

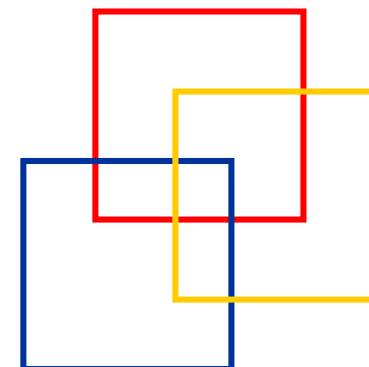


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Financing Social Security

International Conference hosted by DGVN and GTZ
“Social Security Systems in Developing and Newly
Industrialised Countries: Utopia or Strategy for
Keeping Peace and Fighting Poverty?”
18-19 September 2007, Berlin

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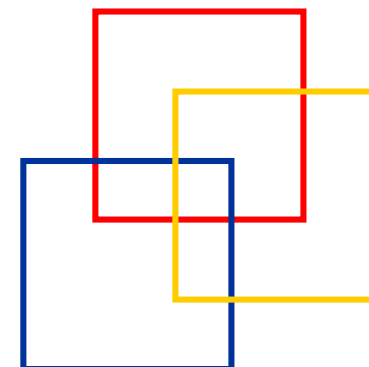




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Structure of presentation

1. Introduction
2. Financing social security in a development context
3. Evidence from a set of ILO costing studies
 - Cost of basic social protection package
 - Domestic and external funding possibilities
4. Can low-income countries afford not to have social security?

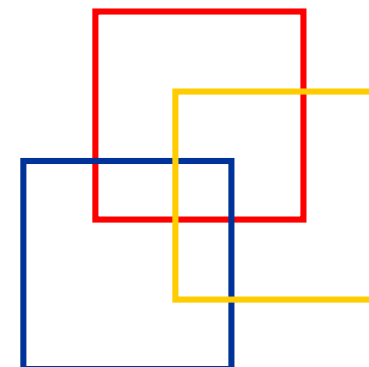




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2. Financing social security in a development context

- OECD countries: social protection expenditure between 10% and 30% of GDP
- Countries at the same level of economic development differ significantly in how much they spend on social protection
- There is no apparent link between economic performance and the size of the national social protection system
- Size of social protection systems is shaped mainly by prevailing political attitudes towards redistribution
- Affordability is a function of the societal willingness to finance social transfers through taxes and contributions

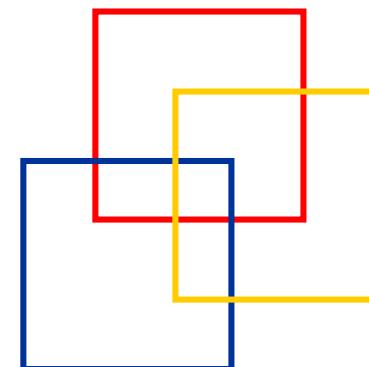




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Current situation in many countries

- Limited coverage of formal social security schemes, as a consequence of small formal economy
- Large majority of labour force in informal economy are not or very poorly protected
 - Widespread poverty
 - Limited contributory capacity, yet some workers in the informal economy can contribute
- Erosion of traditional forms of protection
- Narrow tax base
- Governance problems
- Lack of trust in public institutions

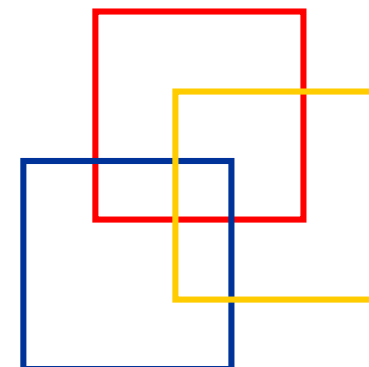




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Extension of coverage: existing programmes

- Social pensions, partly universal and partly means-tested: Botswana, Lesotho, Mauritius, Namibia, Nepal, South Africa, etc.
- Conditional cash transfers for children: Brazil, Mexico, etc.
- Targeted cash transfers: e.g. GTZ pilot in Zambia
- Micro-insurance programmes in health: Benin, Senegal, etc.
- Extension of coverage in formal social security systems: e.g. Social health insurance in Ghana (subsidies for the poor)

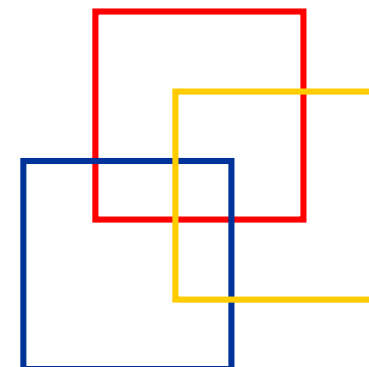




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3. Evidence from ILO studies

- ILO costing studies on basic social protection package in low-income countries
 - Seven countries in Africa (Pal et al. 2005)
 - Five countries in Asia (Mizunoya et al. 2006)
- Different scenarios based on alternative assumptions
- Projections over next 30 years
- Related study on effects of cash transfers on poverty reduction
 - Senegal and Tanzania (Gassmann and Behrendt 2006)

