

ESS Extension of Social Security

The extension of social security coverage: The approach of the International Labour Office

Emmanuel Reynaud

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Table of contents

Note.....	iv
Introduction.....	1
An ILO strategy for the extension of social security coverage	2
Social insurance, universal schemes, social assistance	4
Priority for short-term benefits.....	5
Growing interest in unemployment insurance and social assistance programmes.....	6
Coverage of the self-employed and workers in the informal economy.....	7
Differentiated schemes and gradual extension of coverage	8
Micro-insurance and decentralized systems.....	8
Extending social security coverage: a priority for the years to come.....	12
References.....	14
ANNEX: Chapter III of Report VI of the International Labour Conference, 89th Session	15
The right to social security.....	15
The problem of non-coverage.....	16
Policies to achieve the extension of coverage.....	18
The economic, social and political context.....	18
Strategies for extending social protection.....	19
Extending social insurance schemes.....	20
Recent examples of successful extensions of compulsory coverage	22
Encouraging micro-insurance and specific schemes for informal economy workers.....	22
Introducing universal benefits or services financed from general state revenues.....	24
Establishing or extending means-tested benefits or services (social assistance)	25
Linkages between different components of social protection.....	26
Conclusions	27

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Introduction

One of the major problems of social security today is that most of the world's population has no protection. Extending social security coverage to excluded populations is one of the chief priorities of the International Labour Office (ILO) in the framework of its global strategy aimed at ensuring that all people - both men and women - have decent work. The importance of this objective was reaffirmed with vigour by the General Conference of the International Labour Organization (ILO) at its 89th Session in June 2001 in Geneva (ILO, forthcoming, and www.ilo.org). The Conclusions that it adopted following a general discussion on social security open with a preliminary statement solemnly enjoining the Office to act urgently to fill the gaps in social security coverage:

“In 1944 the Conference recognized “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”. It is time for a renewed campaign by the ILO to improve and extend social security coverage to all those in need of such protection. The Director-General is invited to address the conclusions set out below with the seriousness and urgency they deserve in order to overcome a fundamental social injustice affecting hundreds of millions in member States.”

Not only is the aim to be pursued clearly stated: equally clear are the dimensions of the task and the little progress made over the past few decades. The ILO's activities have for a long time derived from the idea that the gradual extension of coverage would be based on institutional social security as the modern formal economy gained ground on the traditional economy. Sadly, reality has visibly not lived up to expectations. In many developing countries social security coverage has remained very low and reaches only a limited proportion of the population, providing protection against only a limited range of risks. In some cases it is even shrinking, in particular as a result of structural adjustment policies and privatization. At the same time the informal sector is everywhere on the increase, such that today it is no longer referred to as the informal sector but as the informal economy.

In sub-Saharan Africa and South Asia it is estimated that only 5 to 10 per cent of the active population is covered by a statutory social security scheme, most of these being old-age pension schemes, in some cases also providing access to health care, but coverage is tending to fall. In Latin America coverage ranges from 10 to 80 per cent according to the country, but on the whole it is stagnant. In South East and East Asia, it ranges from 10 per cent in countries such as Cambodia to 100 per cent in the Republic of Korea for sickness insurance. In the transition countries of Europe, it lies between 50 and 80 per cent, and in some of the wealthiest industrialized countries there are still today increasing gaps in social

security coverage. In general, worldwide it can be taken that only 20 per cent of workers enjoy adequate social security.

The low level of social security coverage in developing countries is not a new problem, especially in countries where a large portion of population works in subsistence agriculture. However, the difficulties of coping with the problem have considerably increased over the past few years on account of the rapid growth of the urban workforce active in the informal economy. In many developing regions, and particularly in Latin America and Africa, most of the jobs created over the last decade have been in the informal economy. In Kenya, for example, informal employment accounted for two-thirds of all urban employment in 1996, compared to barely 10 per cent in 1972 (ILO, 1999). In India, if agriculture is included, more than 90 per cent of workers are in the informal economy. This can no longer be regarded as a “sector” in the full sense of the term, since it covers all sectors and all categories of workers: wage earners, the self-employed, home workers and unpaid family workers, etc. Moreover, the phenomenon is not limited to small enterprises, since in many countries unregulated wage employment affects the whole economy: in Argentina and Brazil, for example, 40 per cent of urban wage earners are in informal employment.

An ILO strategy for the extension of social security coverage

Without the introduction of effective measures to extend coverage, the proportion of the population excluded from all protection will increase considerably in the coming years. To meet this challenge, the ILO has developed a new strategy for improving and extending social security coverage. This consists in implementing three complementary forms of action:

- extension based on “classical” social security mechanism: social insurance, universal benefits and systems and social assistance programmes;
- the promotion of and support for the development of decentralized systems deriving from local initiatives, in particular micro-insurance;
- the design of linkages and bridges between decentralized systems and other forms of social protection and public initiatives.

With this general framework, the concrete implementation of the strategy depends on the national context, both in terms of the level of development and the specific political, economic, social and cultural features of the country. Here we shall focus only on developing countries since it is there that social security coverage is the least adequate. However, it should be stressed that the industrialized countries are not untouched by the problem and that policies for the extension of coverage have been applied there over the past few years. One example is Spain, which with the introduction of a national health service by the General Health Act of 1986, in the 1990s extended access to health care to 99.8 per cent of the population. Another example is France, which introduced universal

health coverage in 2000 for those excluded from health insurance schemes. Various European countries also introduced minimum income programmes in the 1980s and 1990s for those unable to benefit from existing income guarantee schemes.

In seeking to extend social security coverage, it is useful to make a very general distinction between two main types of developing countries: middle-income and poor countries. In middle-income countries, the State has the real institutional and financial capacity to take action. The capacity to collect taxes, in particular, gives it a relatively broad margin for manoeuvre. The possibilities of extending coverage on the basis of public systems or systems encouraged by the State are hence far from negligible. For example, this may involve the adaptation of social insurance systems to respond to the needs and contributory capacity of certain categories such as the self-employed, or the introduction of a national health service. However, it is also possible to design programmes of public subsidies for insurance mechanisms specially tailored to low-income groups that do not have any formal social security coverage.

In poor countries the State's capacity for intervention is extremely small. The difficulties it encounters in collecting taxes do not enable it to become involved financially. Here the ILO acts on two fronts: first, restructuring existing social security systems to improve the quality and scope of coverage that they provide; secondly, supporting the development of new decentralized mechanisms of protection, in particular micro-insurance. A good part of the effort is focused on the latter, since the immediate potential for extending coverage on the basis of institutional social security systems remains small in such countries. This approach draws on the creativity of the target population and their capacity to become involved and cooperate. The idea is to develop a culture of insurance and solidarity regarding protection against social risks.

