

# **Poverty, Economic and Social Development and the Right to Social Security within the Global Decent Work Debate\***

**Asia-Pacific Regional High-Level Meeting on Socially Inclusive  
Strategies to Extend Social Security Coverage**

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\*This paper summarizes arguments developed over recent years in the ILO and based to a large extent on the Background Note to the intervention of the ILO Director-General at the G8 Labour and Employment Ministers Conference, Dresden, Germany, 6-8 May 2007, and on Discussion papers Nos. 13, 15, 16, 17 and 18 published by the ILO Social Security Department between 2005 and 2007, namely: Pal et al. (2005); Gassmann and Behrendt (2006); ILO (2006a); Mizunoya et al. (2006); Townsend (2007).



## 1. Introduction: Social and economic policy background and the mandate of the ILO

The positive potential of globalization in terms of higher growth, higher levels of employment, higher standards of living and lower poverty, triggered inter alia through rapid technology transfers, fast pace of investment, global information access, as well as potentially enhanced fiscal space for social protection, will materialize only in politically and socially stable societies. Societies can only be stabilized if persistent and emerging social and decent work deficits in industrialized and developing countries are addressed effectively; these range from poor education and illiteracy with consequential social exclusion and gross productivity deficits, to unemployment, unmet health-care needs, health hazards in formal and informal workplaces, deep poverty, widespread inequality and finally to denied basic human and labour rights and lack of social dialogue. Such deficits create risks for sustainable economic and social development (insecurity, societal disintegration, environmental hazards, global health hazards, etc.). Without social stability economic growth and development remain at risk.

Social stability rests on a variety of societal factors among which two are crucial:

- an adequate degree of security of decent employment for those who can work, and
- an adequate degree of effective social security for those who cannot or can no longer work.

In effect, people need to be confident even in an economy dominated by global players that their societies and governments can still provide an adequate level of economic and social security. In order to broaden and deepen confidence in the process of change set in motion by globalization, these twin objectives must be achieved:

- Effective social security means secure access to benefits and services that maintain and enhance an individual's employability and the guarantee of at least a minimum income level, including adequate and secure pensions when no longer active, together with basic social services (including health care);
- In general and in the long-run, high levels of productive employment are necessary to finance social protection, as high employment levels substantially contribute to the creation of the tax base for social spending. Ultimately, social security systems can remain economically and financially viable only if they are successful in containing levels of dependency at socially adequate and economically responsible levels.

However, the case is made here that high levels of *decent and productive* employment can only be achieved in the long run if decent levels of social security are achieved in parallel. Change, for example, will be more easily accepted by employees and societies as a whole if the population is confident that governments and employers are seeking ways to facilitate the adaptation process in a socially responsible manner, using constructive social dialogue to build the necessary consensus for restructuring while providing the population with a basic floor of social security that helps to avoid excessive hardship for those that are affected by change. Social security systems also facilitate the distribution of benefits from growth and globalization to those most in need. They also help to create and maintain a productive workforce.

What is required is innovative combinations of government economic, employment and social policies. This Note focuses on the role of social security in that context. The paper also reports on a major shift in the international policy debate with respect to the role of social security in national development. Social security systems are increasingly seen as a crucial element in national economic and social development, and for the first time in decades major innovations

originate from countries in Africa, Asia and Latin America. The understanding that the globalizing world needs a minimum social security floor for all is gaining ground.

The constitutional mandate of the ILO, as re-stated in the 1944 Declaration of Philadelphia,<sup>2</sup> “...recognises the ... solemn obligation of the International Labour Organisation to further encourage among the nations of the world programmes that will achieve, inter alia, the extension of social security measures to provide a basic income to all in need of such protection and comprehensive medical care”.

The ILO constituents reaffirmed the fundamental role of the ILO in the promotion and extension of social security and its obligations in this respect at the International Labour Conference in 2001.<sup>3</sup> On this occasion, the Conference Committee on social security concluded that “highest priority should go to policies and initiatives which can bring social security to those who are not covered by existing systems”.<sup>4</sup> In this regard, it was proposed, among others, that a major campaign be launched in order to promote the extension of social security coverage.<sup>5</sup> Thus, in 2003, the Global Campaign on Social Security and Coverage for All was launched, with a view to achieving concrete improvements in social security coverage in as many countries as possible; strengthening social partners and individuals' know-how in the field of social security and developing useful tools for key actors; and placing social security at the top of the international policy agenda. The promotion of a social floor is rapidly becoming the policy nucleus of the campaign and of international debate.