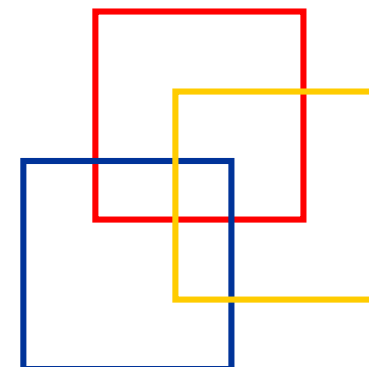




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Assumptions

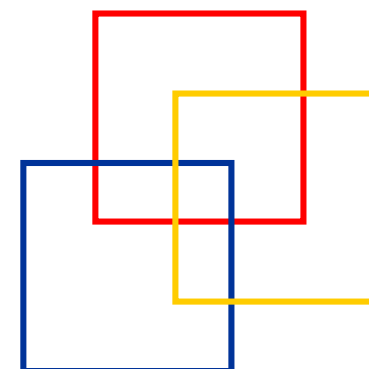
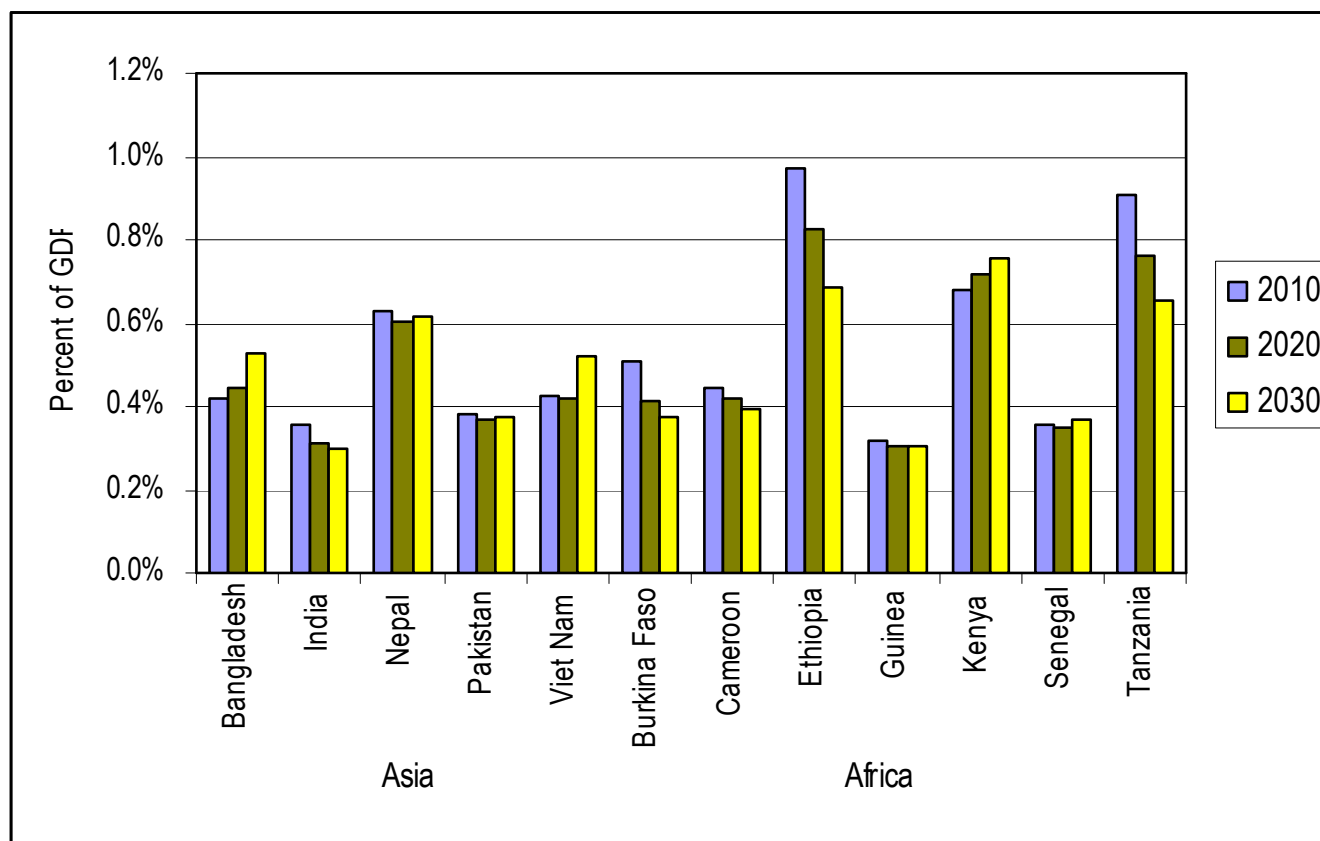
- Basic old age and invalidity pensions:
 - Scenario I: Benefit of \$0.5 PPP per day
 - Scenario II: Benefit of 30% of GDP per capita
- Child benefits:
 - Scenario I: Benefit of \$0.25 PPP per day (half of pension), paid to all children up to the age of 14
 - Scenario II: Benefit of 15% of GDP per capita (half of pension), paid only to orphans up to the age of 14
- Administration cost: 15% of benefit expenditure for universal cash benefits
- Essential health care: Annual per capita costs based on the Commission on Macroeconomics and Health estimates of US\$ 34 by 2007 and US\$ 38 by 2015





