tables and guidance on newly available social security statistics

#### Box AI-1

#### Accessing the statistical evidence reflected in the *World Social Security Report 2010/11*

The *World Social Security Report 2010/11* contains rich statistical evidence on social security expenditure, financing, coverage and adequacy. The full electronic version of the text, as well as all figures and tables (Excel format) are accessible online on the website of the *World Social Security Report 2010/11*:

Main website:

<http://www.socialsecurityextension.org/gimi/gess/ShowTheme.do?tid=1985>

Full text (PDF): <http://www.ilo.org/gimi/gess/RessFileDownload.do?ressourceId=15263>

Graphs and figures:

<http://www.socialsecurityextension.org/gimi/gess/ShowWiki.do?wid=76>

Annex tables (Excel):

<http://www.socialsecurityextension.org/gimi/gess/ShowWiki.do?wid=95>

Main statistical sources:

<http://www.socialsecurityextension.org/gimi/gess/ShowTheme.do?tid=10#globaldb>

One of the main sources of the *World Social Security Report 2010/11* is the ILO Social Security Inquiry database, which is now also available online. For a large number of participating countries, this database contains statistical information on social security expenditure, financing, coverage and adequacy both on the national level and on the scheme level. The database also contains a number of core indicators, such as social expenditure ratios or coverage ratios for each branch and by sex (where available).

ILO Social Security Inquiry database: [http://www.ilo.org/dyn/ilossi/ssimain.home?p\\_lang=en](http://www.ilo.org/dyn/ilossi/ssimain.home?p_lang=en)

Table A-1.1. Ratification of Convention No. 102

Country	Ratification year	II	III	IV	V	VI	VII	VIII	IX	X
		Medical care	Sickness benefit	Unemployment benefit	Old-age benefit	Employment injury benefit	Family benefit	Maternity benefit	Invalidity benefit	Survivors benefit
Albania	2006	x	x	x	x	x		x	x	x
Austria	1969	x		x	x		x	x		
Barbados	1972		x		x	x			x	x
Belgium	1959	x	x	x	x	x	x	x	x	x
Bolivia, Plurinational State of	1977	x	x		x	x	x	x	x	x
Bosnia and Herzegovina	1993*	x	x	x	x	x		x		x
Brazil	2009	x	x	x	x	x	x	x	x	x
Bulgaria	2008	x	x		x	x	x	x		x
Congo, Democratic Republic of the	1987				x		x		x	x
Costa Rica	1972	x			x	x	x	x	x	x
Croatia	1991	x	x	x	x	x		x		x
Cyprus	1991		x	x	x	x			x	x
Czech Republic	1993	x	x		x		x	x	x	x
Denmark	1955	x		x	x	x			x	
Ecuador	1974		x		x	x			x	x
France	1974	x		x	x	x	x	x	x	
Germany	1958	x	x	x	x	x	x	x	x	x
Greece	1955	x	x	x	x	x		x	x	x
Iceland	1961				x		x		x	
Ireland	1968		x	x						x
Israel	1955				x	x				x
Italy	1956				x		x	x		

Country	Ratification year	II	III	IV	V	VI	VII	VIII	IX	X
		Medical care	Sickness benefit	Unemployment benefit	Old-age benefit	Employment injury benefit	Family benefit	Maternity benefit	Invalidity benefit	Survivors benefit
Japan	1976		x	x	x	x				
Libyan Arab Jamahiriya	1975	x	x	x	x	x	x	x	x	x
Luxembourg	1964	x	x	x	x	x	x	x	x	x
Macedonia, The former Yugoslav Republic of	1991	x	x	x	x	x		x		x
Mauritania	1968				x	x	x		x	x
Mexico	1961	x	x		x	x		x	x	x
Montenegro	2006	x	x	x	x	x		x		x
Netherlands	1962	x	x	x	x	x	x	x	x	x
Niger	1966				x	x	x	x		
Norway	1954	x	x	x	x	x	x			
Peru	1961	x	x		x			x	x	
Poland	2003	x			x		x	x		x
Portugal	1994	x	x	x	x	x	x	x	x	x
Romania	2009	x	x		x		x	x		
Senegal	1962					x	x	x		
Serbia	2000	x	x	x	x	x		x		x
Slovakia	1993	x	x		x		x	x	x	x
Slovenia	1992	x	x	x	x	x		x		x
Spain	1988	x	x	x		x				
Sweden	1953	x	x	x		x	x	x		
Switzerland	1977				x	x	x		x	x
Turkey	1975	x	x		x	x		x	x	x
United Kingdom	1954	x	x	x	x		x			x

Country	Ratification year	II	III	IV	V	VI	VII	VIII	IX	X
		Medical care	Sickness benefit	Unemployment benefit	Old-age benefit	Employment injury benefit	Family benefit	Maternity benefit	Invalidity benefit	Survivors benefit
Uruguay	2010	x		x			x	x		
Venezuela, Bolivarian Republic of	1982	x	x		x	x		x	x	x
<b>Total number of ratifications</b>	<b>47</b>									

\* Voluntary declaration to Art. 3, para. 1 of Convention No. 102 (temporary exceptions of the conditions of the scope).

Source: ILOLEX.

**Table A-I.2. Ratification of ILO social security Conventions** <sup>157</sup>

Branches	Medical care	Sickness	Unemployment	Old age	Employment injury	Family	Maternity	Invalidity	Survivors
	- C.102	- C.102	- C.102	- C.102	- C.102				
	- C.130	- C.130	- C.168	- C.128	- C.121		- C.183	- C.128	- C.128
<b>Countries</b>									
<b>Africa</b>									
Dem. Rep. of the Congo				C.102 (1987)		C.102 (1987)		C.102 (1987)	C.102 (1987)
					C.121 (1967)				
Guinea					C.121 (1967)				
Libyan Arab Jamahiriya	C.102 (1975) C.130 (1975)	C.102 (1975) C.130 (1975)	C.102 (1975)	C.102 (1975) C.128 (1975)	C.102 (1975) C.121 (1975)	C.102 (1975)	C.102 (1975)	C.102 (1975) C.128 (1975)	C.102 (1975)
Mali							C.183 (2008)		
Mauritania				C.102 (1968)	C.102 (1968)	C.102 (1968)		C.102 (1968)	C.102 (1968)
Niger				C.102 (1966)	C.102 (1966)	C.102 (1966)	C.102 (1966)		
					C.102 (1962) C.121 (1966)	C.102 (1962)	C.102 (1962)		
Senegal									
<b>Americas</b>									
Barbados		C.102 (1972)		C.102 (1972) C.128 (1972)	C.102 (1972)			C.102 (1972) C.128 (1972)	C.102 (1972)
Belize							C.183 (2005)		
Bolivia, Plurinational State of	C.102 (1977) C.130 (1977)	C.102 (1977) C.130 (1977)		C.102 (1977) C.128 (1977)	C.102 (1977) C.121 (1977)	C.102 (1977)	C.102 (1977) C.183 (1977)	C.102 (1977) C.128 (1977)	C.102 (1977)
Brazil	C.102 (2009)	C.102 (2009)	C.102 (2009) C.168 (1993)	C.102 (2009)	C.102 (2009)	C.102 (2009)	C.102 (2009)	C.102 (2009)	C.102 (2009)
Chile					C.121 (1999)				
Costa Rica	C.102 (1972) C.130 (1972)	C.130(1972)		C.102 (1972)	C.102 (1972)	C.102 (1972)	C.102 (1972)	C.102 (1972)	C.102 (1972)

<sup>157</sup> This table does not reflect the Equality of Treatment (Social Security) Convention, 1962 (No. 118) and the Maintenance of Social Security Rights Convention, 1982 (No. 157). It should also be noted that additional countries have ratified ILO social security Conventions which are no longer considered up to date.

