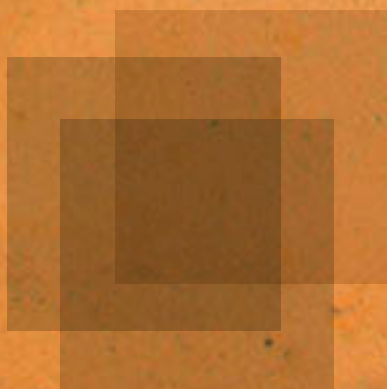




International  
Labour  
Office

# WORLD SOCIAL SECURITY REPORT

Providing coverage in times  
of crisis and *beyond*



2010.2011

# Executive summary

## Objective and structure of the report

There is little hope that the Millennium Development Goals will be reached without a decisive global move towards introducing a national social protection floor of basic social security benefits in countries where no such scheme exists or where they have only limited coverage.

Sound social security policies have to be based on facts and figures. This report provides that factual basis to support the development of national social security policies. It is the first in a series of *World Social Security Reports* which will also help to monitor the global progress on social security coverage and thus support the ILO's campaign to extend coverage. It deals first with the scope, extent, levels and quality of coverage by various social security branches; it then examines the scale of countries' investments in social security, measured by the size and structure of social security expenditure and the sources of its financing; and finally presents the nature of social security responses to the crisis as a thematic focus. The main objective of the current report is to present the knowledge available on coverage by social security in different parts of the world, and to identify existing coverage gaps.

## Main general findings

The notion of *social security* used here has two main (functional) dimensions, namely "income security" and "availability of medical care". Social security coverage

can be directly measured only separately for each of the specific branches, such as health care, old age or unemployment; or even for a group of specific schemes within each branch. There is no universally accepted methodology to aggregate these branch-specific coverage indicators into one overall indicator. However, the report makes an effort to provide at least a technical synopsis of the individual dimensions of coverage and the size of national social protection expenditure.

Some level of protection by social security exists in nearly all countries, though only a minority of countries provide protection in all branches. There is no country in the world without any form of social security, but in many countries coverage is limited to a few branches only, and only a minority of the global population has – both legally and effectively – access to existing schemes. Only one-third of countries globally (inhabited by 28 per cent of the global population) have comprehensive social protection systems covering all branches of social security as defined in ILO Convention No. 102. Taking into account those who are not economically active, it is estimated that only about 20 per cent of the world's working-age population (and their families) have effective access to comprehensive social protection.

## *Social health protection coverage*

Although a larger percentage of the world's population has access to health-care services than to various cash benefits, nearly one-third has no access to any health facilities or services at all. For many more, necessary

expenditure on health care may cause financial catastrophe for their household, because they have no adequate social health protection which would cover or refund such expenditure.

### ***Coverage by social security pensions: Income security in old age***

Coverage by old-age pension schemes around the world, apart from in the developed countries, is concentrated on formal sector employees, mainly in the civil service and larger enterprises. The highest coverage is found in North America and Europe, the lowest in Asia and Africa.

Worldwide, nearly 40 per cent of the population of working age is *legally* covered by contributory old-age pension schemes. In North America and Europe this number is nearly twice as high, while in Africa less than one-third of the working-age population is covered even by legislation. Effective coverage is significantly lower than legal coverage. With the exception of North America and to a lesser extent Western Europe, effective coverage is quite low in all regions. In sub-Saharan Africa only 5 per cent of the working-age population is effectively covered by contributory programmes, while this share is about 20 per cent in Asia, the Middle East and North Africa. In Asia some countries have made major efforts to extend coverage beyond the formal sector. At the same time, while in high-income countries 75 per cent of persons aged 65 or over are receiving some kind of pension, in low-income countries less than 20 per cent of the elderly receive pension benefits; the median in this group of countries is just over 7 per cent.

### ***Coverage of income support systems for the unemployed***

Present entitlements to unemployment benefits tend to be restricted to those in formal employment, and exist mostly in high- and middle-income countries. In a large part of the world where extreme poverty is high, the very concept of “unemployment” seems to be irrelevant, as everybody has to work in order to survive. Of 184 countries studied, statutory unemployment social security schemes exist in only 78 countries (42 per cent), often covering only a minority of their labour force. Coverage rates in terms of the proportion of unemployed who receive benefits are lowest in Africa, Asia and the Middle East (less than 10 per cent).

### ***Coverage of minimum income support benefits and other social assistance***

In most countries with developed social security systems a large part of the population is covered by social insurance schemes, while social assistance plays only a residual role, providing income support and other benefits to the minority who for some reason are not covered by mainstream social insurance.<sup>1</sup> In the European Union (plus Iceland, Norway and Switzerland), expenditure on means-tested benefits does not exceed 3 per cent of GDP on average, while total social protection expenditure is on average over 25 per cent. 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 5 per cent of GDP.