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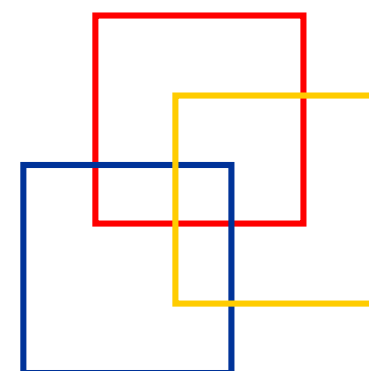
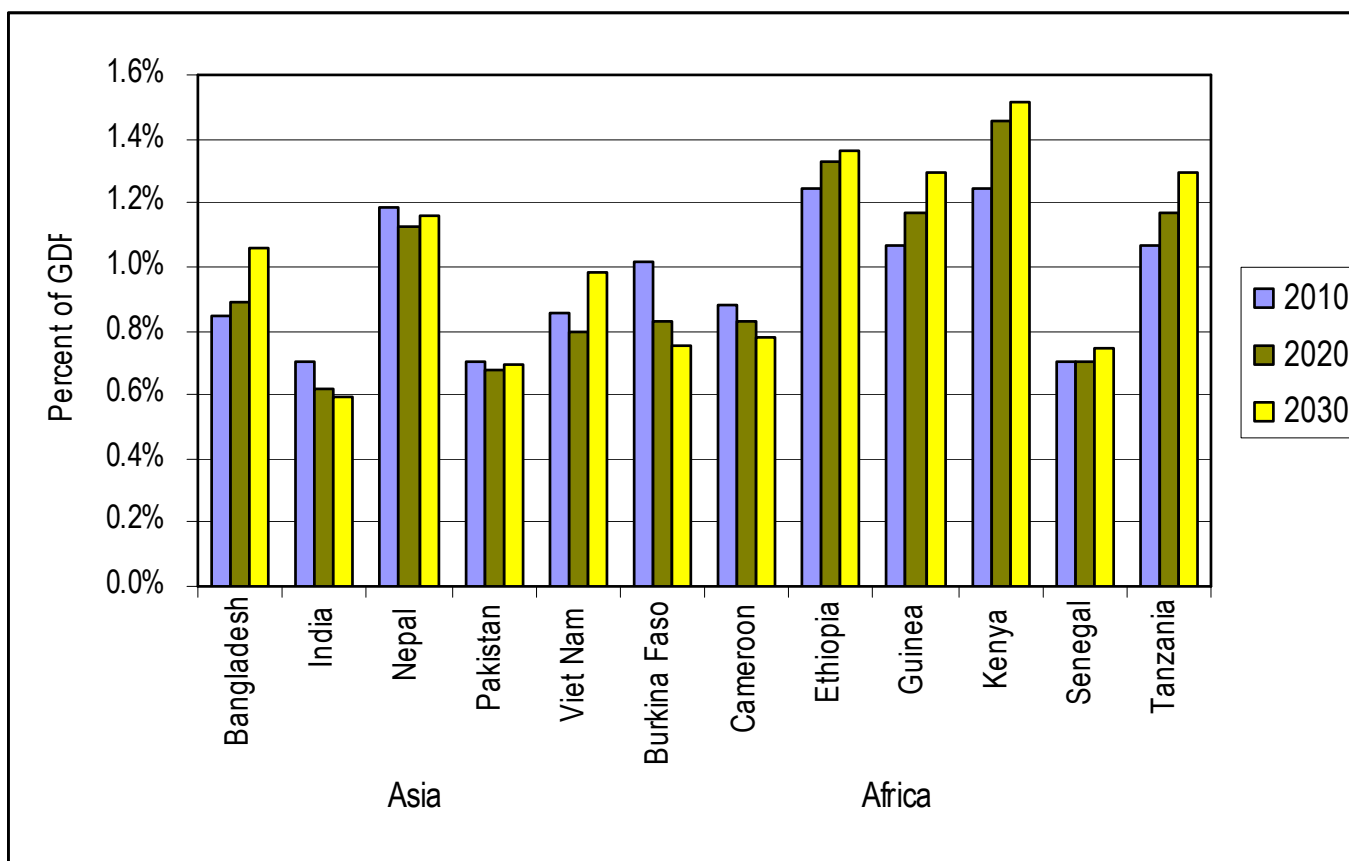
Cost of universal basic old age and disability pension (Scenario I: Benefit of \$0.50 PPP per day)





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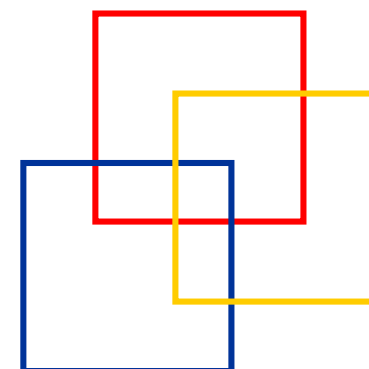
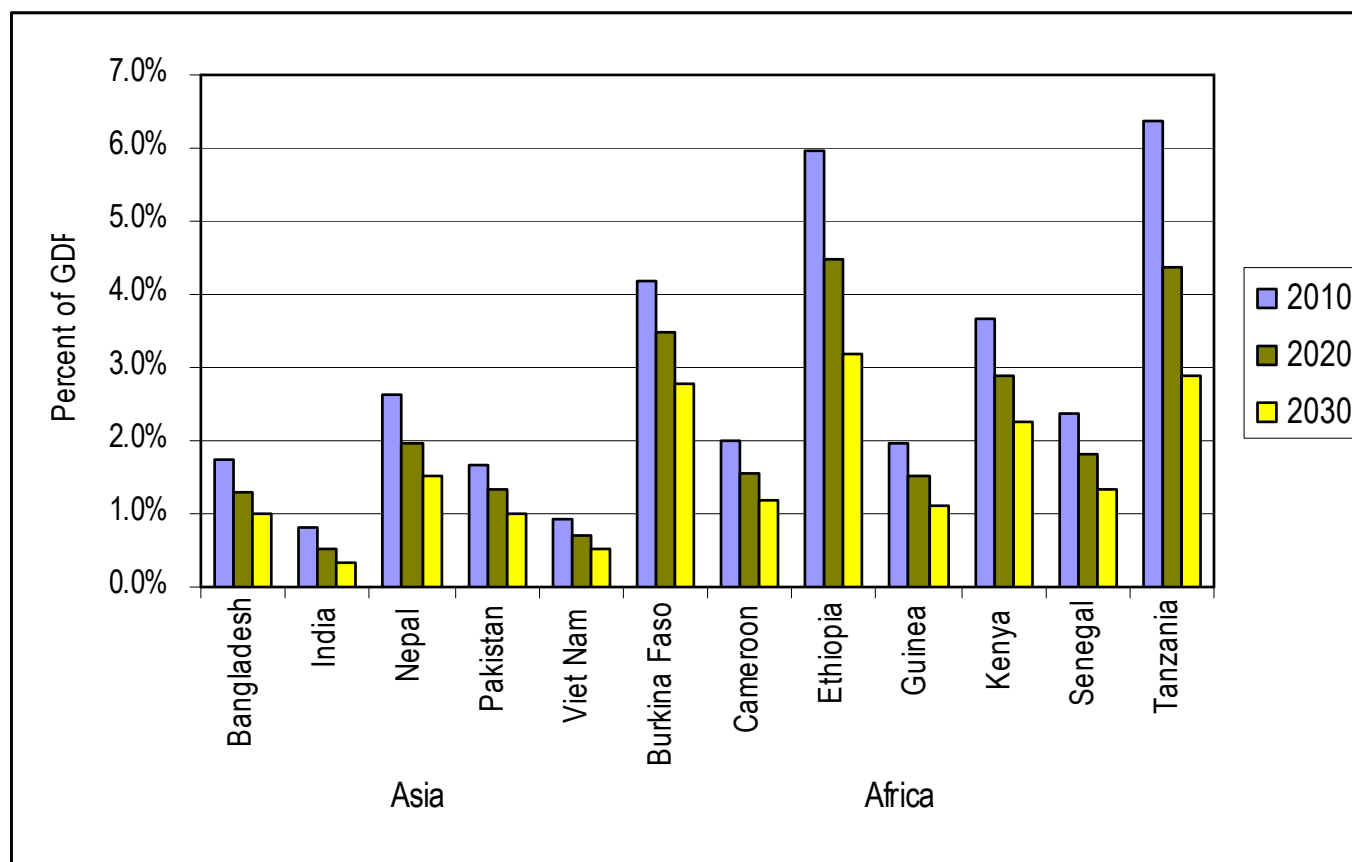
Cost of universal basic old age and disability pension (Scenario II: Benefit of 30% of GDP per capita)





