1.3 The social protection perspective on microinsurance

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1 Introduction

Access to social security is a fundamental human right. Moreover, social security and social protection are increasingly recognized in the global debate as indispensable components of poverty reduction, sustainable economic development, fair globalization and decent work. In this respect, the World Commission on the Social Dimension of Globalization stresses that a minimum amount of social protection must be accepted as being an integral part of the socio-economic base of the global economy. Social protection is also a key tool for the attainment of the Millenium Development Goals (MDGs).

Therefore, social protection is much more than a risk-management instrument for individuals. It is a comprehensive, collective tool to reduce poverty, inequality and vulnerability. It promotes equity and solidarity through redistribution. And it provides fair access to healthcare, income security and basic social services. However, more than half of the world's population does not benefit from any form of social protection.

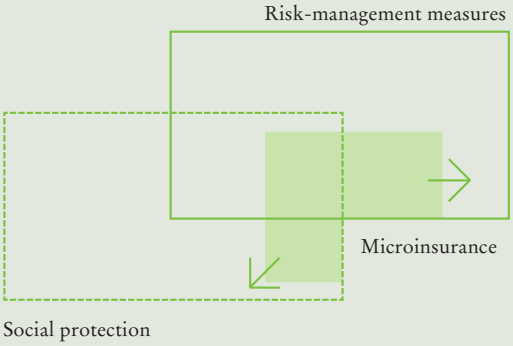
Facing exclusion from social protection, local communities are taking initiatives to organize microinsurance schemes. Microinsurance is delivered through a diversity of organizations covering various risks or contingencies including health, maternity, life and disability. Some schemes are not just risk-management instruments, but have the potential to contribute to the extension of social protection to excluded groups. Furthermore, these schemes can improve the governance of social protection providers (e.g. healthcare) and raise supplementary resources that enhance social protection as a whole. This is particularly necessary where the state has limited financial and institutional capacity.

[1] This chapter is adapted from a forthcoming publication by the ILO and GTZ entitled *The role of microinsurance as a tool to face risks in the context of social protection*. Examples from Senegal are drawn from the authors' experiences.

Microinsurance schemes can be components of social protection systems, as illustrated in Figure 4, although this has several implications:

- Microinsurance schemes may assume some social protection functions, such as redistribution through internal cross-subsidies or by channelling public subsidies to their members.
- Microinsurance schemes should not only be evaluated on technical aspects (e.g. financial viability), but also on their capacity to reach social protection outcomes; the socio-economic impact of these schemes on members and non-members should be taken into consideration.
- A non-regulated market may fail to provide an efficient benefit package for the poor.
- Microinsurance schemes can play an important role in the empowerment and participation of their members, which has implications in terms of the design of the products, the choice of the benefit package, affordability and the organization of the schemes.

Figure 4 **The locus of microinsurance**



However, stand-alone, self-financed microinsurance schemes have major limitations on their ability to be sustainable and efficient social protection mechanisms capable of reaching large segments of the excluded populations. Their potential to extend social protection is increased when governments include them in national social protection strategies, linking them to other social protection components to create a progressively more coherent, efficient and equitable system.

This chapter explores the relationship between social protection and microinsurance by first defining social security and social protection. Within that context, the chapter then defines microinsurance, and goes on to illustrate its potential and limitations. Finally, it provides some illustrations of how microinsurance can be used to extend social protection to excluded populations and to overcome some of the inherent limitations.

2 What is social security? What is social protection?

2.1 Definition, objectives and key functions

According to the ILO (2000), **social security** is the protection which society provides for its members through a series of public measures:

- to compensate for the absence or substantial reduction of income from work resulting from various contingencies (notably sickness, maternity, employment injury, unemployment, invalidity, old age and death of the breadwinner),
- to provide people with healthcare,
- to provide benefits for families with children.[2]

Social protection includes not only public social security schemes but also private or non-statutory schemes with similar objectives, such as mutual benefit societies and occupational pension schemes, provided that the contributions to these schemes are not wholly determined by market forces.

This definition of social protection is one of several approaches. Other organizations, such as the World Bank and the Asian Development Bank, use more holistic conceptions of social protection ("social risk management"). They include a larger range of contingencies – anything that affects individuals' income security – which naturally overlaps with other sector policies, such as education or labour. This broader view not only includes protecting mechanisms, but also promotional interventions to increase assets or economic opportunities (such as microfinance programmes, price supports or commodity subsidies). Indeed, the concepts of social protection are still under discussion, for example in the Network on Poverty Reduction facilitated by OECD's Development Assistance Committee.

