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Universal pensions within an integrated policy framework to extend social security coverage to all in need

RIGHTS: Income security in case of old-age, disability or loss of a breadwinner as part of the overall right to social security[1]

Declaration of Philadelphia, which since 1944 became a part of Constitution of the International Labour Organization, obliged the ILO: "*to further among the nations of the world programmes which will achieve…the extension of social security measures to provide a basic income to all in need of such protection and comprehensive medical care*"[2].

In the same year members of the ILO adopted two recommendations concerning social security: Income Security Recommendation (No 67) and Medical Care Recommendation (No. 69). Recommendation No 69 "*recommends the Members of the Organisation to apply progressively the following general guiding principles, as rapidly as national conditions allow, in developing their income security schemes*…[3]" It also specifies that: "*Income security schemes should relieve want and prevent destitution by restoring, up to a reasonable level, income which is lost by reason of inability to work (including old age) or to obtain remunerative work or by reason of the death of a breadwinner*".

Social security has been confirmed soon (in 1948) also as a human right by the Universal Declaration of Human Rights in its article 22, while article 25 states more precisely: "*Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control*".

[1] For a detail study see: Setting Social Security Standards in a Global Society; An analysis of present state and practice and of future options for global social security standard setting in the International Labour Organization; Social Security Policy Briefings, Paper no 2; ILO Social Security Department, Geneva 2008
[2] ILO Constitution : http://www.ilo.org/ilolex/english/constq.htm
[3] For full texts of ILO conventions and recommendations referred see ILOLEX database: http://www.ilo.org/ilolex/english/. Both 1944 Recommendations refer directly to the Atlantic Charter, the document signed on 14 August 1941 by President T. Roosevelt and Prime Minister W. Churchill (endorsed by the International Labour Conference the same year), and particularly to its fifth principle announcing "the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labour standards, economic advancement and social security".

The right to comprehensive social security took its precise formulation in 1952[4] through the Minimum Standards (Social Security) Convention No 102. Convention No 102 defines eight branches of social security consisting of medical care and sickness, unemployment, old-age, employment-injury, family, maternity, invalidity and survivors' benefits. For each of these branches, Convention sets specific standards with respect to the scope and nature of benefits, eligibility conditions, coverage and benefit levels. It also sets overall standards with respect to social security financing and governance.

The intention of the Convention 102 was to specify the scope of social security provisions which should be accessible to everybody at minimum levels. The idea was also, that after securing those minimum scope and levels, countries should progress towards higher levels of protection. Those higher level standards were set up in conventions adopted over the later years: Employment Injury Benefits Convention No 121 (1964), Invalidity, Old-Age and Survivors' Benefits Convention No 128 (1967), Medical Care and Sickness Benefits Convention No 131 (1969), Employment Promotion and Protection against Unemployment Convention No 168 (1988) and Maternity Protection Convention No 183 (2000).

The important policy message coming from ILO social security standards is that social security should be seen as a comprehensive and consistent set of complementary policies and measures providing income security and affordable access to medical care. To conform to international labour standards national policies should thus build a basic set of provisions and then – along the economic and social development - progressively expand coverage and increase levels of protection.

Social security pensions designed to provide income security at old-age, disability and loss of a breadwinner, are inseparable part of that minimum set of that minimum social security package. ILO Convention No 102 in its Parts V, IX and X and ILO Convention No 128 specify rights to social security benefits at retirement (old-age pension), in case of disability (disability pension) and in case of a loss of the breadwinner (survivors' pension).[5]

Right to affordable retirement

[4] ILO had been adopting conventions related to various branches of social insurance throughout its whole history starting already in 1919 with Maternity Protection Convention (No 3), but Convention No 102 was the first (and until now the only one) looking at all branches in a comprehensive way and the first one going beyond clearly social insurance when defining array of policies to provide social security.

[5] Specific types of disability and survivors' pension are also required in cases related to employment accident, injury or sickness as foreseen by Part VI of Convention No 102 and Convention No 121.