The main area of action in the field of micro-insurance concerns access to health care, which in most cases is a priority for the population concerned. However, this is still largely at the stage of research and experimentation. Such mechanisms are the subject of increasing international interest, but are relatively few in number. Those studied so far, particularly in Latin America and Africa, have major shortcomings and weaknesses and are unable to cover a large part of the population. Their real development potential has still to be tested, and in general they must be regarded as a transitional form of protection in a context in which it is impossible to contemplate introducing national mechanisms based on the logic of solidarity and the pooling of risks.

Generally, the extension of social protection to uncovered populations raises a fundamental question: should one try to extend the existing coverage - which benefits only a minority - to all the population, or create specific mechanisms that provide a lower level of protection for the uncovered population? The first option has shown its limits, but the second, more pragmatic, entails a major risk - that of creating a dualistic social protection system with solidarity among the privileged on the one hand and among the poor on the other. For a long time the ILO has been reluctant to follow any path entailing such a risk. However, it is now pursuing it cautiously, but resolutely, for the extent of the problem of

poor social security coverage in developing countries calls for urgent action. However, two points must be stressed in this connection.

The extension of social protection calls for a dynamic approach. The process involved is long, and the ultimate aim is to build a generalized national social security system in order to guarantee to all a secure income and access to health care at a level corresponding to the economic capacity and political will of the country. Moreover, it is essential from the outset to provide for linkages and bridges between the arrangements designed for uncovered categories and other social protection mechanisms. The aim is to design a national social security policy grounded in the concept of a partnership between the different actors concerned (the State, local authorities, social partners, professionals in the sector, civil society organizations, third sector and the private commercial sector). Social security must be regarded as the preferred instrument for integrating the excluded both in socio-economic and political terms. The goal is the implementation of a genuine national system of solidarity for all.

Various mechanisms can be used to extend coverage. Some derive from the “classical” forms of social security (social insurance, universal systems, social assistance), others from more recent forms based on decentralized initiatives, in particular micro-insurance.

Social insurance, universal schemes, social assistance

“Classical” social security offers a range of instruments for extending coverage on a large scale. In middle-income countries social insurance schemes offer great potential for extension, either by enlarging existing schemes to include new categories of workers, or by creating a new scheme. Experience of such ventures suggests the following lines of action:

- extending coverage to all wage earners within a prescribed time-frame, with the exclusion of certain categories such as domestic servants, family workers and casual workers;
- planning for a review of the scheme so as to facilitate partial affiliation for the self-employed, domestic servants, agricultural workers and those who derive regular income from activity in the informal economy;
- strengthening the administrative capacity of social insurance schemes, particularly as regards the collection of contributions, the maintenance of members’ records and financial management;
- launching educational and awareness-raising programmes to improve the image of the social insurance system;
- designing a benefit package appropriate to the needs and contributory capacity of those not covered;

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- making the best possible use of health care services financed by social insurance institutions.

Universal schemes are of major interest in principle: by definition they cover all the target population, for example, all those above a certain age, without any conditions as to contributions or income. However, the introduction of such schemes, which are found mostly in industrialized countries, faces the problem of their being financed out of general government revenue. In most developing countries tax collection is difficult and the fiscal base is in general small. Moreover, the State has to face a large number of different priorities, and the sustainability of the scheme may well be called into question from one year to the next according to political developments or changes in economic conditions. The same type of problem arises in financing social assistance programmes, which also raise a whole range of questions concerning their methods of implementation and the definition of eligibility criteria. In this respect developing countries often use mechanisms of self-selection, for example, through the creation of jobs in the framework of labour-intensive public works schemes or the provision of basic food assistance. Some countries have also introduced programmes linking assistance to the promotion of education and combating child labour.

In general, the extension of social security coverage is a theme of growing importance in the developing world. Recent experience in several countries makes it possible to identify a number of major trends, and through concrete examples to illustrate the paths that can be followed.

Priority for short-term benefits

In the past, the general trend was to focus first on old age pensions and other long-term benefits designed to ensure security of income after termination of activity. This approach today seems inappropriate in developing countries, where approaches are determined on the basis of short-term considerations and linked to access to health care and immediate compensation for loss of income. This situation is exacerbated in the least developed countries by the short life expectancy and the catastrophic consequences of the HIV/AIDS pandemic.

For some years now the extension of social security coverage has hence in most cases concerned short-term benefits. Many examples can be given to illustrate this. In Namibia, the new social insurance scheme introduced in 1995 includes benefits for sickness, maternity and death (funeral expenses) and it was estimated in 1999 that 80 per cent of workers in the formal sector were covered. In the United Republic of Tanzania the National Provident Fund is partly used for pensions and partly for maternity benefits, employment accident benefits and sickness insurance. In Nigeria workers are currently complaining that the former provident fund that has been transformed into a social insurance scheme only provides pensions whereas their immediate needs concern income protection against the risk of losing employment. Laos has given priority, in its project for

the introduction of a social security system, to sickness insurance and short-term benefits rather than pensions.

With the growing importance accorded to health care, one trend that has been identifiable for several years should be stressed: the strategy of subsidizing the demand for care (health insurance mechanisms) and no longer merely the supply. The example of the reform of the health care system in Colombia in the 1990s clearly illustrates this approach (Jaramillo, 2000). One of the major innovations of this reform, introduced by Act 100 adopted in 1993, consists in a mechanism subsidizing contributions for categories traditionally excluded from health insurance. A special scheme (Régimen Subsidiado de Salud) was hence created in 1996 to finance health care for the poor and vulnerable groups (including their families) who are unable to pay contributions to the general health insurance scheme. Financing of the scheme is ensured by a solidarity contribution collected under the contributory scheme and by a state subsidy that varies with the economic status of the beneficiaries. In 2000 the scheme covered more than 22 per cent of the Colombian population, and the categories most represented were self-employed workers and workers in the informal economy.

Growing interest in unemployment insurance and social assistance programmes

For some years now a number of countries that had not previously planned to introduce income protection mechanisms for loss of employment have showed increasing interest in this kind of scheme. The Asian financial crisis of 1997 played an important role in this respect, in particular by demonstrating the inability of traditional systems of protection and solidarity to cope with reversals of trends in industrializing economies. Countries such as Thailand and the Philippines hence carried out feasibility studies on the introduction of unemployment insurance, and Indonesia plans to do so.

Social assistance programmes and schemes to protect the poorest of the poor are also tending to develop. Namibia, which has a universal pension scheme financed by taxation, is considering transforming it into a means-tested scheme. Sri Lanka has introduced a social assistance system that combines several types of measures: loans for the creation of enterprises, training and allowances. In addition, a new form of social assistance has been introduced in Latin America, involving programmes that make payment of assistance dependent on actual school attendance by children of school age. Two countries, Brazil and Mexico, have played a pioneering role.