Regardless of the specific definition, social protection is an important tool to prevent poverty and strengthen the capacity of the poor to get out of poverty. For instance, some social protection measures consist of a direct transfer of funds to the poorest (identified through means testing), which has

[2] The ILO has a number of social security conventions that deal with the practical implementation of this human right. The most important is the Social Security (Minimum Standards) Convention, 1952 (No. 102). It defines nine branches of social security and the corresponding contingencies covered: medical care, sickness benefit, unemployment benefit, old-age benefit, employment injury benefit, family benefit, maternity benefit, invalidity benefit and survivors' benefit. In addition, it introduces the idea of a minimum level of social security that must be achieved by all member states. To take into account different national situations, ILO conventions on social security typically contain flexibility clauses regarding the population covered, and the scope and level of benefits provided. They also give states full discretion in the organization of their social security scheme. In other words, these conventions affirm the right of everyone to social security, but recognize the practical difficulties in actually implementing this right in the social realities that prevail worldwide.

a direct and at least temporary effect on poverty. Social protection also reduces poverty through its positive impact on economic performance and productivity. It can be seen as a productive factor for three main reasons (ILO, 2005b):

1. Social protection helps people to **cope with important risks** and loss of income. In doing so, it can enhance and maintain the productivity of workers and create possibilities for new employment. For instance, healthcare systems help maintain workers in good health and cure those who become sick. Similarly, work injury schemes help prevent accidents and sickness and rehabilitate injured workers.
2. Social protection can be a critical tool in **managing change in the economy** and the labour market. For instance, unemployment insurance creates a feeling of security among the workforce, which encourages individuals to undertake riskier initiatives that may result in a higher return for them and for the economy.
3. Social protection can **stabilize the economy** by providing replacement income that smoothes out consumption in recessions, thus preventing a deepening of recessions due to collapsing consumer confidence and its negative effects on domestic demand. For instance, unemployment benefits and old-age pensions help to maintain the purchasing power of workers after they have lost their jobs or retired.

Social protection can enhance principles such as solidarity, dignity and equality. **Solidarity** arises when everyone contributes to a common pot according to their capacity and draws from this pot according to their needs (within the limits fixed by the internal rules of the scheme). Solidarity can also materialize through the redistribution of funds raised through taxes. The level of solidarity depends on the nature of the financing instruments that are being used: while income tax or income-related contributions are usually progressive, consumption taxes or flat-rate premiums run the risk of being regressive.

Social protection is linked with the principle of **dignity** since it gives people the right to live a decent life whatever adverse events afflict them. Unlike charity, social protection integrates individuals in a process of exchange, where they have the right to receive and the obligation to give. Their dignity is recognized by allowing people the possibility to contribute. Social protection is also linked with the principle of **equality** (including gender equality) and non-discrimination when equal rights are given to all people exposed to the same risks or supporting the same burdens without discrimination.

The application of the principles of solidarity, dignity and equality within

social protection help to foster social cohesion, inclusion and peace, which are prerequisites for stable long-term economic growth. Furthermore, the integrative role of social protection brings individuals or groups that have been excluded into the mainstream by providing support in accessing employment and becoming active, and possibly tax-paying, members of society (Piron, 2004). Social protection can finally be a tool to promote empowerment and participation through the representation of workers in the formal economy (within statutory social protection schemes) and informal economy (within community-based social protection schemes). This participation is one way of enhancing democracy.

The ILO's conception of social protection (definition, functions) is shared by many institutions worldwide. Recently, the most important international federations and organizations representing the cooperative and mutual insurance sector formed the International Alliance for the Extension of Social Protection.[3] Their shared vision, values and principles are articulated in "the Geneva Consensus" 2005, which recognizes that "social security is a fundamental and universal human right". This consensus also enumerates basic principles and values regarding social protection – such as solidarity, redistribution, role in economic and social development, importance of efficiency, relevance, good governance and financial viability – and suggests that the values of the cooperative and mutualist movement be held in high regard (e.g. social justice, absence of exclusion and discrimination, non profit, participation and empowerment).

2.2 Gaps between right and reality

The definition of social security as a human right starts from the principles of universality and equality: every human being is equally entitled to social security, which has two major implications.