Both Conventions (102 and 128) stipulate old-age pensions to be paid in the form of life annuities ("periodical payments" paid "throughout the contingency") to persons reaching the age prescribed by the national legislation. In general, this age should not be higher then 65; Conventions allow however to set a higher retirement age if justified. Fixing retirement age above 65 should give "due regard to the working ability of elderly persons" (Convention 102) and "demographic, economic and social criteria, which shall be demonstrated statistically" (Convention 128).[6]

Right to income security on the loss of a breadwinner and disability

Conventions No 102 and No 128 stipulate that survivors' pension should be awarded on "the loss of support…as the result of the death of the breadwinner" and incapacity for self-support. Disability pensions are to be paid in case of "inability to engage in any gainful activity, to an extent prescribed which inability is likely to be permanent or persists after the exhaustion of sickness benefit". Disability and survivors' pensions should also be periodical payments paid "throughout the contingency" (or, in case of disability pension, "until an old-age benefit becomes payable").

Minimum pension levels

Conventions give a wide freedom of choice through what mechanism (or combination of mechanisms[7]) to deliver old-age, disability and survivors' pensions: earnings related or flat rate, contributory or non-contributory, means tested or not – the important is the outcome in terms of benefit levels.

If basic income security is to be provided mainly by the earnings-related pensions, minimum replacement rate should be guaranteed at least for those with earnings lower than prevailing, typical or average levels. For old-age earnings-related pension of such lower income beneficiaries, Convention 102[8] requires minimum replacement rate to be at least 40% of previous earnings and, if benefits are contributory, already after 30 years of contributions. Survivors' earnings related-

[6] At the same time Convention No 128 says that "If the prescribed age is 65 years or higher, the age shall be lowered, under prescribed conditions, in respect of persons who have been engaged in occupations that are deemed by national legislation, for the purpose of old-age benefit, to be arduous or unhealthy"

[7] Including voluntary insurance if: it is either administered by public authorities or jointly by workers and employers, covers substantial proportion of lower income workers and meets other provisions of the convention.

[8] Convention No 128 requires higher benefit levels: respective percentages are 45% in case of old-age and survivors' pensions and 50% in case of disability pensions.

pension should also not be lower than 40% and disability pension than 45% of previous earnings of the beneficiary. In case disability and survivors' pensions are contributory, pension in full amount should be paid at least to those with 15 years of contributions. At least reduced pensions should be provided for those with shorter contributions periods.

If pensions are paid at the uniform rate, the amount should not be lower than 40% (45% in case of disability pensions) of prevailing levels of earnings of unskilled manual workers. This applies as well to pensions provided as means-tested benefits but the level of those should also meet another criterion: "shall be sufficient to maintain the family of the beneficiary in health and decency". Amounts of all kinds of pensions awarded originally to the beneficiaries should be reviewed regularly and adjusted accordingly following any "substantial changes" in the general level of earnings or costs of living.

Minimum standards in governance and financing

While there is a wide choice of policy measures which could be adopted to provide pension benefits, these measures should meet however certain standards concerning governance of social security pension systems and its financing:

- Entitlements to benefits should be clearly specified in the legislation and "every claimant shall have a right of appeal in case of refusal of the benefit or complaint as to its quality or quantity";
- There should be no discrimination and equal treatment including migrants: "non-national residents shall have the same rights as national residents";
- Government shall accept general responsibility for the proper administration of the institutions and services concerned;
- Where the administration is not entrusted to an institution regulated by the public authorities or to a Government department responsible to a legislature, representatives of the persons protected shall participate in the management, or at least be consulted; national laws or regulations may likewise decide as to the participation of representatives of employers and of the public authorities;
- Governments have general responsibility for the provision of adequate benefits and shall take all measures ensuring financial sustainability
- The overall cost of the benefits provided and the cost of the administration of such benefits shall be borne collectively by way of insurance contributions or taxation or both in a manner which avoids "hardship to persons of small means";

- The total of the insurance contributions borne by the employees protected shall not exceed 50 per cent of the total cost of providing benefits (all provided social security benefits included)

What pension system can effectively deliver minimum required standards of protection?