<b>Branches</b>	<b>Medical care</b>	<b>Sickness</b>	<b>Unemployment</b>	<b>Old age</b>	<b>Employment injury</b>	<b>Family</b>	<b>Maternity</b>	<b>Invalidity</b>	<b>Survivors</b>
	- C.102	- C.102	- C.102	- C.102	- C.102				
	- C.130	- C.130	- C.168	- C.128	- C.121		- C.183	- C.128	- C.128
<b>Countries</b>									
Cuba							C.183 (2004)		
Ecuador	C.130 (1978)	C.102 (1974) C.130 (1978)		C.102 (1974) C.128 (1978)	C.102 (1974) C.121 (1978)			C.102 (1974) C.128 (1978)	C.102 (1974) C.128 (1978)
Mexico	C.102 (1961)	C.102 (1961)		C.102 (1961)	C.102 (1961)		C.102 (1961)	C.102 (1961)	C.102 (1961)
Peru	C.102 (1961)	C.102 (1961)		C.102 (1961)			C.102 (1961)	C.102 (1961)	
Uruguay	C.102 (2010) C.130 (1973)	C.102 (2010) C.130 (1973)		C.102 (2010) C.128 (1973)	C.102 (2010) C.121 (1973)		C.102 (2010)	C.102 (2010) C.128 (1973)	C.102 (2010) C.128 (1973)
Bolivarian Rep. of Venezuela	C.102 (1982) C.130 (1982)	C.102 (1982) C.130 (1982)		C.102 (1982) C.128 (1983)	C.102 (1982) C.121 (1982)		C.102 (1982)	C.102 (1982) C.128 (1983)	C.102 (1982) C.128 (1983)
<b>Arab States</b>									
<b>Asia</b>									
Japan		C.102 (1976)	C.102 (1976)	C.102 (1976)	C.102 (1976) C.121 (1974)				
<b>Europe</b>									
Albania	C.102 (2006)	C.102 (2006)	C.102 (2006) C.168 (2006)	C.102 (2006)	C.102 (2006)		C.102 (2006) C.183 (2004)	C.102 (2006)	C.102 (2006)
Austria	C.102 (1969)		C.102 (1978)	C.102 (1969) C.128 (1969)		C.102 (1969)	C.102 (1969) C.183 (2004)		
Belarus							C.183 (2004)		
Belgium	C.102 (1959)	C.102 (1959)	C.102 (1959)	C.102 (1959)	C.102 (1959) C.121 (1970)	C.102 (1959)	C.102 (1959)	C.102 (1959)	C.102 (1959)
Bulgaria	C.102 (2008)	C.102 (2008)		C.102 (2008)	C.102 (2008)	C.102 (2008)	C.102 (2008) C.183 (2001)		C.102 (2008)
Bosnia and Herzegovina	C.102 (1993)	C.102 (1993)	C.102 (1993)	C.102 (1993)	C.102 (1993) C.121 (1993)		C.102 (1993)		C.102 (1993)
Croatia	C.102 (1991)	C.102 (1991)	C.102 (1991)	C.102 (1991)	C.102 (1991) C.121 (1991)		C.102 (1991)		C.102 (1991)

Branches	Medical care	Sickness	Unemployment	Old age	Employment injury	Family	Maternity	Invalidity	Survivors
	- C.102 - C.130	- C.102 - C.130	- C.102 - C.168	- C.102 - C.128	- C.102 - C.121	- C.102	- C.102 - C.183	- C.102 - C.128	- C.102 - C.128
Countries									
Cyprus		C.102 (1991)	C.102 (1991)	C.102 (1991)	C.102 (1991) C.121 (1966)		C.183 (2005)	C.102 (1991)	C.102 (1991) C.128 (1969)
Czech Republic	C.102 (1993) C.130 (1993)	C.102 (1993) C.130 (1993)		C.102 (1993) C.128 (1993)		C.102 (1993)	C.102 (1993)	C.102 (1993)	C.102 (1993)
Denmark	C.102 (1955) C.130 (1978)	C.130 (1978)	C.102 (1955)	C.102 (1955)	C.102 (1960)			C.102 (1955)	
France	C.102 (1974)		C.102 (1974)	C.102 (1974)	C.102 (1974)	C.102 (1976)	C.102 (1974)	C.102 (1974)	
Finland	C.130 (1974)	C.130 (1974)	C.168 (1990)	C.128 (1976)	C.121 (1968)			C.128 (1976)	C.128 (1976)
Germany	C.102 (1958) C.130 (1974)	C.102 (1958) C.130 (1974)	C.102 (1958)	C.102 (1958) C.128 (1971)	C.102 (1958) C.121 (1962)	C.102 (1958)	C.102 (1958)	C.102 (1958) C.128 (1971)	C.102 (1958) C.128 (1971)
Greece	C.102 (1955)	C.102 (1955)	C.102 (1955)	C.102 (1955)	C.102 (1955)		C.102 (1955)	C.102 (1955)	C.102 (1955)
Hungary							C.183 (2003)		
Iceland				C.102 (1961)		C.102 (1961)		C.102 (1961)	
Ireland		C.102 (1968)	C.102 (1968)		C.121 (1969)				C.102 (1968)
Israel				C.102 (1955)	C.102 (1955)				C.102 (1955)
Italy				C.102 (1956)		C.102 (1956)	C.102 (1956) C.183 (2001)		
Latvia							C.183 (2009)		
Luxembourg	C.102 (1964) C.130 (1980)	C.102 (1964) C.130 (1980)	C.102 (1964)	C.102 (1964)	C.102 (1964) C.121 (1972)	C.102 (1964)	C.102 (1964) C.183 (2008)	C.102 (1964)	C.102 (1964)
FYR Macedonia	C.102 (1991)	C.102 (1991)	C.102 (1991)	C.102 (1991)	C.102 (1991) C.121 (1991)		C.102 (1991)		C.102 (1991)
Rep. of Moldova							C.183 (2006)		
Montenegro	C.102 (2006)	C.102 (2006)	C.102 (2006)	C.102 (2006)	C.102 (2006) C.121 (2006)		C.102 (2006)		C.102 (2006)
Netherlands	C.102 (1962) C.130 (2006)	C.102 (1962) C.130 (2006)	C.102 (1962)	C.102 (1962) C.128 (1969)	C.102 (1962) C.121 (1966)	C.102 (1962)	C.102 (1962) C.183 (2009)	C.102 (1964) C.128 (1969)	C.102 (1962) C.128 (1969)