## **2. Achieving decent work and decent lives for the global society: The role of social security**

The term social security as used here encompasses all measures that provide income security to people in case of poverty, unemployment, sickness, disability, old age, loss of the breadwinner, as well as access to essential social services. Such access to essential social services comprises most importantly access to health services as well as access to education and occupational training and retraining. Social protection including social security as defined above is part and parcel of the ILO's Decent Work Agenda. Social protection is also a productive factor that facilitates social and economic development. But before that case is made, some of the ethical foundations of social protection and the present political debate on the subject have to be revisited.

### ***2.1 The moral challenge***

Social security is a human right. Article 22 of the United Nations Universal Declaration of Human Rights states: “Everyone, as a member of society, has the right to social security”.<sup>6</sup> Almost sixty years later, that right remains a dream for 80 per cent of the global population. To many people a basic set of benefits could make the difference between a miserable and a decent life, or simply the difference between life and early death. Millions of children under the age of five die every year because they have no access to adequate health care and because there is not enough income to secure their food. According to ILO calculations,<sup>7</sup> less than 2 per cent of Global Product would be

<sup>2</sup> Declaration concerning the aims and purposes of the International Labour Organization, adopted by the International Labour Conference at its 26th Session in Philadelphia on 10 May 1944.

<sup>3</sup> Resolution and Conclusions concerning social security, International Labour Conference, 89th Session, 2001, para. 2.

<sup>4</sup> Ibid., para. 5.

<sup>5</sup> Ibid., para. 17.

<sup>6</sup> The full text of the Declaration is available at: <http://www.un.org/Overview/rights.html>

<sup>7</sup> Presented in Cichon and Hagemeyer (2007), pp. 169 et seq.

necessary to provide a basic set of social security benefits to all the world's poor. Providing a basic set of benefits to all who lack access to social security would require 6 per cent of Global Product. That potential investment in people amounts, for the two scenarios, to less than 10 per cent or 30 per cent respectively of the total annual global investment in tangible assets. The major share of the cost of a set of basic social security benefits stands to be financed out of national revenues, although in some countries international help might be needed to jump-start such systems.

## ***2.2 Social impact and historical experience***

Social security systems providing social transfers are instruments to alleviate and prevent poverty, which work directly and fast in a way that the putative benefits of “trickle-down” effects of economic growth cannot match. We know from long experience in OECD countries that social protection is a powerful tool to alleviate poverty and inequality: It reduces poverty and inequality in many OECD countries by almost 50 per cent.

There is no successful industrialized country in the world that does not have a fairly extensive social security system. There has been widespread consensus in most industrialized countries that the social protection of their population should be improved as societies grew more prosperous. Until recently and over many decades that principle was rightly never questioned. Many of those “traditionally” regarded as the most successful amongst the “developed” economies of the world, such as Denmark, France, Germany, Netherlands, Norway and Sweden, also have the highest social expenditure when measured as a percentage of GDP, generally between 25 and 35 per cent. These economies are also traditionally open economies and have been subject to international competition for decades before globalization became a topical issue. They also have in common the fact that they all started to introduce their social protection systems about a century ago that is, when they were poor. Providing social security was and is part of their development paradigm.

There are positive examples of successes with modest universal social benefit systems in Africa, Latin America and Asia. In Botswana, Mauritius, Namibia and South Africa, for example, basic universal pensions have shown positive poverty alleviation effects. Valuable experience has been gained regarding the potential role of social transfers in combating poverty in countries such as Brazil and Mexico. Notable success in achieving full population coverage in health care could be observed across Asia during the last three decades. The Republic of Korea achieved full population coverage in a little over twenty years and Thailand in less than fifteen. Now major progress is being made in India and China. All experience shows that implementing basic social security systems in low-income countries can make an enormous contribution to achieving the first of the Millennium Development Goals (MDGs) that of halving poverty by 2015.<sup>8</sup>

One may ask why is then the reduction or containment of social expenditure a predominant preoccupation of policy-makers in many countries the world over? Why does the stabilization of social security systems or the introduction of at least basic systems of social security not play a bigger role in economic and development policies? Why then do the majority of people in the world lack access to even basic social security? Why are many of those who provide advice to poor countries reluctant to support major transfer programmes? Why is there not enough support within the countries themselves? The answer lies in a fundamental and widespread misconception of the economic effects of social security.

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<sup>8</sup> The full text of the MDGs is available at: <http://www.un.org/millenniumgoals/>

### 2.3 *Challenging conventional economic wisdom*

The answer to the above questions lies in a lack of understanding about the economic effects of social protection systems. In a tough competitive environment of global markets, every perceived detriment to national competitiveness is subject to intense scrutiny. Thus, social expenditure at a level of between 25 and 35 per cent of GDP in industrialized countries and between 5 and 15 per cent of GDP in many developing countries is often feared to be an unproductive expenditure. The national social security systems in industrialized countries came under political pressure following the two oil crises, when economic growth slowed down and the fiscal space for income transfers in cash and in kind contracted or at least no longer expanded. The perceived need to contain social security expenditure became even more pronounced when globalization took off in full force at the beginning of the new millennium. The pressure to perform in a global competitive environment led to a one-sided view of social security as a cost to a society rather than a potential benefit and an investment in economies and people.