1. States have an obligation to take measures to guarantee this right.
They have to take appropriate legislative, administrative, budgetary, judicial or other measures to ensure that the right is guaranteed to their populations. This obligation does not necessarily mean that the state has to provide social protection directly; it can facilitate or encourage actions of third parties. Obligation can be of conduct: states have to take the necessary steps to guar-

[3] The members include: ISSA (International Social Security Association), AIM (Association Internationale de la Mutualité), ICA (International Cooperative Alliance), ICMIF (International Co-operative and Mutual Insurance Federation), IHCO (International Health Co-operative Organization), WIEGO (Women in Informal Employment: Globalizing and Organizing) and the ILO. For more details about the International Alliance, see www.social-protection.org.

antee a particular right. Obligation can also be of result: states have to achieve specific targets to satisfy a specific standard. In addition, there is an obligation of the international community, so far unofficially recognized, to support states with insufficient resources to guarantee human rights, including the right to social security. This is in line with the idea behind the Global Fund for Malaria, Tuberculosis and HIV/AIDS.

2. Everybody is entitled to a minimum level of social protection, w**ithout exception or discrimination.** This entitlement includes an equitable access to social protection, independent of individuals' age, sex, health status, location, occupation or income level. This entitlement to a minimum level of social protection is often used to justify the design and implementation of equity subsidies from the rich to the poor.

Yet in many developing countries, social protection coverage is dramatically low: it reaches only a small proportion of the population and provides protection against only a limited range of risks. In sub-Saharan Africa and South Asia, only 5 to 10 per cent of the population is covered by a statutory social security scheme, primarily old-age pension schemes and access to healthcare (ILO, 2001). In some countries, the percentage of the population covered is even shrinking due to structural adjustment policies, privatization and the development of the informal economy. Although some excluded people work in the formal sector, the vast majority are active in the informal economy.

Until the last decade, social protection strategies were based on the assumption that the formal economy would progressively gain ground on the traditional economy, and therefore social security would progressively cover a larger proportion of the workforce. However, this has not happened. In many developing countries, most of the jobs created during the last decade have been in the informal economy (ILO, 2002a). Today, informal employment comprises one half to three quarters of non-agricultural employment in developing countries. If informal employment in agriculture is included in the estimates, the proportion of informal employment increases significantly, for example from 83 to 93 per cent in India, from 55 to 62 per cent in Mexico, and from 23 to 34 per cent in South Africa (ILO, 2001). Although some states have tried, so far attempts to extend the coverage of statutory social security to workers in the informal economy have been insufficient.

2.3 Priority to extend social protection coverage

It is therefore necessary to find other ways to translate the right to social protection into reality. At the International Labour Conference in 2001, governments and employers' and workers' organizations representing 160 countries agreed upon a new consensus on social security; they agreed notably that highest priority should be given to policies and initiatives to extend social security to those who have none, and they proposed several ways of accomplishing that objective:

When these groups cannot be immediately provided with coverage, insurance – where appropriate on a voluntary basis – or other measures such as social assistance could be introduced and extended and integrated into the social security system at a later stage when the value of the benefits has been demonstrated and it is economically sustainable to do so. Certain groups have different needs and some have very low contributory capacity. The successful extension of social security requires that these differences be taken into account. The potential of microinsurance should also be rigorously explored: even if it cannot be the basis of a comprehensive social security system, it could be a useful first step, particularly in responding to people's urgent need for improved access to healthcare. Policies and initiatives on the extension of coverage should be taken within the context of an integrated national social security strategy (ILO, 2001).

At the suggestion of the Conference, in 2003 the ILO launched the "Global Campaign on Social Security and Coverage for All".

When faced with the present situation where a large (and growing) number of persons are excluded from social protection, it is necessary to devise proactive strategies to extend it. These strategies aim at increasing the number of persons covered and at improving the level and the scope of existing social protection benefits. A range of mechanisms can be used to implement these strategies, for instance:

- Social insurance schemes can extend existing or modified benefits to previously excluded groups, on either a compulsory or a voluntary basis. The inclusion of these groups may also enhance the schemes' effectiveness through improved governance and design.
- Special social insurance schemes can be set up for excluded groups.
- Universal benefits covering the whole target population without any condition or income test (for instance, those over a certain age) can be implemented.