First, one have always bear in mind that intentions of the respective ILO conventions are concerned with providing at *minimum* necessary level of protection (in case of pensions – minimum necessary income security) but to *all* those in need of such protection[9]. Second, affordability and sustainability was always a concern along the concerns with respect adequacy of coverage and of benefit levels: achieving minimum standards should happen "as soon as possible" but "as rapidly as national conditions allow"[10]. Actually, it is quite clear that financial affordability and sustainability on the one hand and adequacy of benefit provision (their meaningfulness in terms of amounts paid and in terms of people effectively reached and protected) on the other, are two sides of the same coin. Only meaningful benefits effectively covering those in need can create a will among contributors and/or taxpayers to finance respective policies; inadequacy (and/or bad governance) – as too many examples in a history of social security show – undermines sustainability as the will to finance such programmes quickly erodes. Third, the financing by - whatever means - should be equitable and affordable to all protected

[9] Although countries can ratify convention while providing initially protection only to a specified percentage of the population, it is expected that all those needing protection will be eventually covered. This expectation is explicitly expressed in Income Security Recommendation, 1944 (No 67) which says that even countries which already have necessary social security provisions in place should "take further steps towards the attainment of income security by the unification or co-ordination of social insurance schemes, the extension of such schemes to all workers and their families, including rural populations and the self-employed, and the elimination of inequitable anomalies".

[10] However, this should not be used as justification of doing nothing. Above phrases should be interpreted in a similar ways as the provision of Article 2 of the International Covenant on Economic Social and Cultural Rights (1966) which states that 'Each State Party to the present Covenant undertakes to take steps, individually and through international assistance and co-operation, especially economic and technical, to the maximum of its available resources, with a view to achieving progressively the full realisation of the rights…by all appropriate means. As Committee on Economic, Social and Cultural Rights explains (Committee on Economic, Social and Cultural Rights, General Comment No.3; 1990: The nature of States parties obligations http://www.unhchr.ch/tbs/doc.nsf/(Symbol)/94bdbaf59b43a424c12563ed0052b664?Opendocument): while the full realisation of the relevant rights may be achieved progressively, steps towards that goal must be taken within a reasonably short time…Such steps should be deliberate, concrete and targeted as clearly as possible towards meeting the obligations…" See also an interesting paper discussing relationship between right based approach and economic analysis: Dan Seymour and Jonathan Pincus; Human Rights and Economics: The Conceptual Basis for their Complementarity Development Policy Review, 2008, 26 (4): 387-405.

persons – and particularly the need to pay taxes or contributions to finance future benefits should not be a reason for “hardship” to those with low incomes.

Fourth, adequate benefits should be guaranteed in the first place to those with lower incomes and – when contribution or residency periods are taken into account to establish the right to benefit – required periods cannot be set too high and reduced benefit amounts should be guaranteed even to those with working careers or residency shorter than generally prescribed periods.

Taking into account the above, it is quite clear that any pension system which is solely based on contributory, purely earnings (or contribution) related pension scheme delivering “actuarially fair” or “actuarially neutral” pensions is not able to deliver on its own expected outcomes as outlined above. There is a need to create or provide pension entitlements which would not arise within the purely earnings-contribution related system. This can be done only by one or another way of subsidising contributions and/or subsidising benefits. This subsidisation can be done by redistribution within the social insurance system: social insurance pensions are based on solidarity principle which means not just pooling the risk but also allowing at least certain degree of redistribution among contributors to protect those with lower contributory capacity, shorter careers and lower lifetime earnings[11]. This is usually done by institution of minimum pension, redistributive benefit formula in a defined benefit system and/or treating (when calculating benefit) certain non-contributory periods of certain categories of contributors as contributory – that is by subsidising benefits of certain categories covered by a scheme – but one can imagine also subsidizing – within the scheme - contributions of certain categories of members.

Often, such redistributive measures come (and are financed) from outside the group of members of a pension scheme but still apply only to members of the contributory scheme. Topping-up lowest pension from the contributory scheme to a level of guaranteed minimum by state budget funds but only to those who contributed a required minimum number of years (like in Chile or in Poland) is one of the examples. Paying – again from the general revenues – contributions on behalf of certain categories of members during specified period (i.e. to those on maternity or parental leave – like in Sweden or to certain degree in Poland) – is another example of these types of measures. Another group of measures would include subsidies (from general revenue) of employees’ or employers’ contributions of low income earners (or other specific categories of contributors to the contributory scheme) with the aim of enhancing their membership and build-up of pension entitlements.