The international social protection policy debate has thus become a debate on fiscal and economic affordability. In the developed world it is a double-edged debate. On the one hand on the revenue side real or perceived global tax competition between countries and growing informality are perceived to limit the fiscal space for transfers, while on the other hand on the expenditure side population ageing and new health hazards lead to higher dependency levels and treatment costs, and are hence seen as inexorably driving up expenditure levels. In the developing world the fiscal space debate is likewise a debate on economic and fiscal affordability but also implicitly an opportunity cost debate. It is argued that scarce public resources can better be invested elsewhere where they would create more economic growth, which would in the long run be more beneficial to the welfare of a population than allegedly “unproductive” transfer payments largely to people working and living in informality.

In making the economic case for strong social transfer systems, the conventional economic wisdom with regard to the relationship between social protection and economic performance has to be challenged. The major elements of that conventional economic thinking are:

- (1) Social expenditure is perceived to be exclusively consumptive expenditure and does not have an investment character.
- (2) Economic growth is believed to reduce poverty automatically (often described as the “trickle-down effect”) and thus in an environment of growth the need for redistributive (social protection) policies may remain very limited.
- (3) There is a trade-off between social expenditure and economic efficiency or growth and hence high levels of redistribution are detrimental to growth.

Whereas, in our view:

- (1) *Social expenditure has an investment character*

Social security systems reduce poverty and are an investment in productivity. The World Bank stated in a recent report that poverty is a risk to security and lack of security is a hindrance to the investment climate.<sup>9</sup> Furthermore, only people who enjoy a minimum of material security can afford to take entrepreneurial risks.<sup>10</sup> Social security benefits (that do not establish disincentives to work) can facilitate the adjustment of labour markets in the industrialized and the developing world; they can thus help to facilitate the public acceptance of global changes in production

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<sup>9</sup> See World Bank (2005).

<sup>10</sup> See OECD (2006).

processes triggered by globalization. The existence of collective social security systems can help to maintain competitive wage levels as, in their absence, individuals would have to seek higher incomes to finance individual or private risk-coping mechanisms out of current incomes. Furthermore, only healthy and well-nourished people can be productive. Only people that have enjoyed at least a minimum level of schooling facilitated by child and schooling benefits can work their way out of poverty successfully. Many people would not be able to afford that level of schooling without family cash benefits.

*(2) Economic growth does not automatically reduce poverty*

The empirical and statistical evidence of the last decade shows clearly that economic growth does not automatically reduce poverty without putting employment promotion and income redistributive mechanisms (such as social security systems) in place, otherwise countries with the same levels of GDP per capita would not experience a wide range of different levels of poverty and inequality. And one would not see persistently high levels of poverty in some countries with relatively high levels of GDP per capita.

*(3) The famous trade-off between growth and equity does not hold true*

There is ample evidence that countries with identical levels of social spending experience a wide range of different levels of GDP, contradicting the hypothesis that there is an automatic negative correlation between economic performance and levels of redistribution. The latter implies that there is no hard and fast rule as to what countries can afford. There is, however, a fairly strong positive correlation between per hour productivity and per capita expenditure on social protection in OECD countries. Thus, superior economic performance and high social expenditure do coexist and social expenditure and economic performance support each other. The famous growth-equity tradeoff is a myth rather than fact.

Obviously, at early stages of development the available financial and fiscal space is more limited than at later stages, so the introduction of social security benefits needs to be sequenced by order of priority. But we will show in the following sections that even amongst low-income countries most can afford some level of social protection.

At a later stage of development there may be a saturation point for social expenditure beyond which it becomes economically and socially counterproductive due to disincentives and crowding out of other public expenditure. That will depend on specific national circumstances and the specific design of the transfer systems and the affiliated incentives for example, whether the system creates incentives for staying in or taking up work. The ageing of the populations and the consequential reduction in the size of the labour force call for a close review of the incentives that need to be built into the systems to limit or reduce dependency levels without depriving those in need from necessary levels of protection.

## **2.4 The case for a global social floor**

Thus there seem to be good social reasons to introduce social protection mechanisms at an early stage of economic development and generally no good economic reasons why that should not be done.

The time seems right to promote a basic set of social protection benefits that should be achieved by all countries in the shortest possible time. This could be the social security minimum benefit package as part of a global socio-economic floor that was advocated by the World Commission on the Social Dimension of Globalization. The World Commission argues: “As long

as countries however poor are able to collect some taxes and contributions, they can afford some level of social protection. A global commitment to deal with insecurity is critical to provide legitimacy to globalization.”<sup>11</sup>

Since about mid-2005, social security research in the ILO within the framework of the Global Campaign has focused on the affordability of minimum tax-financed cash benefits and the feasibility of pluralistic financing systems for health care.