– Social assistance programmes targeting specific vulnerable groups can also be implemented: waivers, social pensions/cash benefits, conditional cash transfers (for instance on school attendance).
– A complementary option is to encourage and support the development of microinsurance and innovative decentralized social security schemes to provide social protection through communities, social partners[4] or other civil society organizations.

3 What is microinsurance?

As described in Chapter 1.1, a microinsurance scheme may be an organization, like a mutual benefit society. It could also be a set of institutions working together, such as insurers that collaborate with microfinance institutions to provide insurance to the poor. Or it could be an insurance product provided by an organization that conducts other activities, like an agricultural cooperative that also provides insurance to its members.

Microinsurance schemes are often initiated by civil society organizations. Increasingly, these organizations cooperate with formal social protection schemes (e.g. insurance companies, social security schemes), public institutions (e.g. departments of health, labour and social affairs), service providers (e.g. healthcare providers, third party administrators (TPAs)). Sometimes even municipalities or local authorities are involved in offering microinsurance.

For a scheme to be of interest in the context of social protection, some of its beneficiaries should be excluded from formal protection schemes, in particular informal-economy and rural workers and their families. A microinsurance scheme differs from programmes that provide statutory social protection to formal workers. Membership is not compulsory (but can be automatic). The members contribute, at least partially, the necessary premiums to pay for the benefits. Since their capacity to contribute is often low, the coverage provided by these schemes is – in the absence of subsidies – usually limited, with a small number of risks covered and low levels of benefits.

As discussed in the previous chapter, workers in the informal economy and their families typically request coverage for illness and death; the demand for protection against other risks is less widespread, although it can be significant in certain markets (e.g. the demand for livestock and crop coverage in rural areas). In terms of availability, not all microinsurance products are present in all countries. Some products may be well-established in one

4 The ILO is a unique forum for governments to interact with employers' and workers' organizations, otherwise known as social partners. In the ILO's tripartite governance structure, employers' and workers' organizations have an equal voice with governments in shaping its policies and programmes.

region, but almost non-existent in another. For example, life microinsurance is seldom found in western Africa, whereas it is relatively developed in some Asian countries.

According to inventories of microinsurance schemes conducted in 2003/2004 in 11 African countries, India, Bangladesh, Nepal and the Philippines (ILO/STEP, 2003/2004):

- health microinsurance is predominant in Africa (100 per cent of investigated schemes) and the Philippines (70 per cent of the schemes provide health insurance); it ranks second in India (56 per cent of schemes) and Nepal (52 per cent), and is less important in Bangladesh (39 per cent);
- life microinsurance is most common in Bangladesh (72 per cent of investigated schemes provide life insurance), the Philippines (66 per cent) and India (60 per cent); it is less available in Nepal (38 per cent); and
- examples of crop microinsurance were found only in India (two schemes in 2004); pension schemes were only seen in India (4 per cent of investigated schemes) and the Philippines (24 per cent).

4 Potential and limitation of microinsurance as a social protection mechanism

Not all microinsurance plays a role in extending social protection. Some products – such as asset, livestock and housing microinsurance and credit-linked insurance that only covers the outstanding loan balance – though certainly beneficial, do not provide social protection coverage in the strict sense. In contrast, other products, such as health, life, old-age pensions and disability covers address the nine contingencies specified in ILO's Social Security Convention (No. 102) and therefore play a role in the extension of social protection.

4.1 Positive contribution of microinsurance in the extension of social protection

Where governments have limited financial and institutional capacity, microinsurance schemes may raise supplementary resources (finance, human resources, etc.) which benefit the social protection sector as a whole. More specifically, health microinsurance schemes help to improve access to healthcare by lowering the financial barriers that delay or impede access. In some cases, the quality of care is even improved, for example when the schemes sign agreements with healthcare providers on the quality of delivery. Con-

tracting with healthcare providers also increases transparency in billing practices and the way the health sector is managed.

Microinsurance also has several positive effects on the participation of civil society and the empowerment of socio-occupational groups including women. For example, since many schemes are set up and operated by women's associations, they may strengthen women's capacity to meet their health needs including those linked with their reproductive role.