[11] Even strictly defined contribution (DC or NDC) pension system allows certain degree of redistribution from male to female contributors when using unisex life tables to calculate pensions

Redistribution between the members within the contributory pension scheme should not have negative effects on membership and incentives to contribute –as long as it is accepted by the members. While subsidies from outside the scheme to its members can have to certain extent positive effects on membership and contribution incentives, there are important equity questions if membership of the scheme is not universal or subsidies are directed not to the worst-off group of members. For example: There is a question why – like Poland or Chile – all taxpayers should subsidise more generously pensions of those with low incomes who contributed longer than 20 or 25 years and less generously of those who had no chance to contribute so long? While such policy to secure minimum pensions and minimize moral hazard can be justified if redistribution takes place within the contributors group, it is more difficult when all taxpayers are involved and members of the scheme in questions are rather better-off than the group of non-member taxpayers. The other possible way to deliver minimum income security to beneficiaries is to do it basically outside the pension insurance scheme(s) either through universal pension paid to all residents meeting specified criteria (like reaching certain age) or through income or means-tested pension secured to all those below specified income threshold. These pensions are by some called "social pensions" and they are seen as the most effective way to reach in a relatively short time all those who for some reasons (like very low incomes which make regular contributions to contributory scheme unaffordable, like irregular incomes making regular contributions to contributory schemes not feasible etc.) cannot be members of a contributory schemes – that is to reach universal coverage. ILO standards allow both universal and means-tested pensions as a way to provide minimum income security. For many, universal pension solution has an advantage over the means-tested approach as not only much simpler and less costly to administer and deliver, but primarily as the most equitable way to provide to everybody a minimum income security at retirement, avoiding stigma and exclusion often associated with means-testing. However, actual solution will always depend on prevailing societal attitudes towards equity and redistribution and also on overall costs concerns.

Providing pension to everybody in need of such support requires a concerted effort through a pension system composed of a mix of policy measures: contributory and non-contributory (in terms of building entitlements to pensions), earnings-related and flat rate (in terms of pension amounts), and of contributory and tax-financed (in terms of financing sources). These policy measures of different nature can be undertaken through separate schemes forming different "tiers" or "pillars" of the pension system, but often these different measures are present within a single scheme. Too a large extent this is the presence of the non-contributory and non-earning related components which makes social security pension schemes and systems "social".

FACTS: Right to affordable retirement still a dream to majority while the world is aging

Everybody knows that while social security was declared a human right, majority of the world population is deprived from access to social security benefits and services. This specifically includes also the right to affordable retirement and income security in old-age, disability or loss of a breadwinner.

While probably there is no country in the world which would not have at least one pension scheme for a specific group of employees, the covered groups in many parts of the world are in minority. Most of these schemes are contributory and the coverage is in practice limited to those who have formal employment contract as employees. The pattern of coverage indicators (percentage of employed covered for contributory pensions as members or contributors) across the world is thus quite similar to the pattern of indicators reflecting percentage of employees in total employment. Taking into account that women in developing countries, if employed at all, less often have wage or salary employment and that also both economic activity rates and employment rates are usually significantly lower for women than for men, women much more often stay uncovered than men[12]. Table 1: Persons with wage or salary employment status at the labour marketTable 1 shows percentage of those with wage or salary employment among all employed and among the working age population. Globally slightly less than half (47%) of employed are wage and salary workers but among all those of working age only one third of men and on fifth of women have employee status. The regions with lowest shares of employees among those on the labour market are South Asia and Sub-Saharan Africa (only about one fifth of those employed are employees, but only 15% of employed women and only 4-7% of women in the working age). In these regions actual coverage by contributory schemes is actually even lower than the above rates: for example ILO recent analysis of the coverage situation in Tanzania and Zambia shows that only about half of those with employee status actively contribute to existing contributory pension schemes – either because employers in smaller establishments are not obliged to register their employees and contribute, or because overall character of this wage employment is of a highly informal character[13].