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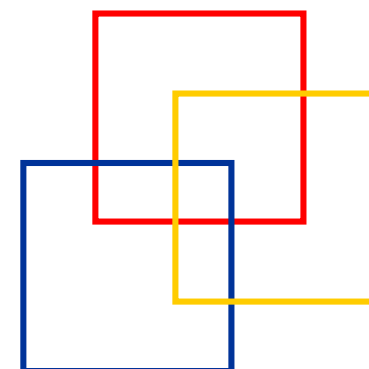
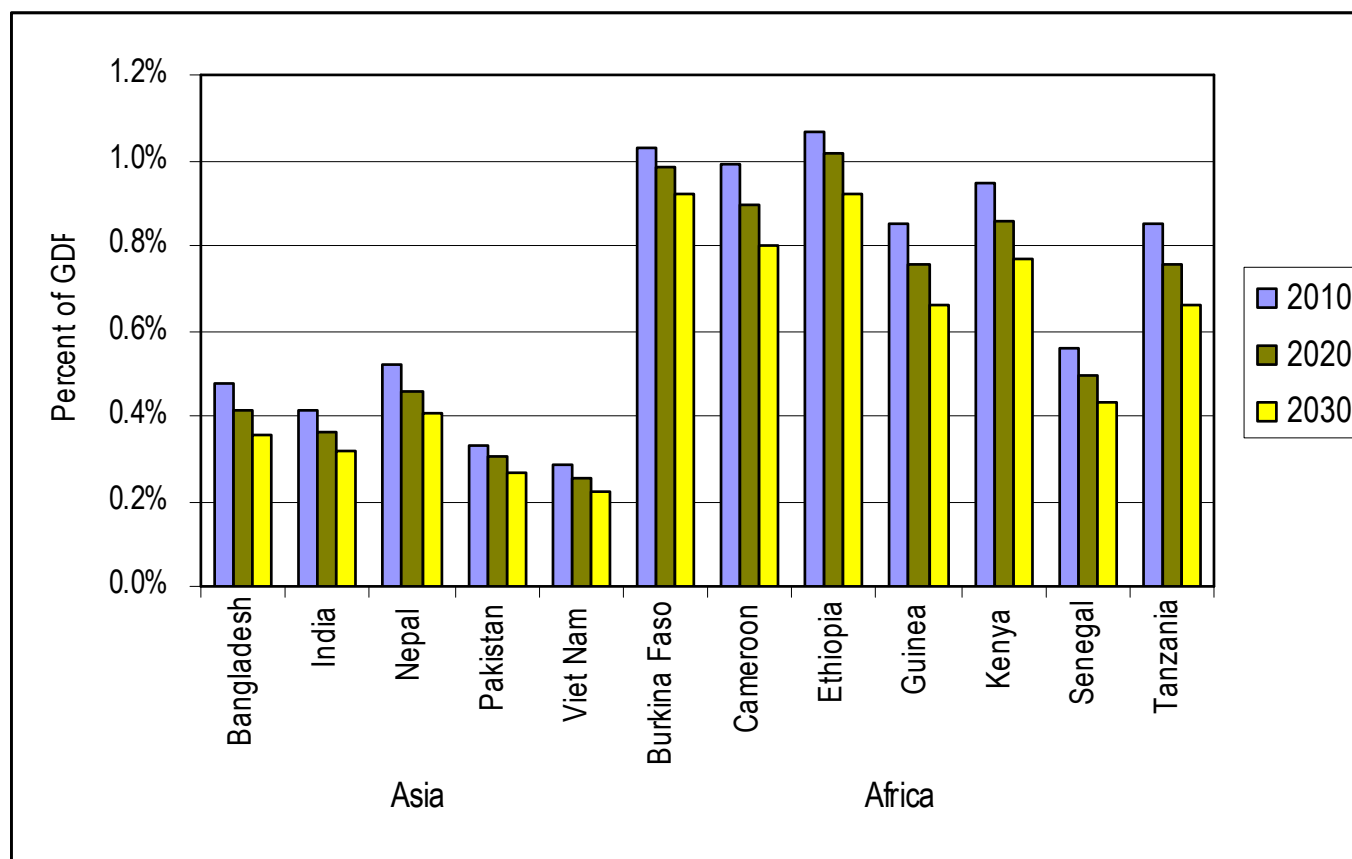
Cost of universal child benefit for all children aged 0-14 (Scenario I: Benefit of \$0.25 PPP per capita)