Branches	Medical care	Sickness	Unemployment	Old age	Employment injury	Family	Maternity	Invalidity	Survivors
	- C.102 - C.130	- C.102 - C.130	- C.102 - C.168	- C.102 - C.128	- C.102 - C.121	- C.102	- C.102 - C.183	- C.102 - C.128	- C.102 - C.128
Countries									
Norway	C.102 (1966) C.130 (1972)	C.102 (1966) C.130 (1972)	C.102 (1954) C.168 (1990)	C.102 (1966) C.128 (1968)	C.102 (1966)	C.102 (1966)		C.128 (1968)	C.128 (1968)
Poland	C.102 (2003)			C.102 (2003)		C.102 (2003)	C.102 (2003)		C.102 (2003)
Portugal	C.102 (1994)	C.102 (1994)	C.102 (1994)	C.102 (1994)	C.102 (1994)				
Romania	C.102 (2009)	C.102 (2009)	C.168 (1992)	C.102 (2009)		C.102 (2009)	C.102 (2009) C.183 (2002)		
Serbia	C.102 (2000)	C.102 (2000)	C.102 (2000)	C.102 (2000)	C.121 (2000)		C.102 (2000)		C.102 (2000)
Slovakia	C.102 (1993) C.130 (1993)	C.102 (1993) C.130 (1993)		C.102 (1993) C.128 (1993)		C.102 (1993)	C.102 (1993) C.183 (2000)	C.102 (1993)	C.102 (1993)
Slovenia	C.102 (1992)	C.102 (1992)	C.102 (1992)	C.102 (1992)	C.102 (1992) C.121 (1992)		C.102 (1992)		C.102 (1992)
Spain	C.102 (1988)	C.102 (1988)	C.102 (1988)		C.102 (1988)				
Sweden	C.102 (1962) C.130 (1970)	C.102 (1962) C.130 (1970)	C.102 (1953) C.168 (1990)	C.128 (1968)	C.102 (1953) C.121 (1969)	C.102 (1953)	C.102 (1962)	C.128 (1968)	C.128 (1968)
Switzerland			C.168 (1990)	C.102 (1977) C.128 (1977)	C.102 (1977)	C.102 (1977)		C.102 (1977) C.128 (1977)	C.102 (1977) C.128 (1977)
Turkey	C.102 (1975)	C.102 (1975)		C.102 (1975)	C.102 (1975)		C.102 (1975)	C.102 (1975)	C.102 (1975)
United Kingdom	C.102 (1954)	C.102 (1954)	C.102 (1954)	C.102 (1954)		C.102 (1954)			C.102 (1954)

## Appendix II

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### The ILO response to the need for social security

1. This appendix analyses the ILO's responses to the global need for social security from the early years of the ongoing Global Campaign on Social Security and Coverage for All onwards. The general discussion on social security at the 89th Session of the ILC in 2001 and the ensuing conclusion and recommendations adopted by the ILC set the priorities for action by the ILO in response to constituents' needs. As the Global Campaign has become the major catalyst for the Organization's activities in social security, this report focuses on the effectiveness and efficiency of the Campaign's interacting, four-tiered strategy of activities, namely:

- the generation, management and sharing of knowledge;
- policy development;
- technical advice; and
- capacity building.

2. This strategy was developed in response to the needs expressed by ILO constituents and within the dynamic of the new development policy debate, where social security has a stronger role than earlier.

#### A-II.1. The first tier: Generation, management and dissemination of knowledge

3. The generation of knowledge and the ability to share it are prerequisites for all policy development, technical advice and capacity building. This dimension of the strategy encompasses the collection and analysis of statistical information, the dissemination and exchange of national and international experiences through research and Internet-based knowledge sharing, as well as the development of new technical tools supporting the formulation of national policies.

#### The Social Security Inquiry (SSI)

4. In order to monitor progress on the objective of extending social security coverage, the ILO and its constituents must be able to measure existing coverage, as well as the gaps in population and benefit coverage, by collecting statistical information. As social security provision always requires substantial national resources, it is equally important to have information on social security expenditure and on the sources and patterns of its financing. Outside the countries of the European Union and the OECD, there is neither an internationally accepted statistical standard measuring coverage and resource utilization nor a database of internationally comparable data. The new ILO Social Security Inquiry (SSI) sets out to develop such an internationally accepted statistical standard and to help countries compile comprehensive statistical data on social security, so as to provide reliable benchmarks for national and international policy-making. At present, the SSI is the only database combining expenditure, financing and coverage data on a global basis. Since 2004 the SSI and its associated online

database have been refined and expanded, notably through the development of partnerships with other international organizations (OECD, Asian Development Bank (ADB)) and the International Social Security Association (ISSA). In collaboration with the Statistical Department of the Office, alternative tools of data collection on coverage are being developed, notably through the use of household survey data. The database currently contains data on over 80 countries including OECD countries for expenditure data. The ILO social security database is universally accessible through the Internet and provides a tool to collect, store and disseminate statistics and core indicators on social security and on decent work. The SSI database is the source of the new ILO flagship publication, a biennial series on social security, providing a basis for policy guidance to constituents. The first volume in this *World Social Security Report* series<sup>1</sup> was launched in November 2010.

### Knowledge and learning platforms

5. The Social Security Department is developing an Internet-based knowledge management platform on the extension of social security (Global Extension of Social Security (GESS)). This is a key instrument in the Global Campaign, as it links the Department with its clients and constituents in a new, interactive way. It shares information on the work on social security being carried out by the Office and by other organizations; brings problem-solving international networks together; and improves the technical advisory services' responsiveness to ILO constituents through online technical support and distance learning. A first version of the platform was launched at the ISSA's World Social Security Forum in Moscow, in September 2007. The platform also includes Global Information on Microinsurance (GIMI), a component focused on microinsurance, which is already well established in the community of microinsurance experts around the world. So far, 1,350 users from 132 countries have registered with the GESS and GIMI platforms. The platforms already provide a library of over 700 resources, a glossary with 520 social security terms, 40 thematic and country pages, a database of 50 CVs of experts, and a database of more than 100 thematic questions and related answers.

6. Another linked platform, developed by the STEP Portugal project, is an interactive web-based learning tool and knowledge management system (CIARIS) which has contributed to training over 1,900 people from 30 countries on the extension of social protection and social inclusion. It has also contributed to the creation of knowledge in several fields, including social assistance, the role of social security in preventing child labour and the integration of social protection into local economic development strategies. So far, CIARIS has helped over 400 people define and implement strategies for the extension of social security.

7. The Office contributes to enriching platforms seeking to enable information and knowledge sharing among groups of countries belonging to a same geographic area or linguistic community, for example, the Information Centre on Social Protection (CIPS) which targets the Portuguese-speaking countries. Under the leadership of the Executive Secretariat of the Community of Portuguese Language Countries (CPLP), the CIPS provides facilities for countries to share information and exchange experience, notably on basic social protection, the extension of social insurance, social protection legislative frameworks and the linkages of social protection with other economic and social policies in the context of poverty reduction and human development.

### Technical tools

8. The Social Security Department has developed technical tools that enable evaluation of policy alternatives or support good governance and management practices in specific social security schemes or national social security systems. For a number of years, it has disseminated its actuarial and social budget computer models (see box A.II-1 describing its policy usage and some of the applications), as well as social protection expenditure and performance review methodology (SPER), without charge to interested constituents, with the aim of enlarging their

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<sup>1</sup> ILO: *World Social Security Report 2010/11* (Geneva, 2010).

practical use. A new flagship product, the Basic Social Protection Tool, is a simulation tool that allows governments and constituents to estimate the cost of basic social security benefits in specific country contexts. In addition, STEP Belgium has developed a management and monitoring software programme (MAS Gestion and MAS Pilote), to reinforce the quality of the management of health microinsurance schemes.

**Box A.II-1**  
**Using a social budget for policy planning**

Social budgeting is a tool for coordinating public expenditure policies and for national financial planning. Coordinated planning of expenditure programmes (basically the attempt to reconcile public and semi-public expenditure with tax and contribution revenues) is indispensable to responsible governance in any society, whatever the economic system. Social budgeting supports the political decision-making process at the increasingly sensitive intersection of social policy and national financial planning. It helps:

- ❑ to evaluate the social protection system's past financial performance, compared with macroeconomic and general government budget developments;
- ❑ to describe how the existing social protection system is likely to perform in financial terms in future, if there is no change in the measures governing financing and benefit expenditure (status quo projections);
- ❑ to explore (with the help of simulations) how new benefit programmes and/or modifications to existing ones are likely to affect the fiscal space available;
- ❑ to examine how new revenue mechanisms or expenditure cuts can close potential fiscal gaps; and
- ❑ to examine how new benefits, expenditure reductions and/or new revenue-raising mechanisms can alter the social and economic impact of the social protection system as a whole, or that of its subsystems.