The ILO regards its generic strategy for the extension of social security coverage as one of progressive universalisms. That strategy is based on two distinct types of rights of the individual that give effect to the human right to social security. The strategy envisages:

- (1) **for those who derive rights on the basis of payments of contributions or taxes**, the building of progressively higher levels of protection for all or defined subgroups of the population, on the basis of societal consensus and the minimum levels of ILO Convention No. 102;
- (2) **residents' rights**, comprising a basic “floor” of social security for all that can be introduced and strengthened progressively in line with economic development
  - by increasing the number of benefits
  - by increasing the levels of benefits

but which should be underpinned by commitment to the objective of reaching the floor and reporting on the progress towards the objective.

In a recent policy consultation paper the ILO suggests that the social protection part of the global socio-economic floor should consist of:

- Access for all residents to basic/essential health care through pluralistic national systems that consist of public tax-financed components, social and private insurance components, as well as community-based components that are linked to a strong central system;
- A system of family benefits that provides basic income security for children and facilitates children's access to nutrition, education and care;
- A system of basic social assistance that provides income security at least at the poverty line level to people of active age (who are unable to earn sufficient income due to sickness, unavailability of adequately remunerated work, loss of breadwinner, care responsibilities, etc.);
- A system of basic universal pensions that provides income security at least at the poverty line level in case of old age, invalidity and survivorship.<sup>12</sup>

The Social Security Department has also identified the following basic principles for its campaign strategy when supporting countries to build up national social security systems:

- First: Promotion of basic coverage for all, on a basis of universal access (but not necessarily with uniform benefits).
- Second: Promotion of a rights-based approach to safeguard the rights of residents (“everyone has a right to social security”, as set out in Article 22 of the United Nations Universal Declaration of Human Rights) and of contributors and taxpayers (by honouring earned entitlements).

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<sup>11</sup>See ILO (2004a), p. 110.

<sup>12</sup> ILO (2006a), p. 34.



- Third: Promotion of adequate benefit levels that ensure basic poverty protection and fair levels of income replacement.
- Fourth: Making the case that overall responsibility for provision rests with the government, although delivery can be shared with private sector and community-based entities (except in failed or failing States).
- Fifth: Accepting pluralism in organization and financing.
- Sixth: Promotion of good tripartite governance, financial sustainability and fiscal and economic viability.

Based on research undertaken in recent years and needs assessments carried out in the course of its technical cooperation activities, the ILO Social Security Department has identified a minimum set of four essential basic social security guarantees (a basic benefit package) that could constitute a social security floor:

- All residents have access to basic/essential health-care benefits, where the State accepts the general responsibility for ensuring the adequacy of the delivery system and financing of the scheme;
- All children enjoy income security at least at the poverty level: through family/child benefits aimed to facilitate access to nutrition, education and care;
- Some targeted income support for the poor and unemployed in active age groups;
- All residents in circumstances of old age and disability enjoy income security through pensions granted at least at the poverty line level.<sup>13</sup>

Support is gathering for the policy position that countries can grow with equity, i.e., providing some form of social protection from some early stages of their development. The Director-General's report to the International Labour Conference of 2004 announced that the Office will further explore that suggestion and will explicitly test the financial feasibility and deliverability of basic non-contributory pensions, basic health services and access to basic education.<sup>14</sup> The United Kingdom-based initiative Grow Up Free From Poverty, a coalition of 21 leading NGOs, promotes a “social minimum”<sup>15</sup> benefit package consisting of a basic set of cash transfers, similar to the one listed by the ILO, as a crucial tool in the combat against poverty in developing countries. This position is fully endorsed by the recent White Paper on development policy of the Government of the United Kingdom.<sup>16</sup> The Governments of Belgium, France and Portugal have, for several years now, supported the extension of health security through a combination of community-based and central government approaches, through the framework of the ILO-STEP project. The Government of France launched a health insurance initiative for developing countries during the 2006 G8 meeting in St. Petersburg and is actively following up on this initiative. During its Presidency of the G8 in 2007, the Government of Germany provided continuity by adopting as focal topics health care in developing countries, the social dimension of social protection and the role of social protection.

What we observe is a real shift in development policy paradigms. The “grow first distribute later” policies appear to be consigned to history. The Rt. Hon. Hilary Benn, then Secretary [Minister] for Overseas Development in the Government of the United Kingdom, described the new

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<sup>13</sup> See ILO (2008a).

<sup>14</sup> ILO (2004b).

<sup>15</sup> See Grow Up Free From Poverty (2006).