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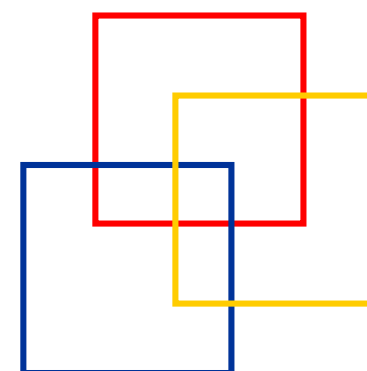
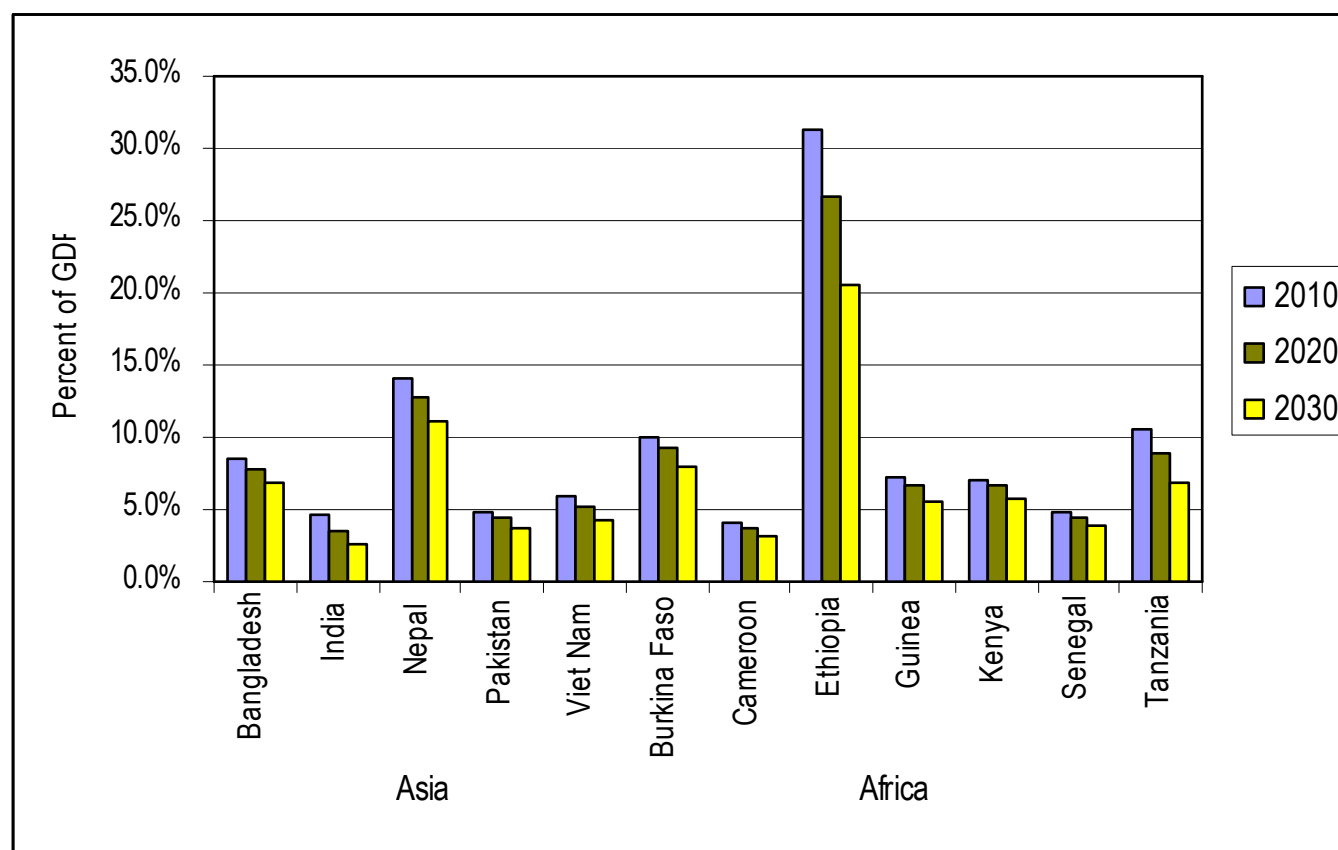
Cost of universal child benefit for orphans aged 0-14 (Scenario II: Benefit of 15% of GDP per capita)





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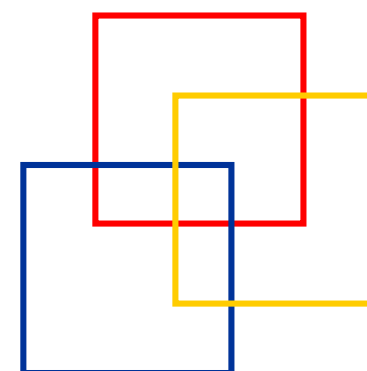
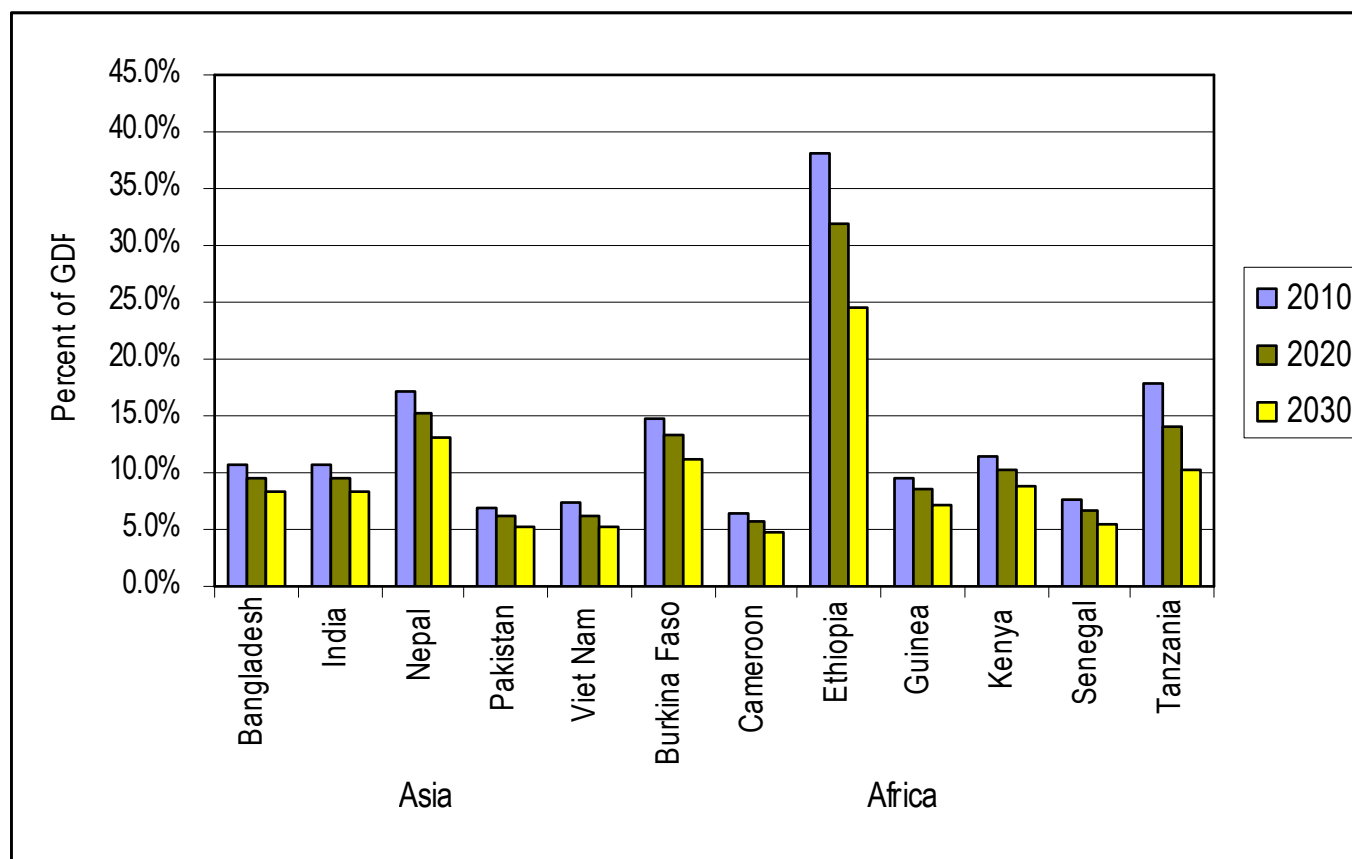
Cost of essential health care based on CMH estimates (Scenario I)





