

Universal Social Protection

Universal old-age
and disability
pensions in

Timor-Leste



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1. What does the system look like?

Timor-Leste is a young country, where a large share of the population lives in poverty and most are vulnerable. In the aftermath of the 2006 East Timorese crisis,¹ the Timorese government put in place a set of cash transfer schemes, aiming to avoid future tensions and attend to the needs of the most vulnerable. The first of these programmes was the **Pension for Older Persons and People with Disabilities** (Portuguese: *subsídio de apoio a idosos e inválidos – SAIL*), a universal pension for the persons with disabilities and for those above the age of 60.

In a short period, other programmes were created, including benefits for the veterans of the independence struggle and *Bolsa da Mãe*, a cash transfer designed for poor female-headed households with children. In 2012, the Transitory Social Security Scheme, a non-contributory old-age pension for public servants, was created as a temporary programme, while a contributory social security scheme, which covers both the public and private sectors, is expected to start operating in 2017. Health and education are free for all Timorese citizens since the independence in 2002.

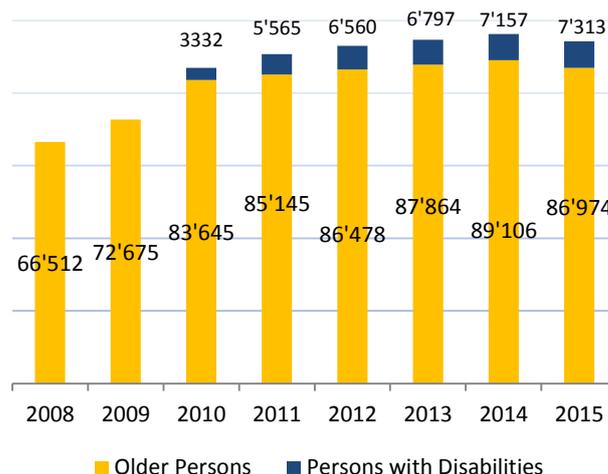
Despite the progresses since independence, poverty is widespread, and older individuals experience reduced labour productivity and capacity as the years pass. In a country where around 70% of the population lives in rural areas and many depend on their own food production, older persons, representing around 6% of the population, and people with disabilities, were chosen as priority groups given their vulnerability status. Before the establishment of SAIL, older persons and people with disabilities had to continue working or depend on their families for subsistence, as no programme was in place to provide support for this group after the independence.² The first payment of SAIL was made in August 2008, and it achieved a substantial coverage among the elderly in its first year.

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

Coverage

Being a universal programme, all Timorese above the age of 60, or individuals above 18 who have a disability, are eligible for SAIL. It currently delivers benefits to 94,287 individuals, being 86,974 older persons, which corresponds to 103% of this group,³ and 7,313 people with disabilities, which corresponds to 18.2% of target population. Individuals living abroad are not eligible, and must be living in the country for at least one year to be able to receive the benefits. Graph 1 shows the evolution of coverage of SAIL throughout the years. Public servants do not receive the SAIL but are covered by a higher benefit provided by the Transitory Social Security Scheme, which pays old age pensions calculated based on the average lifelong income of the beneficiary. Currently, this programme covers 688 former government employees.

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



Source: Ministry of Social Solidarity

Benefits

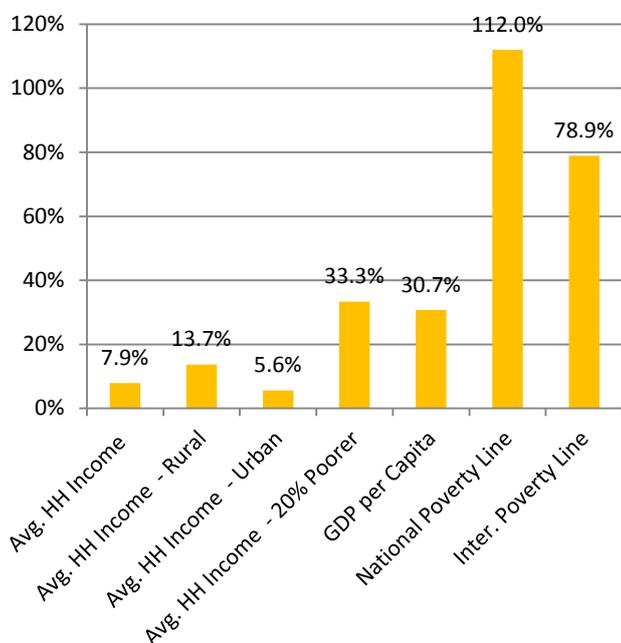
The benefit amount is the same for all beneficiaries. Its value is defined by official decree, and it is limited to one third of the minimum wage of civil servants. When launched in 2008, the SAIL benefit was

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

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

US\$ 20 per month, and it was increased in 2010 to US\$ 30 per month, its current value. The benefit is above the national poverty line but below the international poverty line. It stands at 7.9 per cent of the average household income in the country (see Graph 2).