In Brazil, the federal district of Brasilia in 1994 launched the Bolsa Escola (Lavinias, 2001), an experimental minimum income programme linked to compulsory school attendance of children. This programme has reached 26,000 families, about 80 per cent of the target population, and its impact has been thought extremely positive both in terms of reducing poverty and in educating the children of the poorest families. Around

100 Brazilian municipalities have introduced similar programmes. Mexico has also drawn up a national programme based on the same principle - Progresa (ILO/UNCTAD Advisory Group, 2001, pp. 5-7). Two types of benefits are provided: a school allowance and a family subsidy for health care and nutrition. These are conditional on the attendance of children in at least 85 per cent of the classes given during the school year. The programme was introduced in 1998 and has reached 2.6 million families in 2,100 Mexican cities. It is estimated that in rural areas three-quarters of all poor families are covered.

Coverage of the self-employed and workers in the informal economy

Many countries exclude the self-employed and various categories of workers in the informal economy from social security coverage. Where compulsory coverage is provided by law, actual coverage is in most cases low. However, there are a number of interesting experiments that indicate avenues to be explored.

The Republic of Korea has extended compulsory coverage to self-employed workers for pensions and health insurance. Pension coverage has for example been extended progressively: first for self-employed workers in rural areas, with the State assuming the cost of contributions (6 per cent of a 9 per cent contribution) with the gradual disappearance of the subsidy over 10 years; then self-employed workers in urban areas were covered on the same basis. Sri Lanka has also introduced a pension scheme for agricultural workers, fishers and self-employed workers, based on voluntary membership and with a state subsidy. In Senegal the Social Security Fund has since 1998 been working with the Federation of Chambers of Trade to encourage handicraft workers to join on an individual basis in order to cover work injury.

In general it seems that, faced with the challenge of extending social security coverage to workers in the informal economy, one of the most promising lines of action consists in making distinctions between different categories whose needs, contributory capacity, conditions of employment and degree of integration differ widely. The problems posed, as well as the type of protection suitable and the possible ways of extending coverage in fact vary widely according to whether those excluded have an employer or someone identifiable as such (domestic servants, home workers, casual workers, contract workers...), whether or not they work for their own account (employers, the self-employed, small farmers, fishers), whether they work as part of a group or a community (members of a cooperative or association...). Within each category, particularly the last two, there tend to be wide disparities, ranging from street vendors to the liberal professions, and including handicraft workers and taxi drivers. With a better understanding of the basic elements and features of the informal economy, appropriate strategies for different categories of workers become possible.

Differentiated schemes and gradual extension of coverage

Uruguay is a good example here (Equipo de Representación de los Trabajadores del Banco de Previsión Social, 2001). Three categories of workers have been identified as encountering particular problems deriving from the precarious and informal nature of their employment: construction workers, domestic servants and the self-employed. Specific arrangements have been designed for each category: one scheme covering construction workers for old-age pensions, sickness, family and employment injury benefits; a health insurance scheme for domestic servants; and coverage for the self-employed by the country's main social security institution (the Social Insurance Bank) for old age pensions, survivors and invalidity and sickness benefits.

Policies for the gradual extension of coverage to an increasing number of workers are also strategies that are frequently utilized. The Republic of Korea is an interesting example (Kwon, 2002), which has gradually extended compulsory health insurance to all workers over a period of 12 years. In 1977 wage earners in enterprises with more than 500 workers were the first to be covered. State employees and teachers came next, followed gradually by workers in increasingly small enterprises. Extension to the self-employed began through pilot programmes (three introduced in rural areas in 1981 and two in urban areas in 1982) and was then generalized to cover all rural areas (1988), and then urban areas (1989).

Another good example of gradual extension of coverage is Tunisia (Chaabane, 2002), which today has a social security system that provides a wide range of benefits (health insurance, pensions, maternity, employment injury). The level of coverage reached 84 per cent of the active population in 1999, compared with 60 per cent in 1989. The main categories not covered today are seasonal and casual agricultural workers, unemployed workers employed on labour-intensive public works schemes, domestic servants and the unemployed.

Micro-insurance and decentralized systems

A completely different approach to the extension of coverage is based on local voluntary initiatives. Faced with the low level of coverage of statutory social security systems, various groups of self-employed workers and workers in the informal economy have over the past few years set up their own social protection systems. These consist in pooling resources and risks for members of the group. They are generally based on the principle of insurance and most concern access to health care. They can be described in general terms as "micro-insurance" schemes by reference not to the scale of the system, but to its capacity to handle very small flows of income and expenditure. Worldwide, such mechanisms are still relatively few in number, but they are growing rapidly. They are to be found in such countries as Bangladesh, Benin, Burkina Faso, Cameroon, Congo, Côte

d'Ivoire, Ghana, Guinea, India, Kenya, Mali, Nepal, Nigeria, the Philippines, Rwanda, Senegal, the United Republic of Tanzania, Togo, Uganda and several countries in Latin America (see ILO-STEP, 2000). Two schemes offer a good example of this type of system: the SEWA scheme (Self-Employed Women's Association) in India and that set up in Bangladesh by the Grameen movement (ILO-STEP, 2001 and Messell, 2001).

SEWA is a trade union of mainly self-employed women workers in the informal economy engaged in such activities as door-to-door vending, small-scale commerce and home work. In 1992 it set up an "integrated social security scheme" which is the largest contributory scheme for informal economy workers in India. In 2000 the scheme included some 25,000 women, 14 per cent of the membership of SEWA, and covered health care (with a small maternity component), life insurance (death and invalidity) and property insurance (loss or deterioration of housing unit or work equipment). The contribution for all benefits is Rs 60 a year (about US\$1.50), which covers only part of the cost of financing the scheme. The scheme also receives a state subsidy, and its administrative costs and maternity component are covered by the interest earned on a fund established in 1993 thanks to the German Development Agency (Gesellschaft für technische Zusammenarbeit (GTZ)).

Grameen Bank is the largest rural financial institution in Bangladesh. It now lends to more than 2.4 million people, 95 per cent of them women. In the 1990s an evaluation of its micro-credit programme showed that sickness and health problems were the main cause of repayment defaults. In 1993 Grameen hence introduced a "rural health programme" to apply to the field of health care the same principles that had proven themselves in the world of finance. Since 1997 this programme has been implemented by a specialized institution of the Grameen movement, the Grameen Kalyan. The programme includes both a micro-insurance health care system and local health services through some 14 health centres. In 1999 some 60,000 people were insured and 107,373 patients treated. Participation in the insurance system is based on voluntary membership and an annual contribution. The poorest families receive a state subsidy to cover their contribution.