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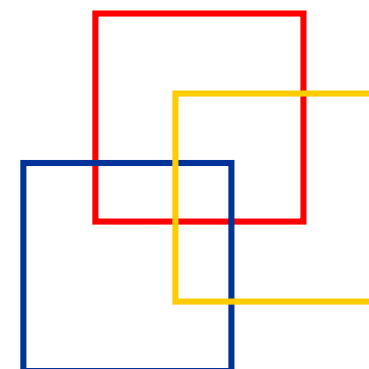
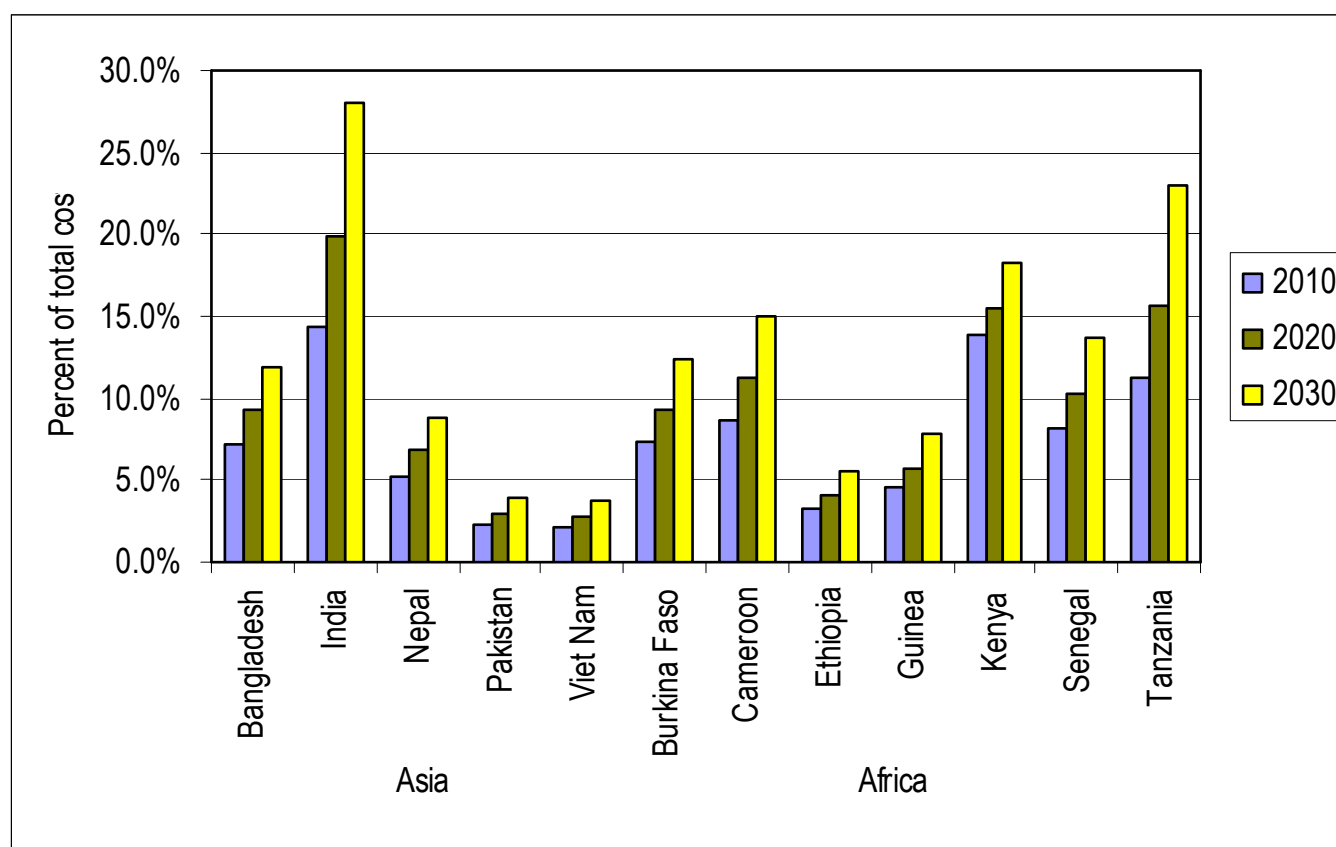
Cost of basic social protection package (Scenario I, in % of GDP)