Social budgeting is essential in countries with comprehensive social security systems, but it is similarly essential in countries just starting to build up their systems. The ILO has supported social budgeting in countries such as Bulgaria, Germany, Luxembourg, Panama, Poland, Slovakia and Thailand. Social budgeting approaches are beginning to be developed in countries starting to build a basic social protection system, including Burkina Faso, Cambodia and Ethiopia (with funding from the European Commission) and, earlier, in the United Republic of Tanzania and in Zambia (with funding from the United Kingdom). In the latter two countries, experts from different government agencies (including the "social" ministries as well as the Ministry of Planning and Finance) were trained in the use of the tools developed. In Zambia, the tools (adapted to local needs) will be used to assess feasibility and to plan the implementation of a basic, non-contributory pension.

Sources: W. Scholz et al.: *Social budgeting* (Geneva, ILO-ISSA, 2000); ILO: *Tanzania mainland: Social protection expenditure and performance review and social budget* (Geneva, 2008); ILO: *Zambia. Social protection expenditure and performance review and social budget* (Geneva, 2008).

## Research activities

9. Over the past five years, the ILO has issued several research papers on the extension of social security, undertaken major studies and published a number of books on the basic elements of a strategy to combat social exclusion.<sup>2</sup> The results of these activities were disseminated, inter alia, at a major international conference on "Social protection and inclusion: Converging efforts from a global perspective", jointly organized by the ILO, the Ministry of Labour and Social Solidarity of Portugal and the European Commission, and held in Lisbon, on 2–3 October 2006.

<sup>2</sup> For example, J. Estivill: *Concepts and strategies for combating social exclusion: An overview* (Geneva, ILO, 2003); ILO: *Social protection and inclusion: Experiences and policy issues* (Geneva, 2006); as well as a number of discussion papers.

10. A new ILO position on social health protection was prepared for an International Conference on Social Health Insurance in Developing Countries, held in Berlin in December 2005,<sup>3</sup> for the Conference on Extending Social Health Insurance to Informal Economy Workers, held in Manila in October 2006, and for a high-level conference on health insurance in developing countries, organized by President Sarkozy of France in March 2007.<sup>4</sup> This ILO position is set out in the first Social Security Policy Briefing paper.<sup>5</sup>

11. A high-level research seminar on the role of social security in state and nation building (jointly organized with DfID and GTZ in September 2006) led to a major publication that makes the case for early investment in social transfers as a component in national development strategies.<sup>6</sup> One of the ILO's main contributions to the new, widely accepted development policy paradigm that countries can "grow with equity" is its work on analysis of the affordability of basic social security benefits in middle- and low-income countries.

12. A number of widely circulated discussion papers on sub-Saharan Africa and Asia<sup>7</sup> showed that a basic set of social security benefits (or at least components thereof) are affordable over the medium term, even in low-income countries. The Office consolidated these findings in a publication in the Social Security Policy Briefing series.<sup>8</sup> This paper makes the case for a social protection floor from both a rights-based and an affordability perspective. Countries can ensure affordability through gradual implementation of social security, depending on the state of development of their economy and on their national commitment. Furthermore, research-based evidence on the effects of non-contributory social transfers in middle- and low-income countries is being collected to support policy development and the implementation of the components of the SPF.

## A-II.2. The second tier: Policy development

13. The Office developed a new baseline strategy for the Campaign. In August 2006, the first version of the policy paper entitled *Social security for all: Investing in social and economic development*<sup>9</sup> was circulated to governments and workers' and employers' organizations in a worldwide consultation process that sought to achieve the widest possible consensus on the basic policy message. After a thorough review of all comments received, the final version of the policy paper was prepared in 2008 and published in 2009.<sup>10</sup> Its key messages are that social security benefits are a powerful tool to combat poverty and achieve the Millennium Development Goals

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<sup>3</sup> ILO, GTZ and WHO: *The Berlin recommendations for action in ILO–GTZ–WHO: Extending social protection in health: Developing countries' experiences, lessons learnt and recommendations*, paper presented at the International Conference on Social Health Insurance in Developing Countries, Berlin 5–7 December 2005 (Frankfurt am Main, VAS, 2006).

<sup>4</sup> "Insurance coverage in developing countries: Breaking the vicious circle of disease and poverty", held in Paris on 15–16 March 2007.

<sup>5</sup> ILO: *Social health protection. An ILO strategy towards universal access to health care*, Social Security Policy Briefings Paper 1 (Geneva, 2008).

<sup>6</sup> See P. Townsend (ed.): *Building decent societies: Rethinking the role of social security in development* (Basingstoke and Geneva, Palgrave and ILO, 2009).

<sup>7</sup> K. Pal et al.: *Can low-income countries afford basic social protection? First results of a modelling exercise*, Issues in Social Protection Discussion Paper 13 (Geneva, ILO, 2005); S. Mizunoya et al.: *Costing of basic social protection benefits for selected Asian countries: First results of a modelling exercise*, Issues in Social Protection, Discussion Paper 17 (Geneva, ILO, 2006).

<sup>8</sup> ILO: *Can low-income countries afford basic social security?* Social Security Policy Briefings, Paper 3 (Geneva, 2008).

<sup>9</sup> ILO: *Social security for all: Investing in global social and economic development: A consultation*, Issues in Social Protection, Discussion Paper 16, Geneva, 2006.

<sup>10</sup> ILO: *Social security for all: Investing in social justice and economic development*, Social Security Policy Briefings, Paper 7 (Geneva, 2009).

(MDGs); and that establishing national social security systems early in the economic development process is a key investment in social and economic development.

14. The pragmatic policy paradigm that emerged from this policy development work recommends that countries which have not yet achieved universal or widespread coverage should first seek to establish a basic, modest set of social security guarantees as the elements in a social protection floor (for details, see Chapter 5).

15. This policy position was also “rehearsed” in the context of a series of tripartite regional seminars on social security held in Latin America, the Arab States and Asia, where it was agreed to by the ILO constituents. These meetings were co-hosted with the ministries of labour in the host countries and were attended by over 200 participants, including representatives of governments, workers and employers, observers from social security and other public institutions, and international organizations involved in social security activities. The main objectives were for participants to share their experience of how to extend social security coverage, to identify good practices and to foster consensus on how to pursue further extension of social security coverage as a national policy priority. The discussions allowed the ILO to obtain a broad consensus on the priorities to be addressed by the countries and by the ILO in coming years, within the context of the Campaign and the Decent Work Country Programmes (DWCPs).<sup>11</sup> A similar meeting involving the African region took place in October 2010 (see box 5.2).

16. The idea of investing in basic social security benefits at an early stage of economic development as a key instrument to achieve the MDGs and a tangible social dimension of globalization has been taken up and is being promoted by other United Nations agencies (including UNDESA and UNICEF), together with donor agencies (including GTZ and DfID) and key NGOs.

### A-II.3. The third tier: Technical advisory services

17. At any given point in time the ILO may be found providing practical, technical advice, some of it through multi-year technical cooperation projects that have a direct bearing on the extension of social security coverage in about 30 countries on all continents. Between 2000 and 2010, over 170 major technical cooperation reports for over 70 countries were submitted to constituents and donors.<sup>12</sup> Some typical activities are briefly described in the following paragraphs.