Graph 2: SAIL Benefits (US\$ 360 per year) as Share of Different Income Indicators⁴



Source: HIES 2011; World Bank Database; Ministry of Social Solidarity; and Author's Calculations

By law, the benefits should be paid by bank transfer monthly, or in cases that payment should be done directly, every three months. In practice, the lack of financial infrastructure, the difficult access to isolated communities and limited resources for payment operations results in payments being made twice per year.

Individuals receiving Veteran benefits, or benefits from the Transitory Social Security Scheme for public workers created in 2012, are entitled to the higher of the provisions. Additionally, individuals in prison, or inmates of a social institution of the government, lose temporarily the benefits, as long as these conditions remain.

⁴ Average Household income = \$ 4,532.76 (2011); Average Rural Household income = \$ 2,624.52 (2011) Average Urban Household income = \$ 6,379.20 (2011); Average Household income of the 20%

Financing

In the same way as all current social protection programmes of Timor-Leste, SAIL is financed by the General National Budget. Currently, its budget of US\$ 30.6 million plus US\$ 1.3 million of the Transitory Social Security Scheme, represents about 2.2% of GDP (non-Oil) invested in income security of the older persons, slightly above the Asia and the Pacific regional average of 2.0%, but still below global average of 3.3% of global GDP. While the global and regional figures include contributory and non-contributory schemes, the current Timorese old-age pensions are exclusively tax-funded. Looking only to tax funded pensions, Timor-Leste will likely be found in the high end of the global investment.

Legal aspects

Social protection is a right in Article 56th of the Constitution of Timor-Leste, according to which, “every citizen is entitled to social assistance and security in accordance with the law”. Furthermore, Articles 20th and 21th reinforce the right of protection of the older persons and people with disabilities.

The programme was enacted in June 2008 by the Law Decree N^o 19/2008, which described, regulated and effectively created it. In August 2010, the “*Diploma Ministerial Conjunto/MSS/MF/2010*” increased the value of the benefit.

Institutional Arrangements

The Ministry of Social Solidarity (MSS) is responsible for the SAIL programme, through the National Directorate of Non-Contributory Social Security (DNSSNC, the acronym in Portuguese). Registration to the programme is done in partnership with the District and Sub-District Administration (under the Ministry of State Administration), and payments are done together with the Ministry of Finance and the National Bank. Local leaders (*Suco* chiefs) play a significant part in the identification of the beneficiaries, and are responsible for confirming that the older person in fact lives at the location.

poorer = \$ 1,080 (2011); GDP per capita - Non-Oil (2014) = \$ 1,169; National Poverty Line = \$0.88 per capita per day; International Poverty Line = \$1.25 per capita per day.

When the creation of the Contributory Social Security Scheme is approved by the Parliament, an independent institution will be constituted to manage and operate the new system. Once this occurs, it is planned that the responsibility of administration of the Transitory Social Security Scheme and of SAll will be transferred to the newly created National Institute of Social Security.

2. How was this achieved?

As mentioned, SAll was developed partly as a strategy to mitigate risks of unrest and instability due to the widespread poverty and vulnerabilities, and partly as means to alleviate poverty. However, the creation of the universal pension scheme is solidly based on the Constitution of the nation that expresses the right to social assistance to all, and recognizes the extra attention older persons and people with disabilities require. Additionally, already in the first National Development Plan (NDP) from 2002, social assistance was seen as an important tool for social stability. Furthermore, the NDP also foresaw the provision of support for older citizens and persons with disabilities, as it reinforced the situation of vulnerability faced by this group.

In the first years of independence, the government chose not to rely on financial benefits for social assistance, but offered non-cash benefits to households, often in *ad hoc* manner. After the conflicts of 2006-2007, the approach to social protection changed, as the National Recovery Strategy concentrated efforts on five topics: transitional shelter and housing, social protection, security and stability, local socio-economic development and confidence-building/reconciliation activities. As a consequence, the mentioned set of social provisions was created to lower tensions and to promote social peace. The social protection package launched in 2008 included SAll, the Veteran benefits, and *Bolsa da Mãe* programmes, and the fast increase in beneficiaries and coverage led to expressive increases in social expenditures, from US\$109 million in 2008 to US\$160 million in 2012.

Overcoming constraints

For a country with such limited infrastructure, the pension coverage attained, especially considering the speed it occurred, is an impressive feat. Currently, SAll covers almost 87,000 older persons, number that corresponds to 103% of the population above the age of 60 in Timor-Leste. However, coverage of persons with disabilities remains a challenge. It is estimated that there are about 40,000 persons living with physical or mental disabilities in the country, and SAll reaches only 7,313 of them – about 18.2% of the target population.

As mentioned, the lack of financial infrastructure in the districts and the difficult access to isolated communities result in payments being made only twice per year. A solution for this is being developed in two manners; the first is to progressively require the use of a bank account to receive the benefit – current limitations are due to the fragile banking infrastructure in the districts. And the second, designed for the beneficiaries with mobility problems and who are sick, is the use of mobile units for payment. This system is still running on a pilot basis.