While in most of the developed countries (except Australia and New Zealand) social assistance-type schemes play an important although residual role in closing relatively small coverage gaps, in many middle- and low-income countries non-contributory income transfer schemes have been recently gaining 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 this report. In fact, the most promising innovations that can help to cover the global coverage gap are conditional or unconditional cash transfer schemes in a number of developing countries, i.e. tax-financed social assistance schemes, such as the Bolsa Família scheme in Brazil, the Oportunidades schemes in Mexico, the social grant system of South Africa, or universal basic pension schemes in countries such as Namibia and Nepal.

### ***Coverage by other branches of social security***

Most countries in the world offer some coverage for work-related accidents and diseases. Coverage is generally limited to those working in the formal economy, and even there effective coverage is low with only

<sup>1</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.



a certain portion of accidents reported and compensated. In the informal economy prevailing in many low-income countries, conditions and safety of work are often dramatically bad, accidents and work-related diseases widespread and with no protection at all for their victims. Globally, estimated legal coverage represents less than 30 per cent of the working-age population, which is less than 40 per cent of the economically active.

Reducing maternal, neo-natal and under-5 mortality through social security maternity benefits is globally among the greatest challenges of social protection; it concerns 11 million children who die before the age of 5, and 500,000 mothers dying during maternity (WHO, 2005). Coverage of cash benefits before and after birth is limited to formal sector employees. Differences in access to health care in the context of maternity protections between countries at different income levels and within countries are striking. In low-income countries no more than 35 per cent of all women in rural areas have access to professional health services, while in urban areas the access rate amounts to an average of about 70 per cent, which is still more than 20 percentage points lower than the access in high-income countries (where it is nearly complete).

### ***Investments in social security and a tentative summary***

On average, 17.2 per cent of global GDP is allocated to social security. However, these expenditures tend to be concentrated in higher-income countries as shown

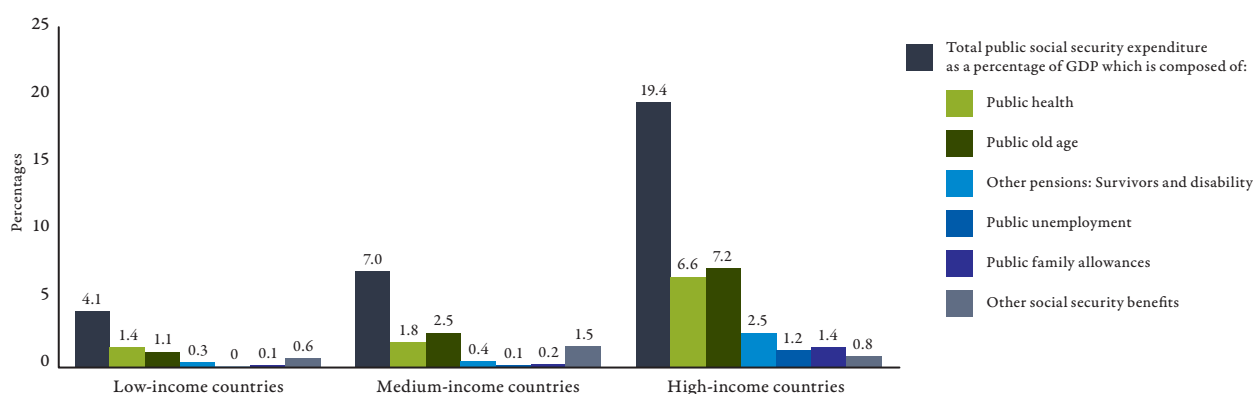
in figure S.1, and so this average does not reflect the situation for the majority of the world's population, who live in lower-income countries where much less is invested in social security.

Although this prevailing pattern shows a strong correlation between income levels and amounts of resources allocated to social security, it cannot be concluded there is no fiscal or policy space for lower-income countries to decide on the size of their social security system. Countries with a similar level of GDP per capita may take very different decisions as to the size of the public sector. And at any size of government, countries have some choice as to what portion of public resources to invest in social security.

Despite methodological difficulties we attempted to build a first approximation of a typology of situations in different countries, i.e. of factors that ensure success in terms of social security coverage. The typology uses two input factors (legal foundations built, sustained level of resources committed), and a proxy for effective and good quality coverage as an output measure.

Not all the theoretically possible combinations of different factors occur in reality: not even the widest legal foundations can ever result in adequate coverage outcomes if they are not enforced and not backed by sufficient resources. But strong legal foundations are a necessary condition for securing higher resources; there are no national situations where generous resources are available despite the lack of a legal basis. In 29 per cent of 146 countries that were analysed, a comprehensive legal basis and high levels of resources coincided with high levels of good quality coverage.

Figure S.1. Social security expenditure by income level and branch, weighted by population, latest available year (percentage of GDP)



Link: <http://www.socialsecurityextension.org/gimi/gess/ResFileDownload.do?ressourceId=15128>

Note: The number of countries for which detailed social security data on expenditure by branch are available is smaller than the number of countries covered for the calculation of total expenditure as presented in figure 8.2. This explains some differences in the results for total expenditure.