18. National campaigns for the extension of social security have been formally launched in some of the countries and regions where the ILO provides technical cooperation. Formal launches were staged in 2003 in Addis Ababa (for the African region), in 2004 in Nepal, Senegal, Mozambique and Kenya, in 2005 in Jordan and in 2007 in the United Republic of Tanzania and Zambia in the context of the abovementioned DfID project. In all these countries, the ILO undertook follow-up activities that were determined by national preferences; these are still ongoing in all the countries concerned. In Kenya, the ILO also helped develop an integrated social protection policy. Since national social security development plans involving ILO activities will increasingly be part of national DWCPs, stand-alone national campaign launches will be less important in future.

#### Africa

19. One of the technical cooperation highlights is the DfID-funded project, the ILO Global Campaign for Social Protection and Coverage for All as a means to reducing poverty in Africa, with a focus on the *United Republic of Tanzania* and *Zambia*. The aim of the project was to

<sup>11</sup> See the references to the regional meeting reports in footnote 16, in the introduction.

<sup>12</sup> Technical cooperation reports and other publications are downloadable at the following addresses, respectively: [www.ilo.org/legacy/english/protection/secsoc/info/tclist.pdf](http://www.ilo.org/legacy/english/protection/secsoc/info/tclist.pdf); and [www.ilo.org/legacy/english/protection/secsoc/info/list.pdf](http://www.ilo.org/legacy/english/protection/secsoc/info/list.pdf).

identify the amount of fiscal space needed to implement a minimum social security benefit package. The project first constructed a comprehensive baseline with 15-year status quo expenditure and revenue projections. Then, reform analyses involving intensive discussions with the constituents and other involved ministries, UNCT and donors were undertaken. The results confirmed earlier research findings that the introduction of a universal old-age pension seemed to be within the range of affordability.

20. In *Ghana*, technical advisory services were regularly provided on the development of universal health insurance. In *South Africa* and *Lesotho*, the Office entered into longer-term dialogue on the future of social security within the context of the DWCP. In *Zimbabwe*, the ILO supported national plans to improve maternity protection and the implementation of the National Health Insurance Scheme.

21. In Western and Central Africa, the STEP Belgium programme was involved in *Benin*, *Burkina Faso*, *Democratic Republic of the Congo*, *Rwanda*, *Senegal* and *Togo*. The programme intervenes at different levels and within the framework of the DWCP. It supports national strategies for the extension of social security and the implementation of innovative approaches, such as health mutual organizations for professional groups and health insurance schemes linked to microfinance (e.g. social protection systems for workers of the transport sectors, in *Senegal*, and for workers in the informal economy, in *Benin*). The STEP Belgium programme has developed training action and tools to strengthen the management capacity of these systems (i.e. technical management software MAS-Gestion). At a subregional level, STEP advises and supports the development of common legislation on social mutual organizations for the West African Economic and Monetary Union (UEMOA).

22. In *Rwanda*, *Benin*, *Burkina Faso*, *Togo* and the *Democratic Republic of the Congo*, the programme provides key support for the development of a new universal health insurance scheme, specifically concerning coverage mechanisms for the population in the informal economy, combining principles of classical insurance and of microinsurance and the financing aspect. In *Sierra Leone*, the ILO also carried out an assessment of health insurance options.

23. With the adoption of the Social Protection Floor Initiative (SPF Initiative), and in collaboration with the World Health Organization, other United Nations agencies and bilateral partners, the ILO supports *Burkina Faso* in its efforts to build, extend or reorient its social protection system. The aim is to find a better way of responding to the social protection needs of all, specifically the poorest and most vulnerable who have been strongly hit by the global crisis. In this context, a social protection and performance review (SPER) is being conducted by the ILO to allow a national social budget to be drafted. Similar processes are under way in *Benin* and in *Togo*. In the context of the Providing for Health Initiative (P4H), the ILO also supports the extension of social health protection and the development of a health-financing strategy in *Uganda*.

24. In *Rwanda*, the STEP Belgium programme supports the Ministry of Health in the Community-Based Health Insurance (CBHI) policy process and in the development of management capacity. New laws on health insurance have been prepared, and the Ministry of Health is preparing a reform of the CBHI system, to develop a more equitable and sustainable scheme. The programme also supports the Social Affairs Unit of the Ministry of Local Government in interventions linked to the national strategy on social protection and the SPF. The programme works closely with other United Nations agencies within the “One UN” initiative.

25. Together with the United Nations system, bilateral cooperation and international NGOs, the Office participates in the subregional Western and Central Africa Working Group on Social Protection, which organizes joint lobbying and awareness raising, research and training.

26. In several African countries, through the project “Extending social security coverage to African migrant workers and their families” (MIGSEC, 2008–11), funded by the German Government, the ILO provides technical assistance in designing and implementing legal instruments coordinating social security systems in the region. In addition, the project aims at developing the institutional capacities of entities responsible for planning and implementing strategies and policies for extending social security coverage to migrant workers.

27. Having faced various difficulties in recent years, a few French-speaking countries in Central Africa are engaged in reinforcing their operational and financial capacities, with technical support from the ILO. Studies of how to strengthen the operational and financial capacities of the social security institution of the *Central African Republic* were completed in November 2009, and discussions are under way on undertaking similar studies in the *Democratic Republic of the Congo*. In *Burundi*, a study of the basic elements needed to implement a national policy on social protection was prepared with the ILO's technical support, and was submitted to the Government. It was adopted on the occasion of a tripartite workshop, held in April 2010. In *Cameroon*, the Office has been providing technical advice to the committee established to prepare proposals for the reorganization and development of the national social protection system; and has been cooperating in the actuarial valuation of the National Social Insurance Fund.

28. In Portuguese-speaking Africa, the STEP Portugal programme has supported the scaling up of the national social pensions programme in *Cape Verde*, by strengthening operational procedures, upgrading the information system and improving the benefit package for social pensioners. In parallel, the project also supports the extension of social insurance to domestic workers and the self-employed. In *Mozambique*, the STEP Portugal programme is providing support to the Government's efforts to extend social protection to the most excluded and towards the gradual establishment of a minimum social security floor. The Government recently approved a National Basic Social Security Strategy and a Regulation for the Basic Social Security (RBSS) which is very relevant to the SPF. The STEP Portugal programme supported the design of the strategy and the RBSS by providing technical assistance on policy options, costing and training and support for policy dialogue among key stakeholders. In partnership with DfID, the Netherlands Government and UNICEF, the programme also strengthens government capacity to manage, deliver, monitor and upscale the Food Subsidy Programme, and participates in United Nations efforts to assist the Government of Mozambique in responding to the fallout from the global food price crisis.

## Americas

29. In *Uruguay*, the ILO supported a technical study on the family allowances scheme, which contributed to discussion of a comprehensive reform that was approved by Congress in December 2007. In *Chile*, for many years the ILO provided technical assistance on the adjustment of the pension system (see box 3.6). In *Peru*, a number of activities were undertaken over the past five years to increase the Government's institutional capacity to reform the social security system through a social dialogue process. In this context, the ILO conducted (among others) a financial and actuarial study of the Social Health Insurance (EsSalud) and collaborated on drafting a law on universal access to health care. The ILO recently contributed to the discussion of the importance of implementing a non-contributory pension scheme so as to protect the elderly against poverty and destitution. In *Ecuador*, technical and actuarial assistance was provided to the Government to design a reform of social security. The Office's advice included assistance to guarantee a minimum level of income to all aged over 65 years, through both contributory and non-contributory schemes; assistance to achieve full health coverage through a combination of health insurance and free access to public health services; the implementation of a universal health system financed by general revenues; and the formulation of a mandatory pension scheme for the self-employed. In *Colombia*, the STEP Belgium programme supports the development of the national subsidized health insurance scheme for the poor. In *Trinidad and Tobago*, the ILO supported the development of policy measures and options for the proposed extension of social security to the self-employed. The proposal covers legislation (based on the scheme's regulations and existing labour law), administration and financial advice regarding the extension.