Moreover, microinsurance as a mechanism to extend social protection has the following comparative advantages over classical social security schemes:

1. Microinsurance can reach groups excluded from statutory social insurance, such as workers in the informal economy and rural workers.
2. The transaction costs necessary to reach these populations may be reduced, since microinsurance schemes are often operated by decentralized civil society organizations, often relying on voluntary self management, that are implemented in the vicinity of the target population.
3. Microinsurance benefits are often designed in partnership with the target population. This participation is highest in mutual benefit associations where the benefit package is voted on by the general assembly. In other types of schemes, the target groups are usually consulted, for instance through household surveys. As a result, microinsurance often responds to the target population's needs and ability to pay.
4. Community-based schemes usually experience fewer problems with fraud and abuse than centralized social protection systems since members often know each other, belong to the same community and share the same interests. However, community-based schemes can have difficulty collecting regular contributions, resulting in retention problems and sustainability challenges. Some schemes manage this issue of low renewals through group insurance contracts with organized occupational groups (such as cooperatives).

The development of microinsurance is ongoing, with a proliferation of new schemes, especially in India. For example, ILO/STEP (2004) found 60 microinsurance schemes covering 5.2 million people. The inventory is being updated; the current (early 2006) number of schemes stands at 71 covering more than 6.8 million people in India and 240 microinsurance schemes covering 25 million people in 8 countries of Asia. This suggests that these schemes respond to a real demand and that they manage to solve a certain number of issues, at least at the local level.

4.2 Current limitations of microinsurance as a mechanism of extension of social protection

Despite these apparent advantages, certain characteristics of microinsurance schemes limit their contribution to the extension of social protection:

1. Although microinsurance is becoming more common, many persons excluded from legal social protection schemes are still not covered by microinsurance either. In fact, many of these schemes (particularly in Africa) have great difficulty extending their geographic or socio-occupational outreach and increasing their membership.
2. Many microinsurance schemes have poor viability and sustainability. These two points are linked (particularly in Africa) with poor management skills (not enough financial resources to employ professional staff) and inadequate information systems, which makes it difficult to monitor the scheme's operations.
3. Members' ability to pay is most often very low, which leads also to limited benefits in the absence of subsidies.
4. Most schemes do not take over the functions that are usually fulfilled by statutory social security schemes – such as redistribution between richer and poorer segments of the population – because contributions are often based on a flat rate. In addition, few schemes reach the poorest segments of the excluded groups who cannot contribute.
5. In many countries, the legislative framework and regulations are not adapted to these schemes and do not facilitate their replication and expansion.
6. Microinsurance schemes are usually self-governing organizations. They may pursue objectives that are not in line with government's strategy of social protection and their promoters may be unwilling to participate in national systems of social protection, as this could threaten the schemes' autonomy.

5 How can microinsurance be used to extend social protection?

An increasing number of states consider microinsurance as a tool for the extension of social protection, and include this mechanism in their extension strategies. In several countries, microinsurance schemes are already part of the process of implementing progressively more coherent and integrated social protection systems:

- In India, the prescribed use of the partner-agent model (see Chapter 5.2) increases the acceptance of insurance by the target groups;
- In Senegal, microinsurance schemes are mentioned in the national social protection strategy as a key mechanism to extend social protection;
- In Rwanda and Ghana, the State implements nationwide social protection schemes in health that are built on district- and community-based mutual organizations.
- In Colombia, the government provides subsidies that enable the poor to be purchasers of health insurance, which even stimulates competition to serve the low-income market by microinsurance providers and others *(Box 11)*.

Box 11

The extension of social protection through microinsurance in Colombia

As a part of the reform of the healthcare system in Colombia in 1993, a special scheme (Régimen Subsidiado de Salud) was introduced to finance healthcare for the poor and vulnerable groups (including their families) who are unable to pay contributions to the general insurance scheme.

The funds are raised through a solidarity contribution collected under the contributory social insurance scheme and various state subsidies. They are then channelled to several institutions, including 8 mutual benefit associations federated in a national apex organization Gestarsalud, which now covers 60 per cent of the market, "cajas de compensación" (20 per cent of the market), and several private commercial insurance companies that also cover 20 per cent of the market. Today this successful subsidized scheme covers 18.5 million people.

Source: Adapted from Pérez, 1999.

There are three ways to overcome the limitations mentioned above. First, further development of microinsurance is required to increase the population covered, enhance the benefits package and strengthen the capacities of the schemes. Second, linkages need to be developed with other players and institutions. Third, microinsurance needs to be further integrated into coherent and equitable social protection systems.

5.1 The further development of microinsurance

The further development of microinsurance has implications for various actors, including the promoters and operators of the schemes, as well as the state.