<sup>16</sup> See DfID (2006), pp. 85-86.

development policy with the statement: “Our agenda is about growth with equity, not either or.”<sup>17</sup> We are witnessing a growing awareness of the potential value of social transfers in development policies, as was recognized at the G8 Labour Ministers meeting in Dresden<sup>18</sup> and in the Ministerial Declaration of the 2006 ECOSOC High-Level Segment that stated explicitly “... countries need to devise policies that enable them to pursue both economic efficiency and social security and develop systems of social protection with broader and effective coverage”.<sup>19</sup> The ILO further developed the issue at an informal meeting of the Ministers of Labour and Social Affairs during the 2007 International Labour Conference<sup>20</sup> where a possible new approach to a policy for balanced and inclusive growth was presented by the Office.

However, a basic set of social protection benefits can only be promoted with credibility if it can be demonstrated that it is logistically feasible and affordable. Logistical feasibility can easily be demonstrated by examples of successful benefit delivery at reasonable administrative cost from Botswana, Brazil, Mexico, Namibia and South Africa. The critical question remains: Can developing countries afford a basic social security floor?

## 2.5 *Fiscal affordability of social protection in a development context*

Fiscal space is always limited. Obviously, it is to be expected that in the early stages of development the constraint is tighter than at later stages, so the introduction of social security benefits may have to be sequenced by order of priority. However, ILO actuarial calculations have shown in the case of 12 developing countries that some form of basic social security can be afforded by virtually all countries. The following box describes that exercise in more detail. At the same time, countries need to invest in tax system design and the effectiveness of contribution collection mechanisms.

### **Can developing countries afford to close the social security deficit?**

A recent ILO modelling exercise has demonstrated that basic social protection benefits are not out of reach for low-income countries in sub-Saharan Africa and Asia, even though some of them might require some international assistance for a transitory period.<sup>1</sup> The study covered seven African countries (Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Senegal, United Republic of Tanzania) and five Asian countries (Bangladesh, India, Nepal, Pakistan, Viet Nam). The cost of a basic social protection package was assessed, including a universal old-age and invalidity pension, universal access to basic health care and a universal child benefit. The main assumptions were:

- *Basic old age and invalidity pensions:*  
Benefit of 30 per cent of per capita GDP.
- *Child benefit:*  
Benefit of 15 per cent of per capita GDP for the first two children under age 14 in a household.
- *Social assistance*  
100-day guaranteed employment at a wage of 30 per cent of per capita GDP for a maximum of 10 per cent of all people of active age,
- *Essential health care:*  
Annual per capita costs based on the benchmark professional staffing ratio of 300 population per one health professional (approximately the staffing ratio of Namibia and Thailand).

<sup>17</sup> The full text of the speech is available at: <http://www.dfid.gov.uk/news/files/Speeches/wp2006-speeches/growth190106.asp>

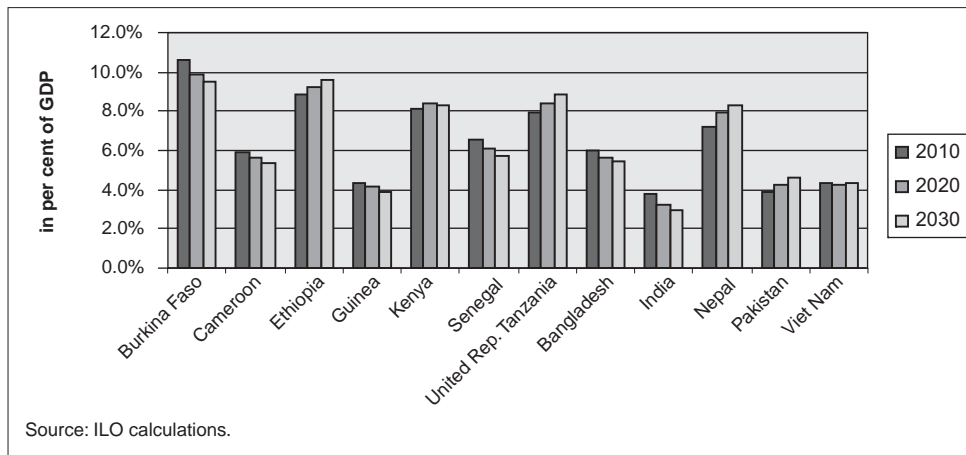
<sup>18</sup> See the G8 Labour and Employment Ministers Conference: Shaping the Social Dimensions of Globalisation, Dresden, 6-8 May 2007, Chair's conclusions.

<sup>19</sup> See United Nations, Economic and Social Council (E/2006)/L.8, para. 19.

<sup>20</sup> The ILO tabled and presented a discussion paper entitled *Growth, employment and social protection: A strategy for balanced growth in a global market economy*.