[12] Additionally, many of the existing pension schemes in Africa or Asia do not provide survivors' pension at all so women who are by existing social or economic mechanisms excluded from the labour market are also not entitled to anything when they become widows - even if their deceased husbands were covered by a pension scheme (in many of these countries even informal social protection mechanisms based on extended family or local community are actually discriminating against widows and orphans)

[13] See reports: Zambia: Social Protection Expenditure and Performance Review and Social Budget, Social Security Department, International Labour Office; Geneva 2008; and: Tanzania: Social Protection

While there thus still a lot of room in these countries for existing contributory schemes to increase effective coverage among employees, contributory schemes effectively covering larger proportions of self-employed until now proved possible only in very highly formalized economies, like those in Europe and some other OECD countries. In countries with large proportions of, mostly rural, self-employed and highly informal economies, non-contributory pension schemes (universal or income-tested) able to provide income security to the elderly, disabled, orphans and widows are still a rarity – although a growing number of countries is embarking or considering embarking the road successfully chosen earlier by countries like Brazil, South Africa or Namibia.

Table 1: Persons with wage or salary employment status at the labour market

	TOTAL per cent of		MEN per cent of		WOMEN per cent of	
	employed	working-age population	employed	working-age population	employed	working-age population
South Asia	20.8	9.7	23.4	15.6	14.6	3.5
Sub-Saharan Africa	22.9	13.8	29.2	20.5	14.4	7.4
South East Asia & the Pacific	38.8	21.9	41.5	28.6	35.0	15.1
East Asia	42.6	23.3	46.0	28.9	38.3	17.6
North Africa	58.3	24.4	58.8	38.5	56.7	10.5
Middle East	61.5	29.0	64.4	41.6	53.5	15.0
Latin America & the Caribbean	62.7	38.6	60.6	46.1	65.8	31.8
Central & South-Eastern Europe (non-EU) & CIS	76.6	41.5	75.4	48.0	78.0	35.7
Developed Economies	84.3	46.6	81.7	51.8	87.5	41.6
WORLD	**46.9**	**26.5**	**47.4**	**33.0**	**46.0**	**20.1**

Source: own calculations based on: Key Indicators of the Labour Market, 5th edition, ILO, Geneva 2008, http://www.ilo.org/public/english/employment/strat/kilm/; (using estimates for 2006 of indicator 3: status of employment and indicator 2: employment to population ratio). Country classification – KILM country grouping, see: http://www.ilo.org/public/english/employment/strat/kilm/download/guid.pdf

Coverage measured in terms of beneficiaries (percentage of population over retirement age or any other age threshold identifying "the elderly") by contributory pensions is many countries of Africa or Asia /or anywhere else where such schemes are relatively recent) is even lower there than coverage measure with respect to contributors or "protected" persons. Members of many of these schemes are still building entitlements to their future pensions and often there still nobody who would acquire sufficient rights in terms of contributions paid to be qualified to pension – even if reaches prescribed age. Great majority of the elderly have no right to retire – they have to

Expenditure and Performance Review and Social Budget, Social Security Department, International Labour Office; Geneva 2008 continue working as long as they are still physically able to do it. Levels of economic activity rates of the elderly and the extent of a decline of economic activity with advanced age can thus be treated as indicators of how many people are actually retiring – although we still do not know how many of them are forced to do it as they are not able to work or there is no employment for them. We do not have data detailed enough to be able to calculate average ages of exit from the labour market in all the countries but Table 2 shows how labour force participation rates of those 65 and older compare to average economic activity rates for all those over 14. Here again one can clearly see that "retirement" from economic activity at old-age while widespread in developed parts of the world, is rare in developing countries. In Sub-Saharan Africa men are able to reduce their economic activity rates only slightly – by up to 20% - when getting older. What is striking is that in Africa situation with this respect had not changed between 1980 and 2005, differently than in most other regions. South and East Asia are other regions where apparently exit from economic activity in older age is less common than elsewhere. Women nearly everywhere reduce more then men their economic activity when reaching old age – however it is obvious that very often they do it to switch to occupations not seen by labour force survey as "employment": care giving and running the household for other members of the families.