For microinsurance promoters and operators, this further development may mean altering the way the schemes currently operate. Management must become more professional to enable the schemes to deal with the increasing complexity of meeting the needs of the target group. One way of doing that is to outsource some management functions to specialized organizations. It may also mean setting up new schemes targeting the members of large organizations such as trade unions, cooperatives and occupational associations. Larger schemes are in a position to provide more comprehensive coverage, particularly against major risks like hospitalization, and they are often more sustainable as they can more easily build up financial reserves.

As described in Chapter 5.3, the state may also support the development of microinsurance through promotion and the sensitization of public opinion (particularly the target population). Other government measures might include:

- building the capacity of microinsurance schemes through improved management and monitoring systems,
- strengthening the viability and the financial capacity of the schemes, for example through reinsurance or guarantee funds,
- supporting structures like second-tier associations or networks that provide technical support and training to microinsurance schemes,
- facilitating the exchange of information between actors to make sure that successful experiences can be replicated with other groups or in different geographic areas,
- formulating recommendations on design: benefits package, affiliation, administration, methods of payment to healthcare providers and
- establishing structures to produce information (statistics, indicators) that can be used by these schemes to price their products more accurately.

5.2 The development of linkages

A key strategy to strengthen microinsurance schemes and compensate for some of their weaknesses is to link them to other organizations, institutions or systems. Table 6 provides a few examples, classified according to the types of mechanisms used and the possible partners.

Table 6

Typology of microinsurance linkages

Mechanisms	*Actors/partners*
– Subsidies (local, national, international) – Contracting with healthcare providers – Outsourcing management functions – Technical advice – Financial consolidation (reinsurance, guarantee funds) – Distribution of insurance products – Distribution of public goods (immunization, HIV/AIDS treatments and testing, social assistance) – Bargaining – Exchange of information, practices – Regulation, control	– Other microinsurance schemes, federations of schemes – Civil society organizations, mutuals, MFIs, trade unions, cooperatives, associations, etc. – Service providers, e.g. healthcare, TPAs – Private sector, pharmaceutical industry – Central and local governments – Public health programmes – Social assistance programmes, cash transfers – Social security schemes, private or public insurers – International cooperation

The sharing of functions or responsibilities according to each party's core competences may create complementarities, economies of scale and make the schemes more efficient. Examples of linkages include: Yeshasvini in India outsources management functions to a TPA *(see Chapter 4.6)*; formal insurance companies in many countries distribute products through community organizations *(see Chapter 4.2)*; the creation of economies of scale and bargaining power through the grouping of microinsurance schemes, as in the case of emerging African federations *(see Chapter 4.3)*; and channelling subsidies through mutual benefit associations in Colombia *(Box 11)*.

Functional linkages may also be established with other components of social protection to improve the coherence of the national system of social protection. Examples of such linkages include channelling social services to eligible members and distributing social insurance *(Box 12)*.

Box 12

Linkages in the Philippines

The Philippines Health Insurance Corporation, or PhilHealth, has a mandate to achieve universal coverage by 2012. One of the paramount challenges is to provide health insurance coverage to workers in the informal economy, which is estimated at 19.6 to 21.7 million workers or between 70 and 78 per cent of the employed population.

In response to this challenge, PhilHealth approved a resolution in 2003 to allow partnerships with organized groups on a pilot basis. The partnership, called PhilHealth Organized Group Interface (POGI), is seen as an innovative approach to reach out to workers in the informal economy through

cooperatives. The initiative is being tested with eleven cooperatives that conduct marketing and collect premiums for PhilHealth.

Source: Adapted from GTZ-ILO-WHO, 2005.

A critical linkage to achieving social protection objectives is with healthcare providers. The decentralization of the healthcare sector may facilitate contractual arrangements between microinsurance schemes and healthcare providers at the local level. To ensure that these relationships are mutually beneficial and effective, however, it may be necessary for the government to intervene *(Box 13)*.

Box 13

Developing balanced linkages in Senegal

In Senegal, most mutual health organizations sign contractual agreements with healthcare providers. However, the relationship is often unbalanced and the mutual has no real means of compelling the healthcare provider to respect its commitments.

To face this problem, the Ministry of Health recognized the need to design a national contracting policy and framework that gives guidelines and concrete tools to facilitate the contracting process, including stages in the design of an agreement, minimum content of an agreement, commitments of both parties (including financial aspects, invoicing and payment methods), monitoring tools and procedures, and the State's role. A working group was created in 2006 to design a first draft of this framework that will then be presented to the relevant stakeholders for their feedback.