Source: ESSPROS (European Commission, 2009a). See also ILO, GESS (ILO, 2009d).

## Thematic focus: Social security in times of crisis

In addition to providing income replacement for those who lose their jobs, thus safeguarding them from poverty, social security benefits also have major economic impacts through stabilizing aggregate demand. And, contrary to earlier beliefs, no negative effects on economic growth of increased social spending during and after crises have been found. On the contrary, well-designed unemployment schemes and social assistance and public works programmes effectively prevent long-term unemployment and help shorten economic recessions.

In those countries reviewed that have at least elements of comprehensive social security responses in areas such as pensions, health schemes or family benefits, the main crisis responses are usually automatic increases in number of beneficiaries and expenditure as well as expansions in coverage and in benefit levels of existing schemes, except for a limited number of countries which have been forced by circumstances to actually decrease benefits or to narrow coverage.

Measures expanding benefits and coverage can be found everywhere – in high-, medium- and low-income countries. Where they exist, unemployment insurance schemes are the branch of social security that bears the brunt of costs of income replacement for employees who have lost their jobs. But unemployment insurance schemes are in place in only 64 of the 184 countries for which information is available. Social assistance, public works and similar programmes also have very limited coverage globally. In the economic crises of past decades which affected countries such as those in Asia and Latin America where social security schemes were absent, it proved to be difficult – if not impossible – to introduce new schemes or ad hoc measures quickly enough to cushion the impact of the crisis. But countries which had introduced unemployment schemes before the onset of the crisis, such as the Republic of Korea, could relatively easily scale up these measures to respond in an appropriate and timely way.

In 46 high-, medium- and low-income countries analysed, government responses are found in all the three groups of countries providing income support to the unemployed. The most common responses in high-income countries are modifications of existing unemployment schemes. Since past recessions have led to higher structural unemployment in some Western

European countries, in this crisis government strategy in a number of countries, such as France, Germany and the Netherlands, aims at the avoidance of full unemployment by expanding the application, eligibility and coverage of partial unemployment benefits. Partial unemployment benefits allow workers to stay in their employment relationship, but – for example – with reduced working hours. They aim at preventing the loss of skills and the discouragement of workers, both of which may occur when they become fully unemployed.

The most common form of response in middle-income countries is the extension of cash transfer schemes (for example, in Brazil) or public employment schemes (for example, in the Philippines). The latter often have an ad hoc character: they may be implemented more quickly than social security schemes, and discontinued once the crisis is over. The availability of measures for crisis response is clearly the most limited in low-income countries. Schemes providing income support in case of unemployment exist, but rarely. In addition, many of these countries, in particular in sub-Saharan Africa, were already facing mass poverty and underemployment well before the recent global economic crisis.

Corrections to pension schemes might also be required in all countries where schemes were reformed during the last three decades. The crisis and the consequential losses in pension reserves clearly demonstrated the vulnerability of pension levels, and hence old-age income security, to the performance of capital markets and other economic fluctuations. The unpredictability of pension levels may be reduced by introducing defined-benefit-type guarantees into defined-contribution schemes, or by guaranteeing rates of return in such a manner as would provide replacement rates on retirement at target levels.

There remains a risk that countries that followed an expansionary fiscal policy during the crisis will now face pressure for fiscal consolidation to cope with increased deficits and public debt. If and wherever it happens, this may result in future cuts of social security spending to even below pre-crisis levels. This may not only directly affect social security beneficiaries and consequently the standards of living of a large portion of the population but also, through aggregate demand effects, slow down or significantly delay a full economic recovery.

## Conclusions

The current crisis has once more proved how important a role social security plays in society in times of crisis and adjustment. It works as an irreplaceable economic, social and political stabilizer in such hard times – both for individual lives and the life of society as a whole. Social security plays this role in addition to its other functions – providing mechanisms to alleviate and also to prevent poverty, to reduce income disparities to acceptable levels, and also to enhance human capital and productivity. Social security is thus one of the conditions for sustainable economic and social development. It is a factor in development. It is also an important factor in a modern democratic state and in society.

This report clearly shows that the majority of the world population still has no access to comprehensive

social security systems. Thus, to prepare global society for future economic downturns and to achieve other global objectives such as the Millennium Development Goals, sustainable economic development and a fair globalization, a fundamental task is to develop comprehensive social security systems in countries where only rudimentary systems exist so far, starting with the provision of basic income security and affordable access to essential health care. The ILO is promoting the re-shaping of national social security systems based on the principle of progressive universalism. Inter alia, the Global Jobs Pact, adopted by the International Labour Conference in June 2009, advocates ensuring a minimum set of social security benefits for all – a social protection floor. Based on that floor, higher levels of social security should then be sought as economies develop and the fiscal space for redistributive policies widens.