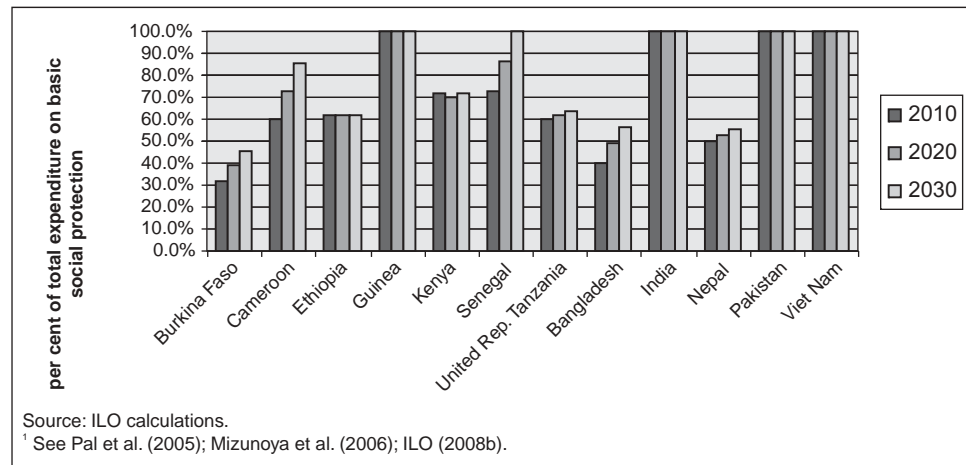
The results of the projection show that a modest basic social protection package or at least substantial parts thereof would be affordable for low- and middle-income countries. Expenditure on the basic benefits package could be kept at around 8 per cent of GDP in Nepal and below 6 per cent of GDP in Bangladesh, India, Pakistan and Viet Nam. The results show a generally lower level of relative cost in Asia as compared with Africa; this largely reflects lower demographic dependency rates in the Asian countries.

**Box figure 1 Projected expenditure on basic social protection benefit package for selected countries in Africa and Asia, 2010-2030**



If Asian countries, after some fiscal reforms, were able to use about 20 per cent of their revenues to finance the basic benefits package, full domestic financing for the complete benefit package would be possible in three out of those five countries. In the other countries the financing gaps during the next three decades might have to be closed through a gradual introduction of the benefit package, some budget support from international donors or the increase of the resource base for the national social budget. The latter could, for example, be achieved through the introduction of a health insurance system with wide population coverage.

**Box figure 2 Projected share of total cost of basic social protection package that can be covered by domestic resources equivalent to 20 per cent of government expenditure, selected countries in Africa and Asia, 2010-2030**



The effects of a basic benefit package on poverty reductions could be quite dramatic. Our distributional analysis<sup>21</sup> shows that the combination of a modest cash benefit for children and a

<sup>21</sup> Gassmann and Behrendt (2006).

modest pension, which could be an entry level benefit package for poorer countries, could reduce the poverty head count by about 40 per cent – a major contribution to the achievement of MDG 1 in some African countries. This set of benefits is estimated to cost no more than about 4 per cent of GDP.

The above costing exercise uses a static (i.e., a simple “all other things being equal”) economic and fiscal model. It does not take into account the potential dynamic effects of a basic social protection package on the levels of national growth.

The case can well be made that the net costs of early investments into a basic set of social security benefits are zero or even negative, given expected offsets by positive economic returns. A small “back-of-the-envelope” calculation illustrates this. We know that the basic conditional cash transfer programme in Mexico, *Oportunidades*, reduces sickness days of adults by about 19 per cent, a major productivity push. The cash-for-education programme in Bangladesh (formerly food-for-education) has enabled children, in particular girls, to remain in school for several years longer than would otherwise be the case, and hence improved individuals' employment prospects to a degree which should increase the lifetime earnings of beneficiaries by an amount estimated to reach 25 per cent – once again a case of social benefits driving a productivity jump.<sup>22</sup> If we assume, conservatively, that such productivity increases, linked to basic social security schemes, lead to a rise in overall levels of GDP by no more than 10 per cent, then modest schemes should quickly pay for themselves. In the long run – and after some investment in the tax collection mechanisms – the resulting enhanced tax revenues would increase in line with growth, creating sufficient fiscal space, and more, to finance the benefits.

Recent developments in Asia also show that at least some elements of a basic social security floor are affordable in many countries. Most progress has probably been made in achieving higher levels of access to health care.<sup>23</sup> The available indicators show that in the Republic of Korea and in several middle-income economies (Malaysia, Thailand, Tonga, Fiji, Sri Lanka),<sup>24</sup> as well as a few low-income economies (Mongolia, Viet Nam, Kyrgyzstan), the population enjoys relatively high levels of access to basic and most intermediate health-care services, although high-technology services may be accessible only to a few. For key basic health interventions, such as skilled birth attendance and immunization coverage, the indicators in these countries are also close to universal. In these countries, extreme inequalities in use of health-care services between rich and poor are not typical, and in some of them, such as Malaysia and Sri Lanka, equity in health-care use is high.<sup>25</sup> In the remaining countries of the Asia-Pacific region considerable disparities exist in access to services, and large numbers of people still lack adequate access to services.