As illustrated in Box 11, mechanisms to redistribute subsidies can help microinsurance schemes provide a minimum package of social protection to poorer households or individuals with low contributive capacity or high social risks (e.g. the elderly, the chronically ill, certain occupational groups). Such mechanisms provide an equitable access to social protection independently of individuals' characteristics and financial capacity. Beside their redistribution role, these subsidies also make the beneficiary microinsurance schemes more attractive, which helps bolster their membership. Since redistribution at a national level may not be sufficient for poor countries, it is also useful to consider international redistribution *(Box 14)*.

Box 14

The Global Social Trust

The mission of the Global Social Trust is to systematically reduce poverty in developing countries through a partnership that invests in and sponsors the development of sustainable national social protection schemes for people and

groups that have been excluded from the economic benefits of development. The basic idea is to request people in richer countries to contribute on a voluntary basis a modest monthly amount (say 0.2 per cent of their monthly income) to a Global Social Trust that will be organized in the form of a global network of national trusts supported by the ILO. The Trust will invest these resources to build up basic social protection schemes in developing countries and sponsor concrete benefits for a defined period until the schemes become self-supporting. For more information, see: http://www.ilo.org/public/english/protection/socfas/research/global/global.htm

5.3 Integration into coherent and equitable social protection systems

Providing social security to citizens remains a central obligation of society. Through legislation and regulations, governments are responsible for ensuring that the public has access to a certain quality of services. This does not mean that all social security schemes have to be operated by public or semi-public institutions. Governments can delegate their responsibility to organizations in the public, private, cooperative and non-profit sectors.

What is needed, however, is a clear legal definition of the role of the different players in the provision of social security. These roles should be complementary, while achieving the highest possible level of protection and coverage. For example, a social security development plan would define the scope and coverage of services through government agencies, social insurance, private insurers, employers and microinsurance schemes. In this context, governments and social partners should explicitly recognize microinsurance as a social protection tool and integrate it into national strategies of social protection, health development and poverty reduction (e.g. PRSPs in Senegal). The role of health microinsurance in an overall health financing policy coordinated by the State should be recognized as well. The overall aim of such a policy is universal access to healthcare based on pluralistic financing structures *(Box 15)*.

Box 15

Cambodia's Master Plan

In Cambodia, the government recognizes the potential of social health insurance as a major healthcare financing method. To reach universal health coverage, Cambodia's Master Plan for Social Health Insurance recommends a parallel and pluralistic approach which comprises: (1) compulsory social health insurance through a social security framework for public and private sector workers and their dependants, (2) voluntary insurance through the development of community-based health insurance schemes and (3) social assistance

through the use of equity funds and later government funds to purchase health insurance for non-economically active and indigent populations.

Source: Adapted from WHO Cambodia, 2003.

The design and adoption of appropriate legal frameworks is a key step towards this integration. Such a framework may specify the role of microinsurance in the social protection system and introduce a set of rules and institutions for the supervision of microinsurance schemes. Legislative frameworks can contribute to the development of these schemes, although frameworks with high financial requirements or intensive supervision from the public authorities may restrain their development. To strike an appropriate balance, ILO/STEP is supporting the construction of a regional framework in eight UEMOA *(Union économique et monétaire d'Afrique de l'Ouest)* countries to design and implement legislation to regulate mutual benefit organizations and support their development.

For microinsurance promoters, the integration into social protection systems has various implications. The benefits package that they provide should include coverage against one or more of the contingencies listed in Convention 102. Moreover, when a minimum guaranteed package of social protection has been defined by the legislation, these schemes should provide this coverage to all their members. Microinsurance schemes' internal regulations should abide by the principles of equity defined by legislation (if any). Rules such as the exclusion of members over a certain age or calculation of premiums based on individuals' risks may not be in line with such principles. If microinsurance schemes receive public financial support, they should be accountable for the efficient use of these public funds. This implies that strict rules of management and accounting be enforced. Microinsurance schemes should also agree that their financial statements be supervised by a public or independent regulatory body.

More generally, it is important that promoters and operators of microinsurance be involved – either directly or indirectly through federations representing their interests – in national consultations and negotiations with the state and other stakeholders in the design and implementation of national social protection strategies. Such integration needs a climate of trust and confidence between operators of schemes, networks of schemes, other civil society organizations representing the populations covered by these schemes (trade unions, cooperatives, etc.) and the government *(Box 16)*.