Table 2 shows also life expectancy at age 65 for men and women in different parts of the world: while we all know how great is a gap between life expectancy at birth between developed and developing parts of the world, apparently at old age the gap is much smaller. Even in poorest countries when people reach age 65 they will live for more than another ten years on average – the question is how dignified life that would be and what for of income security a society can provide them.[14]

The world is aging. Table 3 shows that while men and women at age 65 and more are now 8% of the world population, they will be 16% of the population by 2050. Most of the elderly live in countries where only small minorities are covered by any form of pension schemes and where social security in general – including affordable access to essential health care services - is a luxury: over 60% of the elderly live now in countries classified by the UN as "less developed". In 2050 elderly in these countries – hopefully much "more developed" by then – will be nearly 80% of the world elderly population. 60% of all the elderly will live in 2050 in Asia – more than half of them in just two Asian countries: China and India.

Table 2: Participation in the labour market of elderly (65+) and life expectancy at age 65

	Labour force participation at 65 in per cent of labour force participation of 15+	Life expectancy at 65

[14] Majority of beneficiaries of a « cash transfers" scheme in Kalomo District in Zambia are elderly, usually elderly women. And before scheme was introduced they were surviving begging for food in their villages.

	men		women		2000-2005	
	1980	2005	1980	2005	men	women
Middle Africa	84.4	85.0	55.1	56.5	10.96	12.38
Western Africa	81.4	82.3	58.7	56.3	11.36	12.50
Eastern Africa	82.7	81.5	62.5	59.1	11.31	13.00
South-Central Asia	68.5	60.2	39.3	43.8	13.36	14.58
South-Eastern Asia	62.0	57.9	38.4	32.7	13.36	15.33
Central America	73.6	56.6	53.4	34.0	16.24	18.16
South America	43.5	44.5	22.2	25.4	15.35	17.98
Northern Africa	59.9	42.9	61.5	22.3	12.81	14.58
Western Asia	46.2	42.7	35.7	40.5	13.16	15.14
Caribbean	47.3	38.2	29.1	17.0	15.30	17.67
Eastern Asia	38.3	33.5	10.8	16.9	14.81	17.53
Southern Africa	33.0	32.9	20.6	12.5	10.69	14.18
Australia and Oceania	19.1	19.9	10.4	9.9	16.49	19.86
Eastern Europe	20.2	15.4	8.7	10.7	11.56	15.27
Northern Europe	17.0	13.7	8.9	7.5	15.76	19.05
Southern Europe	20.3	12.8	15.7	9.7	16.12	19.75
Western Europe	10.1	5.7	7.3	3.2	16.06	20.01
WORLD	40.6	38.2	18.4	21.5	14.39	16.95
More developed regions	21.9	19.3	12.2	12.2	15.47	18.92
Less developed regions	54.2	48.5	24.9	27.8	13.80	15.64

Source: (1) Labour force participation: own calculations based on ILO Economically Active Population Estimates and Projections version 5: 1980-2020; http://laborsta.ilo.org/; (2) Life expectancy: World Population Prospects, 2006 Revision, CD ROM Edition, United Nations. Country groupings according to UNWPP (see http://esa.un.org/unpp/index.asp?panel=5)

This means that these developing and ageing societies have to do something urgently to ensure right to retirement in dignity and social security to their elderly members. Particularly dramatic is –and will be unless something is done - situation of elderly women – being in majority among this growing number of elderly. In many countries women are excluded too a large extent from the labour market when they are still able to work and thus even if there exist contributory pension schemes they have no chance to contribute and build their pension entitlements. Also, very often neither prevailing traditional societal rules nor more formal pension arrangements are providing them with even minimum security when are left or widowed by their male partners.

Before one can suggest a proper strategy to meet the above challenges and start fill the existing coverage gap, it is important to answer the question why after several decades since social security was declared a human right and accepted standard for decent employment and living, still only a minority can these rights and standards, including right to income security when old or disabled.

