



International  
Labour  
Organization

## **Extending Social Security and Fighting Poverty: A Complex Challenge** *Experiences from Around the World*

### ***Introduction***

Despite wide recognition that social security is a basic human right, fewer than 10 percent of people in the poorest countries have social security coverage. This has an enormous impact on their lives and on work itself. What little earning power the impoverished have is further suppressed by marginalization and lack of support systems – particularly when they are unable to work because of age, illness or disability.

Social security – the protection that a society provides to individuals and households to ensure access to health care and to guarantee income security – is an essential element of the safety net that keeps working people and their families from falling into poverty. In some cases, extending social security coverage to the unprotected can actually lift families out of poverty.

In 2001, the International Labour Conference defined some basic principles and approaches that should guide the process of extension of social security. It considered that there is no single right model of social security, and that priority should be given to policies and initiatives that can bring social security to those who are not covered by existing systems. Social security should also promote and be based on the principle of gender equality. Finally, each country should determine a national strategy for working towards social security for all.

The ILO is testing new approaches to open up access and monitoring initiatives by its member states to extend coverage. Moreover, it is seeking to apply its long experience in promoting social dialogue and tripartite involvement to address the special challenges of expanding social security in countries where coverage is weak and participation in the informal economy is high. An experimental ILO project is underway in three countries – Honduras, Mali and Sri Lanka – where the tripartite approach is being applied to each country's particular challenges.

Below are just a few examples of how the challenge is being addressed in some of the world's developing and transition countries....

### ***Social security and the Asian Financial Crisis***

When much of East and Southeast Asia was hit by a severe financial crisis in 1997, some countries learned that their limitations in their social security systems – which relied on traditional family support to fill the gaps – simply aggravated an already grave economic situation. Unemployment soared and millions fell through the safety net and into poverty.

However, once the crisis abated, countries in the region recognized the need for improved social security systems covering more risks and more people – and they began to take action. The International Labour Organization has been working with several of these countries in designing and improving their social security systems. Some examples, representing different stages of development, follow...

- **Thailand** was one of the worst affected countries, with more than 6.7 million people falling into poverty. The country had a new social security system, but it provided few benefits and covered only 17 percent of the labour force and only 9 percent of the total population. In response to the financial crisis, Thailand has taken a number of important steps to strengthen social security. For example, old age pensions and limited child allowances were introduced, and coverage was extended to all public and private employees and to the self-employed, who comprise 45 percent of the labour force. A universal health care system was introduced giving nearly three-quarters of the labour force access to medical care at a nominal fee. Thailand is also planning to introduce an unemployment insurance system that will provide jobless benefits for up to six months.
- **Indonesia**, with most of its workers in the informal economy, experienced a major increase in joblessness and, lacking unemployment insurance and social assistance, a substantial increase in poverty. The country's largest retirement savings plan allowed members to take small lump sum benefits to survive, leaving them with nothing for their retirement. More recently, the government, with the ILO's assistance and participation from the country's trade unions and employer organizations, has established a National Task Force to develop plans to extend basic social security coverage to informal economy workers, to improve health care coverage, to introduce pensions for private sector workers and to provide social assistance and unemployment benefits.
- The **Lao People's Democratic Republic** is one of the least developed countries in Asia, with half its population of 5 million living below the poverty line and 85 percent of its workforce in the agricultural sector. The ILO helped the government design a national social security plan that is currently being implemented in the capital city, Vientiane. The scheme currently covers 70 percent of private sector workers in Vientiane and will provide pensions (retirement, invalidity and death benefits) and short-term payouts for maternity, employment injury and sickness. The scheme also includes health coverage based on contributions from employers and workers. The country is currently trying to find ways to expand the programme to agricultural and informal economy workers.

### ***Brazil: Using "Social Pensions" to Fight Poverty***

Over the past 30 years, Brazil has been steadily improving its pension system, with the goal of reducing poverty among the country's elderly population. A key initiative has been the enhancement of tax-financed "social pensions," targeted primarily to rural areas, to provide coverage to people who do not participate in the more traditional contributory plans that cover many of the country's salaried workers in both the private and public sectors.

These social pensions, which essentially provide the equivalent of the minimum wage to elderly beneficiaries, have been broadly effective in fighting poverty in the country. Today, nearly 80 percent of Brazilians over age 60 live in families that receive pension benefits, and

the 10 percent poverty rate among that age group is only a third of the rate for the under-60 population.

Social pensions are a lifeline for those who receive them. It is estimated that, without them, the poverty rate among the beneficiaries would quadruple. Moreover, the benefits have a strong impact on local economies and family welfare, particularly in rural areas, where retired people are often among the few people in the community who can count on a regular income. For example, the electronic banking card that each beneficiary receives is often used as proof of creditworthiness, which in many cases goes a long way toward improving a family's economic situation.