Box 16

An integrated approach to social protection in Senegal

In Senegal, many actors have contributed to accelerate the process of extending social protection, including the State, local governments, social partners and other civil society organizations, donors and healthcare providers. Several events have been significant:

- In 2003, the law on mutual health organizations was adopted; a national framework on the development of MHOs was created, as was the national committee on social dialogue.
- In 2004, the global campaign on social security and coverage for all was launched in Senegal. The trade union of transport operators included social protection issues in its platform. In addition, a law was adopted to design and implement a social protection scheme for rural workers *(Loi d'Orientation Agro-Sylvo Pastorale)*.

These events have been integrated in the logical framework of the national strategy for the extension of social protection and risk management (SNPS/GR) formulated in 2005 with the active participation of a large number of players. This strategy aims at extending social protection from 20 to 50 per cent of the population by 2015 through new schemes designed to respond better to the priority needs of informal-economy workers.

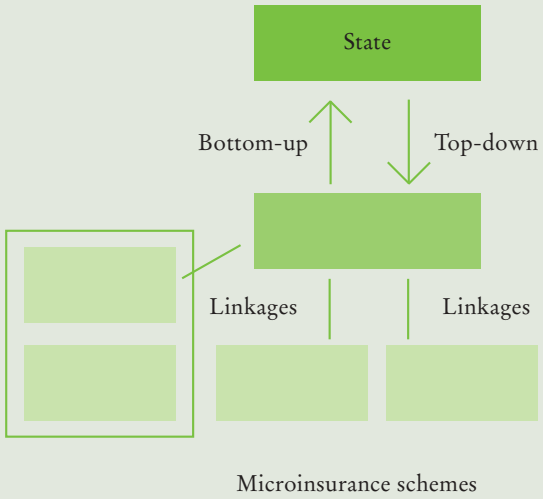
These events and the national strategy formulation led in 2006 to feasibility studies to design and establish two nationwide social protection schemes, one for transport operators and their families (target population of 400,000 people) and the other for rural workers and their families (target population of 5 million people).

6 Conclusion

Microinsurance is one instrument which can be used to extend social protection to the excluded. It is particularly relevant in situations where governments lack the resources and capacity to provide social protection. Even in situations where the resources are available, if governments support microinsurance as a social protection mechanism, like in Colombia, it may be a more efficient means of social protection than services provided entirely by the government. For microinsurance to achieve its potential, and overcome its limitations, it requires a dynamic, three-pronged approach, as illustrated in Figure 5:

- **Bottom-up initiatives:** To stimulate the grassroots development of microinsurance, it is necessary to sensitize the general public, policymakers, donors and development agencies, as well as social partners and other social protection actors, about how microinsurance works and its potential contribution to social protection.
- **The development of linkages** with government interventions, other microinsurance schemes, healthcare and other service providers, social security institutions, social assistance programmes, etc. can strengthen the sustainability of the schemes as well as enhance their effectiveness.
- **Top-down efforts:** To fulfil its social protection potential, microinsurance must be seen by policymakers and other stakeholders within the broader context of coherent national social protection systems or strategies.

Figure 5 **A dynamic approach to extending social protection through microinsurance**



As an independent risk-management arrangement, microinsurance is not sufficient to protect poor people against risk. An integrated strategy of social protection should be conceived in collaboration with the government, the private sector, health professionals, social partners and other civil society organizations. Microinsurance can be most successful if it complements other risk-management instruments on the basis of a comprehensive risk assessment.

Although the operations of microinsurance schemes are largely the same regardless of their objectives, microinsurance schemes in the context of social protection should be assessed and monitored differently from microinsur-

ance schemes for assets, livestock or housing, for example. The social protection schemes have to be inclusive of high-risk or destitute members, and ideally access public subsidies to compensate for the higher claims or lower contributions. If they access public subsidies, they also have to be accountable for them, ensuring that those funds are used efficiently and for the intended purposes.

The decision to implement or support microinsurance schemes is not only driven by a risk analysis, but also by political considerations: priority contingencies to cover, populations to be targeted, the relevance of this mechanism as compared to others, and the possibility to link it to other mechanisms and other social protection components. The objective is to improve efficiency, increase coverage and progressively create more coherent and equitable systems of social protection.