Experience of micro-insurance studied so far demonstrates not only the interest in this kind of mechanism, but also its shortcomings and weaknesses. The real capacity of micro-insurance schemes to cover a high number of people on a durable basis must be assessed alongside the role that they are capable of playing in the framework of a national strategy for the extension of social security coverage. On the whole, the potential of micro-insurance today must be explored systematically and rigorously. For several years now the ILO has been resolutely committed to this path through its STEP programme (Strategies and Tools against Social Exclusion and Poverty), which is very active in this field. Since its creation in 1998 the programme has conducted various activities concerning micro-insurance: projects in the field, research, and the production of methodological and teaching tools, as well as support for policy formulation and implementation. For example, at the end of 1999 STEP launched a project to support the development of health micro-insurance in Senegal, Burkina Faso, Guinea and Benin to provide women and adolescent girls with better access to basic health care at an affordable price. A more recent example is a project that the programme is about to launch in Bangladesh in collaboration with a

number of partners: with Grameen Kalyan for the extension of its current health micro-insurance system; with BRAC (Bangladesh Rural Advancement Committee), the biggest non-governmental organization (NGO) in the country, which provides its 3.5 million members with services related to micro-credit, savings and micro-enterprise development, for the extension of its health micro-insurance activities; and with the government, trade unions and workers to strengthen dialogue and promote concrete partnerships related to the means of promoting access to health care for women in the informal economy.

The field of micro-insurance is still new and relatively little known. However, the work already completed and experience acquired provide a number of lessons. First, it must be stressed that most existing systems are fairly small, and it is hence necessary to determine by what means and through which partnerships they can grow. One possibility is for them to form a grouping, for example a federation, so as to strengthen their negotiating power with the State and health care providers, to pool their knowledge and improve their financial situation by enlarging the group in which the risks are pooled. Making greater efforts in the field of promotion is another possibility, since experience shows that a large proportion of the target population is generally poorly informed of the advantages of being insured. At the same time it is important to strengthen the system's credibility. One of the most effective means of extending micro-insurance coverage is without any doubt to subsidize the systems, in a spirit of national solidarity, which leads to the question of the financial capacity and political will of the State to take such action.

In general, the development of micro-insurance necessarily implies the implementation of various forms of partnerships. Systems have the possibility of associating with civil society organizations (cooperatives, trade unions, associations, community organizations...) or simply seeking to ensure their support. They can also approach private enterprises or social security institutions that already have management machinery that works efficiently. It should be stressed that the success of such ventures requires efforts on all sides to adapt to completely different cultures and forms of organization. Moreover, the State has a major role to play in strengthening micro-insurance. Local authorities can, in partnership with civil society organizations, contribute to the development of local facilities. Nationally, the State has the possibility of extending successful experiments so as to apply to other areas, sectors and trades. In general, it has the means to create a favourable environment for the development of micro-insurance. Through regulations it should also clarify the respective role of micro-insurance and of the compulsory social insurance scheme so as to prevent the latter from being adversely affected by the implementation of voluntary coverage and, in the longer term, to ensure coherence and closer links between the two systems. In the field of health care, several forms of state intervention can be considered:

- promoting health insurance by recommendations concerning the design of the system (benefit package, mode of affiliation and administration) and introducing a management information system;

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- establishing control and regulatory mechanisms for micro-insurance, for example, in the framework of legislation on the efficient and transparent management of the systems;
 - improving and decentralizing public health services, which in many countries is a necessary precondition for the development of micro-insurance;
 - undertaking and organizing training, particularly regarding promotional activities and the control mechanisms mentioned above;
 - (co-)financing access to health insurance for low income categories, for example through a system of subsidies or by matching the contributions of those insured.
 - One last point should be stressed. Micro-insurance must not be regarded as simply a mechanism of financing or pooling risks, for it is also capable of playing an important role in various fields, in particular as a result of popular participation in its design and implementation. Experience shows that a micro-insurance system can for example contribute to the following functions:
 - the identification, at the community level, of problems, constraints and priorities;
 - prevention, education and promotion in relation to health care;
 - the identification of the families and groups facing serious difficulties or which are most vulnerable;
 - defining a realistic basic benefit package that is adapted to the local context;
 - the establishment and (co-)management of the supply of local services, including basic health care and access to generic medicines;
 - improving the transparency and quality of service and reducing costs;
 - mobilizing and pooling local resources (financial and human), creating organized and solvent demand and the capacity to purchase services;
 - developing the pooling of risks: at the community level, at a broader level through groups, and at the national level by dovetailing with the national health and social security system;
 - reducing the cost of the transactions (collecting contributions) and risks related to insurance (moral hazard, fraud, abusive behaviour, etc.);
 - effectively and transparently channeling aid and subsidies for the most vulnerable members of society;
 - enhancing the visibility, negotiating power and capacity to participate of excluded categories, especially women, who are very active within such systems.

Extending social security coverage: a priority for the years to come

The examples of efforts to extend social security coverage over the past few years in a wide variety of countries clearly demonstrate the great many possibilities available. On the basis of acquired experience, it is possible to define coherent national strategies that combine different forms of extension and do so according to the national context and in a suitable time-frame.

Last June the International Labour Conference considered that “of highest priority are policies and initiatives which can bring social security to those who are not covered by existing systems”. It clearly enjoined the International Labour Office to work to this end systematically in the coming years:

“Social security is not available to the majority of the world’s people. This is a major challenge which needs to be addressed in the coming years. In that regard the Conference proposes that:

- a major campaign should be launched in order to promote the extension of coverage of social security;
- the ILO should call on governments to give the issue of social security a higher priority and offer technical assistance in appropriate cases;
- the ILO should advise governments and the social partners on the formulation of a national social security strategy and ways to implement it;
- the ILO should collect and disseminate examples of best practice.

Constituents should be encouraged to approach the ILO for special assistance to achieve outcomes which significantly improve the application of social security coverage to groups which are currently excluded. The programme is to be undertaken as soon as practicable and be subject to regular reports to the Governing Body.”

The ILO has already launched a special research programme to improve its knowledge of the means of extending social security coverage and making the schemes more efficient and equitable. The aim is: (1) to improve understanding of the nature, causes and effects of shortcomings in existing systems; (2) to formulate strategies for the development of efficient social security mechanisms; (3) to develop a framework for action for social security policies. This approach comprises two essential phases: identifying the causes and extent of exclusion from social security coverage, and identifying best practices and defining the conditions in which they can be adapted and reproduced in different contexts.

In addition, in its technical cooperation and assistance activities helping governments and the social actors define social security policies, the ILO has for several years placed particular emphasis on extending coverage, and requests for assistance are increasing in this respect. In several countries, and in particular through the STEP

programme, efforts have particularly focused on sickness insurance and access to health care, which are often the main needs of workers in the informal economy. Such measures consist in both supporting the development of micro-insurance systems at the local level and formulating national policies against exclusion from social security protection in respect of health care (for example, ILO-STEP, 2001).

Collaboration with other international organizations is fundamental for the ILO in this venture. As regards access to health care, for example, cooperation with the World Health Organization (WHO) is obviously essential, since the fields of activity of the two organizations are complementary, and cooperation has in fact taken place both at the central level and at the regional level, with the Pan-American Health Organization. Similarly, and more generally, this applies to the World Bank whose capacity for analysis and financing are major ingredients in implementing effective strategies for extending social security coverage. The ILO's partnership with the International Social Security Association (ISSA) is long-standing, close and quite natural. Social security institutions have a key role to play in the process of extending and improving existing coverage. They are the obvious basis for the introduction of new schemes, but they can also provide extremely valuable support for the development of innovative local initiatives, in particular in the field of micro-insurance. The ISSA and the ILO can only work in parallel in the field of social security, for we share the same values and pursue the same objective: to promote social justice and solidarity through the extension of comprehensive social security.