Other issues arise from problems with documents and identification of beneficiaries. Many citizens of Timor-Leste do not have an identification document, and the most common document among the Timorese is the electoral card. This creates three problems. First is to identify those who do not have any documents – often because they never had, or because it was lost during displacement due to conflicts. The *Suco*⁵ chiefs often intervene in these situations to attest the applicant's identity. The second issue is that the electoral card is easily falsified, leading to fraud cases, which can partly explain the coverage of older persons being above 100%. Lastly, the lack of documentation extends to death certificates, which are not issued, and therefore beneficiaries that die are not reported and unjustified payments could still be made to family members.

Improving coverage among people with disabilities goes beyond the improvement of identifying and registering beneficiaries. Families are often ashamed of having a member with disability, and thus hide them from outsiders – including social workers and

⁵ *Sucos* are the smaller administrative unit of the state, comparable to a hamlet or small village.

even from survey collectors. For coverage among this group to increase, people with disabilities need to be perceived as individuals with the same rights and needs as anyone else. In this sense, the government is investing in raising awareness and social inclusion of persons with disabilities.

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

3. What are the main results in terms of impact on people’s lives?

Outcomes

As mentioned, the old age pension achieved universal coverage from its early years, and has been keeping this until today. There were few studies on the effective impact of the pension. However, a simulation calculating consumption distributions with and without the transfers made in 2011, estimated that SAIL reduced national poverty⁶ from 54% to 49% and poverty among older persons from 55.1% to 37.6%. For persons with disabilities, reduction in poverty headcount was 17.5 percentage points, from 63.3% to 45.8%.

Impact on people’s lives

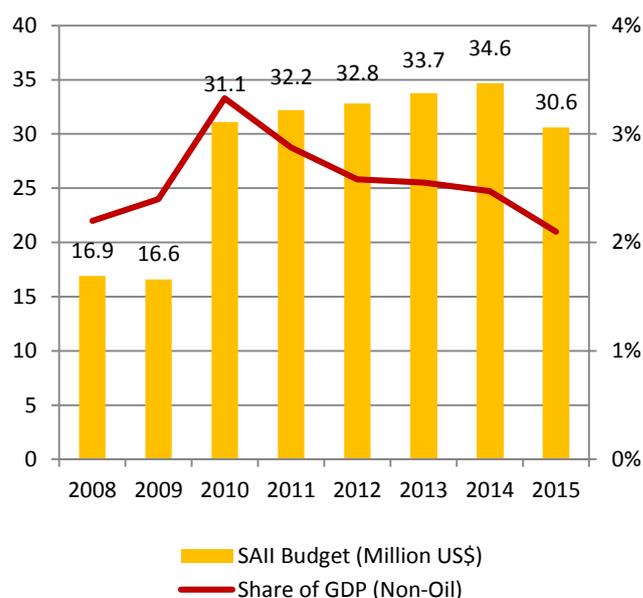
Although the older persons represent only about 6% of the population, almost 1 in 3 households have a person aged above 60 living in it. Information on the use of SAIL benefits show that recipients spend most of the transfer (88.4% of the benefit value) on food items, followed by frequent expenditure on education (by 28.1% of recipients) – demonstrating a strong inter-generational transfer. Other use of the benefits is on health care (13.4%) and to purchase livestock or assets (6.4%). The uses of the benefit show that the older persons contribute to the overall household economy, and invest a significant share of their resources into the improvement of the family earning capacity.

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

Sustainability of the system

The cost of SAIL has varied from around 30 to 35 million dollars in the last few years, little above 2% of Non-Oil GDP. This will most likely change in the future, as life expectancy is increasing rapidly in Timor-Leste, rising from 60.2 years in 2001, to 68.2 in 2014. This will cause beneficiaries to receive the transfers for longer periods of time, as the number of beneficiaries also increases. However, in the opposite direction, the creation of a non-cumulative contributory old-age pension scheme, that will have broader coverage than the current Transitory Social Security Pensions, will reduce the number people depending on SAIL. Nonetheless, dependency ratios of older persons will continue considerably low still for many decades, as Timorese birth rate remains one of the highest in the world.

Graph 3: SAIL Budget Evolution (in Million US\$) and as Share of Non-Oil GDP



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

What’s Next?

Plenty of challenges remain to improve the effectiveness and reach of SAIL. In order to learn more about the programme’s impact, an evaluation study is being developed. This will bring light to what is the true

effect of SAII, and in which manners its operation and benefits can be improved. Parallel to this, efforts to improve registration and payment systems, as well as to raise awareness among the Timorese population to increase coverage of the disability pension are on the top of the agenda for the MSS.

These improvements will, unquestionably, help the programme to overcome some of its limitations; however it is important to highlight the achievements the programme has had so far. The expressive coverage of older persons shows that even in places with little to no infrastructure, it is possible to reach most of the eligible population. Moreover, the Timorese experience demonstrates that these types of programmes are affordable, and can have significant impacts on the lives of the beneficiaries and their families.

This Universal Social Protection brief was produced by André F. Bongestabs of the ILO. It was reviewed by Isabel Ortiz, Valérie Schmitt, Nuno S. M. Cunha and Loveleen De of the ILO.

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