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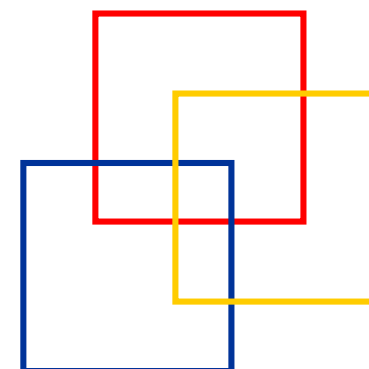
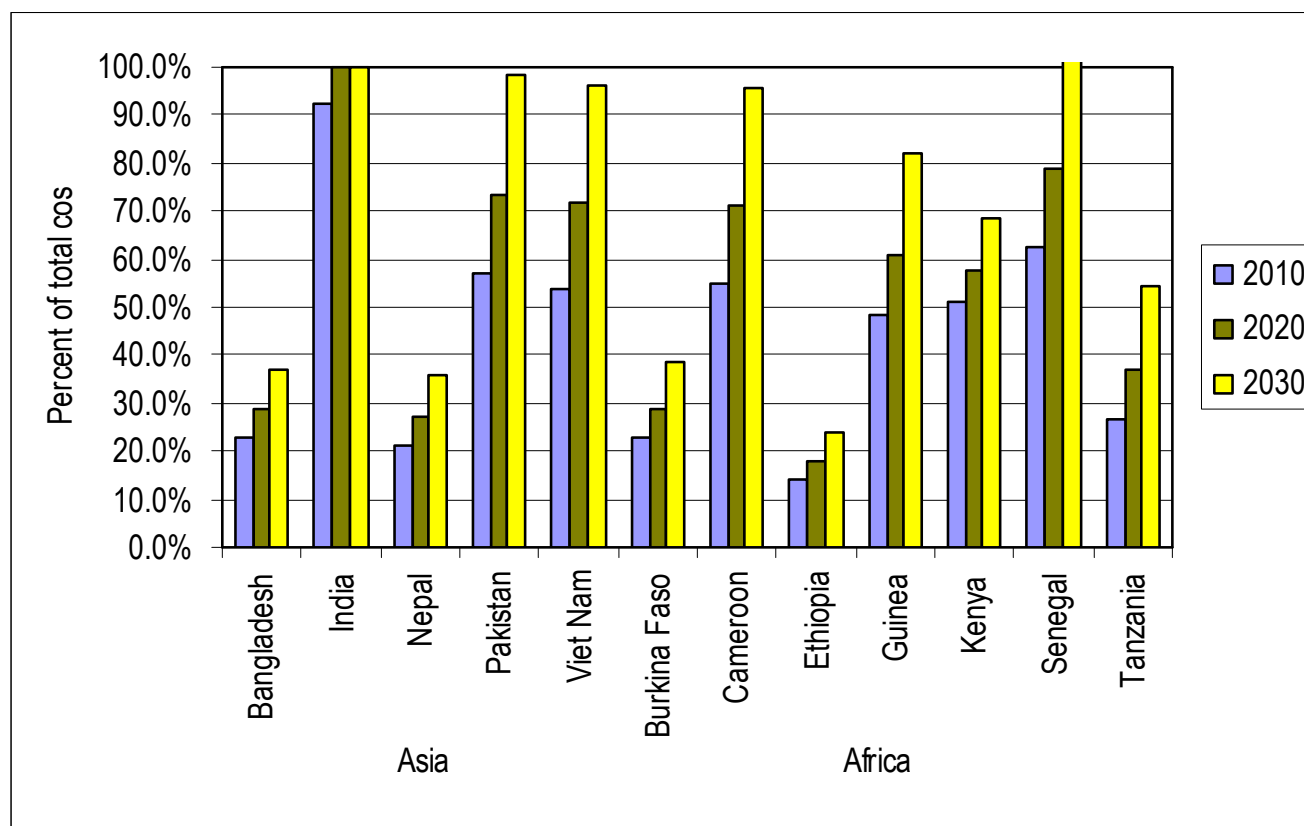
Share of total costs covered by domestic financing (Scenario I, Option 1: share of budgets allocated to social protection kept constant at current level)





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Share of total costs covered by domestic financing (Scenario I, Option 2: share of budgets allocated to social protection increased to 20% of government expenditure)

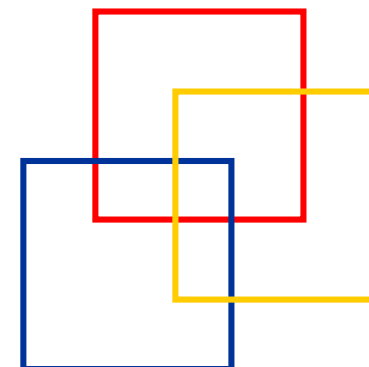




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4. Can low income countries afford **not** to provide social security?