The Chinese Government is currently focusing on building a “moderate welfare state” and has defined the improvement of health care as an essential element of economic growth. The central Government has increased public health spending as well as social cash transfers. Based on high economic growth, some communities have set up local health insurance schemes. In urban areas, Government Employment Schemes (GIS) and Labour Insurance Schemes (LIS) covering public servants and workers in state enterprises were replaced in 1998 by an insurance system for all employees that is open to smaller companies and the self-employed. The GIS and LIS reforms are local initiatives comprising the introduction of cost sharing to the beneficiaries, the

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<sup>22</sup> See DfID (2005), pp. 13, 17

<sup>23</sup> The following sections build on the ILO paper on health protection and the health policy paper presented to this meeting.

<sup>24</sup> The classification used here is that of the World Bank (2007 series); of these countries, Malaysia is classed amongst upper-middle income countries, the others with the lower-middle income group.

<sup>25</sup> Rannan-Eliya and Somanathan (2006).

establishment of catastrophic disease insurance and the application of capitation payment in some cities. In 2005, the Basic Medical Insurance (BMI) covered more than 130 million beneficiaries in various Chinese cities. For rural areas, a new voluntary health insurance for self-employed farmers, organized on the basis of local risk pooling, was introduced in 2003, covering 80 million individuals that year. The organization and financing are fostered and backed by the central Government and coverage has been extended progressively, reaching by early 2008 a stated figure of 730 million.<sup>26</sup>

The Republic of Korea is an outstanding example of the successful introduction of a universal health insurance system. Once the country had passed its Health Insurance Act in 1963, it took just 26 years to achieve universal insurance coverage. It should be stressed that the country's GDP per capita in real terms was still under US\$1,600, in other words, only two-thirds of the current level of GDP per capita in the Philippines and around the same level as that of countries such as Cameroon, Mozambique, Niger and Sri Lanka.

The Indian health-care sector is growing rapidly, following on the country's general economic and social development. However, at just 1 per cent, the share of GDP spent on public health care remains very low. All health financing mechanisms coexist in India, although “out-of-pocket” (OOP) payments represent the main form of financing (over 70 per cent of total health expenditure, according to the latest WHO statistics).<sup>27</sup> However, health finance mechanisms also include social health insurance, namely the Employees' State Insurance Scheme (ESIS), which provides for compulsory coverage of government employees and staff in larger companies, the Central Government Health Scheme (CGHS), employer-based schemes, voluntary (commercial) health insurance, and community health insurance. Shortfalls in provision, high contributions, drastic co-payments and poor quality of providers have led to the emergence of micro-insurance schemes in rural areas as well as in major cities. Micro-insurers often purchase cover from the state-owned insurance companies, and in recent years the commercial insurance companies have started to enter this market. For the population in the informal economy, coverage of outpatient services, medicines and the indirect costs of illness (e.g., transport costs and loss of earnings) are crucial.

In October 2001 Thailand took a historical step towards achieving full population coverage in health care by introducing a universal health-care scheme called “UC scheme” (also commonly known as the “30 Baht” scheme). The scheme offers any Thai citizen not affiliated to the Social Security Health insurance scheme (SSO scheme) or the Civil Servants' Medical Benefit Scheme (CSMBS) full access to health services provided by designated district-based networks of providers (consisting of health centres, district hospitals and cooperating provincial hospitals). Eligible persons have to register with the networks and obtain a free insurance card. They were formerly required to pay a nominal co-payment of 30 Baht (a little less than US\$ 1)<sup>28</sup> for each outpatient visit or hospital admission; however, the co-payment was recently abolished. Drugs on prescription are also free of charge. The scheme has been remarkably successful with respect to population coverage in the first years of its existence. Its sustainability remains in some doubt, however, in so far as fiscal allocations to the scheme have to be renegotiated each year in the government budgeting process.

While there are a number of alternative initiatives to improve access to health services, progress on cash transfers that ensure some level of income security for all has been much slower

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<sup>26</sup> Figure quoted in “Health care in China”, *The Economist*, 21 February 2008

<sup>27</sup> Available at: [www.who.int/countries/ind/en](http://www.who.int/countries/ind/en)

<sup>28</sup> Current exchange rate (early 2008): 32 baht = US\$1 approximately.

in Asia. Table 1 presents a classification of a selection (by no means complete) of significant cash transfer schemes, and suggests that among the countries that have introduced some form of cash transfer schemes seeking to reach either the total population or a specified group of populations whether on a conditional or unconditional basis, Asian countries may be in a minority.