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ANNEX:

Chapter III of Report VI of the International Labour Conference, 89th Session

5-21 June 2001

Social security: Issues, challenges and prospects

CHAPTER III

Extending the personal coverage of social protection

The right to social security

International instruments adopted by the ILO and the United Nations affirm that every human being has the right to social security. In the Declaration of Philadelphia (1944) the International Labour Conference recognized the ILO's obligation as regards "the extension of social security measures to provide a basic income to all in need of such protection and comprehensive medical care". The ILO's Income Security Recommendation, 1944 (No. 67), provides that "social insurance should afford protection, in the contingencies to which they are exposed, to all employed and self-employed persons, together with their dependants" (Paragraph 17). The Universal Declaration of Human Rights, 1948, states that "everyone, as a member of society, has the right to social security [...]" (article 22), and refers specifically to the right to medical care and necessary social services, to security in the event of sickness, disability, widowhood, old age and unemployment, and to special care and assistance for motherhood and childhood (article 25). The International Covenant on Economic, Social and Cultural Rights, 1966, recognizes "the right of everyone to social security, including social insurance" (article 9).

It goes without saying that the practical implementation of this right requires a major undertaking by the State and the community. The ILO's social security Conventions recognize that in practice the ideal may be difficult to attain. For example, the Social Security (Minimum Standards) Convention, 1952 (No. 102), requires in the case of sickness and old-age benefits, for instance, that persons covered shall comprise:

- prescribed classes of employees, constituting not less than 50 per cent of all employees; *or*
- prescribed classes of the economically active population, constituting not less than 20 per cent of all residents; *or*

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- all residents whose means during the contingency do not exceed prescribed limits.
 - These alternatives are intended to facilitate ratification of the Convention by countries, whatever type of social security system they may have. Later Conventions such as the Invalidity, Old-Age and Survivors' Benefits Convention, 1967 (No. 128), contain more exacting standards, but provide a similar choice.
 - The Plantations Convention, 1958 (No. 110), applies to workers hired by agricultural undertakings in the tropical or subtropical regions of the world. In terms of social security its standards are less exacting than those of Convention No. 102. It requires that plantation workers be covered by workers' compensation and maternity protection, including a minimum of 12 weeks' paid leave. The Convention also contains provisions relating to medical care.
 - During the 1990s new ILO instruments have sought to promote social security coverage for persons outside regular wage employment. Thus, the Home Work Convention, 1996 (No. 177), provides that national policy on home work shall promote, as far as possible, equality of treatment between homeworkers and other wage earners in areas including statutory social security protection and maternity protection. The accompanying Recommendation (No. 184) proposes that social protection can be achieved through the extension and adaptation of existing social security schemes and/or through the development of special schemes or funds. The Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), recommends that labour and social legislation be reviewed inter alia to determine whether social protection extends to workers in these enterprises, whether there are adequate provisions to ensure compliance with social security regulations covering the standard contingencies and whether there is a need for supplementary social protection measures for workers in these categories. The Part-Time Work Convention, 1994 (No. 175), states that social security schemes shall be adapted so that part-time workers enjoy conditions equivalent to those of comparable full-time workers.

The problem of non-coverage

A very large proportion of the population in most regions of the world still does not enjoy any social protection or is covered only very partially. This is the case for the vast majority of people in developing countries, and even in some of the richest industrialized countries there are large and growing gaps in social protection.

Informal economy workers are not covered by social security for a variety of reasons. One is the extreme difficulty of collecting contributions from them and, as the case may be, from their employers. Another problem is that many of these workers are unable to contribute a relatively high percentage of their incomes to financing social

security benefits and unwilling to do so when these benefits do not meet their priority needs. Their most immediate priorities tend to include health care, in particular where structural adjustment measures have reduced access to free services. They feel less need for pensions, for example, as for many of them old age appears very remote and the idea of retirement perhaps unreal. Unfamiliarity with social security schemes and distrust of the way they are managed add to their reluctance to contribute.

The problem of low coverage is of course not new, especially in countries where large numbers of people work in subsistence agriculture. However, in recent years, prospects of resolving or at least mitigating it have taken a dramatic turn for the worse, as an increasing proportion of the urban labour force is working in the informal economy, *inter alia* as a result of structural adjustment.

In Latin America and many other parts of the developing world in recent years most of the increase in the urban labour force has taken place in the informal economy. In most countries of Africa, a growing proportion of the urban labour force is active in the informal economy, reflecting the (at best) sluggish growth of wage employment, the massive migration to the cities and the need for workers to supplement falling wages with earnings from the informal economy. For example, in the case of Kenya, informal employment accounted for almost two-thirds of total urban employment in 1996, compared with just 10 per cent in 1972.¹ Several developing countries of Asia have expanded wage employment substantially but the informal economy remains very important almost everywhere. In India, for example, if agriculture is included, more than 90 per cent of workers are to be found in the informal economy.

It should be noted that the informal economy is not a “sector” as such. It is in fact a phenomenon to be found in almost all sectors. And it includes workers of all different categories: employees, self-employed, homeworkers, unpaid family workers, etc. Informalization is not restricted to small-scale enterprises; in many countries it includes unregulated wage labour throughout the economy: in Argentina and Brazil, for example, approximately 40 per cent of urban wage earners are in informal employment.

In many countries a higher proportion of women work in the informal economy, to some extent because there they can more easily combine work with their heavier burden of family responsibilities, and partly for other reasons related, for example, to discrimination encountered in the formal economy. ILO statistics show that in two-thirds of the countries for which separate figures are available, the informal economy accounts for a higher share of total female urban employment than is the case for men.² There is a widespread tendency for women to remain trapped in the informal economy for much of their working lives, whereas for men — in the industrialized countries at any rate — it is less likely to be permanent. For long-term income security (in old age for instance), this difference has especially important implications, as women tend to live longer than men.

¹ ILO: *Kenya: Meeting the employment challenges of the 21st century* (Addis Ababa, East Africa Multidisciplinary Advisory Team, 1999).

² *World Labour Report 2000*, op. cit., statistical annex, table 7.

Informal economy workers have little or no security of employment or income. Their earnings tend to be very low and to fluctuate more than those of other workers. A brief period of incapacity can leave the worker and her or his family without enough income to live on. The sickness of a family member can result in costs which destroy the delicate balance of the household budget. Work in the informal economy is often intrinsically hazardous and the fact that it takes place in an unregulated environment makes it still more so. Women face additional disadvantages due to discrimination related to their reproductive role, such as dismissal when pregnant, or upon marriage. Women in the informal economy do not benefit from safeguards and benefits related to child-rearing that in principle apply to women in formal wage employment (such as family allowances, paid maternity leave, nursing breaks or assistance with the cost of childcare).