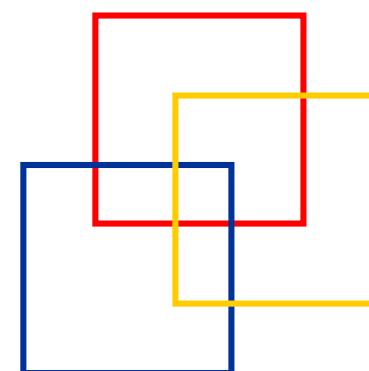
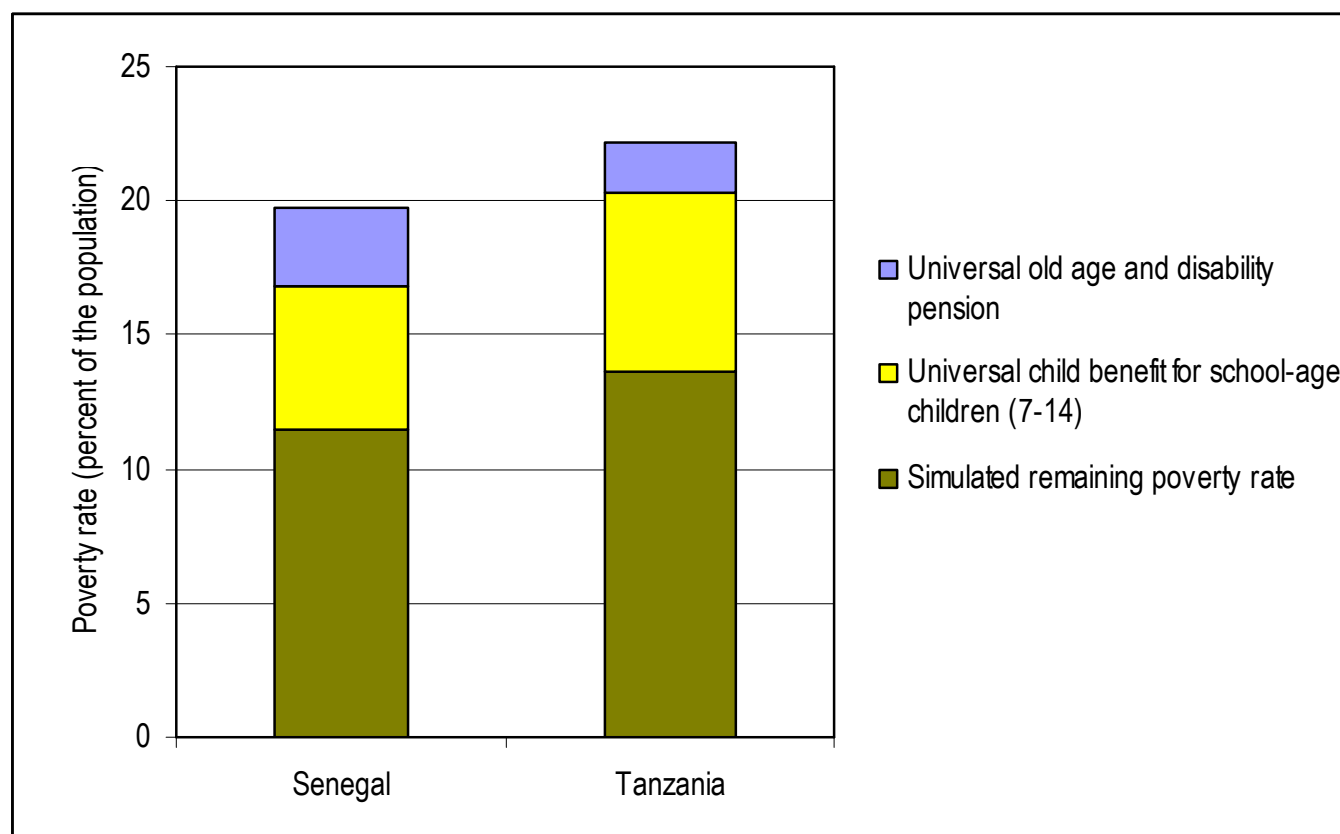
- Investments in health care, education and properly designed cash transfers have positive economic and social effects in countries at any stage of development
- Needs and priorities of vulnerable groups well known
- Set of policy instruments to meet these needs and priorities available, including various cash transfers as well as access to health care and education
- Impact on reducing poverty and vulnerability, as shown by existing programmes and micro-simulations





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Estimated effect of cash transfers on reduction of poverty (headcount) in Senegal and Tanzania

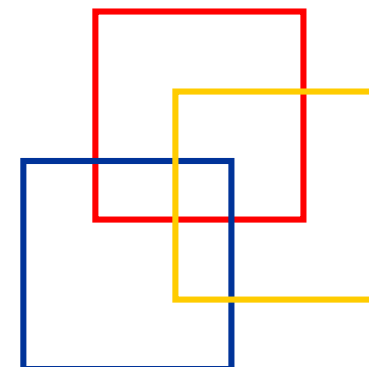




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Therefore...

- Social security not only desirable, effective and affordable but also administratively feasible
- Coordinated forward looking national social protection policy strategies should sequence implementation of various social programmes and policy instruments
- Solid costing and comprehensive social budgeting indispensable for policy planning
- Need to build capacities in coordinating government agencies, line ministries and then at the local level in the areas like:
 - Social protection development, analysis and design
 - Administration of social protection programmes



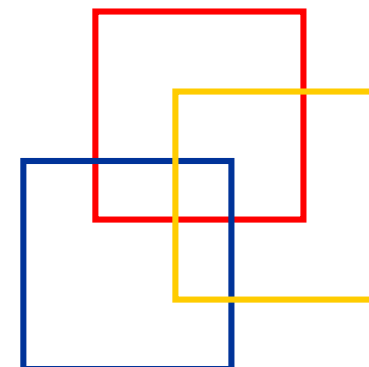


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Social security is not a social cost but an affordable investment in:

- prevention/reduction of poverty and vulnerability
- quality of work and life
- social cohesion and peace
- nation building
- global security

It is an investment in people and states





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References

- Pal, K.; Behrendt, C.; Léger, F.; Cichon, M., and Hagemeyer, K., 2005: Can Low Income Countries Afford Basic Social Protection? First Results of a Modelling Exercise, Issues in Social Protection Discussion Paper 13 (Geneva: International Labour Office), <http://www.ilo.org/public/english/protection/secsoc/downloads/policy/1023sp1.pdf>
- Mizunoya, S.; Behrendt, C.; Pal, K., and Léger, F., 2006: Can Low Income Countries Afford Basic Social Protection? First Results of a Modelling Exercise for Five Asian Countries, Issues in Social Protection Discussion Paper 17 (Geneva: International Labour Office), <http://www3.ilo.org/public/english/protection/secsoc/downloads/1527sp1.pdf>
- Gassmann, F. and Behrendt, C., 2006: Cash benefits in low-income countries: Simulating the effects on poverty reduction for Senegal and Tanzania, Issues in Social Protection Discussion Paper 15 (Geneva: International Labour Office), <http://www3.ilo.org/public/english/protection/secsoc/downloads/1515sp1.pdf>
- More information available on ILO Social Security Department website <http://www.ilo.org/public/english/protection/secsoc/>