The effectiveness of the social pensions has been enhanced in recent years by a number of initiatives, including the lowering of the minimum age to receive benefits in rural areas from 65 to 60 years of age for men, and to 55 years for women. Further, women obtained independent access to the pensions – a major victory for the rural women's movement in Brazil. Social pensions are also becoming more widely available in urban areas, where the age to receive benefits was recently lowered from 70 to 67 years and a new programme to assist disabled persons was added.

Schwarzer, H. and Querino, A. "Non-contributory pensions in Brazil: Assessing the impact of poverty reduction (ILO, 2002; Extension of Social Security, ESS Paper No.11). <http://www.ilo.org/socsec/download/esspaper11.pdf>

### ***Central and Eastern Europe: Coping with Economic Transition***

The first decade of economic transition in Central and Eastern Europe put public pension plans in the region under a great deal of stress. As high unemployment initially shrank the contribution base, governments responded to social pressures by liberalizing rules for early retirement, which caused plan expenditures to soar. Later, as countries in the region regained a measure of stability, their governments began to restructure their pension schemes in an attempt to strengthen their financing while responding to the needs of workers in the emerging market economies.

Several governments have opted to scale back their public pension schemes in favour of new systems featuring commercially managed individual savings accounts. Others are strengthening the financing of their existing pay-as-you-go systems while changing their parameters and supplementing them with voluntary retirement savings plans.

Meanwhile, in many countries in the region, the contributor base has continued to shrink – in some cases by as much as 25 percent – amid the growth of self-employment and the informal economy. In addition, underreporting of wages has become widespread. The resulting drop in revenues is placing great pressure on national pension schemes, requiring state subsidies which are fiscally burdensome or cuts in benefits that pose hardships for the elderly.

Efforts to improve the collection of contributions have focused mainly on the adoption of so-called unified collection systems, whereby a single enforcement agency collects contributions to fund multiple social insurance schemes (e.g., pensions, health care, unemployment, sickness, employment injury) and may collect income taxes as well. While this approach can

improve efficiency in improving revenues among workers in formal employment, it has not proven effective in reaching the self-employed workers and those in the informal economy for whom no government agency has identifying records. Nevertheless, unified collection systems have been established in Latvia (1996), Slovenia (1996), Estonia (1999), Hungary (1999), and Bulgaria (2002). Romania has adopted a law requiring unified collections, effective in 2004. In the Slovak Republic, a proposal for unified collections has been under consideration for several years.

Fultz, E. "Recent trends in pension reform and implementation in the EU accession countries" (ILO, 2003) [http://www.ilo.org/public/english/region/eurpro/geneva/activities/ac/trend\\_en.pdf](http://www.ilo.org/public/english/region/eurpro/geneva/activities/ac/trend_en.pdf)

### ***Tunisia: Striving for Universal Coverage in Social Security***

Using a variety of initiatives, Tunisia succeeded in raising social security coverage – for health care, old age pensions, maternity and employment injury – from 60 to 84 percent of its workers and their families in just 10 years. Nearly all Tunisians who work in the public and private non-agricultural sectors are now covered. And, while coverage rates are still below 50 percent in the agricultural sector and among the self-employed, the government hopes that all workers will be covered in the years to come.

How is this being done so rapidly? First, Tunisia took measures to limit the under-declaration of income from the self-employed by developing income scales for various occupational groups, and then using them to calculate contributions. This was followed by an extensive informational campaign, in collaboration with employers' and workers' organizations, that brought a large number of new contributors into the system. Secondly, as the government took vigorous steps to improve compliance among employers and the system was able to improve benefits, working people in Tunisia began to have more confidence in social security as an institution. In increasing numbers, they saw it as an effective tool to protect themselves against rapidly rising health care costs, as well as a guarantee of income security in old age. This change in attitude was furthered by public awareness campaigns and educational outreach by the country's trade unions.

The remaining, uncovered population will undoubtedly be the most difficult to bring into the system. They include casual and seasonal agricultural workers, construction workers in labour-intensive public works programmes, domestic workers and the unemployed.

Chaabane, M. "Towards the universalization of social security: The experience of Tunisia (ILO, 2002, Extension of Social Security, ESS Paper No.4). <http://www.ilo.org/socsec/download/esspaper4.pdf>

### ***West Africa: Building Health Care Coverage at the Community Level***

In Sub-Saharan African countries, where up to 90 percent of working people are engaged in informal employment lacking even the most basic social protection, communities of poor people have been banding together to create micro health insurance schemes to address basic needs for health security.

One example of this phenomenon is the "Wer Werlé" micro-insurance plan, which was launched in Dakar, Senegal, in 1998 and now offers health insurance services to more than

1,000 beneficiaries. Sponsored by an amalgamation of women-led anti-poverty organizations, Wer Werlé collects the monthly equivalent of US\$0.25 from its members and, in cases of sickness, reimburses 100 percent of consultation and delivery costs and 50 percent of medical costs. The plan has signed contracts with several health care providers, resulting in price reductions and better quality care for the group. In addition, it organizes awareness raising campaigns on the prevention of hepatitis B, HIV/AIDS and malaria, and it has acquired a limited stock of generic drugs to make treatment more affordable for its members.

