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## Financing Social Security

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Social security has recurrently been perceived as a luxury that only rich countries can afford. This view has recently been challenged from different angles. From an economic perspective, it is increasingly recognized that pro-growth and pro-poor policies are inseparable and mutually reinforcing also in developing countries. The lack of social protection mechanisms in many developing countries exacerbates the vulnerability of the population against economic shocks and the vicissitudes of the life course, such as sickness, old age, disability or maternity. If no protection mechanisms exist, these contingencies create poverty traps from which poor households are unlikely to escape quickly. Lack of basic income security prevents men and women from engaging in productive economic activity (always associated with risk) and forces them to focus just on survival.

Today's developed countries have pursued their economic growth in parallel with the expansion of social security. Social security has helped to bolster and sustain economic and social change, and has had enormous positive effects on poverty reduction and living standards as well as on the quality of human capital and social cohesion. Rapidly growing countries, such as the Democratic Republic of Korea in the aftermath of the Asian crisis and more recently China, have acknowledged that sustainable growth and economic development require a solid underpinning by social protection and have taken bold measures to improve social security.

There is more and more evidence coming from emerging social protection schemes in low-income countries on positive economic impacts of social protection measures on the level of economic activity and on productivity.

In addition, rights-based approaches have drawn attention to the human right to social security as affirmed in the Universal Declaration of Human Rights as well as in other international instruments. The governments of a number of low-income countries have in fact themselves taken initiatives to call for greater commitments to social security.

### Evidence from a set of ILO costing studies

The ILO recently conducted a series of social protection costing studies in order to explore the affordability of social protection in a development context. These studies estimate the cost of a basic social protection package for twelve low-income countries in Africa and Asia, and assess the feasibility of financing such a package - under different options - from a mixture of domestic resources and resources provided through international grants from donor countries.

The results of these costing studies show that low-income countries can provide an at least basic level of social security, by providing a basic package of health services to everybody and basic cash benefits to the elderly and families with children. As these countries achieve higher levels of economic development, their

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social security systems can also advance in parallel, extending the scope, level and quality of benefits and services provided. A basic social protection package is demonstrably affordable, as the models discussed here show. But this is on condition that the package is implemented through the joint efforts of the low-income countries themselves (reallocating existing resources and raising new resources) and of the international donor community - which would have to refocus international grants on the supplementary direct financing of social protection benefits, on strengthening the administrative and delivery capacity of national social protection institutions in low income countries and on providing the necessary technical advice and other support. All these steps have begun to be taken in a number of low income countries in Africa and elsewhere (recent developments in countries like Tanzania, Zambia, Mozambique or Nepal are just few examples) and there are signs that the process will accelerate in the nearest future.

### Can developing countries afford not to provide social security?

The real question is not whether developing countries can afford social security, but whether they can afford not to provide social security to their populations? Social security is one of the most effective tools for reducing poverty. A recent ILO micro-simulation study shows that the combination of a modest universal old age pension and a child benefit for school-age children and orphans would reduce poverty in Senegal and Tanzania by some 40 percent, at a cost of around 3 percent of GDP.

Coordinated forward looking national social protection policy strategies should sequence implementation of various social programmes and policy instruments, and ensure that these are integrated in broader development frameworks. Solid costing and comprehensive social budgeting is indispensable for policy planning and sustainable financing.

Experience with various non-contributory cash transfers in a number of developing countries show that such policy instruments are not only desirable, effective and affordable, but also administratively feasible.

Providing a basic level of protection to vulnerable groups of the population must be the cornerstone of national policies also in developing countries. In addition, other instruments, such as social insurance are needed to complement this basic level of protection. Even if a basic social protection package cannot be implemented at once, a sequential approach can generate immediate benefits in terms of poverty reduction, pro-poor growth and social development.