## Asia

30. In *India*, the ILO worked with the Government on developing proposals to extend meaningful old-age and health coverage to workers in the informal economy (the "unorganized sector"). Assuming these proposals come to fruition, along with the ground-breaking National Rural Employment Guarantee Scheme, up to 300 million additional people could be covered. The

Office also supports the development of the innovative Karnataka “Yeshasvini” health insurance scheme for rural farmers, that reaches out to 3 million farmers.

31. In *Nepal* the ILO provided support with reviewing long-standing issues in labour and social security law, and with preparing policy discussions in advance of the reconstitution of the Government. Moreover, at the request of UNICEF, the ILO provided a financial analysis to support proposals for the introduction of a basic social security benefit package which, in the post-conflict environment, would represent a significant “peace dividend”. This led to the Government lowering the age of receipt of the old-age allowance from 75 to 65 years and to the introduction of a child grant in 2010. Within the context of the labour market reform, the ILO provided assistance for the establishment of an unemployment insurance scheme. In *Sri Lanka*, the ILO helped the social security system cope with the fall-out from the tsunami, and conducted a general review of the existing social security system with a view to assisting the Government to strengthen its universal coverage. The ILO also supports the extension of social health protection and the development of a health-financing strategy within the context of the P4H Initiative.

32. In *Thailand*, the ILO has worked for over 20 years on the improvement and extension of social security for private sector workers. Many ILO recommendations led to improvements in population and benefit coverage. The Office recently contributed technical advice and capacity building to national debates on the extension of pension benefits to the non-covered population, and to strengthening the financial sustainability of the Universal Health Care Scheme. In *Cambodia*, the ILO provided technical support towards the establishment of the first social security scheme for private sector workers, which has already started to cover work injury, while other branches are under preparation. In *Lao People’s Democratic Republic*, an ILO project contributed to the introduction and extension of the social security scheme for private sector workers and to the reform of the civil service scheme as well as the establishment of a national master plan on the extension of social security. In *Viet Nam*, ILO activities resulted in the establishment of the first ever social security law in 2006.

33. In *China*, the ILO provided a complete review of the existing social security system,<sup>13</sup> a comprehensive policy study on extending old-age insurance coverage in 2005–06 and supported the actuarial section of the Ministry of Labour through longer term technical dialogue. The ILO also traditionally supports actuarial work in *Malaysia*. The ILO supported *Indonesia* in advancing universal social security coverage through technical cooperation projects and, within the framework of the DWCP, the ILO stressed the need to develop a roadmap for the implementation of the milestone National Social Security System Act, and supported new health insurance and conditional cash transfer initiatives.

34. In the Pacific region, the ILO implemented a major Subregional Initiative on Social Security for Pacific Island Countries from 2004 to 2006, including social security needs assessment surveys in *Fiji, Indonesia, Kiribati, Philippines, Samoa, Solomon Islands, Thailand and Vanuatu*. The output of the project has been summarized in comprehensive five-volume source books for action on extending social security.

#### Arab states

35. In *Bahrain*, the ILO contributed to the establishment of an unemployment insurance scheme by preparing the policy outline, linked to an actuarial assessment of the proposed scheme, and to the drafting of the Unemployment Insurance Law, adopted in 2006 (see box 3.8 above).

36. In *Jordan*, the ILO provided legal and actuarial technical support to the Government for the extension of coverage under the pension scheme, for the establishment of a maternity benefit scheme, as reflected in the recently adopted Social Security Law, and for the ratification of Convention No. 102. In *Lebanon*, the ILO reviewed an actuarial study and offered

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<sup>13</sup> See ILO: *Perspectives on the social security system of China*, Extension of Social Security Series ESS Paper 25 (Geneva, ILO).

recommendations on the replacement by periodic pensions of the end-of-service allowance for workers in the private sector.

37. In the *Syrian Arab Republic*, a project for the extension of social security coverage is being developed. In preparation for this, the ILO provided several capacity-building measures for government officials, the social partners and other stakeholders, in Damascus and at the ITC–Turin, and established a national task force on social protection statistics. The ILO also reviewed a proposal for pension reform, and is currently preparing an analysis of the conformity of Syrian social security legislation with Convention No. 102.

## Europe and Central Asia

38. Unlike the situation in other regions, in Central and Eastern Europe, the major issue in coverage extension is closely related to non-compliance with laws and regulations. The ILO conducted a major study of the collection of pension contributions and provided policy advice to the participant countries. It also provided pension advisory services aimed at extending coverage in the countries of the Stability Pact for South Eastern Europe, and developed a training manual on gender aspects of pension reform. A regional analysis of the adequacy of pension coverage for women and policy recommendations for addressing gender inequalities in pension provision are under way. Policy advice on pension reform aimed at ensuring a minimum floor of pension coverage for all workers and to prevent the loss of coverage for women was provided through tripartite discussions in *Armenia* and *Kyrgyzstan*. An analysis of the conformity of Russian social security legislation with Convention No. 102 is under way.

39. In *Kazakhstan*, the ILO is providing technical assistance on national legislation to facilitate the ratification of the Maternity Protection Convention, 2000 (No. 183). The Office has provided technical support, namely, improvement of national legislation and capacity building for the social partners regarding employment injury schemes in countries of the Commonwealth of Independent States (CIS), such as *Tajikistan*, *Armenia* and *Uzbekistan*, which have been undertaking reforms in this area.

40. Owing to the increase in labour migration in the CIS region in recent years, the Office has provided substantial technical assistance on enhancing social protection to migrant workers, including analysis of national legislation and training on facilitating bilateral/multilateral agreements on social security.

41. As a follow-up to the Almaty Ministerial Declaration of 2009,<sup>14</sup> a Finnish-funded technical cooperation project covering eight post-Soviet countries (Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) was launched in 2010, to support national social security reform initiatives in the context of an integrated approach combining three technical components (social security, employment, and occupational safety and health) to cope with the complex post-crisis problems in the region.

### A-II.4. The fourth tier: Capacity building

42. One necessary condition for the successful planning, implementation and management of social security policies is the availability of trained experts able to plan, organize, finance and administer benefit schemes.

43. Over successive programmes and budgets, the ILO has invested substantially in this area by compiling the knowledge base and developing training activities, thereby laying the ground for a large-scale initiative to improve the quantitative training of managers and planners in

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<sup>14</sup> *Almaty Ministerial Declaration* – 8 December 2009: United Nations Ministerial Conference on the Social Impact of the Economic Crisis in Eastern Europe, Central Asia and Turkey, Almaty, 7–8 December 2009.

middle- and low-income countries. So far, the ILO knowledge base has been summarized in five advanced textbooks in the ILO–ISSA Quantitative Methods in Social Protection Series.<sup>15</sup>

44. Since 2001, and in collaboration with the University of Maastricht, the ILO's Social Security Department has run a master degree programme in social security financing and policy design. A social security track within a master degree programme for actuaries has been available at the University of Lausanne since 2005. So far, over 70 experts have successfully graduated and are now applying their acquired skills in their countries (see box A-II.2).

45. However, the intensity of training had to be scaled up considerably to achieve results in the medium term. In 2007, therefore, the ILO launched QUATRRAIN AMERICA, its first regional quantitative training programme for Latin America.<sup>16</sup> Financed by the new RBSA facility, the sister programme QUATRRAIN AFRICA was launched in June 2008. The basic objective of these programmes is to create or improve capacities for national financial planning and the financial management of social security systems. The training activities are targeted at political decision-makers, members of the administrative and supervisory boards of social security systems, managers of social security systems and budget and financial experts in leading ministries.