It is now widely recognized that there is a pressing need to find effective ways to extend social protection. The recent past has seen a stagnation in the proportion of the labour force covered. Given current economic trends, failure to take action is very likely to lead to a *reduction* in the rate of coverage or even in the absolute numbers of workers protected, as has occurred in parts of sub-Saharan Africa.

Policies to achieve the extension of coverage

Outside the industrialized world, policy-makers have found few remedies for the lack of social protection. This may be because existing social protection policies are inappropriate. It may be because insufficient efforts have been made to implement these policies. Or it may be because the lack of social protection is related to much wider economic, social and political problems. If policy-makers define the problem too narrowly, their chances of finding feasible solutions may be greatly reduced. It is therefore necessary to give due consideration to the wider context in which social security systems have to operate.

The economic, social and political context

The first point to consider is the nature of a country's governance. Among market economies, experience shows that, with few exceptions, there tends to be a correlation between the level of democracy and the adequacy of social protection. For the most vulnerable members of the population to have their needs for health care and basic income security met, it is vital that they should at least be able to make their voices heard. In the long run a democracy which does not ensure adequate social protection is unlikely to survive.

The second issue which must be considered is the macroeconomic situation and the state of the labour market. The scope of social protection is likely to extend naturally (the means by which it may do so are considered below) if and only if the labour market is strong. So long as demand for labour remains weak, few people will obtain decent jobs and most will depend on ill-paid and unprotected work in the informal economy. Conversely, if the demand for labour increases, more workers may look forward to better-paid and generally better-protected employment in the formal economy. However, the informal

economy — in its many manifestations — is hardly likely to disappear either naturally or quickly, and it is of the greatest importance that governments work towards social protection policies, which must be both innovative and imaginative, that will promote improved conditions for such workers.

A third point is that excessive demands should not be placed on social security systems. They are no substitute for adequate macroeconomic, regional education and housing policies and they cannot be expected to achieve a fair distribution of income on their own. Many social security systems redistribute from the rich to the poor, but this is not their main objective. The prime objective is to provide security for people when they are sick, disabled, unemployed, retired, etc. Schemes which represent reasonable value for money for *all* the insured have the best chance in practice of achieving high compliance rates, that is, of ensuring that legislation providing for wide coverage is actually implemented. Social security is just part — albeit an important part — of the broader package of measures necessary to reduce poverty and improve income distribution.

Finally, public confidence in social security systems is crucial if they are to attain and maintain wide coverage. This requires not only efficient administration and high standards of financial probity, but also a strong degree of commitment by the government itself to ensure the long-run health of the system. Where this confidence is lacking, people will always find ways to avoid contributing, even though their need for social protection may be very high.

Strategies for extending social protection

There are essentially four ways to extend social protection:

- extending social insurance schemes;
- encouraging micro-insurance;
- introducing universal benefits or services financed from general state revenues;
- establishing or extending means-tested benefits or services (social assistance), also financed from general state revenues.

None of these approaches should be excluded a priori. The appropriate mix of different mechanisms will depend on the national context and on the national strategy adopted. Careful thought has to be given to their respective roles and to the linkages between them. Achieving a better understanding of these is essential if progress is to be made. There is a need for research, experimentation and innovation. No doubt, in this process, distinctions will be drawn between groups of countries, depending on their level of economic and social development. Within the developing countries, there are those in the middle-income category, some of which already have well-developed social security institutions. These countries, and indeed the industrialized countries where coverage is incomplete, may aim at extending compulsory coverage to all or most of the population, using the existing social insurance schemes or modifying them to suit the needs of the new

categories of the population to be covered. Secondly, there is the large group of low-income countries where, if any real increase in coverage is to be achieved, it will almost certainly have to be by some of the other means mentioned above.

Extending social insurance schemes

Whenever social insurance schemes have been made compulsory for a limited section of the labour force in the formal economy, legislators have usually envisaged extending their coverage at a later stage. The initial restriction of coverage has almost invariably been justified by invoking practical constraints: for example, the administrative infrastructure did not exist which would permit the collection of contributions from workers in small firms or from the self-employed, or health care facilities did not exist in rural areas, so workers there could not be required to contribute. These reasons were and, in many cases, remain perfectly valid. However, the question that should always be asked is what is being done to remove these constraints.

Unfortunately, the answer in many cases is that very little has been or is being done, and this for a variety of reasons:

- a lack of effective political pressure from those who are not protected and limited awareness of the benefits that social protection can bring;
- a lack of effective and efficient social partnership within certain countries and at the international level;
- the unwillingness or inability of governments to assume new and potentially costly commitments; and
- institutional inertia.

The first and, to some extent, the second reasons reflect the relatively low level of organization among people who are unprotected. The third reason has to do with the fact that subsidies, which governments sometimes provide for the minority of the population covered by the existing system, would become very much more expensive if protection were significantly extended. As for the fourth, the institutions which prepare proposals to extend coverage are often those responsible for administering the existing system and often have to do so in difficult conditions; they may have little incentive to propose extensions of coverage where these would make it still harder for them to discharge their existing responsibilities.

Removing constraints on freedom of association and strengthening democratic institutions would help address the first problem and measures to foster collective bargaining and tripartite institutions would be relevant to the second. The adverse implications for the state budget of extending social insurance coverage could be attenuated by a reduction or reorientation or, if necessary, the elimination of state subsidies — particularly where they benefit only a minority and could not conceivably be extended to the majority of the workforce. As for institutional inertia, this may be at least partially remedied by government action, for example to release the social security institution from

civil service rules when these impose unrealistic limits on staffing and on pay levels, and to give it clear instructions to formulate, within a certain time frame, legislative proposals to extend coverage.

Most commonly, compulsory coverage is extended in stages by bringing into the scheme successively smaller enterprises. Each extension naturally expands the number of insured workers, but disproportionately increases the number of enterprises with which the social security system must deal. The smaller enterprises may present additional problems, given their rudimentary accounts and arrangements for paying workers and their stronger tendency to non-compliance. Many less developed social security systems understandably hesitate to try covering all employees, including those in the smallest enterprises. However, experience in numerous countries has now shown that it is feasible. Indeed, it can be advantageous to abandon any threshold and so remove an incentive for employers to report artificially low numbers of workers. Many enterprises usually claim to be just below the threshold, and it is very difficult in practice to prove otherwise. Besides, a rule which encourages enterprises to remain small can seriously hamper their development and constrain productivity growth. The most compelling reason for covering even the smallest enterprises is that it is their workers who tend to be the lowest paid and to have least job security — they need social security even more than other employees.