Table 3: Projected elderly population in 2010 and 2050

	Population 65+	Proportion of population 65+ in total population	Proportion of women among 65+

	2010	2050	2010	2050	2010	2050
WORLD	100	100	8	16	56	55
More developed regions	37	22	16	26	59	57
Less developed regions	63	78	6	15	54	55
Less developed regions, excluding China	41	56	5	13	55	55
AFRICA	7	9	3	7	56	54
ASIA	54	62	7	18	54	55
China	21	22	8	24	52	54
India	12	16	5	14	53	54
EUROPE	22	12	16	28	61	58
LATIN AMERICA AND THE CARIBBEAN	8	10	7	19	56	57
NORTHERN AMERICA	9	6	13	21	57	56
OCEANIA	1	1	11	19	54	55

Source: World Population Prospects, 2006 Revision, CD ROM Edition, United Nations. Medium variant. Country groupings according to UNWPP (see http://esa.un.org/unpp/index.asp?panel=5)

The answer has many dimensions. It lies in the specific approach to development which at some point denied the countries at early stages of development adoption of redistribution policies which worked well and played enormous role in the past in development of now industrialized OECD countries. But it lies also in a misjudgement of future developments by those who were actually supporting build up of social security provisions all over the world. ILO Recommendations of 1944 referred above saw contributory social insurance as a main vehicle to expand gradually social security coverage to all in need, This was based on belief everywhere urbanisation and industrialization will gradually progress and that everywhere wage and salary employment gradually will become a dominant form of employment. Coverage of social insurance schemes started originally in developing countries only for relatively narrow groups will thus gradual but nearly automatically spread their coverage to majority of the working population. Non-contributory, residual social assistance will take care of minorities to some reasons excluded from social insurance coverage.

Actual developments, as we know well, were and are dramatically different – shares of wage employment as well as of formal economy have not been increasing as expected and even have shrunken in some parts of the world in eighties and nineties. The same of course applies to social insurance coverage –its coverage stagnates in many parts of the world. And under-funded social assistance programmes designed to provide “cash transfers” or other benefits and services to relatively small groups of most vulnerable minorities are more and more often expected to bring relief to the widespread and large scale poverty.

WAY FORWARD: Universal pension as part of the basic social floor and new social security development paradigm

The new ILO social security policy development vision[15] focuses on building country specific effective and efficient national social security systems, affordable to countries at different levels of development.

The principal objective of the social security development approach is the fastest possible achievement of universal access to basic benefits to combat poverty and the reduction of income insecurity to the extent possible and compatible with economic performance. As countries mature economically, higher levels of protection can gradually be achieved.

The key objective is universality. That is the core mandate of the ILO global campaign on social security and coverage for all. Universality does not mean uniformity. It is not realistic to believe that all societies can – left to their own devices – achieve the same level of social protection irrespective of their level of economic development. National social security systems inevitably have to grow with the fiscal space that is made available through growing economies. What is critical, however, is that systems are in a rational way progressive, i.e. they address priority needs in a logical order and are built in such a way that the level of security can be increased as economic development progresses. Within an overall national resource envelope, at different stages of development, contributions and taxes allocated to social security priority expenditures have to be defined. In developing countries social expenditures should be prioritized with respect to their contribution to achieve an acceptable level of health, their contribution to poverty reduction and their contribution to the reduction of social insecurity.

"Universality" may refer to the various dimensions of social security. Here, the main emphasis is on universality of access of individuals to formal systems of social protection. The notion of a universal benefit, payable without distinction to all qualified members of a scheme, on the other hand, fits well into the concept of a rights-based scheme, but may in practice have to tempered by some form of targeting of resources, when these are limited.