46. The International Training Centre (ITC) of the ILO has provided support for the Social Security Department's work for over ten years, delivering standard courses, tailor-made courses, distance learning and other activities on social security issues. In fact, half of the activities of the Social Protection Programme of the ITC address various aspects of social security. The Programme organizes activities which complement and support the Department's policies and strategies and meet constituents' and stakeholders' needs. Participation by social security experts from government agencies and workers' and employers' organizations in many seminars and workshops of the Turin Centre enables substantial dissemination of skills in member countries and among constituents. With the ITC, the ILO has developed a timely set of activities which help to promote the SPF Initiative. The ITC is also a key player in disseminating training activities in the context of the QUATRRAIN programmes, and both tailor-made and routine training activities support government policies to extend social security in a number of countries. The ITC also includes governance courses in various languages in its curriculum, as well as producing the governance manual in French, English and Portuguese and helping with an Arabic version. The ITC also offers some support for the master's in social protection financing course at the University of Mauritius.

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<sup>15</sup> See M. Cichon et al.: *Modelling in health care finance: A compendium of quantitative techniques for health-care financing* (Geneva, ILO and ISSA, 1999); S. Iyer: *Actuarial mathematics of social security pensions* (Geneva, ILO and ISSA, 1999); W. Scholz, K. Hagemeyer and M. Cichon: *Social budgeting* (Geneva, ILO and ISSA, 2000); P. Plamondon et al.: *Actuarial practice in social security* (Geneva, ILO and ISSA, 2002).

<sup>16</sup> The programme started in November 2007 in Chile with a training course on actuarial and financial techniques, with the participation of a select group of government staff.

**Box A-II.2****The Maastricht and Lausanne master's programmes**

In 2000, the ILO and the University of Maastricht agreed to set up a joint one-year master's course in social protection financing. The programme is designed to train social protection specialists and to create a permanent training infrastructure for further groups of experts, the long-term objective being to improve the design and implementation of national social protection systems by improving the (quantitative and empirical) bases for national political decision-making processes. With the active involvement of the ILO, the first MSc in social protection financing programme was launched in the 2001–02 academic year, and was subsequently supplemented by a master's programme in social policy design, both being thereafter consolidated under an umbrella master's programme on public policy and human development, with the above specializations in addition to four others. The programmes train future specialists in social protection for social security institutions, academic institutes, governments and international organizations.

During the nine academic years that the programmes have been run, 292 students have obtained their MSc in public policy and human development. These students came from over 60 countries, and 54 per cent of them came from low- and middle-income countries. Many of the students were employees of national social protection institutions who returned to work in these institutions once they had obtained their degrees. Some former students serve in prominent positions in their respective governments and in national social security institutions (e.g. in Ghana, Jordan, Nigeria, Thailand and Zimbabwe); others have served on ILO lead development projects (e.g. in Ghana, United Republic of Tanzania and Zambia), and others have joined international organizations (UNICEF). Recent experience shows that they have been strong advocates of ILO values and principles in international forums, an achievement which is worth highlighting and which indicates the importance of continuing the ILO's investment in this field.

In addition to the joint master's programme at the University of Maastricht, the ILO contributes a social security track within the new MSc in actuarial science offered by the University of Lausanne (Ecole des Hautes Etudes Commerciales), which started in autumn 2005. That programme focuses on training a specialized group of actuaries in social protection. Since the programme started four years ago, 76 students from 27 countries (over 60 per cent of them from low- and middle-income countries) have obtained their MSc in actuarial science.

The success of the joint ILO–University of Maastricht master's programme is justification for the ILO seeking to replicate the programme in other regions of the world. Within the framework of the QUATRRAIN AFRICA programme, the University of Mauritius is launching an executive MSc in social protection financing programme for the 2010–11 academic year. Discussions are ongoing with a university in Bangkok, and possibly with the University of Montevideo (Uruguay) for similar programmes to be set up.

On the whole, experience shows that relatively heavy investment in training, capacity building and knowledge dissemination reaches a wide audience of professionals in social security financing and policy. Strengthening social partners' capacity to ensure that they design, operate and administer social security schemes and can be informed and strong partners in national social debates is a contribution towards the social dialogue process and to the Decent Work Agenda.

47. ILO–ACTRAV also supports two regional initiatives on capacity building in social security for trade unions: The Social Security Project for Trade Union Organizations is a strategic trade union action in Latin America that has provided capacity building and training in social security to over 500 trade unionists in 11 countries. The regional Trade Union Continental Platform of Social Security, hosted by the Trade Union Confederation of the Americas, guides national centres on the extension of social protection coverage and promotes full compliance with social security principles, as well as ratification and implementation of Convention No. 102.

## A-II.5. Building partnerships

48. Strengthening the four areas in which the mandate to extend social security “to all in need of such protection” is being pursued<sup>17</sup> is far too large a task for one organization to undertake. Partnerships were therefore built at national and international levels, notably the coalition for the SPF Initiative, participation in the “One UN” process, co-sponsorship with UNAIDS, closer collaboration with the EU over technical cooperation, the OECD–POVNET group, and the global P4H, the joint ILO–PAHO initiative on the extension of social protection in health in Latin America, the IHP+, the continuing close relationship with the ISSA and a number of strategic alliances with universities on all continents as well as with prominent NGOs.

### **Box A-II.3**

#### **The UN CEB Initiative on the Social Protection Floor**

The deepening financial and economic crisis which started in 2008 and the resulting social and economic impact highlighted the importance of social protection as a way of reducing some of the negative effects of the crisis through income replacement and access to in-kind benefits. Recognizing the necessity of adequate social protection, in April 2009 the UN CEB approved the SPF as one of its Joint Crisis Response Initiatives.

Several international and national documents and organisms subsequently endorsed the SPF Initiative, among them the United Nations Resolution on Social Integration adopted during the 48th Session of the Commission for Social Development, the recommendations of the G20 Labour and Employment Ministers, OECD–POVNET, the Forum of Ministers for Ministries responsible for Social Development, the International Council on Social Welfare, etc. The ILO’s Global Jobs Pact also very prominently features the SPF as a response to the crisis.

The SPF Initiative promotes access to essential services and social transfers for the poor and the vulnerable, thus presenting a comprehensive approach to social protection that highlights both the supply and the demand sides of extending social protection and ensuring effective access.

At present, approximately 30 middle- and low-income countries have already taken measures to introduce elements of an SPF. Their experience has shown that social security schemes are a vital and flexible policy tool to counteract and soften the social and economic consequences of financial shocks and crises. They have also demonstrated the feasibility of building SPF, showing that, with the necessary political will, adequate resources for capacity building and sound implementation process, a strong national consensus in favour of SPF policies can be created and developed. Country examples have been developed throughout the report. The ILO and UNDP Special Unit for South–South Cooperation (SU–SSC) invited nominations for SPF initiatives with successful experiences. Selected nominees were asked to develop a case study of the SPF Initiative and to present and discuss their experience at an international workshop in Turin, Italy, in July 2010. The selection committee (ILO, SU–SSC and UNICEF) selected 19 case studies from 16 different countries, which will be published by the UNDP SU–SSC as Volume 17 in the series “Sharing Innovative Social Protection Floor success stories”.

Executed and implemented in collaboration with national stakeholders, the SPF Initiative coordinates United Nations agency support, taking into account the value added expertise of each agency ensuring a comprehensive response to constituents through optimal use of experts, resources and logistical support. A United Nations manual and strategic framework for joint United Nations country operations has been developed by the cooperating international agencies, for use in implementation of the SPF at national level.