Attempts to extend existing social insurance schemes to cover the self-employed have met with mixed success. Few join these schemes on a voluntary basis, as they are unwilling — and indeed frequently unable — to pay the combined worker and employer contribution. Only in some cases do people not subject to compulsory coverage have a strong incentive to contribute voluntarily, for example in order to preserve their pension entitlements or to complete the minimum period required to qualify for a pension. As for compulsory coverage of the self-employed, this is difficult to achieve, given the problems involved in identifying who the self-employed are and what they earn. Some special schemes for self-employed workers tend to have more success, particularly if the government is willing to subsidize them. Specially adapted social insurance schemes can take account of the lower contributory capacity of most self-employed workers by providing a more limited benefit package than the employees' scheme. Lower contributions and concentration on benefits which are of greatest interest to the self-employed (recent ILO work in several developing countries suggests that these include not only health care, but also survivors' and invalidity insurance) make it easier to achieve compliance.

Most of the financial support currently given (via tax concessions) to voluntary coverage tends to go to *supplementary* private pension and health insurance schemes and thus to favour the higher-income groups. It is important to quantify the support that the State gives to such schemes. Such data will inform the public debate on social protection and help to define priorities in the use of public resources, so that in future state support for voluntary coverage could be much better targeted than it is now.

Recent examples of successful extensions of compulsory coverage

In 1995 Namibia launched a new scheme covering maternity, sickness and death (funeral) benefits. By 1999 an estimated 80 per cent of formal sector workers were covered and the scheme enjoyed wide popularity. The scheme provides three months of maternity benefit at 80 per cent of covered wages, and up to two years of sickness benefit at 60 per cent of wages for six months and 50 per cent thereafter.³ The success of the scheme is attributed to its efficient administration, its low contributions and the absence of organized financial interests opposing it.

Following Bill Clinton's first election as President of the United States, one of his nominees for a senior administration appointment was asked during her confirmation hearing whether she had paid social security contributions for the person she employed to look after her young child. It turned out that she had not and the same was the case of many other nominees. Congress then rewrote the law in order to improve enforcement. The changes made it easier to pay the contributions and increased the penalties for not doing so. Many more domestic workers were subsequently covered.

The Republic of Korea's national pension system, which previously covered 7.8 million workers, was extended in 1999 to cover a further 8.9 million persons, comprising the urban self-employed and employees of firms with fewer than five workers. The previous year the unemployment insurance scheme, initially applicable from 1995 only to employees in firms with 30 or more workers, was extended, as planned, to firms with ten or more workers; later the same year, as a result of an agreement reached in the Tripartite Commission, the scheme was further extended to workers in enterprises with five or more workers and in 1999 to part-timers.

In Spain the 1986 legislation establishing a national health service extended health care to 99.8 per cent of the population by the 1990s, bringing in all dependants of insured persons (regardless of age), recipients of social pensions and those who had previously had to have their health care financed out of poor relief.

Encouraging micro-insurance and specific schemes for informal economy workers

In recent years various groups of workers in the informal economy have set up their own micro-insurance schemes. In these schemes, the insurance is independently managed at the local level and sometimes the local unit links into larger structures that can enhance both the insurance function and the support structures needed for improved governance. Such schemes typically have the advantages of cohesion and direct participation, although this is not true of provider-based systems. They can also achieve low administrative costs, but views differ widely about their cost-effectiveness. They may operate within the context of a credit scheme, such as the Grameen Bank, which has already had experience with the collection of contributions and administration of

³ Elaine Fultz and Bodhi Pieris: *Social security schemes in southern Africa: An overview and proposals for future development*, ILO SAMAT Discussion Paper No. 11, Dec. 1999, p. 28.

payments. On the other hand, as in Argentina, mutual benefit organizations may set up credit schemes in order to subsidize their activity in the field of health care. They have in some cases developed jointly with organizations such as the Self-Employed Women's Association (SEWA) of India which have a good understanding of the needs of their members.

The term "micro-insurance" refers to the ability to handle small-scale cash flows (by way of both income and expenditure), not to the size of the scheme, although often such schemes are in fact local and have a very small membership. The primary aim of many of these schemes is to help their members meet unpredictable out-of-pocket medical expenses. They do not usually aspire to provide comprehensive health insurance, still less to pay income replacement benefits.

It is estimated that these schemes usually attract about 25 per cent or less of the target population in the localities where they exist. The only schemes which manage to achieve high penetration rates (between 50 and 100 per cent) are those in particularly close-knit communities or those that all members of the target group (such as a trade union or professional association) are required to join. This percentage, though far from satisfactory, is much higher than that achieved by social insurance schemes open on a voluntary basis to all the self-employed, no doubt because micro-insurance contributions are very much lower and because the schemes focus on providing only those benefits which are perceived by people as most urgently necessary.

These schemes may have the potential to increase social protection coverage substantially, by collaborating with each other and by working together with statutory social insurance schemes, local and national government and other large-scale organizations. There are various ways in which the State can promote micro-insurance schemes:

- financial support: help with set-up costs, facilitating reinsurance options, payment of subsidies in the form of matching contributions, etc.;
- creation of a legislative and regulatory framework within which such schemes may operate, for example ensuring democratic and economically sound management.

It remains to validate the potential of micro-insurance schemes in practice. Arguably there is justification for these schemes to receive more support and certainly they should be the subject of further research.

Examples of specific government-supported schemes for workers in the informal economy are the labour welfare schemes in India, financed from resources derived from a tax on the output of about 5 million workers in the cigarette (*beedi*) and cinema industries as well as in certain mines. A similar scheme operates in the Philippines for sugar workers. In general, however, the level of resources generated is low and only limited social protection is provided.

Introducing universal benefits or services financed from general state revenues

Universal cash benefits are to be found in a number of industrialized countries, but only rarely in developing countries, one example being Mauritius. Universal services, particularly public health services, are more common. However, in recent years the universal character of these health services has been greatly eroded by the imposition of user charges, from which only the destitute tend to be exempt.

By definition, universal schemes extend coverage to 100 per cent of the target population, for instance those over a certain age, without any contribution condition or income test. They avoid many of the problems involved in contributory systems. Naturally, they will tend to cost more to the extent that they are providing benefits to more people. However, it must be borne in mind that eligibility conditions, such as pension age, may be quite restrictive and benefit levels rather low. Universal health care systems are able to achieve much more effective cost control than other types of health care systems and do not need to spend money on administering systems of insurance and patient billing. Another difference between contributory schemes and universal schemes is that the latter do not provide higher cash benefits to higher earners, but a single flat-rate amount to all who qualify. This too helps to hold down the cost of universal schemes.

Universal schemes can greatly enhance gender equality. They cover people regardless of their employment status and work history, and women receive the same rate of benefit as men. The benefits typically provided by universal schemes are all of particular importance to women: old-age pensions (as women have a longer average life expectancy); child benefits (as women are typically more involved in caring for children); and health care (as the health of children and issues of reproductive health are of special concern to women).