We thus believe that social security in the poorest countries can gradually start with building a basic benefit package – ***a basic social security floor*** - consisting of a basic and modest set of social security guarantees – implemented through social transfers in cash and in kind - for all citizens ensuring that ultimately:

[15] See: Social security for all: Investing in global social and economic development. A consultation; Issues in Social Protection, Discussion paper 16; ILO Social Security department, Geneva 2006

- All residents have access to basic/essential health care benefits through pluralistic delivery mechanisms where the State accepts the general responsibility for ensuring adequacy of the delivery system and its financing;
- All children enjoy income security at least at the poverty level through various family/child benefits aimed at facilitating access to nutrition, education and care;
- Some targeted income support is provided to the poor and the unemployed in the active age group;
- All residents in old age or with disabilities enjoy income security at least at the poverty level through ***pensions for old age, disability and survivors***.

The Basic Social Security Floor thus consists essentially of a guaranteed set of basic social transfers in cash or in kind to all. It is formulated as a set of guarantees rather than a set of defined benefits. This leaves the option open to individual countries to realize these guarantees by way of means-tested, conditional or universal transfers. The essential fact is that everybody in a given society can access these essential transfers. While conceptually these are a part of the country’s social security architecture, in most countries the benefits provided would most likely have the characteristics of non-contributory social assistance rather than social insurance benefits. It is assumed here also that most likely the basic benefits are financed from general taxation. The transfers of the social floor are granted to all residents as of right, thus their financing is generally a responsibility of the society as a whole.

The ILO has undertaken costing studies[16] of the costs of a basic social protection package in twelve low-income countries now and over the coming decades. The benefit package costed included: (1) universal basic old-age and disability pensions; (2) basic child benefits; (3) universal access to essential health care; (4) social assistance in a form of 100 day employment guarantee scheme.

In all of the twelve countries considered, the initial annual cost of the whole basic social protection package is projected – if introduced all at once - to be in the range of 3.7 to 10.6 per cent of GDP in 2010. Six countries – Burkina Faso, Ethiopia, Kenya, Nepal, Senegal and Tanzania – would spend more then 6 per cent of GDP.

The basic pension was assumed at the level of 30 per cent of GDP per capita and would be paid to all men and women aged 65 and older, and to persons with serious disabilities in working age. Based on these assumptions, the annual cost of providing universal basic old-age and disability

[16] For details on assumptions and results, as well as on other studies concerned with potential poverty reduction impact of universal pension and some other cash benefits see: Can low-income countries afford basic social security? Social Security Policy Briefings, Paper no 3; ILO Social Security Department, Geneva 2008

pension is estimated in 2010 at between 0.6 and 1.5 per cent of annual GDP in the countries analysed. Projected costs for 2010 remain at or below 1.0 per cent of GDP in Cameroon, Guinea, Bangladesh, India, Pakistan and Vietnam, while Burkina Faso, Ethiopia, Kenya, Nepal, Senegal and Tanzania find themselves with costs between 1.1 and 1.5 per cent of GDP.

The projections show that introducing a complete package of basic social security benefits requires a level of resources that is higher than current social security spending in the majority of low-income countries (which rarely spend more than 3 per cent of GDP on health care and rarely more than 1 per cent of GDP on non-health social security measures). Therefore, a package has to be introduced gradually and a considerable joint national and international effort is needed: of the low-income countries themselves (reallocating existing resources and raising new resources, i.e. through health insurance or other earmarked sources of financing for social security) and – in some cases - of the international donor community - which would in some cases have to refocus international grants on the supplementary direct financing of social protection benefits, on strengthening the administrative and delivery capacity of national social protection institutions in low-income countries and on providing the necessary technical advice and other support. All these steps have started to be taken in a number of low-income countries in Africa and elsewhere (recent developments in countries like Tanzania, Zambia, Mozambique or Nepal are just a few examples) and there are signs that the process will accelerate in the nearest future.

The evidence presented in many ILO and other studies shows that low-income countries not only should but also can have social security systems that provide a basic package of health services to everybody, basic pensions to the elderly, benefits to families with children and social assistance to a proportion of the unemployed. Even if a complete basic social protection package cannot be implemented at once, a sequential approach can generate immediate benefits in terms of poverty reduction, pro-poor growth and social development. A national forward-looking social protection strategy can help to sequence the implementation of various social programmes and policy instruments and ensure that these are integrated in broader development frameworks. As these countries achieve higher levels of economic development, their social security systems can also advance in parallel, extending the scope, level and quality of benefits and services provided.