**Table 1 Global instance of conditional and unconditional cash transfer programmes, 2008 and ongoing**

Type of cash transfers	Countries	Number
<b>Unconditional</b>		
Household income support	Chile, China Indonesia (till 2007), Mozambique, Pakistan, Zambia	6
Social pensions	Argentina, Bolivia, Bangladesh, Brazil, Botswana Chile, Costa Rica, India, Kiribati, Lesotho, Mauritius, Namibia, Nepal, Samoa, South Africa, Uruguay	16
Child/family benefits	Mozambique, South Africa	2
<b>Conditional</b>		
Cash for work	Argentina, Ethiopia, India, Rep. of Korea, Malawi, South Africa	6
Cash for human development	Bangladesh, Brazil, Colombia, Ecuador Indonesia, Honduras, Jamaica, Mexico, Nicaragua	9
	<b>Total number of countries with at least one programme</b>	30
	<b>Of which in Asia and the Pacific</b>	8

Source: University of Sussex and ILO.

However, it is interesting to note that all of the high-population Asian countries in the middle- and low-income categories (China, India, Indonesia, Pakistan, Bangladesh) are represented in the table, having at least one significant cash transfer programme in operation. India has, moreover, introduced a very innovative 100-day guaranteed employment scheme for rural districts that has now been rolled out to its entire target area. Nepal has been pioneering social pensions for old age and invalidity (albeit with a very high retirement age of 75 years) and is presently exploring the fiscal possibility of strengthening the universal pension by bringing the retirement age down, and of possibly adding a child benefit. Two Pacific island States (Samoa and Kiribati) also have universal old-age pensions. The above examples show that many countries can afford some level of either conditional or unconditional cash transfers and in some cases even a combination of good health coverage and access to basic cash benefits.

It should not be overlooked that almost all countries in the region, however, have some form of insurance-based cash benefits (or tax-financed cash benefits, as in the case of New Zealand and Australia) for old age and invalidity, sickness and maternity or work injury. However, with the exception of the industrialized countries in the region, these schemes have limited population coverage.

### **3. By way of summary and conclusion: A new focus of the ILO campaign for the extension of social security coverage in Asia**

Social protection systems and activating employment policies stabilize societies in low- and high-income countries. Stable societies in low-income countries are of direct economic benefit to high-income countries as only stable countries produce the volume of trade that can create further

global growth. Social protection and active employment policies are investment in people, the productivity of the workforce and social cohesion that are prerequisites for a good investment climate and a potentially productive economy. However, the benefits of such policies are of a mid- and long-term nature, while requiring immediate corporate and state investments in non-financial production assets that tend to be easily sacrificed on the altar of short-term profit and rent seeking in global financial markets. Ensuring that national strategies for social and economic development are complementary and avoid the risk of countries undermining each other's development strategies requires increased dialogue and commitment to the progressive application of international labour and social standards in the longer term as well as a short-term consensus on creating a basic floor of social security that all countries should afford to all their residents.

To pursue the latter objective in a practical manner, and based on the conclusions of the Fourteenth Asian Regional Meeting in 2006 that requested the International Labour Office to “within the means available...integrate actions in the following fields: ...establishing benchmarks and good practices on the extension of social protection to all working women and men and their families [and] promoting the development of up to date and reliable statistics and data-gathering to assist in fact-based research, comparison and decision making”,<sup>29</sup> the ILO recommends as follows:

- (1) All countries should develop within their Decent Work country strategies national social security development plans that determine a roadmap towards national social security systems that are compatible with social needs and available fiscal space, and that are conducive to economic performance, to consist in each case of:
  - a. a fully inclusive basic social security system, representing a social security floor for all, even if implemented only gradually. The exact components of such a floor for each country level, and the sequencing for its introduction, remain a matter of national policy priorities;
  - b. higher levels of health protection and income security that are designed in national social dialogue processes once economic performance and the fiscal space permits the financing of such benefits, and implemented through multi-pillar, including social insurance, schemes.
- (2) Countries should subscribe to a review system that allows them to self-monitor progress with respect to population coverage. Without such a self-binding mechanism progress might not be as rapid as it could be.

The ILO is able to provide technical advice covering legal and managerial aspects, in addition to actuarial and social budget analyses. The latter should ensure that the progress towards coverage is compatible with national economic and fiscal capacity and would help to facilitate donor support for the design and implementation of a social floor. The ILO has also embarked on a review of its social security standards with a view to exploring whether they provide sufficient guidance to countries with respect to the definition of a social floor. It appears from the present state of the analysis that a new binding or non-binding instrument defining a social floor could strengthen the ILO campaign.

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<sup>29</sup> ILO (2006b), p. 4Z

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