The real problem with the existing universal schemes, which are mainly to be found in the industrialized world, is not so much their aggregate cost (which is usually *less* than that of contributory schemes), but the fact that — unlike contributory schemes — they have to be financed from general government revenue and therefore have to compete every year with all the government's other expenditure priorities. What may be perceived as affordable one year may be less so the next, if policies or economic conditions have changed.

The widest possible form of universal cash benefit is the citizen's income, which would be provided not only for groups such as children and the elderly — who are not expected to earn their living — but also for the able-bodied of working age. This type of proposal has excited much interest in recent years. According to some of its proponents it would replace income-tested benefits such as social assistance; for others it would replace all existing social security schemes, including social insurance.

Establishing or extending means-tested benefits or services (social assistance)

Social assistance is to be found in virtually all industrialized countries, where it serves to plug at least some of the gaps left by other social protection schemes and thus to relieve poverty. In developing countries social assistance is much less widespread. Where it exists, it is usually restricted to just one or two categories of the population, such as the elderly.

The relative paucity of social assistance schemes in the developing world testifies to the problems which many governments have in devoting adequate resources to it. This should not be seen purely as a reflection of the low absolute level of national income or of government revenue. It may be questioned whether governments, in establishing their priorities, always give sufficient weight to their social assistance schemes, whose beneficiaries are rarely in a position of political strength.

Social assistance is targeted only at those in need and the means test can in theory be made rigorous enough to exclude all but those whose needs are greatest. In practice things tend to be different, even in the most sophisticated social assistance systems. On the one hand, no means test is foolproof, so some people who are not eligible nevertheless succeed in obtaining benefits — particularly in countries where there is a thriving informal economy. Such errors are serious not only because they cost money, but above all because they undermine public confidence in the system. On the other hand, social assistance benefits fail to reach many of those in greatest need for one or more of the following reasons:

- they are unwilling to apply because of social stigma;
- they may be unaware of their rights under the legislation;
- they find it difficult to submit an application for benefit, as procedures are often complicated and time-consuming;
- social assistance is often subject to considerable administrative discretion, opening the way to favouritism, clientelism and discrimination.

The more rigorous the means test, the greater the likelihood that people will be put off from applying and that those in real need will fail to obtain benefit. Self-selection mechanisms are often more appropriate than means testing, especially in the context of developing countries. These tend to be used, for example, in the provision of paid work in labour-intensive projects and of basic food aid.

Means-tested social assistance has another major drawback, as it can discourage people from saving (or encourage *dissaving*) if they think that any savings they have will simply be deducted from the benefit that they would otherwise receive. Similarly, it may act as a disincentive from contributing to other forms of social protection. Thus it can help to create situations of need because of the perverse incentives inherent in means testing.

On the other hand, social assistance can be useful for specific vulnerable groups, such as the elderly and children. It may well be the only solution for widows who have not been able to contribute themselves to pension schemes or whose husbands were not covered by survivors' insurance. It is often also a way of helping poor households with children; in various countries the provision of such benefits is now linked to school attendance.

Linkages between different components of social protection

Most social protection systems are mixed and there are linkages between their different components. One obvious linkage is that certain benefits are designed to supplement others. Compulsory contributory benefits may supplement universal benefits. Voluntary contributory benefits may be intended to supplement one or both of these. The linkage between social assistance and the other components of social protection is of course quite different. If a person receiving social assistance is eligible for other social benefits, then the latter will be deducted from what would otherwise have been paid by social assistance. If these other benefits are contributory, the result is that the person has contributed for nothing.

This suggests that the relationship between means-tested schemes and contributory schemes has to be carefully thought through. Among the issues which deserve attention are: the sequence in which social assistance and contributory schemes should be established; the relative levels of benefits provided by each; and whether eligibility conditions (such as pension age) should be different. These issues give rise to real dilemmas. As policy-makers become more aware of them, they may be more prepared to give universal schemes serious consideration, in order to minimize perverse incentives.

Social protection is constantly changing and the direction in which it is likely to change is often highly dependent on what has gone before. Policy-makers should be conscious of these dynamic linkages, since otherwise the final result of their decisions may diverge significantly from their intentions. For example, they may be very keen to encourage the establishment of contributory schemes, in view of the many advantages which such schemes obviously have. However, if these schemes fail — and with non-statutory schemes in an unregulated environment this is quite likely to happen — then people's trust in such ventures may be destroyed for a long time to come. Or to take another example, tax policies may result in the establishment of voluntary contributory schemes for some workers, creating vested interests (notably among the financial institutions involved in managing them) which would stand in the way of establishing a national social security scheme covering all workers.

The existence of these various linkages serves to underline the need to develop an overall public policy concerning social protection, defining priorities and the financial involvement of the State. The key issues are to determine the institutions through which to channel state subsidies and the categories of the population which are to benefit. It is also important to recognize possible complementarities, for example, support for the creation of health care facilities and support for the development of insurance mechanisms.

Conclusions

Those lacking social protection tend to belong to the economically weaker sections of society. The aim in the long term should be to bring them into a national system covering the whole population (or the entire labour force, as the case may be) where they can benefit from risk-pooling and solidarity. In the medium term this may be possible for middle-income developing countries, but not for the low-income countries. Such schemes are difficult to enforce, especially for some sections of the self-employed, but plans should be drawn up (and included in legislation) to extend compulsory coverage in a step-by-step manner, at least to all employees. The State may facilitate and support micro-insurance schemes for those whom compulsory schemes are for the time being unable to reach, although it is clear that many of those in greatest need will never choose or be able to contribute to such schemes and will thus never benefit from any support which the State provides to them. Micro-insurance schemes should be encouraged to develop in a way that will facilitate their possible integration into the national scheme and eventually the generalization of compulsory coverage.

Apart from contributory schemes, the other main types of social protection are financed from general government revenue and may take the form of means-tested or universal benefits. Governments in developing countries have been slow to develop either of these, being already under intense pressure to cut existing public expenditure, within the framework of structural adjustment programmes. However, such benefits need not be very costly: the category of persons eligible can be quite narrowly defined, at least at the initial stage, in order to limit the impact on the state budget. Over time, as the benefits prove their worth and gain political support, it should be possible to devote greater resources to them and to provide them on a less restrictive basis. Both types of benefit provided by the State can help those who are in greatest need. Universal benefits tend to cost more but they are simple to administer and they are a foundation on which individuals can build better income security for themselves and their families. They can be a powerful tool to promote gender equality and, more generally, to enhance individual autonomy, since they can free people from destitution without subjecting them to the controls and conditions usually associated with poor relief.

The goal of social protection is not mere survival, but social inclusion and the preservation of human dignity. As governments seek to extend coverage, they would do well to study the experience of countries where social security is popular and enjoys a high degree of public support. The huge task of extending social protection is one for which they will need all the public support they can get. There are no simple solutions, and the prospects of success of the various strategies will vary according to the national context. More research, accompanied by experimentation and innovation, can help to inform policy to achieve progress towards ensuring that all working people and their families enjoy decent social protection.