In order to support micro health insurance plans in the West African region – and to further the mutual health movement – the ILO has worked with partner organizations to link them together into a broad network, enabling them to exchange practical knowledge and to deal more effectively with health providers, support organizations, public services and donors. Now spanning 11 countries, this “concertation” also helps create synergies between the various mutual health insurance plans, various partner organizations and their communities through concrete activities such as training programmes and information exchange meetings, as well as communications tools such as newsletters and a website.

The “concertation” also organizes a biennial international forum for member organizations to compare experiences and to develop joint activities. The most recent forum, held in Dakar in 2002, drew 190 participants from 24 African countries.

“West Africa: Building health care coverage at the community level” <http://www.concertation.org>

### ***Namibia: A Case-Study in Progress on the African Continent***

Thirteen years after its independence from South Africa’s apartheid government, Namibia still faces enormous development challenges, including one of the world’s highest rates of HIV infection and a poverty-rate that encompasses one-third of its population. However, Namibia also inherited an established social security system, which is now gradually being strengthened through social insurance schemes and improved governance.

The backbone of the present system consists of tax-financed benefits, administered by the Ministry of Health and Social Services and paid universally to people over age 60, as well as invalids and disabled people who are younger. Additionally, the ILO has worked with Namibia’s Social Security Commission to create a national social insurance scheme, financed by contributions from employers and workers and providing income security in the event of sickness, maternity or death of a breadwinner. Within this system, a pension scheme is being planned to supplement the tax-financed universal pension.

In the meantime, the universal pension of about US\$25 a month has proven to be a major source of economic support to Namibia’s impoverished communities – particularly since the government took steps to make sure that pensions and other grants are paid on time and reliably and conveniently to eligible beneficiaries. To accomplish this aim, the Ministry issued “smart cards” with the beneficiary’s photograph and a fingerprint that can be immediately verified by a machine. Crews headed by a paymaster travel regularly to thousands of “pay points” around the country, carrying with them automated teller machines similar to those found in many banks. Beneficiaries bring their smart cards, have their identification checked, and receive their benefits on the spot.

These pensions are the only regular cash income in many rural households. Often, they provide the source of financing for basic items like school fees and medicines. Namibia's new method for distributing benefits, in addition to bolstering the security and credibility of the pension system, has also greatly improved access to pensions among many elderly Namibians who, for many reasons, previously found it difficult to receive their payouts.

Schleberger, E. "Namibia's universal pension scheme: Trends and challenges" (ILO, 2002, Extension of Social Security, ESS Paper No. 6) <http://www.ilo.org/socsec/download/esspaper6.pdf>

### ***India: Self-Employed Women Organizing for Economic Security***

Founded 30 years ago in Gujarat state in India, the Self-Employed Women's Association (SEWA) is a labour union that now represents 700,000 informal economy workers in five states. Its membership consists primarily of home-based workers, vendors, manual labourers, service providers and producers.

Economic security and self-reliance have always been the central focus of SEWA's strategy to organize women. In 1992, recognizing the important role that social insurance plays in supporting these goals – and, in particular, helping self-employed women protect themselves financially in case of unforeseen events – SEWA designed and developed its own insurance plan, known as VimoSEWA. The plan provides a series of packages offering life, health and casualty insurance at premiums ranging from US\$1.77 to 8.33 per year. VimoSEWA functions as a cooperative where services are managed by a team of 120 grassroots women leaders who promote and explain the plans, process claims, develop new products and negotiate with government and private insurers.

Now serving more than 100,000 people, VimoSEWA has become one of the world's biggest social security organization for the informal economy. It recently introduced health insurance for children and plans to introduce maternity insurance.

"Women organizing for social protection: The Self-Employed Women's Association integrated insurance scheme" (ILO, 2001; STEP publication) <http://www.ilo.org/socsec/step/publs/index.htm>

### ***Micro-Insurance: How It Works in One Bangladesh Community***

In Bangladesh – where affordable, quality health care services are rare in rural areas – the ILO has supported a micro health insurance plan administered by the Grameen Bank, development association that has long pioneered financial services for the working poor. The experience of one rural villager demonstrates the impact that even a modest health plan can have on the lives of rural women in developing countries.

Married and with three children, Shefa became a member of the Grameen Bank and received a small loan that she used to purchase a sewing machine for her home-based tailoring business. Shortly after her husband left the family for a job in Saudi Arabia, Shefa fell sick with a sexually transmitted disease that she had contracted from him. Given the social stigma associated with this type of illness in their country, many rural women would be hesitant to seek treatment, especially if it required asking for money from relatives and friends. But, as a member of the Grameen Kalyan, the micro health insurance plan, Shefa was able to afford to

visit a nearby health center, where she was diagnosed and treated until cured. With her health card, for which she pays the equivalent of about US\$2.00 a year, she was able receive medical care for a little more than one-tenth the market price.

Shefa is now healthy and continues to support her family. And Grameen Kalyan continues to provide affordable health security to more than 45,000 people in Bangladesh, with plans to increase that figure to 60,000 by the end of 2003.