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<sup>17</sup> See the Declaration of Philadelphia, para. IIIe.

A major activity is being developed involving South–South dialogue on the SPF Initiative in order to mainstream the concept into national social policies. A first event in the context of the United Nations Commission for Social Development was held in New York in February 2010, followed by further events at Expo 2010 in Shanghai, Brazil and the Global South–South Development Expo in Geneva in November 2010.

Under the auspices of the ILO and the WHO, a High-level Social Protection Floor Advisory Group, chaired by the former President of Chile, Ms. Michelle Bachelet, was set up in the summer of 2010. The Group was established with the aim of enhancing global advocacy, elaborating further global policy aspects regarding the SPF and providing general guidance in this area. The Group will also collaborate in the identification of good practices around the world and promote exchange of experience and cooperation, including South–South cooperation. The Group will prepare a global report that will serve as an advocacy tool on global, regional and national policies and strategies to support the implementation of the SPF.

Source: Based on ILO, WHO and the Group of Cooperating agencies and development partners: Social Protection Floor Initiative: The sixth initiative of the CEB on the global financial and economic crisis and its impact on the work of the UN system: Manual and strategic framework for joint UN country operations (Geneva, ILO, 2009).

## A-II.6. Lessons learnt

49. The above experience may be summed up as follows:
- (1) The mandate of the Global Campaign on Social Security and Coverage for All has provided a focus and served as the catalyst for achieving greater conceptual coherence in the Office’s work on social security. It has also strengthened the role and visibility of social security in the ILO’s Decent Work Agenda.
  - (2) Campaign research and policy development activities have successfully helped place the importance of social security coverage on the agenda of international development policy. The objective of extending social security to all is now supported by the United Nations,<sup>18</sup> the European Union,<sup>19</sup> many national development agencies and the G8.<sup>20</sup> Dialogue with social partner organizations and partnerships with other United Nations agencies and major NGOs are more productive than ever.
  - (3) The volume, resources and the conceptual coherence of technical cooperation activities in social security have increased considerably. Country activities are increasingly turning into longer term programmes based on sustained national dialogue with the social partners and stakeholders, rather than ad hoc short-term inputs. Social security is the most prominent recipient of the newly created RBSA funds.
  - (4) National campaign activities have also shown that successful national support depends crucially on two pre-requisites: long-run national commitment and the political will to invest in the extension of social security by passing relevant legislation and allocating the necessary resources, as well as the sustained capacity of the ILO to carry out this process. Given the ILO’s capacity constraints, this will inevitably lead to a sharper focus on increasing external resources on a smaller number of “trail-blazer” countries.

<sup>18</sup> United Nations, Economic and Social Council, E/2006/L.8, para. 19; UN-CEB Initiative on the Social Protection Floor.

<sup>19</sup> Commission of the European Communities: *Investing in people: Communication on the thematic programme for human and social development and the financial perspectives for 2007–13*, Communication from the Commission to the Council and the European Parliament (Brussels, 2006).

<sup>20</sup> The G8 Summit on Growth and Responsibility in the World Economy (held in Heiligendamm, June 2007) stated: “We recognize that in conjunction with economic growth and active labour market policies, social security is an instrument for sustainable social and economic development.” *Summit Declaration (7 June 2007)*, para. 29.

(5) The relatively large investment in training and capacity building over the past five years is beginning to pay off in terms of improved management and governance, but also of a greater awareness of the ILO's values and of social security principles in national administrations.

49. One of the main conceptual challenges of the Campaign was that the potential of the two classical approaches to extending social security (formal sector-focused social insurance schemes and community-based insurance schemes) proves limited when it comes to reaching out to socially excluded populations, largely in the informal economy. In order to carry out the Campaign's mandate, as renewed by the Declaration of Social Justice for a Fair Globalization, such contributory benefits need to be complemented by non-contributory benefits, such as conditional and unconditional cash transfers and universal tax-financed benefits.

50. A credible strategy to universalize social security realistically needs, first, to focus on modest benefits for all and, then, to promote higher levels of security as economies develop and fiscal space for social transfers widens. However, the legitimacy of the ILO's action rests on ILO standards that give effect to its general constitutional mandate. One of the central questions of the Campaign thus remains whether the focus on fast extension of some basic levels of security to all is sufficiently backed by existing ILO instruments.

#### **Box A-II.4**

##### **The findings of the independent evaluation of the ILO's Strategy to Extend the Coverage of Social Security, 2010**

In 2010, an independent evaluation of the ILO's Strategy to Extend the Coverage of Social Security for the period 2005–09 was carried out and its findings were discussed by the Governing Body in November 2010. The evaluation found that "the scale of activities and impacts indicates that the ILO is effectively exercising its mandate in the area of social protection and making progress towards the goals set by the ILC in 2001" (p. 19). It also highlighted the "coherence between the ILO's country-level work and its institutional mandate, as well as a high degree of relevance to country needs" (p. 33). Taking into account its comparative advantages in the area of international labour standards, tripartism, technical advisory services and integration of labour market and social protection analysis and applications, it commended that the ILO enjoys a high degree of credibility as an organization promoting social justice in the area of social security. However, it found that more should be done to integrate analysis of labour markets into its social security work, to integrate social protection issues into its work on employment and to document the success stories illustrating instances of employment, economic growth, and social protection bringing stable economic development in combination with the extension of basic social protection.

The Global Campaign and the SPF have achieved broad acceptance and the ILO has been extremely effective in getting universal social protection onto the agenda, both globally and at the country level.

Although the review noted that the ILO is regarded as a key player in social protection and recognized examples of strong collaboration with other international agencies (WHO, UNICEF, World Bank and DfiD), it concluded that there was a need to identify more clearly the role of each individual agency and to integrate the work of the various agencies better.

The evaluation found that the work of the Office had "been most effective in laying the foundation for, defining the framework for, and advancing discussion of, feasible plans for national extension of a basic social floor" (p. 78) and that the Global Campaign and the SPF had achieved broad acceptance. While acknowledging that there was evidence of specific country cases where elements of the basic social security floor had been implemented, it noted there was no evidence of the implementation of the broad package in a very poor country. The evaluators also pointed to the need to monitor and evaluate work at the country level, in order to identify the lessons learned and the country success stories linked to ILO interventions and to determine political will which, in the long run, is what ensures sustainability. They noted that the "ILO's technical soundness and long-term relations through the tripartite process position bode well for sustainability" (p. 81).

The Office's focus on a two-pronged approach to the extension of coverage of social security along its vertical and horizontal dimensions was acknowledged as useful and necessary for policy coherence and as needing to be continued, together with its advocacy efforts at the United Nations level to ensure a coordinated approach to the extension of social security. Issues relating to gender, social security in the informal economy, and social security for vulnerable groups needed to be addressed further.

Although the evaluators acknowledged that the training and capacity-building efforts of the Office had made a significant contribution to constituents' capacity building and policy design at the national level, it recognized that there were issues of absorptive capacity and attrition and recommended that the Office document the results of its capacity-building activities and that in consultation with ACTRAV and ACT-EMP it identify priorities to address the capacity gaps of constituents in specific countries.

Demand by constituents for support from the Office in social security and the role of the Office as co-leader of the UN-CEB initiative on the SPF required more resources than were allocated to social security by the Office, and thus required technical cooperation resources to be mobilized and flexible funding to be made available, especially for capacity building, in order to increase field-level expertise.

Source: Based on ILO: The ILO's Strategy to Extend Social Security: An independent evaluation report (Geneva, 2010).